C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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C O M P A N Y   N A M E

SL AGRITECH CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

Sterling Place Building, 2302 Chino Roces Avenue Extension, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	CRMD	N/A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
slac@sterlingpaper.com	9888-4791	0917-857-4978

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
9	Last business day of August	May 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Catalina Galura	lina_galura@yahoo.com	9813-7828	N/A

CONTACT PERSON's ADDRESS

Sterling Place Building, 2302 Chino Roces Avenue Extension, Makati City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
SL Agritech Corporation
Sterling Place Building
2302 Chino Roces Avenue Extension
Makati City

Opinion

We have audited the consolidated financial statements of SL Agritech Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at May 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended May 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at May 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended May 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adequacy of Allowance for Expected Credit Losses on Trade Receivables

As of May 31, 2021, the Group has outstanding trade receivables amounting to ₱5,586.40 million, gross of allowance for expected credit losses (ECL) amounting to ₱190.75 million. The estimation of ECL is significant to our audit as it involves the exercise of significant management judgment and estimates.

Key areas of judgment and estimates include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model, such as probability of default, timing and amounts of expected net recoveries from defaulted accounts; and incorporating forward-looking information (called overlays), including the impact of coronavirus pandemic, in calculating ECL.

The disclosures in relation to allowance for ECL are included in Notes 5 and 8 to the consolidated financial statements.

Audit Response

We obtained an understanding of the models used for the Group's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, the time value of money and, the best available forward-looking information.

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics of the receivable portfolio; (b) tested the management's definition of default against historical analysis of accounts and credit risk management policies and practices in place and management's assessment of the impact of the coronavirus pandemic on the counterparties; (c) tested historical loss rates by inspecting historical recoveries and write-offs; (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices, including the impact of the coronavirus pandemic. We also involved our internal specialist in reviewing the overlay model used by the Group and in assessing the key assumptions used in the overlay model. Further, we checked the data used in the ECL models, such as the historical aging analysis, defaults during time intervals and recovery data, by reconciling data from the aging receivable schedule to the loss allowance analysis. To the extent that the loss allowance analysis is based on credit risk exposures that have been disaggregated into subsets with similar risk characteristics (i.e. customer type and location), we traced or re-performed the disaggregation from aging receivable schedule to the loss allowance analysis. We also performed independent recalculation of ECL.

We reviewed the disclosures in the consolidated financial statements based on the requirements of PFRS 7.

Capitalization and Impairment Testing of Development Costs

The Group has capitalized costs for the ongoing development of hybrid seeds variety amounting to ₱889.35 million as of May 31, 2021. The Group capitalized additional development costs for hybrid seed varieties under development amounting to ₱59.05 million for the year ended May 31, 2021.

The Group capitalizes development costs upon meeting the criteria as described in Philippine Accounting Standards (PAS) 38, *Intangible Assets*. The capitalization of development costs is a key audit matter because of significant management judgment involved in determining the probability of the hybrid seed variety being commercially viable.

Under PAS 36, *Impairment of Assets*, the Group is required to perform annual impairment test on intangible assets that are not yet available for use by comparing the carrying amount with its recoverable amount. The impairment test for development costs is a key audit matter because of the significant management judgment and estimations involved in determining the recoverable amount and complexity of the estimation process, sensitivity of the key estimations to assumptions such as probability of success, discount rate, estimated volume of sales and selling price.

The disclosures in relation to development costs are included in Notes 5 and 12 to the consolidated financial statements.

Audit Response

For the capitalization of development costs, we obtained an understanding on how management determines the technical feasibility of the hybrid seeds under development. We assessed the professional competence, objectivity and capabilities of the management's specialist who determines the commercial viability of hybrid seed varieties. We reviewed the assessment of the management's specialist on the commercial viability of the hybrid seed varieties by obtaining the status of development and key characteristics of each seed variety under development. On a sample basis, we traced the additional capitalized development costs during the year to liquidation reports and supporting documents such as lease contracts and labor certifications to account for the additional capitalized development costs.

For the impairment testing of development costs, we involved our internal specialist in evaluating the methodology used by the Group and in assessing the key assumptions used in the estimated cash flows for each seed variety undergoing development. We compared key assumptions such as the probability of success, selling price and estimated volume of sales against historical experience of the Group and industry market data including but not limited to market outlook and statistics. We tested the parameters used in the determination of the discount rate against market data. We also tested the sensitivity of the present value of discounted cash flows to changes in assumptions used such as probability of success, discount rate, and estimated volume of sales.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the fiscal year ended May 31, 2021, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS and SEC Form 17-A for the fiscal year ended May 31, 2021 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Jennifer D. Ticlao.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1758-A (Group A),
July 2, 2019, valid until July 1, 2022
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2020,
November 27, 2020, valid until November 26, 2023
PTR No. 8534373, January 4, 2021, Makati City

August 18, 2021

SL AGRITECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	May 31	
	2021	2020
ASSETS		
Current Assets		
Cash (Note 7)	**₱1,332,178,033**	₱1,388,202,370
Receivables - net (Note 8)	**5,120,239,712**	5,201,463,810
Inventories (Note 9)	**6,303,976,466**	5,674,335,704
Prepayments and other current assets (Note 10)	**176,334,962**	519,210,847
Total Current Assets	**12,932,729,173**	12,783,212,731
Noncurrent Assets		
Receivables - net of current portion (Note 8)	**626,299,650**	–
Development costs - net (Note 12)	**1,742,422,906**	1,736,684,889
Property and equipment - net (Note 11)	**2,730,250,093**	2,134,345,794
Investment in and advances to an associate (Note 13)	**73,535,272**	69,164,827
Security deposits (Note 29)	**36,522,150**	29,495,407
Other noncurrent assets (Notes 10 and 32)	**9,092,324**	9,404,218
Total Noncurrent Assets	**5,218,122,395**	3,979,095,135
	₱18,150,851,568	₱16,762,307,866
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Note 16)	**₱11,197,100,099**	₱10,359,619,562
Current portion of long-term debt (Note 17)	**296,166,667**	266,666,668
Trust receipts payable (Note 15)	**948,590,660**	995,336,152
Accounts and other payables (Note 14)	**293,789,076**	291,736,134
Lease liabilities - current (Note 31)	**65,934,092**	68,874,320
Income tax payable (Note 25)	**2,593,836**	–
Total Current Liabilities	**12,804,174,430**	11,982,232,836
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 17)	**593,252,786**	529,858,763
Pension liability (Note 27)	**50,599,251**	43,519,748
Lease liabilities - net of current portion (Note 31)	**113,270,270**	189,262,640
Other noncurrent liabilities	**–**	1,411,186
Total Noncurrent Liabilities	**757,122,307**	764,052,337
Total Liabilities	**13,561,296,737**	12,746,285,173
Equity (Note 18)		
Equity attributable to equity holders of the Parent Company		
Capital stock	**2,252,500,001**	2,252,500,001
Retained earnings	**2,361,400,230**	1,785,918,621
Remeasurement losses on pension liability (Note 27)	**(15,401,472)**	(16,945,481)
Cumulative translation adjustment	**(263,191)**	(293,720)
	4,598,235,568	4,021,179,421
Noncontrolling interest	**(8,680,737)**	(5,156,728)
Total Equity	**4,589,554,831**	4,016,022,693
	₱18,150,851,568	₱16,762,307,866

See accompanying Notes to Consolidated Financial Statements.

SL AGRITECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended May 31		
	2021	2020	2019
REVENUE			
Sales of commercial rice and harvested seeds (Note 19)	**₱6,076,437,260**	₱3,964,733,028	₱4,078,338,512
Change in fair value less estimated costs to sell of agricultural produce and biological assets (Notes 9 and 20)	**2,045,209,855**	1,329,464,133	773,431,045
	8,121,647,115	5,294,197,161	4,851,769,557
COST OF SALES (Notes 9 and 20)	**6,006,386,273**	3,405,694,327	3,115,894,392
GROSS PROFIT	**2,115,260,842**	1,888,502,834	1,735,875,165
EQUITY SHARE IN NET INCOME (LOSSES) OF AN ASSOCIATE (Note 13)	**(3,285,545)**	(7,560,229)	1,332,233
FINANCE INCOME (Note 7)	**1,575,556**	1,606,756	1,193,164
ACCRETION INCOME (Note 8)	**76,386,354**	125,415,311	76,064,100
FOREIGN EXCHANGE GAINS – NET	**2,121,182**	3,077,050	739,055
OPERATING EXPENSES (Note 21)	**(868,975,235)**	(770,287,442)	(738,129,641)
FINANCE COST (Note 24)	**(745,529,053)**	(711,904,578)	(516,132,421)
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT (Note 11)	**(1,667)**	(252,637)	(937,340)
INCOME BEFORE INCOME TAX	**577,552,434**	528,597,065	560,004,315
PROVISION FOR INCOME TAX (Note 25)	**5,356,555**	1,523,099	5,695,341
NET INCOME	**572,195,879**	527,073,966	554,308,974
OTHER COMPREHENSIVE INCOME			
Other comprehensive income (losses) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on pension liability (Note 27)	**1,544,009**	(9,052,516)	(8,251,692)
Other comprehensive income (losses) to be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustment	**(207,750)**	1,057,661	(1,499,171)
TOTAL COMPREHENSIVE INCOME	**₱573,532,138**	₱519,079,111	₱544,558,111
Net income (loss) attributable to:			
Equity holders of the Parent Company	**₱575,481,609**	₱531,971,697	₱557,620,669
Noncontrolling interest	**(3,285,730)**	(4,897,731)	(3,311,695)
	₱572,195,879	₱527,073,966	₱554,308,974
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**₱577,056,147**	₱523,796,018	₱548,094,682
Noncontrolling interest	**(3,524,009)**	(4,716,907)	(3,536,571)
	₱573,532,138	₱519,079,111	₱544,558,111
BASIC/DILUTED EARNINGS PER SHARE (Note 26)	**₱0.26**	₱0.24	₱0.25

See accompanying Notes to Consolidated Financial Statements.

SL AGRITECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Year Ended May 31, 2021

	Equity Attributable to Equity Holders of the Parent Company								
	Capital Stock (Note 18)	Stock Dividends Distributable (Note 18)	Deposit for Future Stocks Subscription (Note 18)	Retained Earnings (Note 18) Appropriated	Retained Earnings (Note 18) Unappropriated	Remeasurement Losses on Pension Liability (Note 27)	Cumulative translation adjustment (Note 18)	Noncontrolling interest (Note 2)	Total
At June 1, 2020, beginning	**₱2,252,500,001**	**₱–**	**₱–**	**₱–**	**₱1,785,918,621**	**(₱16,945,481)**	**(₱293,720)**	**(₱5,156,728)**	**₱4,016,022,693**
Net income	–	–	–	–	**575,481,609**	–	–	**(3,285,730)**	**572,195,879**
Other comprehensive income	–	–	–	–	–	**1,544,009**	**30,529**	**(238,279)**	**1,336,259**
Total comprehensive income	–	–	–	–	**575,481,609**	**1,544,009**	**30,529**	**(3,524,009)**	**573,532,138**
At May 31, 2021	**₱2,252,500,001**	**₱–**	**₱–**	**₱–**	**₱2,361,400,230**	**(₱15,401,472)**	**(₱263,191)**	**(₱8,680,737)**	**₱4,589,554,831**

For the Year Ended May 31, 2020

	Equity Attributable to Equity Holders of the Parent Company								
	Capital Stock (Note 18)	Stock Dividends Distributable (Note 18)	Deposit for Future Stocks Subscription (Note 18)	Retained Earnings (Note 18) Appropriated	Retained Earnings (Note 18) Unappropriated	Remeasurement Losses on Pension Liability (Note 27)	Cumulative translation adjustment (Note 18)	Noncontrolling interest (Note 2)	Total
At June 1, 2019, beginning	₱1,177,500,001	₱1,075,000,000	₱–	₱–	₱1,253,946,924	(₱7,892,965)	(₱1,170,557)	(₱3,036,194)	₱3,494,347,209
Incorporation of subsidiaries	–	–	–	–	–	–	–	2,596,373	2,596,373
Net income	–	–	–	–	531,971,697	–	–	(4,897,731)	527,073,966
Other comprehensive income	–	–	–	–	–	(9,052,516)	876,837	180,824	(7,994,855)
Total comprehensive income	–	–	–	–	531,971,697	(9,052,516)	876,837	(4,716,907)	519,079,111
Issuance of shares	1,075,000,000	(1,075,000,000)	–	–	–	–	–	–	–
At May 31, 2020	₱2,252,500,001	₱–	₱–	₱–	₱1,785,918,621	(₱16,945,481)	(₱293,720)	(₱5,156,728)	₱4,016,022,693

For the Year Ended May 31, 2019

	Equity attributable to equity holders of the Parent Company								
	Capital Stock (Note 18)	Stock Dividends Distributable (Note 18)	Deposit for Future Stocks Subscription (Note 18)	Retained Earnings (Note 18) Appropriated	Retained Earnings (Note 18) Unappropriated	Remeasurement Losses on Pension Liability (Note 27)	Cumulative translation adjustment (Note 18)	Noncontrolling interest (Note 2)	Total
At June 1, 2018	₱1,160,000,001	₱625,000,000	₱17,500,000	₱450,000,000	₱696,326,255	₱358,727	₱103,738	₱500,377	₱2,949,789,098
Net income	–	–	–	–	557,620,669	–	–	(3,311,695)	554,308,974
Other comprehensive income	–	–	–	–	–	(8,251,692)	(1,274,295)	(224,876)	(9,750,863)
Total comprehensive income	–	–	–	–	557,620,669	(8,251,692)	(1,274,295)	(3,536,571)	544,558,111
Declaration of stock dividends	–	450,000,000	–	(450,000,000)	–	–	–	–	–
Issuance of shares	17,500,000	–	(17,500,000)	–	–	–	–	–	–
At May 31, 2019	₱1,177,500,001	₱1,075,000,000	₱–	₱–	₱1,253,946,924	(₱7,892,965)	(₱1,170,557)	(₱3,036,194)	₱3,494,347,209

See accompanying Notes to Consolidated Financial Statements.

SL AGRITECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended May 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱577,552,434**	₱528,597,065	₱560,004,315
Adjustments to reconcile income before tax to net cash flows:			
Finance cost (Note 24)	**745,529,053**	711,904,578	516,132,421
Depreciation and amortization (Notes 10, 11, 12 and 23)	**334,366,822**	317,626,625	211,375,399
Net changes in pension liability (Note 27)	**8,623,512**	5,569,813	3,408,016
Loss on disposal of property and equipment (Note 11)	**1,667**	252,637	937,340
Equity share in net loss (income) of an associate (Note 13)	**3,285,545**	7,560,229	(1,332,233)
Impairment loss (Note 12)	**–**	–	102,337,313
Finance income (Note 7)	**(1,575,556)**	(1,606,756)	(1,193,164)
Unrealized foreign exchange gains - net	**(2,121,182)**	(3,077,050)	(739,055)
Fair value gain on agricultural produce - net (Note 9)	**(640,397,640)**	(439,643,105)	(95,083,404)
Net operating income before changes in working capital	**1,025,264,655**	1,127,184,036	1,295,846,948
Decrease (increase) in:			
Receivables	**(542,954,370)**	(1,057,492,689)	(738,518,734)
Inventories	**10,767,852**	(111,178,156)	(1,183,570,500)
Biological assets	**–**	–	(1,097,612)
Prepayments and other current assets	**342,875,885**	(377,332,984)	57,049,942
Increase (decrease) in:			
Accounts and other payables	**102,871,514**	36,411,347	(48,635,523)
Trust receipts payable	**(46,745,492)**	180,758,531	99,962,716
Cash generated from (used in) used in operations	**892,080,044**	(201,649,915)	(518,962,763)
Interest paid	**(765,453,060)**	(675,989,352)	(499,267,946)
Interest received	**1,575,556**	1,606,756	1,193,164
Income taxes paid	**(2,762,719)**	(1,058,914)	(4,957,778)
Net cash flows generated from (used in) operating activities	**125,439,821**	(877,091,425)	(1,021,995,323)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Note 11)	**(876,528,031)**	(882,461,213)	(305,100,164)
Additions to capitalized development costs (Note 12)	**(59,049,367)**	(503,014,682)	(81,723,793)
Decrease in security deposits	**(7,026,743)**	(12,358,802)	(1,374,175)
Proceeds from disposal of property and equipment (Note 11)	**35,000**	2,572,954	105,928,508
Investment in and advances to associate (Note 13)	**(7,655,990)**	(45,311,583)	(26,240,754)
Net movements in other noncurrent assets	**(167,488)**	2,163,702	19,942,151
Net cash flows used in investing activities	**(950,392,619)**	(1,438,409,624)	(288,568,227)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term debt	**20,070,495,995**	17,503,877,965	14,052,129,736
Long-term debt	**357,416,803**	496,756,640	–
Payments of:			
Short-term debt	**(19,233,015,458)**	(14,483,104,278)	(13,011,136,249)
Long-term debt	**(266,666,668)**	(100,000,000)	(100,000,000)
Payment of principal portion of lease liabilities (Note 31)	**(159,094,461)**	(8,319,829)	68,818,459
Net cash flows provided by financing activities (Note 33)	**769,136,211**	3,409,210,498	1,009,811,946
NET INCREASE (DECREASE) IN CASH	**(55,816,587)**	1,093,709,449	(300,751,604)
EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCY	**(207,750)**	1,421,550	(112,628)
CASH AT BEGINNING OF YEAR	**1,388,202,370**	293,071,371	593,935,603
CASH AT END OF YEAR (Note 7)	**₱1,332,178,033**	₱1,388,202,370	₱293,071,371

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

SL Agritech Corporation (the Parent Company) was incorporated and organized in the Republic of the Philippines on September 11, 2000 to cultivate, grow, mill and/or process palay to rice grains, and/or to outsource the cultivation of rice, corn, grains, etc. through independent landowners and/or farmers by supplying seeds, farm implements, and other resources under acceptable offsetting and payback arrangements and/or otherwise engage in buy and sell either in retail or wholesale, export or import of rice, corn, grains of all kinds and other agricultural farm products, seeds, vegetables, horticultural growths, fertilizers, chemicals or organic livestock of all kind and farm implement and machineries, and to conduct research and development for the production of aromatic super hybrid rice and cereals to sell the technology and intellectual property rights of the product developed through own research and development.

