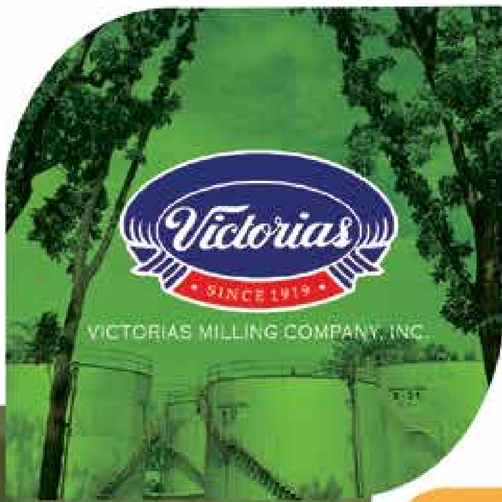
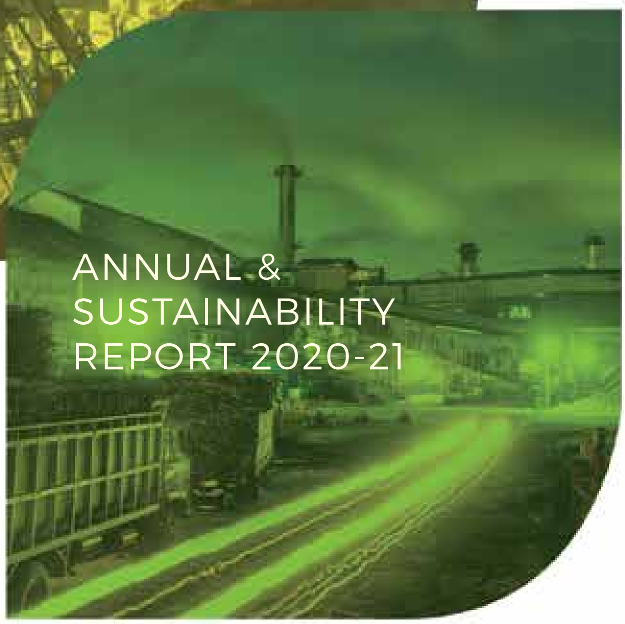


REALIZING OUR SUSTAINABILITY IN A CIRCULAR ECONOMY



ANNUAL & SUSTAINABILITY REPORT 2020-21

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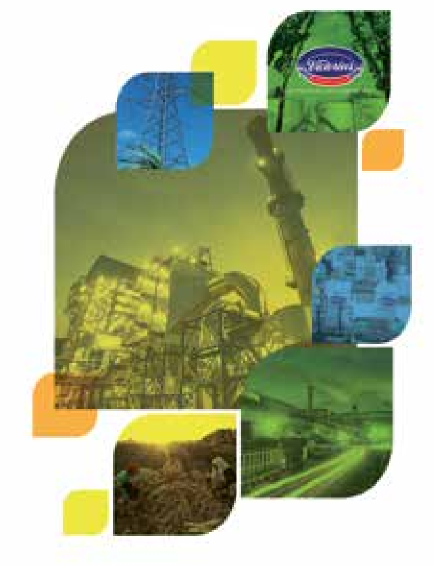
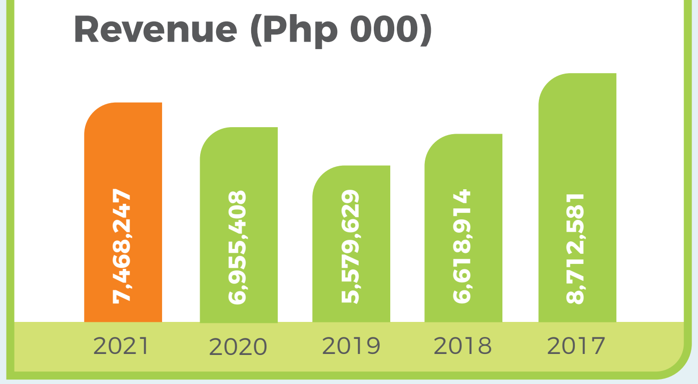


THE COVER

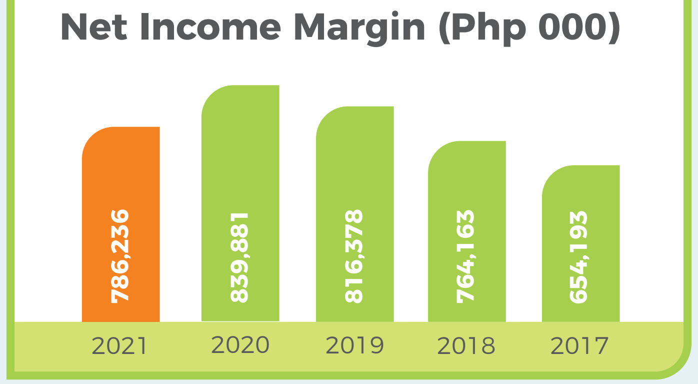
The Cover shows VMC's business segments and processes realized in a circular economy – from agricultural research, sugar cane production, milling, refining, molasses production, distilling and power cogeneration – which seeks, beyond protection, the restoration and regeneration of our environment, society and people. Each facet is enclosed in a leaf-like shape showing how the Company fully embraces a greener and better path towards sustainability.

5-YEAR FINANCIAL HIGHLIGHTS

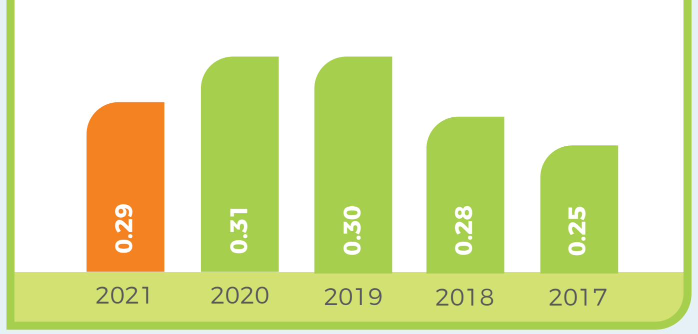
(Php 000)	2021	2020	2019	2018	2017
AS AT YEAR END					
Current Assets	3,851,240	3,137,861	2,368,851	2,427,110	2,432,029
Property, Plant and Equipment	5,596,835	5,617,249	5,861,700	5,863,753	6,193,432
Total Assets	10,350,038	9,558,059	9,085,900	8,977,435	9,306,804
Current Liabilities	588,046	543,262	788,570	1,107,012	918,671
Total Liabilities	1,450,474	1,487,521	1,906,910	2,610,860	3,671,773
Retained Earnings	6,228,232	5,413,264	4,469,212	3,606,172	2,757,719
Equity	8,899,564	8,070,538	7,178,990	6,366,575	5,635,031
RATIOS					
Current Ratio	6.55	5.78	3.00	2.19	2.65
Debt to Equity Ratio	0.16	0.18	0.27	0.41	0.65
Return on Asset	8%	9%	9%	9%	7%
Return on Equity	9%	10%	11%	12%	12%
Per Share (Php)					
Earnings per Share	0.29	0.31	0.30	0.28	0.25
Book Value of Equity per Share	3.25	2.94	2.62	2.32	2.05



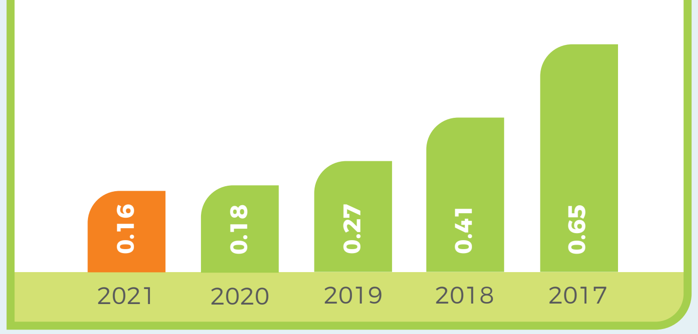
Revenue (Php 000)



Net Income Margin (Php 000)



Earnings Per Share (Php)



Debt to Equity Ratio

ABOUT THE REPORT

REALIZING OUR SUSTAINABILITY IN A CIRCULAR ECONOMY

In 2020, the VMC Management issued a clarion call, "Forging Ahead the Sustainability Way!" in response to the global demand for sustainable development. After 100 years of leading the sugar industry in the country, VMC has embarked on a sustainable journey to make a difference in what it does best. From producing raw and refined sugar, the company expanded its scope of operations to produce bio-ethanol and renewable energy that utilized the by- products of sugar production and, in the process, reducing our environmental impact such as minimizing our GHG emission, solid waste, and water consumption. This was made possible by the principle of 'closed production loop,' which the company implemented in the early pursuit of its sustainability goals. Based on our rich experiences in our sustainability journey, we saw the need to broaden our perspective and go from the 'closed production loop' principle to becoming a full-fledged circular economy. While the 'closed production loop' principle focuses on reducing our environmental impact, the concept of circular economy seeks to create positive or regenerative impact on the environment, society, and economy.

MESSAGE
FROM THE CHAIRMAN

We are happy to present VMC's Annual and Sustainability Report for Crop Year 2020-21.

Based on our rich experiences and knowledge gained from our sustainability journey that started in 2020, VMC decided to shift and broaden its perspective to embrace the concept of a circular economy, going beyond profit and becoming more conscious of our environmental, social, and corporate responsibilities.

We continue to implement systems across our organization that promote the effective use and re-use of bio-based materials as they cycle between the economy and natural systems. The concept of a circular economy will not only reduce our environmental impact, but will create value and activities that have a restorative and regenerative impact on our economy, society, and environment.

Among these activities are:

1. The solid and liquid organic fertilization program that utilizes wastewater from our manufacturing operations for the massive soil reconditioning of our sugar planters' farms;

2. VMC's scaled-up re-use of by-products such as bagasse and molasses in the production of bio-ethanol and renewable energy; and,

3. VMC's "Save A River Project" that systematically re-charges our aquifers, resulting in reduced water consumption and the renewal of water sources.

We are also pleased to announce that your company has been consistently coming out with positive and constructive responses to the challenges posed by the pandemic. We have achieved 100 percent full vaccination status among the employees of VMC. Likewise, VMC responded to some of the needs of the community during the COVID-19 crisis and donated ethyl alcohol to more than 30 LGUs in Negros Occidental, the Red Cross, government hospitals, and nearby regions. To help prevent the spread of disease, we also distributed thermal scanners, foot baths, and handwashing stations to certain public schools in Victorias, Manapla, and Cadiz before the opening of classes.

Your company is committed to delivering better results in the years ahead by focusing on our core business segments—sugar, power, and fuel—which exhibit a high degree of interrelationships, a rich source of corporate synergy, and a vast opportunity for achieving economic, social, and environmental sustainability for VMC.

VMC will keep on exploring other business opportunities that will create synergies with our existing business segments so we can successfully transform VMC into a truly sustainable agro-industrial complex.

As the industry and the world continue to recover this year, we hold on to our hopes and goals as one community. Through unity and diligence, we are certain that VMC will overcome the challenges that will come its way, as it has always done.

Mabuhay ang VMC!

MESSAGE
FROM THE PRESIDENT

The past year has been a fulfilling and meaningful time for VMC amidst all the challenges. We continued to prove that difficulties often bring out the best in everyone, and this year is no exception. We are pleased to report that in the face of another full year into the pandemic, VMC maintained a strong balance sheet with an increase in stockholder's equity of 10% to P8.9 billion. Total assets also grew by 8.29% to P10.4B and VMC remains highly liquid and debt free as of August 31, 2021.

VMC realized a net income of P786 million for the year despite the ongoing effects of the Covid-19 on various businesses and the economy. Our efforts were purposely focused on attaining target production efficiencies, to deliver optimum results coupled with cost reduction measures that helped protect profit margins and lowered operating expenses considerably.

Last year, the bulk of the company's revenues came from the sale of raw sugar, shifting the previous year's product mix, and resulting in a lower gross profit margin. Rest assured margins were managed as the decline was offset by the decrease in operating expenses as well as the reversal of prior year provisions. The increase in other income and the lower provision for income tax due to the CREATE law also cushioned the effect of lower margins during the year.

In terms of the Company's financial key performance indicators across the board, there is a significant improvement compared to last year. VMC's current ratio significantly increased from 5.78 to 6.55, while the debt-to-equity ratio of 0.16 is the lowest in the last ten years, culminating in a favorable performance for the company this year.

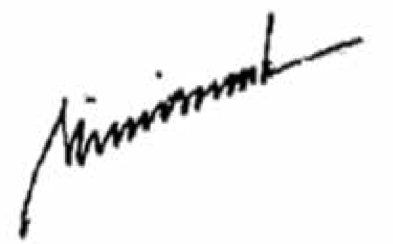
Since VMC's establishment more than 100 years ago, we have always risen to meet great challenges, including environmental and climate issues. As a company, we are committed to the public good and we take to heart our work to initiate programs for the environment. VMC, therefore, continues to invest in capital expenditure aimed at upgrading the plant, improving operational efficiencies, expanding the capacities of key segments, and ensuring environmental preservation and protection.

In the face of adversity brought about by the pandemic, keeping our employees safe is of utmost importance. Thus, this year, we exhausted all means possible to ensure a hundred percent vaccination for our people at the soonest possible time. This was an initiative that was received wholeheartedly by our workers and made possible through the concerted efforts of the LGU and the LT Group of Companies Inc. For this, we are forever grateful. We also continue to focus on the overall well being of our employees during these challenging times. As such, we launched programs that supported and helped our people cope with the pandemic, through sponsored talks on mental and financial health, as well as sports awareness and staying fit. Wellness kits and Covid care packages were distributed to employees to stay healthy; while hospitalization coverage and quarantine leaves were generously extended to those affected by the spread of Covid 19. Additionally, career growth and development did not take a back seat during this time. Instead, we intensified our efforts in digitizing our workplace fast so we could offer leadership programs via e-learning seminars to ensure that the advancement in knowledge and skills of our people continues.

This last year, and into the current year, we are devoting time and effort to develop community engagement programs to help create safer and healthier communities around us. We have re-discovered the value of collaboration among our shareholder segments—from the local government units and compliance government agencies to community members and, more importantly, our own employees.

As a company, our actions are guided by our aspiration to conduct our operations in such a way that we help prevent negative environmental impacts. This sense of responsibility is what we wish to impart to our people so that everyone's consciousness and ways of working are aligned towards one goal.

We are enthusiastic about the outlook for the various Philippine industries as the nation works hard to recover from the economic challenges of the last two years. Together with our valued planters, partners and employees, we are optimistic that VMC will continue to power and fuel the lives of Filipinos as we do our share in building the community, restoring the country's economic health, and protecting our resources and environment.



BUSINESS PORTFOLIO

Victorias Milling Company Inc. (VMC) is a diversified company engaged in the manufacturing of sugar and allied products. Through the years, VMC became an integrated sugar company that has expanded its business to bioethanol and power cogeneration. VMC has formed Victorias Foods Corporation, Canetown Development Corporation, Victoria's Golf & Country Club, Inc., Victorias Agricultural Land Corporation, and Victorias Green Energy Corporation (VGEC).

Through its diverse business portfolio, VMC continues to contribute to the economy as it 'Nourishes, Powers, and Fuels' the lives of the Filipino people. For the past three years, VMC has decided to include in its corporate composition the following business segments: Sugar Milling, Distillery and Power Co-Generation. These three business segments are interrelated to one another in the following respects: 1) these are all sugar-based businesses; 2) the by-product of one segment serves as input to another in making a new product; 3) the company's facilities and support services are shared by the three segments; 4) the functional competencies of one segment can be transferred to another and; 5) they are presently under the over-all corporate management of VMC.

