

DNA of change



2009
Annual Report

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ABOUT THE COVER

Even before the global financial crisis broke out, Roxas Holdings, Inc. (RHI) has taken a progressive approach to adapt to the changing wider environment. The financial crisis only highlighted the aptness of its decision to reengineer its direction and transform from a commodity producer to a solutions provider. Put simply, from production-driven to brand-driven.

RHI has started cultivating its corporate brand to be integrated in its corporate philosophy. It continues to make great strides to boost productivity and efficiency, people resources, culture and relationships with stakeholders that will in the process, constitute its mantra.

This mantra will be expressed in the way we do things. It will be embedded in our DNA.



OUR VISION

To be a global LEADER in sugarcane-based solutions by 2015.

- L – Leadership in Market
- E – Ethics and Good Governance
- A – Alliances
- D – Delivering Value to Stakeholders
- E – Excellence and Efficiency
- R – Resilience and Reliability



OUR MISSION

- Powering lives with sugarcane-based products and services.
- We anticipate and satisfy customer needs
- We strive to be the mill of choice for our growers
- We provide a nurturing environment to develop and empower our people
- We deal fairly with our suppliers and creditors
- We deliver attractive returns to our shareholders
- We contribute to the economic development of our community and country

FINANCIAL HIGHLIGHTS

Roxas Holdings, Inc. and Subsidiaries

	2009	2008
Financial Highlights (in millions except interest cover)		
Sales	5,865	6,078
Income from operations	364	645
Income before income tax	318	666
Net income	143	455
Finance costs, net	126	48
Interest cover	3	14
Working capital	(829)	698
Total assets	13,522	9,867
Current assets	3,115	2,448
Current liabilities	3,943	1,751
PPE	9,662	6,645
Total equity	5,717	5,501
EBITDA Ratios		
EBITDA	669	973
EBITDA / Total assets	5%	10%
EBITDA / Total equity	12%	18%
EBITDA / Capital employed	5%	11%
EBITDA/ Gross Revenue	11%	16%
Financial Ratios		
Earnings per share	0.20	0.39
Cash income per share	0.53	0.69
Book value per share	6.28	5.17
Gross Profit Margin	16%	19%
Sales Growth Rate	-4%	8%
Debt Service Coverage Ratio	5.25	1.52
Current ratio	0.79:1	1.40:1
Acid test ratio	0.35:1	0.53:1
Debt to equity ratio	1.37:1	0.79:1
Return on assets	1.05%	4.61%
Return on net sales	2.43%	7.49%
Return on equity	2.49%	8.27%



CHAIRMAN'S MESSAGE



To my fellow shareholders,


It is inevitable to review the past year without mulling over the high drama in the global economy and the ripple effect it has caused in worldwide and regional markets. At first, Asian economies including the Philippines, took comfort in not being in the epicenter of the crisis, citing improved macroeconomic and corporate fundamentals. This, however, did not last long as the crisis graduated in dramatic reduction of global investors' exposure to the Region as well as in weakened consumer spending.

The sugar industry was not spared from the contagion. Already, the financial turmoil resulted in a weak demand for sugar that grossly affected our balance sheet for the crop year 2008-2009. Adding insult to injury was the series of weather disturbances that struck the country and brought about an upsurge in our operational costs.

Taxing and volatile situations reveal character. Some have succumbed to cynicism and passivity. Roxas Holdings, Inc. (RHI) has taken a different approach, responding with decisive, calculated actions today while positioning the business for growth tomorrow.

While your Company's long-established reputation of solidity and credibility is widely-recognized, we remain open to creativity and innovation. The financial crisis highlighted the aptness of our decision to reengineer our direction and transform from a commodity producer to a solutions provider. Put simply, from production-driven to brand-driven.

"The financial crisis highlighted the aptness of our decision to reengineer our direction and transform from a commodity producer to a solutions provider. Put simply, from production-driven to brand-driven."



In 2007, we started cultivating our corporate brand to integrate our corporate philosophy. With this, we continue to make great strides to boost our productivity and efficiency, people resources, culture and relationships with stakeholders and in the process, will constitute our mantra. This mantra will be expressed in the way we do things. It will be embedded in our DNA.

We have widened our realm to spread out from sugar manufacturing to the food and beverage industry, or from producing raw material to the finished good. As first step, we have optimized our production-marketing mix by developing customized sugar solutions for our industrial customers belonging to the food and beverage and pharmaceutical sectors. We believe this transformation will generate attractive opportunities and we will be ready to take advantage.

As we reported in last year's annual report, we acquired new factory equipment from abroad for our sugar operating units in Batangas and Negros Occidental to increase our production capacity and energy efficiency.

