

COVER SHEET

SEC Registration Number

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(Company's Full Name)

S	A	N		M	I	G	U	E	L	,		T	A	R	L	A	C		C	I	T	Y							
T	A	R	L	A	C																								

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

Cecile D. Macaalay	818- 6270
Contact Person	Company Telephone Number

0	6	3	0
Month		Day	
Fiscal Year			

SEC 17-Q Quarterly Report

September 2020

0	1	ANY
Month	Day	Annual Meeting

Secondary License, If Applicable

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

392

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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COVERSHEET

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COVER SHEET FOR ALL FILINGS EXCEPT EXPRESS LANE

COVER SHEETSEC Number 727Company TIN 000-229-931**CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY**

(Company's Full Name)

San Miguel, Tarlac, Tarlac
Makati Office – First Lucky Place, 2259 Pasong Tamo Extension,
Makati City

(Company's Address: No., Street, City, Town/Province)

8818 – 6270

(Company's Telephone Number)

June 30(Fiscal Year Ending)
(Month/Day)**last Tuesday of January**

Annual Meeting

17 – Q (Quarterly Report – 1st Quarter
Of the Fiscal Year 2020-2021 (July to Sept 2020)

(FORM TYPE)

(Amendment Designation, if Applicable)

(Secondary License Type, if any)

Cecile D. Macaalay**106-950-984-000****Apr 11, 1968**

(Company Representative)

(TIN)

(Birth Date)

Do not fill below this line

Cashier

File Number

Central Receiving Unit

Document ID

LCU

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 **Sept 30, 2020 (1st Quarter of Fiscal Year July 1, 2020 – June 30, 2021)**

2. Commission Identification Number **727** 3. BIR Tax Identification No **000-229-931**

Central Azucarera de Tarlac, Inc.

4. Exact name of issuer as specified in its charter

Manila, Philippines

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

6. Industry Classification Code: (SEC Use Only)

San Miguel, Tarlac, Tarlac

7. Address of issuer's principal office

8818 –6270

8. Issuer's telephone number, including area code

Not applicable

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

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

Title of each Class	Number of shares of common Stock outstanding and amount of debt outstanding
Common	238,496,840

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

Yes [] No []

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

In compliance with the requirements of SRC Rule 68, the following financial statements of Central Azucarera de Tarlac and Subsidiary are submitted together with this Form 17 – Q:

- A. Unaudited Balance Sheet as of September 30, 2020 and Audited June 30, 2020 Balance Sheet;
- B. Unaudited Statements of Income/(Loss) for the Three (3) Months Ended September 30, 2020 and 2019;
- C. Unaudited Statements of Changes in Equity for the Three (3) Months Ended September 30, 2020 and 2019; and
- D. Unaudited Statements of Cash Flows for the Three (3) Months Ended September 30, 2020 and 2019.

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

Our discussion in the foregoing sections of this report pertains to the financial condition and results of our company’s operations for the three (3) months ended September 30, 2020 in which references are made to results of operations for the same period of the previous year 2019.

Furthermore, the information contained herein should be read in conjunction with the accompanying unaudited financial statements and related notes. Our financial statements, and the financial discussions below, have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

PART II – OTHER INFORMATION

There is no information not previously reported on SEC Form 17 – C

1. SIGNATURES

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

Registrant **CENTRAL AZUCARERA DE TARLAC, INC.**

Signature and Title


Cecile D. Macaalay
Chief Finance Officer

Signature and Title


Lora May M. Cada
Finance Manager

Date: November 20, 2020

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

CENTRAL AZUCARERA DE TARLAC AND SUBSIDIARY

The following Management Discussion and Analysis should be read in connection with the submitted Unaudited Consolidated Financial Statements as at and for the three months ended September 30, 2020 and 2019.

Executive Summary

Central Azucarera de Tarlac is gearing up for opportune times ahead following the negative effects of the worldwide health crisis. The 1Q of Fiscal Year 2020-2021 was focused on managing resources while faced with challenges on all fronts.

The first quarter was aimed at cash generation by converting inventory. Revenues for the 1Q soared to ₱219.0M, a 57% increase from 1Q FY2020. The Company capitalized on the sale of alcohol while sugar inventory has yet to increase soonest the milling season begins in the second quarter. As a result, the level of expected and seasonal negative financial performance during the first quarter of each fiscal year remained the same at ₱62.1M Net Loss with a margin of 28%.

Meanwhile, EBITDA margin was contained at 8% at negative ₱16.7M, down by 2% from the same period last year.

Profitability margins decreased primarily due to the higher cost of inventory following the effects of intermittent lockdowns causing increases in labor and logistics costs.

The cash generation strategy allowed the Company to fund its operations, its scheduled off-season repairs and reinvesting through enhanced and calculated capital expenditure. The ill effects of the global pandemic pushed CAT forward in solidifying its commitment to strengthen its operations by exploring diversity and upholding sustainability and in all its business models.

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The following table is the Consolidated Statement of Income of the Company and its subsidiary, Luisita Land Corporation ("LLC") for the periods ended September 30, 2020, 2019 & 2018.

(In Million Pesos except for Volume, Price & EPS)	THREE MONTHS ENDED SEPTEMBER 30					
	2020		2019		2018	
VOLUME AND PRICE MATRIX	Vol	P	Vol	P	Vol	P
Raw Sugar Equivalent	-	-	29,949	1,554	-	-
Tolling of Refined Sugar	-	-	-	-	83,900	244
Alcohol	2,924,945	65	1,544,000	53	2,136,385	46
Carbon Dioxide	160,340	9	39,520	9	-	-
REVENUE	219.03	100%	139.51	100%	169.32	100%
Sugar	.00	0%	46.55	33%	.00	0%
Tolling of Refined Sugar	.00	0%	.00	0%	20.48	12%
Alcohol	190.21	87%	82.01	59%	98.16	58%
Molasses	17.50	8%	.00	0%	40.49	24%
Carbon Dioxide	1.44	1%	.36	0%	.00	0%
Industrial services	9.88	5%	10.60	0%	10.20	0%
Real estate sale	.00	0%	.00	0%	.00	0%
COST OF GOODS SOLD AND SERVICES	247.36	113%	166.72	120%	190.88	113%
Costs of goods sold	237.23	108%	154.84	111%	170.67	101%
Costs of tolling services	5.86	3%	7.29	5%	13.27	8%
Cost of industrial services	4.27	2%	4.60	0%	6.94	0%
Cost of real estate	.00	0%	.00	0%	.00	0%
GROSS PROFIT	-28.33	-13%	-27.21	-20%	-21.56	-13%
OPERATING EXPENSES	24.75	11%	24.45	18%	27.11	16%
OPERATING PROFIT (LOSS) BEFORE INTEREST AND TAXES	(53.08)	-24%	(51.66)	-37%	(48.67)	-29%
Interest expense and bank charges	(15.73)	-7%	(14.87)	-11%	(11.46)	-7%
Interest income	.11	0%	.29	0%	8.89	5%
Others - net	6.59	3%	3.83	3%	.21	0%
INCOME (LOSS) BEFORE TAX	-62.11	-28%	-62.41	-45%	-51.02	-30%
PROVISION FOR INCOME TAX	.00	0%	.00	0%	.00	0%
NET INCOME [LOSS]	-62.11	-28%	-62.41	-45%	-51.02	-30%
EBITDA	-16.73	-8%	-13.92	-10%	-16.28	-10%
EPS	(0.26)		(0.22)		(0.18)	

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Management Discussion and Analysis of Financial Condition and Results of Operations

The following identify the top five (5) Key Performance Indicators of the Company, which allow the measure of growth, financial performance and return on investment.

Revenue	Three Months Ended September 30		
	2020	2019	2018
Revenue (in millions)	219.03	139.51	169.32
% Growth	57%	-18%	-24%

EBITDA	Three Months Ended September 30		
	2020	2019	2018
EBITDA (in millions)	-16.7	-13.9	-16.3
% Growth	-20%	14%	62%
EBITDA Margin	-8%	-10%	-10%

Net Income	Three Months Ended September 30		
	2020	2019	2018
Net income (in millions)	-62.11	-62.41	-51.02
% Growth	0%	-22%	51%
Net Income Margin	-28%	-45%	-30%

Earnings per share	Three Months Ended September 30		
	2020	2019	2018
Earnings per share	(0.26)	(0.22)	(0.18)

Milling Recovery	Three Months Ended September 30		
	2020	2019	2018
Milling recovery (Lkg/TC)	n/a	n/a	n/a

Review of Operations

Revenues

REVENUES <i>In Million Pesos</i>	2020	2019	Growth	
			Amount	%
Sugar	.0	46.6	-46.6	-100%
Tolling of Refined Sugar	.0	.0	.0	0%
Alcohol	190.2	82.0	108.2	132%
Molasses	17.5	.0	17.5	0%
Industrial services	9.9	10.6	-.7	-7%
TOTAL	219.0	139.5	79.5	57%

The Parent Company's revenue accounted for 95% of the Group's consolidated revenues for the three (3) months ended September 30, 2020. This reporting period, the Company has no beginning sugar inventory to sell compared to last year's roughly 30,000 sugar bags or ₱46.5M sales. This reduction was off-set by the alcohol and molasses revenues, both posting favorable price and quantity variances. As a result, the Company posted an increment of ₱79.5M or 57% in revenues from last year's ₱139.5M to ₱219.0M.

Cost of Goods Sold

Cost of goods sold increased by ₱82.4M or 53% this reporting period from ₱154.8M to ₱237.2M. The following table summarizes the breakdown of cost of goods sold:

COST OF GOODS SOLD <i>In Million Pesos</i>	2020	2019	Increase(Decrease)	
			Amount	%
Salaries, wages bonuses and other benefits	16.8	15.6	1.2	8%
Repairs & Maintenance	3.7	1.7	2.1	123%
Inventory cost, spare parts and supplies	168.3	87.0	81.3	93%
Depreciation and amortization	25.2	30.0	-4.7	-16%
Freight and transportation	2.3	2.9	-.6	-19%
Security and outside services	10.0	8.1	1.9	24%
Power and steam	8.2	5.0	3.3	66%
Insurance	1.4	1.3	.1	8%
Taxes and licenses	.8	.4	.4	93%
Others	.3	2.9	-2.6	-89%
TOTAL	237.2	154.8	82.4	53%

- Inventory cost, spare parts and supplies increased from ₱87.0M to ₱168.3M or ₱81.3M in relation to higher sales volume of alcohol and molasses.
- Power and steam amplified by ₱3.3M or 66% as a function of the increased production volume.
- Increases in repairs and maintenance by ₱2.1M or 123% due to scheduled repairs of alcohol production line to increase volume capacity.