Percentage ownership of VMC per subsidiary

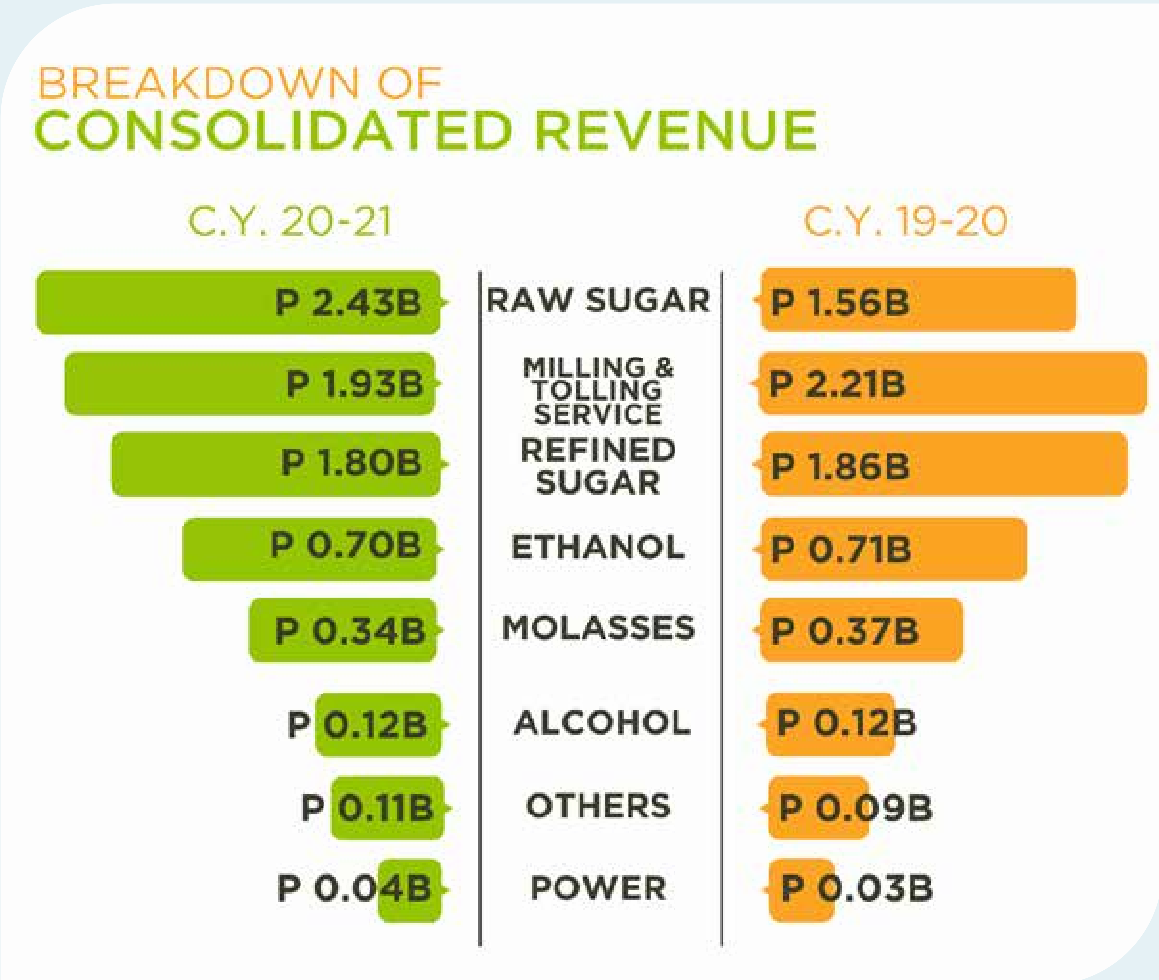
81%
Victorias Golf and Country Club, Inc. (VGCCI)
Operates a golf club

93%
Canetown Development Corporation (CDC)
Develops and sells real estate properties; develops, operates and sells memorial lots

100%
Victorias Agricultural Land Corporation (VALCO)
Acquires and owns agricultural lands and properties

100%
Victorias Green Energy Corporation (VGEC)
Co-generation of energy; pre-operating stage

100%
Victorias Foods Corporation (VFC)
Produces and sells canned sardines, hot bangus, luncheon meat, ham, bacon and other meat products



Sugar Operations. Revenue from sugar operations consists of the sale of raw sugar and molasses (mill share), refined sugar, tolling fees, and milling service.

For its raw sugar and molasses operations, VMC 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. 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 traders and planters for their raw sugar milled by other sugar centrals.

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 that produce it as a by-product. In 2020, the division 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.

Other Operating Segments. Other operations of VMC include food processing, real estate sales, leasing, and entertainment. **Food processing** is involved primarily in selling 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.

Leasing derives income from the lease of certain parcels of land to planters. Finally, entertainment derives income from membership fees when billed and when corresponding services are rendered.

BUSINESS PERFORMANCE

SUGAR

11.5% ↑ vs last year 2,702,302 tons
TONS CANE MILLED

10.2% ↓ vs last year 1.87 Lkg/TC
LKG/TC

0.04% ↑ vs last year 5,056,325 Lkg
RAW SUGAR

41.7% ↓ vs last year 4,153,578 Lkg
REFINED SUGAR

0.17% ↑ vs last year 94.13 %
REFINING YIELD

5.6% ↑ vs last year 138,442 tons
MOLASSES

The high demand for raw sugar resulted in a drop in refined sugar production.

ALCOHOL

25.2% ↑ vs last year 14,698,830 liters
ALCOHOL PRODUCTION

9.1% ↑ vs last year 277.67 li RS/ton mol
RECOVERY

5.5% ↑ vs last year 81.16%
FERMENTATION EFFICIENCY

3.8% ↑ vs last year 93.74%
DISTILLATION EFFICIENCY

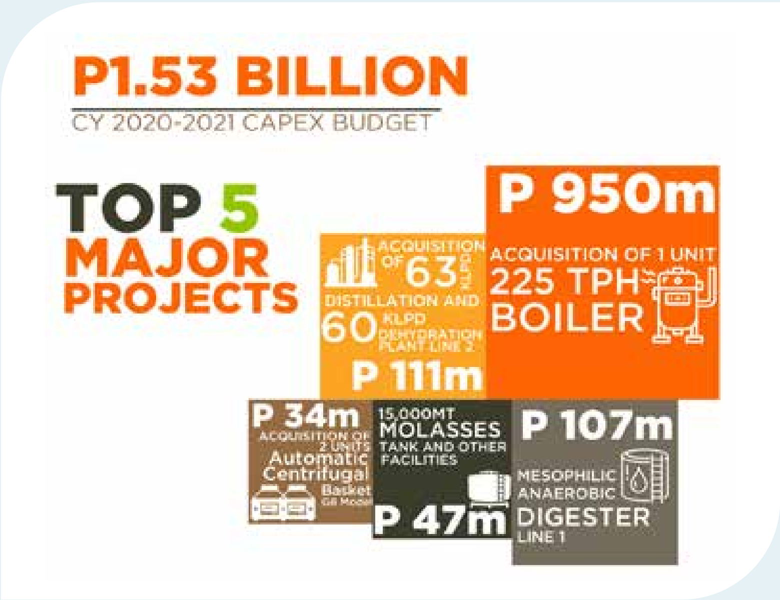
POWER

25.2% ↑ vs last year 98,970,954 KWh
POWER GENERATION

3.9% ↑ vs last year 9,722,340 KWh
POWER EXPORT

Better performance for alcohol attained due to improved operational efficiencies and good quality molasses.

Higher TCM vs LY led to an increase in power generation and export.



VMC continues to invest in capital expenditure aimed to upgrade the plant, improve operational efficiencies, expand the capacity of each business segment, and ensure environmental preservation and protection.

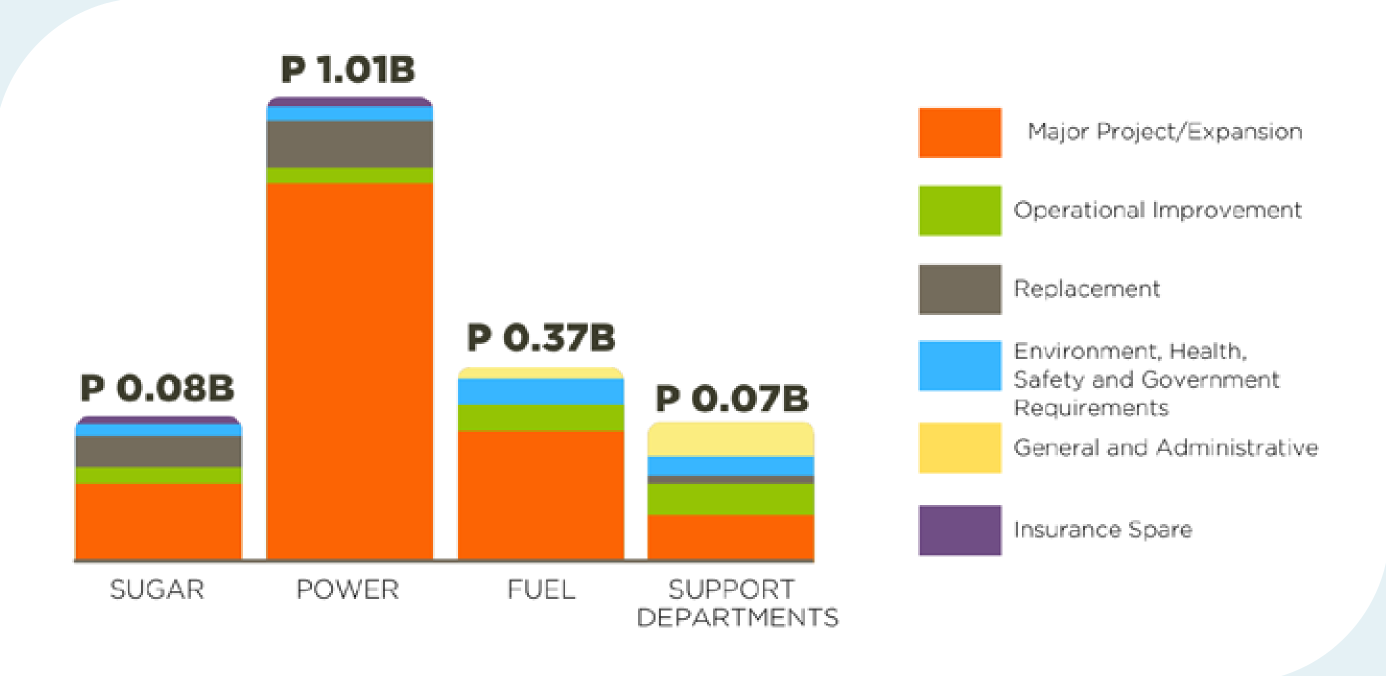
The **225 TPH boiler** not only delivers higher efficiency, but is also a pollution control device that reduces air emissions dramatically. In the long term, this will help bring down off-season and operational repairs and maintenance costs.

The **additional 63KLPD Distillation and 60 KLPD Dehydration Plants** will increase volume capacity and significantly reduce steam consumption.

The **Mesophilic Anaerobic Biodigester**, which reclaims potential energy from waste in the form of biogas, enables Distillery operations to treat a high volume of waste water.

The **Molasses Tank** and its other facilities will allow the sufficient storage of molasses, particularly the good quality molasses, and prevent molasses congestion at the mill.

The **ACB G8 units** will increase processing efficiencies thereby reducing power consumption and the cost of maintenance, and will minimise recirculation of molasses while producing good quality raw sugar.

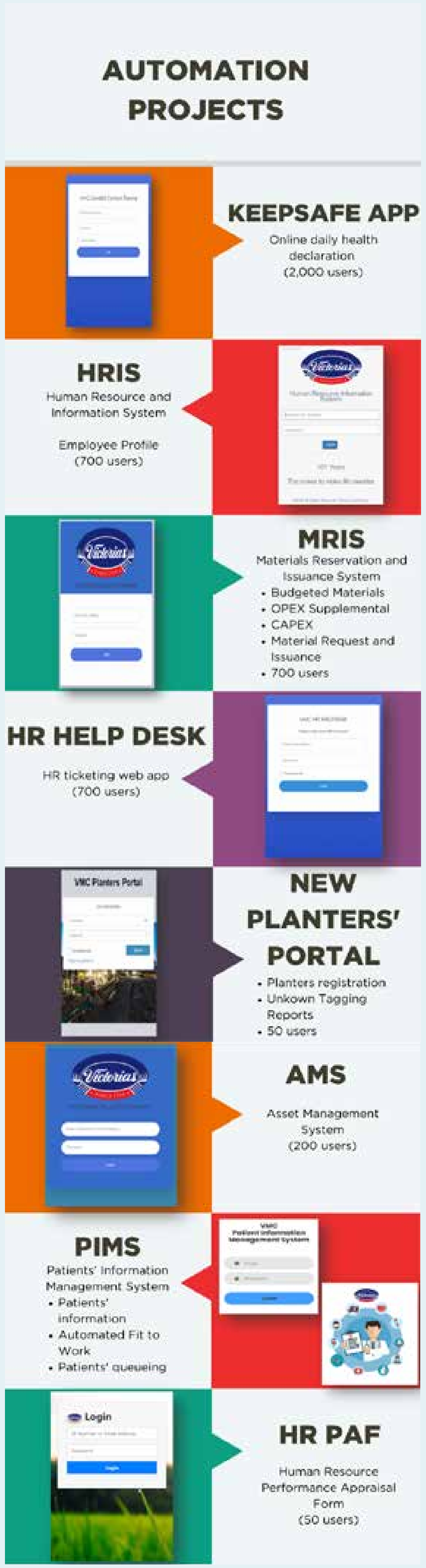


MIS: JOURNEY TO DIGITALIZATION

The Management Information Systems (MIS) department of VMC undertook several important digitalization projects during the year. Upon addressing internet connectivity issues and the need for a proper network, the company was able to successfully support its work-from-home setup, including activities like virtual meetings, e-learning sessions, online training sessions, webinars and events.

The various systems and process activities created by MIS, geared towards achieving high productivity, cost and time efficiencies in the workplace, include: Support Services, Compliance and Testing Controls, Project and Team Management, and Software Improvement. A major breakthrough from MIS is the creation of the SAP Cane Delivery System —which covers the whole process from registration by planters and processing of cane delivery to allowance and incentives calculation, and sugar and molasses quedan processing. This was a move driven by the company's desire to deliver an advanced, fast and convenient way of serving our planters.

MIS was also instrumental in the implementation of health efforts during the pandemic: medical services, online consultations, and online health declaration. For the whole year, numerous automation projects were undertaken, starting in August 2020 with the Keepsafe App, which has about 2,000 users.



Presently, there are several web applications that are under development and several digitalization projects in the pipeline, including the following: plant maintenance, the VMC website, and a chat bot project. The web apps being developed are the Daily Manufacturing Report, The VMC sales portal, the digital library, Daily Cash Position Reporting, HRIS e201, and the Warehouse Managament App to Procurement Module. These initiatives aim to improve systems and process controls, and enable faster report generation to assist management in their decision making.

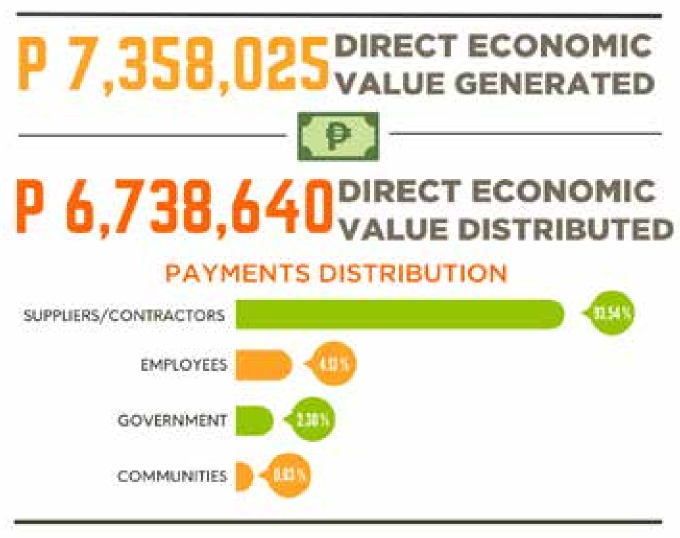
Other hardware and network team projects that were completed in the year include Internet Service Provider (ISP) upgrade, active directory, local email, distillery local network, and facial recognition biometrics.

SUSTAINING OPERATIONAL EFFICIENCY

ECONOMIC PERFORMANCE

ENERGIZING LOCAL ECONOMIES

Despite the crisis brought about by the recent pandemic, VMC generated economic value that will sustain its business operations and at the same time ensure that this flows back to its stakeholders, thereby contributing to their economic well-being. Faced with strong challenges caused by pandemic-induced economic contraction and transition pains as the country sought ways to get out of the crisis, the Company was able to pool enough resources that flow to the local, regional, and national economy leading to the country's sustained post-pandemic economic recovery.



VMC has maintained its over-all cost leadership strategy in managing its resources to sustain its recovery from the pandemic-stricken business environment. Specifically, the Company has adopted policies and programs that supported its stakeholders in the face of changing conditions, by maintaining strong partnerships with the sugar planters; developing the ERP/SAP Management Information System to ensure efficient communication and coordination among business segments; implementing a balanced portfolio of investments alongside the core business segments: (sugar, ethanol, and power co-gen products); implementing an HROD program on employee's training and development, health, and economic well-being; and implementing a database and information system for monitoring environmental impacts and social programs benefitting the local communities.

To address risks around the revolving around sugar cane price, production and supply of the province amidst the impact of climate change and unforeseen events such as the COVID-19 pandemic, the Company has adopted a horizontal strategy through the systematic integration of its core business segments—sugar mill and refinery, distillery, and power co-gen. This strategy sought the introduction of better technologies and the sharing of facilities and personnel among its different business segments in order to achieve corporate synergy, economies of scale, and economies of scope. Specifically, the Company plans to undertake improvements in the ERP/SAP Management Information System that will ensure efficient online communication and coordination between and among business segments. This will streamline the physical operations of the different segments and in the process identify and fill up the input-output gaps in the manufacturing operations to avoid inefficiencies and wastage. The Company will adopt policies to continually explore sound cost reduction measures to protect margins; develop second-tier supply chain that includes local suppliers that can fill in foreign supply delays; increase support for sugar planters; and continue the upgrade and adequate maintenance of plant equipment and machinery to maximize its capacity utilization.

SOCIAL PERFORMANCE
CULTIVATING OUR GREATEST RESOURCE

VMC has always maintained its corporate policy of ensuring the economic and social well-being of all its employees across all its business segments and administrative offices. The Company's involvement in providing favorable employee conditions in the workplace is being managed by its Human Resource and Organization Development (HROD) Department.

Integral to HROD Department's development plans is the offering of compensation packages and employees' programs that maximize employee performance, retain the employees, maximize productivity, reduce absenteeism, and motivate employees.

