107152014001736

SECURITIES AND EXCHANGE COMMISSION

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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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VICTORIAS MILLING COMPANY, INC.

July 11, 2014

HON. JUSTINA F. CALLANGAN
Acting 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 May 31, 2014.

Thank you.

Very truly yours,

EVA A. VICENCIO-RODRIGUEZ
Compliance & Information Officer

/cge

FACTORY HEAD OFFICE
Victorias City, Negros Occidental 6119
Telefax: (034)399-3675

MANILA OFFICE
GD Pacific Center Building
33 San Miguel Avenue,

COVER SHEET

PW-364

S.E.C. Registration Number

VICTORIAS MILLING COMPANY, INC.

(Company's Full Name)

VICTORIAS CITY,
NEGROS OCCIDENTAL

(Business Address: No. Street City/Town/ Province)

EVA A. VICENCIO-RODRIGUEZ

Contact Person

(034) 399-3588

Company Telephone Number

0 8 | 3 1

Month *Day*

Fiscal Year

SEC Form 17-Q
(as of 5.31.2014)

FORM TYPE

First Tuesday of February

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles
Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

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 **May 31, 2014**
2. Commission identification number **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 registrants office — Postal Code

Victorias City, Negros Occidental 6119

8. Registrant's telephone number, including area code

(034) 399-3588 Fax# (034) 399-3588

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	**2,563,035,708 shares**
Subscribed and paid up	**2,367,524,384 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 May 31, 2014, 2014 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

TERESITA V. ILAGAN
Chief Finance Officer

Date: July 11, 2014

VICTORIAS MILLING COMPANY, INC.
AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at May 31, 2014 and for the Three Months and Nine Months Ended
May 31, 2014 (Unaudited)

(With Comparative Consolidated Audited Consolidated Statements of Financial Position as at August 31, 2013, Audited Interim Consolidated Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Changes in Cash Flows for the Three Months and for the Nine Months Ended May 31, 2103)

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	Note		**May 31, 2014 (Unaudited)**		August 31 2013
ASSETS					
Current Assets					
Cash and cash equivalents	*6*	₱	**700,097**	₱	863,822
Trade and other current receivables - net	*7*		**197,298**		446,129
Inventories - net	*8*		**532,126**		389,638
Advances to an unconsolidated subsidiary	*27a*		**25,022**		25,292
Prepaid expenses and other current assets	*9*		**28,031**		29,444
Total Current Assets			**1,482,574**		1,754,325
Noncurrent Assets					
Investments in unconsolidated subsidiary and in associate - net	*10*		**15,680**		15,680
Property, plant and equipment - net	*11*		**3,980,561**		3,921,981
Investment properties	*12*		**1,445,386**		1,445,386
Other noncurrent assets - net	*13*		**49,468**		51,611
Total Noncurrent Assets			**5,491,095**		5,434,658
		₱	**6,973,669**	₱	7,188,983
LIABILITIES AND EQUITY					
Current Liabilities					
Trade and other current payables	*14*	₱	**635,806**	₱	351,134
Current portion of long-term debts	*16a*		**-**		-
Income tax payable	*25*		**777**		63,559
Total Current Liabilities			**636,583**		414,693
Noncurrent Liabilities					
Provisions	*15*		**1,071,447**		841,941
Long-term debts - net of current portion	*16a*		**-**		2,544,633
Retirement benefits obligation	*26c*		**7,000**		8,991
Due to a stockholder	*27c*		**6,000**		6,000
Deferred tax liabilities - net	*25*		**494,101**		568,687
Total Noncurrent Liabilities			**1,578,548**		3,970,252
Total Liabilities			**2,215,131**		4,384,945

Forward

	Note		May 31, 2014 (Unaudited)		August 31 2013
Equity					
Capital stock	*17*	₱	**2,367,535**	₱	2,297,485
Convertible notes awaiting conversion	*16b2ii*		**1,228,432**		338,896
Additional paid-in capital	*16b2ii*		**291,792**		244,621
Revaluation increment of property, plant and equipment	*11,17d*		**120,080**		134,646
Retained Earnings (Deficit)			**750,238**		(212,071)
Conversion feature on convertible notes	*16b2i*		**472**		472
Treasury stock	*17f*		**(11)**		(11)
Total Equity			**4,758,538**		2,804,038
		₱	**6,973,669**	₱	7,188,983

See Notes to the Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED MAY 31, 2014

(With Comparative Figures For Three Months and Nine Months Ended May 31, 2013)

(Amounts in Thousands, Except Earnings Per Share Data)

	Note	For Three Months Ended		For Nine Months Ended	
		2014 (Unaudited)	2013	**2014 (Unaudited)**	2013
REVENUE FROM OPERATIONS	*20*	₱ **1,263,426**	₱ 1,275,985	₱ **4,259,278**	₱ 2,893,679
COST OF GOODS SOLD AND SERVICES		**723,127**	746,066	**2,339,892**	1,584,266
GROSS PROFIT		**540,299**	529,919	**1,919,386**	1,309,413
OPERATING EXPENSES	*23*				
Selling		**55,006**	42,831	**151,988**	96,545
General and administrative		**74,614**	73,711	**414,581**	190,434
		129,620	116,542	**566,569**	286,979
INCOME FROM OPERATIONS		**410,679**	413,377	**1,352,817**	1,022,434
OTHER INCOME AND EXPENSES					
Other income	*22*	**4,839**	174,400	**16,518**	222,290
Other expenses	*24*	**(11,557)**	(10,819)	**(32,913)**	(41,821)
		(6,718)	163,581	**(16,395)**	180,469
INCOME BEFORE FINANCE COST AND INCOME TAX		**403,961**	576,958	**1,336,422**	1,202,903
FINANCE COST	*16*	**75,240**	35,941	**231,494**	262,980
INCOME BEFORE INCOME TAX		**328,721**	541,017	**1,104,928**	939,923
INCOME TAX EXPENSE	*25*	**23,614**	171,621	**157,185**	322,448
NET INCOME		**305,107**	369,396	**947,743**	617,475
OTHER COMPREHENSIVE INCOME					
Revaluation increment of property, plant and equipment	*11*	-	-	-	-
Deferred tax on other comprehensive income	*25*	-	-	-	-
		-	-	-	-
TOTAL COMPREHENSIVE INCOME		₱ **305,107**	369,396	₱ **947,743**	₱ 617,475
Earnings Per Share	*18*				
Basic		₱ **0.13**	0.16	₱ **0.41**	₱ 0.28
Diluted		₱ **0.12**	0.10	₱ **0.39**	₱ 0.19

See Notes to the Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED MAY 31, 2014

(With Comparative Figures For Nine Months Ended May 31, 2013)

(Amounts in Thousands)

2014 (Unaudited)

	Note	Capital Stock (Notes 16 and 17)	Convertible Notes Awaiting Conversion (Note 16b2ii)	Additional Paid-in Capital (Note 16b2ii)	Revaluation Increment of Property, Plant and Equipment (Notes 11 and 17)	Deficit (Note 17)	Conversion Feature on Convrtible Notes (Note 16b2i)	Treasury Stock (Note 17)	Total
Balance at September 1, 2013		₱ 2,297,485	₱ 338,896	₱ 244,621	₱ 134,646	₱ (212,071)	₱ 472	₱ (11)	₱ 2,804,038
Conversion of convertible notes	*16, 17*	70,050	889,536	47,171	-	-	-	-	1,006,757
Total comprehensive income for the year:									
Net income for the year		-	-	-	-	947,743	-	-	947,743
Revaluation increment of property, plant and equipment - net of deferred tax effect		-	-	-	-	-	-	-	-
Transfer of revaluation increment to deficit from depreciation on appraisal increase - net of deferred tax		-	-	-	(14,566)	14,566	-	-	-
		-	-	-	(14,566)	962,309	-	-	947,743
Balance at May 31, 2014		₱ 2,367,535	₱ 1,228,432	₱ 291,792	₱ 120,080	₱ 750,238	₱ 472	₱ (11)	₱ 4,758,538

See Notes to the Consolidated Financial Statements.

2013

	Note	Capital Stock (Notes 16 and 17)	Convertible Notes Awaiting Conversion (Note 16b2ii)	Additional Paid-in Capital (Note 16b2ii)	Revaluation Increment of Property, Plant and Equipment (Notes 11 and 17)	Deficit (Note 17)	Conversion Feature on Convrtible Notes (Note 16b2i)	Treasury Stock (Note 17)	Total
Balance at September 1, 2012		₱ 2,024,627	₱ 658,183	₱ 62,130	₱ 41,166	₱ (968,336)	₱ 548	₱ (11)	₱ 1,818,307
Conversion of convertible notes	*16, 17*	272,858	(319,287)	182,491	-	-	(76)	-	135,986
Total comprehensive income for the year:									
Net income for the year		-	-	-	-	617,475	-	-	617,475
Revaluation increment of property, plant and equipment - net of deferred tax effect		-	-	-	-	-	-	-	-
Transfer of revaluation increment to deficit from depreciation on appraisal increase - net of deferred tax		-	-	-	(26,340)	26,340	-	-	-
		-	-	-	(26,340)	643,815	-	-	617,475
Balance at May 31, 2013		₱ 2,297,485	₱ 338,896	₱ 244,621	₱ 14,826	₱ (324,521)	₱ 472	₱ (11)	₱ 2,571,768

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED MAY 31, 2014

(With Comparative Figues For Nine Months Ended May 31, 2013)

(Amounts in Thousands)

	Note		**2014 (Unaudited)**		2013
CASH FLOWS FROM OPERATING ACTIVITIES					
Income before income tax		₱	**1,104,928**	₱	939,923
Adjustments for:					
Provision for sugar claims	*15*		**-**		-
Provision for legal claims	*15*		**200,000**		
Finance cost	*16b3*		**231,494**		262,980
Depreciation	*11*		**221,857**		204,980
Impairment losses	*23*		**-**		6,044
Amortization of discount on provisions	*15, 24*		**29,506**		34,045
Net unrealized foreign exchange losses (gains)			**-**		6
Net retirement benefits cost (income)	*22, 23, 26*		**-**		6,053
Interest income	*6, 13, 22*		**(7,791)**		(37,832)
Gain on extinguishment of liability					(169,341)
Gain on sale of property, plant and equipment	*12, 22*		**(274)**		(179)
Operating income before working capital changes			**1,779,720**		1,246,679
Decrease (increase) in:					
Trade and other current receivables			**248,831**		32,525
Inventories			**(142,521)**		(716,937)
Prepaid expenses and other current assets			**1,249**		7,810
Increase in trade and other payables			**286,183**		87,399
Cash generated from operations			**2,173,462**		657,476
Interest income received			**7,791**		37,832
Retirement benefits paid	*26*		**(1,992)**		(10,937)
Income taxes paid			**(294,388)**		(294,118)
Net cash provided by operating activities			**1,884,873**		390,253

Forward

	Note		2014 (Unaudited)		2013
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease in other noncurrent assets		₱	**2,143**	₱	1,770,704
Proceeds from sale of property, plant and equipment			**274**		179
Additions to property, plant and equipment	*11*		**(282,905)**		(241,346)
Net cash provided by (used in) investing activities			**(280,488)**		1,529,537
CASH FLOWS FROM FINANCING ACTIVITIES					
Decrease in advances to an unconsolidated subsidiary			**270**		314
Finance cost paid			**(808,535)**		(164,397)
Payments of long-term debts			**(959,845)**		(2,325,458)
Net cash used in financing activities			**(1,768,110)**		(2,489,541)
NET DECREASE IN CASH AND CASH EQUIVALENTS			**(163,725)**		(569,751)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*6*		**863,822**		1,086,492
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	₱	**700,097**	₱	516,741

See Notes to the Consolidated Financial Statements.

1. Reporting Entity and Status of Operations

Reporting Entity
Victorias Milling Company, Inc. (herein referred to as the “Parent Company” or “VMC”) was organized and registered originally 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. The corporate life was extended for an additional period of 50 years or until May 7, 2019. The primary purpose of the Parent Company is to operate mill and refinery facilities for sugar and allied products, as well as engineering services. 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 and following subsidiaries and associate (collectively herein referred to as the “Group”) were incorporated in the Philippines.

	Nature of Business	Percentage of Effective Ownership	
		Direct	Indirect
Victorias Foods Corporation (VFC)	Food Processing and Canning	100	-
Victorias Agricultural Land Corporation (VALCO)	Agricultural Land Leasing and Cultivation	100	-
Canetown Development Corporation (CDC)	Real Estate Development and Selling	88	12
Victorias Golf and Country Club, Inc. (VGCCI)	Non-profit Golf Facilities	81	-
Victorias Quality Packaging Company, Inc. (VQPC)	Manufacture of Bags and Packaging Materials	55	-
Victorias Industrial Gases Corporation (VIGASCO)	Gas Dealership	30	-

The Parent Company’s percentages of ownership for the above subsidiaries and associate are the same for 2014, 2013 and 2012.

In June 2012, the Board of Directors (BOD) of VQPC approved to cease VQPC’s operations effective July 2012.

As at November 30, 2013, VQPC is undergoing liquidation process as approved by its BOD and stockholders. To implement the approved liquidation, VQPC is in the process of looking for prospective buyers of its remaining assets in order settle its obligations.

The Parent Company's shares of stock are listed in the Philippine Stock Exchange (PSE) but the trading of its shares is temporarily suspended in 1997 on the ground of alleged fraudulent misrepresentation of material information in the Parent Company's financial statements as well as in the continuing disclosure of VMC. Currently, VMC is under SEC receivership. In 2012, the SEC and the PSE have lifted the order of suspension of the trading of VMC's shares. Consequently, on May 21, 2012, the trading resumed.

The corporate office of VMC, its manufacturing plant and head office are located in VICMICO Compound, Victorias City, Negros Occidental.

VFC

VFC was registered and incorporated with the SEC on February 24, 1983 primarily to operate factories and other manufacturing facilities for the processing, preservation and packaging food products and selling the same at wholesale and retail. The corporate office and production plant of VFC is located at VICMICO Compound, Victorias City, Negros Occidental.

VALCO

VALCO was incorporated and registered with the SEC on June 30, 1987 primarily to acquire and own agricultural and other real estate properties, by purchase, lease or otherwise to improve and develop the same, and to plant thereon all kinds of farm products. The registered address of VALCO is at VICMICO Compound, Victorias City, Negros Occidental.

CDC

CDC was incorporated and registered with the SEC on February 19, 1974 primarily to purchase, develop, lease, exchange and sell real estate. CDC is effectively a wholly-owned subsidiary of the Parent Company through the 88% direct ownership and the 12% indirect ownership through VALCO. The registered address of CDC is at VICMICO Compound, Victorias City, Negros Occidental.

VGCCI

VGCCI is a non-profit corporation registered with the SEC on October 8, 1992 primarily to engage exclusively in social, recreational and athletic activities on a non-profit basis among its stockholders, the core of which will be the acquisition and maintenance of a golf course and tennis courts, residential and other similar facilities.

The financial statements of VGCCI are currently undergoing audit and have not been finalized. VGCCI's unaudited total assets and revenues are less than two percent (2%) of the consolidated total assets and consolidated total revenues. Due to its immateriality, it is not included in the consolidation pending the finalization of the audit of its financial statements. Accordingly, the investment is carried in the consolidated financial statements at cost and presented in the consolidated statements of financial position as part of "Investments in Unconsolidated Subsidiary and in Associate" account (see Note 10).

The registered office of VGCCI is located in VICMICO Compound, Victorias City, Negros Occidental.

VQPC

VQPC was incorporated and registered with the SEC on May 14, 1990 primarily to engage in the manufacture and sale of polyethylene bags, boxes, packages and special packaging products. The registered address and production plant of VQPC is at VICMICO Compound, Victorias City, Negros Occidental.

VQPC has accumulated deficit of P49.25 million and P49.56 million and has capital deficiency of P17.56 million, P17.89 million as at May 31, 2014 and August 31, 2013, respectively. Due to this, the non-controlling interest was already insufficient to absorb the share in the accumulated losses. Accordingly, all the accumulated losses in the prior years were charged to the retained earnings attributable to the equity holders of the Parent Company.

All subsequent profits generated by VQPC, if any, will be credited to the retained earnings of the equity holders of the Parent Company until the non-controlling interest's share of losses previously absorbed by the former has been recovered.

VIGASCO

VIGASCO, a 30%-owned associate, 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 pertroleum gas and any types of gases.

Due to the capital deficiency of VIGASCO resulting from operating losses, the investment is fully provided with allowance for impairment (see Note 10).

Going Concern Issue, Management's Assessment and Plans

These interim consolidated financial statements of the Parent Company have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. As disclosed in Notes 2 and 16, the Parent Company is still under rehabilitation and debt restructuring programs. This condition indicates a material uncertainty that may cast doubt on the Parent Company's ability to continue as a going concern. Although the Parent Company has been in compliance with the debt restructuring program, its continued compliance is ultimately dependent on the sustainability of its profitable operations.

The actions made by management during the past several years to improve the Group's operations and its financial position achieved the following:

- Generated consolidated net income of P947.7 million for the nine months ended May 31, 2014, P719.3 million for the year ended August 31, 2013, P556.2 million in 2012, P399.7 million in 2011; and P2 billion for the past five years;

- Significant reduction of the deficit for the past eight years and nine months by a total of P4.55 billion (i.e., from August 31, 2005 deficit balance of P3.8 billion to a retained earnings of P750 million as of May 31, 2014);

- Significant improvement in the capital structure of the Group which is from a consolidated net capital deficiency of P1.8 billion as of August 31, 2005 to a consolidated net equity of P4.7 billion as of May 31, 2014;

- Issuance of the Parent Company's shares of stock for the conversion of certain convertible notes to equity, in accordance with the Debt Restructuring Agreement (DRA), of P70 million, P272.9 million and P118.6 million in December of 2013, 2012 and 2011, respectively (see Note 17b);

- Resumption of the trading of the Parent Company's shares in the Philippine Stock Exchange (PSE) on May 21, 2012 following the lifting by the SEC and PSE of the temporary suspension of the trading of its shares; and

- Full payment of the Parent Company's outstanding restructured loans in 2013 (see Note 16a).
- Redemption of the Parent Company's convertible notes in 2014 (see Note 16b2)

The interim consolidated financial statements do not include any adjustment relating to the recoverability and classification of assets and the settlement of liabilities that may be necessary should the Group be unable to continue under a going concern basis.

