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SECURITIES AND EXCHANGE COMMISSI

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Company Information

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Company Name	VICTORIAS MILLING CO.
Industry Classification	
Company Type	Stock Corporation

Document Information

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12 July 2019

HON. JUSTINA F. CALLANGAN
Director, Corporate Governance
and Finance Department
Securities and Exchange Commission
11th Flr., SEC Bldg., EDSA, Greenhills,
Mandaluyong City

Dear Hon. Callangan:

Victorias Milling Company, Inc. (VMC) is hereby filing the Company's Quarterly Report (SEC Form 17-Q) for quarter ending 31 May 2019.

Thank you.

Very truly yours,

EVA A. VICENCIO-RODRIGUEZ
Compliance & Information Officer

VMC Compound, J.J. Ossorio St., Barangay XVI, Victorias City, Negros Occidental
Telefax (6334) 3993675

www.victoriasmilling.com

COVER SHEET

COMPANY REGISTRATION AND MONITORING DEPARTMENT

Nature of Application	S.E.C. Registration Number
SEC FORM 17-Q	PW00000364

Company Name

VICTORIAS MILLING COMPANY, INC.

Principal Office (No./Street/Barangay/City/Town/Province)

VMC COMPOUND, JJ OSSORIO ST.
BRGY. XVI VICTORIAS CITY NEG. OCC.

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Company's Facsimile Number
	034-399-3588	034-399-3588

Contact Person Information

Name of Contact Person	Email Address	Telephone Number/s	Facsimile Number/s
EVA V. RODRIGUEZ		034-399-3588	034-399-3588

Contact Person's Address

J.J. Ossorio Street, Barangay XVI, Victorias City, Negros Occidental

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To be accomplished by CRMD Personnel

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1.	For the quarterly period ended	31 May 2019
2.	Commission identification number	PW-364
3.	BIR Tax Identification No	000-270-220-000

4. Exact name of issuer as specified in its charter

VICTORIAS MILLING COMPANY, INC.

5. Province, country or other jurisdiction of incorporation or organization

Plant site: Victorias City, Negros Occidental

6. Industry Classification Code: ☐ (SEC Use Only)

7. Address of registrant's office — Postal Code

VMC Compound, J.J. Ossorio St.,
Brgy. XVI,Victorias City,
Negros Occidental — **6119**

8. Registrant's telephone number, including area code

(034) 488-7900 **Fax# (034) 399-3675**

9. Former name, former address and former fiscal year, if changed since last report

Not Applicable

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Common stock	**Par value of 1.00 each**
Authorized	**3,042,061,094 shares**
Subscribed and paid up	**3,042,061,094 shares**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE, INC. — COMMON SHARES

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Financial Statements and, if applicable, Pro Forma Financial Statements meeting the requirements of SRC Rule 68, Form and Content of Financial Statements, shall be furnished as specified therein.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Furnish the information required by Part III, Paragraph (A)(2)(b) of "Annex C".

PART II - OTHER INFORMATION

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

All corporate disclosures as of quarter ending 31 May 2019 have been previously reported through SEC Form 17-C.

SIGNATURES

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

VICTORIAS MILLING COMPANY, INC.

EVA A. VICENCIO-RODRIGUEZ
Compliance and Information Officer

KRISTINE D. CABUGUASON
Chief Finance Officer

Date: 12 July 2019

Victorias Milling Company, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
As at May 31, 2019 (with Comparative Audited Figures as at August 31 ,2018)
and for the three months and nine months periods ended May 31, 2019 and 2018

Victorias Milling Company, Inc. and Subsidiaries

Interim Condensed Consolidated Statements of Financial Position
(All amounts in thousands of Philippine Peso)

	Notes	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	4	1,019,613	398,666
Trade and other current receivables, net	5	403,134	459,735
Available-for-sale financial assets	6	331,969	272,783
Inventories, net	7	971,832	697,479
Other current assets	8	495,394	598,447
Total current assets		3,221,942	2,427,110
Non-current assets			
Property, plant and equipment, net	9	5,950,123	5,863,753
Investment properties	10	596,716	596,716
Other non-current assets, net		91,120	89,856
Total non-current assets		6,637,959	6,550,325
Total assets		9,859,901	8,977,435
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other current payables	11	1,259,778	548,412
Borrowings - current portion	13	500,000	500,000
Income tax payable		-	58,600
Total current liabilities		1,759,778	1,107,012
Non-current liabilities			
Provisions for legal claims	12	401,465	401,465
Borrowings	13	375,000	750,000
Retirement liability		27,849	38,809
Deferred tax liabilities, net		361,628	307,574
Other non-current liabilities		6,000	6,000
Total non-current liabilities		1,171,942	1,503,848
Total liabilities		2,931,720	2,610,860
Equity			
Share capital	14	3,042,061	3,042,061
Additional paid-in capital		840,720	840,720
Convertible notes awaiting conversion		3,000	3,000
Interest on convertible notes awaiting conversion		2,450	2,450
Retained earnings		4,166,700	3,606,172
Accumulated other comprehensive income		370,553	368,100
Treasury shares		(1,501,882)	(1,501,882)
		6,923,602	6,360,621
Non-controlling interests		4,579	5,954
Total equity		6,928,181	6,366,575
Total liabilities and equity		9,859,901	8,977,435