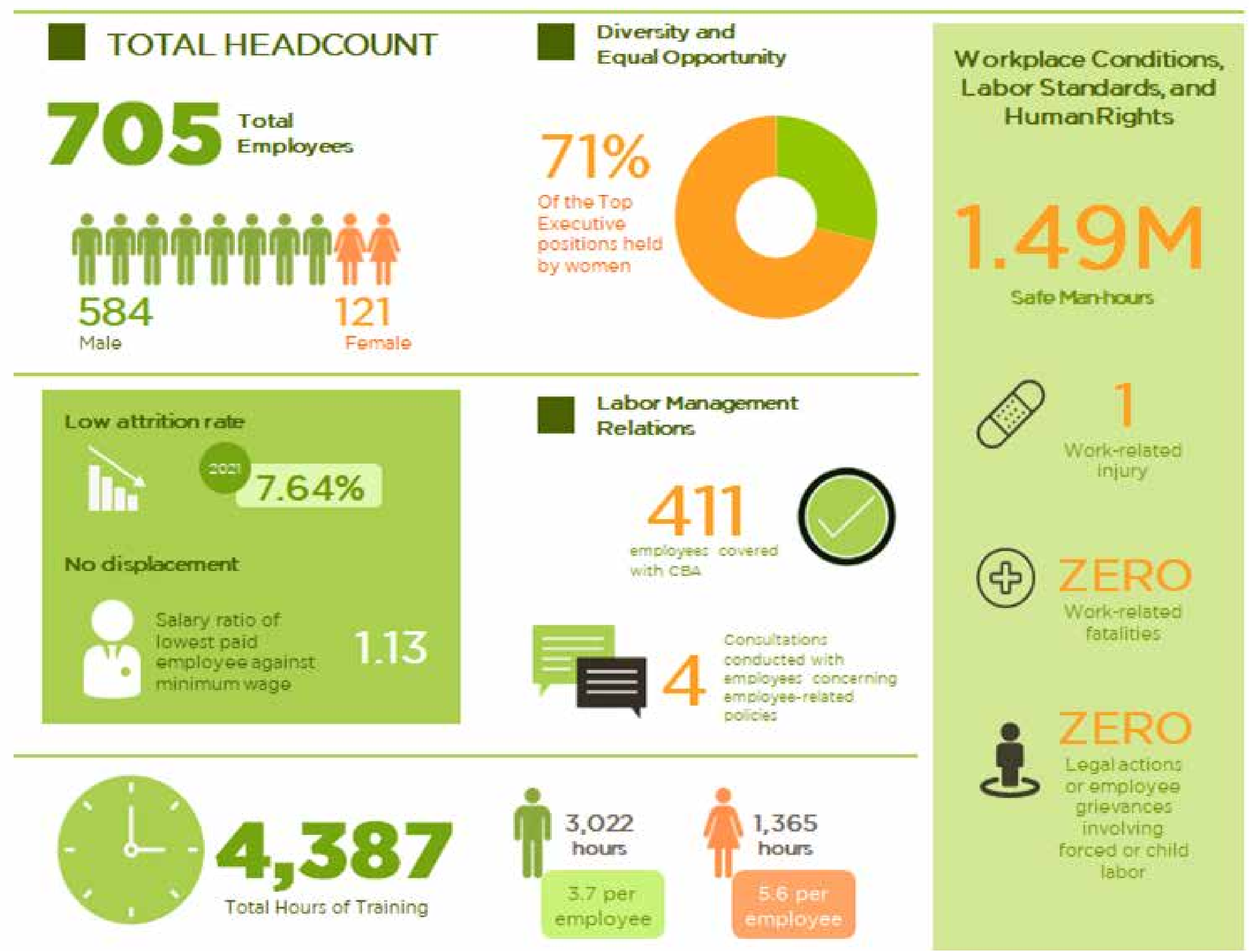
In light of its strategy to promote corporate synergy, the Company sees the following opportunities: 1) a learning opportunity on the nature and mechanics of flexible deployment of technical and rank-and-file personnel across all business segments; 2) a training opportunity for achievement of cross-functional and technical skills; and 3) a technical opportunity to engage in virtual training programs amid the pandemic-induced constraints.

The Occupational Health and Safety (OHS) standards mandate the reduction, removal, or replacement of job site hazards. OHS programs also help minimize the effects of such hazards, which considerably benefits the company as healthy employees are guaranteed to be more productive.

The Company can achieve from its OHS programs the following benefits: a) a safer and healthier work environment for its employees; b) increased employee morale; and c) an opportunity to attract smart, talented, and high-caliber persons to be part of the Company.

Community Engagement Programs

VMC continues to establish relationships with the barangays and to implement a feedback mechanism process and a communication link with the community to be able to continuously identify programs that are relevant to them. Programs are designed to respond to the needs and aspirations of the community, as well as enrich the liveability of the community itself. This would create a collaborative culture among key community players, the government, the residents, and the Company so that everyone can work towards the improvement of the quality of life of the community residents.



VMC MILESTONES IN HUMAN RESOURCES

The human resource (HR) department of VMC hit several milestones in the last year in the areas of automation, e-learning, facilities improvement, COVID-19 vaccination, employee engagement, and enhanced learning and development.

The collaboration among HR, IT (information technology), and medical services paved the way for innovations that strengthened the company's management and monitoring of the employees' health status. These innovative initiatives further aided VMC to be more adaptable to the changes and demands in the workplace brought about by the pandemic. Moreover, HR- related automated systems were also institutionalized to enable the VMC workforce to have efficient access to employee data.

In the area of automation, the following programs were rolled out: online daily employee health declaration (KeepSafeVMC), employee's help desk, automated performance appraisal, patient information management system (PIMS), All under the HR Information System.

Various methods of learning continue to evolve and VMC is agile enough to adapt to these changes. E-learning is another innovative approach being undertaken by the company to adjust to the impact of COVID in the workplace learning methods. This provides employees with easier to access learning materials at their own pace and safe location. This self-paced approach includes the learning modules on Corporate Orientation (onboarding), Food Safety and cGMP Annual Refresher, which materials have been converted to e-learning videos.

VMC is likewise serious in its drive to protect the health and ensure the safety of its employees. Its continuing effort to prioritize the improvement of facilities that strongly adhere to health protocols are in place for use of all employees. In the last year, facility enhancements of the following were accomplished: lockers, canteen, CR, recreation rooms, and the hands-free time recording system.

VMC embraced the realities of COVID-19 with relentless campaigns for 100% vaccination of the workforce. The employees were made aware of the importance of being fully vaccinated. To date, the company's organic employees are 100% vaccinated, and all with booster shots too. The Company has also earned Safety Seals as a Covid19 Safe Workplace for both its Sugar and Distillery Plants.

In CY 20-21, programs aimed at promoting the wholistic development of employees were introduced, like the following employee engagement programs: wellness webinars, stretch o'clock, and virtual masses. The virtual conduct of the activities proved to be a successful approach to increase participation while still adhering to safety protocols.

And finally, learning programs geared towards developing leaders were also provided in CY 20-21. Younger employees with leadership potential went through a series of training courses to beef up their management and leadership skills via the Emerging Leaders Development Program. On the other hand, a special learning module, The Career Transition, was also extended to the retiring leaders in preparation for their approaching retirement.

VMC'S COVID-19 VACCINATION DRIVE FOR EMPLOYEES

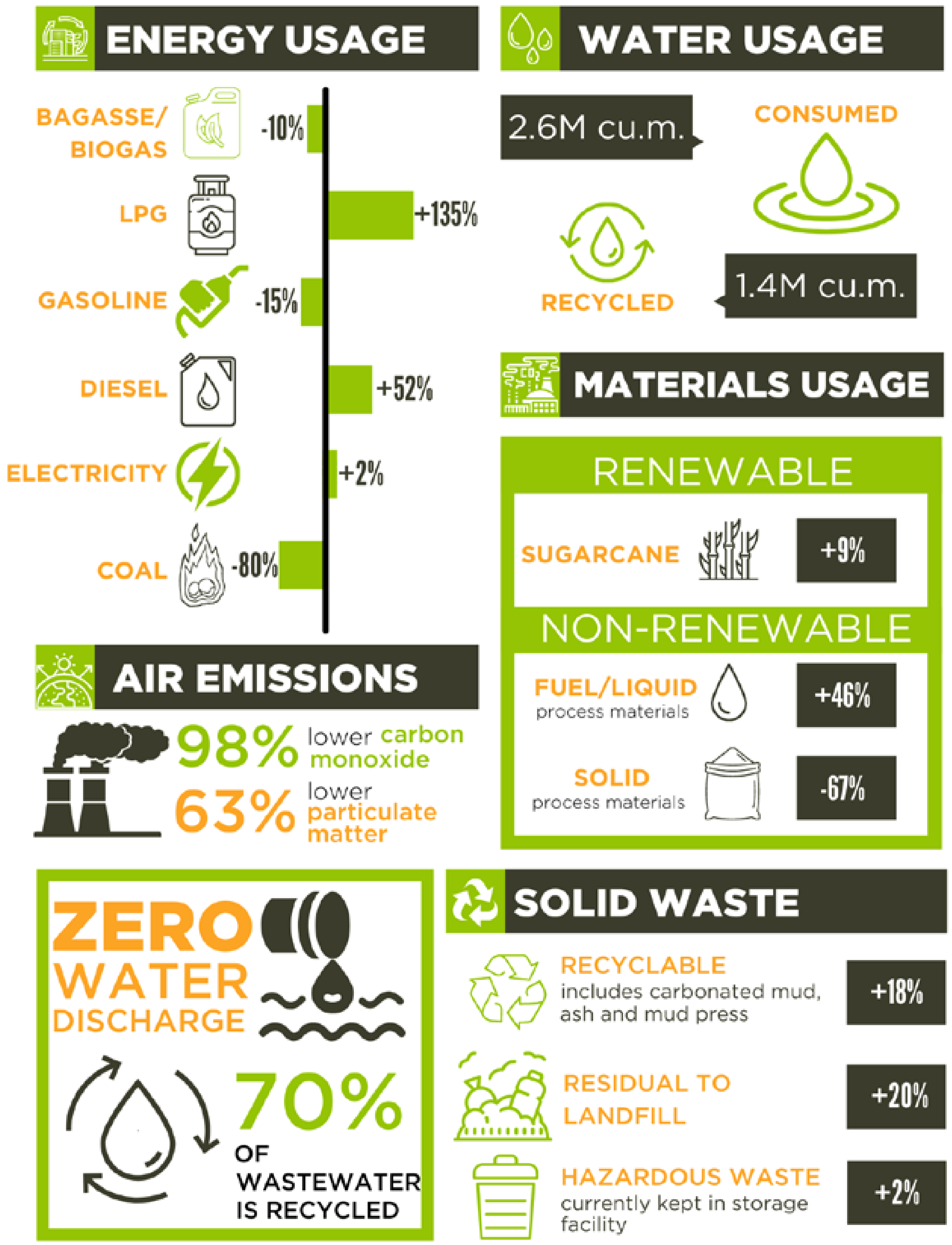
Over 2,000 employees and service providers of have been inoculated against COVID-19. The safety and well-being of VMC's people has always been top priority. As such, the vaccination program was necessary to protect employees and their families from getting severely affected when infected by the virus. The program also helped to restore normalcy in the operations of business and allowed the company to continue serving its planters.

The VMC vaccination program was in collaboration with the LT Group who initiated the procurement of the vaccines for all employees and workers. As of this writing, 100 percent of VMC's employees are fully vaccinated.

ENVIRONMENTAL PERFORMANCE

SOCIAL RESPONSIBILITY FOR SUSTAINABLE COMMUNITIES

To respond to the global demand for sustainable development, VMC embarked on a sustainable journey that began in 2020. The company expanded its scope of operations to include the production of bio-ethanol and renewable energy using the by-products of sugar production. In the process, VMC is able to reduce its environmental impact via the principle of 'closed production loop'. Today, however, VMC is once again taking a big leap in its sustainability journey by embracing the concept of circular economy to help restore and regenerate—more than just protect— the economy, community, and the environment.



Water Conservation Programs

VMC is committed to sustaining its water conservation program, which supports the recycling and reusing of water to reduce groundwater and surface water pumping into the factory.

The Company shall continue implementing its 'closed loop' production system to minimize its dependence on water streams for its water requirements. This approach has four (4) components: 1) continuous recycling and reuse of water in the sugar milling, distillery, and Cogen operations; 2) developing rain water harvesting technologies; 3) improved maintenance of water impounding ponds; and 4) expanding the liquid fertilization program of the distillery.

The Company continues to: 1) complete and upgrade its new facilities for pollution prevention and control; 2) rehabilitate the lagoons; and 3) engage in various community projects, such as tree planting drives and river rehabilitation programs to protect the environment. The project in Malihao River, for example, involves regular clean-up drives with community residents and VMC employees, as well as widening of canals to prevent flooding in the area. This mitigates water pollution and siltation and enhances livelihood in the community.

VMC and the Department of Environment and Natural Resources Region 6 also signed a Memorandum of Agreement (MOA) to rehabilitate Sicaba River, a tributary that crosses through the local government units of Manapla and Cadiz City. Some of the river rehabilitation measures identified in the program include the regular clean-up of the river, phyto- remediation programs through constructed wetlands, planting of bamboo and other species along river banks, rip-rapping or coco-matting, construction and greening of linear parks.

DENR will take charge of monitoring industrial and commercial establishments that run along the Sicaba River, assist in establishing Materials Recovery Facilities in concerned barangays, strictly implement and act against violators of the Ecological Solid Waste Management Act and Clean Water Act, and assist in community social preparation and other trainings for leaders and stakeholder groups in the area.

VMC, on the other hand, will take charge of undertaking regular water quality monitoring of the river and its tributaries, assist DENR in trainings and program implementations, and help in community mobilization to support the project.

Environmental Programs

VMC remains committed to protecting the environment and creating value to the communities where it operates. The Company helped to establish the multi-partite monitoring team (MMT) with the LGUs of Manapla and Cadiz in 2020, involving government officials, environmental agencies, health experts, and members of the communities to work hand-in-hand in preserving the environment.

VMC has regularly and consistently budgeted and spent for measures to address environmental concerns, like the foul odor around the distillery reported in early 2020. VMC has invested in modern structures and technological processes to eliminate this odor. Most recently, the Company spent for the installation of an Anaerobic Digester to lessen the presence of odor-causing bacteria in the slops by 60-70% and then convert it to biogas. It also installed an Automatic Flaring System to eliminate odor-causing gases and did improvements in wastewater treatment methods at the aeration ponds, such as filtration, aeration, and dosing of enzymes to counteract the odor-causing chemical reaction in the digesters. To help eliminate odor, additional units of aspirating surface aerators in the aeration ponds were also installed.

VMC has likewise been conducting tree-planting activities in areas surrounding the industrial and natural polishing lagoons and aeration ponds to serve as natural air purifiers. In the distillery and sugar mill area, over 275,000 seedlings in more than 250 hectares of land were planted to sequester carbon dioxide and serve as a natural filter to reduce foul odor here.

Over P200 million was spent on these improvements to ensure that the Company remains environmentally compliant. Moreover, the distillery is covered by the proper Environment Compliance Certificate (ECC) issued by the DENR/EMB for the operation of its vacuum distillation, dehydrator, and irrigation ponds. The distillery's irrigation ponds are also covered by the proper permits and licenses.

Waste Management

At the Manapla Distillery and Sugar Mill, the recycling of slops into organic fertilizer and the reuse of solid waste as soil conditioner in sugarcane fields mitigate water pollution and enhance waste recycling and the farmers' livelihood.

Hazardous waste. As far as the generation of hazardous and toxic wastes in the area is concerned, the Company shall undertake the following strategies: 1) compliance to RA 6969 Control of Toxic Substances and Hazardous and Nuclear Wastes; 2) implementation of a Procedural Manual for Chemical Management; and 3) employees' training.

In the short to medium term, the Company shall undertake the following measures: 1) renewal of its contract with the Hazardous Waste Treater and Hauler accredited and authorized by the government; 2) conduct of regular supplier's audit to ensure compliance to the standards; and 3) active participation in environmental advocacy programs of the government.

The Company shall also forge collaborative ventures with universities and research companies in piloting certain technologies in the storage and disposal of hazardous materials and their eventual replacement by biodegradable and environment-friendly materials.

Effluents. The Company's practice of recycling and reusing water has reduced sustained groundwater and surface water pumping to its mill, distillery, and co-generation plants, leaving more resources for the community. Such water recycling practice recharges the area's aquifer and allows for sustained livelihood for the community.

The implementation of the closed loop system is part of the company's commitment to minimizing its dependence on water streams. Moreover, plans to develop the natural lagoons and its surroundings as a place where the children in nearby communities can engage in fishing activities, as well as a recreation spot for residents and visitors, are already underway.

Logistics Operations

With the formation of VMC's Sustainability Management Team, the Company is able to monitor and adopt corrective measures to manage all its environmental impact.

The Company's regulatory compliance efforts help build trust among the members of the community, customers, and its employees and stockholders. In this regard, it is the Company's policy to undertake consistent monitoring of the continuing environmental impacts of all its manufacturing and administrative operations. The VMC Sustainability Team is tasked to conduct on-going research on new government environmental laws and regulations and to ensure proper and timely information dissemination among the Company's core business segments.

Guided by its recently-conducted Strategic Audit (2021), the Company shall continue to monitor its strengths and weaknesses in implementing new environmental regulations and align its manufacturing operations with the Company's environmental conservation targets.

CORPORATE SOCIAL RESPONSIBILITY

VMC donates more than 50K liters of alcohol. In response to the COVID-19 crisis and the scarcity of ethyl alcohol in Negros Occidental after supply was compromised due to logistical difficulties, Victorias Milling Company, Inc. (VMC) went full blast in its alcohol production immediately after it was granted the necessary permits by the Food and Drug Administration (FDA) and the Bureau of Internal Revenue (BIR) in early 2020. VMC manufactured 70% ethyl alcohol (VProtect) from its 95% ethyl alcohol (rectified spirit) production.