Cost of Tolling Services

Cost of tolling decreased by ₱1.4M or 19% this period from ₱7.3M to ₱5.9M. The table below summarizes the breakdown of cost of tolling:

COST OF TOLLING SERVICES <i>In Million Pesos</i>	2020	2019	Increase(Decrease)	
			Amount	%
Salaries, wages bonuses and other benefits	2.1	2.2	-0.1	-2%
Repairs & Maintenance	.1	.3	-0.3	-77%
Spare parts and supplies	.0	.0	.0	0%
Depreciation and amortization	1.8	2.4	-0.6	-25%
Freight and transportation	.4	.6	-0.1	-25%
Security and outside services	.2	.0	.1	265%
Power and steam	.4	1.0	-0.5	-55%
Insurance	.2	.2	.0	2%
Taxes and licenses	.7	.5	.2	29%
Others	.0	.1	-0.1	-93%
TOTAL	5.9	7.3	-1.4	-19%

- Repairs and maintenance decreased by ₱0.3M from ₱0.3M to ₱0.1M due to programmed reduction of off-season repair activities in the refinery operations.
- Depreciation dropped by ₱0.6M or 25% as a function of concentrated capital expenditures implemented in the past periods.
- Power and steam lessened to ₱0.4M from ₱1.0M due to reduction of power consumption in refinery operations.

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Operating Expenses

The Group's operating expenses totaled ₱24.8M as of reporting period, a ₱0.3M or 1% increase compared to last year's ₱24.5M. The table below summarizes the breakdown of operating expenses:

OPERATING EXPENSES <i>In Million Pesos</i>	2020	2019	Increase(Decrease)	
			Amount	%
Salaries, wages bonuses and other benefits	8.1	7.5	.6	7%
Repairs & Maintenance	.8	1.0	-.2	-18%
Management fees and bonuses	.1	.1	.0	-30%
Taxes and licenses	3.5	3.4	.1	3%
Depreciation and amortization	2.2	1.0	1.1	109%
Transportation and travel	1.7	1.7	.0	-1%
Security and outside services	1.6	1.7	-.1	-7%
Service Cost	.1	.5	-.4	-82%
Rentals	.0	.9	-.9	-100%
Light and water	.1	.3	-.2	-67%
Entertainment, amusement and recreation	.1	.2	-.1	-43%
Professional fees	5.4	4.9	.5	10%
Dues and advertisements	.1	.1	-.1	-51%
Postage, telephone and telegram	.1	.1	.0	5%
Others	1.0	.9	.1	12%
TOTAL	24.8	24.5	.3	1%

- Depreciation and amortization increased by ₱1.1M from ₱1.0M to ₱2.2M due to capital expenditures in non-factory facilities over the past years.
- Rentals dropped by ₱0.9M due to temporary lease engagements in the past reporting period.
- Professional fees increased by ₱0.5M to ₱5.4M from ₱4.9M due to one-time engagements of various professionals in the last reporting period.

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Balance Sheet Accounts

The following table presents the Balance Sheet Statements of the Company as of period ended September 30, 2019 and year ended June 30, 2019.

(In Million Pesos)	AS OF SEP. 30, 2020 INTERIM		AS OF JUNE 30, 2020 AUDITED		GROWTH	
	AMT	%	AMT	%	AMT	%
ASSETS						
Current Assets						
Cash and cash equivalents	235.27	4%	261.26	5%	-26.00	-10%
Receivables	946.05	18%	881.38	16%	64.67	7%
Inventories	111.39	2%	237.08	4%	-125.69	-53%
Real estate held for sale and development	988.49	19%	988.49	18%	.00	0%
Other current assets	226.53	4%	206.64	4%	19.89	10%
Total Current Assets	2,507.74	47%	2,574.86	48%	-67.12	-3%
Non-current Assets						
Financial Asset at FVOCI	112.68	2%	112.68	2%	.00	0%
Property, plant and equipment						
Land- at revalued amount	996.79	19%	996.79	19%	.00	0%
Property and equipment- at cost	507.64	10%	501.20	9%	6.44	1%
Investment property	437.26	8%	437.26	8%	.00	0%
Retirement asset	.00	0%	.00	0%	.00	0%
Goodwill	502.42	9%	502.42	9%	.00	0%
Other current assets	236.12	4%	233.11	4%	3.01	1%
Total Non Current Assets	2,792.92	53%	2,783.46	52%	9.45	0%
TOTAL ASSETS	5,300.65	100%	5,358.32	100%	-57.67	-1%
LIABILITIES AND EQUITY						
Current Liabilities						
Trade and other liabilities	469.24	9%	461.73	9%	7.50	2%
Current portion of mortgage payable	14.92	0%	14.92	0%	.00	0%
Current portion of notes payable	1,006.59	19%	1,007.84	19%	-1.25	0%
Deposits	14.64	0%	14.24	0%	.41	0%
Income tax payable	17.04	0%	17.04	0%	.00	0%
Total Current Liabilities	1,522.44	29%	1,515.78	28%	6.66	0%
Non-current liabilities						
Deferred tax liability	375.44	7%	375.44	7%	.00	0%
Other noncurrent liabilities	23.94	0%	26.16	0%	-2.22	0%
Total Non Current Liabilities	399.38	8%	401.60	7%	-2.22	-1%
Equity						
Capital stock	282.55	5%	282.55	5%	.00	0%
Retained earnings						
Appropriated	2,000.00	38%	2,000.00	37%	.00	0%
Unappropriated	570.97	11%	633.08	12%	-62.11	-10%
Revaluation increment	889.43	17%	889.43	17%	.00	0%
Remeasurement gains on defined benefit liability	-68.21	-1%	-68.21	-1%	.00	0%
Unrealized cumulative gain on AFS financial	73.17	1%	73.17	1%	.00	0%
Less cost of 720 shares of stock in treasury	-369.08	-7%	-369.08	-7%	.00	0%
Total Equity	3,378.84	64%	3,440.94	64%	-62.11	-2%
TOTAL LIABILITIES AND EQUITY	5,300.65	100%	5,358.32	100%	-57.67	-1%

Cash

The decrease in cash by ₱26.0M or 10% is due from cash provided by operating activities of ₱32.3M, ₱39.1M net cash used in investing activities and ₱19.2M net cash used in financing activities.

Inventories

The decrease in ending inventory amounting to ₱125.7M or 53% is mainly due to the alcohol inventory sold as of the balance sheet date.

Other current assets

Other current assets increased by ₱19.9M or 10% is due to advances made for land maintenance and suppliers.

Total Stockholders' Equity

The reported net loss for period ended September 30, 2020 amounting to ₱62.1M wholly contributed to the decrease in the Stockholders' Equity.

LIQUIDITY & SOLVENCY RATIO**Current Ratio**

The current ratio indicates a company's ability to meet short-term debt obligations. The Company's current ratio has improved because of increased in cash levels, receivables and inventory.

Asset to Equity Ratio

The asset to equity ratio indicates the relationship of the total assets of the company to its stockholder's equity. The Company's assets have been slightly financed more by debt than equity as a result of the acquisition of the Company and its subsidiary.

Debt to Equity Ratio

Debt-to-Equity ratio is the ratio of total liabilities of the company to its stockholder's equity. The Debt to Equity ratio slightly diminished due to the increased availment of a loan from a local bank.

Debt Service Coverage Ratio

This ratio is a measure to determine the company's ability to service its outstanding debt. The Company's debt service coverage had improved due to higher earnings during the current year.

LIQUIDITY & SOLVENCY RATIO	As of September 30, 2020	As of June 30, 2020
Current ratio	1.65	1.70
Asset-to-equity ratio	1.57	1.56
Debt-to-equity ratio	0.57	0.56
Debt Service Coverage Ratio	-0.02	0.28

Plans, Commitments, and events that have material impact on the issuer's liquidity

To the best of our knowledge, there are no known trends, demand, commitments, events or uncertainties that will have a material impact on our liquidity.

We do not foresee any event that will trigger direct or contingent financial obligations including default or acceleration of any obligations.

We do not have any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationship of the company with consolidated entities or other persons created during the reporting period.

We do not see, at this point, any known trends, uncertainties that have had or that are reasonably expected to have a material impact on net sales/revenues/income from continuing operations.

We do not have any elements of income or loss that did not arise from our continuing operations.

We do not see at this point any seasonal aspects that have a material effect on the financial condition or result of operations.

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CENTRAL AZUCARERA DE
TARLAC, INC. AND SUBSIDIARY

INTERIM FINANCIAL STATEMENTS
IN THOUSAND PESOS
(WITH COMPARATIVE STATEMENTS)

SEPTEMBER 30, 2020

**CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(IN THOUSAND PESOS)**

	As of September 30, 2020 (Interim)	As of June 30, 2020 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	235,268.43	261,264.56
Receivables	946,052.64	881,379.64
Inventories	111,389.22	237,075.29
Real estate held for sale and development	988,494.38	988,494.37
Other current assets	226,530.81	206,642.11
Total Current Assets	2,507,735.47	2,574,855.97
Noncurrent Assets		
Financial Asset at FVOCI	112,678.50	112,678.50
Property, plant and equipment		
Land- at revalued amount	996,790.40	996,790.40
Property and equipment- at cost	507,642.31	501,198.97
Investment property	437,264.08	437,264.08
Goodwill	502,418.57	502,418.57
Other non current assets	236,121.65	233,111.46
Total Noncurrent Assets	2,792,915.51	2,783,461.98
TOTAL ASSETS	5,300,650.98	5,358,317.95
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade and other liabilities	469,236.49	461,731.81
Current portion of notes payable	1,006,591.47	1,007,841.47
Deposits	14,642.03	14,236.72
Income tax payable	17,043.11	17,043.11
Other current liabilities	14,923.15	14,923.15
Total Current Liabilities	1,522,436.25	1,515,776.26
Noncurrent Liabilities		
Deferred tax liability	375,439.73	375,439.73
Other noncurrent liabilities	23,939.42	26,160.39
Total Noncurrent Liabilities	399,379.14	401,600.12
Equity Attributable to Equity Holders of the Parent		
Capital stock - P1 par value per share		
Authorized - 400,000,000 shares		
Issued - 282,545,960 shares	282,545.96	282,545.96
Retained earnings		
Appropriated	2,000,000.00	2,000,000.00
Unappropriated	570,972.12	633,078.10
Revaluation increment	889,431.22	889,431.21
Remeasurement gains on defined benefit liability	-68,207.25	-68,207.25
Unrealized cumulative gain on Financial asset at FVOCI	73,172.04	73,172.04
	3,747,914.08	3,810,020.06
Less cost of 44,049,120 shares of stock in treasury	-369,078.49	-369,078.49
Total Equity	3,378,835.59	3,440,941.57
TOTAL LIABILITIES AND EQUITY	5,300,650.98	5,358,317.95

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020
(With Comparative Figures for the Three Months Ended September 30, 2020, 2019 & 2018)