(See accompanying notes to unaudited interim condensed consolidated financial statements)

Victorias Milling Company, Inc. and Subsidiaries

Interim Condensed Consolidated Statements of Income
(All amounts in thousands of Philippine Peso, except per share amounts)

		For the three months period ended May 31		For the nine months period ended May 31	
		2019	2018	2019	2018
	Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue					
Sale of goods	17	1,103,236	1,292,228	4,370,421	5,348,858
Rendering of services		230,619	325,990	565,309	451,516
		1,333,855	1,618,218	4,935,730	5,800,374
Cost of goods sold and services rendered					
Cost of sale of goods	18	788,890	1,111,994	3,495,732	4,665,979
Cost of rendering of services		111,198	154,964	358,213	218,619
		900,088	1,266,958	3,853,945	4,884,598
Gross profit		433,767	351,260	1,081,785	915,776
Operating expenses					
General and administrative	19	136,013	98,253	375,953	345,911
Selling		9,912	25,515	55,091	51,786
		145,925	123,768	431,044	397,697
Income from operations		287,842	227,492	650,741	518,079
Finance cost	13	(7,200)	(657)	(12,931)	(3,608)
Other income (expenses), net	20	15,105	30,906	54,052	79,705
Income before income tax		295,747	257,741	691,862	594,176
Income tax expense		59,010	76,701	132,766	176,037
Net income		236,737	181,040	559,096	418,139
Net income attributable to:					
Equity holders of Victorias Milling Company, Inc.		237,415	181,532	560,528	419,773
Non-controlling interests		(678)	(492)	(1,432)	(1,634)
		236,737	181,040	559,096	418,139
Earnings per share for net income attributable to equity holders of Victorias Milling Company, Inc.:					
Basic and Diluted	15	0.08	0.06	0.18	0.14

(See accompanying notes to unaudited interim condensed consolidated financial statements)

Victorias Milling Company, Inc. and Subsidiaries

Interim Condensed Consolidated Statements of Comprehensive Income
(All amounts in thousands of Philippine Peso)

	Note	For the three months period ended May 31		For the nine months period ended May 31	
		2019	2018	2019	2018
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET INCOME FOR THE PERIOD		236,737	181,040	559,096	418,139
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may be subsequently reclassified to profit or loss:					
Net unrealized gain (loss) on available-for-sale financial assets	6	2,879	195	2,510	(69)
		2,879	195	2,510	(69)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		239,616	181,235	561,606	418,070
Total comprehensive income attributable to:					
Equity holders of Victorias Milling Company, Inc.		240,235	181,727	562,981	419,704
Non-controlling interests		(619)	(492)	(1,375)	(1,634)
		239,616	181,235	561,606	418,070

(See accompanying notes to unaudited interim condensed consolidated financial statements)

Victorias Milling Company, Inc. and Subsidiaries

Interim Condensed Consolidated Statements of Changes in Equity
(All amounts in thousands of Philippine Peso)

	Attributable to equity holders of Victorias Milling Company, Inc.									
	Share capital (Note 14)	Additional paid-in capital (Note 14)	Convertible notes awaiting conversion (Note 14)	Interest on convertible notes awaiting conversion (Note 14)	Accumulated other comprehensive income (Note 14)	Retained earnings (Note 14)	Treasury shares (Note 14)	Total	Non-controlling interests	Total equity
Balance at August 31, 2017, *Audited*	3,042,061	840,720	3,000	2,450	483,459	2,757,719	(1,501,882)	5,627,527	7,504	5,635,031
Comprehensive income										
Net income for the period	-	-	-	-	-	419,773	-	419,773	(1,634)	418,139
Other comprehensive loss for the period	-	-	-	-	(69)	-	-	(69)	-	(69)
Balance at May 31, 2018, *Unaudited*	3,042,061	840,720	3,000	2,450	483,390	3,177,492	(1,501,882)	6,047,231	5,870	6,053,101
Balance at August 31, 2018, *Audited*	3,042,061	840,720	3,000	2,450	368,100	3,606,172	(1,501,882)	6,360,621	5,954	6,366,575
Comprehensive income										
Net income for the period	-	-	-	-	-	560,528	-	560,528	(1,432)	559,096
Other comprehensive income for the period	-	-	-	-	2,453	-	-	2,453	57	2,510
Balance at May 31, 2019, *Unaudited*	3,042,061	840,720	3,000	2,450	370,553	4,166,700	(1,501,882)	6,923,602	4,579	6,928,181

(See accompanying notes to unaudited interim condensed consolidated financial statements)

Victorias Milling Company, Inc. and Subsidiaries

Interim Condensed Consolidated Statements of Cash Flows
(All amounts in thousands of Philippine Peso)