In total, VMC has donated over 50,235 liters to all 32 local government units (LGUs) in Negros Occidental, the Red Cross, and various government hospitals, particularly those that are COVID-designated health facilities. Several alcohol containers were also sent to Negros Oriental, Panay Island, the Province of Cebu, and the Bicol Region.

VMC takes Brigada Eskwela a step further. Instead of the usual clean-up of classrooms and the repainting and beautification programs in the schools, VMC together with the Victorias Milling Company Foundation, Inc. (VMC Foundation) provided preventive COVID-19 equipment to 16 public schools in the local government units of Victorias, Manapla, and Cadiz in time for the opening of the school year in October.

Beneficiaries were Burgos National High School, the Hon. Pedro Villena Memorial Elementary School, Egido-Fernandez Elementary School, and Caduhaan Elementary School in Cadiz City. Manapla recipients include Begonia Elementary School, VICMICO Elementary School II, and Manapla National High School - Purisima Ext.

Nine schools in Victorias City were also selected: Victorias Elementary School, Daan Banwa Elementary School, Victorias Milling Elementary School, Victorias North Elementary School, Victorias National High School, Estado Elementary School, Barangay Estado National High School, J.L. Suarez Elementary School, and Victorias National High School – Alfonso Sta. Ana MHS Ext.

VMC donated alcohol, thermal scanners, foot baths, and hand washing stations in selected schools to help prevent the spread of the disease. The anti-COVID equipment were turned over to DepEd supervisors in the three LGUs and will benefit over 19,000 students and teachers.

Hundreds sign up for VMC Planters Caravan

Hundreds of sugar farmers signed up for the Planters Caravan, which started on August 10. The caravan was launched by VMC in collaboration with Victorias Manapla Cadiz Farmers Association Inc., Negrense Sugar Planters Association Inc., and Negros del Norte Planters Association.

It was VMC's way of bringing the mill to the planters for their convenience. The activity was a good exercise because, apart from the sign-ups in preparation for the mill opening on August 23, it was also an opportunity for VMC to interact with its planters and answer their queries.

The local government units, especially the barangay officials, extended much-needed help to ensure that proper health protocols were maintained at the caravan site.

VMC widens canal for flood control

Victorias Milling Company completed the clearing, widening and deepening of the canal in New Barrio, Canetown, Victorias City. By doubling the size of the canal, this project will help the flooding problem that has affected nearby residents in the past. The barangay leaders have expressed their commitment to keeping the canal in proper working condition and its surrounding area clean and safe for the community at all times.

EXECUTIVE OFFICERS

Minnie O. Chua, Filipino, is the Vice Chairman, President and Chief Operating Officer of VMC. She is a Certified Public Accountant. She graduated Magna Cum Laude from the University of St. La Salle with the degree of Bachelor of Science in Commerce major in Accounting. Prior to VMC, she had extensive banking experience having worked for Solidbank and Metrobank. She previously served as Assistant Treasurer and Deputy Chief Operating Officer for VMC. She also serves as Chairman of CDC and VALCO, President and Director of VGEC, and Director of VFC and VGCCI.

Linley A. Retirado, Filipino, is currently the appointed Chief Manufacturing Officer. He is a licensed Chemical Engineer. He was Chairman and President of Philippine Sugar Technologists Association, Inc. and currently a member of its Board of Trustees. He is also a Director of VGEC, VGCCI and CDC.

Eva A. Vicencio-Rodriguez, Filipino, is the Chief Administrative Officer of VMC. A lawyer, she holds a Master in Business Administration degree from the University of St. La Salle and finished her BS Psychology from West Negros College, Magna Cum Laude. She is also the Assistant Corporate Secretary and Compliance and Information Officer of VMC. She is the Corporate Secretary of the following VMC subsidiaries: VFC and VGCCI. She serves as President and Director of CDC, and also the President and Director of VALCO. She is currently the Chairperson of the Victorias Mill District Development Council Foundation, Inc.

Kristine D. Cabuguason, Filipino, is the Chief Finance Officer/Creditor- Appointed Controller of VMC. She served as an Audit Director in SGV & Co. and previously Assistant Manager in EY assurance practice in the Philippines and Bahrain. She is a Certified Public Accountant in the Philippines and in the state of California, USA. She completed a Bachelor's Degree in Accountancy at the University of St. La Salle. She is also the Treasurer of the following VMC subsidiaries: VFC, VGCCI, VGEC, VALCO and CDC.

EXECUTIVE TEAMS

ENGINEERING SERVICES AND DISTILLERY DIVISION

Wilberto Tiangson, Philip Vecino, Giannina Kaw, Linley Retirado, Russel Servando, Salvador Arellano, Jr.

SUGAR DIVISION

Marlowe Lugador, Alain Macainan, Hanzel Malayo, Anthony Sanchez, Renato Dunlao, Jr.

EXECUTIVE TEAMS

POWER DIVISION

Glenn Sanchez, Raymond Ledesma,
Jesus Edmundo Cardeñas, John Roel Rodriguez

OPERATIONS AREA

Debbie Jane Vallar, Allan Maravilla, Joseph Penuela, Minnie Chua,
Sheila Cabrestante, Ellainne Muhal, Hector Solatorio,
Joy Steve Lauren, Paulene Socorro Magbanua

FINANCE AREA

Jamaica Jagonos, Diana Aporador, Robert Lau, Ma. Evelyn Segaya

ADMIN AREA

Benefredo Regalado, Jose Ramon Eduardo Unson, Eva Rodriguez

The Board of Directors, Management, and staff of VMC commit themselves to the principles of strong and ethical corporate governance in the attainment of its corporate goals and objectives.

The Board of Directors
VMC is headed by a Board that fosters the long-term success of the Corporation and sustains its competitiveness, growth, and profitability in a manner consistent with its corporate objectives and the long-term best interests of its stockholders and stakeholders. The Board conducts itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

Backed with competence and expertise, the members of the Board are able to fulfil its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction. All directors have a collective working knowledge, experience, or expertise that is relevant to the Corporation's industry or sector.

The Board, composed of eleven (11) directors, two (2) of whom are independent, is responsible for effectively participating and helping secure objective, independent judgment on corporate affairs and to substantiating proper checks and balances.

Board seats allocation follows:

1 - Secured Creditor
3 - Existing Stockholders
7 - Creditors with Debt Conversion

During VMC's Annual Stockholders' Meeting held on February 2, 2022, the following were elected as members of the VMC Board of Directors:

1. Wilson T. Young, Filipino, currently chairs the Board of VMC and Perf Restaurants, Inc. (franchisee of Burger King in the Philippines). He is also a member of the Board of Trustees of the University of the East and Vice-Chairman of the University of the East Ramon Magsaysay Memorial Medical Center, Inc., member of the International Board of Advisers of the Philippine School of Prosthetics and Orthotics, as well as member of the Board of the following foundations: Mithing Pangarap Foundation, Inc., Norfil Foundation, Inc., and the National Defense College of the Philippines Educational and Development Foundation, Inc. He also serves as a member of the Board of Admissions of the National Defense College of the Philippines and Chairman of Total Credit Cooperative. He was an instructor of Taxation and Accounting at Assumption College, San Lorenzo Makati and Financial Accounting at the Ateneo de Manila-Loyola. He is likewise a director and/or officer of various family-owned and controlled corporations, and was a former director and officer of certain companies of LT Group, Inc. Mr. Young is a Certified Public Accountant and holds a Master's Degree in National Security Administration.

2. Minnie O. Chua, Filipino, is the Vice Chairman, President and Chief Operating Officer of VMC. She is a Certified Public Accountant. She graduated Magna Cum Laude from the University of St. La Salle with the degree of Bachelor of Science in Commerce major in Accounting. Prior to VMC, she had extensive banking experience having worked for Solidbank and Metrobank. She previously served as Assistant Treasurer and Deputy Chief Operating Officer for VMC. She also serves as Chairman of CDC and VALCO, President and Director of VGEC, and Director of VFC and VGCCI.

3. William Y. Chua, Filipino, is the President of Agro Bulk Marine Corporation, Wilch Realty Corporation, and MC Metroplex Holding Corp. He is also the Vice President of Oro Allado Commodities, Inc., and Federation of Sugar Traders of the Philippines.

4. Reggie Hannah Y. Lorenzo, Filipino, is the Treasurer of VMC, and Chairman of the Audit and Risk Committee. She is a Certified Public Accountant. She graduated in the top 10% of her class from the University of St. La Salle with the degree of Bachelor of Science in Accountancy. She holds a Masters of Business Administration degree from the Hong Kong University of Science & Technology. She served as Junior Auditor of Sycip, Gorres, Velayo & Co. and as General Manager of VCY Sales Corporation. She is presently the Investment Manager of the VCY Group of Companies.

5. Peter Y. Ong, Filipino, was elected to the Board of VMC on May 27, 2016 and is a member of the Audit and Risk Committee and Budget Committee. He serves as President of Network Holdings & Equities Corp. He also serves as Treasurer of Cosmic Holdings Corporation and Merit Holdings & Equities Corp. He is a consultant of Philippine Airlines, Inc. and served as President of Air Philippines Corporation. He is a director of Fortune Tobacco Corporation where he also served as Senior Vice President for Production. He served as Senior Vice President of Allied Savings Bank from 2001 to 2009. He is a director of 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.

6. Anna Rosario V. Paner, Filipino, is the Chair of the Legal, Nominations, Corporate Governance and Related Party Transactions Committee. She has been a private law practitioner since 1996 and is one of the founding partners of Paner & Ypil Attorneys-at-Law (formerly Paner Hosaka & Ypil Attorneys-at-Law). She is currently the Vice-Chairman of Victorias Foods Corporation (VFC), President of Victorias Golf & Country Club, Inc. (VGCCI), and Corporate Secretary of Victorias Agricultural Land Corp. (VALCO) and Canetown Development Corporation (CDC). 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.

7.Michael G. Tan, Filipino, is presently the Chief Operating Officer of Asia Brewery, Inc. and the President and Chief Operating Officer of LT Group, Inc. (formerly Tanduay Holdings, Inc.). For the past years, he served as a director of the following corporations: Abacus Distribution Systems Philippines, Inc., Allied Banking Corporation, Eton Properties, Inc., Philippine National Bank, and PMFTC.

8. Lucio C. Tan III, Filipino, is currently the President and COO of Tanduay Distillers, Inc. He serves as Director of the LT Group, MacroAsia Corporation, PAL Holdings, Philippine Airlines (PAL), and Air Philippines Corporation. He graduated Summa Cum Laude from Stanford University in 2015 and has a degree in Electrical Engineering. He also has a Master's Degree in Computer Science from the same university.

9. Victor T. Yu, Filipino, is presently the Consultant of Sales and Business Development of VMC. He took up BS Management and Industrial Engineering at Mapua Institute of Technology. He is also a Master's Degree holder in Business Administration from University of the Philippines, Diliman, Quezon City. He is currently the General Manager of Victorias Golf & Country Club, Inc. and has been a director of VMC since February 7, 2017. He is also the President of Victorias Foods Corporation.

10. Alvin C. Yu, Filipino, is the President of Narra Capital Investment Corporation, Bacolod DN Triumph Steel Corporation, and Bacolod Twinstar Shipping Corporation. He is the Vice President of VCY Sales Corporation and the Manager of Bacolod Triumph Hardware. He graduated from the Ateneo de Manila University with a Management Engineering degree and completed the Owner/President Management Program from Harvard Business School.

11. Martin C. Yu, Filipino, he has been a director of VMC since February 4, 2014, and President of Firefly Electric & Lighting Corporation since 2001. Mr. Yu has also been a director of VCY Sales Corporation since 1998. He took up Business Management at the Ateneo de Manila University and completed the Owner/President Management Program from Harvard Business School.

Board Meetings

The Board held six (6) meetings after the February 2, 2021 Annual Stockholders' Meeting. Below is the attendance report of the Directors in the regular meetings:

ATTENDANCE REPORT OF DIRECTORS IN REGULAR MEETINGS

NAME	DESIGNATION	NO. OF MEETINGS HELD DURING INCUMBENCY	NO. OF MEETINGS ATTENDED DURING INCUMBENCY	PERCENTAGE
Wilson T. Young	Chairman	6	6	100%
Minnie O. Chua	Vice Chairman	6	6	100%
William Y. Chua	Member	6	6	100%
Reggie Hannah Y. Lorenzo	Member	6	6	100%
Peter Y. Ong	Member	6	6	100%
Anna Rosario V. Paner	Member	6	6	100%
Michael G. Tan	Member	6	6	100%
Lucio C. Tan, III	Member	6	4	66%
Victor T. Yu	Member	6	6	100%
Alvin C. Yu	Member	6	6	100%
Martin C. Yu	Member	6	6	100%

Board Committees

In compliance with the principles of good corporate governance and to assist the Board in its duties, five (5) committees were established. The Committees are composed of Board members whose duties and working procedures are defined in the Committee Charters. Each Committee is required to report on a regular basis to the Board.

Executive Committee. The Committee is comprised of eight (8) members of the Board of Directors. It functions on behalf of the Board during intervals between its meetings, as deemed necessary and exercises all duties delegated to it with respect to approval of capital expenditures and any or all asset disposals, sale or similar dispositions. It also performs oversight functions on the strategic initiatives identified by the Board.

Chairman: Mr. Wilson T. Young

Members:

Ms. Minnie O. Chua
Mr. Lucio C. Tan, III
Mr. Michael G. Tan
Mr. Alvin C. Yu
Mr. Martin C. Yu
Mr. Victor T. Yu
Mr. William Y. Chua

Audit and Risk Committee. This is composed of five (5) members who have accounting, auditing, and finance backgrounds. Members of the Committee are knowledgeable and experienced on risk and risk management.

Chairman: Ms. Reggie Hannah Y. Lorenzo

Members:

Atty. Anna Rosario V. Paner
Mr. Peter Y. Ong
Mr. Martin C. Yu
Mr. Victor T. Yu

Human Resource and Remuneration Committee. Having five (5) members, the Committee assists the Board in its human resources management and oversight responsibilities in accordance to the law and with utmost consideration of the interest of its shareholders, creditors, and other Stakeholders.

Chairman: Ms. Minnie O. Chua

Members:

Mr. William Y. Chua
Mr. Lucio C. Tan, III
Mr. Alvin C. Yu
Mr. Victor T. Yu

Legal, Nominations, Corporate Governance, and Related Party Transactions Committee. Comprised of five (5) members of the Board of Directors, the Committee's primary function is to ensure the Company's compliance to laws and rules & regulations of concerned government agencies. It is also tasked to monitor and report to the Board the status of cases concerning the Company.

Chairman: Atty. Anna Rosario V. Paner

Members:

Mr. William Y. Chua
Ms. Minnie O. Chua
Mr. Lucio C. Tan, III
Mr. Wilson T. Young

Budget Committee. The Committee has five (5) members and provides assistance to the Board by providing sound advice on financial matters in accordance with the principles of good corporate governance.

Chairman: Mr. Alvin C. Yu

Members:

Ms. Minnie O. Chua
Ms. Reggie Hannah Y. Lorenzo
Mr. Peter Y. Ong
Mr. Michael G. Tan

DISCLOSURES

1. 15 July 2021 – Clarification of News Report: VMC allowed to build transmission line for 40MW biomass-fired plant, July 15, 2021, Philippine Daily Inquirer.

2. 14 July 2021 – Amended report relative to the Energy Regulatory Commission (ERC) decision relative to the application of VMC for authority to develop, own, operate and maintain a dedicated point-to-point (P2P) limited facilities to connect to the transmission system of the National Grid Corporation of the Philippines.

3. 14 July 2021 - Energy Regulatory Commission (ERC) decision relative to the application of VMC for authority to develop, own, operate and maintain a dedicated point-to-point (P2P) limited facilities to connect to the transmission system of the National Grid Corporation of the Philippines.

4. 25 May 2021 – Press release of the procurement of CoViD-19 vaccines for its employees.

5. 6 May 2021 – Press release, VMC's 102 years.

6. 02 February 2021 – Results of the Annual Stockholders' Meeting and Organizational Meeting.

7. 22 December 2020 – Submission of official email addresses and cellular phone numbers.

8. 4 December 2020 – Board approval of nominees to the Board of Directors for year 2021 – 2022.

9. 03 December 2020 – Attendance of VMC's members of the Board and Officers to Corporate Governance Orientation Program on 25 November 2021.

Whistleblowing Policy
Integral to the business philosophy of VMC are integrity and accountability. As a matter of policy, all of VMC's directors, managers, and employees are expected to act with integrity and honesty, and always in accordance with Philippine laws.

The Policy on Whistleblowing aims to assist individual employees to disclose information related to a suspected misconduct, malpractice, or irregularity through a confidential reporting channel. It is not designed to further personal disputes or question financial or business decisions taken by the Corporation.

To encourage its employees to maintain the highest standards of integrity and accountability, VMC encourages employees to report internally any suspected or actual violation of company policy, practice, law, or regulation by opening channels that will enable employees to report these in person or anonymously. The whistleblower will be protected against retaliation, discrimination, harassment, or adverse personnel action for reporting in good faith a suspected or actual violation.

Conflict of Interest
All members of the Board of Directors, officers, executives, employees, and consultants of VMC are prohibited from acquiring any personal or pecuniary interest, actual or apparent, that is in conflict with their duties in VMC. They must disclose in writing any actual or potential instances of conflict of interest and likewise inhibit himself/herself from direct or indirect participation at any stage of the transaction and shall not sign any document related to it.