The Parent Company's registered office address is at Sterling Place Building, 2302 Chino Roces Avenue Extension, Makati City.

Below are the Parent Company's subsidiaries and associate with its respective percentage ownership as of May 31, 2021 and 2020:

	Percentage Ownership	
	2021	**2020**
Subsidiaries		
Sterling SL Agritech Company Limited (SSLACL)	85%	85%
SL Agritech India Private, Ltd. (SLAIL)	80%	80%
Sterling Agritech Myanmar Co., Ltd. (SAMCL)	85%	85%
Associate		
PT Sterling Agritech Indonesia (SAI)	49%	49%

SSLACL and SAMCL were incorporated and domiciled in the Union of Myanmar and SLAIL was incorporated and domiciled in India, while SAI was incorporated and domiciled in Indonesia. The Parent Company's subsidiaries and associate are involved in the same line of business as the Parent Company (collectively, the Group).

On August 23, 2017, SSLACL was incorporated and organized in the Union of Myanmar with registered office address at Room 105, First Floor, Pearl Condo F. Bahan Township, Yangon, Union of Myanmar.

On July 4, 2019, the Ministry of Corporate Affairs (CFA) of India has approved the incorporation of SLAIL with registered address at P C4, Meenakshi Est, Jeedimetla Village, Qutbullahpur, Hyderabad, Telangana, India. SLAIL is currently at its pre-operating status as of May 31, 2021.

On November 29, 2019, SAMCL was incorporated in Myanmar under the Myanmar Companies Law 2017 as a private company limited by shares, with address at Tha Pyae Kone Village, Okkan Town, Tikekyi Township, Yangon, Myanmar. Its purpose is for seed production and exportation.

The Parent Company, as authorized by the Securities and Exchange Commission, has issued ₱1,574,300,000 and ₱370,500,000 worth of short-term commercial papers (STCPs) on December 18, 2020 and February 23, 2021, respectively, which were partially paid amounting to ₱1,288,700,000 on June 18, 2021. The STCPs were listed at the Philippine Dealing & Exchange Corp. (see Note 16).

The Parent Company, in its continuous effort to provide positive impact to the community, engages in activities that feed the nation and uplift its people's lives. *"Binhi ng Bayani", "Rice Bucket Challenge"* and *"Balik Biyaya Program"* target to deliver rice products to the less fortunate public and to give back to the Filipino rice farmers. Hybrid rice Techno Demo aims to assist in rehabilitating communities through demonstrations of the benefits of hybrid rice seed farming.

The accompanying consolidated financial statements of the Group were authorized for issue by the Board of Directors (BOD) on August 18, 2021.

2. Basis of Preparation

Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis except for agricultural produce which have been measured at fair value less estimated point-of-sale cost at point of harvest and biological assets measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is the Group's functional currency. Amounts are rounded to the nearest Peso unless otherwise indicated.

The accompanying consolidated financial statements have been prepared under the going concern assumption. While the government eases restrictions of business activities to revive economic growth, the impact of COVID-19 may continue to evolve giving inherent uncertainties on businesses.

Statement of Compliance

The Group's consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

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

All intra-group balances, transactions and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Noncontrolling interest (NCI) represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position and consolidated statements of changes in equity.

Acquisitions of NCI are accounted for using the acquisition method, whereby the Group considers the acquisition of NCI as an equity transaction. Any premium or discount on subsequent purchases from NCI shareholders is recognized directly in equity and attributed to the equity holders of the Parent Company.

The Group has no material non-controlling interest.

Assessment of control
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 that return 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; and
- The ability to use its power over the investee to affect its returns.

The investor 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 begins when the investor obtains control over the investee and ceases when the investor loses control of the investee. Assets, liabilities, income and expenses of the investee are included in the consolidated statements of financial position and consolidated statements of comprehensive income from the date the investor gains control at the investee until the date the investor loses the control.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the NCI, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of the investee to bring its accounting policies in line with the accounting policies of the investor.

There are no significant restrictions on the Group's ability to use assets or settle liabilities within the Group. There is no difference on the voting rights of non-controlling interests as compared to majority stockholders.

3. Changes in Accounting Policies

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new standards effective on June 1, 2020. Except as otherwise indicated, the adoption of these new accounting standards and amendments have no material impact on the Group's consolidated financial statements.

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments may apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments do not have a significant impact on the Group.

- 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, with earlier application permitted.

  This amendment is not applicable to the Group as there are no rent concessions granted to the Group as a lessee.

<u>Standards and Interpretation Issued but Not yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect the future adoption of these pronouncements to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after FY2022

- Amendments to PFRS 16, *Covid-19-Related Rent Concessions* Beyond June 30, 2021

  The amendment provides an update on the 2020 amendment to PFRS 16 that 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. The following update on amendment are as follow:
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and

- The amendments are effective for annual reporting periods beginning on or after April 1, 2021, with earlier application permitted.

  This amendment is not applicable to the Group as there are no rent concessions granted to the Group as a lessee.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Group shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods.

  These amendments will not have a significant impact on the Group.

Effective beginning on or after FY2023

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

Effective beginning on or after FY2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

  The new standard is not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue 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*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  Since the Group has no loss of control of a subsidiary, the amendments will not have an impact on the Group's consolidated financial statements.

4. **Summary of Significant Accounting Policies**

<u>Current versus Non-current Classification</u>
The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed within 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 non-current.

A liability is current when:

- It is expected to be settled within 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 non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value 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 economic best interest.

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.

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 and are stated at face amount in the consolidated statement of financial position.

Financial Instruments - initial recognition and subsequent measurement
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

a. Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial asset at amortized cost, fair value through OCI (FVOCI) and fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in the accounting policy on revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

<u>Financial assets at amortized cost</u>
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash, receivables and security deposits.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

For other financial assets such as receivables from employees, nontrade receivables and security deposits, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk (SICR) since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash in bank, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's (S&P), Moody's, and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs).

The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables from sale of seeds in default depending on the credit arrangements with customers with terms ranging from 11 to 24 months from the date of sale. The Group considers trade receivables from sale of rice in default depending on the customer's profile with terms ranging from 30 days to 12 months from the date of sale. However, in certain cases, the Group may also consider a receivable to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

b. Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables at amortized cost, net of directly attributable transaction costs.

The Group's financial liabilities include "Accounts and other payables", "Trust receipts payable", "Short-term debt", "Long-term debt", and "Lease liabilities".

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

<u>Financial liabilities at fair value through profit or loss</u>
Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at FVPL.

<u>Loans and borrowings and other payables at amortized cost</u>
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of comprehensive income.

This category generally applies to "Accounts and other payables" other than payable to government agencies, which is covered by other accounting standard, "Short-term debt", "Long-term debt", "Trust receipts payable", and "Lease liabilities".

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position, 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.

'Day 1' difference
Where the transaction price in a non-active market is different to the fair value from 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 profit or loss unless it qualifies for recognition as some other type of asset. In cases where the valuation technique used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

<u>Inventories</u>
Milled rice
The Group uses moving average costing method to account for milled rice inventories and is stated at lower of cost and net realizable value (NRV). The cost of processed milled rice inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion include raw materials, direct labor, certain freight and warehousing cost, indirect production and overhead cost.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Agricultural produce
The Group's harvested agricultural produce (i.e. hybrid rice seeds and semi-finished seeds) are measured at fair value at point of harvest based on the most reliable estimated selling prices, in both local and international markets at the point of harvest reduced by cost to sell and adjusted for margin related production, recorded under "Inventories". Agricultural produce are the harvested products from the Group's biological assets. A harvest occurs when the biological asset's life processes cease.

The fair value is determined by reference to current market transaction price. The fair value resulting from initial measurement is subsequently used as cost if the product is subsequently sold. Other costs such as drying and chemical treatment are included but only to the extent that these are incurred in bringing the agricultural produce to its present location and condition. Point-of-sale costs exclude transport and other costs necessary to get the agricultural produce to a market. Gains and losses arising from changes in fair values are included in the consolidated statement of comprehensive income for the period in which they arise under "Change in fair value less estimated costs to sell of agricultural produce and biological assets" under Revenue.

Agricultural and supplies inventories
Agricultural and supplies inventories (i.e. packaging materials, fertilizers and chemicals) are valued at the lower of cost and NRV. Costs are determined using the moving average method.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Dried palay
Dried palay are valued at the lower of cost and NRV. Cost is determined using the moving average method. Cost includes purchase price and other cost attributable in bringing the dried palay to its intended condition and location such as cost for labor and freight in.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Biological Assets
The biological assets of the Group consist of parental line and hybrid seeds growing crops.

The Group's growing or unharvested produce are measured at their fair value from the time of maturity of the seeds until harvest. The Group estimates the fair value of unharvested agricultural produce using the future selling price and gross margin of finished goods less future growing costs applied to the estimated volume of harvest and adjusted for margin related to production. Gains and losses arising from changes in fair values are included in the statement of comprehensive income under "Change in fair values less estimated costs to sell of agricultural produce and biological assets" under Revenue.

Property and Equipment
Land is stated at cost less impairment in value. Property and equipment, other than land, is stated at cost less accumulated depreciation and accumulated impairment in value. The initial costs of property and equipment consist of its construction cost or purchase price including non-refundable taxes, import duties and taxes, and any directly attributable costs of bringing the property and equipment to working condition and location for its intended use.

Effective June 1, 2019, it is the Group's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Group's leases are accounted for as either operating or finance leases in accordance with PAS 17, with operating leases, not being recorded on the consolidated statement of financial position. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Depreciation commences once the property and equipment are available for use and is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Right-of-use asset	5 to 20 years or lease term, whichever is lower
Machinery and equipment	5
Office equipment	5
Transportation equipment	5
Tools and equipment	5
Warehouse	5
Furniture and fixtures	2

Subsequent costs are capitalized as part of property and equipment only when it is probable that economic benefits associated with the item will flow to the Group and the cost of the property and equipment can be measured reliably. All other repairs and maintenance costs are charged to current operations as incurred.

The assets' residual values, useful lives and depreciation method are reviewed at each financial reporting date and adjusted if appropriate. Impairment reviews take place when events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment losses are recognized in the consolidated statement of comprehensive income.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the original cost of the asset) is included in the consolidated statements of comprehensive income in the year the asset is derecognized. This is not applicable to items that still have a useful life but are currently classified as idle, depreciation continues for those items.

Assets under construction are stated at cost. These include costs of construction of property and equipment and other direct costs. Assets under construction are not depreciated until such time as the relevant assets are completed and put into operational use.

Intangible Asset

An intangible asset acquired separately is measured at cost on initial recognition. Following initial recognition, an intangible asset is carried at cost less any accumulated amortization and any accumulated impairment loss. The useful life of an intangible asset is assessed at the individual asset level as either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

An intangible asset with indefinite useful life is tested for impairment annually either individually or at the CGU level. Such intangible asset is not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The amortization of the license is calculated on a straight-line basis over its estimated useful life which is six (6) years based on the term of agreement.

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

The Group's intangible assets consist of development costs and license fee granted by the International Rice Research Institute (IRRI) for the use, reproduction and trading of hybrid rice seeds.

Development Cost
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the consolidated statement of comprehensive income.

Development expenditures refer to hybrid seeds development cost. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

The Group capitalizes hybrid seed development costs once management deems a hybrid seed is probable of being commercially viable. This occurs in tandem with management's determination that a seed will provide high-yield crops and crops that are tolerant to adverse tropical conditions.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. If upon reassessment, the period of expected future benefit has changed from original estimations, then related amortization is being accelerated or adjusted prospectively.

Subsequent expenditures are capitalized only when these increases the future economic benefits embodied in the specific asses to which it relates.

Development costs are amortized on a straight-line basis over the EUL of twenty (20) years. Amortization of "Development costs" is recorded in consolidated statements of comprehensive income under "Cost of sales" account in profit or loss and "Inventories" in the consolidated statements of financial position. During the period of development, the hybrid seeds development cost is tested for impairment annually.

Investment in and Advances to an Associate

Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Investments in an associate is accounted for under the equity method of accounting in the consolidated financial statements.

Under the equity method, the investments in associate is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less dividends declared and impairment in value. If the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate.

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investments in the associate.

The consolidated statements of comprehensive income reflect the Group's share in the results of operations of its associate. This is included in the "Equity share in net income (losses) of an associate" account in profit or loss. After the Group's interest is reduced to zero, additional losses are provided to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any change and discloses this, when applicable, in the consolidated statements of changes in equity.

The end of the reporting period of the Parent Company is different from that of the associate, hence, the associate prepares, for the use of the Parent Company, financial statements as of the same date as the financial statements of the Parent Company. Moreover, the accounting policies of the associate conform to those used by the Parent Company for like transactions and events in similar circumstances.

Unrealized gains arising from intercompany transactions with its associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Upon loss of significant influence over the associate, the Group measures and recognizes any remaining investment at fair value and will subsequently be measured using the policy on financial assets. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

Prepaid Expenses
Prepaid expenses are being reduced on a monthly basis by the amount already expensed for the period.

Deposit for Future Investment
Deposit for future investment pertain to the Group's share in an undivided interest on unincorporated joint venture and is accounted for by the management as outside the scope of PFRS 11, *Joint Arrangements* and shown as part of other non-current asset. This is recorded based on the cost of deposit and is presented as part of other non-current asset.

Impairment of Nonfinancial Assets
The Group assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset'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 is largely independent of those from other assets or groups of assets.

Where 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 assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is an 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. That 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 statements of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization are 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.

This accounting policy applies primarily to the Group's property and equipment, investment in associate, and development costs.

Foreign Currency
Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine Peso at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Philippine Peso using monthly average exchange rates.

Foreign currency differences are recognized in other comprehensive income and presented in the foreign currency translation adjustment in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, or joint control is lost, the cumulative amount in the translation adjustment related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the statement of comprehensive income.

When the settlement of a monetary item that is a receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the translation adjustment in equity.

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

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, at financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

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

Deferred tax relating to items recognized in OCI or directly in equity is recognized in the consolidated statement of comprehensive income and consolidated statement of changes in equity and not in profit or loss.

The Group does not recognize deferred tax on temporary differences which are expected to reverse for periods where Income Tax Holiday (ITH) is in effect (Notes 25 and 28).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 financial reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax asset against current tax liability and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions
Provisions are recognized only when the Group has 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 obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

Deposit for Future Stock Subscription
Deposits for future stock subscriptions (DFFS) represent the amount paid by the stockholders for future stock issuances of the Parent Company. When obligations are payable in fixed number of shares, these are classified under equity as a separate account if and only if, all of the following elements are present as of end of the reporting period, otherwise, these are classified as liabilities:
(a) the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
(b) there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
(c) there is stockholders' approval of said proposed increase; and
(d) the application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

DFFS is transferred to equity upon presentation or filing of the Parent Company's application for increase in authorized capital stock to the SEC.