	Notes	For the nine months period ended May 31	
		2019 (Unaudited)	2018 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		691,862	594,176
Adjustments for:			
Depreciation		218,390	275,891
Finance cost		12,931	3,608
Realized gain from sale of available-for-sale financial assets	20	(10,251)	(4,656)
Interest income	20	(3,871)	(2,992)
Gain on sale of property, plant and equipment	20	-	(912)
Operating income before working capital changes		909,061	865,115
Changes in operating assets and liabilities:			
Decrease (increase) in assets:			
Trade and other current receivables		56,601	(506,155)
Inventories		(248,419)	182,476
Other current assets		103,053	(25,843)
Increase (decrease) in trade and other current payables		711,366	(536)
Net cash provided by operations		1,531,662	515,057
Interest received		3,871	2,992
Retirement benefits paid		(10,960)	(494)
Income tax paid		(137,312)	(112,357)
Net cash provided by operating activities		1,387,261	405,198
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in available-for-sale financial assets		(46,425)	91,353
Decrease (increase) in other non-current assets		(1,264)	(9,890)
Proceeds from sale of property, plant and equipment		-	912
Additions to property, plant and equipment		(330,694)	(439,160)
Net cash used in investing activities		(378,383)	(356,785)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of short-term and long-term borrowings		450,000	450,000
Payment of short-term and long-term borrowings		(825,000)	(575,000)
Interest paid		(12,931)	(3,608)
Net cash used in financing activities		(387,931)	(128,608)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		620,947	(80,195)
CASH AND CASH EQUIVALENTS	4		
At beginning of period		398,666	600,748
At end of period		1,019,613	520,553

(See accompanying notes to unaudited interim condensed consolidated financial statements)

Victorias Milling Company, Inc. and Subsidiaries

Notes to Interim Condensed Consolidated Financial Statements
(All amounts are shown in thousands of Philippine Peso unless otherwise stated)

1 General information

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") with an original corporate life of 50 years or until May 7, 1969 primarily to operate mill and refinery facilities for sugar and allied products, as well as render engineering services.

Based on Section 11 of the Revised Corporation Code of the Philippines ("Code"), corporations with certificates of incorporation issued prior to the effectivity of the Code, and which continue to exist, shall have perpetual existence, unless the corporation, upon a vote of its stockholders representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation. Given the aforementioned new provisions of the Code and that VMC's certificate of incorporation was issued prior to the effectivity of the Code, VMC's corporate term is now perpetual without need of any positive act on its part.

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

The Parent Company's shares of stock are listed in the Philippine Stock Exchange (PSE). The Parent Company undertook a public offering of its common shares in 1993. In 1997, the Parent Company filed the petition for rehabilitation with the SEC due to financial difficulties (Note 3). In the same year, the trading of the shares was temporarily suspended. On May 21, 2012, the trading of VMC shares resumed after the SEC and the PSE lifted the order of its suspension.

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

The Parent Company's registered office, principal place of business and manufacturing plant is VMC Compound, J.J. Ossorio Street, Barangay XVI, Victorias City, Negros Occidental.

2 Basis of Preparation

<u>Statement of Compliance</u>
The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended August 31, 2018.

The interim condensed consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand peso, except when otherwise indicated.

Basis of Consolidation
The interim condensed consolidated financial statements include the accounts of the Parent Company and all of its subsidiaries. As at May 31, 2019, there were no significant changes in the composition of the Group and in the Parent Company's ownership interests in its subsidiaries.

Significant Accounting Judgments, Estimates and Assumptions
The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Except as otherwise stated, there were no significant changes in the significant accounting judgments, estimates, and assumptions used by the Group for the nine months ended May 31, 2019.

The unaudited interim condensed consolidated financial statements of the Group were approved and authorized for issue by the Audit Committee on July 12, 2019.

3 Rehabilitation plan and debt restructuring programs

As at May 31, 2019, VMC is in full compliance with the provisions of the Original Rehabilitation Plan (ORP), Alternative Rehabilitation Plan (ARP) and Debt Restructuring Agreement (DRA). As regards the Refined Sugar Delivery Order (RSDO) and Refined Sugar Quedans (RSQ) claims, on April 17, 2018, the Parent Company filed with the SEC Special Hearing Panel (SHP) 1 a Motion for the Alteration or Modification of its Rehabilitation Plan ("Motion for Alteration") with respect to said claims. On December 3, 2018, the SEC SHP granted the Parent Company's Motion for Alteration allowing the Parent Company to settle said claims for a ten year period from 2019 to 2029.

On October 1, 2018, the SEC SHP 1 issued a certification that the Rehabilitation Plan is still pending with the SEC and that the Parent Company is still under on-going rehabilitation proceedings.

4 Cash and cash equivalents

This account consists of:

	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
Cash on hand	15,881	15,434
Cash in banks	298,853	262,555
Cash equivalents	704,879	120,677
	1,019,613	398,666

Cash in banks earns interest at the respective bank deposit rates.

Cash equivalents are composed of short-term, highly liquid investments with maturities of no longer than 90 days, and earn interest at the respective short-term investment rates.