In its efforts to achieve continuing successful operations and effective implementation of the provisions of the rehabilitation plan, the Parent Company has continuously focused its corporate objectives, goals, strategies, and measures to attain sustainable financial stability through, among others: (a) synchronization of the refined sugar and raw sugar operations; (b) expansion of the boiling house to balance capacity with that of the A and C mills; (c) enhancement of mill efficiency; (d) increase profitability by addressing cost efficiency (which includes, among others, trimming down of corporate overtime expenses, minimizing contracted labor/services, and sourcing out and maximizing use of cheaper fuel substitutes instead of bunker fuel) and improving tolling fees; and (e) ongoing program of rightsizing manpower.

Moreover, the Parent Company's management has undertaken the following action plans to improve its financial position and its corporate governance structure:

1. Recapitalization and quasi-reorganization to reduce the deficit through reduction in capital stock and application of appraisal increment as discussed in Note 17.

2. Conversion of debt into equity as discussed in Note 16.

3. Conversion of debt into convertible notes and ultimately, conversion of certain convertible notes to equity as disclosed in Note 16.

4. Improvement of cash flows.

   As provided for in Section 13 of the Debt Restructuring Agreement (DRA), in the event that VMC's net cash flows at the end of a crop year exceeds the projected net cash flows for that particular crop year, VMC shall prepay in inverse order the restructured loans without penalty equal to 75% of the incremental net cash flows (defined as net income after tax plus depreciation and other non-cash charges), as provided for in the Alternative Rehabilitation Plan (ARP).

5. Composition of the Board of Directors (BOD) and appointment of Management Committee (MANCOM) by the SEC.

   Effective December 16, 2002, the new BOD (which replaced the MANCOM) consists of the following: three representatives from the existing stockholders, one representative from the secured creditors, six representatives from the unsecured creditors, and one strategic partner. Presently, the slot for the strategic partner is occupied by the elected president. Further, the SEC issued an Order dated January 27, 2003 appointing Atty. Luis Ma. G. Uranza as the Rehabilitation Receiver to monitor, together with the new BOD elected every year, the implementation of the ARP.

   Every year thereafter, new sets of Board of Directors and members of the different Committees were elected and appointed, respectively, in accordance with the provisions of the ARP and DRA.

The Parent Company has various diversification plans and on July 3, 2013, the SEC approved the Parent Company's amended articles of incorporation. The amendment includes, as among the Parent Company's business purposes, the ethanol and/or potable alcohol production, infrastructure, transportation, telecommunication, mining, water, power generation, recreation, and financial or credit consultancy.

2. Rehabilitation and Debt Restructuring Programs

Discussed below are the series of events leading to the finalization of the rehabilitation and debt restructuring programs.

Application for Suspension of Payment to Creditors

On July 4, 1997, VMC filed with the SEC a Petition for the (a) Declaration of Suspension of Payment to Creditors, (b) Approval of a Rehabilitation Plan, and (c) Appointment of a MANCOM which was tasked to submit a feasible and viable rehabilitation plan for VMC.

Rehabilitation Plans and Amendments thereto:

1. Rehabilitation Plan as of September 25, 1998, subject to the terms of the First Addendum to the Rehabilitation Plan dated February 5, 1999 and of the Second Addendum to the Rehabilitation Plan dated July 22, 1999, as approved by the SEC in its orders dated August 17 and 19, 1999, respectively, (herein collectively referred to as the "Original Rehabilitation Plan" or "ORP").

   The salient features of the ORP follow:

   i. Reduction in the authorized capital stock of VMC from P2.7 billion consisting of 270 million shares of common stock at P10 par value per share to P495.958 million consisting of 170,432,189 shares of common stock at P2.91 par value per share (see Note 17c.1);

   ii. Fresh capital infusion of around P567 million through a public bidding which was declared a failure for the reason that the deadline of submission of bids had expired without any bid having been submitted;

   iii. The stockholders shall have no pre-emptive right to the increase of P1.5 billion shares of common stock or any shares to be issued to accommodate the conversion of any interests earned on the convertible notes to common shares;

   iv. VMC shall honor its contractual obligations to the MJ Ossorio Pension Fund retirees;

   v. Implementation of a business strategy for operating improvements, which include manpower reduction, upgrading of certain mills and other equipment, and divestment of non-profitable business units;

   vi. Sale of non-strategic assets and subsidiaries;

   vii. Restructuring of loans from banks; and

   viii. Debt-to-equity conversion.

2. Alternative Rehabilitation Plan (ARP) as of May 11, 2000, as approved by the SEC in its Order dated November 29, 2000.

   In view of the failure of the public bidding to raise fresh capital of around P567 million, the MANCOM, as mandated by ORP, submitted an ARP on May 11, 2000 which was approved by the SEC on November 29, 2000.

   The basic features of the ARP follow:

   i. Increase in the authorized capital stock from P495.958 million consisting of 495.958 million shares of common stock at P1 par value per share to P4.605 billion consisting of 4.605 billion shares of common stock at P1 par value per share (see Note 17c3). The new capital stock of P4.605 billion will be allocated among the initial paid-in capital of P1.596 billion, conversion of a portion of unsecured loan into convertible notes of VMC in the amount of P2.4 billion, and contingent Refined Sugar Invoice/Delivery Orders (RSDOs) of P609 million representing the principal amounts of loans allegedly obtained;

   ii. Conversion into equity of all unpaid interest and part of the principal of the unsecured loan amounting to P1.1 billion;

   iii. Conversion of a portion of unsecured loan into convertible notes amounting to P2.4 billion;

   iv. Restructuring of the secured and unsecured loans amounting to P4.4 billion over a period of fifteen years, including a 3-year grace period as to the principal, at 10% annual interest for peso loans and 6% for dollar loans; and

   v. Call for an acceptable joint venture partner to provide additional cash of approximately P300 million, payable in three years with annual interest of 1.5% and an option to manage VMC during the three-year life of the loan.

   All other terms and conditions of the ORP which have been previously approved by the SEC remain. The 15-year DRA took effect on September 1, 2003 (see Note 16).

   As at May 31, 2014, no further updates or revisions were made on the ORP, ARP and DRA.

Actions by Former Management and Others

VMC's former management, in their comments and replies filed with the SEC, manifests their strong opposition to the ARP. Also, three creditor banks, on various dates, filed their opposition to the ARP.

In the Order dated February 28, 2001, the SEC denied the appeal of VMC's former management and accordingly, the MANCOM, through its appointed Chief Operating Officer, took over the management of VMC on March 7, 2001.

On August 23, 2001, the SEC came out with an Omnibus Order affirming, among others, the SEC Orders dated November 29, 2000 and February 28, 2001 and directed the MANCOM to continue with the implementation of the MANCOM's ARP. The SEC Orders were affirmed by the Court of Appeals (CA) on February 11, 2002. On July 3, 2002, VMC's former management filed a petition for review of the said decision of the CA with the Supreme Court where it is presently pending resolution.

On May 5, 2004, VMC filed a manifestation informing the Supreme Court that VMC's former management participated and voted their shares in the election of the members of the VMC's Board of Directors for the year 2004 during VMC's Annual Stockholders' Meeting on April 30, 2004, which election was in accordance with the ARP, the same ARP which has been assailed by VMC's former management. On May 31, 2004, the Supreme Court noted the said manifestation of VMC.

In a Resolution dated April 27, 2005, the Supreme Court duly noted the Manifestation dated April 11, 2005 filed by VMC informing the Court that at the Annual Stockholders' Meeting of VMC held on April 1, 2005, the members of the Board of Directors of VMC for 2005 were duly elected pursuant to the ARP as approved by the SEC.

Moreover, in the Manifestation filed by VMC on July 26, 2005, the Supreme Court was informed that one of the bank creditors has already withdrawn its opposition to VMC's ARP and has signed the DRA as well as other documents relative thereto.

In its separate Manifestations dated January 25, 2006 and May 15, 2006, VMC informed the Supreme Court of unsecured creditors' participation in the ARP as well as their execution of the DRA and other documents relative thereto.

In the Resolution dated June 5, 2006, the Supreme Court noted the foregoing manifestations by VMC.

In its Resolution dated May 28, 2010, the Supreme Court denied the petition filed by Mr. Mañalac, *et al.* for failure to show any reversible error in the challenged decision and resolution as to warrant the exercise of its discretionary appellate jurisdiction. With the denial of the petition, there is no more legal impediment in the continued implementation of the ARP as approved by the SEC.

3. Basis of Preparation

Statement of Compliance

The interim consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

Basis of Measurement

These interim consolidated financial statements have been prepared on the historical cost basis except for property, plant and equipment which are carried at revalued amounts and investment properties which are carried at fair value.

Functional and Presentation Currency

These interim consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All financial information in Philippine peso has been rounded off to the nearest thousands, except when otherwise stated.

Use of Estimates and Judgments

The preparation of the interim consolidated financial statements in conformity with PFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the interim consolidated financial statements are discussed in Note 5.

4. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements.

Adoption of New or Revised Standards, Amendments and Improvements to Standards and Interpretations

The Group has adopted the following amendments to standards and interpretations in the respective effective dates:

Adopted as of September 1, 2012

- *Disclosures - Transfers of Financial Assets* (Amendments to PFRS 7), require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

- *Deferred Tax: Recovery of Underlying Assets* (Amendments to PAS 12) introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3, *Business Combinations* provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation SIC-21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* into PAS, 12 *Income Taxes*, and as a result Philippine Interpretation SIC-21 has been withdrawn.

- Philippine Interpretations Committee (PIC) Questions and Answers (Q&A) No. 2011-03 *Accounting for Inter-company Loans* provides guidance on how should an interest free or below market rate loan between group companies be accounted for in the separate/stand-alone financial statements of the lender and the borrower: (i) on the initial recognition of the loan; and (ii) during the periods to repayment.

The adoption of the aforementioned improvements did not have any material impact on the interim consolidated financial statements.

Adopted as of September 1, 2013

- *Presentation of Items of Other Comprehensive Income* (Amendments to PAS 1). The amendments:

- require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
- do not change the existing option to present profit or loss and other comprehensive income in two statements; and
- change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard.

- *Disclosures: Offsetting Financial Assets and Financial Liabilities* (Amendments to PFRS 7). These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are:

  - offset in the statement of financial position; or
  - subject to enforceable master netting arrangements or similar agreements.

  They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position. These amendments will be effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods and are to be applied retrospectively.

- FRS 10, *Consolidated Financial Statements*

  PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.

  An investor controls an investee when:

  - it is exposed or has rights to variable returns from its involvement with that investee;
  - it has the ability to affect those returns through its power over that investee; and
  - there is a link between power and returns.

  Control is re-assessed as facts and circumstances change.

  PFRS 10 supersedes PAS 27 (2008) and Philippine Interpretation SIC-12 *Consolidation - Special Purpose Entities.*

- PFRS 12, *Disclosure of Interests in Other Entities*

  PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:

  - the nature of, and risks associated with, an entity's interests in other entities; and
  - the effects of those interests on the entity's financial position, financial performance and cash flows.

- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to PFRS 10, PFRS 11, and PFRS 12)*

  The amendments simplify the process of adopting PFRSs 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities. Depending on the extent of comparative information provided in the financial statements, the amendments simplify the transition and provide additional relief from the disclosures that could have been onerous. The amendments limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. These amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- PFRS 13, *Fair Value Measurement*

  PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

  This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- PAS 19, *Employee Benefits* (Amended 2011)

  The amended PAS 19 includes the following requirements:

  - actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and
  - expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- PAS 27, *Separate Financial Statements* (2011)

  PAS 27 (2011) supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

- PAS 28, *Investments in Associates and Joint Ventures* (2011)

  PAS 28 (2011) supersedes PAS 28 (2008) *Investments in Associates*. PAS 28 (2011) makes the following amendments:

- PFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
- on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest.

▪ *Annual Improvements to PFRSs 2009 - 2011 Cycle* - various standards contain amendments to five standards with consequential amendments to other standards and interpretations. The amendments are effective for annual periods beginning on or after January 1, 2013. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the interim consolidated financial statements of the Group.

- PAS 1, *Presentation of Financial Statements* - Comparative Information beyond Minimum Requirements. This is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with PFRSs.

  For example, if an entity elects to present a third statement of comprehensive income, then this additional statement should be accompanied by all related notes, and all such additional information should be in accordance with PFRSs. However, the entity need not present:

  - other primary statements for that additional comparative period, such as a third statement of cash flows; or
  - the notes related to these other primary statements.

- PAS 1, *Presentation of the Opening Statement of Financial Position and Related Notes*. This is amended to clarify that:

  - the opening statement of financial position is required only if:
    - a change in accounting policy;
    - a retrospective restatement; or
    - a reclassification has a material effect upon the information in that statement of financial position;
  - except for the disclosures required under PAS 8, notes related to the opening statement of financial position are no longer required; and
  - the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements.

  The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening statement of financial statements are different, because the underlying objectives are different. Consequential amendments have been made to PFRS 1 and PAS 34, *Interim Financial Reporting.*

- PAS 16, *Property, Plant and Equipment* - Classification of Servicing Equipment. This is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*.

- PAS 32, *Financial Instruments Presentation* - Income Tax Consequences of Distributions. This is amended to clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to:

  - distributions to holders of an equity instrument; and
  - transaction costs of an equity transaction.

  This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss.

  A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments.*

- PAS 34, *Interim Financial Reporting* - Segment Assets and Liabilities. This is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when:

  - the amount is regularly provided to the chief operating decision maker; and
  - there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

  This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

New Standards, Amendments and Improvements to Standard and Interpretation Not Yet Adopted

A number of new standards, amendments and improvements to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these interim consolidated financial statements. None of these is expected to have a significant effect on the interim consolidated financial statements of the Group, except for PFRS 9 (*Financial Instruments*), PFRS 10 (*Consolidated Financial Statements*) and PFRS 13 (*Fair Value Measurement*), which become mandatory, upon effectivity of such improvements, for the Group's interim consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

The Group will adopt the following new standards, amendments and improvements to standards and interpretations in the respective effective dates:

To be Adopted on September 1, 2014

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32).* These amendments clarify that:

    - An entity currently has a legally enforceable right to set-off if that right is:
        - not contingent on a future event; and
        - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

    - Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
        - eliminate or result in insignificant credit and liquidity risk; and
        - process receivables and payables in a single settlement process or cycle.

These amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively.

To be Adopted on September 1, 2015

- PFRS 9, *Financial Instruments (2009),* PFRS 9, *Financial Instruments (2010)*

    PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

    PFRS 9 (2009 and 2010) are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

Further Deferral of the Local Implementation of Philippine Interpretation IFRIC 15 Agreements for the Construction of Real Estate

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate,* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts,* or PAS 18, *Revenue*, and the timing of revenue recognition.

Under the prevailing circumstances, the adoption of the above new standards, amendments and improvements to standards and interpretations is not expected to have any material effect on the Group's interim consolidated financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements.

Principles of Consolidation

The interim consolidated financial statements include the accounts of the Parent Company, as well as those of its subsidiaries enumerated in Note 1 to the interim consolidated financial statements.

Subsidiaries are entities controlled by the Parent Company. The financial statements of subsidiaries are included in the interim consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. All significant intercompany balances and transactions have been eliminated in the interim consolidated financial statements.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when a parent company owns, directly or indirectly through its subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

The interim consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Investments in Subsidiaries and Associate

A subsidiary is an entity that is controlled by a company while an associate is an entity in which a company has significant influence, but no control, over the financial and operating policies.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when a parent company owns, directly or indirectly through its subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. It is presumed to exist when another entity holds between 20 to 50 percent of the voting power of an entity.

Investments in unconsolidated subsidiaries and in associate are recognized at cost in the Group's interim consolidated financial statements, less any impairment loss. If there is objective evidence that the investments will not be recovered, an impairment loss is provided. Impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial assets. The amount of the impairment loss is recognized in profit or loss.

Non-controlling Interests

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group and are presented separately in the interim consolidated statements of comprehensive income and within equity in the interim consolidated statements of financial position, separately from Parent Company's equity, if positive. However, if losses applicable to the non-controlling interests exceeded the non-controlling interest in the subsidiary's equity, the excess, and any further losses applicable to the non-controlling interests, are allocated against the majority interest, except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits

are allocated to the majority interest until the non-controlling interest's share of losses previously absorbed by the majority has been recovered.

VQPC, the only partially owned subsidiary that is included in the consolidation, has accumulated deficit of P49.25 million and P49.56 million as at May 31, 2014 and August 31, 2013, respectively. Due to this, the non-controlling interest was already insufficient to absorb the share in the accumulated losses. Accordingly, all the accumulated losses in the prior years were charged to the retained earnings attributable to the equity holders of the Parent Company. All subsequent profits generated by VQPC, if any, will be credited to the retained earnings of the equity holders of the Parent Company until the non-controlling interest's share of losses previously absorbed by the former has been recovered.