Unaudited						
Three Months Ended September 30						
	1st Qtr	YTD 2020	1st Qtr	YTD 2019	1st Qtr	YTD 2018
REVENUES						
Sale of sugar and by-products	209,149.29	209,149.29	128,914.27	128,914.27	98,156.91	98,156.91
Tolling fees	.00	.00	.00	.00	60,967.46	60,967.46
Industrial & equipment services	9,881.08	9,881.08	10,599.31	10,599.31	10,196.36	10,196.36
Total	219,030.37	219,030.37	139,513.58	139,513.58	169,320.73	169,320.73
COST OF GOODS SOLD AND SERVICES						
Costs of goods sold	237,225.42	237,225.42	154,839.62	154,839.62	170,667.81	170,667.81
Costs of tolling services	5,864.90	5,864.90	7,285.28	7,285.28	13,273.94	13,273.94
Cost of services	4,269.99	4,269.99	4,595.07	4,595.07	6,936.72	6,936.72
Total	247,360.31	247,360.31	166,719.97	166,719.97	190,878.47	190,878.47
GROSS INCOME	-28,329.94	-28,329.94	-27,206.39	-27,206.39	-21,557.74	-21,557.74
OPERATING EXPENSES	24,750.72	24,750.72	24,453.87	24,453.87	27,110.51	27,110.51
OTHER INCOME (EXPENSES)						
Interest income	112.71	112.71	291.84	291.84	8,892.48	8,892.48
Interest expense	-15,732.12	-15,732.12	-14,871.77	-14,871.77	-11,457.07	-11,457.07
Other Income(Expense)	6,594.09	6,594.09	3,831.95	3,831.95	208.97	208.97
Total	-9,025.33	-9,025.33	-10,747.99	-10,747.99	-2,355.62	-2,355.62
INCOME BEFORE INCOME TAX	-62,105.99	-62,105.99	-62,408.24	-62,408.24	-51,023.87	-51,023.87
PROVISION FOR INCOME TAX		.00		.00		.00
NET INCOME	-62,105.99	-62,105.99	-62,408.24	-62,408.24	-51,023.87	-51,023.87
Earnings Per Share						
Basic /Dilluted	(0.26)	(0.26)	(0.22)	(0.22)	(0.18)	(0.18)

**CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE MONTHS ENDED SEPTEMBER 30, 2020, 2019, 2018
(IN THOUSAND PESOS)**

	Capital Stock	Retained Earnings		Revaluation Increment	Remeasurement Gains(Losses) on Defined Benefit	Unrealized Cumulative Gain		Treasury Stock	Total Equity
		Unappropriated	Appropriated			Financial Assets at FVOCI	AFS Financial Asset		
Balances at June 30, 2018(As Audited)	282,545.96	-104,702.61	2,300,000.00	759,063.21	478,155.24		125,253.17	-7.20	3,840,307.77
Total comprehensive income		-51,023.87							-51,023.87
Balance at September 30, 2018	282,545.96	-155,726.48	2,300,000.00	759,063.21	478,155.24	.00	125,253.17	-7.20	3,789,283.90
Total comprehensive income		404,940.77		130,368.00	-257,767.03	-46,924.97		.00	230,616.76
Effect of adopting PFRS 9		-1,234.27		.00	.00	125,253.17	-125,253.17	.00	-1,234.27
Appropriation		-2,350,000.00	2,350,000.00						.00
Reversal of appropriation		2,300,000.00	-2,300,000.00						.00
Balance at June 30, 2019 (As Audited)	282,545.96	197,980.02	2,350,000.00	889,431.21	220,388.20	78,328.20	.00	-7.20	4,018,666.39
Total comprehensive income		-62,408.24				.00			-62,408.24
Balance at September 31, 2019	282,545.96	135,571.78	2,350,000.00	889,431.21	220,388.20	78,328.20	.00	-7.20	3,956,258.15
Effect of adopting PFRS 9							.00	.00	.00
Total comprehensive income		147,506.33		.00	-288,595.45	-5,156.16			-146,245.29
Treasury Shares								-369,071.29	-369,071.29
Appropriation		-2,000,000.00	2,000,000.00	.00	.00		.00	.00	.00
Reversal of appropriation		2,350,000.00	-2,350,000.00	.00	.00		.00	.00	.00
Balance at June 30, 2020 (As Audited)	282,545.96	633,078.10	2,000,000.00	889,431.21	-68,207.25	73,172.04	.00	-369,078.49	3,440,941.58
Total comprehensive income		-62,105.99							-62,105.99
Balance at September 30, 2020	282,545.96	570,972.11	2,000,000.00	889,431.21	-68,207.25	73,172.04	.00	-369,078.49	3,378,835.59

**CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSAND PESOS)**

	Three Months Ended September 30		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	-62,105.99	-62,408.24	-51,023.87
Adjustments for:			
Interest expense	15,732.12	14,871.77	11,457.07
Depreciation and amortization	29,754.69	33,909.77	32,181.94
Interest income	-112.71	-291.84	-8,892.48
Operating loss before working capital changes	-16,731.89	-13,918.54	-16,277.34
Provisions for (reversal of):			
Decrease (increase) in:			
Receivables	-64,673.00	13,069.99	-106,122.09
Inventories	125,686.07	67,297.28	105,306.41
Other current assets	-19,888.70	-23,163.33	-17,527.57
Increase (decrease) in:			
Trade and other payables	7,504.68	-7,206.62	-107,953.07
Deposits	405.31	485.35	556.69
Cash generated from (used for) operations	32,302.47	36,564.12	-142,016.98
Income tax paid		.00	.00
Net cash provided by (used in) operating activities	32,302.47	36,564.12	-142,016.98
CASH FLOWS FROM INVESTING ACTIVITIES			
Net disposals of (additions to) property, plant and equipment	-36,198.03	-50,381.49	-65,124.62
Decrease (increase) in other noncurrent assets	-3,010.19	-12,269.82	-511.73
Interest received	112.71	291.84	8,892.48
Net cash provided by (used in) investing activities	-39,095.52	-62,359.47	-56,743.88
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Interest	-15,732.12	-14,871.76	-13,798.55
Increase(decrease) in non current liabilities	-2,220.97	-1,817.14	484.19
Notes payable	-1,250.00		
Net cash provided by (used) in financing activities	-19,203.09	-16,688.89	-13,314.36
NET INCREASE (DECREASE) IN CASH	-25,996.14	-42,484.24	-212,075.22
CASH AT BEGINNING OF YEAR	261,264.56	213,611.50	355,179.30
CASH AT END OF YEAR	235,268.43	171,127.26	143,104.08

CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements

Corporate Information

Central Azucarera de Tarlac, Inc. (formerly Central Azucarera de Tarlac; CATI; the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 19, 1927. On January 27, 1976, the Board of Directors and the stockholders approved the extension of the corporate life of the Parent Company for another 50 years. The Parent Company and its wholly owned subsidiary, Luisita Land Corporation (LLC), collectively referred to as "the Group", are engaged in the production and sale of sugar and by-products, developing, leasing and selling real properties and other ancillary services.

As at June 30, 2019, the Parent Company is 71.40% owned by CAT Resource & Asset Holdings, Inc. (CRAHI). The ultimate parent is First Lucky Holdings Corporation.

On December 13, 2017, the Board of Directors (BOD) approved to amend its articles of incorporation by changing its corporate name from Central Azucarera de Tarlac to Central Azucarera de Tarlac, Inc.

LLC was incorporated and registered with the SEC on May 11, 1977. Currently, the subsidiary maintains and operates Luisita Industrial Park (LIP), Luisita Business Park (LBP) and Las Haciendas de Luisita (LHDL) in Tarlac and provides water distribution and wastewater treatment services to locators in LIP and residents of LHDL.

The registered office address and place of business of the Parent Company is San Miguel, Tarlac City.

2. Basis of Preparation, Statement of Compliance and Basis of Consolidation

Basis of Preparation

The consolidated financial statements have been prepared using historical cost basis, except for land under "Property, plant and equipment" account that has been measured at revalued amount, land under "Investment property" and investment in listed shares of stock under "Financial asset at FVOCI" (AFS financial assets in prior period) account that have been measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso) unit, which is the Parent Company's functional and presentation currency. All amounts are rounded to the nearest Peso, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous periods.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) which include the availment of the deferral granted by the Philippine SEC under Memorandum Circular No. 2019 as discussed in Note 3.

Basis of Consolidation

The consolidated financial statements include the financial results of the Parent Company and its subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit and loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognized in the consolidated statements of income. Any investment retained is recognized at fair value.

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

3. **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new standards and amendments for the year ended June 30, 2020:

PFRS 15, Revenue from Contracts with Customers

With the effectivity of PFRS 15 on July 1, 2018, as approved by Financial Reporting Standards Council (FRSC), the Philippine Interpretations Committee (PIC) issued Q&A 2019-3, Revenue Recognition Guidance for Sugar Millers, to assist companies operating in the sugar industry in the adoption of PFRS 15. PIC Q&A 2019-3 states that a miller should recognize revenue arising from its sugar milling operation under either output sharing agreement (OSA) or cane purchase agreement (CPA), and that providing free storage constitutes a separate performance obligation in the case of an output sharing agreement.

In response to concerns raised by the sugar industry on the implementation and adoption of PIC Q&A 2019-3, the Philippine SEC issued Memorandum Circular No. 06 on April 4, 2019, allowing the deferral of the application of the provisions of the above-mentioned PIC Q&A 2019-3 for a period of one (1) year.

The Group availed of the deferral of adoption of the above specific provisions. For the year ended June 30, 2020, the Group retrospectively adopted PIC Q&A No. 2019-3 effective July 1, 2018. In accordance with the modified retrospective approach under PFRS 15, the Group elected to apply the standard to all contracts that are not completed as at July 1, 2019. The Group assessed that the impact of the adoption on the July 1, 2018 consolidated financial statements is not significant to the consolidated financial statements taken as a whole. Accordingly, no adjustments were made in the July 1, 2018 opening balances. As of June 30, 2020, the Group now is in full compliance with PFRS 15 with its sugar business adopting the said standard, both under OSA and CPA.

The Group has determined that all contracts under PAS 18 qualify as contracts under PFRS 15. Under PAS 18, milling contracts entered into by the Group with the planters for the conversion of the planters' sugar cane into raw sugar through OSA is not considered as a revenue contract, but is now within the scope of PFRS 15. Planters are considered customers under this arrangement and the Group provides services to the planters in the form of conversion processes of sugar cane to raw sugar.

PFRS 16, Leases

PFRS 16 supersedes PAS 17, Leases, Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) 4, Determining whether an Arrangement contains a Lease, Standards Interpretation Committee (SIC) 15, Operating Leases - Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from PAS (Philippine Accounting Standards) 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

The Group has no material lease agreements, accordingly, the adoption of this standard did not have significant impact on the consolidated financial statements.

Amendments to PFRS 16, COVID-19-related Rent Concessions

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Group adopted the amendments upon its effectivity on June 1, 2020. The Group has no material lease agreements and no COVID-19 related rent concessions have been given, accordingly, the application of the amendments did not have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach

that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies judgement in identifying uncertainties over its income tax treatments. It assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax compliance review, in consultation with its tax counsel, that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements.

Amendments to PFRS 9, Prepayment Features with Negative Compensation

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments have no impact on the consolidated financial statements since the Group does not have similar transactions.

Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in statements of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding

amounts included in the net interest, is recognized in statement of comprehensive income.

These amendments have no impact on the consolidated financial statements since the Group does not have similar transactions.

Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, Investments in Associates and Joint Ventures.

Since the Group does not have such long-term interests in an associate and joint venture, the amendments had no impact on its consolidated financial statements.

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

These amendments have no impact on the consolidated financial statements of the Group as there is no similar transaction entered into by the Group during the year.

- Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in statements of income, statement of comprehensive income or equity according to where the entity originally recognized those past transactions or events.

These amendments have no impact on the consolidated financial statements as it has no financial instruments that are classified as equity.