Another is our entry into the bioethanol foray to take part in the buoyant prospects for the biofuels industry. Roxol Bioenergy Corporation, the company we set up for this venture, is scheduled to open for business by February 2010. Roxol executed an Emission Reductions Purchase Agreement with the World Bank amounting to about US\$ 3.2 million for the purchase of carbon emission credits. Under the agreement, an offshoot of the Clean Development Mechanism of the Kyoto Protocol, a portion of the revenue for the purchase will be used to finance our community development projects.

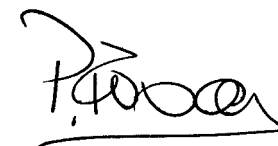
We will set off a farm services unit by the next crop year, to operate in both Batangas and Negros, to help planters produce high-yielding canes through use of modern farming technology and nursery facilities.

Last year, we underwent a reorganization to streamline the Roxas Group's two business interests – sugar and real estate – to achieve a cleaner and more transparent corporate structure. This move resulted in RHI as the lone publicly-listed firm for the sugar-related businesses and Roxas and Company, Inc. as the publicly-listed unit for the real estate interests of the Group.

The coming months will continue to make great demands on us all. While there is little we can do about the wider environment, there is an enormous amount we can and will do to strengthen our own position. There remains the looming threat of the reduction of sugar tariffs from the current 38 percent to a maximum of 5 percent in 2010 under the ASEAN Free Trade Agreement (AFTA). We are doing our part to lessen the blow of this occurrence for the local sugar producers. We have been holding a series of discussions with our counterparts in Thailand, another AFTA member-country, for a slowdown in the tariff reduction.

In difficult times, investment in corporate social responsibility is most likely the first thing to be compromised. In the Roxas Group, we continue to give value for extensive investment in this area. We believe that maintaining our advanced position in the areas of sustainable development, community relations and labor management makes us a successful and sustainable business.

Your Company is not fixed to traditional ways and we make all the necessary measures to respond to the changing global environment to better serve our stakeholders and deliver maximum value to our shareholders over time.



Pedro E. Roxas
Chairman and CEO
October 2009

PRESIDENT'S REPORT



To our shareholders,

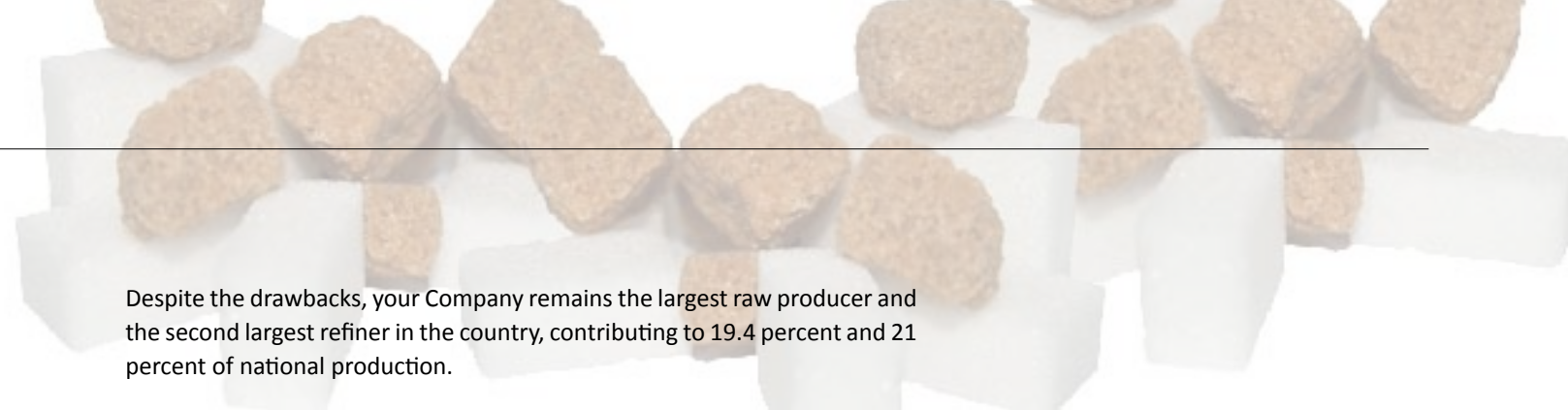
It may be a cliché to say that the past year was a difficult time for us. As you may know, the local sugar industry was not immune to the turmoil in the global economy. The volume of sugarcane milled in the country during the crop year 2008-2009 dipped to 21.6 million tons cane from its year-ago level of 26.7 million tons cane. Raw sugar production dropped to 2.1 million metric tons from 2.45 million the previous year. Refined sugar production, on the other hand, slid to 19 million bags or .95 million metric tons from last year's 21.53 million bags or 1.08 million metric tons.

Notwithstanding the challenges, Roxas Holdings, Inc. (RHI) remains confident about the future. This led your Board to declare a cash dividend of P.06 per share in June 2009.