Segment Reporting

Operating segments provide services that are subject to risks and returns that are different from those of other operating segments. The Group's businesses are operated and organized according to the nature of business provided, with each segment representing a strategic business unit.

Operating results of the Group's operating segments are reviewed by the BOD, the chief operating decision maker (CODM) of the Group, to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available. The business units and their corresponding principal activities are as follows:

Sugar Milling

Revenue from sugar milling comes from sales of raw sugar and molasses (mill share), and tolling fees. 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 who have milling contracts with VMC. The production sharing agreement is 69.5% for planters and 30.5% for VMC.

VMC 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.

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 its 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 Phases 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

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

Engineering Operations
The engineering services are divided into two business units, namely construction and engineering works. The construction division handles construction projects, road improvements, and structural works for VMC plant operations, fabrication, and production of concrete product; and manages the operations of trucks and heavy equipment, among others. Since crop year 1997-1998, the construction division has limited its activities to servicing only the requirements of the VMC's sugar operations. On the other hand, the engineering works division operates two engineering shops: (a) foundry shop, which produces metal castings; and (b) machine shop, which handles mechanical works / machining jobs.

Distillery Operations
The division operates an alcohol production with an actual daily capacity of 25,000 liters and with molasses as the primary raw material. Molasses is sourced from sugar operations which produces it as a by-product.

The Group's only reportable geographical segment is the Philippines.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates, and represents amounts receivable for goods and services provided in the normal course of business. The following specific recognition criteria must also be met before revenue is recognized:

- *Sales of Raw and Refined Sugar and Molasses*
  Revenue is recognized upon invoicing which coincides with endorsement and transfer of quedans and molasses warehouse receipts, respectively, when the customer has accepted the products.

- *Tolling Revenues*
  Revenue is recognized when the tolling services have been rendered based on the tolling agreement.

- *Sale of Alcohol*
  Revenue is recognized upon invoicing which coincides with the delivery of the alcohol.

- *Interest Income*
  Interest is recognized as interest accrues, taking into account the effective yield of the asset.

- *Rental Income*
  Rental income is recognized on a straight-line basis over the lease term for non-cancellable leases and the terms of the lease for cancellable leases.

- *Other Income*
  Other income such as income from scrap sales, gains from disposal, among others, is recorded when earned.

Cost and Expense Recognition

Costs and expenses are recognized in profit or loss upon utilization of the service or at the date they are incurred. Borrowing costs not capitalized are charged to income in the period in which they are incurred using the effective interest rate method.

Financial Assets

The Group recognizes a financial asset in the interim consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial assets are categorized under loans and receivables.

Loans and Receivables

Loans and receivable are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale or are not classified as held for trading, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets or financial assets at fair value through profit or loss (FVPL). These are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method, less allowance for impairment loss. These are included as current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Group's financial assets categorized under loans and receivables include cash and cash equivalents and receivables [presented in the interim consolidated statements of financial position as "Trade and other current receivables" (excluding advances to suppliers) and "Advances to an unconsolidated subsidiary" accounts, and as part of "Other noncurrent assets" account representing the cash and cash equivalents reserved for debts repayment].

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquid investments with original maturities of three months or less, which are subject to insignificant risk of change in value and are used by the Group in management of its short-term commitments.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. These are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

Receivables are initially recognized at fair value, representing the original invoice amount. Receivables are subsequently measured at amortized cost using the effective interest rate method, less impairment losses, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset maybe impaired. A financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Financial Assets at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

If, in a business period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition

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

- the rights to receive cash flows from the asset have expired;

- 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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Financial Liabilities

These are recognized when the Group becomes a party to the contractual agreements of the instrument, normally in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. The Group's financial liabilities are categorized as other financial liabilities.

Other Financial Liabilities

These include non-derivative liabilities that are not carried at fair value through profit or loss (FVPL) and are recognized initially at fair value and carried at amortized cost with amortization determined using the effective interest rate method.

The Group's financial liabilities categorized under other financial liabilities include long-term debts and other financial liabilities [presented in the interim consolidated statements of financial position as "Trade and other current payables" (excluding payables to government and customers' deposits) and "Due to a stockholder" accounts].

Long-term debts

Long-term debts include interest-bearing bank loans and convertible notes which are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are in profit or loss when the liabilities are derecognized as well as through the amortization process.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or 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.

Offsetting Financial Assets and Liabilities

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV).

Costs incurred in bringing each product to its present location or condition, are accounted for as follows:

> *Sugar Inventory, Alcohol Inventory and Manufactured and Fabricated Products* - determined using weighted average method; cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity.

> *Unbilled Tolling Cost* - consists mainly of direct labor and overhead components based on normal operating capacity, and are determined on weighted average method.

Real Estate Held for Sale - determined using specific identification method; cost includes purchase price of subdivision and memorial park lots plus development cost.

Jobs in Progress - determined using the specific identification method; cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Materials and Supplies - cost includes purchase and other directly attributable costs determined based on their original purchase price.

For sugar inventory, alcohol inventory and manufactured and fabricated products, unbilled tolling costs, jobs in progress, and real estate held for sale, NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. For materials and supplies, the NRV is the current replacement cost.

The Group considers any deterioration, damage, breakage, age and technological changes in estimating the NRV.

Property, Plant and Equipment

Property, plant and equipment, except for projects under construction (which are carried at cost less accumulated impairment losses), are carried at revalued amounts less accumulated depreciation and impairment losses, if any. The revalued amount is the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluation is performed by an independent firm of appraisers with sufficient regularity to ensure that the carrying amount of the asset does not differ materially from that which would be determined using fair values at the reporting date. The net appraisal increase resulting from the revaluation is credited to "Revaluation increment of property, plant and equipment" account (net of corresponding deferred tax liability) in the interim consolidated statements of financial position and interim 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 deficit.

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 period in which they 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 is computed using the straight-line method over the assets' estimated useful lives. The estimated useful lives are as follows:

	Number of Years
Land improvements	12.5
Buildings and structures	20
Community buildings and equipment	20
Machinery and equipment	3 - 20

The estimated useful lives, as well as the depreciation method, are reviewed at each reporting date to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from those assets.

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 assets are retained in the accounts until they are no longer in use and no further charge for depreciation 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 and impairment losses, if any, 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 greater than its recoverable amount. The recoverable amount of the Group's property, plant and equipment is the higher between their fair values less cost to sell 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 the interim consolidated statements of comprehensive income.

An increase in the carrying amount of the Group's property, plant and equipment is recognized in the interim consolidated statements of comprehensive income 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 building, 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 the interim consolidated statements of comprehensive income 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 period in which they arise.

Investment property is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the interim consolidated statements of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property only when there is a change in use evidenced by ending of owner-occupation or commencement of an operating lease to another party.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Transfers from investment property carried at fair value to owner-occupied property or inventories shall be its fair value at the date of change in use in accordance with PAS 16, *Property, Plant, and Equipment*, or PAS 2, *Inventories*.

Impairment of Nonfinancial Assets

The carrying amount of the Group's nonfinancial assets which include property, plant and equipment 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 greater of the asset's fair value less costs to sell and value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of 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. An impairment loss of a revalued asset is recognized in the same way as a revaluation decrease. All other impairment losses are recognized in profit or loss.

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, if no impairment loss had been recognized. A reversal of an impairment loss in respect of a revalued asset is recognized in the same way as a revaluation increase. All other reversals of impairment are recognized in profit or loss.

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 stock. 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 stocks 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, if any.

Compound financial instruments issued by the Group comprise convertible notes 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.

Earnings per Share (EPS)
The Group presents both basic and diluted EPS. Basic EPS is computed by dividing the consolidated net income applicable to common shareholders by the weighted average number of common shares outstanding during the year, adjusted for treasury stock, 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 of convertible notes.

Borrowing Costs
Borrowing costs are generally recognized as expense in the period in which these costs are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of a qualifying asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

Leases - Operating Lease
Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Group as a Lessor
Lease income under operating leases is recognized as income in the interim consolidated statements of comprehensive income on a straight-line basis over the lease term.

Group as a Lessee
Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Retirement Benefits
The Group has an unfunded, non-contributory retirement plan covering all qualified permanent employees. The plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefits obligation is calculated by an independent actuary using the projected unit credit method. The present value of the defined benefits obligation is determined by discounting the estimated future cash outflows using the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement liability.

Actuarial gains and losses are recognized as income or expenses when the net cumulative unrecognized actuarial gains and losses exceed 10% of the higher of the present value of defined benefits obligation and the fair value of plan assets at the end of the previous reporting year. These gains and losses are recognized over the expected average remaining working lives of the employees covered.

The liability recognized in the interim consolidated statements of financial position in respect of defined pension plan is the present value of the defined benefits obligation at the reporting date less the fair value of plan assets, if any, together with adjustments for unrecognized actuarial gains or losses and past service cost, if any.

Termination Benefits
Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

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

A liability is recognized for the amount expected to be paid such as those for salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Foreign Currency Transactions and Translations
Transactions in foreign currencies are translated into Philippine peso using the exchange rates prevailing at the time of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated using exchange rates prevailing at reporting date. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in

foreign currencies are recognized in the interim consolidated statements of comprehensive income.

Income Tax

Income tax expense comprises of current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current income tax payable also includes any tax liability arising from the declaration of dividends.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Related Parties

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

Transactions between related parties are based on terms similar to those offered to non-related parties in an economically comparable market, except for the non-interest bearing advances to a wholly-owned subsidiary which have no definite repayment terms.

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

Provisions and Contingencies
A provision is a liability of uncertain timing or amount. It is recognized when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

A contingent asset is an asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. This is not recognized in the interim consolidated financial statements but disclosed when an inflow of economic benefit is probable.

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5. Accounting Estimates and Judgments

The interim consolidated financial statements prepared in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect amounts reported in the interim consolidated financial statements and related disclosures. In preparing these interim consolidated financial statements, the management made its best judgments and estimates of certain amounts, giving due consideration to materiality. The Group believes that the following represents a summary of these significant estimates and judgments and related impact and associated risks in the interim consolidated financial statements.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the sale of goods and services and the cost of these goods and services.

Operating Lease Commitments
The Group has leased out certain investment properties to a related party and to third parties under the operating lease arrangements. The Group has determined that all significant risks and rewards of ownership of these spaces remain with the Group (see Notes 12 and 28).

Estimating Impairment Losses on Receivables and Advances
The Group maintains an allowance for impairment losses on receivables consisting of trade and other current receivables, and advances to subsidiaries at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with its customers, their payment behavior and known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance on continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates.

As at May 31, 2014 and August 31, 2013, the carrying amount of the Group's trade and other current receivables amounted to P197.3 million and P446.13 million, respectively (see Note 7).

Estimating the NRV of Inventories
In estimating the 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.

The carrying amount of inventories as at May 31, 2014 and August 31, 2013, amounted to P532.13 million and P389.64 million, respectively (see Note 8).

Estimating Useful Lives of Property, Plant and Equipment
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 operation 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 decrease noncurrent assets.

As at May 31, 2014 and August 31, 2013, the aggregate carrying amount of the Group's property, plant and equipment amounted to P3.98 billion and P3.92 billion, respectively (see Note 11).

Estimating Appraised Value and Fair Value
The appraised value of the Group's property, plant and equipment and the fair value of the Group's 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. However, management believes that the carrying amounts of property, plant and equipment and investment properties as of May 31, 2014 and August 31, 2013 do not differ materially from that

which would be determined using appraised value and fair value at reporting date.

As at May 31, 2014 and August 31, 2013, the aggregate carrying amount of the Group's property, plant and equipment amounted to P3.98 billion and P3.92 billion, respectively, (see Note 11).

The aggregate carrying amount of the Group's investment properties amounted to P1.45 billion as at May 31, 2014 and August 31, 2013, respectively, (see Note 12).

Recoverability of Deferred Tax Assets
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 re-measured if it might result to derecognition in cases where the expected tax law to be enacted will impose a possible risk on its realization.

As at May 31, 2014 and August 31, 2013, the Group's recognized deferred tax assets amounted to P341.54 million and P273.20 million, respectively (see Note 25).

As at May 31, 2014 and August 31, 2013, the Group's unrecognized deferred tax assets amounted to P9 million and P1.05 billion, respectively (see Note 25).

Estimating Retirement Benefit Obligation
The determination of the Group's obligation and cost of retirement benefits is dependent on the Group's selection of certain assumptions used by an actuary in calculating such amounts. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore, generally affect the Group's recognized expense and recognized obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's retirement benefit obligation.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting dates. Other key assumptions are based in part on current market conditions.

Retirement benefits obligation amounted to P7 million and P8.99 million as at May 31, 2014 and August 31, 2013, respectively (see Note 26).

Revenue Recognition
The Group's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

Impairment of Non-financial Assets
The Group assesses at each reporting date whether there is an indication that the carrying amount of an asset may be impaired. If such indication exists, the Group makes an

estimate of the assets' recoverable amount. At the reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

As at May 31, 2014 and August 31, 2013, the carrying amounts of property, plant and equipment, investment in unconsolidated subsidiary and associate and other noncurrent assets approximate their fair values.

Estimating Provisions and Contingencies
The Group is currently involved in various legal proceedings and has received assessments from the government regulatory bodies which are still pending resolution. Estimates of probable costs for the resolution of these claims have been developed in consultation with outside counsel 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 pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the provisions at the time these provisions have been determined and recognized. Specifically, this discount rate represents a risk-free rate plus a risk premium. The risk-free rate is derived from Philippine treasury bill rate and the risk premium is calculated by making reference to the volatility of market lending rates published by the Bangko Sentral ng Pilipinas (BSP).

The carrying value of the provisions recognized as at May 31, 2014 and August 31, 2013, amounted to P1.07 billion and P841.94 million, respectively, (see Note 15). The Group estimated that the provisions will cover the total probable liability (including imputed finance cost) to be incurred at the end of the rehabilitation program on the RSDOs, RSQs and other legal claims.

It is possible, however, that 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.

6. Cash and Cash Equivalents

Details of this account are as follows:

	May 31, 2014	August 31, 2013
Cash on hand and in banks	**P-**	P498,982
Cash equivalents	**700,097**	364,840
	P700,097	P863,822

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

Cash equivalents are composed of short-term placements with maturities ranging from 30 to 90 days, and bear annual interest rates of 0.875% to 1.1% in 2014 and 0.875% to 3.875% in 2013. Cash in bank and short-term placements earmarked principally as reserves for debt repayment are presented as part of "Other noncurrent assets" account (see Note 13).

Total interest income on cash and cash equivalents, amounted to P7.8 million and P37.8 million, as of May 31, 2014 and 2013, respectively, (see Notes 13 and 22).

7. Trade and Other Current Receivables

Details of this account at November 30 follow:

	May 31, 2014	August 31, 2013
Trade	**P182,713**	P455,535
Advances to suppliers	**25,276**	4,817
Advances to planter's association	**3,772**	1,201
Advances to officers and employees	**274**	695
Other current receivables	**4,113**	2,978
	216,148	465,226
Allowance for impairment losses	**(18,850)**	(19,097)
	P197,298	P446,129

The average credit period taken on sale of goods and services is from 30 to 60 days.

Advances to suppliers include cash advances to a distribution utility for electric supply at Manapla Distillery amounting to P 12 million.

Other current receivables consist of receivable from installment contract, loaned lots to buyers of one subsidiary and accrued interest receivables.

Movements in the allowance for impairment losses on receivables follow:

	Note	**May 31, 2014**	August 31, 2013
Balance, beginning of year		**P19,097**	P18,389
Amounts written-off as uncollectible		**(247)**	(97)
Impairment losses for the year	*23*	**-**	805
		P18,850	P19,097

8. Inventories

Details of this account are as follows:

	May 31, 2014	August 31, 2013
At cost:		
Sugar	**P263,226**	132,810
Materials and supplies	**139,500**	P170,042
Unbilled tolling cost	**117,198**	81,129
Real estate held for sale	**23,215**	23,518
Manufactured and fabricated products	**12,286**	10,092
Jobs in progress	**8,394**	1,896
Alcohol	**-**	1,844
	563,819	421,331
Allowance to reduce materials and supplies and unbilled tolling cost to NRV	**(31,693)**	(31,693)
	P532,126	P389,638

The movement in the allowance to reduce materials and supplies and unbilled tolling cost to NRV follows:

	May 31, 2014	August 31, 2013
Balance at beginning of year	**P31,693**	P9,499
Write-down of inventory for the year	-	22,194
Recovery during the year	-	-
	P31,693	P31,693

The cost of inventories recognized as an expense is presented as "Cost of goods sold and services" account and includes increase in inventories of P130.6 million and P716.9 million in May 31, 2014 and 2013, respectively (see Note 21).

Materials and supplies and unbilled tolling cost were stated at NRV which were lower than their corresponding costs. Management believes that the recorded allowance to reduce materials and supplies and unbilled tolling cost to NRV is adequate.

9. Prepaid Expenses and Other Current Assets

Details of this account are as follows:

	May 31, 2014	August 31, 2013
Input value-added tax (VAT)	**P17,020**	P20,673
Prepaid insurance	**2,509**	-
Biological asset	**1,373**	-
Prepaid real property taxes	**733**	-
Creditable withholding tax	**177**	216
Others	**6,219**	8,555
	P28,031	P29,444

Others mainly consist of monitoring fees due to a government agency.

10. Investments in Unconsolidated Subsidiary and in Associate

The Group's investments in unconsolidated subsidiary and in associate are as follows:

	Note	**May 31, 2014**	August 31, 2013
Subsidiary:			
VGCCI	*1*	**P15,680**	P15,680
Associate:			
VIGASCO	*1*	**5,727**	5,727
		21,407	21,407
Allowance for impairment loss on investment in VIGASCO		**5,727**	5,727
		P15,680	P15,680

VGCCI

VGCCI, an 81%-owned subsidiary, is a non-profit corporation registered with the SEC on October 8, 1992 primarily to engage exclusively in social, recreational and athletic activities on a non-profit basis among its stockholders, the core of which will be the acquisition and maintenance of a golf field course and tennis courts, residential and other similar facilities.