5 Trade and other current receivables, net

This account consists of:

	Note	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
Trade receivables:			
Third parties		297,969	391,731
Related parties	23	99,704	61,807
Advances to officers and employees		5,543	2,219
Others		29,308	25,180
		432,524	480,937
Allowance for impairment losses		(29,390)	(21,202)
		403,134	459,735

For the nine months ended May 31, 2019, the Group provided additional allowance for impairment amounting to P8 million.

6 Available-for-sale (AFS) financial assets

The account represents investments in various Unit Investment Trust Funds (UITFs) whose portfolio primarily consists of short-term fixed income instruments. The funds are primarily invested in money market funds with different banks.

7 Inventories, net

This account consists of:

	Note	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
At cost			
Refined sugar inventory		330,447	167,902
Raw sugar inventory		269,676	228,583
Total sugar inventory		600,123	396,485
Molasses		122,130	-
Ethanol		26,616	30,756
Alcohol		3,184	12,887
	18	752,053	440,128
At net realizable value (NRV)			
Materials and supplies		224,887	231,700
Real estate held-for-sale		20,546	20,735
Work-in-process		8,782	7,492
Finished goods		8,423	12,606
Manufactured and fabricated products		1,168	1,168
		263,806	273,701
Allowance for inventory write-down and obsolescence		(44,027)	(16,350)
		219,779	257,351
		971,832	697,479

For the nine months ended May 31, 2019, the Group provided additional allowance for inventory write-down and obsolescence amounting to P28 million.

8 Other current assets

This account consists of:

	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
Value-added input tax and advance output tax, net	316,888	302,554
Advances to suppliers	92,884	170,811
Prepaid expenses	60,837	56,433
Biological assets	19,644	17,340
Refundable deposits	-	49,669
Deferred tolling cost	-	133
Others	5,141	1,507
	495,394	598,447

9 Property, plant and equipment, net

Movement in this account pertains to acquisitions mainly related to project under construction and machinery and equipment for the nine months ended May 31, 2019 of P331 million less depreciation recognized during the period of P244 million.

On October 10, 2017, the fully insured power generation plant under construction sustained damage and as a result, the Group recognized impairment loss. On various dates during the period, the Group received claim proceeds from the insurance company which is included under other payables, pending final loss assessment. As of reporting date, the Group's power generation plant completed its commissioning activities.

10 Investment properties

The investment properties consist of land and buildings which are held for short-term leases and capital appreciation. The Group's investment properties were appraised by an independent appraiser in April 2018.

11 Trade and other current payables

This account consists of:

	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
Trade suppliers and accrued expenses	576,742	286,247
Customers' deposits	26,138	158,677
Retention payable	62,395	60,407
Liens payable	34,404	21,508
Due to government agencies	7,820	6,057
Others	552,279	15,516
	1,259,778	548,412

12 Provisions

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.

As at May 31, 2019 and August 31, 2018, provision for legal claims amounted to P401 million.

The Group's management and legal counsels are of the opinion that that the positions taken by the Group in the legal proceedings are highly meritorious. However, they 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 similar cases that will be decided by the highest court, which will be relevant to pending cases.

As of reporting date, there were no significant updates on the legal proceedings as disclosed in the Group's August 31, 2018 audited consolidated financial statements.

13 Borrowings

Long-term borrowings

Long-term borrowings with a balance of P875 million as of reporting date, consist of unsecured loan facility availed from a creditor bank for the Parent Company's power generation project. These borrowings carry 4.625% 5-year fixed interest rate in 2017 with principal amount payable quarterly beginning March 14, 2018 to December 14, 2020.

The debt covenants for the long-term borrowings require the Parent Company to maintain certain financial ratios. As at May 31, 2019, the Parent Company is compliant with these debt covenants.

14 Share Capital

Details of share capital follow:

	May 31, 2019 (Unaudited)		August 31, 2018 (Audited)	
	Number of shares	Amount	Number of shares	Amount
Common shares at P1 par value per share				
Authorized				
At beginning of period	3,042,061,094	3,042,061	3,042,061,094	3,042,061
Increase in authorized share capital	-	-	-	-
At end of period	3,042,061,094	3,042,061	3,042,061,094	3,042,061
Issued and outstanding				
At beginning of period	3,042,061,094	3,042,061	3,042,061,094	3,042,061
Conversion of convertible notes	-	-	-	-
	3,042,061,094	3,042,061	3,042,061,094	3,042,061
Treasury shares	(300,010,530)	(300,011)	(300,010,530)	(300,011)
At end of period	2,742,050,564	2,742,050	2,742,050,564	2,742,050

15 Earnings per share (EPS)

The following table presents information necessary to calculate the EPS:

	For the three months period ended May 31		For the nine months period ended May 31	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
	(In thousands Peso, except per share data)			
Net income attributable to the Parent	237,415	181,532	560,528	419,773
Weighted average number of common shares	3,042,061	3,042,061	3,042,061	3,042,061
Basic and Diluted EPS	0.08	0.06	0.18	0.14

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

16 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 Parent Company.