Pension Liability
Defined benefit plan
The defined benefit liability is the aggregate of the present value of the defined benefit obligation less the fair value of plan assets (if any) out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined benefit costs on the Group's defined benefit retirement plan are actuarially computed using the projected unit credit (PUC) valuation method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to the services rendered in the current period.

Defined benefit costs comprise the following:
(a) current service cost;
(b) interest on the defined benefit liability; and
(c) remeasurements of defined benefit liability.

Service costs which include current service costs and gains or losses on non- routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Interest on the defined benefit liability or asset is the change during the period in the defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on the risk-free interest rates of government issued bonds to the defined benefit liability or asset. Interest on the net defined benefit liability or asset is recognized as expense in profit or loss.

Remeasurements comprising actuarial gains and losses are recognized immediately in "Remeasurement gains (losses) on pension liability" account presented in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Termination Benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognized related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term benefits.

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Leases (Effective June 1, 2019)
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of agricultural land, vehicles and warehouses (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

<u>Leases (Prior to June 1, 2019)</u>
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Basic/Diluted Earnings Per Share

Basic Earnings Per Share (EPS)

Basic EPS is calculated by dividing net income for the year attributable to common shareholders of the Group by the weighted average number of common shares outstanding during the year, with the retroactive adjustments for any stock dividends declared.

Diluted EPS

Diluted EPS amounts are calculated by dividing the net income attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all dilutive ordinary shares into ordinary shares.

Equity

Capital stock is measured at par value for all shares issued. When the Group issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Stock dividends distributable pertain to stock dividends declared but are not yet issued, pending the approval of the SEC.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Revenue from Contracts with Customers

Revenue from sale of products

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 recognizes revenue from sale of hybrid seeds and rice upon receipt of goods by the customers. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of products, the Group considers the effects of variable consideration and the existence of significant financing component.

i. Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer.

The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Contracts for the sale of products provide customers with a right of return. The rights of return give rise to variable consideration. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in PFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognizes a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

ii. *Significant financing component*
The Group's credit term for seeds receivables ranges from eleven (11) months to twenty-four (24) months. There is a significant financing component for these contracts considering the length of time between the customer's payment and the transfer of good, as well as the prevailing interest rate in the market. As such, the transaction price for these contracts is discounted, using the interest rate implicit in the contract. The difference between the contracted sales price and discounted transaction price is offset against the receivables in the statement of financial position. This is accreted using the effective interest rate method and presented as accretion income in the statement of comprehensive income.

The Group applies the practical expedient for short-term receivables. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good and the payment is one year or less.

The disclosures of significant accounting judgments and the use of estimates relating to revenue from contracts with customers are provided in Note 5.

Finance income
Finance income is recognized as it accrues taking into account the effective yield of the assets.

<u>Other Comprehensive Income (OCI)</u>
OCI are items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS. The Group has recognized OCI for the years ended May 31, 2021, 2020 and 2019 pertaining to remeasurement gains and losses arising on defined benefit obligation adjustment which cannot be reclassified to profit or loss in future periods. During the years ended May 31, 2021, 2020 and 2019, the Group has recognized OCI item on cumulative translation adjustment of the Subsidiaries' account balances which can be recycled to profit or loss in future periods.

<u>Cost of Sales</u>
Cost of sales includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the products to their present location and condition. These costs include the costs of direct material, labor and overhead costs. Cost of sales is recognized as expense when the related goods are sold and delivered.

<u>Operating Expenses</u>
Operating expenses constitute costs of administering the business. These are recognized as expenses as incurred.

<u>Operating Segment</u>
The Group's operating businesses are organized and managed separately according to the type of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6 to the Group's consolidated financial statements.

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

Events after the Reporting Date
Post year-end events that provide additional information about the Group's position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the consolidated financial statements, when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires the Management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements were based upon management evaluation of relevant facts and circumstances as of date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments and estimates 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.

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

Definition of default and credit-impaired assets under PFRS 9
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria
The Group has applied the presumption indicated within PFRS 9 pertaining to the default definition; that is, default of a financial instrument does not occur later than when a financial asset is already past due, depending on the credit arrangements with customers or the customer's profile for seeds and rice, respectively. Please refer to the discussion on accounting policy for impairment of financial assets in Note 4.

Qualitative criteria
The counterparty meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The counterparty is in long-term forbearance;
- The counterparty is deceased;
- The counterparty is insolvent;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been granted by the Group relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy; or
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

Classification of lease (Prior to June 1, 2019)
Generally, lease of land and warehouse is classified as operating lease since land has an indefinite economic life, unless title was expected to pass to the lessee by the end of the lease term. The Group classifies its lease on land as finance lease if, at inception, the present value of the minimum lease payments is more than or equal to 90% of the fair value of the leased asset.

Lease commitments – Group as lessee
The Group has determined, based on an evaluation of the terms and conditions of the arrangement, such as the lease term does not constitute a major part of the economic life of the commercial property and that the lessor still retains all the significant risk and rewards of ownership of the property and accounts for the contract as an operating lease.

Land lease
The Group entered into various farm management agreements which cover the lease of agricultural lands for the production of hybrid rice palay and seeds in Laguna, Davao Oriental, Davao del Norte, Davao del Sur and Nueva Ecija. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that the risks and rewards related to those properties are retained by the lessor. As such, these lease agreements are accounted for as operating leases.

Warehouse lease
The Group entered into lease agreements which cover the lease of warehouses for the storage of hybrid rice palay/seeds in Bulacan, Laguna, Davao Oriental and Nueva Ecija.

The Group has determined, based on an evaluation of the terms and conditions of the arrangements that the risks and rewards related to those properties are retained by the lessor. As such, these lease agreements are accounted for as operating leases.

Car lease
The Group entered into various lease contracts with financing companies for the lease of transportation equipment intended to support the Group's operations. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that the risks and rewards related to those properties are transferred to the lessee. As such, these lease agreements are accounted for as finance leases.

Machineries lease
The Group entered into various lease contracts with financing companies for the lease of machineries intended to support the Group's operations. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that the risks and rewards related to those properties are transferred to the lessee. As such, these lease agreements are accounted for as finance leases.

Development costs
Development costs are capitalized only when the asset can demonstrate that it will generate probable future economic benefits to the Group. This generally occurs in tandem with management's determination that a seed is viable and it will provide high-yield crops and crops that are tolerant to adverse tropical conditions. Costs incurred during the research phase are expensed outright.

The related balances follow (see Note 12):

	2021	2020
Development costs - cost	**₱2,254,423,153**	₱2,195,373,786
Accumulated amortization and impairment	**512,000,247**	458,688,897
Amortization for the year	**53,311,350**	48,316,445

Estimates and Assumptions
The key assumptions concerning the future and other sources of estimation uncertainty at the financial 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.

Consideration of significant financing component in a contract
The Group applies PFRS 15 guidance to determine the amount of transaction price to which the Group expects to be entitled in exchange for transferring promised services and goods to a customer.

In determining the interest to be applied to the amount of consideration, the Group concluded that the prevailing market interest rate for the agriculture sector is appropriate because this is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its customers at contract inception (see Note 8).

Determining the method to estimate variable consideration and assessing the constraint
Contracts for the sale of products include a right to return that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of the products with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are constrained based on its historical experience. Estimates of expected returns are sensitive to changes in circumstances and the Group's past experience regarding returns may not be representative of customer's actual returns in the future (see Note 19).

Estimating allowance for expected credit losses on trade receivables
An impairment analysis is performed by the Group at each reporting date using vintage analysis for installment contract receivables and provision matrix models for the rest of the trade receivables to measure expected credit losses on receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., customer type and location).

The Group uses the vintage analysis approach to calculate ECL on installment contract receivables by calculating the cumulative loss rates of a given trade receivables. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the probability of default model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

The Group uses the provision matrix for ECL on the rest of the trade receivables based on the Group's historically observed default rates. The Group reflects the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Primary drivers like regional economic and geography-related factors (i.e., weather patterns) were also used as an overlay variable as a factor on the computation of ECLs (see Note 8).

The assessment of the correlation between historically observed default rates, forecasted economic conditions, regional economic and geography-related factors and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Further, the COVID-19 outbreak has no significant impact on the ECL assessment of the Group (see Note 34).

The key inputs in the models include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables from sale of seeds in default depending on the credit arrangements with customers with terms ranging from 11 to 24 months from the date of sale. The Group considers trade receivables from sale of rice in default depending on the customer's profile with terms ranging from 30 days to 12 months from the date of sale. However, in certain cases, the Group may also consider a receivable to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The related balances follow (see Note 8):

	2021	2020
Receivables	**₱5,965,385,644**	₱5,420,412,015
Allowance for expected credit losses	**218,846,282**	218,948,205

Fair value of harvested agricultural produce
The fair values of the harvested agricultural produce are based on the most reliable estimate of selling prices less estimated cost to sell at point of harvest and adjusted for margin related production (see Note 9). Costs to sell at the point of harvest are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. The fair values of these produce are reviewed and updated if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned above.

Estimating NRV of inventories
Inventories carried at the lower of cost and NRV include dried palay, agricultural and supplies inventories and milled rice. The Group computes NRV using estimated selling price in the ordinary course of business less costs necessary to make a sale. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV.

In the event that NRV is lower than cost, the decline is recognized as an expense. Inventories carried at cost amounted to ₱6,303,976,466and ₱5,674,335,704as of May 31, 2021 and 2020, respectively. No allowance for inventory losses were recognized as of May 31, 2021 and 2020 (see Note 9).

Estimating useful lives of property and equipment
The Group estimates the useful lives of property and equipment, based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and decrease the related asset accounts.

The carrying values of property and equipment amounted to ₱2,730,250,093 and ₱2,134,345,794 as of May 31, 2021 and 2020, respectively (see Note 11).

Estimating amortization period of development cost
The Group estimates the amortization period of intangible asset over the EUL of twenty (20) years, based on the copyright registration and trademark approval granted by relevant government agency.

As of May 31, 2021 and 2020, the amortizable cost of development costs, net of the cost of impaired hybrid rice seed varieties amounted to ₱1,204,381,675 and ₱992,225,182. Net book value of development costs for developed hybrid rice seeds amounted to ₱853,068,610 and ₱694,223,467 as of May 31, 2021 and 2020, respectively (see Note 12).

Impairment of nonfinancial assets
The Group assesses impairment on property and equipment and development costs related to developed hybrid rice seeds 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.

If such indications are present, and where the carrying amount of the asset exceeds its recoverable amount, the assets are considered impaired and are written down to recoverable amount.

Assets that are subject to impairment testing when impairment indicators are present are as follows:

	2021	2020
Property and equipment (Note 11)	**₱2,730,250,093**	₱2,134,345,794
Development costs for developed hybrid rice seeds (Note 12)	**853,068,610**	694,223,467
Investment in and advances to an associate (Note 13)	**73,535,272**	69,164,827
Other noncurrent assets (Note 10)	**9,092,324**	9,404,218

In 2021 and 2020, no impairment loss was recognized on these nonfinancial assets since the Group assessed that there are no impairment indicators.

Impairment of development costs for seed varieties undergoing development
The recoverability of capitalized development costs for seed varieties undergoing development require estimation of future cash flows which is affected by the probability of success, discount rate, and market price. The probability of success refers to the ratio or percentage of likelihood that the management's cash flow projections will actually be realized. The recoverable amount will differ from these estimates as a result of differences between the assumptions used and future actual results. While the Group believes that the key assumptions are reasonable and appropriate, significant differences in the future actual result or significant changes in the key assumptions may materially affect the recoverability of capitalized development costs for seed varieties undergoing development.

Further, the COVID-19 outbreak has no significant impact on the impairment analysis for seeds varieties undergoing development of the Group (see Note 34).

As of May 31, 2021 and 2020, the Group's capitalized development costs for seed varieties undergoing development amounted to ₱889,354,296 and ₱1,042,461,422, respectively (see Note 12).

Key assumptions used in determining the discounted cash flow projection of seeds under going development include (a) various levels of probability of success ranging from 81% to 100%, (b) volume of sales based on the projected level for SL8H variety, adjusted by actual levels realized for SL12H, SL18H, SL19H, and SL20H varieties; (c) 11.43% discount rate; and (d) estimated selling price throughout the period of 20 years which ranges from ₱5,000 to ₱7,321 per 18 kilogram bag.

Impairment of investment in and advances to an associate
When an investment in and advances to an associate has suffered recurring operating losses, a test is made to assess whether the investment in and advances to an associate has suffered any impairment by determining the recoverable amount. This determination requires significant judgement and estimation. An estimate is made of the future probability, cash flows, financial health and near-term business outlook of the investment, including factors such as market demand and performance, considering the impact of the COVID-19 outbreak. The recoverable amount will differ from these estimates as a result of differences between assumptions used and actual operations.

Key assumptions used in determining the discounted cash flow projection of the associate include the revenue growth rate ranging from 5% to 100%, gross margin, discount rate of 11.37%, and terminal growth rate of 1%. The values assigned to the key assumptions represents management's assessment of future trends in the industry and were based on both external and internal sources.

No impairment was recognized in 2021 as the recoverable amount exceeds the carrying value of the investment in and advances to an associate. As of May 31, 2021 and 2020, investment in and advances to an associate amounted to ₱73,535,272 and ₱69,164,827, respectively (see Note 13).

Estimating pension cost obligation
The determination of the present value of pension obligation is determined using actuarial valuation. The actuarial valuation involves making various assumptions. These assumptions include, among others, discount rates and salary increase rates. 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 pension obligation.

As of May 31, 2021 and 2020, the Group's pension liability amounted to ₱50,599,251 and ₱43,519,748, respectively (see Note 27).

Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in leases where it is the lessee, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as its stand-alone credit rating).

As of May 31, 2021 and 2020, the Group's lease liabilities amounted to ₱179,204,362 and ₱258,136,960, respectively (see Note 31).

Deferred tax assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized.

As of May 31, 2021 and 2020, the Group has not recognized DTA on temporary tax differences as the Group believes that it is not probable that future taxable income will be available in the period of reversal due to the ITH incentive benefit of the Group (see Notes 25 and 28).

6. Segment Reporting

For management purposes, the Group's operating segments are organized and managed separately according to the type of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets as follows:

- *Seeds Division* – cultivates, harvest and sell hybrid rice seeds to farmers
- *Rice Division* – purchases dried palay, mills and sells finished good rice grains to consumers

Management monitors the operating results of its operating segments separately for the purpose of making decision about resource allocation and performance assessment.

The Group's financing (including finance income and finance cost) and income tax are managed on a group basis and are not allocated to operating segments.

The Group evaluates performance based on earnings before income tax (EBIT). The Group does not report its results based on geographical segments because the Group has minimal operations outside the Philippines.

The amounts of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the consolidated statement of financial position which is in accordance with PFRS 8.