The financial statements of VGCCI for the year ended August 31, 2013 are currently undergoing audit and have not been finalized. VGCCI's unaudited total assets and revenues are less than two percent (2%) of the consolidated total assets and consolidated total revenues. Due to its immateriality, it is not included in the consolidation pending the finalization of the audit of its financial statements.

VIGASCO

VIGASCO, a 30%-owned associate, 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 pertroleum gas and any types of gases.

Due to the capital deficiency of VIGASCO resulting from operating losses, the investment in the associate is fully provided with allowance for impairment.

11. Property, Plant and Equipment

Movements in this account are as follows:

	Land and Land Improvements	**Buildings and Structures**	**Community Buildings and Equipment**	**Machinery and Equipment**	**Projects Under Construction**	**Total**
Cost						
Balance, August 31, 2012	P109,779	P647,624	P28,206	P4,124,710	P502,776	P5,413,095
Additions	-	-	-	5,630	315,596	321,226
Retirements/ disposals	-	-	-	(1,894)	-	(1,894)
Transfer to investment property	(1,335)	(11,730)	-	-	-	(13,065)
Adjustments	(145)	(658)	-	-	-	(803)
Completed projects awaiting completion documents	1,223	5	-	135,579	(136,807)	-
Completed projects	9,633	11,603	-	275,359	(296,595)	-
Balance, August 31, 2013	119,155	646,844	28,206	4,539,384	384,970	5,718,559

Additions	-	-	-	2,173	280,729	282,902
Retirements/ disposals	-	-	-	(42,168)	-	(42,168)
Transfer to investment property	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Completed projects awaiting completion documents	-	-	-	-	-	-
Completed projects	104	2,340	436	414,540	(417,420)	-
Balance, May 31, 2014	**119,259**	**649,184**	**28,642**	**4,913,929**	**248,279**	**5,959,293**
Accumulated depreciation and impairment losses - cost						
Balance, August 31, 2012	82,006	470,055	21,695	2,464,943	-	3,038,699
Depreciation	4,717	18,978	518	177,418	-	201,631
Transfer to investment property	-	(6,634)	-	-	-	(6,634)
Retirements/disposals	-	-	-	(1,894)	-	(1,894)
Adjustments	-	-	2,168	-	-	2,168
Balance, August 31, 2013	86,723	482,399	24,381	2,640,467	-	3,233,970
Depreciation	3,843	13,407	16	182,482	-	199,748
Transfer to investment property	-	-	-	-	-	-
Retirements/disposals	-	-	-	(39,704)	-	(39,704)
Adjustments	-	-	-	-	-	-
Balance, May 31, 2014	**90,566**	**495,806**	**24,397**	**2,783,245**	**-**	**3,394,014**
Appraisal increase						
Balance, August 31, 2012	508,385	27,666	130,978	1,940,450	-	2,607,479
Revaluation adjustments	(97,112)	620,075	(130,978)	2,235,850	-	2,627,835
Retirements/disposals	-	-	-	(399)	-	(399)
Balance, August 31, 2013	411,273	647,741	-	4,175,901	-	5,234,915
Revaluation adjustments	-	-	-	-	-	-
Retirements/disposals	-	-	-	-	-	-
Balance, May 31, 2014	**411,273**	**647,741**	**-**	**4,175,901**	**-**	**5,234,915**
Accumulated depreciation and impairment losses - appraisal increase						
Balance, August 31, 2012	94,440	106,793	117,364	832,085	-	1,150,682
Depreciation	1,221	305	764	71,785	-	74,075
Retirements/disposals	-	-	-	(399)	-	(399)
Revaluation adjustments	35,702	495,880	(118,128)	2,159,711	-	2,573,165
Balance, August 31, 2013	131,363	602,978	-	3,063,182	-	3,797,523
Depreciation	-	15,330	-	6,780	-	22,110
Retirements/disposals	-	-	-	-	-	-
Revaluation adjustments	-	-	-	-	-	-
Balance, May 31, 2014	**131,363**	**618,308**	**-**	**3,069,962**	**-**	**3,819,633**
Carrying amount At May 31, 2014	**P308,603**	**P182,811**	**P4,245**	**P3,236,623**	**P248,279**	**P3,980,561**
Carrying amount At August 31, 2013	**P312,342**	**P209,208**	**P3,825**	**P3,011,636**	**P384,970**	**P3,921,981**

Certain land and buildings of VMC that were formerly leased by a third party are now being utilized by VMC for its distillery operations which started in November 2011. Accordingly, these assets which have carrying values of P7.92 million were transferred to property, plant equipment from investment properties (see Note 12).

The Group’s property, plant and equipment were appraised by an independent appraiser. The latest appraisal was conducted on August 31, 2013.

The carrying values of the Group’s property, plant and equipment approximate their fair values. Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction as at the valuation date.

The carrying value of property, plant and equipment is net of allowance for impairment losses amounting to P418.0 million which relates to the following:

	Note	Machinery and Equipment	Land and Land Improvements	Building and Structures	Total
Balance, August 31, 2012		332,974	2,065	81,288	416,327
Impairment loss recognized	*23*	1,668	-	-	1,668
Balance, August 31, 2013		P334,642	P2,065	P81,288	P417,995
Impairment loss recognized	*23*	-	-	-	-
Balance, May 31, 2014		**P334,642**	**P2,065**	**P81,288**	**P417,995**

The carrying amounts of the Group's property, plant and equipment had these been carried at cost less accumulated depreciation and impairment losses, follow (in thousands):

	Land and Land Improvements	Buildings and Structures	Community Buildings and Equipment	Machinery and Equipment	Projects Under Construction	Total
At May 31, 2014	**P28,693**	**P153,378**	**P4,245**	**P2,130,684**	**P248,279**	**P2,565,279**
At August 31, 2013	P32,432	P164,445	P3,825	P1,898,917	P384,970	P2,484,589

A summary of depreciation on cost and on appraisal increase and the distribution follows:

	Note	For Three Months Ended May 31		For Nine Months Ended May 31	
		2014	2013	**2014**	2013
Depreciation on:					
Cost		**P59,692**	P51,138	**P199,748**	P149,319
Appraisal increase		**7,353**	18,554	**22,110**	55,661
		P67,045	P69,692	**P221,858**	P204,980
Depreciation charged to:					
Cost of goods manufactured	21	**P63,670**	P63,826	**P194,982**	P187,299
Selling expenses	23	**1,298**	2,980	**12,685**	8,984
General and administrative expenses	23	**2,077**	2,886	**14,191**	8,697
		P67,045	P69,692	**P221,858**	P204,980

The amount of the Parent Company's commitment for acquisition or construction and installation of certain air and water pollution control devices to comply with the order of the Department of Environment and Natural Resources (DENR) amounted to P99.62 million as at May 31, 2014 and August 31, 2013, 2012 (see Note 29b).

Substantially all of the Parent Company's property, plant and equipment are used as mortgage lien for loans under the Mortgage Trust Indenture (MTI) (see Note 16b2i). As disclosed in Note 16a, the Parent Company filed with the SEC a motion to secure the release of the mortgage lien under the MTI and secondary MTI on July 25, 2013.

12. Investment Properties

The details of this account as at May 31 follow:

	Note	Land	Building	Total
Balance, August 31, 2012		P945,935	P63,696	P1,009,631
Transfer from property, plant and equipment		1,335	5,096	6,431
Reclassification of "Land under dispute" to "Other Noncurrent Assets"	*13*	(25,809)	-	(25,809)
Fair value gain	*22*	429,319	25,814	455,133
Balance, August 31, 2013		1,350,780	94,606	1,445,386
Adjustment		-	-	-
Balance, May 31, 2014		**P1,350,780**	**P94,606**	**P1,445,386**

"Land under dispute" represents parcels of land, with an aggregate area of 2,513,887 square meters, subjected to the comprehensive agrarian reform program. As the Parent Company is yet to agree on the valuation and consideration for the said properties, the same are still carried in the books of the Parent Company (see Note 13).

Certain land and buildings of VMC that were formerly leased by a third party are now being utilized by VMC for its distillery operations which started in November 2011. Accordingly, these assets which have carrying values of P7.92 million were transferred to property, plant and equipment from investment properties (see Note 11).

The Group's investment properties were appraised by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The latest appraisal was conducted on August 31, 2013.

The carrying values of the Group's investment properties approximate their fair value. Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

The cost of the investment properties as of May 31, 2014 and August 31, 2013 amounted to P62.69 million.

Of the total investment properties, P1.2 billion has been leased out under several short-term and cancellable operating leases to third parties and related parties and the P176.62 million is deemed held for capital appreciation. The total rental income earned from the investment properties for the nine months May 31, 2014 and 2013 amounted to P5.7 million and P5.4 million, respectively (see Note 22).

No direct expenses were incurred for the Group's investment properties for the nine months ended May 31, 2014 and 2013.

13. Other Noncurrent Assets

Details of this account are as follows:

	Note	May 31, 2014	August 31, 2013
Cash surety bonds		**P32,052**	P34,195
Land under dispute	*12*	**25,809**	25,809
		57,861	60,004
Allowance for impairment losses		**(8,393)**	(8,393)
		P49,468	P51,611

Cash surety bonds pertain to cash collateral for the labor cases against the Parent Company (see Note 29e). It also includes cash in a closed bank totaling P8.39 million which was fully provided with allowance for impairment.

The movement in the allowance for impairment loss follows:

	Note	May 31, 2014	August 31, 2012
Balance at beginning of year		**P8,393**	P7,893
Provision for impairment losses during the year	*23*	**-**	500
		P8,393	P8,393

14. Trade and Other Current Payables

This account is composed of the following:

	Note	May 31, 2014	August 31, 2013
Trade suppliers	*29d*	**P429,451**	P242,635
Customers' deposits		**108,141**	40,786
VAT, withholding and other taxes		**37,870**	21,570
Liens payable		**16,092**	11,454
Social amelioration fund		**11,915**	7,717
Accrued:			
Real property taxes		**10,200**	14,655
Other accrued expenses		**2,245**	1,624
Retention payable		**3,324**	8,192
Association dues		**1,883**	1,488
Others		**14,685**	1,013
		P635,806	P351,134

Management considers that the carrying amount of trade and other current payables approximates fair value due to their short-term maturities. Generally, the Group's trade and other current payables are payable within 90-120 days.

15. Provisions

Movements of the carrying values in this account are as follows:

	Note	**May 31, 2014**	August 31, 2013
Balance at beginning of year		**P841,941**	P554,340
Provision during the year	*23*	**200,000**	527,953
Amortization of discount	*24*	**29,506**	38,824
Carrying value of extinguished liability	*22*	**-**	(279,176)
Ending balance		**P1,071,447**	P841,941

The undiscounted amount and the related unamortized discount as at May 31 follow:

	May 31, 2014	August 31, 2013
Undiscounted amount	**P1,067,618**	P917,000
Provision during the year		
Legal claims	**200,000**	-
RSDO and RSQ claims	**-**	590,008
Extinguished liability	**-**	(439,390)
	1,267,618	1,067,618
Unamortized discount	**(196,171)**	(225,677)
	P1,071,447	P841,941

The recognized provision refers to the probable liability on the allegedly issued RSDOs and RSQs by the Parent Company which was used by North Negros Marketing Co., Inc. (NONEMARCO) to avail of bank loans totaling to about P630 million as disclosed in Notes 16b5 and Note 29a.

In 2013, based on the assessment of the management, additional provision with a present value of P527.95 million (gross undiscounted amount of P590.01 million) was recognized to fully cover probable liability for certain RSDOs and RSQs claims (see Note 29a).

Moreover, in 2013, provision with a carrying value of P279.18 million (gross undiscounted amount of P439.39 million) was derecognized following dismissal by the SEC of the total claims of a claimant-bank (see Note 29a). Consequently, the favorable decision resulted to a gain on extinguishment of liability in the amount of P279.18 million (see Note 22).

In 2014, based on the assessment of the management, additional provision of P200 million was recognized for probable liability on various legal claims.

The breakdown of the provisions as to type of claims follows:

	May 31, 2014	August 31, 2013
RSDOs claim:		
Undiscounted amount	**P619,581**	P619,581
Unamortized discount	**(155,806)**	(178,554)
	463,775	441,027
RSQs claim:		
Undiscounted amount	**448,037**	448,037
Unamortized discount	**(40,365)**	(47,123)
	407,672	400,914
	P871,447	P841,941
Additional provision for various legal claims	**200,000**	-
	P1,071,447	P841,941

16. Long-term Debts

a. Composition of Parent Company's Long-term Debts

As to currency denomination:

	Note	**May 31, 2014**	August 31, 2013
Restructured loans:			
Foreign currency denominated		**P -**	P -
Philippine peso denominated		**-**	-
		-	-
Convertible notes	*16b2*	**-**	1,504,328
Accrued interest on convertible notes	*16b2*	**-**	1,203,463
		-	2,707,791
Less unamortized interest and discounts	*16b2*	**-**	163,158
		-	2,544,633
Less current portion		**-**	-
		P-	P2,544,633

As to security:

	May 31, 2014	August 31, 2013
Secured	**P -**	P -
Unsecured	**-**	2,707,791
	P -	P2,707,791

On May 31, 2013, the Parent Company fully paid the outstanding restructured loans. Accordingly, on July 17, 2013, the Parent Company demanded trustee-banks for the release of properties under the MTI and secondary MTI.

The trustee-banks did not comply with the demand. Accordingly, the Parent Company filed with the SEC a motion to secure the release of the mortgage lien under the MTI and secondary MTI on July 25, 2013. As at report date, SEC is yet to act on the Parent Company's petition.

b. *Debt Restructuring Agreement*

As discussed in Note 2, a key element of the ARP is the restructuring of the above loans from banks and financial institutions. Consequently, the Parent Company and the secured and unsecured creditors executed a DRA dated April 29, 2002. As stated in the DRA, secured creditors are VMC creditors who are holding on to valid Mortgage Participation Certificates (MPC) to the extent of the amount loaned to VMC and covered by said MPCs while all other VMC creditors shall be deemed as unsecured creditors, provided, however, that loan facilities and/or credit accommodations granted by the secured creditors to VMC that are not directly collateralized, secured, or covered by the MPC shall, for all intents and purposes, be considered unsecured loan facilities and/or credit accommodations and will be governed by the same terms and conditions as the loan facility and/or credit accommodations of the unsecured creditors. This DRA took effect on September 1, 2003 and which provides, among others, for the following:

1. Conversion of P1.1 billion loans into equity.

   On October 9, 2002, loans from unsecured creditors of P1.1 billion were converted into common shares of VMC at a ratio of P1 of debt to P1 of common shares with a par value of P1.

2. Conversion of P2.4 billion loans into convertible notes.

   i. Features of the convertible notes

      September 1, 2003, the unsecured creditors proportionately converted, on a mandatory basis, P2.4 billion of their principal loans into convertible notes. The convertible notes bear an annual interest of 8% which is cumulative and payable only in respect of those convertible notes which have not been actually converted into common stock of the Parent Company. The conversion resulted to the recognition of an equity component of the convertible feature (presented in the consolidated statements of financial position as "Conversion feature on convertible notes" account). This will be reclassified to "Additional paid-in capital" upon conversion of the related convertible notes.

      Starting September 1, 2003, annual interest of 8% has been accrued in respect of all outstanding convertible notes. The convertible notes provide for a term of payment of 15 years from the effectivity date of the DRA (herein referred to as the "restructuring date"). The collateral for issuance of convertible notes is under Section 17 of the DRA which read as follows:

      - The secured creditors which converted their principal loan into convertible notes shall have a first mortgage on VMC's fixed assets (excluding identified non-core assets for disposal and MTI properties), in

addition to their first mortgage under the existing MTI pursuant to the terms and conditions of the DRA. A list of VMC's fixed assets which shall be used as collateral for those holding convertible notes can be found in the Annex G of the DRA.

- The unsecured creditors which converted their principal loan into convertible notes shall have a second mortgage on VMC's fixed assets listed in Annex G of the DRA (excluding identified non-core assets for disposal and MTI properties), in addition to their second mortgage under the secondary MTI pursuant to the terms and conditions of the DRA.

- As security for the prompt and effective repayment and compliance by VMC of any or all obligations arising from VMC's issuance of the convertible notes, including payment of interests and other fees due thereon, VMC hereby creates, establishes and constitutes in favor of the secured creditors, which converted their principal loan into convertible notes, pari passu and in such proportion to the amount of convertible notes they are respectively holding, a first mortgage over VMC's fixed assets (excluding identified non-core assets for disposal and MTI properties), in addition to their first mortgage under the MTI.
- As security for the prompt and effective repayment and compliance by VMC of any or all obligations arising from VMC's issuance of the convertible notes, including payment of interests and other fees due thereon, VMC hereby creates, establishes and constitutes in favor of the unsecured creditors, which converted their principal loan into convertible notes, pari passu and in such proportion to the amount of convertible notes they are respectively holding, a second mortgage over VMC's fixed assets (excluding identified non-core assets for disposal and MTI properties), in addition to their second mortgage under the secondary MTI.

- The mortgage lien created, established and constituted in favor of the secured creditors as first mortgagee and unsecured creditors as second mortgagee shall cover only those VMC fixed assets that are not subject of any encumbrances or liens in favor of any party. It is hereby understood by the parties that the mortgage lien created shall not in any way novate any provisions, terms and conditions of any existing mortgage nor prejudice or diminish the rights, benefits and privileges of any existing mortgagees.