Milling and Refinery Operations

Our cane tonnage dipped to 4.09 million tons cane from the previous year's 5 million tons cane. Raw sugar production, on the other hand, slid to 8.15 million tons cane from the 9.17 million tons cane registered a year ago. On the other hand, the refinery production of Central Azucarera Don Pedro, Inc. (CADPI) grew to 4.06 million bags from 3.66 million bags a year ago as we extended our refinery operations in anticipation of customer orders during the off-milling season. Meanwhile, milling recovery went up a bit to 1.99 LKg/TC from its year-ago level of 1.83 LKg/TC.

“Despite the drawbacks, your Company remains the largest raw producer and the second largest refiner in the country, contributing to 19.4 percent and 21 percent of national production.”



Despite the drawbacks, your Company remains the largest raw producer and the second largest refiner in the country, contributing to 19.4 percent and 21 percent of national production.

Financial Performance

The slowdown in the global economy, compounded by a number of weather disturbances that hit the country, brought down our net income to P143 million from P455 million in 2008.

Consolidated revenue decreased to P5.9 billion from its year-ago level of P6.1 billion. Raw and refined sugar sales, as well as tolling volume went down in the current year. Meanwhile, cost of sales slightly increased to P5 billion versus the P4.9 billion recorded in previous year. The increase was driven by the spillover of costly refinery operations in July and August 2008, which cost the Batangas operation P88 million in bunker consumption and P8.2 million in purchased bagasse.

The drop in net income was also brought about by extraordinary costs incurred amounting to P134.22 million due to the Roxas Group's corporate reorganization.

Equity in net earnings of an associate, Hawaiian-Philippine Company, was higher at P80 million compared to the previous year's P70 million.

Because of a drop in operating income, earnings before interest, taxes, depreciation and amortization declined to P669 million from its year-ago amount of P973 million.

Capacity Expansion

As we discussed in last year's annual report, we embarked on a massive expansion of the milling and refinery operations in both Batangas and Negros Occidental. This will boost our combined milling capacity from 23,000 tons cane per day (TCD) to 31,000 TCD by October 2009 in both sites and subsequently hit the goal of 35,000 TCD by October 2010. Our refining capability in CADPI will be enhanced by a state-of-the-art conditioning system by December 2009.

On the other hand, our sugar factory in Central Azucarera de La Carlota, Inc. (CACI) will have a heightened capacity to produce Direct Consumption Raw Sugar (DCRS) from the previous 400,000 bags/year to 700,000 bags/year.

We are already reaping the fruits of this bold move as seen in the improved quality of both our raw and refined sugar. At the same time, the expansion brings energy efficiency components with the capability of energy export to the grid.



PRESIDENT'S REPORT

In order to improve the quality of our cane supply, we created a farm services unit that will assist planters in producing high-yielding variety canes through modern farming technology. The farm services unit, which operates both in Batangas and Negros Occidental, has serviced 876.18 hectares of commercial farms using a mechanized land preparation system, 130 hectares of which are nursery facilities in Cavite and Batangas.

Ethanol Venture

Roxol Bioenergy Corporation, the company we set up for our biofuels venture, will start commercial operations in February 2010. Based in La Carlota City, Negros Occidental, the ethanol plant will produce 100,000 liters of ethanol fuel per day. Last year, we engaged the Indian firm KBK Chem-Engineering to develop the plant on a turnkey basis.

Sustainable Development

We continue to make great strides in ensuring that our factories do not only comply but deliver more than what is required by law in environmental and safety operations. We again earned new citations for this area, including the "Eco-Watch Green Rating" from the Environmental Management Bureau Regional Office (Calabarzon) and the Sustainable Development award from Nestle Philippines.

People Resources

Your Company has been the benchmark for industrial relations in the industry and we intend to make even better in this area. Both our subsidiaries - CADPI and CACI - sustain programs to uphold a harmonious labor-management relationship within their companies. These include the holding of regular meetings with the Labor Management Council to discuss not only the employees' economic and benefits package but also to deliberate on personnel and operations-related issues as well as industry situation.

We are proud of the fact that our employees continue to receive remuneration and benefits that are over and above the prescribed minimum wage, which significantly exceeds the standards of the Philippine sugar industry.

We also launched a continuing education program for our officers and staff through various training programs on leadership development, skills building and talent management. For instance, we set up the Technical Training Center in our Batangas operations and will soon be available in our Negros operations to upgrade employees' skills and technical knowledge, especially with the installation of new factory infrastructure. We have likewise strengthened our performance management system to better facilitate the reward vis-à-vis individual and company performance.

Espousing International Management Systems

While both our Batangas and Negros operations have achieved ISO certifications, we aim for the best practices in quality management even in the holding company level. To this end, we initiated the ISO 9001 Quality Management System certification of RHI

Head Office to institutionalize our quality policy and objectives as well as the various work units' systems and processes.

Moreover, we are currently working on the ISO 14000 Environmental Management System and the ISO 22000 Food Safety Management System, which will make CADPI and CACI the only sugar companies to be granted with these strict food certifications.