Related Party Transactions
VMC is committed to ensuring that its financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit (or loss) may have been affected by the existence of related parties, and by the transaction and outstanding balances, including commitments, with such parties.

A "Related Party" or "Corporation," or any of its subsidiaries or affiliates shall disclose any related party transaction to VMC's Risk & Corporate Governance Committee before entering into any transaction with VMC. VMC on the other hand, shall be responsible for the disclosure of related party transactions and other applicable disclosure requirements of the Securities and Exchange Commission. It shall likewise review related party transactions and determine if these should be governed by its Policy on Conflict of Interest.

VICTORIAS MILLING COMPANY, INC.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements August 31, 2021, 2020 and 2019

and 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. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

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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, 2021 and 2020, 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, 2021, 2020 and 2019, 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, 2021 and 2020, and their consolidated financial performance and their consolidated cash flows for the years ended August 31, 2021, 2020 and 2019, 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.

<u>Accounting for Sugar Inventories</u>

Sugar inventories amounted to ₱333.7 million as at August 31, 2021. The accounting for sugar inventories is significant to our audit because it represents 9% of total current assets and 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.

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. The sugar inventories as at August 31, 2021 were fairly accounted for.

Necessary disclosures are included in Note 5, *Inventories* and Note 28, *Summary of Significant Accounting Policies*.

Estimating Provision for Legal Claims

Provision for legal claims amounted to ₱322.9 million as at August 31, 2021. Estimating provision for legal claims is significant to our audit because it represents 37% of total noncurrent liabilities. Moreover, it involves significant assumptions and high degree of judgment in estimating the timing and amount of the claims.

Our procedures included, among others, confirmation with legal counsel of the likely outcome of the legal claims 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 28, *Summary of Significant Accounting Policies*.

Revenue Recognition of Sugar Milling Operations

The Group's revenue from milling 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 from milling services amounted to ₱1,395.8 million for the year ended August 31, 2021. This is significant to our audit because it represents 19% of total revenue. Moreover, the revenue recognition 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 requiring significant audit attention.

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

Necessary disclosures are included in Note 16, *Revenue,* and Note 28, *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, 2021, 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, 2021 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.

REYES TACANDONG & CO.

Haydee M. Reyes

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. 08-005144-006-2019
Valid until October 20, 2022
PTR No. 8534276
Issued January 5, 2021, Makati City

December 7, 2021
Makati City, Metro Manila

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Victorias Milling Company, Inc. (the Parent Company) and Subsidiaries (the Group) as at August 31, 2021 and 2020 and for the years ended August 31, 2021, 2020 and 2019, and have issued our report thereon dated December 7, 2021. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedules for submission to the Securities and Exchange Commission are the responsibility of the Group's management.

The supplementary schedules include the following:

- Schedules Required under Annex 68-J of the Revised Securities Regulation Code (SRC) Rule 68 as at and for the year ended August 31, 2021
- Reconciliation of the Retained Earnings Available for Dividend Declaration of the Parent Company for the year ended August 31, 2021
- Schedule of Financial Soundness Indicators as at and for the years ended August 31, 2021 and 2020
- Corporate Structure as at August 31, 2021

The financial soundness indicators are not measures of operating performance defined by the Philippine Financial Reporting Standards and may not be comparable to similarly titled measures presented by other companies. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at August 31, 2021 and 2020 and for the years ended August 31, 2021, 2020 and 2019, and no material exceptions were noted.

The supplementary schedules are presented for purposes of complying with the Revised SRC Rule 68, and are not part of the basic consolidated financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

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
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Valid until October 20, 2022
PTR No. 8534276
Issued January 5, 2021, Makati City

December 7, 2021
Makati City, Metro Manila

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Amounts in Thousands

	Note	August 31 2021	2020
ASSETS			
Current Assets			
Cash and cash equivalents	2	**₱538,701**	₱522,113
Investments in Unit Investment Trust Fund	3	**1,108,571**	116,496
Trade and other receivables	4	**808,186**	498,468
Inventories	5	**975,741**	1,648,265
Other current assets	6	**420,041**	352,519
Total Current Assets		**3,851,240**	3,137,861
Noncurrent Assets			
Property, plant and equipment	7	**5,596,835**	5,617,249
Investment properties	8	**672,097**	605,749
Other noncurrent assets	9	**229,866**	197,200
Total Noncurrent Assets		**6,498,798**	6,420,198
		₱10,350,038	₱9,558,059
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables and other current liabilities	10	**₱571,852**	₱487,361
Income tax payable		**16,194**	55,901
Total Current Liabilities		**588,046**	543,262
Noncurrent Liabilities			
Payable to claimants, net of current portion	10	**151,580**	166,473
Provisions for legal claims	11	**322,858**	310,866
Net deferred tax liabilities	20	**326,311**	406,507
Retirement liability	21	**55,679**	54,413
Other noncurrent liabilities		**6,000**	6,000
Total Noncurrent Liabilities		**862,428**	944,259
Total Liabilities		**1,450,474**	1,487,521
Equity Attributable to Shareholders of Parent Company	13		
Capital stock		**3,042,061**	3,042,061
Additional paid-in capital		**840,720**	840,720
Convertible notes awaiting conversion		**5,450**	5,450
Retained earnings		**6,228,232**	5,413,264
Other equity reserves		**281,878**	266,237
Treasury stock - at cost		**(1,501,882)**	(1,501,882)
Total Equity Attributable to Shareholders of Parent Company		**8,896,459**	8,065,850
Noncontrolling Interests		**3,105**	4,688
Total Equity		**8,899,564**	8,070,538
		₱10,350,038	₱9,558,059

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

	Note	2021	2020	2019
REVENUE	16			
Sale of goods		**₱5,537,239**	₱4,741,426	₱5,012,023
Service income		**1,931,008**	2,213,982	567,606
		7,468,247	6,955,408	5,579,629
COST OF SALES AND SERVICES	17	**6,315,344**	5,464,045	4,156,582
GROSS PROFIT		**1,152,903**	1,491,363	1,423,047
OPERATING EXPENSES	18			
General and administrative		**372,995**	434,032	670,515
Selling		**156,846**	160,221	179,596
		529,841	594,253	850,111
FINANCE COST	12	**(31,479)**	(56,526)	(58,093)
OTHER INCOME - Net	19	**269,462**	156,111	544,170
INCOME BEFORE INCOME TAX		**861,045**	996,695	1,059,013
INCOME TAX EXPENSE (BENEFIT)	20			
Current		**120,187**	167,057	121,207
Deferred		**(45,378)**	(10,243)	121,428
		74,809	156,814	242,635
NET INCOME		**₱786,236**	₱839,881	₱816,378
Net Income (Loss) attributable to:				
Shareholders of Parent Company		**₱787,819**	₱840,031	₱817,494
Noncontrolling interests		**(1,583)**	(150)	(1,116)
		₱786,236	₱839,881	₱816,378
Earnings per Share for Net Income attributable to Shareholders of Parent Company				
Basic and Diluted	14	**₱0.29**	₱0.31	₱0.30

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts in Thousands

	Note	2021	2020	2019
NET INCOME		**₱786,236**	₱839,881	₱816,378
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be subsequently reclassified to profit or loss:				
Effect of change in income tax rate	20	**37,753**	–	–
Remeasurement gain (loss) on retirement liability	21	**6,716**	(5,517)	(5,662)
Deferred tax relating to components of other comprehensive income (loss)		**(1,679)**	11,146	1,699
Revaluation increment of property, plant and equipment	7	**–**	(31,638)	–
		42,790	(26,009)	(3,963)
TOTAL COMPREHENSIVE INCOME		**₱829,026**	₱813,872	₱812,415
Total Comprehensive Income (Loss) attributable to:				
Shareholders of Parent Company		**₱830,609**	₱814,022	₱813,531
Noncontrolling interests		**(1,583)**	(150)	(1,116)
		₱829,026	₱813,872	₱812,415

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Amounts in Thousands

	Equity Attributable to Shareholders of Parent Company								
	Capital Stock (Note 13)	Additional Paid-in Capital (Note 13)	Convertible Notes Awaiting Conversion (Note 13)	Retained Earnings (Note 13)	Other Equity Reserves (Note 13)	Treasury Stock (Note 13)	Total	Noncontrolling Interests	Total Equity
Balance as at September 1, 2018	₱3,042,061	₱840,720	₱5,450	₱3,607,832	₱366,440	(₱1,501,882)	₱6,360,621	₱5,954	₱6,366,575
Comprehensive income (loss):									
Net income (loss)	–	–	–	817,494	–	–	817,494	(1,116)	816,378
Other comprehensive loss	–	–	–	–	(3,963)	–	(3,963)	–	(3,963)
Total comprehensive income (loss)	–	–	–	817,494	(3,963)	–	813,531	(1,116)	812,415
Transfer of revaluation increment to retained earnings	–	–	–	43,886	(43,886)	–	–	–	–
Balances as at August 31, 2019	3,042,061	840,720	5,450	4,469,212	318,591	(1,501,882)	7,174,152	4,838	7,178,990
Effect of adoption of Philippine Interpretations Committee (PIC) Questions and Answers (Q&A) No. 2019-03 (Note 28)	–	–	–	77,676	–	–	77,676	–	77,676
Balances as at September 1, 2019	3,042,061	840,720	5,450	4,546,888	318,591	(1,501,882)	7,251,828	4,838	7,256,666
Comprehensive income (loss):									
Net income (loss)	–	–	–	840,031	–	–	840,031	(150)	839,881
Other comprehensive loss	–	–	–	–	(26,009)	–	(26,009)	–	(26,009)
Total comprehensive income (loss)	–	–	–	840,031	(26,009)	–	814,022	(150)	813,872
Transfer of revaluation increment to retained earnings	–	–	–	26,345	(26,345)	–	–	–	–
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**

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Thousands

	Notes	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱861,045**	₱996,695	₱1,059,013
Adjustments for:				
Depreciation and amortization	7	**408,733**	463,702	340,990
Provisions for (reversal of) impairment losses on:				
Input and advance output value-added tax	6	**(55,204)**	–	55,204
Trade and other receivables	4	**3,731**	552	7,997
Property, plant and equipment	7	–	–	69,782
Advances to a supplier	9	–	–	38,000
Finance cost	12	**31,479**	56,526	58,093
Provision for inventory write-down and obsolescence	5	**22,036**	5,985	–
Retirement benefits	21	**13,217**	4,702	11,038
Gain on sale of investments in Unit Investment Trust Fund	3	**(6,140)**	(1,560)	(17,789)
Net additions to (reversal of) provisions for legal claims	11	**(3,888)**	22,286	67,849
Interest income	2	**(1,998)**	(2,840)	(10,486)
Loss (gain) on disposal of:				
Property and equipment	7	–	82,529	–
Investment property	8	–	(40,367)	(4,000)
Unrealized gain on fair value changes of investments in Unit Investment Trust Fund	3	**(606)**	(651)	(2,157)
Gain on fair value changes of investment properties	8	**(42,066)**	(37,905)	(14,630)
Insurance claims	7	–	–	(517,155)
Operating income before working capital changes		**1,230,339**	1,549,654	1,141,749
Changes in operating assets and liabilities:				
Decrease (increase) in current assets:				
Trade and other receivables		**(313,449)**	(120,865)	35,583
Inventories		**650,488**	(846,743)	(32,267)
Other current assets		**(12,318)**	141,342	49,384
Increase (decrease) in trade payables and other current liabilities		**84,491**	25,891	(145,888)
Net cash generated from operations		**1,639,551**	749,279	1,048,561
Income tax paid		**(159,894)**	(136,709)	(154,256)
Contributions to the retirement fund	21	**(5,000)**	(1)	(10,000)
Interest received		**1,998**	2,840	10,486
Retirement benefits paid	21	**(235)**	–	(1,315)
Net cash provided by operating activities		**1,476,420**	615,409	893,476
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investments in Unit Investment Trust Fund	3	**(1,282,100)**	(131,943)	(970,229)
Property, plant and equipment	7	**(380,132)**	(363,578)	(436,566)
Proceeds from disposal of:				
Investments in Unit Investment Trust Fund	3	**296,771**	127,095	1,153,521
Investment properties	8	–	7,870	–
Property, plant and equipment	7	–	165	–
Decrease (increase) in other noncurrent assets		**(63,879)**	153,897	(122,891)
Proceeds from insurance claims	7	–	–	517,155
Net cash provided by (used in) investing activities		**(₱1,429,340)**	(₱206,494)	₱140,990

	Note	2021	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of:				
Liabilities to claimants	10	**(₱30,492)**	(₱30,492)	₱–
Long-term borrowings	12	–	(495,000)	(755,000)
Interest	12	–	(18,963)	(20,479)
Cash used in financing activities		**(30,492)**	(544,455)	(775,479)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**16,588**	(135,540)	258,987
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**522,113**	657,653	398,666
CASH AND CASH EQUIVALENTS AT END OF YEAR	2	**₱538,701**	₱522,113	₱657,653

See accompanying Notes to Consolidated Financial Statements.

All 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 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, 2021 and 2020, CN awaiting conversion amounted to ₱5.45 million, which includes accrued interest amounting to ₱2.50 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 were, 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.

In the SEC's Order dated December 3, 2018, it 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 24).

Accordingly, VMC is still under rehabilitation as at August 31, 2021 and 2020. 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.

Status of Operations

The COVID-19 pandemic which broke out in early 2020 resulted to nationwide mandated lockdowns and negatively impacted the Philippine economy. Management, however, believes that with the Group's strong financial position it can readily meet its maturing obligations and continue as a going concern.

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 7, 2021, as reviewed and recommended for approval by the Audit and Risk Committee on December 6, 2021.

2. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand	**₱1,120**	₱23,433
Cash in banks	**366,944**	406,071
Cash equivalents	**170,637**	92,609
	₱538,701	₱522,113

Cash in banks earn interest at the prevailing 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:

	2021	2020
Philippine peso	**0.13% to 1.50%**	0.10% to 3.25%
US dollar	**0.25% to 0.38%**	0.30% to 2.10%

Interest income on cash and cash equivalents amounted to ₱2.00 million, ₱2.84 million and ₱10.49 million in 2021, 2020 and 2019, respectively (Note 19).

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:

	2021	2020
Cost	**₱1,104,949**	₱113,480
Cumulative unrealized fair value gains	**3,622**	3,016
	₱1,108,571	₱116,496

Movements in this account are as follows:

	Note	**2021**	2020
Balance at beginning of year		**₱116,496**	₱109,437
Additions		**1,282,100**	131,943
Disposals		**(290,631)**	(125,535)
Unrealized gain on fair value adjustments	19	**606**	651
Balance at end of year		**₱1,108,571**	₱116,496

Proceeds from disposal of investments in UITF amounted to ₱296.77 million, ₱127.10 million and ₱1,153.52 million in 2021, 2020 and 2019, respectively. Gain on disposal amounted to ₱6.14 million, ₱1.56 million and ₱17.79 million in 2021, 2020 and 2019, respectively (Note 19).

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	**2021**	2020
Trade:			
Related parties	22	**₱415,280**	₱162,302
Third parties		**396,257**	339,001
Others		**28,492**	25,277
		840,029	526,580
Allowance for impairment losses		**(31,843)**	(28,112)
		₱808,186	₱498,468

Trade receivables are noninterest-bearing with an average credit period of 15 to 30 days.

Movements in the allowance for impairment losses are as follows:

	Note	2021	2020
Balance at beginning of year		**₱28,112**	₱28,066
Provision	18	**3,731**	552
Write-off		**–**	(506)
Balance at end of year		**₱31,843**	₱28,112

Management assessed that the allowance for impairment losses as at August 31, 2021 and 2020 are reasonable and adequate.

5. Inventories

This account consists of:

	2021	2020
At cost:		
Raw sugar	**₱248,473**	₱90,862
Refined sugar	**85,236**	1,071,359
	333,709	1,162,221
Ethanol	**163,634**	29,049
Molasses	**109,164**	209,794
Real estate held-for-sale	**20,628**	20,297
Processed food	**10,165**	6,650
Alcohol	**–**	24,913
	637,300	1,452,924
Work-in-process	**47,664**	4,372
	684,964	1,457,296
At net realizable value (NRV):		
Materials and supplies	**250,049**	190,969
Alcohol	**40,187**	–
Others	**541**	–
	290,777	190,969
	₱975,741	₱1,648,265

The cost of materials and supplies carried at NRV amounted to ₱276.51 million and ₱194.80 million as at August 31, 2021 and 2020, respectively. The cost of alcohol and other inventories carried at NRV amounted to ₱59.30 million and ₱1.57 million, as at August 31, 2021, respectively. The Group recognized provision for inventory write-down and obsolescence amounting to ₱22.04 million and ₱5.99 million in 2021 and 2020, respectively (Note 18). Provision for inventory write-down and obsolescence in 2021 includes cost of damaged alcohol and other inventories amounting to ₱20.14 million arising from flood incident in Victorias City on January 1 and 8, 2021. As at the report date, the Group and the insurance companies are still processing the insurance claim.