The convertible notes shall be converted at the option of the holders thereof into common shares of the Company at the ratio of one (1) convertible note to one (1) common share of the Company, subject to the following schedule:

- Maximum of 20% of the original issue amount of the convertible notes may be converted within a period beginning on the 31st day after the end of the 3rd year from issue date and shall expire 60 days thereafter (the "First conversion period");

- Maximum of 20% of the original issue amount of the convertible notes may be converted within a period beginning on the 31st day after the end of the 4th year from issue date and shall expire 60 days thereafter (the "Second conversion period");

- Maximum of 20% of the original issue amount of the convertible notes may be converted within a period beginning on the 31st day after the end of the 5th year from issue date and shall expire 60 days thereafter (the "Third conversion period");

- Maximum of 20% of the original issue amount of the convertible notes may be converted within a period beginning on the 31st day after the end of the 6th year from issue date and shall expire 60 days thereafter (the "Fourth conversion period");

- Any or all outstanding unconverted convertible notes which were not covered during the First, Second, Third and Fourth conversion periods may be converted within a period beginning on the 31st day after the end of the 7th year from issue date and shall expire 60 days thereafter (the "Fifth conversion period");

- After the Fifth conversion period, a maximum of 13% of the outstanding unconverted convertible notes may be converted per year from the 8th year to the 14th year. The convertible notes may be converted within a period beginning on the 31st day after the end of each succeeding year from the Fifth conversion period and shall expire 60 days thereafter. The term "Outstanding Unconverted Convertible Notes" is defined as the principal amount of the Convertible Notes outstanding as of 92nd day after the end of the 7th year; and,

- Any or all convertible notes which were not converted during the previous conversion periods may be converted within a period beginning on the 60th day before the end of the 15th year from issue date and shall expire 30 days thereafter (the "Final conversion period").

The aggregate amount of convertible notes that may be converted into common shares of the Company shall not exceed 20% of the original issue amount of the convertible notes for each year covering the conversion beginning on the third year to the sixth year from the issue date of the convertible notes. For the period beginning the eight year to the fourteenth year, the annual aggregate amount of convertible notes that may be converted into common shares of the Company shall not exceed 13% of the outstanding unconverted notes. The Company may redeem the convertible notes at any time at issue price plus accrued interest beginning at the end of the third year from issue date and ending on redemption date which is at the end of the fifteen years from issue date. Also, under the DRA, the buyer of the convertible note from the original holder shall convert the notes into common shares of the Company in accordance with the schedule of the convertibility feature of Section 16 (h) of the DRA. Section 16 (g) of the DRA further provides that interest is payable only at the final redemption date and in respect only to those convertible note which have not been actually converted to common shares of the Company.

ii. Conversions to common shares

Conversions to common shares of certain convertible notes amounting to P272.86 million in 2013 and P118.63 million in 2012 (see Note 17b) were made in accordance with the schedule of the convertibility feature of Section 16 (h) of the DRA. The conversions resulted to the recognition of "Additional paid-in capital" for the related accrued interest payable.

On December 19, 2013, convertible notes with principal amount of P 70.05 million were converted to common shares.

On February 28, 2014, there was a partial redemption of convertible notes with principal amount of P 678.34 million with related accrued interest payable of P569.88 million.

Subsequently, on April 4, 2014, there was a full redemption of convertible notes with principal amount of P281.51 million with related accrued interest payable of P 238.66 million.

Moreover, certain convertible notes and the related accrued interest payable with the total amount of P1.2 billion and P338.90 as at May 31, 2014 and August 31, 2013, were recognized as equity as they are considered mandatorily converted in accordance with provision of Section 16 (k) of the DRA which requires that all transferred/sold convertible notes are to be converted to common shares in accordance with the schedule of the convertibility feature of Section 16 (h) of the DRA. These are presented in the consolidated statement of financial position as "Convertible notes awaiting conversion" account.

The breakdown of this account as at May 31, 2014 and August 31, 2013 follows:

	May 31, 2014	August 31, 2013
Principal amount of convertible notes transferred to another note holder	**P677,526**	P203,093
Accrued interest payable	**550,906**	135,803
	P1,228,432	P338,896

These convertible notes and related accrued interest payable are no longer recognized as financial liability as the Company has ceased to have a present obligation as the DRA provides for mandatory conversion upon transfer/sale of convertible notes. These will be converted to common shares as soon as the schedule of the convertibility feature of Section 16 (h) of the DRA permits the conversion.

The outstanding balance of the convertible notes is carried at present value using effective interest of 5.397%. Total finance costs accrued on convertible notes for the nine months ended May 31, 2014 and 2013 amounted to P230 million and P153.56 million, respectively. As at May 31, 2014 and August 31, 2013, the balance of the accrued interest on the convertible notes is nil and P1.20 billion, respectively.

3. Restructuring of the remaining balance of the loans (herein referred to as "Restructured loans").

On April 29, 2002, the unsecured and secured creditors restructured the remaining balance of their loans (after the debt-to-equity conversion and the debt conversion to convertible notes), with annual interest of 10% for Philippine peso-denominated loans and 6% for the U.S. dollar-denominated loans payable quarterly in arrears. The restructuring provides for a term of payment of 15 years from September 1, 2003, the restructuring date, with a 3-year grace period from the restructuring date.

Details of finance cost as follow:

	For Three Months Ended May 31		For Nine Months Ended May 31	
	2014	2013	**2014**	2013
Interest on bank loans	**P330**	P3,365	**P990**	P109,419
Interest on convertible notes	**74,910**	32,576	**230,504**	153,561
	P75,240	P35,941	**P231,494**	P262,980

As disclosed in Note 16a, the Parent Company fully paid the outstanding restructured loans on May 31, 2013.

4. Secured creditors and/or unsecured creditors who are actually and physically holding legitimate and valid VMC sugar quedans as a form of security as of restructuring date shall be considered as other secured creditors to the extent of the valid sugar quedans they are physically and legitimately holding.

   The outstanding principal loans, including interest, held by these creditors holding sugar quedans as collateral shall have the same terms and conditions as that of the restructured loans of the unsecured creditors under the DRA, including a restructuring period of 15 years.

5. Restructuring of the RSDO Claims, arising from RSDO purportedly issued by VMC which was used by NONEMARCO, Inc. and pending litigation before the SEC, under the same terms and conditions as that of the unsecured creditors once VMC is found liable by final judgment. The carrying value of the provision for RSDO claims as at August 31, 2013, 2012 and 2011 amounted to P441.03 million, P554.34 million and P509.73 million, respectively, (see Note 15).

6. Restructuring of the trade liabilities as follows: 25% during the first year of rehabilitation, 37.5% during the second year of rehabilitation, and 37.5% during the third year of rehabilitation.

The DRA became effective on September 1, 2003 (also known as the restructuring date) upon the occurrence of the following conditions as per Section 36 of the DRA, among others:
1. Conversion of P1.1 billion loans into equity;
2. Conversion of P2.4 billion loans into convertible notes;
3. Generation of the required minimum cash capital infusion of P300 million;
4. Election of a new Board of Directors; and
5. Receipt of certain documents by the creditors as provided for in the DRA (i.e. promissory notes, etc.).

c. *Cash Infusion by a Strategic Investor*

As part of the provision of the rehabilitation program, the Company obtained a P300 million loan from a strategic investor, Tanduay Holdings, Inc. The loan was fully paid in 2008 in accordance with the terms of the loan.

d. *Compliance with the DRA*

As at May 31, 2014 and August 31, 2013, VMC is in compliance with the provisions of the DRA. No further updates or revisions were made on the ORP, ARP and DRA as of reporting date.

17. Capital Management

The Group manages its capital to ensure that the Group 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 details of these plans or programs are disclosed in Note 2.

The capital structure of the Group consists of equity attributable to the stockholders comprising of the capital stock and deficit while debt is defined as long and short-term borrowings, as disclosed in Note 16.

a. *Debt to Total Asset Ratio*

The debt to total assets ratio of the Group as at May 31, 2014 and August 31, 2013, which has been within the Group's acceptable range as set by the BOD, is calculated as follows:

	May 31, 2014	August 31, 2013
	(In Thousands Except Ratio Information)	
Debt	**P-**	P2,544,633
Total assets	**6,973,669**	7,188,983
	0.0:1	0.35:1

The amount of debt being considered in the above ratio pertains only to total debts covered by DRA.

b. *Capital Stock*

Details of the capital stock of the Parent Company follow:

	May 31, 2014	August 31, 2013
Authorized:		
Common shares - P1 par value 2,563,035,708 shares	**P2,563,036**	P2,563,036
Issued and outstanding:		
Balance at beginning of year – 2,297,484,948 shares in May 31, 2014 and 2,024,626,981 shares in August 31, 2013	**P2,297,485**	P2,024,627
Conversion of convertible notes (Note 16b2ii):		
Conversion to 70,049,966 and 272,857,966 shares at P1 per share by certain secondary note holders in December 2013 and 2012, respectively	**70,050**	272,858
Issued shares	**2,367,535**	2,297,485
Treasury shares (Note 17f)	**(11)**	(11)
Outstanding shares	**P2,367,524**	P2,297,474

Except for the conversion of certain convertible notes to common shares as disclosed above, there was no other movement on capital stock for the periods ended May 31,

2014 and August 31, 2013. The conversion of certain convertible notes to common stock is provided for in the DRA.

On November 15, 1993, the shares of stock of the Parent Company were listed in the Philippine Stock Exchange. However, the trading was suspended on October 9, 1997. In 2012, the SEC and the PSE have lifted the order of suspension of the trading of the Parent Company's shares. Consequently, on May 21, 2012, the trading resumed.

c. *Recapitalization and Quasi-reorganization*

The SEC approved the following recapitalization programs:

1. The authorized capital stock was reduced initially from P2.7 billion consisting of 270 million shares with par value of P10 per share to P495,957,670 consisting of 170,432,189 shares with par value of P2.91 per share (see Note 2.1.i).

2. The reduction in par value likewise resulted in the reduction of the subscribed capital stock from P1,704,321,890 consisting of 170,432,189 shares with a par value of P10 per share to P495,957,670 consisting of 170,432,189 shares with a par value of P2.91 per share. The par value of the capital stock was then further reduced from P2.91 to P1, simultaneous thereto, the subscribed capital stock was increased from P170,432,189 consisting of 170,432,189 shares at par value of P2.91 per share to P495,957,670 consisting of 495,957,670 shares at par value of P1 per share through a stock split. The resulting reduction surplus of P1,208,364,220 (P1,704,321,890 less P495,957,670) was used to partially wipe out the deficit of the Parent Company.

3. SEC issued a certificate of filing of certificate of increase in capital stock dated October 2, 2002 approving the Parent Company's increase in the authorized capital stock from P495,957,670 consisting of 495,957,670 common shares at par value of P1 per share to P2,563,035,708 consisting of 2,563,035,708 shares of common stock at par value of P1 per share. The increase in the authorized capital stock was a partial implementation by the Parent Company of the ARP's provision on the increase in authorized capital stock as approved by the SEC on November 29, 2000 (see Note 2.2.i). However, the approval by the SEC on the increase in authorized capital stock was subject to condition that the Parent Company shall submit to the SEC all duly executed deeds of assignment evidencing the creditors' assignment of a portion of their unpaid loans as payment for the subscription of the increase in the Parent Company's authorized capital stock. On June 17, 2009, which was within the extended period requested for submission of all the duly executed deeds of assignment, the Parent Company submitted the required documents to the SEC.

   In an order dated March 26, 2009, the SEC's Company Registration and Monitoring Department revoked the Parent Company's certificate of increase in capital stock dated October 2, 2002 due to alleged non-compliance with the conditions provided in the grant of the same. On December 20, 2012, the SEC granted the Parent Company's petition for lifting the order of revocation.

d. *Partial Wipe-out of Deficit*

On September 2, 2002, the SEC approved the quasi-reorganization of the Parent Company through the application of revaluation increment of P3,195,367,390 to partially wipe out the deficit of P7,823,474,147 as at August 31, 2002.

For purpose of dividend declaration, any retained earnings of the Parent Company shall be restricted to the extent of deficit wiped out by the revaluation increment and reduction of the subscribed capital stock.

e. *Conversion of Debt into Equity*

As discussed in Note 16, the unsecured creditors converted proportionately P1.1 billion of their loans into common stock of the Parent Company at a ratio of P1 of debt to P1 of common stock. The said conversion resulted in a change in management control of the Parent Company effective October 9, 2002, whereby the creditor controls 69% of the ownership of the Parent Company while the existing stockholders prior to the conversion was reduced to 31%. Since December of 2010, movement in common stock pertains to the conversion of convertible notes to common stock amounting to P701.54 million (Note 17b).

f. *Treasury Stock*

The Parent Company had an Employees Stock Ownership Plan (ESOP) which was administered by a Board of Administrators appointed by the former Board of Directors of the Group. The ESOP allocated approximately 18 million shares from the Group's authorized and unissued shares of capital stock. This ESOP gave permanent and regular employees the right to subscribe to a minimum of 100 shares and to a maximum of 5,000 shares at a discounted prevailing market value price. Since August 19, 1998, the implementation of the ESOP has been permanently suspended.

The treasury shares as at May 31, 2014 and August 31, 2013 represented the ESOP shares withdrawn, decrease in treasury shares due to recapitalization, and investments of the consolidated subsidiaries in the Group, as follows:

	May 31, 2014	August 31, 2013
ESOP shares withdrawn	**P54**	P54
Decrease in shares held in treasury due to retirement	**(4)**	(4)
Decrease in treasury shares due to recapitalization	**(39)**	(39)
	P11	P11

The Group's overall capital management strategy remains unchanged from 2010. The Group is not subject to externally-imposed capital requirements.

18. Earnings Per Share

a. Basic Earnings Per Share (EPS)

		For Three Months Ended May 31		For Nine Months Ended May 31	
		(In Thousands, Except Per Share Data)			
	Note	**2014**	2013	**2014**	2013
Net income for the period		**P305,107**	P369,396	**P947,743**	P617,475
Beginning shares of stock outstanding		**2,367,535**	2,297,485	**2,297,485**	2,024,627
Weighted average number of shares resulting from the conversion of convertible notes		**-**	-	**38,917**	151,588
Deduct					
Treasury stock	*17f*	**(11)**	(11)	**(11)**	(11)
Total weighted average number of shares of stock outstanding after conversion of convertible notes		**2,367,535**	2,297,474	**2,336,391**	2,176,204
Basic EPS		**P0.13**	P0.16	**P0.41**	P0.28

b. Diluted EPS

		For Three Months Ended May 31		For Nine Months Ended May 31	
		(In Thousands, Except Per Share Data)			
	Note	**2014**	2013	**2014**	2013
Net income for the period		**P305,107**	P369,396	**P947,743**	P617,475
Add back interest expense on convertible notes		**74,910**	32,576	**230,504**	153,561
Net income after adjustment		**380,017**	401,972	**1,178,247**	771,036
Total weighted average number of shares of stock outstanding after conversion of convertible notes		**2,367,535**	2,297,485	**2,336,402**	2,176,215
Add: Assumed issued common shares through conversion of convertible notes		**677,526**	1,707,410	**708,648**	1,828,680
Total weighted average number of shares actually issued and assumed issued through conversion of remaining convertible notes		**3,045,050**	4,004,895	**3,045,050**	4,004,895
Diluted EPS		**P0.12**	P0.10	**P0.39**	P0.19

The Parent Company has outstanding convertible notes, including notes awaiting conversion, amounting to P677.5 million and P1.71 billion as of May 31, 2014 and 2013, respectively which have been considered as dilutive potential common shares for 2014 and 2013 as ton shares would decrease the basic EPS from continuing ordinary operations for these years.

The convertible notes which have a nil balance as of May 31, 2014 and P1.5 billion as of August 31, 2013, respectively, have been recorded in the books of account in accordance with the terms of the DRA as discussed in Note 16b2i.

19. Operating Segment Data

<u>*Operating Segments*</u>
The Group is organized into the following operating units - sugar milling, food processing, real estate, leasing, engineering, and distillery operations. 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. tolling fees

For its raw sugar and molasses operations, the Parent Company 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.

The Parent Company 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.

Total raw sugar sales to external customers to whom the Parent Company made sales equal to or more than 10% of the total reported raw sugar revenues amounted to P1.7 billion and P1.3 billion for the nine months ended May 31, 2014 and 2013, respectively.

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

Engineering Operations
The Parent Company has engineering and manufacturing divisions which are not reported consolidated in the schedules above because majority of their revenues are not from external customers.

The engineering operations are divided into two business units, namely construction and engineering works. The construction division handles construction projects, road improvements, and structural works for the Parent Company plant operations, fabrication, and production of concrete product; and manages the operations of trucks and heavy equipment, among others. Since crop-year 1997-1998, the construction

division has limited its activities to servicing only the requirements of the Parent Company's sugar operations. On the other hand, the engineering works division operates two engineering shops: (a) foundry shop which produces metal castings and (b) machine shop which handles mechanical works/machining jobs.

Distillery Operations

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

For its operations, the division operates an alcohol production with an actual daily capacity of 25,000 liters and with molasses as the primary raw material. Molasses is sourced from sugar operations which produces it as a by-product.

Segment Revenue and Expense

The sugar operations production output is limited to servicing the needs of the domestic market. Its customers consist of sugar traders, sugar centrals, distributors, among others, which are generally situated in various parts of the Philippines, particularly the provinces of Negros Occidental, Iloilo and Metro Manila.

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

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 reasonable 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.

Inter-segment Transfers

Segment revenues, expenses and results include transfers between business segments. Such transfers are accounted for at competitive market prices for similar goods, except for inter-departmental services being performed by the engineering division which are charged at cost. These transfers are eliminated in the consolidation of the accounts.