Social Responsibility

While some would take their investment in corporate social responsibility in the backseat during difficult times, your Company believes otherwise. Primarily through the Roxas Foundation, Inc., we continue to advocate good corporate citizenship through our various community development programs.

We are proud to report that during the year, we reached about 7,000 individuals in various projects on capability building, resource mobilization, enterprise development and social services for communities within our areas of operation.

For health, we launched eradication programs for various diseases and for education, we set off the "Bright Minds Reading Program" for public elementary schools in Batangas in partnership with Ronald McDonald House of Charities.

In addition, we conducted training workshops and learning sessions on managing small-scale enterprises that will help increase chances for employment of out-of-school youth as well as those employees who availed of the early retirement program.

One of our community development projects, an ecology campaign through solid waste management, was chosen as a finalist for "Panibagong Paraan 2008", a competition promoting good governance. The competition was conducted by several local and international organizations including the World Bank.

We are mindful of the bumpy ride ahead of us. But with over 90 years of experience, we are optimistic that RHI will weather away these obstacles and move a step closer to being a global industry leader.

In closing, we express our gratitude to our shareholders and other stakeholders for your continued trust and confidence.

Ramon A. Picornell, Jr.
President and COO
October 2009



BOARD OF DIRECTORS

PEDRO E. ROXAS

Chairman and CEO
Chairman, Nomination Committee

FRANCISCO F. DEL ROSARIO, JR.

Vice Chairman
Member, Audit Committee

RAMON A. PICORNELL, JR.

President and COO

SANTIAGO R. ELIZALDE

Director
Member, Compensation Committee
Member, Nomination Committee

GERONIMO C. ESTACIO

Director
Member, Audit Committee

RAMON R. DEL ROSARIO, JR.

Director
Chairman, Audit Committee
Chairman, Compensation Committee
Member, Nomination Committee

RAUL M. LEOPANDO

Director

ANTONIO J. ROXAS

Director
Member, Compensation Committee

BEATRIZ O. ROXAS

Director

Roxas Holdings, Inc.



ROXAS, P.



DEL ROSARIO, F.



PICORNELL, R.



SANTIAGO, E.



ESTACIO, G.



DEL ROSARIO, R.



LEOPANDO, R.



ROXAS, A.



ROXAS, B.

COMMITTEE OF ADVISORS

EDUARDO A. AREILZA

MIGUEL A. GASPAR

SENE C. BACANI

VINCENT S. PEREZ

Roxas Holdings, Inc.



AREILZA, E.



GASPAR, M.



BACANI, S.



PEREZ, V.

MANAGEMENT

PEDRO E. ROXAS
Chairman & CEO

FRANCISCO F. DEL ROSARIO, JR.
Vice Chairman

RAMON A. PICORNELL, JR.
President & COO

ASUNCION S. AGUILAR
SVP, Finance & Treasurer

LORNA P. KAPUNAN
Corporate Secretary

FLORENCIO M. MAMAUAG, JR.
VP, Legal Compliance Officer &
Asst. Corporate Secretary

MELCHOR A. LAYSON
VP, Strategic Projects

MA. ELIZABETH D. NASOL
VP, Corporate Human Resources

RAMON S. REYES
VP, Marketing

DEAN L. GUEVARRA
VP, Resident Manager, CADPI

EDUARDO V. CONCEPCION
VP, Resident Manager, CACI

LUIS-MARI L. ZABALJAUREGUI
VP, Operations, Roxol Bioenergy Corp.

Roxas Holdings, Inc.



ROXAS, P.



DEL ROSARIO, F.



PICORNELL, R.



AGUILAR, A.



KAPUNAN, L.



MAMAUAG, F.



LAYSON, M.



NASOL, E.



REYES, R.



GUEVARRA, D.



CONCEPCION, E.



ZABALJAUREGUI, L.



FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Roxas Holdings, Inc.

We have audited the accompanying consolidated financial statements of Roxas Holdings, Inc. (a subsidiary of Roxas and Company, Inc.) and subsidiaries, which comprise the consolidated balance sheets as at June 30, 2009 and 2008, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of Hawaiian Philippine Company (HPCo), 45.09%-owned associate accounted for under equity method, were audited by other auditors whose report was furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for HPCo, is based solely on the report of the other auditors. Roxas Holdings, Inc.'s investment in HPCo represents 4.12% and 5.53% of the consolidated total assets as of June 30, 2009 and 2008, and its share in HPCo's net income in 2009 and 2008 represents 1.36% and 1.15% of the consolidated revenue and 55.82% and 15.32% of the consolidated net income, respectively. The consolidated financial statements of Roxas Holdings, Inc. and subsidiaries as of and for the year ended June 30, 2007, which are presented for comparative purposes, were audited by other auditors whose report thereon dated September 27, 2007 expressed an unqualified opinion.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