August 31, 2019	Land	Land Improvements	Buildings and Structures	Buildings and Equipment	Machinery and Equipment	Construction (PUC)	Total
Acquisition Cost							
At September 1, 2018	₱411,461	₱213,380	₱711,997	₱20,205	₱5,877,943	₱2,217,990	₱9,452,976
Write-off of damaged portion of power generation plant	–	–	–	–	(573,953)	–	(573,953)
Additions	–	9,043	16,610	669	233,936	176,308	436,566
Reclassification to computer software	–	–	–	–	–	(39,235)	(39,235)
Transfer from investment properties	2,393	–	2,053	–	–	–	4,446
Disposals/retirements	–	–	–	–	(4,410)	–	(4,410)
Reclassification of completed projects	–	1,719	21,089	–	1,772,027	(1,794,835)	–
At August 31, 2019	413,854	224,142	751,749	20,874	7,305,543	560,228	9,276,390
Accumulated Depreciation and Amortization							
At September 1, 2018	–	162,384	595,289	11,799	3,462,352	–	4,231,824
Depreciation and amortization	–	8,516	20,756	502	241,579	–	271,353
Disposals/retirements	–	–	–	–	(4,410)	–	(4,410)
At August 31, 2019	–	170,900	616,045	12,301	3,699,521	–	4,498,767
Allowance for Impairment Loss							
At September 1, 2018	–	8,002	–	–	–	504,171	512,173
Write-off of damaged portion of power generation plant	–	–	–	–	(573,953)	–	(573,953)
Provision for impairment loss	–	–	–	–	69,782	–	69,782
Reclassification of provision for impairment loss	–	–	–	–	504,171	(504,171)	–
At August 31, 2019	–	8,002	–	–	–	–	8,002
	413,854	45,240	135,704	8,573	3,606,022	560,228	4,769,621
Appraisal Increase							
At September 1, 2018 and August 31, 2019	690,460	249,921	652,459	1,370	3,990,574	–	5,584,784
Accumulated Depreciation and Amortization							
At September 1, 2018	–	183,364	652,459	1,370	3,592,817	–	4,422,737
Depreciation and amortization	–	12,794	–	–	49,901	–	62,695
At August 31, 2019	–	196,158	652,459	1,370	3,642,718	–	4,485,432
	690,460	53,763	–	–	347,856	–	1,092,079
Net Carrying Value	₱1,104,314	₱99,003	₱135,704	₱8,573	₱3,953,878	₱560,228	₱5,861,700

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

	Raw Sugar	Refined Sugar	Ethanol	Molasses	Real Estate Held-for-Sale	Processed Food	Alcohol	Power	Others	Work-in-Process	Total
Balances as at September 1, 2019	₱387,201	₱69,300	₱25,279	₱65,336	₱20,496	₱17,740	₱9,721	₱–	₱–	₱–	₱595,073
Additions	3,159,282	756,936	8,341	1,037,964	–	64,965	193,348	13,486	–	4,372	5,238,694
Cost of sales and production transfers	(3,455,621)	245,123	(4,571)	(893,506)	(199)	(76,055)	(178,156)	(13,486)	–	–	(4,376,471)
Balances as at August 31, 2020	90,862	1,071,359	29,049	209,794	20,297	6,650	24,913	–	–	4,372	1,457,296
Additions	**3,159,550**	**94,418**	**8,285**	**831,582**	**635**	**110,673**	**209,093**	**12,362**	**2,459**	**153,966**	**4,583,023**
Cost of sales and production transfers	**(3,001,939)**	**(1,080,541)**	**126,300**	**(932,212)**	**(304)**	**(107,158)**	**(193,819)**	**(12,362)**	**(1,918)**	**(110,674)**	**(5,314,627)**
Balances as at August 31, 2021	**₱248,473**	**₱85,236**	**₱163,634**	**₱109,164**	**₱20,628**	**₱10,165**	**₱40,187**	**₱–**	**₱541**	**₱47,664**	**₱725,692**

Inventories charged to cost of sales and services amounted to ₱4,865.99 million, ₱3,969.10 million and ₱1,556.24 million in 2021, 2020 and 2019, respectively (Note 17).

6. Other Current Assets

The account consists of:

	2021	2020
Input and advance output value-added tax (VAT), net of allowance for probable loss	**₱226,126**	₱195,219
Advances to suppliers	**127,331**	71,720
Prepaid expenses	**41,209**	42,031
Biological assets	**24,395**	22,295
Others	**980**	21,254
	₱420,041	₱352,519

Input and advance output VAT as at August 31, 2020 include claims for refund of ₱172.60 million, net of allowance for probable losses of ₱55.20 million. 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 (Note 18).

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.

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.

Other current assets as at August 31, 2020 mainly pertain to refundable deposits and tolling cost yet to be billed to customers.

7. Property, Plant and Equipment

Movements in this account follows:

August 31, 2021	Land	Land Improvements	Buildings and Structures	Community Buildings and Equipment	Machinery and Equipment	Project under Construction (PUC)	Total
Acquisition Cost							
At September 1, 2020	₱293,407	₱242,068	₱777,189	₱20,874	₱8,013,243	₱171,797	₱9,518,578
Additions	–	13,040	27,671	–	180,999	158,422	380,132
Retirement	–	–	–	–	(30)	–	(30)
Reclassification of completed projects	–	16,357	96,124	–	54,150	(166,631)	–
At August 31, 2021	293,407	271,465	900,984	20,874	8,248,362	163,588	9,898,680
Accumulated Depreciation and Amortization							
At September 1, 2020	–	181,733	680,965	13,738	4,039,696	–	4,916,132
Depreciation and amortization	–	11,024	24,992	500	327,856	–	364,372
Retirement	–	–	–	–	(30)	–	(30)
At August 31, 2021	–	192,757	705,957	14,238	4,367,522	–	5,280,474
Allowance for Impairment Loss							
At September 1, 2020 and August 31, 2021	–	8,002	–	–	–	–	8,002
	293,407	70,706	195,027	6,636	3,880,840	163,588	4,610,204
Appraisal Increase							
At September 1, 2020 and August 31, 2021	658,822	249,921	652,459	1,370	3,990,574	–	5,553,146
Accumulated Depreciation and Amortization							
At September 1, 2020	–	197,753	652,459	1,370	3,678,759	–	4,530,341
Depreciation and amortization	–	625	–	–	35,549	–	36,174
At August 31, 2021	–	198,378	652,459	1,370	3,714,308	–	4,566,515
	658,822	51,543	–	–	276,266	–	986,631
Net Carrying Value	₱952,229	₱122,249	₱195,027	₱6,636	₱4,157,106	₱163,588	₱5,596,835

August 31, 2020	Land	Land Improvements	Buildings and Structures	Community Buildings and Equipment	Machinery and Equipment	Project under Construction (PUC)	Total
Acquisition Cost							
At September 1, 2019	₱413,854	₱224,142	₱751,749	₱20,874	₱7,305,543	₱560,228	₱9,276,390
Additions	–	7,108	8,819	–	150,956	196,695	363,578
Disposals	(120,447)	–	–	–	(943)	–	(121,390)
Reclassification of completed projects	–	10,818	16,621	–	557,687	(585,126)	–
At August 31, 2020	293,407	242,068	777,189	20,874	8,013,243	171,797	9,518,578
Accumulated Depreciation and Amortization							
At September 1, 2019	–	170,900	616,045	12,301	3,699,521	–	4,498,767
Depreciation and amortization	–	10,833	64,920	1,437	341,118	–	418,308
Disposals/retirements	–	–	–	–	(943)	–	(943)
At August 31, 2020	–	181,733	680,965	13,738	4,039,696	–	4,916,132
Allowance for Impairment Loss							
At September 1, 2019 and August 31, 2020	–	8,002	–	–	–	–	8,002
	293,407	52,333	96,224	7,136	3,973,547	171,797	4,594,444
Appraisal Increase							
At September 1, 2019	690,460	249,921	652,459	1,370	3,990,574	–	5,584,784
Disposals	(31,638)	–	–	–	–	–	(31,638)
At August 31, 2020	658,822	249,921	652,459	1,370	3,990,574	–	5,553,146
Accumulated Depreciation and Amortization							
At September 1, 2019	–	196,158	652,459	1,370	3,642,718	–	4,492,705
Depreciation and amortization	–	1,595	–	–	36,041	–	37,636
At August 31, 2020	–	197,753	652,459	1,370	3,678,759	–	4,530,341
	658,822	52,168	–	–	311,815	–	1,022,805
Net Carrying Value	₱952,229	₱104,501	₱96,224	₱7,136	₱4,285,362	₱171,797	₱5,617,249

Additions to PUC mainly include construction and assembly of boilers and mill equipment, construction of biodigester, additional storage tanks and vacuum distillation plant and major repair of buildings. Completed projects amounting to ₱166.63 million and ₱585.13 million in 2021 and 2020, respectively, were transferred to the appropriate fixed asset category. No borrowing costs were capitalized in 2021 and 2020.

The outstanding purchase commitments of the Group as at August 31, 2021 and 2020 amounted to ₱880.94 million and ₱125.72 million, respectively.

The cost of fully depreciated property, plant and equipment still being used in the Group's operations amounted to ₱2.52 billion and ₱2.40 billion as at August 31, 2021 and 2020, respectively.

In 2020, the Group disposed of certain property and equipment for ₱37.93 million resulting in loss on disposal of ₱82.53 million (Note 19). Appraisal increase derecognized in 2020 related to the disposed property amounted to ₱31.64 million. Uncollected proceeds on the sale amounted to ₱37.76 million as at August 31, 2020 presented as "Receivable from a government bank" under "Other Noncurrent Assets" account in the consolidated statements of financial position (Note 9).

Moreover, in 2020, the Parent Company reassessed the estimated useful lives of its property, plant and equipment. The results of the internal technical evaluation which includes review of condition of the assets, degree of usage and utilization, among others, showed that the estimated useful lives of the land improvements, buildings and structures, community buildings and equipment and some of the machinery and equipment should be reduced (Note 25). The change in estimated useful lives increased the depreciation and amortization by ₱74.52 million in 2020.

On October 10, 2017, the fully insured power generation plant under construction sustained damage. As a result, the Parent Company recognized provision for impairment loss amounting to ₱504.2 million in 2018. The amount recognized as provision for impairment loss is the difference between the carrying amount of the asset and its recoverable amount. The recoverable amount of the asset was arrived at by computing its value in use. The value in use was calculated using the discounted future cash flows expected to be derived from the asset. The discount rate of 10.33% applied to the cash flows of the operations is based on the risk-free rate for 15-year Philippine government bonds. The risk-free rate is adjusted for a risk premium applicable to the Parent Company. In making this adjustment, inputs required are the equity market risk premium (that is the required increased return required over and above a risk-free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the Parent Company relative to the market as a whole.

In 2019, a third-party claims adjuster determined that the actual loss of the damaged portion of the power generation plant amounted to ₱573.95 million. Accordingly, additional provision for impairment loss amounting to ₱69.78 million was recognized and the cost of the damaged portion of the power generation plant amounting to ₱573.95 million was written off (Note 19). In the same year, the Parent Company received insurance claims aggregating ₱517.16 million recognized as other income in the consolidated statements of income. Moreover, management assessed that the estimated useful life of the power generation plant was reduced from 25 years to 20 years because of the damage it sustained from the incident. Consequently, the depreciation of the power generation plant increased from ₱21.4 million to ₱26.9 million in 2019.

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 April 2018. The Group assessed that the roll-forward of the property, plant and equipment at the date of appraisal to August 31, 2021 and 2020 reasonably reflects its fair values. 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 computed 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	2021	2020	2019
Property and equipment		**₱400,546**	₱455,944	₱334,048
Computer software	9	**8,187**	7,758	6,942
		₱408,733	₱463,702	₱340,990

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

	Note	2021	2020	2019
Cost of sales and services	17	**₱379,078**	₱425,737	₱261,993
General and administrative expenses	18	**25,771**	26,970	43,227
Selling expenses	18	**3,884**	10,995	8,050
Other income		**–**	–	27,720
		₱408,733	₱463,702	₱340,990

On September 1, 2003, the Group's parcels of land, buildings and machinery and equipment with aggregate carrying value of ₱2.48 billion are used as mortgage lien for loans under the Mortgage Trust Indenture (MTI). In 2013, when the restructured loans were fully paid, the Group filed a motion to direct the banks to discharge the MTI liens on the subject properties. On August 21, 2020, the SEC En Banc ruled in favor of the discharge of the MTI and the consignment of the properties to VMC. On December 4, 2020, the bank released the titles which are subject of the MTI. The Group subsequently processed the cancellation and release of all mortgages relevant to the MTI properties.

8. Investment Properties

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

	Note	Land	Buildings	Total
Balance as at August 31, 2019		₱569,049	₱16,742	₱585,791
Fair value gain (loss)	19	38,423	(518)	37,905
Disposal		(17,947)	–	(17,947)
Balance as at August 31, 2020		589,525	16,224	605,749
Additions	9	**24,282**	**–**	**24,282**
Fair value gain (loss)	19	**42,844**	**(778)**	**42,066**
Balance as at August 31, 2021		**₱656,651**	**₱15,446**	**₱672,097**

Additions in 2021 pertain to the properties exempted by the Department of Agrarian Reform from the Compulsory Acquisition pursuant to the Comprehensive Agrarian Reform Program (CARP), which were previously confirmed as subject to the CARP coverage. Consequently, the Group derecognized the related receivable from a government bank amounting to ₱25.22 million resulting to a loss of ₱0.94 million recognized as "Others" under "Other income" account (Notes 9 and 19).

The Group disposed certain investment properties for ₱58.31 million resulting to net gain on disposal of ₱40.37 million in 2020 and for ₱25.11 million resulting to net gain on disposal of ₱4.00 million in 2019 (Note 19). Uncollected proceeds on the sale of investment properties in 2020 amounted to ₱50.44 million as at August 31, 2020. The uncollected proceeds as at August 31, 2020 and 2019 is presented as part of "Receivable from a government bank" under "Other Noncurrent Assets" account in the consolidated statements of financial position (Note 9).

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 August 2021.

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	2021	2020	2019
Rental income (included in other income)	19	**₱6,130**	₱17,511	₱9,578
Direct expenses (mainly real property taxes)		**5,158**	5,445	6,235

9. Other Noncurrent Assets

Details of this account are as follows:

	2021	2020
Advances to supplier, net of allowance for impairment loss	**₱99,111**	₱–
Receivable from a government bank	**81,838**	139,477
Cash surety bonds	**22,796**	22,191
Computer software, net of accumulated amortization	**17,774**	25,861
Refundable deposits	**1,305**	2,629
Others	**7,042**	7,042
	₱229,866	₱197,200

Advances to suppliers mainly pertain to amounts paid for the construction and installation plant projects of the Group. 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, 2021 and 2020.

Receivable from a government bank pertains to uncollected proceeds on the land subject to Voluntary Offer to Sell and Compulsory Acquisition pursuant to the CARP. In 2020, the Group recognized additional receivable of ₱88.20 million as consideration for the disposal of land resulting in loss on disposal of property, plant and equipment of ₱78.71 million and gain on disposal of investment property of ₱37.97 million. In 2021, the Department of Agrarian Reform excluded certain properties from CARP coverage resulting in the reversal of related receivable of ₱25.22 million (Note 8).

Cash surety bonds pertain to cash collateral for the labor cases against the Group (Note 24).

Computer software amounting to ₱39.24 million was reclassified from PUC to other noncurrent asset in 2019. Amortization amounted to ₱8.19 million, ₱7.76 million and ₱6.94 million in 2021, 2020 and 2019, respectively (Note 7).

Refundable deposits as at August 31, 2021 and 2020 mainly pertain to cash bond paid to Sugar Regulatory Administration required for sugar importation.

As at August 31, 2021 and 2020, other noncurrent assets include investment in an associate of ₱5.73 million, which are fully provided with allowance for impairment losses. The investment in an association 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, at wholesale or at retail, of gases, particularly oxygen, acetylene, hydrogen, liquefied petroleum gas and any types of gases. VIGASCO ceased business operations effective December 31, 2014.

10. Trade Payables and Other Current Liabilities

The account consists of:

	Note	2021	2020
Trade:			
Third parties		**₱221,962**	₱200,358
Related parties	22	**4,161**	2,305
Accrued expenses		**132,795**	129,457
Customers' deposits		**83,369**	39,705
Liens payable		**46,688**	36,252
Current portion of payable to claimants		**30,492**	30,492
Retention payable		**12,680**	10,276
Others		**39,705**	38,516
		₱571,852	₱487,361

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.

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 or molasses warehouse receipts for molasses and approval of RSDO or delivery for refined sugar.

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 (Notes 11 and 24). Details of current and noncurrent portions of payable to claimants are as follows:

	2021	2020
Payable to claimants	**₱243,939**	₱274,431
Unamortized discount	**(61,867)**	(77,466)
	182,072	196,965
Current portion	**(30,492)**	(30,492)
Noncurrent portion	**₱151,580**	₱166,473

Interest incurred on payable to claimants, included under "Finance cost", amounted to ₱15.60 million, ₱16.88 million and ₱18.04 million in 2021, 2020 and 2019, respectively (Note 12). Payable to claimants is discounted at a rate of 9.37%.

Retention payable represents amounts withheld from contact 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.

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 24).

Estimates of probable costs resulting from the resolution of these claims have been developed in consultation with legal counsels handling the defense in 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 a reversal of provisions of ₱3.88 million in 2021 and additional provisions of ₱22.29 million and ₱67.85 million in 2020 and 2019, respectively (Note 19).

Movements in this account are as follows:

	Note	2021	2020	2019
Balance at beginning of year		**₱310,866**	₱296,344	₱401,465
Unwinding of discount	12	**15,880**	20,688	19,572
Net additions (reversal/settlements)		**(3,888)**	(6,166)	67,849
Reclassification to payable to claimants		**–**	–	(192,542)
Balance at end of year	24	**₱322,858**	₱310,866	₱296,344

On December 3, 2018, the Parent Company and the RSDO and RSQ claimants agreed to settle at ₱304.92 million, payable beginning December 2019 over a period of 10 years (Note 24). The liability was recognized at its present value of ₱192.54 million. Accordingly, the current and noncurrent portion of the claims were reclassified to "Trade payables and other current liabilities" and "Payable to claimants, net of current portion" accounts, respectively, in the consolidated statements of financial position (Note 10).