															5/31/2014	5/31/2013	
	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months
		Sugar Milling		**Food Processing**		**Real Estate**		**Leasing**		**Distillery Operations**		**Elimination Items**		**Total**	Total	Total
REVENUE																
External sales	**1,159**	**4,027**	**8**	**32**	**1**	**2.80**	**0**	**0.91**	**95**	**196**			**1,263**	**4,259**	1,276	2,894
Inter-segment sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Total	**1,159**	**4,027**	**8**	**32**	**1**	**3**	**0**	**1**	**95**	**196**	**-**	**-**	**1,263**	**4,259**	1,276	2,894
RESULT																
Segment result	**432**	**1,682**	**2.69**	**5.40**	**2.85**	**1.69**	**0.29**	**0.91**	**38**	**82**	**-**	**-**	**476**	**1,772**	487	1,213
Unallocated corporate expenses	**(73)**	**(399)**	**(4)**	**(8)**	**(1.46)**	**(1.78)**	**(0.27)**	**(0.58)**	**-**	**-**	**-**	**-**	**(79)**	**(409)**	(61)	(178)
Operating profit	**359**	**1,283**	**(1)**	**(3)**	**1**	**(0)**	**0**	**0**	**38**	**82**	**-**	**-**	**397**	**1,363**	426	1,035
Interest expense	**(75)**	**(231)**	**-**	**-**	**(1.65)**	**(0.99)**	**-**	**-**	**-**				**(77)**	**(232)**	(36)	(263)
Interest income	**1**	**7**	**0.01**	**0.10**	**0.05**	**0.14**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**7**	5	38
Rental income	**(4)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	-	-
Gain (Loss) on revaluation of	**-**		**-**		**-**		**-**		**-**	**-**	**-**	**-**	**-**	**-**		
investment property	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
Income tax expense	**(24)**	**(157)**	**0.09**	**(0.17)**	**0.01**	**(0.03)**	**(0.04)**	**(0.07)**	**-**	**-**	**-**	**-**	**(24)**	**(157)**	(171)	(322)
Other income (expense)	**10**	**(36)**	**0.28**	**1.50**	**0.31**	**0.84**	**-**	**-**	**-**	**-**	**-**	**-**	**11**	**(34)**	145	129
Net income for the year	**267.00**	**866.00**	**(0.98)**	**(1.17)**	**0.12**	**(0.13)**	**(0.02)**	**0.26**	**38.00**	**82.00**	**-**	**-**	**304.11**	**946.97**	369.00	617.00
Other Information																
Segment Assets	**6,881**	**6,881**	**97**	**97**	**248**	**248**	**109**	**109**	**335**	**335**	**(118)**	**(118)**	**7,552**	**7,552**	**6,655**	**6,655**
Segment Liabilities	**2,558**	**2,558**	**54**	**54**	**122**	**122**	**25**	**25**	**124**	**124**	**(108)**	**(108)**	**2,775**	**2,775**	**4,083**	**4,083**

20. Revenue from Operations

This account consists of:

	Note	For The Three Months Ended May 31		For The Nine Months Ended May 31	
	Note	**2014 (Unaudited)**	2013	**2014 (Unaudited)**	2013
Raw sugar sales	*28a*	**P685,802**	P856,368	**P2,620,650**	P1,550,762
Tolling revenues		**420,467**	369,069	**1,221,794**	1,094,712
Molasses		**53,201**	33,009	**185,026**	191,988
Alcohol sales		**94,554**	3,618	**195,934**	25,599
Others		**9,402**	13,921	**35,874**	30,618
		P1,263,426	P1,275,985	**P4,259,278**	P2,893,679

21. Cost of Goods Sold and Services

This account consists of:

		For The Three Months Ended May 31		For The Nine Months Ended May 31	
	Note	**2014 (Unaudited)**	2013	**2014 (Unaudited)**	2013
Cost of hauling		**P254,994**	P172,191	**P815,940**	P809,737
Repairs and maintenance		**219,810**	272,169	**499,253**	551,193
Materials and supplies		**69,178**	123,216	**383,112**	291,827
Depreciation	*11*	**63,670**	63,826	**194,982**	187,299
Fuel and transportation		**61,070**	65,600	**156,072**	144,924
Professional fees and contracted services		**46,080**	54,597	**181,546**	195,743
Direct labor	*26*	**40,958**	2,100	**51,202**	4,769
Light and water		**19,309**	1,081	**61,933**	21,171
Input tax allocable to exempt sales		**18,292**	13,405	**63,214**	41,309
Taxes and licenses		**12,338**	11,673	**37,640**	35,899
Rental	*28d*	**4,731**	339	**7,444**	1,312
Others		**5,139**	3,007	**18,124**	16,020
Total cost of goods manufactured		**815,569**	783,204	**2,470,462**	2,301,203
Decrease (increase) in inventories		**(92,442)**	(37,138)	**(130,570)**	(716,937)
		P723,127	P746,066	**P2,339,892**	P1,584,266

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

22. Other Income

This account consists of:

		For The Three Months Ended May 31		For The Nine Months Ended May 31	
	Note	**2014 (Unaudited)**	2013	**2014 (Unaudited)**	2013
Interest income	*6, 13*	**P2,086**	P4,934	**P7,791**	P37,832
Litigation settlement			169,341		169,341
Curtailment gain	*26*	**-**	-	**-**	-
Rental income	*12*	**1,428**	1,855	**5,709**	5,364
Gain on sale of property and equipment		**307**	179	**307**	179
Foreign exchange gain (loss)		**(24)**	(3,235)	**(331)**	7,923
Others		**1,042**	1,326	**3,042**	1,651
		P4,839	P174,400	**P16,518**	P222,290

23. Operating Expenses

This account consists of the following:

Selling Expenses

	Note	For The Three Months Ended May 31		For The Nine Months Ended May 31	
		2014 (Unaudited)	2013	**2014 (Unaudited)**	2013
Freight and handling		**P35,682**	P23,636	**P98,263**	P43,914
Repairs and maintenance		**8,773**	3,665	**12,915**	13,008
Rental	*28d*	**3,197**	2,163	**4,045**	3,570
Taxes and licenses		**2,504**	3,798	**10,836**	12,926
Depreciation	*11*	**1,298**	2,980	**12,685**	8,984
Salaries and employee benefits	*26*	**1,208**	1,779	**5,027**	2,011
Materials and supplies		**918**	3,858	**2,448**	10,024
Others		**1,426**	952	**5,769**	2,108
		P55,006	P42,831	**P151,988**	P96,545

Others consist mainly of the Parent Company's insurance expenses, travel and transportation expenses.

General and Administrative Expenses

	Note	For The Three Months Ended May 31		For The Nine Months Ended May 31	
		2014 (Unaudited)	2013	**2014 (Unaudited)**	2013
Professional fees and contracted services		**P42,889**	P32,885	**P109,950**	P93,344
Travel and transportation		**6,634**	10,721	**21,142**	20,740
Salaries and employee benefits	*26*	**6,553**	4,061	**18,564**	14,102
Representation and entertainment		**4,684**	2,508	**7,624**	8,152
Taxes and licenses		**3,852**	3,674	**12,050**	12,130
Repairs and maintenance		**2,170**	1,507	**5,400**	4,032
Depreciation	*11*	**2,077**	2,886	**14,191**	8,697
Retrenchment cost		**2,050**	-	**2,050**	-
Rental	*28d*	**495**	90	**1,200**	666
Provision for legal claims		-	-	**200,000**	-
Retirement benefits	*26c*	**-**	2,018	**8,050**	6,053
Impairment losses		**-**	3,839		
Others		**3,210**	9,522	**14,360**	16,474
		P74,614	P73,711	**P414,581**	P190,434

24. Other Expenses

This account consists of:

	Note	For The Three Months Ended May 31		For The Nine Months Ended May 31	
		2014 (Unaudited)	2013	**2014 (Unaudited)**	2013
Amortization of discount on provisions	*15*	**P9,835**	P9,791	**P29,506**	P34,045
Bank charges		**105**	412	**304**	4,545
Impairment loss on property, plant and equipment		**-**	-	**56**	-
Foreign exchange loss		-	-	**-**	67
Others		**1,617**	616	**3,047**	3,164
		P11,557	P10,819	**P32,913**	P41,821

"Others" consist mainly of guest accommodation expenses.

25. Income Taxes

The breakdown of income tax expense (benefit) follows:

	For The Three Months Ended May 31		For The Nine Months Ended May 31	
	2014 (Unaudited)	2013	**2014 (Unaudited)**	2013
Recognized in profit or loss				
Current	**P28,550**	P143,410	**P231,772**	P323,858
Deferred	**(4,936)**	28,211	**(74,587)**	(1,410)
	P23,614	P171,621	**P157,185**	P322,448

The reconciliation of income tax expense computed at the applicable statutory rates to the tax expense is as follows:

	For The Three Months Ended May 31		For The Nine Months Ended May 31	
	2014 (Unaudited)	2013	**2014 (Unaudited)**	2013
Income before income tax	**P328,721**	P541,017	**P1,104,928**	P939,923
Tax expense at 30%	**P98,616**	P162,305	**P331,478**	P281,977
Interest payment on convertible notes	**(97,039)**	10,428	**(241,656)**	50,670
Effect of non-deductible and non-taxable items:				
Non-deductible interest expense	**22,473**	-	**69,151**	-
Other non-deductible expenses	**(4)**	259	**405**	708
Increase in unrecognized deferred taxes	**-**	108	**-**	442
Interest income subject to final tax	**(432)**	(1,479)	**(2,193)**	(11,349)
	P23,614	P171,621	**P157,646**	P322,448

The composition of "Deferred tax liabilities - net" account as reported in the consolidated statements of financial position follows:

	May 31, 2014	August 31, 2013
Deferred tax liabilities	**P835,647**	P841,886
Deferred tax assets	**(341,539)**	(273,199)
Net deferred tax liabilities	**P494,101**	P568,687

The following are the composition of deferred tax liabilities:

	May 31, 2014	August 31, 2013
Net appraisal increase of property, plant and equipment	**P424,508**	P430,751
Unrealized fair value gain on investment properties	**411,132**	411,132
Unrealized gain on foreign exchange	**-**	3
	P835,640	P841,886

The following are the composition of the recognized deferred tax assets of the Group:

	Note	**May 31, 2014**	August 31, 2013
Provisions for RSDO and RSQ claims	***15***	**P321,434**	P252,582
Allowance for impairment losses on receivables, allowance for impairment of other noncurrent assets, and allowance to reduce materials and supplies to NRV and impairment losses on investments		**13,624**	13,624
Retirement benefits obligation		**2,185**	2,697
NOLCO		**4,119**	4,119
MCIT		**177**	177
		P341,539	P273,199

The Group expects that it will have sufficient taxable profits for which it can use the subsequent benefits of the deferred tax assets related to the provision for RSDO claims, retirement benefits obligation and allowances for impairment losses on receivables, allowance to reduce materials and supplies to NRV and impairment losses on investments, which are expected to reverse in the foreseeable future.

The unrecognized deferred tax assets are attributable to the following deductible temporary differences:

	May 31, 2014	August 31, 2013
Interest on convertible notes	**P-**	P1,040,305
Allowance for impairment losses on receivables and allowance to reduce materials and supplies to NRV	**8,205**	8,205
NOLCO	**521**	521
MCIT	**292**	292
	P9,018	P1,049,323

Details of NOLCO are as follows:

Year Incurred	Expiry Date	At August 31, 2013	Addition	Expiration/ Application	At May 31, 2014
2011	2014	P4,343	P -	P -	P4,343
2012	2015	4,373	-	-	4,373
2013	2016	6,750	-	-	6,750
		P15,466	P -	P -	P15,466

Details of MCIT are as follows:

Year Incurred	Expiry Date	At August 31, 2013	Addition	Expiration	At May 31, 2014
2011	2014	P187	P -	-	P187
2012	2015	155	-	-	155
2013	2016	127	143	-	270
		P469	P 143	-	P485

26. Personnel Costs and Expenses

a. Composition of Personnel Costs and Expenses

The following are the details of the personnel costs and expenses and the distribution:

		For The Three Months Ended May 31		For The Nine Months Ended May 31	
	Note	**2014 (Unaudited)**	2013	**2014 (Unaudited)**	2013
Cost of goods sold and services:					
Direct labor	*21*	**P40,958**	P2,100	**P51,202**	P4,769
Selling expense:					
Salaries and employee benefits	*23*	**4,179**	604	**5,027**	2,011
General and administrative expense:					
Salaries and employee benefits	*23*	**6,553**	4,061	**18,564**	14,102
Retrenchment cost		**2,050**		**2,050**	
Retirement benefits		**-**	2,018	**8,050**	6,053
		P51,690	P8,783	**P84,893**	P26,935

b. Voluntary Attrition Program

In 2010, the Parent Company implemented a voluntary attrition program (VAP) affecting all of its employees. As a result of the VAP, the Parent Company outsources its production, finance and administration, except for certain number of key personnel which are retained by the Parent Company as regular employees.

c. Retirement Benefits

The Parent Company and certain subsidiaries have their unfunded, non-contributory, defined benefits plan covering substantially all of its permanent employees and in accordance with the provisions of the Miguel J. Ossorio Pension Foundation, Inc. and the provisions of the supplementary retirement plan. The most recent actuarial valuation of the present value of the defined benefits obligation of the Parent Company was carried out at August 31, 2013 by a qualified independent actuary.

The present values of the defined benefits obligation, the related current service cost and past service cost of the Group were measured using the projected unit credit method.

The key assumptions used in determining the Group's retirement benefits expense and liability follow:

	Valuation at	
	2013	2012
Discount rate	**3.61%**	6.92%

27. Related Party Transactions

Identity of Related Parties

The Group's related parties include its unconsolidated subsidiary (VGCCI), associate (VIGASCO), key management personnel and non-controlling stockholder of VQPC.

Significant Transactions with Related Parties

a. The Group makes cash advances to VGCCI for the development of VGCCI's golf course. Outstanding receivable arising from cash advances to VGCCI (presented as "Advances to an unconsolidated subsidiary" account in the interim consolidated statements of financial position) amounted to P25.23 million and P25.29 million as at February 28, 2014 and August 31, 2013, respectively. Movements in this account pertain to repayments from and additional advances to VGCCI.

   The outstanding advances are non-interest bearing, unsecured and have no definite maturities.

b. Remuneration of Key Management Personnel

   The remuneration of key management personnel of the Group is set out below in aggregate for each of the categories specified in PAS 24, *Related Party Disclosures*.

	For The Three Months Ended May 31		For The Nine Months Ended May 31	
	2014 (Unaudited)	2013	**2014 (Unaudited)**	2013
Short-term employee benefits	**P15,557**	P14,077	P56,453	P41,232

c. Due to a Stockholder

   Due to a stockholder amounting to P6.0 million as at May 31, 2014 and August 31, 2013 pertains to VQPC advances from its non-controlling stockholder for additional working capital. This is unsecured and will be settled in cash and has no definite payment terms. No guarantee has been given or received.

   The Management of the Group considers that the carrying amount of the "Due to a stockholder" account approximates its fair value as it represents the expected cash flow should it be settled at the reporting date.

28. Agreements and Commitments

The significant agreements at May 31, 2014 and August 31, 2013 were as follows:

a. Milling contracts with various planters provide for a 69.5% share to the planters (including related parties) and 30.5% share to the Parent Company of sugar and molasses produced from sugar canes milled. The milling contracts are renewed annually. Raw sugar sales as at May 31, 2014 and 2013 amounted to P2.6 billion, P1.5 billion, respectively (see Note 20).

b. As at May 31, 2014 and August 31, 2013, the Parent Company had in its custody sugar stocks owned by several quedan holders and sugar traders. These sugar inventories are not reflected in the consolidated statements of financial position since these are not assets of the Parent Company. The Parent Company is accountable to both quedan holders and sugar traders for the value of these trusteed sugar or their sales proceeds.

c. In 2005, the Parent Company has entered into a deed of assignment and exchange of shares of stock with VGCCI for the latter to issue shares of stock with a total par value of P224 thousand in exchange for the Parent Company's land with an appraised value of P13,205,970, the difference of P12,981,970 to be accounted for as additional paid-in capital of the Parent Company to VGCCI.

   As provided for in the agreement, VGCCI is in possession of the above-mentioned land without any consideration yet until such time that the assignment of the aforementioned land is completed. As at May 31, 2014, the certificate of title has not yet been transferred in the name of VGCCI since the land to be transferred is covered by the mortgage trust indenture of the Parent Company with various creditor banks as disclosed in Notes 11 and 16. Hence, the transaction is on hold until the subject land is released as collateral.

   The Group leases for an office space for one of its subsidiaries and for certain machineries and equipment from third parties for terms of one year, subject to yearly renewal.

29. Provisions and Contingencies

a. NONEMARCO used RSDOs and RSQs allegedly issued by the Parent Company to avail of bank loans totaling to about P630 million. Several creditor banks filed collection cases against NONEMARCO aggregating to P1.19 billion.

   The Parent Company denied liability as these RSDOs and RSQs were not backed up with actual sugar and that the officers who issued them acted fraudulently.

   The Parent Company conducted regular assessment of the probability that the Company will ultimately be ordered by the SEC to pay and recognized the estimated probable liability.

   In 2013, based on the assessment of the management, additional provision with a present value of P527.95 million (gross undiscounted amount of P590.01 million) was recognized to fully cover probable liability for certain RSDOs and RSQs claims (see Note 15).