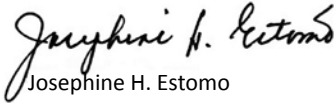
We believe that the audit evidence we have obtained and the report of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Roxas Holdings, Inc. and subsidiaries as of June 30, 2009 and 2008, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Josephine H. Estomo

Partner

CPA Certificate No. 46349

SEC Accreditation No. 0078-AR-1

Tax Identification No. 102-086-208

PTR No. 1566427, January 5, 2009, Makati City

September 23, 2009

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	June 30	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 26)	P286,662	P350,273
Receivables (Notes 5, 14 and 26)	1,087,188	581,271
Inventories (Note 6)	1,468,889	1,348,287
Prepayments and other current assets (Note 7)	271,819	168,575
Total Current Assets	3,114,558	2,448,406
Noncurrent Assets		
Property, plant and equipment (Notes 9 and 13):		
At cost	7,144,711	4,127,598
At appraised values	2,517,660	2,517,660
Investment in shares of stock of an associate (Note 8)	557,432	546,388
Net pension plan assets (Note 15)	142,552	120,025
Deferred income tax assets - net (Note 22)	-	47,047
Other noncurrent assets (Notes 5 and 13)	44,756	60,060
Total Noncurrent Assets	10,407,111	7,418,778
TOTAL ASSETS	P13,521,669	P9,867,184
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term borrowings (Notes 10 and 26)	P2,937,000	P702,552
Accounts payable and accrued expenses (Notes 11 and 26)	774,879	630,628
Customers' deposits (Notes 12 and 26)	185,813	215,313
Income tax payable (Note 22)	4,651	107,770
Dividends payable (Notes 23 and 26)	41,074	81,205
Current portion of long-term borrowings (Notes 9, 13 and 26)	-	13,333
Total Current Liabilities	3,943,417	1,750,801
Noncurrent Liabilities		
Long-term borrowings - net of current portion (Notes 9, 13 and 26)	3,075,973	1,829,728
Deferred income tax liabilities - net (Note 22)	711,465	721,988
Net pension benefit obligation (Note 15)	74,210	63,772
Total Noncurrent Liabilities	3,861,648	2,615,488
Total Liabilities	7,805,065	4,366,289

(Forward)

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	June 30	
	2009	2008
Equity (Note 23)		
Attributable to the equity holders of the Parent Company:		
Share capital	P1,168,976	P1,168,976
Share premium	554,960	554,960
Excess of consideration received from parent company over carrying amount of disposed subsidiary (Note 23)	577,148	–
Effect of change in ownership interests in subsidiaries (Note 23)	44,567	1,429
Revaluation increment on properties (Note 23)	1,451,839	1,526,900
Share in revaluation increment on land of an associate (Note 8)	207,492	207,492
Retained earnings (Note 23)	2,434,250	2,257,130
Treasury shares - at cost	(768,860)	(739,707)
	5,670,372	4,977,180
Minority interests (Note 23)	46,232	523,715
Total Equity	5,716,604	5,500,895
TOTAL LIABILITIES AND EQUITY	P13,521,669	P9,867,184

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	2009	2008	2007
REVENUE (Note 17)	₱5,864,618	₱6,077,544	₱5,646,048
COST OF SALES (Note 18)	4,955,595	4,942,573	4,584,386
GROSS PROFIT	909,023	1,134,971	1,061,662
Selling expenses	(36,700)	(34,312)	(43,785)
General and administrative expenses (Note 19)	(583,775)	(508,664)	(470,006)
Equity in net earnings of an associate (Note 8)	79,564	69,739	55,739
Interest expense (Notes 10 and 13)	(133,334)	(60,080)	(61,885)
Interest income (Note 4)	7,438	11,683	12,125
Other income - net (Note 21)	75,703	52,617	18,768
INCOME BEFORE INCOME TAX	317,919	665,954	572,618
PROVISION FOR INCOME TAX (Note 22)			
Current	138,525	178,772	206,366
Deferred	36,865	32,022	(16,858)
	175,390	210,794	189,508
NET INCOME	₱142,529	₱455,160	₱383,110
Attributable to:			
Equity holders of the Parent Company	₱180,249	₱410,015	₱344,203
Minority interests	(37,720)	45,145	38,907
	₱142,529	₱455,160	₱383,110
BASIC/DILUTED EARNINGS PER SHARE (Note 24)	₱0.20	₱0.39	₱0.31