Financial information about the operating segments is summarized as follows:

2021

	Seeds Division	**Rice Division**	**Total**
Net sales (Note 19)	**₱6,697,914,172**	**₱1,423,732,943**	**₱8,121,647,115**
Cost of sales (Note 20)	**(5,049,453,676)**	**(956,932,597)**	**(6,006,386,273)**
Gross profit	**1,648,460,496**	**466,800,346**	**2,115,260,842**
Operating expenses (Note 21)	**(627,704,181)**	**(241,271,054)**	**(868,975,235)**
EBIT	**1,020,756,315**	**225,529,292**	**1,246,285,607**
Depreciation and amortization expenses (Note 21)	**44,478,663**	**17,096,228**	**61,574,891**
Earnings before income tax and depreciation and amortization expenses (EBITDA)	**₱1,065,234,978**	**₱242,625,520**	**₱1,307,860,498**
Finance income (Note 7)			**₱1,575,556**
Accretion income (Note 8)			**76,386,354**
Finance cost (Note 24)			**(745,529,053)**
Equity share in net losses of an associate (Note 13)			**(3,285,545)**
Depreciation and amortization expense (Note 21)			**(61,574,891)**
Unrealized foreign exchange gains- net			**2,121,182**
Loss on disposal of property and equipment (Note 11)			**(1,667)**
Income before tax			**577,552,434**
Provision for tax (Note 25)			**(5,356,555)**
Net income			**₱572,195,879**

2020

	Seeds Division	Rice Division	Total
Net sales (Note 19)	₱4,167,758,771	₱1,126,438,390	₱5,294,197,161
Cost of sales (Note 20)	(2,667,662,877)	(738,031,450)	(3,405,694,327)
Gross profit	1,500,095,894	388,406,940	1,888,502,834
Operating expenses (Note 21)	(606,394,538)	(163,892,904)	(770,287,442)
EBIT	893,701,356	224,514,036	1,118,215,392
Depreciation and amortization expenses (Note 21)	13,219,863	3,572,990	16,792,853
Earnings before income tax and depreciation and amortization expenses (EBITDA)	₱906,921,219	₱228,087,026	₱1,135,008,245
Finance income (Note 7)			₱1,606,756
Accretion income (Note 8)			125,415,311
Finance cost (Note 24)			(711,904,578)
Equity share in net losses of an associate (Note 13)			(7,560,229)
Depreciation and amortization expense (Note 21)			(16,792,853)
Unrealized foreign exchange gains- net			3,077,050
Loss on disposal of property and equipment (Note 11)			(252,637)
Income before tax			528,597,065
Provision for tax (Note 25)			(1,523,099)
Net income			₱527,073,966

2019

	Seeds Division	Rice Division	Total
Net sales (Note 19)	₱3,470,469,919	₱1,381,299,638	₱4,851,769,557
Cost of sales (Note 20)	(2,217,005,308)	(898,889,084)	(3,115,894,392)
Gross profit	1,253,464,611	482,410,554	1,735,875,165
Operating expenses (Note 21)	(534,018,738)	(204,110,903)	(738,129,641)
EBIT	719,445,873	278,299,651	997,745,524
Depreciation and amortization expenses (Note 21)	15,179,686	3,328,298	18,507,984
Earnings before income tax and depreciation and amortization expenses (EBITDA)	₱734,625,559	₱281,627,949	₱1,016,253,508
Finance income (Note 7)			₱1,193,164
Accretion income (Note 8)			76,064,100
Finance cost (Note 24)			(516,132,421)
Equity share in net income of an associate (Note 13)			1,332,233
Depreciation and amortization expense (Note 21)			(18,507,984)
Unrealized foreign exchange gains- net			739,055
Loss on disposal of property and equipment (Note 11)			(937,340)
Income before tax			560,004,315
Provision for tax (Note 25)			(5,695,341)
Net income			₱554,308,974

Other information on the operating segments, to the extent possible, follows:

2021

	Seeds Division	**Rice Division**	**Others**	**Total**
Receivables (Note 8)	**₱5,031,109,450**	**₱691,476,481**	**₱23,953,431**	**₱5,746,539,362**
Inventories (Note 9)	**5,938,930,579**	**303,391,437**	**61,654,450**	**6,303,976,466**
Segment assets	**₱10,970,040,029**	**₱994,867,918**	**₱85,607,881**	**₱12,050,515,828**

2020

	Seeds Division	Rice Division	Others	Total
Receivables (Note 8)	₱4,532,749,900	₱652,769,784	₱15,944,126	₱5,201,463,810
Inventories (Note 9)	4,732,828,391	871,313,305	70,194,008	5,674,335,704
Segment assets	₱9,265,578,291	₱1,524,083,089	₱86,138,134	₱10,875,799,514

Intersegment Revenues
There are no intersegment revenues.

Segment Results
Segment results pertain to the net income of each operating segments adjusted by the subsequent take up of significant transactions within the fiscal year end. The chief decision maker uses the 'EBIT' and 'EBITDA' in measuring the performance of each of the Group's operating segment. The Group defines each of the operating segment's 'EBIT' as the net income attributable to equity holders of the Group added by the provision for income tax. 'EBITDA' is computed by adding back to the EBIT the depreciation and amortization expenses charged to operating expenses during the period.

Segment Receivables and Inventories
Segment assets receivables and inventories are the resources owned by each of the operating segments.

Segment Liabilities
The amounts of segment liabilities are not distinguished between the divisions as both fairly share in the liabilities and both divisions are closely related.

Capital Expenditures
The components of capital expenditures reported to the chief decision maker are the acquisitions of property and equipment during the period.

Geographical Segments
The Group distributes hybrid seeds and milled rice in the Philippines, Bangladesh, Myanmar, Vietnam, India, Indonesia, Pakistan, Oman, Malaysia, United Arab Emirates and United States of America.

The following table shows the distribution of the Group's revenues to external customers by geographical market, regardless of where the goods were produced:

	2021	2020	2019
Domestic	**₱8,097,332,847**	₱5,265,867,494	₱4,833,963,547
International	**24,314,268**	28,329,667	17,806,010
	₱8,121,647,115	₱5,294,197,161	₱4,851,769,557

The Group's major customers are the top three distributors which contribute revenues of ₱1,797,776,700, ₱1,336,449,325, and ₱926,483,300 in 2021, 2020 and 2019, respectively, and the Department of Agriculture, including Municipal Agricultural Offices (MAO), which contribute revenues of ₱2,314,874,895, ₱1,053,309,916 and ₱1,152,330,461 in 2021, 2020 and 2019, respectively, both arising from the Group's seeds segment.

7. Cash

	2021	2020
Cash on hand	**₱5,948,515**	₱6,026,451
Cash in banks	**1,326,229,518**	1,382,175,919
	₱1,332,178,033	₱1,388,202,370

Cash in banks earns interest at the prevailing bank deposit rates ranging from 0.05% to 0.25%, 0.01% to 0.83%, and 0.003% to 1.25% in 2021, 2020 and 2019, respectively. Interest income earned from savings accounts amounted to ₱1,575,556, ₱1,606,756 and ₱1,193,164 in 2021, 2020 and 2019, respectively.

8. Receivables

	2021	2020
Trade receivables:		
Third parties	**₱5,586,292,546**	₱4,998,566,218
Related party (Note 30)	**103,486**	7,793,927
Advances to contract growers	**326,937,776**	370,009,781
Non-trade receivables	**37,397,300**	29,887,630
Receivables from employees	**14,654,536**	14,154,459
	5,965,385,644	5,420,412,015
Less allowance for expected credit losses	**218,846,282**	218,948,205
	5,746,539,362	5,201,463,810
Less noncurrent portion of trade receivables from third parties	**626,299,650**	–
	₱5,120,239,712	₱5,201,463,810

Receivables are noninterest-bearing and are generally collectible within the Group's normal operating cycle.

Trade receivables arise from sale of seeds and rice to customers. This also includes installment contracts receivables which are noninterest-bearing and collectible over a period ranging from one to two years depending on the agreement. The credit term for seeds receivables range from 11 months to 24 months. The credit term for rice receivables ranges from 30 days to 12 months.

Advances to contract growers arise when contract growers receive cash advances. The advances are short-term and are expected to be collected within the crop year of no more than six (6) months. The advances are liquidated against proceeds from sale of dried palay to the Group.

Non-trade receivables pertain to amounts reimbursable from customers for creditable withholding taxes that were recognized during the income tax holiday (ITH) period.

Receivables from employees are collected through salary deductions or expense liquidation.

Changes in allowance for expected credit losses follow:

	2021	2020
Trade		
Balance at the beginning of the year	**₱190,849,800**	₱145,531,476
Provision (reversal) during the year (Note 21)	**(101,923)**	45,318,324
At end of year	**₱190,747,877**	₱190,849,800
Non-trade		
Balance at the beginning of the year	**₱28,098,405**	₱25,268,254
Provision during the year (Note 21)	–	2,830,151
At end of year	**₱28,098,405**	₱28,098,405
	₱218,846,282	₱218,948,205

Significant financing component on installment contracts receivables
The movements on the significant financing component of revenue recognized from contracts with customers, which was offset against installment contract receivables as of May 31, 2021, 2020 and 2019 follows:

	2021	2020	2019
At beginning of year	**₱44,712,435**	₱96,787,398	₱41,582,368
Additions	**117,745,548**	73,340,348	131,269,130
Accretion	**(76,386,354)**	(125,415,311)	(76,064,100)
At end of year	**₱86,071,629**	₱44,712,435	₱96,787,398
Current	**₱84,065,785**	₱44,712,435	₱75,502,681
Noncurrent	**₱2,005,844**	₱–	₱21,284,717

The table below shows the credit risk exposure on the Group's trade receivables using the provision matrix as of May 31, 2021 and 2020.

2021

		Days past due				
	Current	**<30 days**	**30-60 days**	**61-90 days**	**>91 days**	**Total**
Estimated total gross carrying amount	**₱1,859,790,786**	**₱16,615,330**	**₱26,369,941**	**₱753,407**	**₱3,966,494**	**₱1,907,495,958**
Expected credit loss rate	**9.90%**	**9.65%**	**7.37%**	**19.78%**	**72.06%**	
Expected credit loss	**₱184,193,259**	**₱1,603,058**	**₱1,944 ,375**	**₱149,030**	**₱2,858,155**	**₱190,747,877**

2020

		Days past due				
	Current	<30 days	30-60 days	61-90 days	>91 days	Total
Estimated total gross carrying amount	₱2,105,535,681	₱10,889,884	₱1,518,597	₱3,347,438	₱2,783,814	₱2,124,075,414
Expected credit loss rate	8.82 %	14.30%	14.30%	14.30%	100.00%	
Expected credit loss	₱185,812,915	₱1,557,236	₱217,157	₱478,678	₱2,783,814	₱190,849,800

As of May 31, 2021 and 2020, trade receivables with no credit risk exposure using the vintage analysis amounted to ₱3,678,900,074, and ₱2,882,284,731, respectively.

9. Inventories

	2021	2020
At cost:		
Hybrid rice seeds	**₱5,539,175,974**	₱4,648,831,836
Agricultural and supplies inventories	**460,341,692**	150,225,825
Dried palay	**236,959,700**	786,133,269
Milled rice	**66,431,737**	85,180,036
Semi-finished seeds	**1,067,363**	3,964,738
	₱6,303,976,466	₱5,674,335,704

The Group is accountable to the banks for the trusted merchandise or its sales proceeds under the terms of agreements covering liabilities under trust receipts, which amounted to ₱948,590,660 and ₱995,336,152 as of May 31, 2021 and 2020, respectively (see Note 15).

The movement in total inventory follows:

	2021	2020
At cost – beginning	**₱5,674,335,704**	₱4,321,614,931
Additions	**6,636,027,035**	4,758,415,100
Cost of sales (Note 20)	**(6,006,386,273)**	(3,405,694,327)
At cost - end	**₱6,303,976,466**	₱5,674,335,704

Additions include fair value gains on agricultural produce prior to harvest amounting to ₱1,655,322,358 and ₱1,242,674,990 in 2021 and 2020, respectively.

The cost of inventories pertaining to fertilizers, seeds and agrichemicals recognized as cost of sales in the consolidated statements of comprehensive income amounted to ₱5,423,821,627, ₱2,713,889,146, and ₱2,511,269,194 in 2021, 2020 and 2019, respectively (see Note 20).

The fair value gain on agricultural produce recognized in the consolidated statements of comprehensive income as part of Revenue amounted to ₱2,045,209,855, ₱1,329,464,133, and ₱773,431,045 in 2021, 2020 and 2019, respectively.

The Group has 655,506 bags and 679,948 bags ranging from three (3) to fifty (50) kilogram per bag of hybrid seeds in 2021 and 2020, respectively.

Cost of inventories that are pledged by the Group as security to short-term notes payable amounted to ₱500,000,000 as of May 31, 2021 and 2020 (see Note 16).

Sensitivity analysis
The Group's fair value of hybrid rice seeds is determined using the income approach (Level 3). The significant unobservable input includes the estimated selling price and cost per bag of hybrid rice seed. The Group also considers the significant changes in the estimated future selling price as most sensitive in computing for the fair value of hybrid rice seeds.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

<u>Determination of fair values</u>
Other nonfinancial assets

	Valuation Technique	**Significant Unobservable Input**	**Sensitivity of the input to fair value**
Fair value of harvested crops	Income Approach	The fair values of harvested crops are based on the most reliable estimate of selling prices, in both local and international markets at the point of harvest reduced by costs to sell (Level 3)	Significant increase (decrease) in the selling price of hybrid seeds would result in higher (lower) fair value. Significant decrease (increase) in the cost of hybrid seeds would result in higher (lower) fair value.
Fair value of standing crops	Income Approach	The growing produce are measured at fair value from the time of maturity of the seeds until harvest.	Significant increase (decrease) in the estimated future selling price and estimated volume of harvest would result in higher (lower) fair value of biological asset, while significant

	Valuation Technique	Significant Unobservable Input	Sensitivity of the input to fair value
		Management used the estimated selling prices of standing crops; estimated volume of harvest and future growing costs applied to the estimated volume of harvest as the basis of fair value.	increase (decrease) in the future growing costs would result in lower (higher) fair value.

10. **Prepayments and Other Assets**

	2021	2020
Prepayments and other current assets:		
Advances to suppliers (Note 30)	**₱110,851,091**	₱407,617,390
Prepayments for:		
Interest	**36,189,408**	61,508,580
Land lease	**12,440,713**	14,108,045
Rent	**9,714,872**	14,105,829
Insurance	**6,926,808**	18,478,336
Others	**212,070**	3,392,667
	₱176,334,962	₱519,210,847
Other noncurrent assets:		
Deposit for future investment (Note 32)	**₱2,529,400**	₱2,529,400
Other noncurrent assets	**6,562,924**	6,874,818
	₱9,092,324	₱9,404,218

The Group has entered into contracts of operating leases of agricultural land located in Lupon, Davao Oriental and Nueva Ecija for the production of hybrid seeds ranging from three (3) months to one (1) year or two (2) cropping seasons. Under these agreements, the lessor pays for real property taxes and shall not dispose of, sell, encumber, transfer, mortgage or alienate the agricultural land or do such acts that dispose or disallow the Group's use of land during the term of the lease contracts. Farm land lease expense charged to cost of sales related to the lease of agricultural lands amounted to ₱17,739,137, ₱25,872,848 and ₱14,036,011 in 2021, 2020 and 2019, respectively (see Note 20). Farm land lease expense amounting ₱12,585,592, ₱17,870,236 and ₱22,309,300 in 2021, 2020 and 2019, respectively, were included in the cost of inventories. The Group applied the short-term lease recognition exemption for these leases under PFRS 16.

Prepaid interest refers to interest expense deducted in advance on loan proceeds.

Prepaid insurance pertains to insurance premiums paid in advance for the Group's vehicles.

Advances to suppliers pertain to initial payment to contractors and suppliers for inventories and other expenses arising from ordinary course of business.

Other noncurrent assets include deposits for future investment and intangible asset (see Note 32). The net book value of intangible asset as of May 31, 2021 and 2020 amounted to ₱1,518,044 and ₱1,997,426, respectively. Amortization charged in "Cost of sales" amounted to ₱479,382, ₱479,382 and ₱399,485 in 2021, 2020 and 2019, respectively.