- Amendments to PAS 23, Borrowing Costs - Borrowing Costs Eligible for Capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

These amendments have no impact on the consolidated financial statements of the Group as there are no other qualifying assets that would warrant borrowing costs capitalization.

New Accounting Standards, Interpretation and Amendments to Existing Standards Effective Subsequent to June 30, 2020

Pronouncements issued but not yet effective are listed below. The Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after July 1, 2020

- Amendments to PFRS 3, Definition of a Business
- Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies,

Changes in Accounting Estimates and Errors, Definition of Material

- Amendments to PFRS 7 and PFRS 9: Interest Rate Benchmark Reform
- The Conceptual Framework for Financial Reporting

Effective beginning on or after July 1, 2021

- PFRS 17, Insurance Contracts

Deferred effectivity

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

4. **Summary of Significant Accounting and Financial Reporting Policies**

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value

at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with the changes in fair value recognized in the consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheet based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

The Group measures financial instruments such as financial assets at FVOCI (AFS financial assets in 2018) and nonfinancial assets such as land carried at revalued amount and investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 29. Fair values are determined based on an annual evaluation performed by an accredited external appraiser applying a valuation model approved by the International Valuation Standards Committee.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs at the close of business on the reporting date. When current bid prices and asking prices are not available, the prices of the most recent transaction provide evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group measures fair value on its land, recognized as property, plant and equipment and investment property and financial assets at FVOCI (AFS financial assets in 2018).

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash

Cash includes cash on hand and in banks.

Financial Instruments - Classification and Measurement in Accordance with PFRS 9 (applicable in 2020 and 2019)

Classification of financial assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss (FVTPL)
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual Cash Flows Characteristics

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI on the principal amount outstanding.

Business Model

The Group's business model is determined at a level that reflects how groups of financial

assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial Assets at Amortized Cost

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the consolidated statement of income.

The Group's debt financial assets as at June 30, 2020 and 2019 consist of "Cash" and "Receivables" in the consolidated balance sheet. The Group assessed that the contractual cash flows of its debt financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Group concluded these debt financial assets to be measured at amortized cost.

Financial Assets at FVOCI

A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in consolidated statements of income until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to consolidated statements of income. This reflects the gain or loss that would have been recognized in consolidated statements of income upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL)

model.

The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to consolidated statements of income. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in consolidated statements of income, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in consolidated statements of income only when:

- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

Financial Assets at FVTPL

Financial assets at FVTPL are measured at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

Classification of Financial Liabilities

Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at FVTPL
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement
- financial guarantee contracts
- commitments to provide a loan at a below-market interest rate
- contingent consideration recognized by an acquirer in accordance with PFRS 3

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's financial liabilities measured at amortized cost as at June 30, 2020 and 2019 include "Trade and other payables" and "Short-term notes payable".

Reclassifications of Financial Instruments

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at FVTPL.

Financial Instruments - Initial Recognition and Subsequent Measurement in Accordance with PAS 39 (applicable in 2018)

Date of Recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial Recognition of Financial Instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Group also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

'Day 1' Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes

the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

(a) Financial assets or financial liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and considered as hedging instruments in an effective hedge.

Financial assets and liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets, liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial instruments contains an embedded derivative that would need to be recorded separately, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities at FVPL are recorded at the consolidated balance sheet at fair value. Subsequent changes in fair value are recognized in the consolidated statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payments has been established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(c) HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

(d) AFS investments

AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the consolidated statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established.

(e) Other financial liabilities

This category pertains to issued financial liabilities or their components that are neither held for trading nor designated as at FVPL upon the inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Other financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized, as well as through amortization process.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

- the rights to receive cash flows from the asset expires;
- 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.

When the Group retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Group's continuing involvement in the financial asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Modification of Contractual Cash Flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Financial Liabilities

A financial liability (or a part of 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 the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Impairment of Financial Assets in Accordance with PFRS 9 (applicable in 2020 and 2019)

PFRS 9 introduces the single, forward-looking "expected loss" impairment model. The Group recognizes ECL for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the balance sheet date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL

For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the balance sheet date are recognized.

Stage 2: Lifetime ECL - not credit-impaired

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - credit-impaired

Financial assets are credit-impaired when one or more events that have a detrimental impact

on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted EIR to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the balance sheet date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

Determining the Stage for Impairment

At each balance sheet date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the balance sheet date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to trade receivables. The Group has established a provision matrix for customer segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of Financial Assets in Accordance with PAS 39 (applicable in 2018)

Loans and Receivables

The Group assesses at each reporting date whether there is an objective evidence that a financial or group of financial assets is impaired. Objective evidences of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss on financial assets carried at amortized cost 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 asset's original EIR.

AFS Financial Assets

The Group assesses at each reporting date whether there is objective evidence that the AFS financial assets are impaired. If there is objective evidence that an impairment loss 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.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheet.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method for raw and refined sugar, alcohol, yeast, molasses and carbon dioxide, and using the moving average method for spare parts and supplies. NRV for raw sugar, alcohol, yeast, molasses and carbon dioxide is the selling price in the ordinary course of business less costs of conversion, marketing and distribution. NRV of spare parts and supplies is the current replacement cost.

Real Estate Held for Sale and Development

Real estate held for sale and development are carried at the lower of cost and NRV. NRV is the selling price in the ordinary course of business, less costs of completion and estimated costs to make the sale. Costs include acquisition cost of land, expenditures for development and improvements of the property and borrowing costs, if any.

Advances to Supplier

Advances to suppliers represent advance payment on goods or services to be purchased in connection with the Group's operations. These are recognized as an asset or charged against consolidated statements of income upon actual receipt of goods or services, which is normally within twelve months or within the operating cycle.

Advances for Land Maintenance

Advances for land maintenance pertains to costs advanced for future land preparation, planting and harvesting.

Property, Plant and Equipment

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

Cost also includes any asset retirement obligation and interest on borrowed funds used, if any. When assets are sold or retired, their costs and accumulated depreciation and amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income of such period.

Subsequently, property, plant and equipment, except for land, are stated at cost, less accumulated depreciation and amortization and impairment in value, if any. Land is carried at revalued amount, which is the fair value at the date of the revaluation. Valuations are performed annually which management believes is sufficient enough to ensure that the fair value of revalued assets does not differ materially from its carrying amount.

Any revaluation surplus, net of tax, is credited to the "Revaluation increment" account included in the equity section of the consolidated balance sheet. Revaluation increase, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of income, is recognized in the consolidated statement of comprehensive income. A revaluation decrease, except to the extent that it reverses a revaluation increase of the same asset previously recognized in the consolidated statement of comprehensive income, is recognized in the consolidated statement of income.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by the Group. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through the consolidated statement of income.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Category</u>	<u>Number of years</u>
Machinery and equipment	2-40 years
Agricultural machinery and equipment	5-20 years
Buildings and improvements	2-50 years
Transportation equipment	2-25 years
Land improvements	5-15 years
Furniture, fixtures and equipment	2-10 years
Communication and utility systems	2-10 years
Roads and bridges	5-30 years

The useful life of each of the property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice and experience with similar assets.

The assets' residual values, useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial year-end.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the item is derecognized.

Fully depreciated and amortized property, plant and equipment are retained in the accounts until they are no longer in use.

Construction in progress is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and become available for operational use.

Investment Property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gain or loss arising from changes in the fair values of investment properties is included in the consolidated statement of income in the period in which they arise, including the corresponding tax effect, if any.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset, at the beginning of the year when the disposal is made, is recognized in the consolidated statement of income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. In the case of an owner-occupied property becoming an investment property, previously recognized revaluation surplus is retained until such time that the property is disposed. On subsequent disposal, the revaluation surplus may be transferred to retained earnings; note that this transfer is not made through the consolidated statement of income.

Impairment of Nonfinancial Assets

Property, Plant and Equipment and Advances

The Group assesses at each reporting date whether there is an indication that these nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. The asset's or cash generating unit's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the asset. Any impairment loss is recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. The Group assesses whether there are any indicators that goodwill is impaired at each reporting date.

Impairment is determined for goodwill by assessing the recoverable amount of the CGUs, to which the goodwill relates. Where the recoverable amount of the CGUs is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs impairment test of goodwill annually (as at June 30) or when an impairment indicator exists.

Customers' Advances

Customers' advances are recognized in "Trade and other payables" when cash is received from customers for services to be rendered or for goods to be delivered in the future.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Equity

Capital Stock

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax.

Retained Earnings

Retained earnings include cumulative profits and are reduced by dividends. Retained earnings also include effect of changes in accounting policies as may be required by the standards' transitional provisions. When retained earnings account has a debit balance, it is called

'deficit' a deficit is not an asset but a reduction from equity.

Revaluation Increment

Revaluation increment consists of the revaluation adjustment made on its property, plant and equipment being carried at revalued amount, net of tax.

Treasury Shares

The Group's capital stocks which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own shares of stocks. Any difference between the carrying amount and the consideration is recognized in the "Additional paid-in capital" account in the consolidated balance sheet.

Revenue Recognition (PFRS 15)

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

Revenue Recognition (PAS 18)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Sales are measured at the fair value of the consideration received, net of discounts and returns. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements.

The following specific recognition criteria are also being considered under PAS 18 and PFRS 15:

Sale of Sugar (PFRS 15 and PAS 18)

Sale of sugar is recognized upon endorsement and transfer of quedans and/or issuance of a sugar release order in the name of the customer which represents ownership title over the sugar.

Milling Income (PFRS 15)

Revenue from milling services is recognized at a point in time upon conversion of the planters' canes into raw sugar. This would generally coincide at the time of endorsement of quedans to the planters for their share.

Sale of By-Products (PFRS 15 and PAS 18)

Sale of by-products, which includes molasses, alcohol, carbon dioxide and yeasts, is recognized upon shipment or delivery and acceptance by the customers.

Tolling Fee (PFRS 15 and PAS 18)

Revenue is recognized when services have been rendered.

Industrial Services (PFRS 15 and PAS 18)

Revenue from industrial services, which include water and wastewater treatment services and locator fees are recognized as the services are rendered.

Sale of Real Estate (PFRS 15)

The Group derives its real estate revenue from the sale of lots. Revenue from the sale of these real estate projects under pre-completion stage, if any, are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date/ milestones reached/ time elapsed. This is prepared based on the project accomplishment report prepared by the management's project specialists as approved by the project manager which integrates the surveys of performance of the construction activities to date.

Sale of Real Estate (PAS 18)

Revenue from sale of real estate is accounted for using the full accrual method. The Group assesses whether it is probable that the economic benefits will flow to the Group when the contract price is collectible. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuing investments that motivate the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

The Group recognizes revenue in full when the buyer has paid 25% of the selling price for property sold. The Group determines that the significant risks and rewards of the property sold are transferred to the buyer at this point.

Other Income (PFRS 15 and PAS 18)

This includes revenue recognized when earned from sources other than the normal business operations of the Group.

Expenses

Cost of Goods Sold and Milling and Tolling Services

These are the direct and allocated indirect costs that are incurred upon processing of the Group's products and rendering of the Group's milling and tolling services. These are recognized when the related goods are sold and the related services are rendered.

Cost of Industrial Services

Costs that are directly related to water and wastewater treatment services and are recognized when incurred.