The undiscounted amount and the related unamortized discount follow:

	2021	2020	2019
Provisions for legal claims, undiscounted	**₱412,050**	₱415,938	₱444,391
Unamortized discount	**(89,192)**	(105,072)	(148,047)
	₱322,858	₱310,866	₱296,344

On an annual basis, the provisions are re-evaluated and recalculated based on latest available information. The provisions were discounted at 5.60% and 5.54% as at August 31, 2021 and 2020, respectively.

12. Borrowings

Following the full repayment of the restructured loans (Note 1), the Parent Company obtained loans from local banks to fund its working capital requirements and capital projects as follows:

Short-term Borrowings
Short-term borrowings consist of unsecured loans availed from a local bank for the Parent Company's working capital requirements. The Parent Company availed a total of ₱750.00 million in 2020 with interest rate ranging from 5.50% to 6.50%. There are no outstanding short-term borrowings as at August 31, 2021 and 2020.

Long-term Borrowings
Long-term borrowings represents unsecured loans availed from a local bank to fund the Parent Company's power generation project (Note 7) with 4.625% interest, payable quarterly beginning March 14, 2018 until December 14, 2020.

Changes in long-term borrowings arising from financing activities are as follows:

	2020
Balance at beginning of year	₱495,000
Repayments	(495,000)
Balance at end of year	₱–

On March 13, 2020, the long-term borrowings were settled in full.

The debt covenant for the long-term borrowings requires the Group to maintain certain financial ratios, which the Group complied with.

Borrowing Costs
Borrowing costs arising from the foregoing bank loans in 2020 are as follows:

	Capitalized Portion	Charged to Profit or Loss (included in Finance Cost)	Total
Short-term	₱–	₱11,288	₱11,288
Long-term	–	7,675	7,675
	₱–	₱18,963	₱18,963

2019	Capitalized Portion	Charged to Profit or Loss (included in Finance Cost)	Total
Long-term	₱29,781	₱14,749	₱44,530
Short-term	–	5,731	5,731
	₱29,781	₱20,480	₱50,261

Details of finance cost are as follows:

	Note	2021	2020	2019
Payable to claimants	10	**₱15,599**	₱16,875	₱18,041
Provisions for legal claims	11	**15,880**	20,688	19,572
Borrowings		**–**	18,963	20,480
		₱31,479	₱56,526	₱58,093

13. Equity

Capital Stock / Treasury Stock

Details are as follows:

	2021		2020		2019	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Common shares at ₱1[(a)] par value per share						
Authorized -						
Balance at beginning and end of year	**3,042,061,094**	**₱3,042,061**	3,042,061,094	₱3,042,061	3,042,061,094	₱3,042,061
Issued and outstanding:						
Balance at beginning and end of year	**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)
Balance at end of year	**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 for Conversion
CN awaiting for conversion includes accrued interest amounting to ₱2.45 million as at August 31, 2021 and 2020.

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 payment of dividends to the extent of the cost of treasury shares amounting to ₱1,501.88 million as at August 31, 2021 and 2020.

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 of December 22, 2021 and will be paid on January 18, 2022.

Other Equity Reserves

Details and movements in this account follow:

	Note	2021	2020	2019
Revaluation increment on property, plant and equipment:				
Balance at beginning of year		**₱269,672**	₱318,164	₱362,050
Effect of change in income tax rate		**37,903**	–	–
Transfer of revaluation increment to retained earnings		**(36,174)**	(37,636)	(62,695)
Deferred income tax effect		**9,025**	20,782	18,809
Decrease in revaluation increment	7	**–**	(31,638)	–
Balance at end of year		**280,426**	269,672	318,164
Cumulative remeasurement gains (losses) on retirement liability:	21			
Balance at beginning of year		**(3,435)**	427	4,390
Remeasurement gains (losses)		**6,716**	(5,517)	(5,662)
Deferred income tax effect		**(1,679)**	1,655	1,699
Effect of change in income tax rate		**(150)**	–	–
Balance at end of year		**1,452**	(3,435)	427
Cumulative fair value changes on investments in UITF:				
Balance at beginning of year, as previously presented		**–**	–	1,660
Effect of adoption of PFRS 9 in 2019		**–**	–	(1,660)
Balance at end of year, as restated		**–**	–	–
		₱281,878	₱266,237	₱318,591
Total other equity reserves attributable to:				
Shareholders of Parent Company		**₱267,152**	₱251,904	₱304,144
Noncontrolling interests		**14,726**	14,333	14,447
		₱281,878	₱266,237	₱318,591

14. Earnings per Share (EPS)

EPS is calculated as follows:

	2021	2020	2019
Net income attributable to the Parent Company	**₱787,819**	₱840,031	₱817,494
Weighted average number of common shares	**2,742,050**	2,742,050	2,742,050
Basic and Diluted EPS	**₱0.29**	₱0.31	₱0.30

The weighted average number of common shares includes the mandatory convertible shares arising from the Parent Company's DRA (Note 13).

15. 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:
a. sale of raw sugar and molasses (mill share)
b. sale of refined sugar
c. tolling service
d. 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 23).

The Group also operates a refinery plant with a daily capacity of 25,000 lkg. (1 lkg = 50 kilograms). To ensure maximum utilization of the refinery, the Parent Company also provides toll refinery services to traders and planters for their raw sugar milled by other sugar centrals.

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.

Power Generation

A newly established segment with a primary purpose 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.

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, 2021 and 2020 and revenue, income and expenses information for the three years ended August 31, 2021, 2020 and 2019:

	2021					
	Sugar Milling	Distillery Operations	Power Generation	Others	Elimination Items	Total
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	(31,478)	–	–	–	–	(31,478)
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	₱524,842	₱189,365	₱29,659	₱42,370	₱–	₱786,236

	2020					
	Sugar Milling	Distillery Operations	Power Generation	Others	Elimination Items	Total
Revenue						
External sales	₱6,008,720	₱823,470	₱28,202	₱95,016	₱–	₱6,955,408
Inter-segment sales	837,737	–	4,940	7,623	(850,300)	–
	₱6,846,457	₱823,470	₱33,142	₱102,639	(₱850,300)	₱6,955,408
Segment results	₱1,311,632	₱110,929	₱14,716	₱61,801	(₱7,715)	₱1,491,363
Unallocated corporate expenses	(585,059)	–	–	(17,652)	8,458	(594,253)
Operating profit	726,573	110,929	14,716	44,149	743	897,110
Finance cost	(56,526)	–	–	–	–	(56,526)
Other income (charges) - net	131,894	–	–	24,960	(743)	156,111
Income tax expense	(135,543)	–	–	(21,271)	–	(156,814)
Net income	₱666,398	₱110,929	₱14,716	₱47,838	₱–	₱839,881

	2019					
	Sugar Milling	Distillery Operations	Power Generation	Others	Elimination Items	Total
Revenue						
External sales	₱4,873,405	₱611,914	₱24,036	₱70,274	₱–	₱5,579,629
Inter-segment sales	3,895	–	5,340	3,967	(13,202)	–
	₱4,877,300	₱611,914	₱29,376	₱74,241	(₱13,202)	₱5,579,629
Segment results	₱1,027,287	₱380,271	₱13,066	₱6,461	(₱4,038)	₱1,423,047
Unallocated corporate expenses	(785,706)	–	–	(69,566)	5,161	(850,111)
Operating profit	241,581	380,271	13,066	(63,105)	1,123	572,936
Finance cost	(58,093)	–	–	–	–	(58,093)
Other income (charges) - net	536,425	–	–	8,868	(1,123)	544,170
Income tax expense	(256,075)	–	–	13,440	–	(242,635)
Net income	₱463,838	₱380,271	₱13,066	(₱40,797)	₱–	₱816,378

	Segment Assets		Segment Liabilities	
Amounts in Millions	**2021**	2020	**2021**	2020
Sugar milling	**₱7,448**	₱7,328	**₱1,349**	₱1,369
Power generation	**1,706**	1,560	**–**	–
Distillery operations	**846**	379	**–**	1
Others	**645**	562	**322**	314
Eliminations	**(295)**	(271)	**(221)**	(196)
	₱10,350	₱9,558	**₱1,450**	₱1,488

16. **Revenue**

Revenue consists of:

	2021	2020	2019
Sale of goods:			
Raw sugar	**₱2,428,364**	₱1,563,061	₱1,683,237
Refined sugar	**1,799,473**	1,863,516	2,416,540
Ethanol	**702,416**	705,105	594,257
Molasses	**343,333**	370,197	208,398
Alcohol	**118,103**	118,366	17,657
Power	**37,556**	28,202	24,036
Others	**107,994**	92,979	67,898
	5,537,239	4,741,426	5,012,023

(Forward)

	2021	2020	2019
Service income:			
Milling service	**₱1,395,758**	₱1,480,620	₱–
Tolling fees	**531,263**	731,327	565,230
Others	**3,987**	2,035	2,376
	1,931,008	2,213,982	567,606
	₱7,468,247	₱6,955,408	₱5,579,629

17. Cost of Sales and Services

Cost of sales and services consist of:

	Note	2021	2020	2019
Inventories used	5	**₱4,865,988**	₱3,969,103	₱1,556,236
Depreciation and amortization	7	**379,078**	425,737	261,993
Repairs and maintenance		**301,825**	300,950	326,112
Materials and supplies		**228,840**	235,146	260,584
Direct labor		**195,011**	187,957	170,068
Professional fees and contracted services		**117,965**	113,944	102,905
Fuel		**90,919**	123,329	129,172
Light and water		**78,332**	54,056	44,693
Taxes and licenses		**39,757**	36,111	38,140
Cost of hauling	28	**–**	–	1,250,679
Others		**17,629**	17,712	16,000
		₱6,315,344	₱5,464,045	₱4,156,582

Cost of hauling for the years ended August 31, 2021 and 2020 of ₱1.41 billion and ₱1.35 billion, respectively, are presented as contra-milling revenue.

18. Operating Expenses

(a) General and Administrative Expenses

The account consists of:

	Note	2021	2020	2019
Taxes and licenses		**₱109,318**	₱112,387	₱154,821
Professional fees and contracted services		**93,527**	107,053	144,266
Salaries and employee benefits		**85,548**	87,018	89,315
Additions to (reversals of) provisions for impairment losses on:				
Input and advance output VAT	6	**(55,204)**	–	55,204
Trade and other receivables	4	**3,731**	552	7,997
Advances to a supplier	9	**–**	–	38,000
Representation and entertainment		**36,369**	30,067	69,224
Depreciation and amortization	7	**25,771**	26,970	43,227

(Forward)

	Note	2021	2020	2019
Provision for inventory obsolescence	5	**₱22,036**	₱5,985	₱–
Net retirement benefits	21	**13,217**	4,702	11,038
Supplies		**7,530**	10,495	22,443
Travel and transportation		**4,917**	6,390	11,078
Repairs and maintenance		**3,305**	4,273	11,205
Others		**22,930**	38,140	12,697
		₱372,995	₱434,032	₱670,515

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

(b) Selling Expenses

The account consists of:

	Note	2021	2020	2019
Freight and handling		**₱97,082**	₱83,272	₱118,423
Rental		**21,804**	30,345	21,210
Taxes and licenses		**12,655**	13,782	11,878
Salaries and employee benefits		**7,887**	7,767	8,827
Depreciation and amortization	7	**3,884**	10,995	8,050
Materials and supplies		**2,112**	2,827	1,692
Repairs and maintenance		**2,099**	3,440	1,915
Others - net		**9,323**	7,793	7,601
		₱156,846	₱160,221	₱179,596

19. Other Income

This account consists of:

	Note	2021	2020	2019
Storage, handling and insurance fees		**₱178,051**	₱129,782	₱96,113
Net gain on fair value changes of investment properties	8	**42,066**	37,905	14,630
Sale of bagasse		**13,893**	17,689	–
Gain on sale of investments in UITF	3	**6,140**	1,560	17,789
Rental income	8	**6,130**	17,511	9,578
Scrap sales		**5,091**	5,310	5,479
Reversal of (additions to) provisions for legal claims	11	**3,888**	(22,286)	(67,849)
Interest income from cash and cash equivalents	2	**1,998**	2,840	10,486
Net foreign exchange gain (loss)		**1,332**	(6,055)	5,823
Unrealized gain (loss) on fair value changes of investments in UITF	3	**606**	651	2,157
Net loss on disposal of property, plant and equipment	7	**–**	(82,529)	–

(Forward)

	Note	2021	2020	2019
Gain on disposal of investment property	8	₱–	₱40,367	₱4,000
Insurance claims		–	–	517,155
Provision for impairment losses on property, plant and equipment	7	–	–	(69,782)
Others - net		10,267	13,366	(1,409)
		₱269,462	₱156,111	₱544,170

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

20. Income Tax

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

	2021	2020	2019
Income before income tax	₱861,045	₱996,695	₱1,059,013
Income tax expense at statutory rate	217,105	299,009	317,704
Tax effects of:			
Income subject to income tax holiday (ITH)	(103,262)	(131,719)	(106,296)
Effect of change in income tax rate	(48,260)	–	–
Effect of adoption of accounting standard for financial reporting	6,388	(15,752)	–
Nondeductible deficiency payment	3,314	4,723	16,909
Expired NOLCO and MCIT	812	511	2,845
Interest income subject to final tax	(496)	(826)	(3,130)
Gain on sale of investment property subject to capital gains tax	–	(782)	–
Nondeductible interest expense	–	333	1,297
Other nondeductible expenses	(792)	1,317	13,306
	₱74,809	₱156,814	₱242,635

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) on January 23, 2015 and November 28, 2018, respectively. Both activities are entitled to ITH for a period of seven years until 2022 and 2025, respectively.

The composition of net deferred tax liabilities follows:

	2021	2020
Deferred income tax liabilities:		
Fair value gain on investment properties	₱268,822	₱333,968
Net appraisal increase on property, plant and equipment	209,721	260,381
Capitalized borrowing costs	40,408	51,233
Others	1,594	–
	520,545	645,582

(Forward)

	2021	2020
Deferred income tax assets:		
Provisions for legal claims and payable to claimants	₱126,232	₱152,349
Allowance for impairment losses	29,763	52,361
Customers' deposits and accrued expenses	20,341	11,641
Retirement liability	17,898	20,207
Others	–	2,517
	194,234	239,075
	₱326,311	₱406,507

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 are as follows:

Current income tax expense for the taxable year August 31, 2021	₱124,575
Impact of change in income tax rate beginning July 1, 2020	(4,388)
	₱120,187

Details of carry forward benefits arising from net operating loss carry over (NOLCO) and excess minimum corporate income tax (MCIT) over RCIT are as follows:

NOLCO

Year Incurred	Balance as at August 31,2020	Additions	Applied/ Expired	Balance as at August 31, 2021	Available Until
2018	₱1,851	₱–	(₱1,851)	₱–	2021
2019	83	–	–	83	2022
2020	401	–	–	401	2025
2021	–	240	–	240	2026
	₱2,335	₱240	(₱1,851)	₱724	

Under Revenue Regulations 25-2020, net operating loss incurred for taxable years 2021 and 2020 may be carried over for the next five (5) consecutive taxable years immediately following the year of such loss.

MCIT

Year Incurred	Balance as at August 31,2020	Additions	Applied/ Expired	Balance as at August 31, 2021	Available Until
2018	₱50	₱–	(₱50)	₱–	2021
2019	95	–	–	95	2022
2020	50	–	(16)	34	2023
2021	–	21	–	21	2024
	₱195	₱21	(₱66)	₱150	

21. **Retirement Plan**

The Parent Company has a formal retirement plan covering all qualified employees. 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.

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, 2021.

Components of retirement benefits are as follows:

	Note	2021	2020	2019
Current service cost		**₱11,260**	₱2,938	₱8,383
Interest cost		**1,957**	1,764	2,482
Past service cost		**–**	–	173
	18	**₱13,217**	₱4,702	₱11,038

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 13):

	2021	2020	2019
Balance at beginning of year, net of tax effect	**(₱3,435)**	₱427	₱4,390
Remeasurement gain (loss)	**6,716**	(5,517)	(5,662)
Change in income tax rate	**(150)**	–	–
	3,131	(5,090)	(1,272)
Deferred income tax charged to other comprehensive income	**(1,679)**	1,655	1,699
Balance at end of year, net of tax effect	**₱1,452**	(₱3,435)	₱427

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

	2021	2020
Present value of defined benefit obligation	**₱56,626**	₱56,305
Fair value of plan asset	**(947)**	(1,892)
Retirement liability	**₱55,679**	₱54,413

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

	2021	2020
Balance at beginning of year	**₱56,305**	₱49,726
Current service cost	**11,260**	2,938
Interest cost	**2,025**	2,018
Benefits paid from:		
Plan asset	**(5,949)**	(3,715)
Operations	**(235)**	–
Remeasurement (gain) loss:		
Changes in financial assumptions	**(5,688)**	4,971
Changes in experience	**(1,092)**	367
Balance at end of year	**₱56,626**	₱56,305

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

	2021	2020
Balance at beginning of year	**₱1,892**	₱5,531
Interest income	**68**	254
Benefits paid	**(5,949)**	(3,715)
Actual return	**(64)**	(179)
Actual contributions	**5,000**	1
Balance at end of year	**₱947**	₱1,892

The Group expects to contribute ₱5.00 million to the plan in 2022.