11. Property and Equipment

2021

	Land	Machinery and Equipment	Buildings and Warehouse	Office Equipment	Transportation Equipment	Tools and Equipment	Furniture and Fixtures	Computer Software	Assets under Construction	Right of Use Asset - Warehouse	Right of Use Asset - Vehicles	Right of Use Asset - Machineries	Total
Cost													
At June 1, 2020	**₱294,229,366**	**₱445,349,861**	**₱1,146,181,716**	**₱24,546,581**	**₱61,287,090**	**₱730,426**	**₱39,743,056**	**₱–**	**₱597,071,071**	**₱615,184,658**	**₱109,556,630**	**₱166,188,199**	**₱3,500,068,654**
Additions	**6,812,000**	**11,865,904**	**2,524,233**	**456,117**	**235,781**	**–**	**2,861,737**	**398,000**	**304,565,775**	**540,000,000**	**2,658,000**	**4,150,484**	**876,528,031**
Disposal	**–**	**(53,724)**	**–**	**(47,599)**	**(812,293)**	**–**	**(83,583)**	**–**	**–**	**–**	**–**	**–**	**(997,199)**
Transfers	**–**	**8,650,484**	**2,500,000**	**–**	**40,399,503**	**–**	**–**	**–**	**(11,150,484)**	**–**	**(40,399,503)**	**–**	**–**
At May 31, 2021	**301,041,366**	**465,812,525**	**1,151,205,949**	**24,955,099**	**101,110,081**	**730,426**	**42,521,210**	**398,000**	**890,486,362**	**1,155,184,658**	**71,815,127**	**170,338,683**	**4,375,599,486**
Accumulated Depreciation													
At June 1,2020	**–**	**(392,371,510)**	**(728,346,290)**	**(21,584,130)**	**(43,210,864)**	**(658,403)**	**(26,052,652)**	**–**	**–**	**(20,244,347)**	**(76,493,618)**	**(56,761,046)**	**(1,365,722,860)**
Depreciation (Notes 20 and 21)	**–**	**(27,673,897)**	**(148,670,735)**	**(456,118)**	**(6,895,769)**	**(8,766)**	**(7,352,859)**	**(6,633)**	**–**	**(46,074,347)**	**(13,551,068)**	**(29,307,696)**	**(279,997,888)**
Disposal	**–**	**24,142**	**–**	**47,599**	**299,614**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**371,355**
Transfers	**–**	**–**	**–**	**–**	**(43,355,670)**	**–**	**–**	**–**	**–**	**–**	**43,355,670**	**–**	**–**
At May 31, 2021	**–**	**(420,021,265)**	**(877,017,025)**	**(21,992,649)**	**(93,162,689)**	**(667,169)**	**(33,405,511)**	**(6,633)**	**–**	**(66,318,694)**	**(46,689,016)**	**(86,068,742)**	**(1,645,349,393)**
Net Book Value as of May 31, 2021	**₱301,041,366**	**₱45,791,260**	**₱274,188,924**	**₱2,962,450**	**₱7,947,392**	**₱63,257**	**₱9,115,699**	**₱391,367**	**₱890,486,362**	**₱1,088,865,964**	**₱25,126,111**	**₱84,269,941**	**₱2,730,250,093**

2020

	Land	Machinery and Equipment	Buildings and Warehouse	Office Equipment	Transportation Equipment	Tools and Equipment	Furniture and Fixtures	Assets under Construction	Right of Use Asset - Warehouse	Right of Use Asset – Vehicles	Right of Use Asset - Machineries	Total
Cost												
At June 1, 2019	₱294,229,366	₱420,071,069	₱1,141,121,716	₱22,234,478	₱66,327,088	₱730,426	₱31,140,703	₱97,156,436	₱286,384,658	₱98,254,657	₱166,188,199	₱2,623,838,796
Additions	–	25,278,792	–	2,312,103	1,402,384	–	8,602,353	504,974,635	328,800,000	11,301,973	–	882,672,240
Disposal	–	–	–	–	(6,442,382)	–	–	–	–	–	–	(6,442,382)
Transfers	–	–	5,060,000	–	–	–	–	(5,060,000)	–	–	–	–
At May 31, 2020	294,229,366	445,349,861	1,146,181,716	24,546,581	61,287,090	730,426	39,743,056	597,071,071	615,184,658	109,556,630	166,188,199	3,500,068,654
Accumulated Depreciation												
At June 1, 2019	–	(354,563,178)	(576,885,127)	(19,211,674)	(44,808,473)	(648,731)	(20,909,752)	–	–	(55,099,259)	(28,167,464)	(1,100,293,658)
Depreciation (Notes 20 and 21)	–	(37,808,332)	(151,461,163)	(2,372,456)	(2,019,182)	(9,672)	(5,142,900)	–	(20,244,347)	(21,394,359)	(28,593,582)	(269,045,993)
Disposal	–	–	–	–	3,616,791	–	–	–		–	–	3,616,791
At May 31, 2020	–	(449,132,556)	(728,346,290)	(21,584,130)	(43,210,864)	(658,403)	(26,052,652)	–	(20,244,347)	(76,493,618)	(56,761,046)	(1,365,722,860)
Net Book Value as of May 31, 2020	₱294,229,366	₱152,978,351	₱417,835,426	₱2,962,451	₱18,076,226	₱72,023	₱13,690,404	₱597,071,071	₱594,940,311	₱33,063,012	₱109,427,153	₱2,134,345,794

On December 4, 2020, the Group entered into an agreement with SP Properties Inc., an affiliate, for the lease of office and warehouse building for a term of 20 years expiring on December 3, 2040 (see Note 31). Monthly rental amounts to ₱2,250,000 and total rentals shall be paid at the commencement of the lease. For the year ended May 31, 2021, the Group has fully paid its future lease payables and recognized right-of-use asset amounting to ₱540,000,000, with no corresponding lease liability.

On March 10, 2020, the Group entered into an agreement with SP Properties Inc., an affiliate, for the lease of office and warehouse building, including open and parking spaces for a term of 20 years expiring on March 9, 2040 (see Note 31). Monthly rental amounts to ₱1,370,000 and total rentals shall be paid at the commencement of the lease. For the year ended May 31, 2020, the Group has fully paid its future lease payables and recognized right-of-use asset amounting to ₱328,800,000, with no corresponding lease liability.

Assets under construction as of May 31, 2021 and 2020 is mainly composed of warehouses, machineries, and rice milling facility to be used for the Group's operations.

No borrowing costs were capitalized to property and equipment items as construction was financed by internally generated funds.

Carrying value of property and equipment items that are pledged by the Group as security to short-term debt amounted to ₱583,589,925 in 2021 and 2020 (see Note 16).

In 2021 and 2020, the Parent Company sold transportation equipment and machinery equipment with net book value amounting to ₱36,667 and ₱2,825,591, respectively. Proceeds on the sale amounted to ₱35,000 and ₱2,572,954 in 2021 and 2020, respectively. In 2021 and 2020, loss arising from sale amounted to ₱1,667 and ₱252,637, respectively. In 2019, loss arising from sale amounted to ₱937,340. These are recorded under "Loss on disposal of property and equipment" in the consolidated statements of comprehensive income.

There are no temporarily idle property and equipment as of May 31, 2021 and 2020.

Depreciation charged to cost of sales, operating expenses and ending inventories follows:

	2021	2020	2019
Cost of sales (Note 20)	**₱219,001,199**	₱252,042,113	₱152,789,304
Operating expense (Note 21)	**61,574,891**	16,792,853	18,507,984
Ending inventories (Note 9)	**55,344,265**	55,922,467	55,711,440
Total	**335,920,355**	324,757,433	227,008,728
Beginning inventories	**(55,922,467)**	(55,711,440)	(63,935,807)
Depreciation	**₱279,997,888**	₱269,045,993	₱163,072,921

12. **Development Costs**

Development costs pertain to costs incurred for the development and further enhancement of the Group's existing and commercially viable hybrid rice seeds and hybrid corn.

	2021	2020
Cost		
At beginning of year	**₱2,195,373,786**	₱1,692,359,104
Additions	**59,049,367**	503,014,682
At end of year	**2,254,423,153**	2,195,373,786
Accumulated amortization and impairment		
At beginning of year	**458,688,897**	410,372,452
Amortization (Note 20)	**53,311,350**	48,316,445
At end of year	**512,000,247**	458,688,897
Net book value at end of year	**₱1,742,422,906**	₱1,736,684,889

Amortization expense is capitalized as part of inventories.

The details of the development costs on a per hybrid seed follow:

2021

	Developed Hybrid Rice Seeds SLs 7, 8, 9, 11, 12, 16, 18, 19 and 20	**Hybrid Rice Seeds Under Development SLs 24, 25, 26, 28, 30, 39, 42, 56, 58 and 59**	**Hybrid Corn**	**Total**
Cost				
At beginning of year	**₱1,143,495,606**	**₱1,042,461,422**	**₱9,416,758**	**₱2,195,373,786**
Additions	–	**59,049,367**	–	**59,049,367**
Reclassification	**212,156,493**	**(212,156,493)**	–	–
At end of year	**1,355,652,099**	**889,354,296**	**9,416,758**	**2,254,423,153**
Accumulated Amortization				
At beginning of year	**298,001,715**	–	–	**298,001,715**
Amortization (Note 20)	**53,311,350**	–	–	**53,311,350**
At end of year	**351,313,065**	–	–	**351,313,065**
Accumulated Impairment				
At beginning and end of year	**151,270,424**	–	**9,416,758**	**160,687,182**
Net Book Value at End of Year	**₱853,068,610**	**₱889,354,296**	**₱–**	**₱1,742,422,906**

2020

	Developed Hybrid Rice Seeds SLs 7, 8, 9, 11, 12, 18, 19 and 20	Hybrid Rice Seeds Under Development SLs 16, 24, 25, 26, 28, 30, 39, 42, 56, 58 and 59	Hybrid Corn	Total
Cost				
At beginning of year	₱1,143,495,606	₱539,446,740	₱9,416,758	₱1,692,359,104
Additions	–	503,014,682	–	503,014,682
At end of year	1,143,495,606	1,042,461,422	9,416,758	2,195,373,786
Accumulated Amortization				
At beginning of year	₱249,685,270	₱–	₱–	249,685,270
Amortization (Note 20)	48,316,445	–	–	48,316,445
At end of year	298,001,715	–	–	298,001,715
Accumulated Impairment				
At beginning and end of year	151,270,424	–	9,416,758	160,687,182
Net Book Value at End of Year	₱694,223,467	₱1,042,461,422	₱–	₱1,736,684,889

In 2021, SL-16H is added to the list of hybrid rice seeds that are commercially available with total capitalized cost amounting to ₱212,156,493. It is a medium to long grain variety with average yield of 9MT per hectare and will be distributed through contract growing.

In 2020, SLs 39, 42, 56, 58 and 59 are added into the list of hybrid rice seeds under development with total capitalized cost amounting to ₱238,204,791.

SLs 24, 25, 26, 28, 30, 39, 42, 56, 58 and 59 are the hybrid rice seed varieties under development following the success in breeding SLs 7, 8, 9, 11, 12, 16, 18, 19 and 20. These are all hybrid rice seeds that have been initially determined as viable having gone through several testing and experimentation stages that stabilized the parental lines. Currently, the Group is preparing for bigger volume of production of parental lines for further enhancement prior to commercial production to make the hybrid seeds tolerant to tropical conditions and it followed the same processes involved in the development and production of SLs 7, 8, 9, 11, 12, 16, 18, 19 and 20.

The more popular commercial rice brands produced from SLs 9 and 7 are Doña Maria Miponica and Doña Maria Jasponica, respectively. Total ending inventory of Doña Maria Miponica amounted to ₱10,883,904 and ₱8,160,078 as of May 31, 2021 and 2020, respectively. Total ending inventory of Doña Maria Jasponica amounted to ₱25,186,215 and ₱24,573,959 as of May 31, 2021 and 2020, respectively.

Details of the remaining life in years of the hybrid seeds are as follows:

Hybrid Seed Variety	Remaining life
SL-16H	19
SL-20H	17.5
SL-19H	16.5
SL-12H	15
SL-18H	15
SL-7H	7
SL-9H	7
SL-8H	2
SL-11H	–

13. **Investment in and Advances to an Associate**

As of May 31, 2021 and 2020, this account consists of:

	2021	2020
Investment in an associate - at equity	**₱5,696,460**	₱8,982,005
Advances to an associate (Note 30)	**67,838,812**	60,182,822
	₱73,535,272	₱69,164,827

Investment in an associate
The Parent Company's investment in an associate is recognized using the equity method.

Carrying amount of the investment as at May 31, 2021 and 2020 is as follow:

	2021	2020
Cost		
At beginning of year	**₱16,229,152**	₱6,667,519
Additions	–	9,561,633
At end of year	**16,229,152**	16,229,152
Accumulated equity share in net income (loss)		
At beginning of year	**(7,247,147)**	313,082
Equity share in net loss during the year	**(3,285,545)**	(7,560,229)
At end of year	**(10,532,692)**	(7,247,147)
Net book value at end of year	**₱5,696,460**	₱8,982,005

PT Sterling Agritech Indonesia (SAI) is a private limited liability company in Jakarta, Indonesia incorporated on October 6, 2017. Its principal place of business is at Grand Slipi Tower Lantai 9, Unit G, Jl, Letjen S.Parman, Palmerah Jakarta Barat 11480, Indonesia. SAI was organized primarily for the production of hybrid rice seeds. It started commercial operations in February 2018.

As at May 31, 2021 and 2020, the Parent Company directly owns 49% of SAI.

Significant influence of the Parent Company to SAI is evidenced by the following:
(a) representation in the BOD of the investee; and
(b) provision of essential technical information.

The financial information of SAI as at and for the year ended May 31, 2021 and 2020 follows:

	2021	2020
Current assets	**₱37,489,888**	₱22,679,997
Noncurrent assets	**39,705,120**	36,186,630
Total assets	**₱77,195,008**	₱58,866,627
Total liabilities	**₱91,424,001**	₱64,126,578
Gross revenue	**₱15,934,897**	₱14,947,713
Cost and expenses - net	**(22,682,944)**	(30,457,185)
Finance income	**42,854**	80,435
Net loss before income tax	**(₱6,705,193)**	(₱15,429,037)
Net loss/Total comprehensive loss	**(₱6,705,193)**	(₱15,429,037)

The reconciliation of SAI's net assets and the carrying amount of the investment is shown in the table below:

	2021	2020
Net assets of SAI	**(₱14,228,993)**	(₱5,259,951)
Ownership interest	**49%**	49%
	(6,972,207)	(2,577,376)
Fair value and other adjustments	**12,668,667**	11,559,381
Carrying value of investment	**₱5,696,460**	₱8,982,005

Advances to an associate
In 2021 and 2020, the carrying amount of advances made by the Parent Company to SAI amounted to ₱67,838,812 and ₱60,182,822, respectively, for the payment of land lease and production of hybrid seeds to be used in SAI's operations.

14. Accounts and Other Payables

	2021	2020
Accrued expenses:		
Interest	**₱44,619,296**	₱64,556,473
Salaries	**7,375,520**	6,878,303
Professional fees	**2,612,960**	3,515,333
Others	**4,462,990**	3,814,673
Trade payables	**157,020,580**	116,997,880
Non-trade payables	**71,378,410**	90,826,266
Others	**6,319,320**	5,147,206
	₱293,789,076	₱291,736,134

Trade payables are payable to suppliers and are noninterest-bearing. The normal trade credit terms of trade payables of the Group are expected to be settled within the next twelve (12) months.

Non-trade payables include payables for insurance, security, and other non-trade services availed which are normally settled within one year.

15. Trust Receipts Payable

Trust receipts payable amounted to ₱948,590,660 and ₱995,336,152 as of May 31, 2021 and 2020, respectively.

Proceeds from the availment of trust receipts payable were utilized to procure imported and local raw materials used in production (see Note 9).

Interest rates range from 5.00% to 5.60% in 2021, 5.25% to 7.65% in 2020, and 5.00% to 7.65% in 2019. Interest expense incurred amounted to ₱54,469,046, ₱35,741,431, and ₱41,917,591 in 2021, 2020 and 2019, respectively (see Note 24).

16. Short-term Debt

	2021	2020
Local banks	**₱8,356,585,020**	₱6,747,550,154
Short-term commercial papers	**1,944,800,000**	2,000,000,000
Investment funders	**895,715,079**	1,612,069,408
	₱11,197,100,099	₱10,359,619,562

Loans from local banks and investment funders represent secured (see Note 30) and unsecured short-term borrowings with prevailing annual market rates ranging from 4.25% to 7.50%, 4.5% to 9.00% and 4.0% to 10.38% in 2021, 2020 and 2019, respectively, with maturity dates ranging from three (3) months to one (1) year.

Short-term commercial papers (STCPs) amounting to ₱1,574,300,000 and ₱370,500,000 were issued by the Group on December 18, 2020 and February 23, 2021, respectively as authorized by the Securities and Exchange Commission and partially paid amounting to ₱1,288,700,000 on June 18, 2021. In 2020, STCPs amounting to ₱2,000,000,000 issued on September 20, 2019 were fully paid on September 18, 2020. The STCPs were listed at the Philippine Dealing & Exchange Corp.

The proceeds from availment of short-term debt were used to finance the working capital requirements of the Group.

Total interest expense recognized on these short-term debts amounted to ₱578,851,597, ₱628,785,428, and ₱430,079,073 in 2021, 2020 and 2019, respectively (see Note 24).

17. **Long-term Debt**

The carrying amount of long-term debt is as follows:

	2021	2020
Principal balance at beginning of the year	**₱800,506,640**	₱400,000,000
Availments	**360,011,783**	500,506,640
Payments	**(266,666,668)**	(100,000,000)
Principal balance at end of the year	**893,851,755**	800,506,640
Unamortized discount	**(4,432,302)**	(3,981,209)
Carrying amount	**889,419,453**	796,525,431
Less: current portion of long-term debts	**(296,166,667)**	(266,666,668)
	₱593,252,786	₱529,858,763

The Group entered into loan agreements with local commercial banks as follows:

a. On May 18, 2018, the Group obtained a loan from Land Bank of the Philippines amounting to ₱500,000,000 for working capital requirements. The principal amount shall be payable in 20 equal quarterly payments until May 18, 2023. The loan is unsecured and with interest rate of 5.00% per annum, subject to monthly repricing. Total principal payments amounted to ₱166,666,668 in 2021.

b. On April 2, 2020, the Group obtained a loan from Land Bank of the Philippines amounting to ₱500,000,000 for working capital requirements. The principal amount shall be payable in 12 equal quarterly payments until March 31, 2023. The loan is unsecured and with interest rate of 5.75% per annum, subject to quarterly repricing. Total principal payments amounted to ₱100,000,000 in 2021 and 2020.

c. On October 1, 2020, the Group obtained a loan from Development Bank of the Philippines amounting to ₱210,000,000 for working capital requirements. The principal amount shall be payable in 24 equal quarterly payments until October 1, 2027. The loan is secured by a real estate and corporate guaranty of a related party. This loan comes with interest rate of 5.00% per annum and, is not subject to monthly repricing.

d. On March 17, 2021, the Group obtained a loan from Metropolitan Bank and Trust Company amounting to ₱150,000,000 for working capital requirements. The principal amounts are payable in 17 monthly installments commencing on September 17, 2021 and with a single payment on the remaining loan balance at end of the term. The loan is secured by a real estate and corporate guaranty of a related party. This loan comes with interest rate of 5.00% per annum and, is not subject to monthly repricing.