   Moreover, in 2013, provision with a carrying value of P279.18 million (gross

undiscounted amount of P439.39 million) was derecognized following dismissal by the SEC of the claims of a claimant-bank (see Note 15). The derecognition of claimant-bank's claim is based the SEC order dated March 26, 2013 which ordered the dismissal and exclusion from the rehabilitation proceedings the "Claim" (dated October 9, 1998) and "Amended Claim" (dated September 23, 1999) of the bank.

The derecognition of claimant-bank's claims as discussed above and the subsequent recognition of additional provision, the total estimated probable liability (including imputed finance cost) to be incurred at the end of the rehabilitation program on RSDOs, RSQs and other legal claims is P1.3 billion. The amortized cost of this liability which is presented as "Provisions" in the separate statements of financial position amounted to P1.07 billion and P841.94 million, as at May 31, 2014 and August 31, 2013, respectively (see Note 15).

b. On September 22, 2003, the Company received an order issued by the Pollution Adjudication Board (PAB) directing the former to permanently seal the opening of the underground canal leading to Malihao river; provide protective lining in the pond immediately; and show cause within five (5) days from receipt of order why a cease and desist order should not be imposed on the Company by the Department of Environment and Natural Resources (DENR) for non-compliance with both water and air standards.

   The Management of the Company has placed the handling of pollution problems on its priority list and is now addressing it in a manner which is within the financial resources of the Company. The Company is expected to address air pollution problems to comply with the Clean Air Act.

   Several hearings and technical conferences were conducted by the PAB. A number of pleadings were also submitted by VMC to the PAB in order to avert a re-imposition of the Cease and Desist Order.

   On January 2012, VMC received PAB's order dated July 5, 2011, granting VMC's motion for extension of TLO but only for three (3) months or from January 11, 2012 to April 11, 2012. Likewise, VMC was required to submit management-approved program of work concerning the installation of additional control device for the five (5) remaining boilers. Regional office may issue a "permit to operate", co-terminus with the effectivity of TLO.

   On April 3, 2012, VMC filed compliance and urgent motion for extension of temporary lifting order of PAB dated July 5, 2011. VMC prayed that its compliance be duly noted by PAB and an order be issued, granting VMC an extension of the TLO for a period of one (1) year or from April 11, 2012 to April 12, 2013.

   On April 4, 2013, VMC filed an urgent motion for extension of TLO praying to the Honorable Board that the TLO granted to VMC be extended for a period of one (1) year or from April 13, 2013 to April 14, 2014.

   On June 20, 2013, VMC received PAB's order dated May 22, 2013, granting VMC's motion for extension of TLO for one (1) year commencing on April 13, 2013 for the purpose of enabling VMC to make the necessary installation of additional air pollution control device (APCD).

c. In August 1999, SGS Yarsley International Certification Services issued an ISO 9002 certification to the Company. The Company then applied for certification and re-certifications, where the Company is recommended for recertification and upgrading

from ISO 9001:2000 to ISO 9001:2008 version. As of November 25, 2012 VMC is already certified as ISO 9001:2008 version until November 24, 2015.

d. Judgments against the Parent Company were rendered on certain cases ordering the Parent Company to pay/deliver certain bags of sugar to the plaintiff. The Parent Company recorded accruals related to these liabilities (see Note 14).

e. There are various lawsuits and claims such as labor cases, collection disputes and assessments filed by third parties against VMC which are either pending decision by the proper judicial bodies or under negotiation, the outcome of which are presently undeterminable. Relative to this, VMC is required to put up cash surety bonds (see Note 13).

Except for the claims of the several creditors involving the collection cases against NONEMARCO as discussed in letter "a" above which the corresponding estimated probable liability is recognized as "Provisions" (see Note 15), in the opinion of the management and in consultation with legal counsels, the ultimate disposition of these cases, disputes and assessments will not have a material adverse effect on the financial position or financial performance of the Group.

30. Risk Management

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

The Parent Company 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.

In 1992, the ASEAN economic ministers signed the ASEAN Free Trade Agreement (AFTA) on the Common Effective Preferential Tariffs (CEPT) for the ASEAN Free Trade Area. The AFTA committed the ASEAN member-states to set-up a free trade area in the region, reducing most tariffs on trade within the region. Sugar is one of the products affected by the gradual tariff reduction as follows:

Year	Tariff rate
2012	28%
2013	18%
2014	10%
2015	5%

Relative to AFTA, on June 17, 2012, the Philippine government passed Executive Order No. 892 adopting the above-yearly gradual reduction of duty on imported sugar in compliance with the AFTA.

Financial Risk Management
The Group's financial instruments comprise of cash and cash equivalents, trade and other current receivables, advances to and from an unconsolidated subsidiary, other noncurrent assets, trade and other current payables, long-term debts and due to a stockholder. The main purpose of these financial instruments is to raise finances for the Group's operations.

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

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 is carried out by the Group's Treasury Group. 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 counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade 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.

As at May 31, 2014 and August 31, 2013, the aging profile of the Group's financial assets is as follows:

		Neither Past	Past Due but not Impaired				Past Due
May 31, 2014	**Total**	**Due nor Impaired**	**< 30 Days**	**31-60 Days**	**61-90 Days**	**> 90 Days**	**and Impaired**
Trade and other current receivables*	**P190,872**	**P172,022**	**P -**	**P -**	**P -**	**P -**	**P18,850**
Advances to unconsolidated subsidiary	**25,227**	**25,227**	**-**	**-**	**-**	**-**	**-**
Other noncurrent assets**	**32,052**	**23,659**	**-**	**-**	**-**	**-**	**8,393**
	P267,001	**P239,758**	**P -**	**P -**	**P -**	**P -**	**P27,243**

		Neither Past	Past Due but not Impaired				Past Due
August 31, 2013	**Total**	**Due nor Impaired**	**< 30 Days**	**31-60 Days**	**61-90 Days**	**> 90 Days**	**and Impaired**
Trade and other current receivables*	**P460,409**	**P441,312**	**P -**	**P -**	**P -**	**P -**	**P19,097**
Advances to unconsolidated subsidiary	**25,292**	**25,292**	**-**	**-**	**-**	**-**	**-**
Other noncurrent assets**	**34,195**	**25,802**	**-**	**-**	**-**	**-**	**8,393**
	P519,896	**P492,406**	**P -**	**P -**	**P -**	**P -**	**P27,490**

**Excluding advances to suppliers*
***Excluding land under dispute*

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

As at May 31, 2014 and August 31, 2013, the Group's maximum credit exposure is equal to the carrying value of the following financial assets:

	Note	May 31, 2014	August 31, 2013
Cash and cash equivalents[1]	*6*	**P690,937**	P862,098
Trade and other current receivables - net[2]	*7*	**190,872**	441,312
Advances to an unconsolidated subsidiary[3]	*27b*	**25,227**	25,292
Other noncurrent assets[4]	*13*	**23,659**	25,802
		P930,659	P1,354,504

[1] *Excluding cash on hand*
[2] *Excluding advances to suppliers and net of impairment loss*
[3] *Net of impairment loss*
[4] *Excluding land under dispute and net of impairment loss*

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 Parent Company's operations and mitigate the effects of fluctuations in cash flows. Additional short-term funding is obtained from related party advances.

The following tables summarize the maturity profile of the Group's financial liabilities as at May 31, 2014 and August 31, 2013 based on contractual undiscounted payments:

	Total Carrying	Contractual Undiscounted Payments				
May 31, 2014	**Value**	**Total**	**On Demand**	**< 1 Year**	**1 to 5 Years**	**> 5 Years**
Trade and other current payables*	**P587,736**	**P587,736**	**P479,595**	**P108,141**	**P -**	**P -**
Long-term debts	**-**	**-**	**-**	**-**	**-**	**-**
Due to a stockholder	**6,000**	**6,000**	**6,000**	**-**	**-**	**-**
	P593,736	**P593,736**	**P485,595**	**P108,141**	**P -**	**P -**

	Total Carrying	Contractual Undiscounted Payments				
August 31, 2013	**Value**	**Total**	**On Demand**	**< 1 Year**	**1 to 5 Years**	**> 5 Years**
Trade and other current payables*	**P314,909**	**P314,909**	**P274,123**	**P40,786**	**P -**	**P -**
Long-term debts	**2,544,633**	**2,544,633**	**-**	**-**	**-**	**2,544,633**
Due to a stockholder	**6,000**	**6,000**	**6,000**	**-**	**-**	**-**
	P2,865,542	**P2,865,542**	**P280,123**	**P40,786**	**P -**	**P2,544,633**

* *Excluding payables to government*

Market Risk
Market risk is the risk that the fair value or cash flows of a financial instrument of the Group will fluctuate due to change in market prices. Market risk reflects interest rate risk, currency risk and other price risks. The Group's market risk exposures and its risk management strategies as of May 31, 2014 and August 31, 2013, are as follows:

a. *Interest Rate Risk*

Interest rate risk is the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group's exposure to the risk changes in market interest rates relates primarily to the Group's interest-bearing bank loans and interest-bearing short-term placements.

The Group minimizes its spread exposure by ensuring that surplus cash is available to either offset debt or by matching maturity dates of assets and liabilities. By these management approaches, possible market rate fluctuations would have no significant impact on the Group's net income.

The Group, however, has no significant interest rate risk considering that the Group has no significant financial instruments that bear variable interest rate as at May 31, 2014 and August 31, 2013.

b. *Price Risk*

The Group is exposed to commodity price risk with respect to sugar produced. To manage this risk, the Parent Company monitors prices with the Sugar Regulatory Administration (SRA) to plan its transactions. As at May 31, 2014 and August 31, 2013, management assessed that the Group's exposures to commodity price risk were insignificant.

Sensitivity Analysis
The following table demonstrates the sensitivity of the results of operations and the reported equity in regards to the Parent Company's sugar inventory and SRA's sugar prices. It assumes a 13% as at May 31, 2014 and August 31, 2013 and 16% decrease as at May 31, 2014 and August 31, 2013, of the SRA sugar prices per year. These percentages have been determined based on average market volatility in sugar prices in the previous year for the 12 month periods ended August 31, 2013 and 2012, respectively.

The sensitivity analysis includes only sugar inventory denominated monetary items and adjusts their translation at the period end for the following % change in sugar prices.

May 31, 2014	**+13%**	**-16%**
Net income	**P34,219**	**(P34,219)**
Equity	**34,219**	**(34,219)**

August 31, 2013	**+13%**	**-16%**
Net income	**P17,265**	**(P21,250)**
Equity	**17,265**	**(21,250)**

c. *Foreign Currency Risk*

The Group's currency risk occurs because of its US dollar (USD) bank deposits. The financial assets and liabilities of the Group that are foreign currency denominated are a portion of the Group's cash and cash equivalents and portion of its bank loans.

The Group's exposures to foreign currency risk based on notional amounts are as follows:

May 31, 2014	**In USD**	**In PHP**
Financial Assets		
Cash in bank	**$42**	**P1,862**
Financial Liability		
Bank loans	**-**	**-**
Net Foreign Currency Exposure	**$42**	**P1,862**

August 31, 2013	**In USD**	**In PHP**
Financial Assets		
Cash in bank	**$43**	**P2,003**
Financial Liability		
Bank loans	**-**	**-**
Net Foreign Currency Exposure	**$43**	**P2,003**

The Group recognized a net unrealized gain of P79.79 million, P1.48 million and P15.05 million for the years ended August 31, 2013, 2012 and 2011, respectively, arising from the re-measurement of these foreign currency-denominated financial instruments.

The following exchange rates were applied during the period:

	May 31, 2014	
	Average Rate	**Reporting Date Spot Rate**
Philippine peso to 1 US $	**P43.93**	**P43.92**

	August 31, 2013	
	Average Rate	**Reporting Date Spot Rate**
Philippine peso to 1 US $	**P41.65**	**P46.64**

Sensitivity Analysis
The following table demonstrates the sensitivity of the results of operations for the periods and the reported equity in regards to the Group's financial assets and financial liabilities and the US dollar-Philippine peso exchange rate. It assumes a 5.3% strengthening as at May 31, 2014 and August 31, 2013 and 2.36% weakening as at May 31, 2014 and August 31, 2013, of the Philippine peso against the US dollar exchange rate. These percentages have been determined based on average market volatility in exchange rates in the previous months for the 12 month periods ended August 31, 2013 and 2012, respectively.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the following % change in foreign currency rates.

May 31, 2014	**+5.3%**	**-2.36%**
Net income	**(P99)**	**P44**
Equity	**(99)**	**44**

August 31, 2013	**+5.3%**	**-2.36%**
Net income	**(P106)**	**P47**
Equity	**(106)**	**47**

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

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 debts approximates its fair value and is calculated by discounting the expected future cash outflows at prevailing effective interest rate. The carrying values of advances to and from an unconsolidated subsidiary and due to stockholder approximate their fair values because they represent the expected cash flow should they be settled or realized at the reporting date.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the First Nine Months of 2014, Crop Year 3013-2014
VICTORIAS MILLING COMPANY INC. AND SUBSIDIARIES ("the Group")

The following management Discussion and Analysis should be read in connection with the submitted Unaudited Consolidated Financial Statements for the quarters ended May 31, 2014 and 2013.

Results of Operations

Revenues

	Quarters Ended May 31		Change		Periods Ended May31		Change	
Amounts in Php Thousands	**2014**	2013	Amount	Pct	**2014**	2013	Amount	Pct
Parent Revenue	**1,254,024**	1,262,064	(8,040)	-1%	**4,223,404**	2,863,061	1,360,343	48%
Raw sugar revenue	***685,802***	*856,368*	*(170,566)*	*-20%*	***2,620,650***	*1,550,762*	*1,069,888*	*69%*
Tolling revenues	***420,467***	*369,069*	*51,398*	*14%*	***1,221,794***	*1,094,712*	*127,082*	*12%*
Molasses revenue	***53,201***	*33,009*	*20,192*	*61%*	***185,026***	*191,988*	*(6,962)*	*-4%*
Alcohol revenue	***94,554***	*3,618*	*90,936*	*2513%*	***195,934***	*25,599*	*170,335*	*665%*
Subsidiaries Revenue	9,402	13,921	*(4,519)*	*-32%*	35,874	30,618	*5,256*	*17%*
Total Revenue	**1,263,426**	1,275,985	(12,559)	-1%	**4,259,278**	2,893,679	1,365,599	47%

The Parent company's revenue accounted for 99% of the Group's consolidated revenue for the third quarter and year-to-date (YTD) May 31.

It includes sales from raw sugar, refining service, molasses and distillery operations which grew by 48% in the YTD May 31 compared to same period in 2013.

- Revenues from raw sugar increased by 69% in the nine months compared to same period in 2013 due to increase in volume sold and average selling price by 55% and 9%, respectively.
- Tolling fees from refining services also increased by 12% in the nine months compared to same period in 2013 due to increase of refined volume by 13%.
- Revenues from distillery operations significantly increased by 665% due to increase in volume sold and selling price by 555% and 16%, respectively.

Cost of Goods Sold and Services

Consolidated cost of goods sold and services decreased by 3% or P23 million to P723 million in the third quarter compared to the same period in 2013. In YTD May 2014, cost of sales increased by 48% or P756 million to P2.3 billion compared to the same period in 2013. The following table summarizes the breakdown of the Group's cost of

sales for the third quarter and YTD May 31, 2014 and 2013 and the percentage of each cost item to total revenues.

	Quarters Ended May 31		Change		Pct to Rev		Periods Ended May31		Change		Pct to Rev	
Amounts in Php Thousands	**2014**	2013	Amount	Pct	**2014**	2013	**2014**	2013	Amount	Pct	**2014**	2013
Cost of hauling	**254,994**	172,191	82,803	48%	**20%**	13%	**815,940**	809,737	6,203	1%	**19.2%**	28.0%
Repairs and maintenance	**219,810**	272,169	(52,359)	-19%	**17%**	21%	**499,253**	551,193	(51,940)	-9%	**11.7%**	19.0%
Materials and supplies	**69,178**	123,216	(54,038)	-44%	**5%**	10%	**383,112**	291,827	91,285	31%	**9.0%**	10.1%
Depreciation	**63,670**	63,826	(156)	0%	**5%**	5%	**194,982**	187,299	7,683	4%	**4.6%**	6.5%
Fuel and transportation	**61,070**	65,600	(4,530)	-7%	**5%**	5%	**156,072**	144,924	11,148	8%	**3.7%**	5.0%
Professional fees and contracted services	**46,080**	54,597	(8,517)	-16%	**4%**	4%	**181,546**	195,743	(14,197)	-7%	**4.3%**	6.8%
Direct Labor	**40,958**	2,100	38,858	1850%	**3%**	0.2%	**51,202**	4,769	46,433	974%	**1.2%**	0.2%
Light and water	**19,309**	1,081	18,228	1686%	**2%**	0.1%	**61,933**	21,171	40,762	193%	**1.5%**	0.7%
Input tax allocable to exempt sales	**18,292**	13,405	4,887	36%	**1%**	1%	**63,214**	41,309	21,905	53%	**1.5%**	1.4%
Taxes and licenses	**12,338**	11,673	665	6%	**1%**	1%	**37,640**	35,899	1,741	5%	**0.9%**	1.2%
Rental	**4,731**	339	4,392	1296%	**0.4%**	0.0%	**7,444**	1,312	6,132	467%	**0.2%**	0.05%
Others	**5,139**	3,007	2,132	71%	**0.4%**	0.2%	**18,124**	16,020	2,104	13%	**0.4%**	0.6%
Total cost of goods manufactured	**815,569**	783,204	32,365	4%	**65%**	61%	**2,470,462**	2,301,203	169,259	7%	**58%**	80%
Decrease (increase) in inventories	**(92,442)**	(37,138)	(55,304)	149%	**-7%**	-3%	**(130,570)**	(716,937)	586,367	-82%	**-3%**	-25%
Cost of Goods Sold and Services	**723,127**	746,066	(22,939)	-3%	**57%**	58%	**2,339,892**	1,584,266	755,626	48%	**55%**	55%

- The increase in volume of raw sugar and alcohol sold drove the increase in manufacturing expenses such as cost of hauling, materials and supplies, light and water.
- Direct labor increased in YTD May 31 driven by investments on human resource in line with the Group's thrust to improve organizational productivity competitiveness. This resulted to major reclassification of labor charges from contracted services to direct labor and recognition of salaries and benefits.
- As a percent of revenues, cost of sales for the third quarter and YTD May 31 is at a par with the same periods last year.