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(With Comparative Figures for 2007)
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company (Notes 1 and 23)											
	Share Capital	Share Premium	Share	Share	Share	Share	Share	Share	Share	Share	Minority Interests (Notes 1 and 23)	Total
			Capital	Premium	Carrying Amount of Disposed Subsidiary	Effect of Change in Ownership Interests in Subsidiaries	Revaluation Increment on Properties	Revaluation Increment on Land of an Associate	Retained Earnings	Treasury Shares	Total	Total
BALANCES AS OF JUNE 30, 2008	₱1,168,976	₱554,960	₱—	₱—	₱1,429	₱1,526,900	₱207,492	₱2,257,130	(₱739,707)	₱4,977,180	₱523,715	₱5,500,895
Net income for the year	—	—	—	—	—	—	—	180,249	—	—	180,249	142,529
Realization of revaluation increment on land upon disposal of subsidiary	—	—	—	—	—	(106,021)	—	—	106,021	—	—	—
Total income and expenses for the year	—	—	—	—	—	(106,021)	—	—	286,270	—	180,249	142,529
Dividends declared	—	—	—	—	—	—	—	(109,150)	(109,150)	—	(109,150)	(9,859)
Reacquisition of shares of stock	—	—	—	—	—	—	—	—	—	(29,153)	(29,153)	(29,153)
Excess of consideration received from parent company over carrying value of investment in a subsidiary and change in ownership interest in subsidiaries resulting in the reduction of minority interests in subsidiaries	—	—	577,148	43,138	—	30,960	—	—	—	—	651,246	(429,904)
BALANCES AS OF JUNE 30, 2009	₱1,168,976	₱554,960	₱577,148	₱44,567	₱1,451,839	₱207,492	₱2,434,250	(₱768,860)	₱5,670,372	₱46,232	₱5,716,604	

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

(With Comparative Figures for 2007)

(Amounts in Thousands)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P317,919	P665,954	P572,618
Adjustments for:			
Depreciation (Notes 9, 18 and 19)	304,426	328,103	429,773
Loss (gain) on disposal of property, plant and equipment	9,878	–	(175)
Equity in net earnings of an associate (Note 8)	(79,564)	(69,739)	(55,739)
Changes in fair value of biological assets (Note 7)	5,995	(5,940)	(2,313)
Interest income (Notes 4 and 5)	(7,438)	(11,683)	(12,125)
Interest expense (Notes 10 and 13)	133,334	60,080	61,885
Net cash from operations before working capital changes	684,550	966,775	993,924
Decrease (increase) in:			
Receivables	(284,929)	217,999	(25,979)
Inventories	(137,146)	10,639	(442,049)
Prepayments and other current assets	(78,822)	(73,016)	(34,451)
Advances from related party	–	–	1,209
Pension plan assets - net	(12,089)	(6,283)	679
Increase (decrease) in:			
Accounts payable and accrued expenses	194,747	87,738	156,724
Customers' deposits	(29,500)	130,029	(58,076)
Provisions for:			
Impairment of receivables (Note 19)	353	698	3,739
Creditable withholding taxes (Note 19)	–	–	(2,174)
Inventory losses (Note 18)	11,234	15,001	27,180
Materials and supplies obsolescence (Note 18)	5,310	2,218	–
Cash generated from operations	353,708	1,351,798	620,726
Interest received	7,438	11,683	10,601
Income taxes paid, including creditable withholding and final taxes	(272,061)	(217,513)	(140,666)
Net cash from operating activities	89,085	1,145,968	490,661
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 9)	(3,418,728)	(2,125,630)	(250,453)
Proceeds from sale of property, plant and equipment	22,028	10,649	717
Dividends received (Note 8)	68,520	68,805	51,389
Decrease (increase) in other noncurrent assets	11,158	(9,614)	3,005
Net cash used in investing activities	(3,317,022)	(2,055,790)	(195,342)
(Forward)			

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(With Comparative Figures for 2007)
(Amounts in Thousands)

	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from short-term borrowings (Note 10)	P2,234,448	P397,000	P155,500
Proceeds from long-term borrowings (Note 13)	1,249,000	1,850,000	–
Payments of long-term borrowings (Note 13)	(13,333)	(580,115)	(148,351)
Interest paid	(117,496)	(57,783)	(115,569)
Dividends paid (Note 23)	(159,140)	(151,744)	(147,057)
Debt commitment fees paid	–	(60,306)	–
Reacquisition of shares of stock by the company (Note 23)	(29,143)	(675,940)	(12,215)
Reacquisition of shares of stock by subsidiaries (Note 23)	(10)	(3,938)	–
Net cash from (used in) financing activities	3,164,326	717,174	(267,692)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR	(63,611)	(192,648)	27,627
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	350,273	542,921	515,294
CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 4)	P286,662	P350,273	P542,921

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information, Status of Operations and Corporate Reorganizations and Approval of Consolidated Financial Statements

Corporate Information

Roxas Holdings, Inc. (RHI or the “Company”) was organized in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on October 30, 1930 for the purpose of operating mill and refinery facilities to manufacture sugar and allied products. On November 1, 1980, the Company’s corporate life was extended for another 50 years until 2030.