Cost of Real Estate Sales

Costs from the sale of real estate are recognized when the buyer makes a down payment upon which the significant risks and rewards of the land are transferred.

Operating Expenses

These are expenses that are related to cost of administering and selling functions of the Group. These expenses are recognized when incurred.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred Income Tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and tax losses can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to

apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside the consolidated statement of income is recognized outside the consolidated statement of income. Deferred income tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Value-added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to, the tax authority is included as part of "Other current assets" or "Trade and other payables" accounts, respectively, in the consolidated balance sheet.

Retirement Cost

The Group has a funded, noncontributory defined benefit retirement plan, covering substantially all of its permanent employees. Retirement expense is actuarially determined using the projected unit credit method. This method reflects discount rate, salary increase and average working lives of employees to the date of valuation. Retirement benefit costs comprise the following:

- service cost,
- net interest on the net defined benefit liability or asset, and
- remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund (other than non-transferable financial instruments issued by the reporting entity). Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a pre-tax discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of plan assets is higher than the present value of defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Segment Information

For management purposes, the Group is organized and managed separately according to the nature of the business. These operating businesses are the basis upon which the Group reports its segment information presented in Note 6 to the consolidated financial statements.

An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- (b) with operating results regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; and
- (c) for which discrete financial information is available.

Earnings Per Share (EPS)

Earnings per share is computed by dividing the net income attributable to equity holders of the Group by the weighted average number of shares outstanding during the year adjusted to give retroactive effect to any stock dividends declared during the year.

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Group for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is computed in the same manner, adjusted for the effect of any potential dilutive shares. As the Group has no dilutive potential common shares outstanding,

basic and diluted EPS are the same.

Contingencies

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

Events after the Reporting Date

Events after the reporting date that provide additional information about the Group's financial position at the reporting date (adjusting events), are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. **Summary of Significant Accounting Judgments, Estimates and Assumptions**

The consolidated financial statements prepared under PFRSs require management to make judgments, estimates and assumptions, that affect the amounts reported in the consolidated financial statements and related notes. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effect of any change in judgments, estimates and assumptions are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following items are those matters which the Group assess to have significant risks arising from judgements and estimation uncertainties.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition on Sale of Goods and Services

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint; and (d) recognition of revenue as the Group satisfies the performance obligation.

a. Existence of a Contract

The Group enters into a contract with customer through an approved purchase order which constitutes a valid contract as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified. In the case of sales to key accounts and distributors, the combined approved purchase order and trading terms agreement/exclusive distributorship agreement constitute a valid contract. In addition,

part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

b. Identifying Performance Obligation

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract. Based on management's assessment, other than the sale of goods and services, no other performance obligations were identified except in the case of milling income.

c. Recognition of Revenue as the Group Satisfies the Performance Obligation

The Group recognizes its revenue for all revenue streams at a point in time, when the goods are sold and delivered and when services are already rendered.

d. Recognition of Milling Income under OSA and CPA

The Group applies both OSA and CPA in relation to milling operation. Under the OSA, milling income is recognized based on the fair value of the mill share at average raw sugar selling price in the week with sugar production after considering in-purchase rate, which represents CPA. Under the CPA, the Group purchases raw sugar from the traders and/or planters. The in-purchase rate is derived by determining the total raw sugar purchases and the total planters' share. Raw production costs are allocated systematically based on the OSA and CPA rates.

Classification of Property

The Group determines whether a property is classified as real estate held for sale and development, investment property or property plant and equipment based on the following:

Real estate held for sale include land developed into a first-class residential subdivision and an industrial community. Real estate held for development pertain to land that are still undeveloped.

Investment property comprises land which is not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily for capital appreciation.

Property, plant and equipment is held for use in the supply of goods or services or for administrative purposes.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowance for Credit Losses

Impairment of Financial Assets at Amortized Cost based on PFRS 9

Starting July 1, 2018, the Group uses ECL in calculating its impairment. In the case of trade receivables, a provision matrix is established.

The calculation is initially based on the Group's historical observed default rates. The Group will calibrate the calculation to adjust historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast economic conditions may also not be representative of the customers' actual default in the future.

- *Stage 3 - Credit Impaired Financial Assets*
The Group determines impairment for each significant financial asset on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the financial assets. Financial assets included in the specific assessment are the accounts that have been endorsed to the legal department and nonmoving financial assets.
- *Inputs, Assumptions and Estimation Techniques in ECL Calculation*
ECL calculation is performed for those financial assets that are not credit impaired. The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. A significant increase is assessed to have occurred if there are significant payment delays, declining operating performance of the borrower, among others. ECLs are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financial assets. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by counterparty or by customer segments.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different counterparties or customers. These LGD's are influenced by collection strategies including contracted debt sales and price.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs change are monitored and reviewed quarterly.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of Forward-looking Information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The macro-economic variables include the following key indicators for the Philippines: unemployment rates, inflation rates, gross domestic product growth and net personal income growth.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

As at September 30, 2020 and June 30, 2020, the allowance for credit loss on receivables amounted to ₱22.0 million. The carrying amounts of receivables as at September 30, 2020 and June 30, 2020 amounted to ₱946.1 million and ₱881.4 million, respectively (see Note 8).

Allowance for Inventory Obsolescence

The Group provides allowance for inventories whenever NRV of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The allowance account is reviewed on a monthly basis to reflect the accurate valuation in the financial records. Inventories identified to be obsolete and unusable are written-off and charged as expense for the period.

The carrying amounts of inventories as at September 30 and June 30, 2020 amounted to ₱ 111.4 million and ₱ 237.1 million, respectively (see Note 9). The allowance for inventory obsolescence as at September 30, 2020 and June 30, 2020 amounted to ₱5.8 million.

Impairment of AFS Financial Assets (Prior to adoption of PFRS 9)

The Group treats AFS as impaired when there has been a significant or prolonged decline in the fair value below its costs or other objective evidence of impairment exists. The

determination of what is "significant" or "prolonged" requires judgment. The Group generally treats a decline of 20% or more of the original cost of investments as "significant", and a period greater than six months as "prolonged". In addition, the Group evaluates other factors including normal volatility in share prices for quoted securities and the future cash flows and discounted factors for unquoted securities.

If assumptions are made regarding the duration and extent to which the fair value is less than cost, the Group would suffer an additional loss representing the write down of cost to its fair value.

No provision for impairment of AFS financial assets was recognized in 2018.

NRV of Real Estate held for Sale and Development

The Group provides allowance for decline in value of real estate inventories whenever NRV of inventories becomes lower than cost due to damage, physical deterioration, change in price levels or other causes. Estimates of NRV are based on the most realizable evidence available at the time the estimates are made, of the amount the inventories are expected to realize.

There was no allowance for decline in real estate inventory value in 2020 and 2019. The carrying amounts of real estate inventories as at September 30, 2020 and June 30, 2020 amounted to ₱ 988.5 million (see Note 10).

Revalued Amount of Land under Property, Plant and Equipment and Fair Value of Investment Property

The Group has property, plant and equipment and investment property carried at revalued amount and fair value, respectively. These consist of land which is being valued by reference to market using comparable prices adjusted for specific market factors such as location and condition of the property. The Group engaged an external appraiser to determine revalued amount and fair value as at June 30, 2020.

The significant methods and assumptions used by the appraiser in estimating fair values of land are discussed in Note 29. The revalued amount of land under property, plant and equipment as at June 30, 2020 amounted to ₱996.8 million (see Note 15). The fair value of land under investment property amounted to ₱437.3 million as at June 30, 2020 (see Note 15).

Estimated Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the property, plant and equipment are expected to be available for use. The estimated useful lives of the property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment. In addition, the estimation of the useful lives of property, plant and equipment is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the

estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the noncurrent assets.

The carrying values of property, plant and equipment carried at cost as at September 30, 2020 and June 30, 2020 amounted to ₱507.6 million and ₱501.2 million, respectively (see Note 14).

Impairment of Nonfinancial Asset

The Group assesses whether there are any indicators of impairment for property plant and equipment and advances 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 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.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make judgments and estimates that can materially affect the consolidated financial statements.

There were no provisions for impairment losses recognized in 2020. The fair values of land under property plant and equipment as at September 30, 2020 and June 30, 2020 amounted to ₱996.8 million (see Note 15). The carrying amounts of property, plant and equipment carried at cost as at September 30, 2020 and June 30, 2020 amounted to ₱507.6 million and ₱501.2 million, respectively (see Note 14). The carrying amounts of advances as at September 30, 2020 and June 30, 2020 amounted to ₱342.3 million and ₱320.9 million, respectively (see Notes 11 and 16).

Estimating Impairment of Goodwill

The Group performs impairment review on goodwill annually, or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. This requires an estimation of the value in use of the CGU to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and to make use of a suitable discount rate to calculate the present value of those future cash flows.

The carrying amount of goodwill as at September 30, 2020 and June 30, 2020 amounted to ₱502.4 million. Goodwill impairment recognized in 2018 amounted to ₱199.7 million. No impairment was recognized in 2020 and 2019 (see Note 12).

Deferred Income Tax Assets

The Group reviews the carrying amount of deferred income tax assets at each reporting date and reduces its amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred income tax asset to be recovered.

The Group's deferred income tax assets arising from temporary differences as at June 30, 2020 amounted to ₱33.9 million.

Retirement Plan

The determination of the obligation and cost for retirement is dependent on the selection of certain assumptions determined by management and used by actuaries in calculating such amounts. These include discount rate, turnover rate, mortality rate, salary increase rate and future retirement benefits increase. Due to the complexity of the valuation, the underlying assumptions, and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligation.

Retirement income recognized in 2020 amounted to ₱11.9 million. The carrying amounts of the Group's net retirement plan liability amounted to ₱22.4 million as at June 30, 2020 while the Group's net retirement plan asset amounted to P=378.0 million as at June 30, 2019 (see Note 24).

6. **Segment Information**

The Group's operating businesses are organized and managed according to the nature of the products and services marketed, with each segment representing a strategic business unit that offers different products and serves different markets. The Group has operations only in the Philippines. The Group derives revenues from two main segments as follows:

Sugar and by-products

This segment pertains to the production of sugar (raw and refined) and its by-products such as molasses, alcohol and carbon dioxide.

Real estate and industrial services

This segment pertains to developing, leasing and selling real properties and other ancillary services.

2020

	Sugar and by products	Real Estate	Eliminations	Total
Revenues	209,149.29	9,881.08		219,030.36
Cost of goods sold and services	243,090.32	4,269.99		247,360.31
Gross income	-33,941.03	5,611.09	.00	-28,329.94
Operating expenses	21,944.08	2,806.64		24,750.72
Other income (expenses)				
Interest expense	-15,548.21	-183.91	.00	-15,732.12
Interest income	77.08	35.63	.00	112.70
Other income - net	5,173.34	1,420.75		6,594.09
Segment income before income tax	-66,182.91	4,076.92	.00	-62,105.99
Segment assets	5,484,142.43	838,863.56	-1,022,355.01	5,300,650.98
Segment liabilities	1,801,821.23	1,694,535.14	-1,574,540.98	1,921,815.39

Inter-segment income and advances are eliminated upon consolidation and reflected in the elimination column.