Operating Expenses

Consolidated operating expenses increased by 11% or P13 million to P130 million in the third quarter compare to the same period last 2013. In the first nine months of 2014, consolidated operating expenses increased by 49% or P280 million to P567 million compared to the same period in 2013. The following table summarizes the breakdown of the Group's expenses for the third quarter and YTD May 31, 2014 and 2013 and the percentage of each expense item to total revenues.

	Quarters Ended May 31		Change		Pct to Rev		Periods Ended May31		Change		Pct to Rev	
Amounts in Php Thousands	**2014**	2013	Amount	Pct	**2014**	2013	**2014**	2013	Amount	Pct	**2014**	2013
Selling Expenses												
Freight and handling	**35,682**	23,636	12,046	51%	**2.8%**	1.9%	**98,263**	43,914	54,349	124%	**2.3%**	2%
Repairs and maintenance	**8,773**	3,665	5,108	139%	**0.7%**	0.3%	**12,915**	13,008	(93)	-1%	**0.3%**	0.4%
Depreciation	**1,298**	2,980	(1,682)	-56%	**0.1%**	0.2%	**12,685**	8,984	3,701	41%	**0.3%**	0.3%
Materials and supplies	**918**	3,858	(2,940)	-76%	**0.1%**	0.3%	**2,448**	10,024	(7,576)	-76%	**0.1%**	0.3%
Taxes and licenses	**2,504**	3,798	(1,294)	-34%	**0.2%**	0.3%	**10,836**	12,926	(2,090)	-16%	**0.3%**	0.4%
Salaries and employee benefits	**1,208**	604	604	100%	**0.10%**	0.05%	**5,027**	2,011	3,016	150%	**0.1%**	0.1%
Rental	**3,197**	3,338	(141)	-4%	**0.3%**	0.3%	**4,045**	3,570	475	13%	**0.1%**	0.1%
Others	**1,426**	952	474	50%	**0.1%**	0.1%	**5,769**	2,108	3,661	174%	**0.1%**	0.1%
Total	**55,006**	42,831	12,175	22%	**4%**	3%	**151,988**	96,545	55,443	57%	**4%**	3%
General and Administrative Expenses												
Professional fees and contracted services	**42,889**	32,885	10,004	30%	**3%**	3%	**109,950**	93,344	16,606	18%	**2.6%**	3.2%
Travel and transportation	**6,634**	10,721	(4,087)	-38%	**1%**	1%	**21,142**	20,740	402	2%	**0.5%**	0.7%
Salaries and employee benefits	**6,553**	4,061	2,492	61%	**1%**	0.3%	**18,564**	14,102	4,462	32%	**0.4%**	0.5%
Representation and entertainment	**4,684**	2,508	2,176	87%	**0.4%**	0.2%	**7,624**	8,152	(528)	-6%	**0.2%**	0.3%
Taxes and licenses	**3,852**	3,674	178	5%	**0.3%**	0.3%	**12,050**	12,130	(80)	-1%	**0.3%**	0.4%
Repairs and maintenance	**2,170**	1,507	663	44%	**0.2%**	0.1%	**5,400**	4,032	1,368	34%	**0.1%**	0.1%
Depreciation	**2,077**	2,886	(809)	-28%	**0.2%**	0.2%	**14,191**	8,697	5,494	63%	**0.3%**	0.3%
Retrenchment cost	**2,050**	-	2,050	100%	**0.2%**	0.00%	**2,050**	-	2,050	100%	**0.0%**	0.0%
Retirement benefits	**495**	2,018	(1,523)	-75%	**0.0%**	0.2%	**8,050**	6,053	1,997	33%	**0.2%**	0.2%
Provision for legal claims	**-**	-	-	0%	**0.0%**	0.00%	**200,000**	-	200,000	100%	**4.7%**	0.0%
Rental	**-**	90	(90)	-100%	**0.00%**	0.01%	**1,200**	666	534	80%	**0.0%**	0.0%
Impairment losses	**-**	3,839	(3,839)	-100%	**0.00%**	0.3%	**-**	6,044	(6,044)	-100%	**0.0%**	0.2%
Others	**3,210**	9,522	(6,312)	-66%	**0.3%**	1%	**14,360**	16,474	(2,114)	-13%	**0.3%**	0.6%
Total	**74,614**	73,711	903	1%	**6%**	6%	**414,581**	190,434	224,147	118%	**10%**	7%
Total Operating Expenses	**129,620**	116,542	13,078	11%	**10%**	9%	**566,569**	286,979	279,590	49%	**14%**	10%

- The increase in volume of raw sugar and alcohol sold drove the increase in selling expenses such as freight and handling and contracted services.
- The increase in depreciation was due to VMC's Raw House Upgrading and Modernization program which aims for higher efficiency and competitiveness.
- Salaries and employees benefits increased in the nine months driven by investments on human resource in line with the Group's thrust to improve organizational productivity and competitiveness.
- Taxes and licenses decreased in the nine months due to redemption of convertible notes and payment of the related interest accrued from 2003 to 2014.
- Additional provision was accrued to cover various legal claims. See Note 15 of the accompanying Unaudited Consolidated Financial Statements for more information.

Operating Income

Taking into account the factors discussed above, operating income YTD May 31 is higher by 32% or P330 million to P1.4 billion compared to same period in 2013.

Other Income

	Quarters Ended May 31		Change		Pct to Rev		Periods Ended May31		Change		Pct to Rev	
Amounts in Php Thousands	**2014**	2013	Amount	Pct	**2014**	2013	**2014**	2013	Amount	Pct	**2014**	2013
Other Income	**4,839**	174,400	(169,561)	-97%	**0.4%**	14%	**16,518**	222,290	(205,772)	-93%	**0.4%**	8%

Other Income in YTD May 31 decreased compared to the balance as of the same period last year due to the following:

	Periods Ended May31		Change	
Amounts in Php Thousands	**2014**	2013	Amount	Pct
Gain on extinguishment of liability	-	169,341	(169,341)	-100%
Interest income	**7,791**	37,832	(30,041)	-79%
Foreign exchange gain (loss)	**(331)**	7,923	(8,254)	-104%
Rental income	**5,709**	5,364	345	6%
Gain on sale of property, plant and equipment	**307**	179	128	72%
Others	**3,042**	1,651	1,391	84%
Other Income	**16,518**	222,290	(205,772)	-93%

- Decrease in interest earned was due to the decline in cash resources after paying off the convertible notes and drop in money market placement rates.

Other Expenses

	Quarters Ended May 31		Change		Pct to Rev		Periods Ended May31		Change		Pct to Rev	
Amounts in Php Thousands	**2014**	2013	Amount	Pct	**2014**	2013	**2014**	2013	Amount	Pct	**2014**	2013
Other Expenses	**11,557**	10,819	738	7%	**0.9%**	1%	**32,913**	41,821	(8,908)	-21%	**0.8%**	1%

Other Expense for the YTD May 31 decreased compared to the balances as of the same period last year due to the following:

	Periods Ended May31		Change	
Amounts in Php Thousands	**2014**	2013	Amount	Pct
Amortization of discount on	**29,506**	34,045	(4,539)	-13%
Bank charges	**304**	4,545	(4,241)	-93%
Loss on disposal and retirement of assets	**56**	-	56	100%
Foreign exchange loss	-	67	(67)	-100%
Others	**3,047**	3,164	(117)	-4%
Other Income	**32,913**	41,821	(8,908)	-21%

Finance Cost

	Quarters Ended May 31		Change		Pct to Rev		Periods Ended May31		Change		Pct to Rev	
Amounts in Php Thousands	**2014**	2013	Amount	Pct	**2014**	2013	**2014**	2013	Amount	Pct	**2014**	2013
Finance Charges	**75,240**	35,941	39,299	109%	**6.0%**	3%	**231,494**	262,980	(31,486)	-12%	**5.4%**	9%

Finance Cost in the nine months of 2014 decreased compared to the balance as of the same period last 2013 due to the redemption of convertible notes. See Note 16b2 of the accompanying Unaudited Consolidated Financial Statements for more information.

Income Taxes

	Quarters Ended May 31		Change		Pct to Rev		Periods Ended May31		Change		Pct to Rev	
Amounts in Php Thousands	**2014**	2013	Amount	Pct	**2014**	2013	**2014**	2013	Amount	Pct	**2014**	2013
Current	**28,550**	143,410	(114,860)	-80%	**2%**	11%	**231,772**	323,858	(92,086)	-28%	**5%**	11%
Deferred	**(4,936)**	28,211	(33,147)	-117%	**-0.4%**	2%	**(74,587)**	(1,410)	(73,177)	5190%	**-2%**	-0.05%
Income Tax Expense	**23,614**	171,621	(148,007)	-86%	**2%**	13%	**157,185**	322,448	(165,263)	-51%	**4%**	11%

The Group’s provision for income tax for the third quarter of 2014 declined compared to third quarter of 2013 as an effect of the interest paid on full redemption convertible notes.

Net Income

Consolidated net income YTD May 2014 was P947 million, that is, P330 million or 53% higher than last year’s consolidated net income of P617 million. Net income margin (net income as a percentage of revenue) increased from 21% last year to 22% in the third quarter of 2014 mainly due to lower cost of goods sold as a percent of revenues.

Financial Condition

	31-May	31-Aug	Change	
Amounts in Php Thousands	2014	2013	Amount	Pct
ASSETS				
Current Assets				
Cash and cash equivalents	**700,097**	863,822	(163,725)	-19%
Trade and other current receivables - net	**197,298**	446,129	(248,831)	-56%
Inventories - net	**532,126**	389,638	142,488	37%
Advances to subsidiaries - net	**25,022**	25,292	(270)	-1%
Prepayments and other current assets	**28,031**	29,444	(1,413)	-5%
Total Current Assets	**1,482,574**	1,754,325	(271,751)	-15%
Noncurrent Assets				
Investments in and deposits to subsidiaries and associate	**15,680**	15,680	-	0%
Property, plant and equipment - net	**3,980,561**	3,921,981	58,580	1%
Investment properties	**1,445,386**	1,445,386	-	0%
Other noncurrent assets - net	**49,468**	51,611	(2,143)	-4%
Total Noncurrent Assets	**5,491,095**	5,434,658	56,437	1%
	6,973,669	7,188,983	(215,314)	-3%
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other current payables	**635,806**	351,134	284,672	81%
Income tax payable	**777**	63,559	(62,782)	-99%
Total Current Liabilities	**636,583**	414,693	221,890	54%
Noncurrent Liabilities				
Provisions	**1,071,447**	841,941	229,506	27%
Long-term debts - net of current portion	**-**	2,544,633	(2,544,633)	-100%
Retirement benefit obligation	**7,000**	8,991	(1,991)	-22%
Due to a stockholder	**6,000**	6,000	-	0%
Deferred tax liabilities - net	**494,101**	568,687	(74,586)	-13%
Total Noncurrent Liabilities	**1,578,548**	3,970,252	(2,391,704)	-60%
Total Liabilities	**2,215,131**	4,384,945	(2,169,814)	-49%
Equity				
Capital stock	**2,367,535**	2,297,485	70,050	3%
Convertible notes awaiting conversion	**1,228,432**	338,896	889,536	262%
Additional paid-in capital	**291,792**	244,621	47,171	19%
Revaluation increment on property, plant and equipment	**120,080**	134,646	(14,566)	-11%
Deficit	**750,238**	(212,071)	962,309	-454%
Conversion feature on convertible notes	**472**	472	-	0%
Treasury stock	**(11)**	(11)	-	0%
Total Equity	**4,758,538**	2,804,038	1,954,500	70%
	6,973,669	7,188,983	(215,314)	-3%

The Group's consolidated total assets or total liabilities and equity as of May 31, 2014 amounted to P7 billion, a decrease by 3% from P7.2 billion at end of August 2013. The following explains the significant movements:

- The Group's cash and cash equivalents balance decreased by P164 million or 19% to P700 million due primarily to redemption of convertible notes.
- Receivables declined by P249 million or 56% to P197 million mainly due to a significant decrease in credit sales by 48%.
- The increase in inventories by P142 million or 37% to P532 million is mainly due to stock build-up for future delivery of contracted raw sugar sales.
- Trade and other current liabilities increased by P285 million or 81% to P636 million largely due to the onset of procuring materials for the off-season repairs and increase of deposits from customers of contracted sugar, molasses and scraps totalling to P107 million
- Income tax payable decreased by P63 million or 99% to P0.8 million. Taxable income was significantly reduced by payment of interest of convertible notes.
- Provisions increased by P230 million or 27% to P1 billion to cover probable liability on various legal claims.
- The redemption of convertible notes wiped out the remaining balance of Long-term Debts as of August 31, 2013.
- The decrease in Retirement benefit obligation by 22% is due to the monthly benefits paid to pensioners.
- Net deferred tax liabilities decreased by P75 million or 13% to P494 million, due to the increase of recognized deferred tax asset on additional provision for various legal claims.
- The increase in in Capital stock by 3% or P70 million to P2.4 billion refers to actual conversion of certain convertible notes. See Note 17b of the accompanying Unaudited Consolidated Financial Statements for more information.
- Convertible notes awaiting conversion increased by P890 million or 262% to P1.2 billion due to transfer/sale of certain convertible notes by primary/original noteholders. As such, these transactions were booked as equity in accordance with the DRA. See Note 16b2 of the accompanying Unaudited Consolidated Financial Statements for more information.
- Additional paid in capital likewise increased by P47 million or 19% to P292 million due to recognition as equity of accrued interest on convertible notes which were converted to common shares. Interest is not convertible to shares.
- Revaluation increment on property, plant and equipment decreased by P15 million or 11% to P120 million resulting from depreciation of net appraisal increase on property, plant and equipment.

- Retained earnings turned positive to P750 million from deficit of P212 million, with the net income for the YTD May 2014 of P948 million.

Liquidity and Capital Resources

Net cash provided by operating activities in the first nine month of 2014 was P1.9 billion, 383% or P1.5 billion higher compared to the net cash provided by operating activities of the same period in 2013 amounting to P0.39 million which was mainly contributed by stronger operating results.

Net cash used in investing activities was P280 million in the first nine months of 2014 which pertains to capital expenditures spending for factory machinery upgrades.

Net cash used in financing activities amounted to P1.8 billion in the first nine months of 2014, primarily due to redemption of convertible notes and payments of the related accrued interest.

Generally, net cash and cash equivalents increased by P183 million to P700 million for the period ended May 31, 2014.

Discussion and Analysis of Material Events and Uncertainties

1. There were no events or commitments that will result to material liquidity problem to the Group.
2. There were no material off-balance sheet transactions, arrangements or obligations entered to during the period.
3. All of the Group's income arose from its continuing operations.
4. The sugar processing operations of the Group have milling and off-milling seasons. The seasonality however, has no material effect on the financial condition or results of operation.

Discussion of the Company's Top Five (5) Key Financial Performance Indicators

In line with the Group's strategic and operational goals to improve its present level in the sugarcane industry in terms of production volume, efficiency and product quality, the financial performance is mainly determined by the following criteria:

Revenue

Revenue is the measure of all sales made by the Group from its normal business activities. It is used as an indication of earnings quality.

	Quarter ended May 31, 2014	Quarter ended May 31, 2013
Revenue	**1.263 B**	1.276 B
% Growth (Decline) vs LY	**-1%**	6%
	YTD ended May 31, 2014	YTD ended May 31, 2013
Revenue	**4.259 B**	2.894 B
% Growth (Decline) vs LY	**47%**	-19%

EBITDA

EBITDA is the Group's net income with interest, taxes, depreciation, and amortization added back to it, and is used to analyse current operational profitability without the effects of financing and accounting decisions.

	Quarter ended May 31, 2014	Quarter ended May 31, 2013
EBITDA	**471.006 M**	646.650 M
% Growth (Decline) vs LY	**-27%**	223%
	YTD ended May 31, 2014	YTD ended May 31, 2013
EBITDA	**1.558 B**	1.408 B
% Growth (Decline) vs LY	**11%**	37.1%

Net Income Margin

Net Income Margin is the measure of how efficient the Group is at converting revenue into actual profits. It is calculated by finding the earnings after interest and tax as a percentage of total revenues.

	Quarter ended May 31, 2014	Quarter ended May 31, 2013
Net Income (in Php)	**305.107 M**	369.396 M
Pct to Revenues	**24%**	29%
	YTD ended May 31, 2014	YTD ended May 31, 2013
Net Income (in Php)	**947.743 M**	617.475 M
Pct to Revenues	**22%**	21%

Return on Equity (ROE)

ROE is the Group's net income returned as a percentage of shareholders' equity.

	As of May 31, 2014	As of August 31, 2013
Return on Equity	**20%**	22%

Earnings per share (EPS)

EPS is used as a barometer to gauge the Group's profitability per unit of shareholder ownership. It is calculated by dividing net income earned in a given reporting period by the weighted average number of shares outstanding during the same term.

	Quarter ended May 31, 2014	Quarter ended May 31, 2013
Earnings per share (in Php)	**0.13**	0.16
	YTD ended May 31, 2014	YTD ended May 31, 2013
Earnings per share (in Php)	**0.41**	0.28