In July 1996, the Company offered its shares to the public through an initial public offering. On August 8, 1996, the Company’s shares of stock were listed in the Philippine Stock Exchange.

As of June 30, 2009, the Company is 65.70% owned by Roxas and Company, Inc. (RCI), a publicly listed company incorporated and domiciled in the Philippines. Prior to the merger effective June 29, 2009 as discussed below, the Company was 65.12% owned by Roxas & Company, Inc. (RCI), a company incorporated and domiciled in the Philippines. The Company has 2,356 and 2,393 equity holders as of June 30, 2009 and 2008, respectively.

The Company’s corporate office is located at the 6th Floor, Cacho-Gonzales Building, 101 Aguirre Street, Legaspi Village, Makati City, while the manufacturing plants of the operating subsidiaries (see Note 2) are in Barrio Lumbangan, Nasugbu, Batangas and Barrio Consuelo, La Carlota City, Negros Occidental.

Status of Operations and Corporate Reorganizations

Following the Reorganization Program approved by the Philippine SEC on December 11, 2001, RHI has been transformed into a diversified holding and investment corporation, while its subsidiary, CADP Group Corporation (CADPGC), emerged as a holding and investment company with specific focus on sugar milling and refining business. The sugar milling and refinery business of the Company in Nasugbu, Batangas was spun-off to Central Azucarera Don Pedro, Inc. (CADP, Inc.) on December 1, 2002 (see Note 23b). Subsequently, the Company exchanged its shareholdings in CADP, Inc., CADP Consultancy Services, Inc. (CCSI) and CADP Farms Services, Inc. (CFSI) for 1.3 billion of CADPGC’s common shares with a par value of ₱1 per share. CADP, Inc., CCSI and CFSI became 100% subsidiaries of CADPGC, while RHI’s ownership interest in CADPGC increased from 73.17% to 95.78%. The 95.78% equity ownership of the RHI over CADPGC has been reduced to 89.28% following the declaration of property dividends to its shareholders.

In 2008, RHI increased its equity ownership in CADPGC to 89.36% when CADPGC re-acquired portion of its shares (see Note 23f). On December 16, 2008, RHI acquired CADPGC’s sugar-related operating subsidiaries [CADP, Inc., CACI, CFSI, CCSI, Jade Orient Management Services, Inc. (JOMSI), Najalin Agri-Ventures, Inc. (NAVI)] and associate [Hawaiian Phil. Co (HPCo)], as well as certain assets and liabilities of CADPGC for a total consideration of ₱3,838.0 million. On January 23, 2009, RHI sold its investment in CADPGC to RCI for ₱3,927.3 million (see Note 23c).

Effective June 29, 2009, upon approval of Philippine SEC on June 23, 2009, CADPGC merged with RCI, with CADPGC as the surviving entity, through a share swap wherein 11.71 CADPGC’s shares were exchanged for every share of RCI. On the same date, Philippine SEC approved the change in CADPGC’s corporate name to Roxas and Company, Inc.

Approval of the Consolidated Financial Statements

The consolidated financial statements as of and for the years ended June 30, 2009 and 2008 (with comparative figures for 2007) have been approved and authorized for issue by the Company’s BOD on September 23, 2009.

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Company and subsidiaries (collectively referred to as “the Group”) have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Standing Interpretations Committee, Philippine Interpretations Committee and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Philippine Financial Reporting Standards Council and adopted by the Philippine SEC.

The consolidated financial statements have been prepared using the historical cost basis, except for land, which is stated at revalued amounts and consumable biological assets which are carried at fair value, and are presented in Philippine peso, the Company’s functional and presentation currency, and rounded to the nearest thousand, except when otherwise indicated.

The preparation of the consolidated financial statements in accordance with PFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations based on IFRIC Interpretations and amendments to existing standards which became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect to the Group:

- Philippine Interpretation IFRIC 11, PFRS 2 - Group and Treasury Share Transactions
- Philippine Interpretation IFRIC 14, PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
- PAS 39, Financial Instruments: Recognition and Measurement and PFRS 7, Financial Instruments: Disclosures - Reclassification of Financial Asset

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to June 30, 2009

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective Fiscal Year Ending June 30, 2010

- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.
- Revised PFRS 3, *Business Combinations and*
Revised PAS 27, *Consolidated and Separate Financial Statements*
The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as “minority interests”); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively and PAS 27 must be applied retrospectively, except for some scenarios, and will affect future acquisitions and transactions with non-controlling interests.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