Movement in unamortized discount as of May 31, 2021 and 2020 follows:

	2021	2020
Beginning balance	**₱3,981,209**	₱2,446,760
Additions	**2,594,980**	3,750,000
Amortization	**(2,143,887)**	(2,215,551)
Ending balance	**₱4,432,302**	₱3,981,209

Total interest expense recognized from these loans amounted to ₱49,681,741, ₱27,840,812 and ₱30,803,797 in 2021, 2020 and 2019, respectively (see Note 24).

The Group is not subject to externally imposed capital requirements on these long-term debts.

18. **Equity**

Capital Stock

	2021		2020	
	Common	**Preferred**	Common	Preferred
Authorized number of shares	**6,300,000,000**	**70,000,000**	6,300,000,000	70,000,000
Par value per share	**₱1**	**₱1**	₱1	₱1
Authorized capital stock	**₱6,300,000,000**	**₱70,000,000**	₱6,300,000,000	₱70,000,000
At beginning of year	**2,235,000,001**	**17,500,000**	1,160,000,001	17,500,000
Issuance of shares	**–**	**–**	1,075,000,000	–
Issued and outstanding	**₱2,235,000,001**	**₱17,500,000**	₱2,235,000,001	₱17,500,000

On April 11, 2017, the Parent Company received ₱17,500,000 from existing shareholders as deposit for future stocks subscription for preferred shares. The preferred shares were unissued, and the proceeds was recorded under "Deposit for future stocks subscription" in the equity section of the consolidated statements of financial position as of May 31, 2018. In 2019, the same amount was reclassified from "Deposit for future stocks subscription" to "Capital stock" account in the equity section of the consolidated statements of financial position.

The preferred shares are redeemable and have the following features, rights and privileges:

- Preferred shares shall enjoy the preference over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividend.
- The declaration and the determination of the dividend rate shall be subject to board approval;
- The dividend payment of the preferred shares shall be cumulative;
- Preferred shares shall be non-voting, except as specified by law;
- Preferred shares shall be non-participating in further dividends;
- Preferred shares shall not be convertible into common shares;
- Preferred shares shall be convertible to common shares. The terms and conditions of the conversion of the preferred shares to common shares shall be determined by the BOD of the corporations;

- Preferred shares shall be redeemable at the option of the Parent Company at such times and price(s) as may be determined by the BOD at the time of issue. Any shares redeemed by the Parent Company shall be recorded as treasury stock and may be re-issued in the future; and
- The stockholders of the Parent Company shall have no pre-emptive right to subscribe to any issues or dispositions of shares of any class.

The Parent Company has no dividend in arrears as the BOD is yet to determine the rate for dividend declaration.

On November 17, 2020, the stockholders and the BOD of the Parent Company approved the increase in authorized capital stock from ₱6,370,000,000 divided into 6,300,000,000 common shares and 70,000,000 preferred shares both with the par value of ₱1.00 each to ₱12,700,000,000 divided into 12,700,000,000 common shares and 70,000,000 preferred shares both with the par value of ₱1.00 each. On the same date, the BOD of the Parent Company authorized the issuance of ₱1,600,000,000 common shares to the Parent Company's existing shareholders in exchange for a property as capital infusion in relation to the increase of authorized capital stock of the Parent Company. The deed of exchange and common shares were subsequently signed and issued, respectively, on March 30, 2021. On April 28, 2021, a supplemental subscription agreement was executed by the Parent Company and its existing shareholders to issue additional common shares amounting ₱66,725,000. On August 16, 2021, the Parent Company's increase in authorized capital stock was approved by the SEC.

Retained Earnings
Retained earnings of the Group includes the share in net losses of the subsidiaries. The retained earnings also include unrealized fair value gain on agricultural produce and biological assets, which cannot be declared as dividends, until these are realized.

In accordance with the Revised SRC Rule 68, the Parent Company's retained earnings available for dividend declaration as of May 31, 2021 and 2020 amounted to ₱771.20 million and ₱590.79 million, respectively.

On May 12, 2017, the stockholders and the BOD of the Parent Company authorized the declaration of stock dividends amounting to ₱625,000,000 to the Parent Company's shareholders wherein the record date of the stock dividends shall be fixed and approved by the Securities and Exchange Commission (SEC) after the increase in authorized capital stock shall have been approved by the SEC and wherein the payment date shall be determined after the SEC has fixed the record date. On the same date, the BOD approved the increase in authorized capital stock from ₱2,070,000,000 to ₱4,570,000,000 divided into 4,500,000,000 common shares and 70,000,000 preferred shares both with the par value of ₱1.00 each.

On June 29, 2018, the Parent Company's stockholders and the BOD amended its previous resolution dated May 12, 2017 and approved the increase in authorized capital stock from ₱2,070,000,000 divided into 2,000,000,000 common shares and 70,000,000 preferred shares both with the par value of ₱1.00 each to ₱6,370,000,000 divided into 6,300,000,000 common shares and 70,000,000 preferred shares both with the par value of ₱1.00 each. On May 31, 2018, the stockholders and the BOD authorized the appropriation of retained earnings amounting to ₱450,000,000 which was subsequently declared as stock dividends on June 29, 2018. On January 16, 2020, the SEC has approved the increase in authorized capital stock. Out of the increase in the authorized capital stock, at least 25% or ₱1,075,000,000 has been fully subscribed and fully paid through stock dividends.

On November 17, 2020, the stockholders and the BOD of the Parent Company approved the increase in authorized capital stock from ₱6,370,000,000 divided into 6,300,000,000 common shares and 70,000,000 preferred shares both with the par value of ₱1.00 each to ₱12,700,000,000 divided into 12,700,000,000 common shares and 70,000,000 preferred shares both with the par value of ₱1.00 each. On the same date, the BOD authorized the declaration of stock dividends amounting to ₱1,400,000,000 to the Parent Company's shareholders from the unissued shares of stock of the Corporation. As of May 31, 2021, the stock dividends declared by the Parent Company was not yet recognized since the Parent Company does not have sufficient retained earnings available for distribution.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the shareholders may infuse additional capital or the Group may adjust the dividend payment to shareholders. The capital comes mainly from contributions of shareholders.

The Group considers its capital as follows:

	2021	2020
Capital stock	**₱2,252,500,001**	₱2,252,500,001
Retained earnings	**2,361,400,230**	1,785,918,621
	₱4,613,900,231	₱4,038,418,622

The Group is not subject to externally imposed capital requirements.

19. Revenue from Contracts with Customers

	2021	2020	2019
Hybrid seeds	**₱7,267,344,563**	₱4,555,076,335	₱3,762,621,661
Rice	**1,513,390,083**	1,310,134,816	1,469,760,680
	8,780,734,646	5,865,211,151	5,232,382,341
Less: Sales discounts	**575,428,350**	299,290,567	207,494,879
Sales returns	**83,659,181**	271,723,423	173,117,905
	659,087,531	571,013,990	380,612,784
Net sales	**₱8,121,647,115**	₱5,294,197,161	₱4,851,769,557

Revenue from hybrid seeds include changes in fair value less estimated costs to sell of agricultural produce and biological assets (see Note 9).

In 2021, 2020 and 2019, total hybrid seeds sold to the Department of Agriculture amounted to ₱2,304,952,923, ₱1,031,086,916 and ₱647,944,705, respectively.

20. **Cost of Sales**

	2021	2020	2019
Fertilizers, seeds and agrichemicals (Note 9)	**₱5,423,821,627**	₱2,713,889,146	₱2,511,269,194
Depreciation and amortization (Note 23)	**272,791,931**	300,833,772	192,867,415
Personnel expenses (Notes 22 and 27)	**173,168,184**	222,380,275	216,926,202
Transportation	**47,495,962**	71,512,909	109,497,034
Light, water and utilities	**31,241,053**	26,751,141	28,404,654
Rent (Notes 10 and 31)	**17,739,137**	25,872,848	14,036,011
Security services	**11,829,671**	11,317,447	9,400,048
Repairs and maintenance	**9,235,503**	14,415,626	13,745,542
Taxes and licenses	**6,707,680**	6,713,796	4,812,817
Loss on inventory	–	–	2,127,764
Others	**12,355,525**	12,007,367	12,807,711
	₱6,006,386,273	₱3,405,694,327	₱3,115,894,392

21. **Operating Expenses**

	2021	2020	2019
Personnel expenses (Notes 22 and 27)	**₱219,317,915**	₱199,636,765	₱172,364,777
Advertising and promotion	**156,869,557**	106,638,605	75,001,857
Taxes and licenses	**105,311,924**	103,378,635	64,801,130
Freight and other selling expenses	**91,191,647**	69,942,665	65,915,746
Depreciation (Notes 11 and 23)	**61,574,891**	16,792,853	120,845,297
Rent (Notes 10 and 31)	**42,341,998**	48,763,782	74,783,574
Legal and professional fees	**33,785,565**	33,796,977	16,717,225
Entertainment, amusement and recreation (EAR)	**24,803,025**	24,588,765	18,291,860
Insurance	**23,476,633**	10,507,829	8,768,226
Contributions and donations	**22,293,747**	10,355,986	15,241,418
Transportation and travel	**17,429,868**	27,223,526	29,444,353
Gas, oil and lubricant	**16,987,732**	17,464,409	19,581,631
Bank charges	**15,616,458**	12,516,662	11,204,194
Repairs and maintenance	**9,989,362**	9,461,317	10,387,958
Supplies	**8,008,897**	8,732,609	6,232,116
Communication	**6,593,040**	6,255,670	6,343,018
Security services	**2,912,503**	2,237,765	2,274,621
Membership dues	**1,776,956**	1,922,295	2,151,016
Loss on inventory returns	**1,703,448**	3,158,673	6,389,840
Training and recruitment	**1,063,908**	3,119,477	4,897,127
Light, water and utilities	**1,001,785**	1,346,544	1,921,219
Provision for expected credit losses (Note 8)	–	48,148,475	523,375
Commission	–	–	23,210
Miscellaneous	**4,924,376**	4,297,158	4,024,853
	₱868,975,235	₱770,287,442	₱738,129,641

Miscellaneous pertains to various expenses incurred by the Group such as showroom, corporate giveaways and other operating expenses.

22. Personnel Expenses

	2021	2020	2019
Salaries, wages and other benefits	**₱353,293,264**	₱404,850,223	₱367,665,202
Employee welfare	**30,630,452**	28,025,872	18,166,722
Pension expense (Note 27)	**8,623,512**	5,569,813	3,408,016
	₱392,547,228	₱438,445,908	₱389,239,940

Personnel expense are allocated as follows:

	2021	2020	2019
Cost of sales (Note 20)	**₱173,168,184**	₱222,380,275	₱216,926,202
Operating expenses (Note 21)	**219,317,915**	199,636,765	172,364,777
Ending inventories	**142,980,945**	142,919,816	126,490,948
Total	**535,467,044**	564,936,856	515,781,927
Less beginning inventories	**142,919,816**	126,490,948	126,541,987
	₱392,547,228	₱438,445,908	₱389,239,940

23. Depreciation and Amortization

	2021	2020	2019
Cost of sales (Note 20)	**₱272,791,931**	₱300,833,772	₱192,867,415
Operating expenses (Note 21)	**61,574,891**	16,792,853	18,507,984
Ending inventories (Note 9)	**87,101,348**	85,027,595	84,812,400
Total	**421,468,170**	402,654,220	296,187,799
Less beginning inventories	**85,027,595**	84,812,400	84,909,820
	₱336,440,575	₱317,841,820	₱211,277,979

24. Finance Cost

	2021	2020	2019
Interest expense on:			
Short-term debt (Note 16)	**₱578,851,597**	₱628,785,428	₱430,079,073
Lease liabilities (Note 31)	**62,526,669**	19,459,125	13,270,146
Trust receipts payable (Note 15)	**54,469,046**	35,741,431	41,917,591
Long-term debt (Note 17)	**49,681,741**	27,840,812	30,803,797
Other noncurrent liability	**–**	77,782	61,814
	₱745,529,053	₱711,904,578	₱516,132,421

25. Income Tax

Provision for income tax consists of:

	2021	2020	2019
Current:			
MCIT	**₱5,041,444**	₱1,201,748	₱–
RCIT	**–**	–	5,456,708
Final tax	**315,111**	321,351	238,633
	₱5,356,555	₱1,523,099	₱5,695,341

The Group availed of the tax incentives under its Board of Investment (BOI) registration where it enjoyed ITH status. Accordingly, the Group did not recognize any DTA in 2021, 2020 and 2019 on temporary differences that will reverse within the ITH period (see Note 28).

Details of unrecognized DTA on NOLCO, MCIT and temporary differences follow:

	2021	2020	2019
Pension liability	**₱50,599,251**	₱43,519,748	₱28,897,419
Allowance for impairment	**218,846,282**	218,948,205	170,799,730
NOLCO	**–**	48,445,248	208,304,686
MCIT	**1,863,858**	1,548,486	1,057,394

The Group's NOLCO can be claimed as additional deductions against future taxable income over a period of three years. During the year, the Group's NOLCO amounting to ₱48,445,248 which was incurred in 2018 and unapplied expired in 2021.

The Group's excess MCIT over RCIT can be claimed as tax credit against future RCIT over a period of three years. Details are as follows:

Year Incurred	Amount	Expired	Balance	Expiry Date
2021	₱1,772,791	₱–	₱1,772,791	2024
2020	91,067	–	91,067	2023
2018	346,738	346,738	–	2021
	₱2,210,596	₱346,738	₱1,863,858	

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of comprehensive income follows:

	2021	**2020**	2019
Statutory income tax rate	**25.42%**	**30.00%**	30.00%
Tax effects of:			
Nondeductible expenses	**0.15**	**3.16**	4.59
Interest income subject to final tax rate	**(0.07)**	**(0.03)**	(0.06)
Nontaxable fair value gain	**(17.56)**	**(23.52)**	(5.43)
ITH (Note 28)	**(7.05)**	**(9.32)**	(28.08)
Effective income tax rate	**0.90%**	**0.29%**	1.02%

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling of such expenses.

26. **Earnings Per Share**

Basic/diluted earnings per share amounts were computed as follows:

	2021	2020	2019
a. Net income attributable to equity holders of the Parent Company	**₱575,481,609**	₱531,971,697	₱557,620,669
b. Weighted average number of common shares outstanding*	**2,235,000,001**	2,235,000,001	2,235,000,001
c. Basic/diluted earnings per share (a/b)	**₱0.26**	₱0.24	₱0.25

**Retrospectively adjusted for the issuance of stock dividend in 2020.*

The Parent Company does not have potentially dilutive common shares as at May 31, 2021, 2020 and 2019.

27. **Retirement Plan**

The Group has an unfunded, noncontributory defined benefit type of retirement plan covering substantially all of its employees based on the minimum contribution required by law. The latest retirement valuation report was as of May 31, 2021.

The following tables summarize the components of the pension expense recognized in the consolidated statements of comprehensive income and amounts recognized in the consolidated statements of financial position.