The principal actuarial assumptions used were as follows:

	2021	2020
Discount rates	**4.6%**	3.2%-3.6%
Salary increase rate	**2.0%-3.0%**	2.0-3.0%

The average remaining service life of employees as at August 31, 2021 and 2020 is 13 to 16 years and 12 to 16 years, respectively.

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:

	2021	2020
0 to 5 years	**₱39,305**	₱36,087
6 to 10 years	**40,163**	43,528
11 to 15 years	**39,174**	35,552
16 years and up	**294,450**	276,210

	Change in Assumption	Impact on Retirement Liability: Increase in Assumption	Impact on Retirement Liability: Decrease in Assumption
2021			
Discount rate	**1%**	**Decrease by ₱4,745**	**Increase by ₱5,662**
Salary increase rate	**1%**	**Increase by ₱5,698**	**Decreased by ₱4,856**
2020			
Discount rate	1%	Decrease by ₱4,897	Increase by ₱5,872
Salary increase rate	1%	Increase by ₱5,847	Decrease by ₱4,967

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.

22. Related Party Transactions and Balances

Related party transactions are as follows:

August 31, 2021	**Transactions for the Year**	**Outstanding Balance**	Terms and Conditions
Shareholder with significant influence			
Sale of goods and services (Note 4)	**₱1,066,833**	**₱415,280**	Unguaranteed and unsecured; noninterest-bearing
Purchase of goods, rental and other services (Note 10)	**145,522**	**(4,161)**	Unguaranteed and unsecured; noninterest-bearing
Cash in bank, money market placements and UITF investments	**931,266**	**1,193,947**	
Retirement fund held-in-trust	**655**	**3,031**	
		₱1,608,097	
Key management personnel			
Salaries and wages	**₱16,194**	**₱–**	Payable in cash
Retirement benefits	**864**	**–**	Payable in cash

August 31, 2020	Transactions for the Year	Outstanding Balance	Terms and Conditions
Shareholder with significant influence			
Sale of goods and services (Note 4)	₱949,882	₱162,302	Unguaranteed and unsecured; noninterest-bearing
Purchase of goods, rental and other services (Note 10)	59,183	(2,305)	Unguaranteed and unsecured; noninterest-bearing
Cash in bank, money market placements and UITF investments	125,515	262,681	
Retirement fund held-in-trust	3,155	2,376	
Availment of short-term loan	250,000	–	
		₱425,054	
Key management personnel			
Salaries and wages	₱14,542	₱–	Payable in cash
Retirement benefits	717	–	Payable in cash

23. 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. As at August 31, 2021 and 2020, VMC has in its custody sugar owned by several quedan and delivery order holders with volume of about 0.42 million lkg and 0.83 million lkg, respectively. The said volume of sugar is not reflected in the consolidated statements of financial position since this is not owned by the Group. The Group is accountable to both quedan holders and sugar traders for the value of these trusteed sugar or their sales proceeds.

24. 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, 2021 and 2020. The noncurrent portion amounted to ₱151.58 million and ₱166.47 million as at August 31, 2021 and 2020, 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.

d. Convertible Note Case against Eastwest Bank Corporation (EWBC)

In 2014, VMC redeemed the convertible note held by EWBC ("EWBC CN") in accordance with the Plan, DRA and convertible note provisions. However, EWBC did not accept the redemption. On a letter dated September 25, 2014, VMC consigned to the SEC-appointed rehabilitation receiver the checks amounting to ₱366.12 million as full payment of the EWBC CN.

On August 11, 2015, the SEC En Banc confirmed VMC's redemption of the EWBC CN and consignation of payments. The SEC En Banc likewise denied EWBC's motion to compel VMC to allow EWBC to exercise its option to convert the EWBC CN. Accordingly, the "Checks payable to EWBC" was extinguished as at August 31, 2015. These were affirmed by the CA in its Decision dated January 19, 2016.

On June 27, 2016, VMC received a copy of the Petition for Review (with application for the issuance of a preliminary injunction) dated June 10, 2016 ("EWBC Petition") filed by EWBC with the Supreme Court (SC) to appeal the CA's decision. However, on September 23, 2016, the CA resolved that "in view of the result of Case Management Information System verification on September 16, 2016 which shows that no Supreme Court petition has been filed, the decision became final on June 12, 2016. An entry of judgment is ordered issued." Based on the CA Entry of Judgment dated September 23, 2016, the CA decision dated January 19, 2016 became final and executory on June 12, 2016.

EWBC filed a Manifestation dated November 15, 2016 with the CA stating that it filed a Petition for Review before the SC on June 10, 2016. However, EWBC did not seek reconsideration of the CA Resolution dated September 23, 2016. Accordingly, the CA Resolution dated September 23, 2016 and CA Entry of Judgment dated September 23, 2016 may be deemed to have become final and executory.

On February 6, 2017, VMC filed its Motion to Dismiss dated February 3, 2017 ("Motion to Dismiss") vis-à-vis the EWBC Petition with the SC. In December 2019, the case was decided by the SC in favor of VMC. On June 22, 2020, VMC received a copy of the Motion for Reconsideration from EWB. On January 29, 2021, VMC received the resolution of the SC dated September 2, 2020 deciding the case in favor of VMC with finality. The SC ordered the issuance of an Entry of Judgment on the case.

Provisions for legal claims amounted to ₱322.86 million and ₱310.87 million as at August 31, 2021 and 2020, respectively (Note 11). Management believes that the provisions for legal claims are reasonable and adequate to cover for potential losses from these legal cases.

25. 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 16)

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 15)

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 26)*

Classification of financial instruments under PFRS 9 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 20)

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. Impairment of Financial Assets (Notes 2, 3 and 4)

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, the Group estimates impairment based on 12-month expected credit loss. Investment in UITF, 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, 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.

d. Impairment of Non-financial Assets (Notes 7 and 8)

The Group assesses impairment on property, plant and equipment and investment properties whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

i) significant underperformance relative to expected historical or projected future operating results;
ii) significant changes in the manner of use of the acquired assets or the strategy for overall business; and
iii) significant negative industry or economic trends.

As disclosed in Note 7, the Group recognized provision for impairment loss on partially damaged components of the power generation plant amounting to ₱69.78 million in 2019. The provision for impairment loss in 2019 of ₱69.78 million pertains to the difference of actual loss on the damaged portion of the power generation plant amounting to ₱573.95 million and the previously recognized provision for impairment loss amounting to ₱504.17 million as at August 31, 2018.

e. 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.

In 2020, the Parent Company reassessed the estimated useful lives of the property, plant and equipment. The results of the internal technical evaluation which includes review of condition of the assets, degree of usage and utilization among others showed that the estimated useful life of the following shall be reduced effective September 1, 2019:

	Revised Estimated Useful Life (in Years)	
	From	To
Land improvements	12.5	10
Buildings and structures	20	15
Community buildings and equipment	20	15
Machinery and equipment	20	15 to 20

The change in estimated useful lives increased the depreciation and amortization by ₱74.52 million in 2020.

On October 10, 2017, the VMC's power generation plant under construction sustained damage. In 2019, management has assessed that the estimated useful life of the power generation plant was reduced from 25 years to 20 years because of the damage it sustained from the incident. Consequently, the depreciation of the power generation plant increased from ₱21.4 million to ₱26.9 million in 2019.

There are no changes in the estimated useful lives of property, plant and equipment in 2021.

f. 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.

g. 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.

h. *Determination of Retirement Liability (Note 21)*

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 21.

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.

i. *Estimating the Provisions and Contingencies (Notes 11 and 24)*

The Group is currently involved in various legal proceedings (Note 24) which are still pending resolution or under suspension in view of the Group's rehabilitations status. Estimates of probable costs resulting from the resolution of these claims 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.

26. **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 above 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, 2021 and 2020, the Group's maximum credit exposure is equal to the carrying values of the following financial assets:

	2021	2020
Cash and cash equivalents[1]	**₱537,581**	₱498,680
Investments in UITF	**1,108,571**	116,496
Trade and other receivables[2]	**806,606**	497,351
Receivable from a government bank	**81,838**	139,477
Cash surety bonds	**22,796**	22,191
Refundable deposits	**1,305**	2,629
	₱2,558,697	₱1,276,824

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

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, 2021.

	2021				
	12-month ECL – Not Impaired	**12-month ECL – Credit Impaired**	**Lifetime ECL – Not Impaired**	**Lifetime ECL – Credit Impaired**	**Total**
Financial assets at amortized cost					
Cash and cash equivalents	**₱537,581**	**₱–**	**₱–**	**₱–**	**₱537,581**
Trade receivables:					
Related parties	**415,280**	**–**	**–**	**–**	**415,280**
Third parties	**363,437**	**–**	**11,170**	**21,650**	**396,257**
Other receivables [1]	**9,714**	**–**	**7,005**	**10,193**	**26,912**
Refundable deposits	**1,305**	**–**	**–**	**–**	**1,305**
Receivable from a government bank	**81,838**	**–**	**–**	**–**	**81,838**
Cash surety bonds	**22,796**	**–**	**–**	**–**	**22,796**
Financial assets at FVPL					
Investments in UITF	**1,108,571**	**–**	**–**	**–**	**1,108,571**
	₱2,540,522	**₱–**	**₱18,175**	**₱31,843**	**₱2,590,540**

(1) Excluding advances to officers and employees amounting to ₱1,580

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, 2020.

	2020				
	12-month ECL – Not Impaired	12-month ECL – Credit Impaired	Lifetime ECL – Not Impaired	Lifetime ECL – Credit Impaired	Total
Financial assets at amortized cost					
Cash and cash equivalents	₱498,680	₱–	₱–	₱–	₱498,680
Trade receivables:					
Related parties	162,302	–	–	–	162,302
Third parties	309,968	224	11,114	17,695	339,001
Other receivables [1]	5,695	–	8,272	10,193	24,160
Refundable deposits	2,629	–	–	–	2,629
Receivable from a government bank	139,477	–	–	–	139,477
Cash surety bonds	22,191	–	–	–	22,191
Financial assets at FVPL					
Investments in UITF	116,496	–	–	–	116,496
	₱1,257,438	₱224	₱19,386	₱27,888	₱1,304,936

(1) Excluding advances to officers and employees amounting to ₱1,117

Information on the Group's other current receivables and other noncurrent assets that are impaired as at August 31, 2021 and 2020 and the movements of the allowance used to record the impairment losses are disclosed in Notes 4, 6 and 9 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, 2021 and 2020 based on contractual undiscounted payments:

	2021			
	On Demand	**Within One Year**	**More than One Year**	**Total**
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱538,701**	**₱–**	**₱–**	**₱538,701**
Trade receivables:				
Third parties[1]	**11,170**	**363,437**	**–**	**374,607**
Related parties	**–**	**415,280**	**–**	**415,280**
Others [1]	**1,720**	**14,999**	**–**	**16,719**
Investments in UITF	**1,108,571**	**–**	**–**	**1,108,571**
Other noncurrent assets [3]	**81,838**	**–**	**31,143**	**112,981**
	1,742,000	**793,716**	**31,143**	**2,566,859**
Financial Liabilities				
Other financial liabilities:				
Trade and other current liabilities				
Third parties[2]	**429,947**	**–**	**–**	**429,947**
Related parties	**4,161**	**–**	**–**	**4,161**
Payable to claimants	**–**	**30,492**	**213,447**	**243,939**
	434,108	**30,492**	**213,447**	**678,047**
	₱1,307,892	**₱763,224**	**(₱182,304)**	**₱1,888,812**

(1) net of allowance for impairment losses
(2) excluding customers' deposits, liens payable and due to government agencies
(3) excluding advances to suppliers and computer software, net of allowance for impairment losses

	2020			
	On Demand	Within One Year	More than One Year	Total
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱522,113	₱–	₱–	₱522,113
Trade receivables:				
Third parties[1]	215,545	105,537	–	321,082
Related parties	–	162,302	–	162,302
Others [1]	267	13,699	–	13,966
Investments in UITF	116,496	–	–	116,496
Other noncurrent assets [3]	93,925	–	77,414	171,339
	948,346	281,538	77,414	1,307,298
Financial Liabilities				
Other financial liabilities:				
Trade and other current liabilities				
Third parties[2]	370,847	–	–	370,847
Related parties	2,305	–	–	2,305
Payable to claimants	–	30,492	243,939	274,431
	373,152	30,492	243,939	647,583
	₱575,194	₱251,046	(₱166,525)	₱659,715

(1) net of allowance for impairment losses
(2) excluding customers' deposits, liens payable and due to government agencies
(3) excluding computer software, net of allowance for impairment losses

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 borrowings (Note 12) are not sensitive to movements in interest rates as they carry fixed interest rates.

The Group's exposure to interest rate risk is limited only to holdings of investments in UITF classified as financial assets at FVPL (Note 3). The underlying pool of assets for these UITFs 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) denominated in US dollar (USD) amounting to US$0.70 million and US$2.16 million as at August 31, 2021 and 2020, respectively. 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.

27. 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, 2021 and 2020, which has been within the Group's acceptable range as set by the BOD, is calculated as follows:

	2021	2020
Total liabilities	**₱1,450,474**	₱1,487,521
Total assets	**10,350,038**	9,558,059
	0.14:1	0.16:1

28. 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

These consolidated financial statements of the Group have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, PAS and interpretations of the PIC, Standard Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

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 25.

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. Accordingly, the Company has fully impaired its investment in VQPC. As at reporting date, VQPC has no assets and is only waiting for final clearances from 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, 2021.

(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 2021 and 2020 (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 following new and amended PFRS effective for annual period beginning on or after September 1, 2020:

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definition of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16, *Leases*). The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:

  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before June 30, 2021; and
  - no other substantive changes have been made to the terms of the lease.

The adoption of the foregoing amended standards and framework did not have a material effect on the consolidated financial statements.

<u>Amended Standards Not yet Adopted</u>
A number of amended standards are effective for annual periods beginning after September 1, 2020 and have not been applied in preparing the consolidated financial statements.
The Company will adopt the following amended standards on the respective effective dates:

- Reference to Conceptual Framework (Amendments to PFRS 3). The amendments updated PFRS 3 to refer to the 2018 Conceptual Framework; added a requirement that, for transactions and other events within the scope of PAS 37 or Philippine Interpretation IFRIC 21, *Levies,* an entity applies PAS 37 or Philippine Interpretation IFRIC 21 instead of the 2018 Conceptual Framework to identify the liabilities it has assumed in a business combination; and added an explicit statement that an entity does not recognize contingent assets acquired in a business combination.

  The amendments apply for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- 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 statement 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 amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). This amended standard is not expected to have a significant effect on the consolidated financial statements.

  The amendments to PAS 1 promote consistency in the application and clarify the requirements on determining whether a liability is current or noncurrent. The amendments:

  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and

  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Interest Rate Benchmark Reform Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, *Insurance Contracts,* and PFRS 16). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:

  - Practical expedient for particular changes to contractual cash flows. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

  - Relief from specific hedge accounting requirements. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.

  - Disclosure requirements. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. The amendments apply retrospectively, but restatement of comparative information is not required. Reinstatement of a discontinued hedging relationship is required if the hedging relationship was discontinued solely because of changes required by the reform, and that discontinued hedging relationship meets all qualifying criteria for hedge accounting at the date of initial application.

  The amendments are still subject to the approval by the FRSC.

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 recognized milling service revenue beginning September 1, 2019 when the Group adopted the revenue recognition guidance for sugar millers under Philippine Interpretations Committee (PIC) Questions and Answers No. (Q&A) 2019-03. The PIC Q&A addresses the application of PFRS 15, *Revenue from Contracts with Customers*, by sugar millers.

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 endorsement and transfer of quedans 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 Alcohol and Ethanol. Revenue is recognized upon delivery of alcohol and ethanol inventories to customers.

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

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 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 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 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 Company 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 fair value through profit or loss (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 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, 2021 and 2020, 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, cash surety bonds and refundable deposits under this category.

Under PAS 39, cash and cash equivalents and trade and other receivables were classified as loans and receivables.

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.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as financial assets at FVPL or AFS financial assets.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any allowance for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

AFS Financial Assets. AFS financial assets are those non-derivative financial assets which are designated as such or are not classified in any other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial recognition, AFS financial assets are subsequently measured at fair value with unrealized gains and losses recognized as other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported as other comprehensive income is recognized in profit or loss. The effective yield component of AFS financial assets, as well as the impact on foreign currency-denominated AFS financial assets, is recognized in profit or loss. Interest earned on holding AFS financial assets is recognized as "Interest income" using effective interest method.

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 statutory payables, customers' deposit and liens payable), borrowings 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, other receivables (including due from related parties), UITF, receivable from a government bank, 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.

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. 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.

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

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

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

Manufactured and Fabricated Products. Determined using current replacement cost as its net realizable value.

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.

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.

An allowance for inventory losses is 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 an expense (reported as cost of sales and services in profit or loss) in the period in which the related sale is recognized.

Other Current Assets
Other current 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, advances to suppliers, 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 pertains to the accumulated costs of purchasing, cultivating and propagating the live and unharvested fish. Since there is no active market for the biological asset and due to the absence of a reliable estimate to measure the fair value less estimated point-of-sale costs, biological asset is measured at cost less any impairment in value as permitted 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 investments in investee companies are 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.

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	
	2020	2019 and 2018
Land improvements	10	12.5
Buildings and structures	15	20
Community buildings and equipment	15	20
Machinery and equipment	15 to 20	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 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 are 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 for 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 gain 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 Company 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 Company'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 and for the years ended August 31, 2021 and 2020.

Foreign Currency Transactions and Translations

Functional and Presentation Currency. Items included in the Group's 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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