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

Sugar milling

Revenues from sugar milling consist of the following:
a. sale of raw sugar and molasses (mill share)
b. sale of refined sugar
c. tolling fees

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 who have milling contracts with VMC. The production sharing agreement is 69.5% for planters and 30.5% for VMC. Pursuant to Section 1 of RA 809, effective December 1, 2018, the sharing allocation is 69.7% for the planters, 30% for VMC and 0.3% for the sugar workers.

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, VMC also provides toll refinery services to traders and planters for their raw sugar milled by other sugar centrals.

Distillery operations

The Group's alcohol distillery division, which resumed operations in November 2011 and started commercial operations in March 2013.

For its operations, the division operates an alcohol production with an actual daily capacity of 50,000 liters and with molasses as the primary raw material. Molasses is sourced from sugar operations which produces it as a by-product. In 2018, the group also started to manufacture anhydrous alcohol (bioethanol).

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

Power generation

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

Joint 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

This segment is involved primarily in processing canned sardines and bangus in different variants such as tomato-based and chili-based, among others. In December 2002 and January 2003, this segment introduced the luncheon meat and lechon paksiw product lines, respectively. Moreover, in May 2003, this segment re-operated the slaughterhouse operations which had been closed for years.

Real estate

This segment 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.

Leasing

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

Entertainment

This segment derives income from membership fees when billed and when corresponding services is 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 and depreciation. 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, value added tax 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 and revenue and income information as of and for the nine months ended May 31, 2019 and 2018:

May 31, 2019 *(Unaudited)*	Sugar milling	Distillery operations	Power generation	Others	Elimination items	Total
Revenue						
External sales	4,333,053	462,516	86,413	53,748	-	4,935,730
Inter-segment sales	2,593	-	3,556	7,053	(13,202)	-
Total	4,335,646	462,516	89,969	60,801	(13,202)	4,935,730
Segment result	757,593	277,299	40,778	10,347	(4,232)	1,081,785
Unallocated corporate expense	(412,603)	-	-	(22,673)	4,232	(431,044)
Operating profit	344,990	277,299	40,778	(12,326)	-	650,741
Finance cost	(12,931)	-	-	-	-	(12,931)
Interest income	3,852	-	-	19	-	3,871
Other income (expense)	48,039	-	-	2,142	-	50,181
Income tax expense	(132,766)	-	-	-	-	(132,766)
	251,184	277,299	40,778	(10,165)	-	559,096

May 31, 2018 *(Unaudited)*	Sugar milling	Distillery operations	Power generation	Others	Elimination items	Total
Revenue						
External sales	5,560,572	152,801	33,862	53,139	-	5,800,374
Inter-segment sales	1,334	-	3,724	2,685	(7,743)	-
Total	5,561,906	152,801	37,086	55,824	(7,743)	5,800,374
Segment result	827,379	52,783	29,137	9,161	(2,684)	915,776
Unallocated corporate expense	(379,478)	-	(4)	(20,966)	2,751	(397,697)
Operating profit	447,901	52,783	29,133	(11,805)	67	518,079
Finance cost	(3,608)	-	-	-	-	(3,608)
Interest income	2,978	-	-	14	-	2,992
Income tax expense	(176,037)	-	-	-	-	(176,037)
Other income (expense)	76,073	-	-	707	(67)	76,713
	347,307	52,783	29,133	(11,084)	-	418,139

	Segment assets (in millions)		Segment liabilities (in millions)	
	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
Sugar milling	7,305	6,433	1,982	1,232
Food processing	119	127	115	121
Real estate	216	217	113	108
Leasing	143	143	33	33
Distillery operations	303	270	3	1
Entertainment	92	101	57	57
Power generation	2,004	1,979	877	1,252
Eliminations	(322)	(293)	(248)	(193)
	9,860	8,977	2,932	2,611

17 Revenue

This account consists of:

	For the three months period ended May 31		For the nine months period ended May 31	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Sale of goods				
Refined sugar	576,764	1,055,325	2,062,388	4,025,375
Raw sugar	196,600	46,865	1,500,701	814,343
Ethanol	150,755	-	444,985	-
Molasses	106,407	110,222	206,159	272,403
Power generation	62,468	17,923	86,413	33,861
Alcohol	-	46,362	17,531	152,801
Others	10,242	15,531	52,244	50,075
	1,103,236	1,292,228	4,370,421	5,348,858
Revenue from rendering of service				
Tolling and other fees	230,619	325,990	565,309	451,516
	1,333,855	1,618,218	4,935,730	5,800,374

Other revenue arises from sale of goods and services in the Group's food processing, real estate, leasing and entertainment operations.