Based on the actuarial valuation as of May 31, 2021 computed using the PUC method, the Group's pension liability and expenses are summarized as follows:

	May 31		
	2021	2020	2019
Pension expense (Note 22)	**₱8,623,512**	₱5,569,813	₱3,408,016
Pension liability	**50,599,251**	43,519,748	28,897,419

Components of pension expense in profit or loss follow:

	2021	2020	2019
Current service cost	**₱6,765,219**	₱3,934,993	₱2,299,450
Interest cost on defined benefit liability	**1,858,293**	1,634,820	1,108,566
Total pension expense	**₱8,623,512**	₱5,569,813	₱3,408,016

The movements in the pension liability follow:

	May 31	
	2021	2020
At beginning of year	**₱43,519,748**	₱28,897,419
Pension expense	**8,623,512**	5,569,813
Amount to be recognized in OCI	**(1,544,009)**	9,052,516
At end of the year	**₱50,599,251**	₱43,519,748

Movement of cumulative remeasurement effect recognized in OCI:

	May 31	
	2021	2020
Balance at beginning of year	**(₱16,945,481)**	(₱7,892,965)
Additional actuarial gains (losses) from plan obligation	**1,544,009**	(9,052,516)
Balance at end of year	**(₱15,401,472)**	(₱16,945,481)

The reconciliation of the present value of the defined benefit obligation follows:

	May 31	
	2021	2020
Balance at beginning of year	**₱43,519,748**	₱28,897,419
Current service cost	**6,765,219**	3,934,993
Interest cost	**1,858,293**	1,634,820
Actuarial loss (gain) due to:		
Experience adjustments	**2,529,859**	1,819,381
Changes in financial assumptions	**(4,073,868)**	7,233,135
Balance at end of year	**₱50,599,251**	₱43,519,748

The assumptions used to determine pension benefits of the Group follow:

	2021	2020
Discount rates	**4.90%**	4.27%
Salary rate increase	**5.00%**	5.00%

The sensitivity analysis that follows has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of the end of reporting period, assuming all other assumptions were held constant.

2021

		Amount of Present value of obligation
Discount rate	**5.90%**	**₱45,041,175**
	3.90%	**57,305,529**
Salary rate	**6.00%**	**56,943,697**
	4.00%	**45,224,780**

2020

		Amount of Present value of obligation
Discount rate	5.27%	₱38,612,689
	3.27%	49,461,883
Salary rate	6.00%	49,556,630
	4.00%	38,433,775

Changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

Shown below is the maturity profile of the expected future benefit payments:

	2021	2020
Less than one year	**₱14,869,291**	₱12,368,817
One to five years	**20,167,464**	10,591,090
Six to 10 years	**38,300,508**	38,699,736
11 to 15 years	**377,932,918**	278,848,383

28. Registration with the Board of Investment (BOI)

On November 16, 2020, the BOI approved the Parent Company's registration (COR No. 2020-217) as new producer of hybrid (milled) rice and by-product in Victoria, Tarlac on a non-pioneer status from November 2020 to November 2024.

On July 11, 2018, the BOI approved the Parent Company's application for extension of its income tax holiday incentive as a new producer of milled (hybrid) rice and by-products (broken rice and rice bran) in Talavera, Nueva Ecija on a non-pioneer status. The Parent Company's BOI Certificate of registration (COR) No. 2014-038, for this activity was approved on February 21, 2014 and has a four-year term from March 1, 2014 and ended on February 28, 2018. The extension for the Group's income tax holiday entitlement was granted for additional one year from March 1, 2018 to February 28, 2019. On July 15, 2019, the BOI approved the Parent Company's application for extension for additional one year covering the period March 1, 2019 to February 29, 2020. Upon expiry of the registration, the Parent Company did not apply for further extension of registrations.

On May 4, 2017, the BOI approved the Parent Company's registration (COR No. 2017-109) as new producer of hybrid rice seeds and by-products (palay) in its plant facility at Matanao, Davao del Sur from May 4, 2017 to May 4, 2021 on a non-pioneer status. On May 5, 2021, the Parent's Company applied for extension for additional one year covering the period May 2021 to May 2022. As of May 31, 2021, the extension is still for approval.

On February 6, 2009, the Parent Company was registered with the BOI as a new producer of hybrid rice seeds and by-product in Lupon, Davao Oriental on a pioneer status from February 6, 2009 to February 5, 2017. Upon expiry of the registration, the Parent Company did not apply for further extension of registrations.

Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of six (6) years from February 2009 for Davao Oriental, or actual start of commercial operations, whichever is earlier;

(b) for the first five (5) years from the date of registration, the Parent Company shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment labor expense; (c) tax credit on taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten (10) years from date of registration; (d) importation of consigned equipment for a period of ten (10) years from date of registration; (e) employment of foreign nationals; (f) exemption from wharf age dues, any export tax, duties, imposts and fees for a ten (10)-year period from date of registration; (g) access to Customs Bonded Manufacturing Warehouse (CBMW) subject to customs rules and regulations provided that the Company exports at least 70% of production; (h) exemption from taxes and duties on imported spare parts and supplies for export producers with CBMW exporting at least 70% of production; and (i) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.

For non-pioneer registration, ITH is 4 years plus two (2) bonus years.

29. Financial Risk Management Objectives and Policies

The BOD approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets and to specify reporting requirements.

Governance Framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Group's principal financial instruments consist of cash, receivables, security deposits, accounts and other payables, trust receipts payable, short-term debt, long-term debt and lease liabilities. The main purpose of these financial instruments is to fund the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exposure arises from inability of the Group to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Group maintains a level of cash deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally generated funds and credit facilities with local banks.

The Group also manages liquidity through an assessment of the minimum amount of funds needed to meet operating and investment requirements; specifying the sources of funding; and periodic reporting and review of the credit facilities made available to the Group.

The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four (4) to six (6) months. Capital expenditures are financed by internally generated funds, while operating expenses and working capital requirements are sufficiently funded through letters of credit, short-term debt, and long-term debt.

Surplus funds are placed with reputable banks.

The tables below summarize the maturity profile of financial instruments based on contractual undiscounted payments as of May 31, 2021 and 2020.

2021

	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Total
Financial asset at amortized cost						
Cash	**₱1,332,178,033**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,332,178,033**
Receivables						
Trade receivables	**4,721,643,332**	**16,615,330**	**26,369,941**	**627,053,057**	**3,966,495**	**5,395,648,155**
Receivables from employees[1]	**6,239,244**	–	–	–	–	**6,239,244**
Non-trade receivable	**37,397,300**	–	–	–	–	**37,397,300**
Security deposits	–	–	–	–	**36,522,150**	**36,522,150**
	₱6,097,457,909	**₱16,615,330**	**₱26,369,941**	**₱627,053,057**	**₱40,488,645**	**₱6,807,984,882**
Other financial liabilities at amortized cost						
Accounts and other payables[2]	**₱60,826,206**	**₱–**	**₱228,398,990**	**₱–**	**₱–**	**₱289,225,196**
Trust receipts payable	–	–	**948,590,660**	–	–	**948,590,660**
Short-term debt	–	–	**11,197,100,099**	–	–	**11,197,100,099**
Long-term debt[3]	–	–	–	**342,647,744**	**638,387,201**	**981,034,945**
Lease liabilities[4]	–	–	–	**65,934,092**	**149,402,640**	**215,336,732**
	₱60,826,206	**₱–**	**₱12,374,089,749**	**₱408,581,836**	**₱787,789,841**	**₱13,631,287,632**

[1]*Excluding receivables collectible through salary deduction and subject to employee liquidation totaling to ₱8,415,292*
[2] *Excluding statutory liabilities amounting to ₱4,563,880*
[3] *Including future interest payable amounting to ₱91,615,492.*
[4] *Including future interest amounting to ₱36,132,370.*

2020

	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Total
Financial asset at amortized cost						
Cash	₱1,388,202,370	₱–	₱–	₱–	₱–	₱1,388,202,370
Receivables						
Trade receivables	4,799,754,426	10,889,884	1,518,597	3,347,438	–	4,815,510,345
Receivables from employees[1]	9,189,822	–	–	–	–	9,189,822
Non-trade receivable	29,887,630	–	–	–	–	29,887,630
Security deposits	–	–	–	–	29,495,407	29,495,407
	₱6,227,034,248	₱10,889,884	₱1,518,597	₱3,347,438	₱29,495,407	₱6,272,285,574
Other financial liabilities at amortized cost						
Accounts and other payables[2]	₱80,192,810	₱–	₱207,824,146	₱–	₱–	₱288,016,956
Trust receipts payable	–	–	995,336,152	–	–	995,336,152
Short-term debt	–	–	10,359,619,562	–	–	10,359,619,562
Long-term debt[3]	–	–	–	309,326,927	574,362,766	883,689,693
Lease liabilities[4]	–	–	–	68,874,320	279,357,610	348,231,930
	₱80,192,810	₱–	₱11,562,779,860	₱378,201,247	₱853,720,376	₱12,874,894,293

[1]*Excluding receivables collectible through salary deduction and subject to employee liquidation totaling to ₱4,964,637.*
[2] *Excluding statutory liabilities amounting to ₱3,719,178.*
[3] *Including future interest payable amounting to ₱87,164,262.*
[4] *Including future interest amounting to ₱90,094,970.*

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates to the Company's long-term debt, which is subject to monthly and quarterly repricing.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity of income before tax as of May 31, 2021 and 2020 to a reasonably possible change in interest rates with all other variables held constant:

	Effect on income before income tax	
	+100 Basis Points	-100 Basis Points
2021	**(₱750,074)**	**₱750,074**
2020	(497,452)	497,452

Credit Lines
The Group has various open credit lines with different financial institutions as of May 31, 2021 and 2020 (see Notes 15, 16, and 17). These credit lines are short-term and available upon withdrawal.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligation in transactions involving financial assets.

To manage credit risk, the Group trades only with recognized and creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The Group sets the maximum amounts and limits that may be advanced and placed with individual or corporate counterparties which are set by reference to their long-term ratings.

The credit risk is concentrated to the following counterparties:

	2021	2020
Distributors and Retail Stores	**76.37%**	69.01%
DA-Regional Field Unit	**22.10**	28.76
MAO	**0.17**	0.38
Others	**1.36**	1.85
Total	**100.00%**	100.00%

The table below shows the gross maximum exposure of the Group to credit risk for the components of its consolidated statements of financial position as of May 31, 2021 and 2020.

	2021	2020
Loans and receivables		
Cash[1]		
Cash in banks	**₱1,326,229,518**	₱1,382,175,919
Receivables		
Trade receivables[2]	**5,395,648,155**	4,815,510,345
Non-trade receivables [3]	**9,298,895**	1,789,225
Receivables from employees[4]	**6,239,244**	9,189,822
Security deposits	**36,522,150**	29,495,407
Total	**₱6,773,937,962**	₱6,238,160,718

[1]*Excluding cash on hand amounting to ₱5,948,515 and ₱6,026,451 as of May 31, 2021 and 2020, respectively.*
[2]*Excluding allowance for expected credit losses amounting to ₱190,747,877 and ₱190,849,800 as of May 31, 2021 and 2020, respectively.*
[3]*Excluding non-financial asset amounting to ₱28,098,405 as of May 31, 2021 and 2020, which are fully impaired.*
[4]*Excluding receivables collectible through salary deduction and subject to employee liquidation totaling to ₱8,415,292 and ₱4,964,637 as of May 31, 2021 and 2020, respectively.*

The table below summarizes the credit quality of the Group's financial assets as of May 31, 2021 and 2020:

2021

	Neither past due nor impaired				
	Low Risk	**Average Risk**	**High Risk**	**With Provision**	**Total**
Cash[1]	**₱1,326,229,518**	**₱–**	**₱–**	**₱–**	**₱1,326,229,518**
Receivables					
Trade receivables	**1,716,748,081**	**3,678,900,074**	**–**	**190,747,877**	**5,586,396,032**
Non-trade receivables	**9,298,895**	**–**	**–**	**28,098,405**	**37,397,300**
Receivables from employees[2]	**6,239,244**	**–**	**–**	**–**	**6,239,244**
Security deposits	**36,522,150**	**–**	**–**	**–**	**36,522,150**
	₱3,095,037,888	**₱3,678,900,074**	**₱–**	**₱218,846,282**	**₱6,992,784,244**

[1]*Excluding cash on hand amounting to ₱5,948,515*
[2]*Excluding receivables collectible through salary deduction and subject to employee liquidation totaling to ₱8,415,292*

2020

	Neither past due nor impaired				
	Low Risk	Average Risk	High Risk	With Provision	Total
Cash[1]	₱1,382,175,919	₱–	₱–	₱–	₱1,382,175,919
Receivables					
Trade receivables	1,933,225,614	2,882,284,731	–	190,849,800	5,006,360,145
Non-trade receivables	1,789,225	–	–	28,098,405	29,887,630
Receivables from employees[2]	9,189,822	–	–	–	9,189,822
Security deposits	29,495,407	–	–	–	29,495,407
	₱3,355,875,987	₱2,882,284,731	₱–	₱218,948,205	₱6,457,108,923

[1]*Excluding cash on hand amounting to ₱6,026,451*
[2]*Excluding receivables collectible through salary deduction and subject to employee liquidation totaling to ₱4,964,637*

The Group classifies credit quality as follows:

Low risk - credit can proceed with normal credit terms and counterparty possesses strong to very strong capacity to meet its obligation.

Average risk - credit can proceed with extended credit terms and counterparty possesses strong capacity to meet its obligation, however, adverse economic conditions or changing circumstances are more likely to lead a weakened capacity of the obligor to meet its financial commitment on the obligation.

High risk - transaction should be under advance payment or confirmed and irrevocable stand-by letters of credit and subject to quarterly review for possible upgrade after one year. Counterparty will likely impair the capacity or willingness to meet financial commitment on the obligation on adverse economic conditions or changing circumstances.

An impairment analysis is performed by the Group at each reporting date using vintage analysis and provision matrix models to measure expected credit losses on receivables (see Note 5). The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., customer type and location).

Credit Terms
The credit terms for seed receivables range from eleven (11) months to twenty-four (24) months. The credit term for rice receivables range from sixty (30) days to twelve (12) months.

Price risk on biological assets and agricultural produce
The Group is exposed to risks arising from changes in prices of hybrid rice seeds and milled rice. The Group does not anticipate that hybrid rice seeds and milled rice will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in market prices. The Group reviews its outlook for market prices regularly in considering the need for active financial risk management.

Risk management related to agricultural activity
The Group is exposed to farming risk arising from climatic changes, diseases and other natural risks such as fire, flooding and storms and human-induced losses arising from strike and malicious damage.

The Group does not anticipate that agricultural products will decline significantly in the foreseeable future and therefore, has not entered into derivative or other contracts to manage the risk of decline in market prices. The Group reviews its outlook for market prices regularly in considering the need for active financial risk management.

Agricultural activity covers wet and dry cropping seasons from months of June to November and December to May, respectively.

Fair Values
Financial instruments
Financial instruments are recognized initially at cost which is the fair value of the consideration given (in case of the asset) or received in (in case of liability). Subsequent to initial recognition, assets and liabilities are either valued at amortized cost using effective interest rate method or at fair value depending on their classification. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Due to the short-term nature of the transactions, the carrying amounts of cash, receivables (excluding non-current receivables), accounts and other payables, trust receipt payable and short-term debt approximate their fair values.

Non-current trade receivables
The fair value of non-current trade receivables amounted to ₱602,433,807 and nil, while the carrying value amounted to ₱626,299,650 and nil as of May 31, 2021 and 2020, respectively. The fair value of non-current trade receivables was based on the discounted value of future cash flows using the prevailing interest rates for similar types of receivables as of the reporting date based on the remaining terms to maturity plus a certain spread. The spread is an unobservable input that increases the discount rates and lowers the calculated fair value. The discount rates used ranged from 2.86% to 3.00% in 2021.

Long-term debt
The fair value of long-term debt with variable rate that reprice every month and every quarter approximate their carrying values due to recent and regular repricing based on current market rates.

The fair value of long-term debt with interest rates not subject to regular repricing amounted to ₱361,158,544, while the carrying value amounted to ₱360,000,000 as of May 31, 2021. The fair value of long-term debt was based on the discounted value of future cash flows using the prevailing interest rates as of the reporting date based on the remaining terms to maturity. The discount rates used ranged from 3.53% to 4.83% in 2021.

Security deposit
The fair value of security deposit is equal to its contractual cash flows since it is not probable to estimate reliably the expected maturity of these financial instruments.

Other non-financial assets
Fair value of harvested crops are based on the most reliable estimate of market prices in the local market. The market price is derived from the Group's current selling price adjusted for logistic cost and cost to sell (Level 3).

<u>Fair Value Hierarchy</u>
As of May 31, 2021 and 2020, the Group has no financial asset and liability measured at fair value. During the reporting periods ended, May 31, 2021 and 2020, there were no transfer between Level 1 and Level 2 measurements, and no transfers into and out of Level 3 fair value measurements.

30. Related Party Transactions

Related party transactions are made under the normal course of business and are generally settled in cash, unless otherwise stated. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control. Related parties may be individuals or corporate entities (referred herein as affiliates).

The Group has noninterest-bearing receivables from (payable to) affiliates arising from the normal course of operations.