7. Cash and Cash Equivalents

	As of September 30, 2020	As of June 30, 2020
Cash on hand and in banks	233,819.18	259,537.98
Cash equivalents	1,449.25	1,726.58
	235,268.43	261,264.56

Cash in banks earn interest at the respective bank deposit rates. Interest rates range from 1.50% to 2.38% per annum.

Interest income earned from cash in banks amounted to ₱0.1 million and ₱.5 million in September 30, 2020 and June 30, 2020 respectively.

8. Receivables

	As of September 30, 2020	As of June 30, 2020
Trade:		
Non-affiliates	60,452.83	77,479.45
Affiliates		
Nontrade:		
Due from related parties	839,230.61	763,587.68
Notes receivable	8,522.23	2,622.23
Planters' receivable	13,610.87	10,747.50
Advances to:		
Directors, officers and employees	14,640.08	12,960.93
Tarlac Development Corporation (TDC)	24,951.37	24,951.28
Luisita Golf and Country Club, Inc. (LGCCI)	6,325.25	613.81
Others	335.66	10,433.03
	968,068.91	903,395.91
Less allowance for doubtful accounts - nontrade	22,016.27	22,016.27
	946,052.64	881,379.64

Trade receivables are noninterest-bearing and are generally on 30 to 60-day credit terms.

Notes receivable pertains to the loan agreement entered into in 2019 that are subject to 6.5% interest per annum.

Advances to TDC and LGCCI pertain to advances made by the Group to its previous affiliates which are unsecured, non-interest bearing and is due upon demand.

Movements in the allowance for credit losses are summarized below:

	September 30, 2020		
	Trade	Non Trade	Total
Balance at beginning of year	2,962.27	19,054.00	22,016.27
Effect of adopting PFRS 9			.00
Reversals/write off			.00
Balance	2,962.27	19,054.00	22,016.27

	June 30, 2020		
	Trade	Non Trade	Total
Balance at beginning of year	3,052.74	5,976.97	9,029.71
Effect of adopting PFRS 9		13,110.21	13,110.21
Reversals/write off	-90.47	-33.18	-123.65
Balance	2,962.27	19,054.00	22,016.27

9. Inventories

	As of September 30, 2020	As of June 30, 2020
At cost:		
Alcohol	24,619.42	112,811.42
Raw sugar		
CO2	.00	160.61
Molasses	8,359.11	49,814.56
At NRV:		
Spare parts and supplies	54,662.42	50,540.44
Raw sugar	23,748.26	23,748.26
	111,389.22	237,075.29

10. Real Estate Held for Sale and Development

	As of September 30, 2020	As of June 30, 2020
Land held for development	981,516.36	981,516.36
Land available for sale	6,978.02	6,978.02
	988,494.38	988,494.37

Land held for development pertains to land that are still undeveloped.

Land available for sale includes land situated inside a first class residential subdivision and industrial community at LHDL, San Miguel, Tarlac.

11. Other Current Assets

	As of September 30, 2020	As of June 30, 2020
Advances to suppliers - net of allowance	200,207.20	181,775.67
CWT	22,849.89	18,950.54
Prepaid tax	1,202.47	2,931.97
Prepaid insurance	1,658.63	888.68
Input tax	45.62	
Others	566.99	2,095.24
	226,530.81	206,642.11

Advances to suppliers include payments made to suppliers for goods and services to be received in the future.

12. Goodwill

The Group performed its impairment review of goodwill as at June 30, 2020 and 2019. Based on the impairment review as at June 30, 2020 and 2019, the recoverable amount exceeded the carrying value of the CGU, including goodwill, thus, no impairment loss was recognized. In 2018, the carrying value of the CGU, including goodwill, exceeded the recoverable amount by ₱199.7 million. This was recognized as an impairment loss under "Other income - net" account for the year ended June 30, 2018.

CGU pertains to the Parent Company's investment in LLC. Recoverable amount pertains to the CGU's value in use. Value in use was derived using cash flow projections based on financial budgets approved by senior management covering a five-year period and the expected realization of LLC's real estate inventory. Cash flows beyond the five-year period are extrapolated using a 2.40% and 3.5% growth rate as at June 30, 2020 and 2019, respectively. Discount rate applied to the cash flow projections in determining value in use is 8.01% and 10.76% as at June 30, 2020 and 2019, respectively.

The calculations of value in use of goodwill are most sensitive to the following assumptions:

- a) Discount rate - Discount rate were derived from the Group's weighted average cost of capital and reflect management's estimate of risks within the CGU. This is the benchmark used by the management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rate, regard has been given to various market information, including, but not limited to, ten-year government bond yield, bank lending rates and market risk premium and country risk premium.
- b) Growth rate - The long-term rate used to extrapolate the budget for the investee company excludes expansions and possible acquisitions in the future. Management also recognizes the possibility of new entrants, which may have significant impact on existing growth rate assumptions. However, management believes that new entrants will not have a significant adverse impact on the forecast included in the budget.

- c) Selling price of LLC's real estate inventory - The estimated selling price is based on current market price as adjusted to consider future development in the vicinity which will result to increased value of existing land once the sale is consummated.

Sensitivity to Changes in Assumptions

The sensitivity analysis below shows by how much each significant assumption should increase (decrease) before any impairment of goodwill is recognized, assuming all other assumptions were held constant:

<u>Significant Assumptions</u>	2020	2019
Discount rates	3.97%	3.34%
Selling price	(12.85%)	(11.22%)

No reasonably possible change in the growth rate would cause the carrying amount of the CGU to exceed its recoverable amount.

13. **Financial assets at FVOCI**

	As of September 30, 2020	As of June 30, 2020
Proprietary shares	112,140.00	112,140.00
Investment in shares of stock:		
Listed	376.50	376.50
Unlisted	162.00	162.00
	112,678.50	112,678.50

The movements in financial assets at FVOCI in 2020 are as follows:

	As of September 30, 2020	As of June 30, 2020
Balances at beginning of year	73,172.04	78,328.20
Effect of adoptin PFRS 9		
Unrealized losses on financial assets at FVOCI		-5,156.16
	73,172.04	73,172.04

The fair value of the listed shares of stock and proprietary shares are determined with reference to published price quotations in an active market. Management intends to dispose the financial assets at FVOCI, both listed and unlisted and proprietary shares, when the need arises.

14. **Property, Plant and Equipment - at cost**

September 30, 2020

	Machinery and equipment	Agricultural machinery and equipment	Land improvements	Buildings and improvements	Transportation equipment	Furniture, fixtures and equipment	Communication and utility systems	Roads and bridges	Construction in-progress	Total
Cost:										
Balances at beginning of year	798,756.53	174,134.56	32,651.52	140,121.43	50,989.94	24,081.55	2,756.63	8,245.13	25,746.45	1,257,483.74
Additions	15,531.75	7,473.21	.00	360.09	24.69	549.45	.00	.00	29,941.02	53,880.21
Disposal	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Reclassifications	.00	.00	.00	.00	.00	.00	.00	.00	-17,677.73	-17,677.73
Balances at end of year	814,288.28	181,607.78	32,651.52	140,481.52	51,014.63	24,631.00	2,756.63	8,245.13	38,009.74	1,293,686.22
Accumulated depreciation and amortization:										
Balances at beginning of year	539,172.04	67,632.34	15,596.29	78,485.74	31,384.48	13,490.16	2,278.61	8,245.11	.00	756,284.77
Depreciation and amortization	20,667.78	3,420.18	559.04	2,377.73	2,238.77	866.64	76.39	.00	.00	30,206.53
Disposal	.00	.00	.00	.00	-447.39	.00	.00	.00	.00	-447.39
Balances at end of year	559,839.81	71,052.52	16,155.33	80,863.47	33,175.86	14,356.81	2,355.00	8,245.11	.00	786,043.91
Net book values	254,448.47	110,555.26	16,496.19	59,618.06	17,838.76	10,274.19	401.63	.02	38,009.74	507,642.31

June 30, 2020

	Machinery and equipment	Agricultural machinery and equipment	Land improvements	Buildings and improvements	Transportation equipment	Furniture, fixtures and equipment	Communication and utility systems	Roads and bridges	Construction in-progress	Total
Cost:										
Balances at beginning of year	1,722,436.87	160,443.49	61,012.79	157,891.30	48,174.88	51,124.71	8,517.45	12,350.55	30,542.54	2,252,494.59
Additions	8,420.97	13,691.07	3,647.99	235.65	1,650.46	2,707.88	140.78	.00	48,335.55	78,830.35
Disposal	-961,383.13	.00	-32,009.26	-37,723.09	-42.68	-32,676.02	-5,901.61	-4,105.43	.00	-1,073,841.20
Reclassifications	29,281.82	.00	.00	19,717.57	1,207.29	2,924.97	.00	.00	-53,131.65	.00
Balances at end of year	798,756.53	174,134.56	32,651.52	140,121.43	50,989.94	24,081.55	2,756.63	8,245.13	25,746.45	1,257,483.74
Accumulated depreciation and amortization:										
Balances at beginning of year	1,406,553.34	50,283.95	43,286.85	108,675.83	20,324.56	42,603.01	7,823.01	12,350.54	.00	1,691,901.08
Depreciation and amortization	94,001.82	17,348.39	4,318.70	7,533.00	11,102.61	3,563.18	357.21	.00	.00	138,224.90
Disposal	-961,383.13	.00	-32,009.26	-37,723.09	-42.68	-32,676.02	-5,901.61	-4,105.43	.00	-1,073,841.20
Reclassifications	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Balances at end of year	539,172.04	67,632.34	15,596.29	78,485.74	31,384.48	13,490.16	2,278.61	8,245.11	.00	756,284.77
Net book values	259,584.50	106,502.22	17,055.23	61,635.70	19,605.46	10,591.38	478.02	.02	25,746.45	501,198.97

15. Land

Land recognized under property, plant and equipment is carried at revalued amount of ₱ 996.8 million as at June 30, 2020 and 2019.

The fair value, categorized as Level 3 in the fair value hierarchy, is based on valuations determined by an independent appraiser, accredited by the Philippine SEC, as at June 30, 2020 and 2019.

The valuation models used by the appraiser are in accordance with that recommended by the International Valuation Standards Council and is based on the land's highest and best use.

The fair value of the land is determined using the market data (direct sales comparison) approach. Under this approach, a property's fair value is estimated based on comparable properties sold in the market against the subjected property. The weight given to each comparable property is dependent on the availability of recent confirmed sales of properties considered comparable to the property being appraised. These sold properties are compared to the property being appraised based major categories of comparison. Adjustments are made to account for identified differences against the comparables, resulting in adjusted sales values for each of the comparable.

Property and Equipment

Movements in land at revalued amount recognized under property, plant and equipment are summarized below:

	September 30, 2020	June 30, 2020
At beginning of year	996,790.40	996,790.40
Reclassification to investment property		
Revaluation Increment		
	996,790.40	996,790.40

Investment Property

Movements in land at fair value recognized under investment property are summarized below:

	September 30, 2020	June 30, 2020
Balances at beginning of year	437,264.08	437,264.08
Change in fair value of investment property		.00
Reclassification from property, plant and equipment		.00
Sale of investment property		.00
	437,264.08	437,264.08

The value of land recognized under investment properties if carried at cost as at June 30, 2020 is ₱239.9 million.