18 Cost of goods sold and services rendered

This account consists of:

	For the three months period ended May 31		For the nine months period ended May 31	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Cost of goods sold	788,890	1,111,994	3,495,732	4,665,979
Cost of services	111,198	154,964	358,213	218,619
	900,088	1,266,958	3,853,945	4,884,598

Cost of goods sold consists of:

	For the three months period ended May 31		For the nine months period ended May 31	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Sugarcane and raw sugar purchased	114,190	167,394	1,545,242	2,201,018
Cost of hauling	324,536	395,861	1,177,128	1,122,878
Repairs and maintenance	21,576	108,841	438,408	356,800
Depreciation	63,519	65,629	167,126	224,007
Materials and supplies	40,846	28,009	139,991	171,367
Direct labor	39,675	33,194	110,851	105,794
Professional fees and contracted services	40,525	35,167	100,219	82,887
Fuel	27,537	17,223	72,959	57,282
Taxes and licenses	7,352	12,192	25,795	41,355
Light and water and other costs	4,337	9,459	26,856	30,860
Total cost of goods manufactured	684,093	872,969	3,804,575	4,394,248
Inventories, beginning of period	894,601	718,605	480,961	751,311
Inventories, end of period	(789,804)	(479,580)	(789,804)	(479,580)
	788,890	1,111,994	3,495,732	4,665,979

Cost of hauling pertains to cane trucking, hauling allowances and other incentives to encourage planters to mill with the Group.

Cost of services mainly include direct labor, materials, repairs and maintenance, depreciation and utilities expenses.

19 Operating expenses

General and administrative expenses consist of:

	For three months period ended May 31		For nine months period ended May 31	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Professional fees and contracted services	52,545	27,957	103,771	95,796
Salaries and employee benefits	11,302	20,779	72,473	78,291
Taxes and licenses	16,122	14,018	54,220	77,280
Representation entertainment	23,093	16,115	38,728	38,035
Provisions for impairment	15,349	-	36,606	-
Depreciation	11,203	4,895	30,568	14,684
Travel and transportation	1,813	2,060	7,845	6,181
Repairs and maintenance	1,812	4,692	5,907	10,575
Communication	8	620	1,275	2,508
Insurance	246	419	918	2,242
Rental	480	29	606	266
Light and water and other costs	2,040	6,669	23,036	20,053
	136,013	98,253	375,953	345,911

Selling expenses amounting to P55 million and P52 million for the nine months ended May 31, 2019 and 2018, respectively, consist mainly of freight and handling expense, insurance and warehouse rentals.

20 Other income (expenses), net

This account consists of:

	For three months period ended May 31		For nine months period ended May 31	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Storage, handling and insurance fees, net	556	22,335	20,967	49,121
Gain on sale of AFS financial assets	8,920	2,177	10,251	4,656
Rental	1,754	2,031	7,819	7,783
Scrap sales	1,472	-	5,479	-
Interest income	3,316	845	3,871	2,992
Foreign exchange gain, net	465	242	136	131
Gain on sale of property, plant and equipment	-	-	-	912
Other income (expenses), net	(1,378)	3,276	5,529	14,110
	15,105	30,906	54,052	79,705

21 Related party transactions

Related party transactions are as follows:

	Transactions (May 31, 2019) *Unaudited*	Outstanding balance (May 31, 2019) *Unaudited*	Terms and conditions
Shareholder with significant influence			
Revenue from sale of goods	373,665	175,894	-Unguaranteed and unsecured -Non-interest bearing
Cash in bank, money market placements and UITF investments	23,287	137,166	
	396,952	313,060	

	Transactions (May 31, 2018) *Unaudited*	Outstanding balance (May 31, 2018) *Unaudited*	Terms and conditions
Shareholder with significant influence			
Revenue from sale of goods	146,920	72,407	-Unguaranteed and unsecured -Non-interest bearing
Cash in bank, money market placements and UITF investments	155,733	151,006	
	302,653	233,413	

Terms and conditions of transactions with related parties

21.1 Revenue from sale of goods

In the normal course of business, the Parent Company sold raw sugar, alcohol, molasses and tolling services to Interbev, Tanduay and Absolut.

The Parent Company is related to PNB, Interbev, Tanduay and Absolut who are subsidiaries under the LT Group, Inc., which owns a significant ownership interest in the Parent Company.

21.2 Cash in bank, money market placements, investments

The Parent Company maintains current account, money market placements and UITF investments with PNB.

22 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 financial assets comprise of cash in banks and cash equivalents, trade receivables, advances to related parties, AFS financial assets, short-term and long-term investments, cash surety bonds and security and utility deposits. The financial liabilities of the Group, which arise directly from its operations, comprise trade payables, accrued expenses and borrowings.

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 Group has overall responsibility for the establishment and oversight of the Group's risk management framework. Moreover, market and credit risk management is carried out by the Group's Treasury. 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 statement 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.