Amounts receivable and payable from related parties as of May 31 follow:

2021

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Trade Receivables						
Sterling Paper Products Enterprise, Inc.	**Entity under common control**	**Sales**	**₱157,275**	**₱–**	**30- 90 days from date of invoice**	**Unsecured; noninterest-bearing**
DM Rice Surprise	**Entity under common control**	**Sales**	**53,386**	**–**	**30- 90 days from date of invoice**	**Unsecured; noninterest-bearing**
Central Bookstore	**Entity under common control**	**Sales**	**4,694,755**	**–**	**30- 90 days from date of invoice**	**Unsecured; noninterest-bearing**
Expressions Stationery Shop, Inc.	**Entity under common control**	**Sales**	**–**	**–**	**30- 90 days from date of invoice**	**Unsecured; noninterest-bearing**
SL Agrifood, Inc.	**Entity under common control**	**Sales**	**154,770**	**103,486**	**30- 90 days from date of invoice**	**Unsecured; noninterest-bearing**
			₱5,060,186	**₱103,486**		

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Advances to an Associate						
PT Sterling Agritech Indonesia (SAI)	**Associate**	**Advances**	**₱7,655,990**	**₱67,838,812**	**Intended for investment**	**Unsecured; noninterest-bearing**

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Prepayments and Other Current Assets						
SL Biotech Corporation	**Entity under common control**	**Purchases**	**₱27,034,335**	**₱27,034,335**	**On demand**	**Unsecured; noninterest-bearing**

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Lease liabilities						
SP Properties, Inc.	**Entity under common control**	**Lease**	**₱653,000,000**	**₱28,930,360**	**Equal monthly payment at the start of month for the remaining term of lease (17 years)**	**Unsecured; noninterest-bearing**

2020

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Trade Receivables						
Sterling Paper Products Enterprise, Inc.	Entity under common control	Sales	₱1,273,239	₱4,560,541	30- 90 days from date of invoice	Unsecured; noninterest-bearing
DM Rice Surprise	Entity under common control	Sales	1,323,014	–	30- 90 days from date of invoice	Unsecured; noninterest-bearing
Central Bookstore	Entity under common control	Sales	2,750	2,756,576	30- 90 days from date of invoice	Unsecured; noninterest-bearing
Expressions Stationery Shop, Inc.	Entity under common control	Sales	176,750	176,750	30- 90 days from date of invoice	Unsecured; noninterest-bearing
SL Agrifood, Inc.	Entity under common control	Sales	557,910	300,060	30- 90 days from date of invoice	Unsecured; noninterest-bearing
			₱3,333,663	₱7,793,927		

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Advances to an Associate						
PT Sterling Agritech Indonesia (SAI)	Associate	Advances	₱45,311,583	₱60,182,822	Intended for investment	Unsecured; noninterest-bearing

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Prepayments and Other Current Assets						
SL Biotech Corporation	Entity under common control	Purchases	₱304,835,714	₱304,835,714	On demand	Unsecured; noninterest-bearing

	Relationship	Transaction	Amount	Outstanding Balance	Terms	Conditions
Lease liabilities						
SP Properties, Inc.	Entity under common control	Lease	₱344,165,000	₱87,967,759	Equal monthly payment at the start of month for the remaining term of lease (17 years)	Unsecured; noninterest-bearing

Compensation of key management personnel
Key management personnel of the Group include all officers with rank of Vice-Presidents, and Senior Vice-Presidents.

The summary of compensation of key management personnel included under Operating expenses account in the consolidated statements of comprehensive income follows:

	2021	2020	2019
Salaries and other short-term employee benefits	**₱6,744,000**	₱6,744,000	₱5,861,216
Pension expense	**2,233,418**	2,233,418	2,317,450
	₱8,977,418	₱8,977,418	₱8,178,666

Terms and conditions of transactions with related parties
The Group has not recognized any impairment losses on amounts due from related parties for the years ended May 31, 2021, 2020 and 2019. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. Outstanding balances as of reporting date are to be settled in cash.

The Group act as surety for obligations arising from or in connection with the credit accommodations extended to the Group's affiliates by various financial institutions. In return, the affiliates authorized the Group to mortgage, pledge and assign the affiliates' assets as collateral/security to the loans the Group borrowed from financial institutions (see Note 16).

31. Leases

Group as a lessee
The Group has lease contracts on warehouses including parking spaces for the storage of hybrid rice palay/seeds in Bulacan. These leases have a term of twenty (20) years from commencement date and generally provide for monthly rent payment. The Group has significantly prepaid its future lease payables; remaining future lease payables are recognized as lease liabilities (see Note 11).

The Group also entered into various farm management agreements which cover the lease of approximately 200 hectares of agricultural lands for the production of hybrid rice palay/seeds and warehouse in Laguna, Davao Oriental, and Nueva Ecija with lease terms of 12 months or less. The Group applied the short-term lease recognition exemption for these leases.

The Group also has various lease contracts with financing companies with lease term of 5 years for the lease of transportation equipment and machineries intended to support the Group's operations.

The following are the amounts recognized in statement of comprehensive income:

	2021	2020
Depreciation expense of right-of-use assets included in property and equipment (Note 11)	**₱83,753,083**	₱70,232,288
Accretion of interest expense on lease liabilities (Note 24)	**62,526,669**	19,459,125
Rent expense - short-term leases (Notes 20 and 21)	**60,081,135**	74,636,630
	₱206,360,887	₱164,328,043

Set out below are the carrying amounts of the Group's lease liabilities and the movements during the period:

	2021	2020
As at June 1	**₱258,136,960**	₱246,997,664
Additions	**17,635,194**	46,017,327
Interest expense on lease liabilities	**62,526,669**	19,459,125
Lease payments	**(159,094,461)**	(54,337,156)
As at May 31	**₱179,204,362**	₱258,136,960
Current	**₱65,934,092**	₱68,874,320
Noncurrent	**₱113,270,270**	₱189,262,640

As of May 31, 2021, the Group's current and noncurrent lease liabilities, arising from the finance lease of transportation and machinery equipment amounted to ₱65,934,092 and ₱84,339,911, respectively.

Shown below is the maturity analysis of the undiscounted lease payments:

	2021	2020
Within one year	**₱65,934,092**	₱89,271,820
After one year but not more than five years	**84,339,911**	101,294,881
More than five years	**65,062,730**	178,062,730
	₱215,336,733	₱368,629,431

32. **Commitments**

Contract growing agreements
The Group has various contractual commitments with contract growers to buyback all hybrid rice palay and hybrid rice seeds produced by the latter. Contract terms range from six (6) months to three (3) years or one (1) cropping season to six (6) cropping seasons. Under the MOA, the Group is obliged and has the sole and exclusive right to:

a. Provide in time F1 hybrid rice seeds, agricultural chemicals and other farm inputs and materials needed by the contract growers (These are accounted for as Advances to Contract Growers in the Receivables account.);
b. Provide technical assistance and supports, free of charge, to contract growers; and
c. Buyback all the SL-8H, SL-7H and SL-9H palay produced by contract grower at the contracted area(s) at the prevailing market price plus an agreed premium.

Under the MOA, the Group shall pay the contract buyer for the contracted price net of advances made, within 30 days after the release of moisture content seed analysis results for seeds.

<u>Joint Arrangement in Myanmar</u>
On November 28, 2019, the Parent Company entered into an agreement with Yoma Agricultural Company Limited and Waterstone Company Limited to establish a joint venture company for the business activities of production, marketing and export of F2-type hybrid rice. The Parent Company made deposits to the unincorporated joint venture amounting to ₱2,529,400, presented under "Other noncurrent assets" in the consolidated statements of financial position (see Note 10).

<u>Commercial Licensing Agreement with IRRI</u>
The Parent Company entered into a Limited-Exclusive Commercial License Agreement with IRRI concerning the latter's proprietary hybrid rice last July 30, 2018 wherein the latter has granted the former to use the IRRI's parental lines to produce commercial hybrid seeds in the Philippines, exclusively and solely for its research and development program. Based on the agreement, the Parent Company shall pay upfront fees to IRRI amounting to USD 30,000 per licensed hybrid, USD 15,000 per licensed hybrid upon signing of the agreement and USD 15,000 per licensed hybrid in the beginning of year 5. This is presented under "Other noncurrent assets" (see Note 10).

<u>Memorandum of Agreement for Hybrid Seed Production in Myanmar</u>
In 2016, the Group entered into a Memorandum of Agreement (MOA) with two other Myanmar-based companies and one company from the Philippines and invested ₱7,334,436 million in the form of cash and seeds. Parties have agreed to pursue a Joint Venture (JV) whereby hybrid rice will be planted and/or processed, and hybrid seeds will be multiplied, cultivated and/or processed in Myanmar using technology developed by the Group.

In 2017, the Group's investment in Myanmar increased by ₱5,514,370. This includes shares pooled out from one of the parties to the agreement. The Group also recognized its share in net loss in its undivided interest in the unincorporated joint venture amounting to ₱12,472,365 and nil in 2017 and 2016, respectively.

In 2017, a separate vehicle in the Union of Myanmar was incorporated under the name "Sterling SL Agritech Company Limited". SSLACL is a private company that has an authorized capital of USD3,000,000 divided into 3,000,000 shares of USD1 each. On August 23, 2017, SSLACL obtained Temporary Certificate of Incorporation and Temporary Form of Permit with Registration and Permit No. 466 FC 2017-2018 (YGN) with a validity period of six months. On September 21, 2017, the management also executed an Investment Trust Agreement between the Parent Company (Company-Trustor) and Henry Lim Bon Liong (HBL) (Chairman-Trustee) to enable HBL to manage, supervise and administer Sterling SL Agritech Company Limited on behalf of the Parent Company, effectively making SSLACL (see Note 1).

On February 26, 2018, SSLACL applied for the necessary extension to the Directorate of Investment and Company Administration (DICA) and the latter extended the Certificate of Incorporation and Form of Permit (Temporary) validity period for another six months (from February 23, 2018 to August 22, 2018). In 2019, SSLACL has already started its sales operations following the issuance of certificate of incorporation and approval of the Directorate of Investment and Company Administration (DICA) for its application for Form of Permit (Temporary). In the same year, SSLACL has already obtained Myanmar Investment Commission (MIC) permit to operate in Union of Myanmar.

<u>Collaboration Agreement for Hybrid Seed Production in Bangladesh</u>
The Group entered into Collaboration agreement with EnP Solution Limited (ESL) on SL-18H seeds production, marketing and development in Bangladesh. The significant commitments of the Group under its agreement with ESL are as follows:

a. Contract period of the agreement shall be three years from June 1, 2017 to May 30, 2020.
b. This three years period is considered as trial production and F1 seeds promotion period for SL-18H in Bangladesh.
c. By the end of the current contract period, a new contract agreement may be signed for another business period of five (5) years to replace the initial contract.
d. The Group will provide subsidized price for importing F1 hybrid rice seeds SL-18H. The minimum target are as follows:

Year	Minimum quantity of SL-18H F1 seeds exported
2017-2018	20,000 Kg
2018-2019	30,000 Kg
2019-2020	40,000 Kg

ESL has an on-going trial production, marketing and development of SL-18H hybrid rice seed variety in Bangladesh as of May 31, 2021.

The contract with ESL was no longer formally renewed; any subsequent sales are done based on the usual sales ordering process. The transactions with ESL are accounted for as export sales and is presented under "Sales of commercial rice and harvested seeds" in the statement of comprehensive income.

Memorandum of Understanding on Development of Hybrid Rice Business in India
The Group entered into memorandum of understanding (MOU) with National Seeds Corporation (NSC) on SL tropical hybrid seeds production, marketing and development in India. The significant commitments of the Group under its agreement with NSC are as follows:

a. Contract period of the agreement shall be five years from October 12, 2017 to October 17, 2022 and may be extended by MOU under the terms and conditions further determines by the parties.

b. The primary objectives for the MOU are as follow:
   - To produce 3 line-F1 hybrid seeds varieties, such as SL-8H and market in India;
   - To conduct trial for 2-line hybrid rice varieties then apply for registration for future multiplication, production and sells in India;
   - To define mutual benefit profit sharing system by investment together and sharing together; and
   - To conduct mutual technical training mechanism, viz farmer or technical personnel from first to be trained in India and vice versus.

This transaction with NSC is recorded as export sales and is presented under "Sales of commercial rice and harvested seeds" in the statement of comprehensive income.

33. Notes to Consolidated Statements of Cash Flows

Rollforward of liabilities under financing activities as of May 31, 2021, 2020 and 2019 follows:

	June 1, 2020	**Net cash flows**	**Non-cash change**	**May 31, 2021**
Short-term debt	**₱10,359,619,562**	**₱837,480,537**	**₱–**	**₱11,197,100,099**
Long-term debt	**796,525,431**	**90,750,135**	**2,143,887**	**889,419,453**
Lease liabilities	**258,136,960**	**(159,094,461)**	**80,161,863**	**179,204,362**
	₱11,414,281,953	**₱769,136,211**	**₱82,305,750**	**₱12,265,723,914**

	June 1, 2019	Net cash flows	Non-cash change	May 31, 2020
Short-term debt	₱7,338,845,875	₱3,020,773,687	₱–	₱10,359,619,562
Long-term debt	397,553,240	396,756,640	2,215,551	796,525,431
Lease liabilities	246,997,664	(8,319,829)	19,459,125	258,136,960
	₱7,983,396,779	₱3,409,210,498	₱21,674,676	₱11,414,281,953

	June 1, 2018	Net cash flows	Non-cash change	May 31, 2019
Short-term debt	₱6,297,852,388	₱1,040,993,487	₱–	₱7,338,845,875
Long-term debt	496,297,916	(100,000,000)	1,255,324	397,553,240
Lease liabilities	81,821,131	68,818,459	13,270,146	163,909,736
	₱6,875,971,435	₱1,009,811,946	₱14,525,470	₱7,900,308,851

Non-cash change pertains to amortization of discount on long-term debt and accretion of interest expense on lease liabilities.

34. **Events related to COVID-19 Pandemic**

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak as a global pandemic. In a move to contain the COVID-19 outbreak, several quarantine measures have been implemented in the Philippines, Myanmar, Indonesia, India and other areas in which the Group has business operations with significant number of COVID-19 cases. These quarantine measures have resulted in disruptions in the Group's business and economic activities.

The COVID-19 and the measures taken have caused disruptions to businesses and economic activities, and its impact on business continue to evolve. The events surrounding the outbreak did not have significant impact to the Group's financial position and performance as of and for the year ended May 31, 2021. Despite the varying lockdowns implemented over the country since March 13, 2020, the Group has been operating continuously since the Group's products are essential in nature. In addition, there is no significant exposure to liquidity and credit risks of the Group. Nevertheless, the Group will continue to monitor the situation.

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
SL Agritech Corporation
Sterling Place Building
2302 Chino Roces Avenue Extension
Makati City

We have audited the consolidated financial statements of SL Agritech Corporation and Subsidiaries (the Group) as of and for the years ended May 31, 2021 and 2020, on which we have rendered the attached report dated August 18, 2021.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Parent Company has five (5) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1758-A (Group A),
July 2, 2019, valid until July 1, 2022
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2020,
November 27, 2020, valid until November 26, 2023
PTR No. 8534373, January 4, 2021, Makati City

August 18, 2021

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
SL Agritech Corporation
Sterling Place Building
2302 Chino Roces Avenue Extension
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SL Agritech Corporation and Subsidiaries (the Group) as at May 31, 2021 and 2020, and for each of the three years in the period ended May 31, 2021, included in this Form 17-A, and have issued our report thereon dated August 18, 2021. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the management of the Group. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1758-A (Group A),
July 2, 2019, valid until July 1, 2022
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2020,
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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders
SL Agritech Corporation
Sterling Place Building
2302 Chino Roces Avenue Extension
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SL Agritech Corporation and Subsidiaries (the Group) as at May 31, 2021 and 2020 and for each of the three years in the period ended May 31, 2021, and have issued our report thereon dated August 18, 2021. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at May 31, 2021 and 2020 and for each of the three years in the period ended May 31, 2021 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
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PTR No. 8534373, January 4, 2021, Makati City

August 18, 2021

SL AGRITECH CORPORATION AND SUBSIDIARIES

INDEX TO COMPANY FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

SUPPLEMENTARY SCHEDULES

SL AGRITECH CORPORATION

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

May 31, 2021

Unappropriated retained earnings, beginning	₱1,836,817,016
Adjustments:	
Accumulated fair value gain on agricultural produce and biological assets - beginning balance	(1,242,674,990)
Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning	594,142,026
Net income during the year closed to retained earnings	591,932,308
Less:	
Fair value gain on agricultural produce and biological assets	412,647,368
Unrealized foreign exchange gain-net (except those attributable to Cash and Cash Equivalents	2,224,696
Unappropriated retained earnings available for dividend distribution, end	**₱771,202,270**