Sale of investment property made on an installment basis over a period of six years pertains to the sale of land in April 2018 which resulted to the recognition of gain amounting to ₱ 515.4 million, net of tax of ₱174.0 million, for the year ended June 30, 2018.

Also on the same date, the Group entered into a deed of assignment effectively transferring all the risk and reward of collection of the installment receivable, on a non-recourse basis, for a consideration resulting to the recognition of gain amounting to ₱36.7 million for the year ended June 30, 2018.

16. Other Noncurrent Assets

	As of September 30, 2020	As of June 30, 2020
Advances for land maintenance	142,106.74	139,095.58
Recoverable deposits	59,783.20	69,316.46
Others	34,231.71	24,699.42
	236,121.65	233,111.46

Advances for land maintenance refers to cash advanced for purposes of future land preparation activity.

17. Trade and Other Payables

	As of September 30, 2020	As of June 30, 2020
Trade payables	254,852.06	252,052.94
Accruals:		
Freight and transportation	42.73	42.63
Interest and penalties	3,715.39	3,707.10
Spare parts, supplies and inventory cost	131,500.52	131,207.03
Taxes	4,054.01	4,044.96
Professional fees	5,295.07	5,283.26
Salaries, wages and other benefits	14,692.27	14,659.48
Others	26,763.09	26,703.36
Advances from related parties	11,632.88	11,632.88
Dividends payable	1,041.21	1,041.21
Estimated liability for cash surrender value	178.20	1,528.69
Customers' advances	3,303.90	618.21
Other payables	12,165.16	9,210.07
	469,236.49	461,731.81

Trade payables are non-interest bearing and are generally settled within a 30-day credit term.

18. Notes Payable

Short-term Bank Notes

	As of September 30, 2020	As of June 30, 2020
Working capital facilities	988,750.00	990,000.00
Promissory notes	17,841.47	17,841.47
	1,006,591.47	1,007,841.47

Working Capital Facilities Agreement (WCFA)

The Group has an existing WCFA with BDO. Under the WCFA, the Group availed short-term loan totaling up to ₱988.7 million, as at September 30, 2020, at 6.50% interest rate per annum and ₱990.0 million, as at June 30, 2020, at 6.50% interest rate per annum.

Promissory Notes

The promissory notes are for a period of one year or shorter with an interest rate of 6.50% per annum and to be repriced every 30 to 180 days as agreed by the parties.

Total interest expense incurred for all short-term notes amounted to ₱15.7 million and ₱66.5 million as at September 30, 2020 and June 30, 2020, respectively.

Long Term Loan

On October 15, 2014, the Group obtained a long-term interest-bearing loan from a local bank amounting to ₱2.1 billion using portion of the Group's land as collateral. Net proceeds from the loan amounted to ₱2.1 billion and transaction costs incurred amounted to ₱32.0 million which will be amortized throughout the term of the loan using the effective interest rate method. The principal of the loan will be repaid in five equal annual installments amounting to ₱21.0 million starting July 15, 2015 until July 15, 2019 and the remaining balance to be paid on October 14, 2019. The loan is equally divided into two series amounting to ₱1,050.0 million each for the purposes of interest computation. Series A incurs an interest of 5.25% per annum or PDST-R1 on the interest selling date plus a spread of 137 basis points, whichever is higher. Series B incurs an interest of 4.0% per annum of the prevailing BSP Overnight Repurchase Rate on the interest selling date plus a spread of 25 basis points, whichever is higher. For the year ended June 30, 2018, the interest expense related to this loan amounted to ₱83.8 million, including amortization of the transaction cost amounting to ₱5.0 million.

On April 4, 2018, the Group pre-terminated the loan from BDO Unibank for a total consideration of ₱2.0 billion which resulted to the recognition of loss on early retirement amounting to ₱10.5 million.

19. **Cost of Goods Sold**

	Three Months Ended September 30		
	2020	2019	2018
Salaries, wages bonuses and other benefits	16,823.91	15,590.87	14,824.29
Repairs & Maintenance	3,743.70	1,679.53	1,828.16
Inventory cost, spare parts and supplies	168,284.25	87,011.17	106,271.57
Depreciation and amortization	25,228.50	29,959.48	27,843.90
Freight and transportation	2,333.52	2,888.39	745.90
Security and outside services	10,047.17	8,108.80	6,631.69
Power and steam	8,243.55	4,961.25	9,402.79
Insurance	1,368.65	1,269.23	983.14
Taxes and licenses	817.00	422.64	637.79
Others	335.17	2,948.26	1,498.58
	237,225.42	154,839.62	170,667.81

20. **Cost of Tolling Services**

	Three Months Ended September 30		
	2020	2019	2018
Salaries, wages bonuses and other benefits	2,125.85	2,178.86	2,191.47
Repairs & Maintenance	76.09	327.85	3,718.08
Spare parts and supplies	19.25	1.41	2,737.99
Depreciation and amortization	1,778.93	2,387.31	2,879.11
Freight and transportation	417.30	558.81	476.60
Security and outside services	152.99	41.87	185.31
Power and steam	433.93	963.11	280.22
Insurance	154.63	150.94	80.01
Taxes and licenses	696.25	538.23	670.85
Others	9.68	136.90	54.29
	5,864.90	7,285.28	13,273.94

21. Cost of Industrial Services

	Three Months Ended September 30		
	2020	2019	2018
Salaries, wages bonuses and other benefits	60.77	57.24	1,133.75
Repairs & Maintenance	225.45	378.51	743.80
Materials	156.59	204.00	262.35
Depreciation and amortization	559.04	515.68	473.60
Security and outside services	917.63	911.27	890.93
Service Cost	735.68	744.13	.00
Professional fee	.00	99.50	874.16
Freight & transportation	.31	25.97	20.61
Power and steam	1,215.00	1,399.63	1,490.50
Insurance	2.44	2.45	2.94
Taxes and licenses	156.94	129.50	40.80
Others	240.14	127.17	1,003.28
	4,269.99	4,595.07	6,936.72

22. Operating Expenses

	Three Months Ended September 30		
	2020	2019	2018
Salaries, wages bonuses and other benefits	7,774,181	7,273,853	7,438,768
Repairs & Maintenance	581,270	873,304	970,099
Management fees and bonuses	70,000	100,000	60,000
Taxes and licenses	2,650,704	2,283,552	2,387,305
Depreciation and amortization	2,037,082	883,250	861,787
Transportation and travel	1,633,449	1,563,689	2,977,175
Security and outside services	1,132,126	1,281,848	881,967
Rentals	-	918,734	1,023,462
Light and water	84,203	162,400	70,265
Entertainment, amusement and recreation	85,324	136,281	237,194
Professional fees	5,049,257	4,785,496	5,234,421
Dues and advertisements	71,500	146,243	147,667
Postage, telephone and telegram			117,615
Others	774,983	565,254	2,203,479
	21,944,080	20,973,905	24,611,205

23. Nature of Expense

Depreciation and amortization included in the consolidated statements of income are as follows:

	Three Months Ended September 30		
	2020	2019	2018
Cost of goods sold (see Note 21)	25,228.50	29,959.48	27,843.90
Cost of tolling services (see Note 22)	1,778.93	2,387.31	2,879.11
Cost of industrial services (see Note 23)	559.04	515.68	473.60
Operating expenses (see Note 24)	2,188.21	1,047.30	985.33
	29,754.69	33,909.77	32,181.94

Personnel costs included in the consolidated statements of income are as follows:

	Three Months Ended September 30		
	2020	2019	2018
Cost of goods sold			
Salaries, wages, bonuses and other benefits	16,823.91	15,590.87	14,824.29
Cost of tolling services			
Salaries, wages, bonuses and other benefits	2,125.85	2,178.86	2,191.47
Cost of industrial services			
Salaries, wages, bonuses and other benefits	60.77	57.24	1,133.75
Operating expenses			
Salaries, wages, bonuses and other benefits	8,092.22	7,538.06	7,931.37
	27,102.76	25,365.03	26,080.89

24. Retirement Cost

Parent Company

The Parent Company maintains a tax-qualified, funded, noncontributory defined benefit retirement plan covering substantially all of its permanent employees. The benefits are based on years of service and compensation during the latest year of employment. The latest retirement valuation was made as at June 30, 2020.

The fund is administered by Luisita Trust Fund (LTF) under the supervision of LTF's Board of Trustees. The Board of Trustees defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plans' objectives, benefit obligations and risk capacity. The defined benefit retirement plan meets the minimum retirement benefit specified under Republic Act (RA) No. 7641, *Retirement Pay Law*.

25. **Related Party Transactions**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

26. **Agreements**

Milling Agreements

The Group's milling agreements with various planters provide for a 67.0% and 33.0% sharing between the planters (including related parties) and the Group, respectively, of sugar and molasses produced every crop year. As a consequence of the milling agreements and tolling contracts (for refined sugar) with planters and traders, the Group holds the sugar stock of the planters and traders for safekeeping.

Lease Agreement

In previous years, the Group transferred its main office and entered into an operating lease agreement with First Lucky Place Corporation, commencing on December 1, 2014 ("initial Lease Term"), extendible at the option of the Lessee for an additional period of three years ("extended Lease Term") subject to mutually acceptable rates, terms, and conditions. The Group paid advance rental and security deposit amounting to ₱0.9 million and ₱0.8 million, respectively. Rental expense recognized in the consolidated statements of income amounted to ₱1.9 million and ₱3.6 million as at December 31, 2019 and June 30, 2019 respectively.

27. **Equity**

Capital Stock

The Parent Company's shares of stock were listed in the PSE on April 12, 1977. The authorized capital stock of the Parent Company at that time is 40,000,000 shares at ₱10 par value. In 2016, the Parent Company executed a 10 for 1 stock split decreasing the par value to ₱1 per share. As at June 30, 2020 and 2019, the authorized capital stock is 400,000,000 shares and the issued shares is 282,545,960 shares. There was no active trading on the Parent Company's outstanding shares in the PSE until the Philippine SEC issued an order on January 29, 2014 lifting the order of suspension made in 2010 in relation to the registration of and permit to sell the said securities.

The total number of shareholders is 392 as at June 30, 2020.

Retained Earnings

As of June 30, the balance of retained earnings is as follows:

	As of September 30, 2020	As of June 30, 2020
Unappropriated	570,972.12	633,078.10
Appropriated	2,000,000.00	2,000,000.00
	2,570,972.12	2,633,078.10

On June 30, 2020, the BOD reversed previously appropriated retained earnings amounting to ₱2.35 billion and revisited the appropriate level of appropriation in alignment with the existing circumstances. On the same date, the BOD approved the appropriation of its retained earnings amounting to ₱2.0 billion for the continuation of the following projects within the next four to five years:

- ₱675.0 million for sugar business expansion which will cover the following:
 - intensified leasing of land for the purpose of increasing cane tonnage;
 - investment in logistics, such as additional trucks and trailers to improve delivery time;
 - upgrade of the refinery machineries and more robust yearly repairs; and
 - research and development costs to identify potential areas for improvement to increase cane tonnage to one million.
- ₱450.0 million for rum production which will cover the additional investment needed for bottling and mixing facilities to increase production capacity and costs for brand study.
- ₱875.0 million for ethanol production which will cover the construction of dehydrator equipment to bring alcohol proof grade from 94 to 99 in order to expand its existing ethanol business to petroleum companies in addition to its existing transactions with pharmaceutical companies.