As at May 31, 2019 and August 31, 2018, the aging profile of the Group's financial assets is as follows:

	Neither	Past due but not impaired					
May 31, 2019, (Unaudited)	past due or impaired	<30 days	31-60 days	61-90 days	>90 days	Past due and impaired	Total
Cash and cash equivalents(1)	1,003,732	-	-	-	-	-	1,003,732
Trade receivables:							
Related parties	36,407	26,496	36,801	-	-	-	99,704
Third parties	83,693	64,890	32,720	1,433	94,352	20,881	297,969
Other receivables (2)	12,773	303	245	277	7,201	8,509	29,308
AFS financial assets	331,969	-	-	-	-	-	331,969
Other non-current assets (3)	26,862	-	-	-	38,087	-	64,949
	1,495,436	91,689	69,766	1,710	139,640	29,390	1,827,631

August 31, 2018, (Audited)	Neither past due or impaired	Past due but not impaired				Past due and impaired	Total
		<30 days	31-60 days	61-90 days	>90 days		
Cash and cash equivalents(1)	383,232	-	-	-	-	-	383,232
Trade receivables:							
Related parties	357	51,344	73	-	10,033	-	61,807
Third parties	132,421	28,453	70,050	104,493	35,112	21,202	391,731
Other receivables(2)	7,927	1,246	1,093	636	14,278	-	25,180
AFS financial assets	272,783	-	-	-	-	-	272,783
Short-term investments	354	-	-	-	-	-	354
Other non-current assets(3)	25,599	29,410	-	-	-	-	55,009
	822,673	110,453	71,216	105,129	59,423	21,202	1,190,096

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

The credit quality of the Group's financial assets that are neither past due nor impaired is considered to be of good quality and expected to be collectible in accordance with the set credit terms.

As at May 31, 2019 and August 31, 2018, the Group's maximum credit exposure is equal to the carrying values of the following financial assets:

	May 31, 2019 Unaudited	August 31, 2018, Audited
Cash and cash equivalents (1)	1,003,732	383,232
Trade and other current receivables, net (2)	397,591	457,516
AFS financial assets	331,969	272,783
Other non-current assets (3)	64,949	57,672
Total	1,798,241	1,171,203

(1) excluding cash on hand
(2) excluding advances to officers and employees; net of allowance for impairment losses
(3) excluding land under voluntary offer to sell

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 May 31, 2019 and August 31, 2018 based on contractual undiscounted payments:

May 31, 2019 Unaudited	On demand	Within 1 year	More than 1 year	Total
Financial assets				
Loans and receivables:				
Cash and cash equivalents	1,019,613	-	-	1,019,613
Trade receivables:				
Related parties (1)	63,297	36,407	-	99,704
Third parties	219,499	57,589	-	277,088
Other receivables (1)	20,799	-	-	20,798
AFS financial assets	331,969	-	-	331,969
Other non-current assets (1)	64,949	-	-	64,949
	1,720,126	93,996	-	1,814,121
Financial liabilities				
Other financial liabilities:				
Borrowings	-	526,016	377,891	903,907
Accounts and other current payables (2)	1,191,416	-	-	1,191,416
	1,191,416	526,016	377,891	2,095,323
	528,710	(432,020)	(377,891)	(281,202)

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

August 31, 2018 Audited	On demand	Within 1 year	More than 1 year	Total
Financial assets				
Loans and receivables:				
Cash and cash equivalents	398,666	-	-	398,666
Trade receivables:				
Third parties	132,421	238,107	-	370,528
Related parties (1)	357	61,450	-	61,807
Other receivables (1)	23,282	1,898	-	25,180
AFS financial assets	272,783	-	-	272,783
Short term investment	354	-	-	354
Other non-current assets (1)	16,187	-	38,822	55,009
	844,050	301,455	38,822	1,184,327
Financial liabilities				
Other financial liabilities:				
Borrowings	-	543,359	770,234	1,313,593
Accounts and other current payables (2)	362,170	-	-	362,170
	362,170	543,359	770,234	1,675,763
Net gap	481,880	(241,904)	(731,412)	(491,436)

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

Market risk

The Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market prices, mainly interest rate risk and foreign exchange risk. The Group is not exposed to price risk.

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 13) are not sensitive to movements in interest rates as these carry fixed interest rates.

The Group's exposure to interest rate risk is limited only to holdings of units of investment trust funds (UITFs) classified as AFS financial assets (Note 6). The underlying pool of assets for these UITFs consist, however, of short-term money market instruments.

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 not significant and is limited only to its bank deposits (included in Cash and cash equivalents) denominated in US dollar (USD).

Fair value of financial assets and liabilities

The carrying values of cash and cash equivalents, trade and other current 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.

23 Capital management

The Parent Company manages its capital to ensure that the Parent Company will be able to continue as a going concern while maximizing the return on the investments of stockholders. The Parent Company is governed by its ARP as submitted and approved by SEC.

The capital structure of the Parent Company consists of equity attributable to the stockholders comprising of the capital stock while debt is defined as long and short-term borrowings.

The debt to total assets ratio of the Parent Company as at May 31, 2019 and August 31, 2018, which has been within the Parent Company's acceptable range as set by the BOD, is calculated as follows:

	May 31, 2019 (Unaudited)	August 31, 2018 (Audited)
Debt	875,000	1,250,000
Total assets	9,859,901	8,977,435
	0.09:1	0.14:1

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE has required a minimum percentage of ten percent (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.

24 Summary of significant accounting policies

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

24.1 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended August 31, 2018.

(a) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective to the Group beginning after September 1, 2016, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the interim condensed consolidated financial statements of the Group, except the following set out below:

PFRS 9, 'Financial instruments' will replace the multiple classification and measurement models in PAS 39 'Financial instruments: Recognition and measurement' with a single model that has initially only two classification categories: amortized cost and fair value. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value. All fair value movements on financial assets are taken through the statement of income, except for equity investments that are not held for trading, which may be recorded in the statement of income or in reserves (without subsequent recycling to profit or loss). For financial liabilities that are measured under the fair value option entities will need to recognize the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.

The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

In July 2014, the Financial Accounting Standards Board (FASB) made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, PFRS 9 is now complete. The changes introduce a third measurement category (FVOCI) for certain financial assets that are debt instruments and a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For financial years commencing before February 1, 2015, entities can elect to apply PFRS 9 early for any of the following: (1) the own credit risk requirements for financial liabilities, (2) classification and measurement (C&M) requirements for financial assets, (3) C&M requirements for financial assets and financial liabilities, or (4) C&M requirements for financial assets and liabilities and hedge accounting. After February 1, 2015, the new rules must be adopted in their entirety. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. Based on management's assessment, the adoption of this standard will not have a significant impact on the Group's consolidated financial statements.

PFRS 15, 'Revenue from contracts with customers' will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied. Key changes to current practice are: (1) Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements; (2) Revenue may be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, and success of an outcome) – minimum amounts must be recognized if they are not at significant risk of reversal; (3) The point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa; (4) There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and (5) As with any new standard, there are also increased disclosures. These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The SEC deferred the implementation of Philippine Interpretations Committee (PIC) Q&A 2019-03. For 2019 financial statements, the Group is required to disclose the deferral of implementation and reasonable estimate of the effect of adopting PIC Q&A 2019-03 in fiscal year 2020. The PIC Q&A 2019-13 will result to the recognition of the following under the output sharing agreement: (a) Gross recognition of revenue on sugar cane milling services and raw sugar inventory representing 30% miller's share; (b) Revenue from free storage will be carved out from the selling price to be recognized as liability. This will be amortized as revenue over free storage period. The Group is currently assessing the impact of the new standard and plans to adopt it beginning September 1, 2019.

PFRS 16, 'Leases' will replace the current guidance in PAS 17, 'Leases'. PFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under PFRS 16, 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. The Group is currently assessing the impact of PFRS 16.

Amendments to PAS 12, '*Income taxes*'. The amendments, which are effective January 1, 2017, clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that (a) a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period; (b) an entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit; (c) where the tax law restricts the source of taxable profits against which particular types of deferred income tax assets can be recovered, the recoverability of the deferred income tax assets can only be assessed in combination with other deferred tax assets of the same type; and (d) tax deductions resulting from the reversal of deferred income tax assets are excluded from the estimated future taxable profit. The amendments to the standard are not expected to have a material impact on the consolidated financial statements of the Group as currently there are no material temporary differences arising from assets measured at fair value.

Amendments to PAS 7, '*Statement of cash flows'*. Beginning January 1, 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. The adoption of the amendments to the standard will result in additional disclosure on changes in liabilities arising from financing activities of the Group.

There are no other standards, amendments or interpretations that are not yet effective that have a material impact on the consolidated financial statements of the Group.

MANAGEMENT’S DISCUSSION AND ANALYSIS

I. Review of Factory Operations

The total canes delivered for the third quarter of CY 2018-2019 is at 2.7 million tons cane, which is almost the same level as last year. Raw sugar recovery slightly increased from 1.86 50-kilogram bag (LKG) per ton cane milled last year to 1.89 LKG per ton cane milled in the current year. Despite the increase in raw sugar recovery, raw sugar production is lower by 5% compared to the same period last year. Refined sugar production also dropped due to slowdown of operations and scheduled factory shutdowns. Alcohol production volume, however, significantly increased due to early start of operations and improvement in plant efficiency.

II. Results of Operations

The Group realized a net income of P559 million for the nine months ended May 31, 2019, which is 34% or P141 million higher than the net income in the same period last year. This was mainly due to higher sugar price levels compared to last year and the early start of commercial operations of the distillery plant which generated 26% of the Group’s gross profit.

The decline in revenue by 15% was mainly due to the decline in the volume of sugar sold, which was partially offset by the increase in sugar prices and the increase in ethanol volume. Even with the decline in revenue, gross profit improved from 16% to 22% mainly from comparatively high sugar prices which compensated for the higher cost of cane hauling in the current year. Operating expenses are slightly higher than last year due to higher amounts spent on supplies and other labor costs. On the other hand, provision for income tax declined due to income tax incentives availed for the ethanol plant operations.

III. Financial Condition

The Group’s stockholder’s equity increased by 9% as of the end of the third quarter of CY 2018-2019. The Group’s total assets grew by 10% or P882 million mainly due to high levels of sugar inventory, significantly higher cash level due to increased collection efforts and additional investments made in property, plant and equipment. Build-up of inventories was due to a relatively lower sales volume for the quarter.

The Group’s current ratio continues to be strong at 1.8 while debt to equity ratio remains low at 0.4. The Group still carries its long-term debt which is down to P875 million, after quarterly amortization payments made as of reporting date totaling to P625 million.