No dividend declaration was made for the years ended June 30, 2020 and 2019. On June 28, 2018, the BOD declared dividends amounting to ₱50.9 million at ₱0.18 per share out of the Group's retained earnings as at March 30, 2018. Dividends amounting to ₱49.8 million was paid in 2019 (see Note 31). As at June 30, 2020 and 2019, dividends payable recognized under "Trade and other payables" account amounted to ₱1.0 million (see Note 17).

Basic/Diluted Earnings Per Share

The basic/diluted earnings per share for the years ended June 30, 2019, 2018 and 2017 are computed as follows:

	September 30, 2020	June 30, 2020
Net Income	-62,105.99	85,098.09
Weighted average number of shares		
Issued	282,545.96	282,545.96
Less treasury shares	44,049.12	12,852.76
	238,496.84	269,693.20
Basic/diluted earnings per share	-₱0.26	₱0.32

The Group has no dilutive potential ordinary shares; hence the diluted earnings per share are the same as the basic earnings per share.

There are 44,049,120 shares that are in the treasury as at September 30, 2020 and June 30, 2020.

28. Fair Value Measurement and Financial Instruments

The following table provides the fair value measurement hierarchy of the Group's assets that are carried at fair value:

2020				
Fair Value Measurement Using				
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Measured At Fair Value				
Property, plant and equipment				
Land			996,790.40	996,790.40
Investment Property			437,264.08	437,264.08
Financial asset at FVOCI	112,516.50			112,516.50
	112,516.50	.00	1,434,054.48	1,546,570.98

2019				
Fair Value Measurement Using				
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Measured At Fair Value				
Property, plant and equipment				
Land			996,790.40	996,790.40
Investment Property			437,264.08	437,264.08
AFS Financial assets - quoted	118,582.57			118,582.57
	118,582.57	.00	1,434,054.48	1,552,637.05

The following are the relevant information and assumptions used in determining the fair value of land:

- *Sale/Asking price per sq. m.* This pertains to the sale/asking price per square meter based on the listing prices of comparable properties.
- *Conditions on sale of comparable properties.* This pertains to the effect of restrictions or conditions that are present in contracts of sale relating to the comparable properties.

- *Physical adjustments.* These pertain to adjustments relating to the superiority or inferiority of the Group's land as regards to location, shape, topography, size, zoning, amenities, and easement for access and utility lines.

The table below summarizes the foregoing statements. It also presents the unobservable inputs used by management in assessing the fair value of land categorized as Level 3. Management believes that this information is beneficial in evaluating the fair value of the land.

Unobservable Inputs	Amounts or Percentage of Unobservable Inputs	Relationship of Unobservable Inputs to Fair value
Sale/asking price per s.q.m.	P 900 to P 1,300	The higher the value the higher the fair value
Conditions on sale of comparable properties	20.0%	The more onerous the conditions in contract of sale of comparable properties, the higher the fair value
Physical Adjustments	50.0%	The superiority of the quality of the Group's land, the higher the fair value

Fair value of all other assets and liabilities approximates their carrying values as at June 30, 2020 and are disclosed in their respective notes.

Below are the descriptions of the Group's financial instruments that are carried in the consolidated financial statements as at June 30, 2020.

Cash, Receivables, Short-term Notes Payable and Trade and Other Payables

Due to the short-term nature of these financial instruments, their fair values approximate the carrying amounts as at reporting date.

Financial Assets at FVOCI

The fair value of the listed shares of stock are determined in reference to quoted market bid prices at the close of business on the reporting date since these are mostly actively traded in organized financial market.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There have been no assets and liabilities transferred between Level 1, Level 2 and Level 3 during the period.

29. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments include cash and cash equivalent, financial assets at FVOCI (AFS financial assets in prior period) and short-term notes payable. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The BOD reviews and agrees on the policies for managing each of these risks and these are summarized below:

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle or meet its obligations on time or at reasonable prices. The Group uses cash flow approach in managing its liquidity, in this way, funding requirements under normal economic condition are met.

The table below summarizes the maturity profile of the Group's financial liabilities based on undiscounted payments:

	September 30, 2020			
	Within 30 Days	Within 1 Year	Above 1 Year	Total
Notes payable		1,006,591.47	.00	1,006,591.46
Trade payable	2,689.79	252,162.27		254,852.06
Due to related parties		11,632.88		11,632.88
Accruals		186,063.08		186,063.08
Others		12,165.16		12,165.16
	2,689.79	1,468,614.86	.00	1,471,304.64

	June 30, 2020			
	Within 30 Days	Within 1 Year	Above 1 Year	Total
Notes payable		1,007,841.47	.00	1,007,841.47
Trade payable	2,660.25	249,392.69		252,052.93
Due to related parties		11,632.88		11,632.88
Accruals		181,602.86		181,602.86
Others		12,398.18		12,398.18
	2,660.25	1,462,868.07	.00	1,465,528.32

The financial liabilities in the above tables are gross undiscounted cash flows.

However, those amounts may be settled by using the following financial assets:

	September 30, 2020			
	Within 30 Days	Within 1 Year	Above 1 Year	Total
Cash and cash equivalents	235,268.43			235,268.43
Receivables:				
Trade	1,763.33	42,319.85		44,083.17
Receivable from real estate contractors		.00	16,369.66	16,369.66
Planter's receivables		13,610.87		13,610.87
Notes receivable from planters	5,900.00	2,622.23		8,522.23
Due from related parties		839,230.61		839,230.61
Advances		45,916.70		45,916.70
Others		335.66		335.66
Financial assets at FVOCI	112,678.50			112,678.50
	355,610.25	944,035.92	16,369.66	1,316,015.83

June 30, 2020				
	Within 30 Days	Within 1 Year	Above 1 Year	Total
Cash and cash equivalents	261,264.56			261,264.56
Receivables:				
Trade	4,715.80	56,722.61		61,438.41
Receivable from real estate contractors	-		16,041.04	16,041.04
Planter's receivables	-	10,747.50		10,747.50
Notes receivable from planters	-	2,622.23		2,622.23
Due from related parties	1,233.61	762,354.07		763,587.68
Advances	-	25,565.09		25,565.09
Others	-	23,393.96		23,393.96
Financial assets at FVOCI		112,678.50		112,678.50
	267,213.98	994,083.96	16,041.04	1,277,338.97

Credit Risk

Credit risk is the risk that counterparty will not meet its obligation under a financial instrument leading to a financial loss. The Group imposes cash basis approach in its sales transaction to lower exposure to credit risk.

With respect to credit risk arising from other financial assets of the Group, which comprise cash in banks and cash equivalents, receivables, and financial assets at FVOCI (AFS financial assets in prior period), exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments as stated below:

	September 30, 2020	June 30, 2020
Cash and cash equivalents	235,268.43	261,264.56
Receivables:	968,068.91	903,395.91
Financial assets at FVOCI	112,678.50	112,678.50
	1,316,015.83	1,277,338.97

Since the Group trades only with recognized third parties, there is no requirement for collateral.

The Groups cash and cash equivalents and investment in shares of stock are neither past due nor impaired. The analysis of the Group's receivable is as follows:

	September 30, 2020					
	Total	Neither Past Due nor	Past Due but not Impaired			Impaired
			30 Days	90 Days	More than 150 Days	
Trade	44,083.17	43,841.07				242.10
Receivable from real estate contractors	16,369.66				13,605.01	2,764.64
Planter's receivables	13,610.87		8,106.60			5,504.27
Due from related parties	839,230.61	19,681.72			819,202.73	346.17
Advances	45,916.70				32,757.61	13,159.09
Others	8,857.89	8,857.89				
	968,068.90	72,380.68	8,106.60	.00	865,565.36	22,016.27

	June 30, 2020					
	Total	Neither Past Due nor	Past Due but not Impaired			Impaired
			30 Days	90 Days	More than 150 Days	
Trade	71,997.20	71,755.10				242.10
Receivable from real estate contractors	16,181.61				13,416.97	2,764.64
Planter's receivables	5,835.77		331.50			5,504.27
Due from related parties	908,657.20	21,309.91			887,001.12	346.17
Advances	41,695.51				28,536.42	13,159.09
Others	40,877.20	40,877.20			.00	
	1,085,244.49	133,942.22	331.50	.00	928,954.50	22,016.27

The credit analyses of the Group's financial assets that are neither past due nor impaired are as follows:

	September 30, 2020		
	Grade		
	High	Standard	Total
Loans and receivables:			
Cash and cash equivalents	235,268.43	.00	235,268.43
Trade receivables	43,841.07	.00	43,841.07
Planters' Receivable			
Due from related party	19,681.72	.00	19,681.72
Others	8,857.89	.00	8,857.89
Financial assets at FVOCI			
Proprietary	112,678.50	.00	112,678.50
Listed	376.50	.00	376.50
Unlisted		162.00	162.00
	420,704.11	162.00	420,866.11

	June 30, 2020		
	Grade		
	High	Standard	Total
Loans and receivables:			
Cash and cash equivalents	261,264.56	.00	261,264.56
Trade receivables	61,196.31	.00	61,196.31
Planters' Receivable	737.06		737.06
Due from related party	15,798.04	.00	15,798.04
Others	26,016.19	.00	26,016.19
Financial assets at FVOCI			
Proprietary	112,140.00	.00	112,140.00
Listed	376.50	.00	376.50
Unlisted		162.00	162.00
	477,528.67	162.00	477,690.67

Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Group using high grade and standard grade as internal credit ratings.

High Grade. This pertains to counterparty who is not expected by the Group to default in settling its obligations, thus, credit risk exposure is minimal. This normally includes large

prime financial institutions, companies, government agencies and individual buyers. Credit quality was determined based on the credit standing of the counterparty.

Standard Grade. Other financial assets not assessed as high grade financial assets are included in this category.

Interest Rate Risk

Interest rate risk arises from the possibility that the changes in interest rates will affect the fair value of financial instruments. Interest on financial instruments is fixed until the maturity of the instrument. The Group's financial instruments with fixed interest rate exposes the Group to fair value interest rate risk. The changes in market interest rate will not have an impact on the Group's consolidated statements of income.

Capital Management

The Group's primary objective is to ensure that it maintains a strong credit rating and healthy capital ratios to sustain its business and maximize shareholder value. The Group manages its capital structure based on its business requirements and the economic environment. The Group monitors capital using a gearing ratio, which is total debt divided by total debt and equity. Total debt includes short-term notes payable and trade and other payables. Equity includes capital stock, retained earnings, revaluation increment, unrealized cumulative gain on financial assets at FVOCI and treasury stock.

	September 30, 2020	June 30, 2020
Notes Payable	1,006,591.47	1,007,841.47
Trade & other payables	469,236.49	461,731.81
Income tax payable	17,043.11	17,043.11
Deposits	14,642.03	14,236.72
Other liabilities	38,862.57	41,083.54
Total Debt (a)	1,546,375.67	1,541,936.65
Equity	3,378,835.59	3,440,941.57
Total debt and equity (b)	4,925,211.26	4,982,878.22
Gearing ratio (a/b)	0.31	0.31