- **PFRS 8, *Operating Segments***
This standard replaces PAS 14, Segment Reporting, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and companies will need to provide explanations and reconciliations of the differences.
- **Amendment to PAS 1, *Presentation of Financial Statements***
This amendment requires a company to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss. The Group will prepare a consolidated statement of comprehensive income when this amendment becomes effective.
- **PAS 23, *Borrowing Costs***
This standard requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of this standard, the Group will adopt this change in the standard. However, such adoption will not affect the consolidated financial statements since it is already the Group's policy to capitalize borrowing cost on qualifying assets.
- **Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***
Amendment to PAS 27 has changes in respect of the holding companies separate financial statements including (a) the deletion of cost method, making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.
- **Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation***
These amendments identify, among others, certain specified features, the presence of all of which will make puttable financial instruments to be classified as equity.
- **Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items***
Amendment to PAS 39 addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.
- **Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes***
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.
- **Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation***
This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

- **Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners***
This interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.
- **Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers***
This interpretation applies to the accounting for transfers of items of property, plant and equipment by an entity that receive such transfers from its customer, wherein the entity must then use such transferred asset either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

Improvements to PFRSs

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The applicable amendments to the Group are as follows:

- **PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations***
When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.
- **PAS 1, *Presentation of Financial Statements***
Current assets also include assets held primarily for the purpose of trading (examples include some financial assets classified as held for trading in accordance with PAS 39) and the current portion of non-current financial assets.

Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities classified as held for trading in accordance with PAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables.

- **PAS 16, *Property, Plant and Equipment***
Revises the definition of “recoverable amount” as the higher of an asset’s fair value less costs to sell and its value-in-use.
- **PAS 19, *Employee Benefits***
Revises the definition of “past service costs” to include reductions in benefits related to past services (“negative past service costs”) and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

Revises the definition of “return on plan assets” to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

- **PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance***
The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with PAS 39. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with PAS 39 and the proceeds received.
- **PAS 23, *Borrowing Costs***
Revises the definition of borrowing costs to consolidate the types of items that are considered components of “borrowing costs” - that is, components of the interest expense calculated using the effective interest rate method.
- **PAS 28, *Investments in Associates***
An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

- PAS 31, *Interests in Joint Ventures***
If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- PAS 36, *Impairment of Assets***
When discounted cash flows are used to estimate “fair value less cost to sell” additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate “value-in-use”.
- PAS 38, *Intangible Assets***
Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service.
- PAS 40, *Investment Property***
Revises the scope (and the scope of PAS 16, Property, Plant and Equipment) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

Effective Fiscal Year Ending June 30, 2013

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate***
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

The Group is currently assessing the potential impact of these forthcoming standards, amendments and interpretations. The effects and required disclosures of the adoption of these standards, amendments and interpretations, if any, will be included in the Group’s financial statements when these are adopted subsequent to fiscal year 2009.

Consolidation

The consolidated financial statements include the financial statements of the Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership				
		2009 Direct	2008		2007	
			Direct	Indirect	Direct	Indirect
CADPGC ⁽¹⁾	Philippines	–	89.22	–	89.22	–
CADPI	Philippines	100.00	–	89.22	–	89.22
CACI	Philippines	100.00	–	89.22	–	89.22
CCSI	Philippines	100.00	–	89.22	–	89.22
CFSI	Philippines	100.00	–	89.22	–	89.22
JOMSI	Philippines	99.99	–	89.21	–	89.21
NAVI	Philippines	77.27	–	63.96	–	59.13
CADP Insurance Agency, Inc. (CIAI)	Philippines	100.00	–	89.22	–	89.22
Roxol Bioenergy Corporation (Roxol) ⁽²⁾	Philippines	100.00	100.00	–	–	–
CADP Port Services, Inc. (CPSI) ⁽³⁾	Philippines	100.00	–	–	–	–
Roxas Power Corporation (RPC) ⁽³⁾	Philippines	50.00	–	–	–	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

- ⁽¹⁾ The loss of ownership interest in CADPGC is the result of the restructuring undertaken by the Group through sale of all its equity interest in CADPGC to RCI effective January 23, 2009 (see Note 1). As a result, the Company has now a direct ownership interest in the sugar-related operating subsidiaries which were previously owned by CADPGC. Results of operation of CADPGC are included in the consolidated financial statements until January 23, 2009, the date on which the Company's control ceases.
- ⁽²⁾ Roxol was incorporated on February 29, 2008 and has not yet started commercial operations.
- ⁽³⁾ CPSI and RPC were incorporated on July 17, 2008 and have not yet started commercial operations. The Company has control on RPC since it has the power to cast the majority of votes at the BOD's meetings and the power to govern the financial and reporting policies of RPC.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases.

Minority interest represents a portion of profit or loss and net assets of subsidiaries not held by the Group, directly or indirectly, and are presented separately in the consolidated statement of income and within equity section in the consolidated balance sheet and consolidated statement of changes in equity, separately from Company's equity. If losses applicable to the minority interest in a subsidiary exceed the minority interest's equity in the subsidiary, the excess, and any further losses applicable to the minority interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments, where necessary, are made to ensure consistency with the policies adopted by the Group.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but are considered as an impairment indicator of the assets transferred.

Changes in the controlling ownership interest, i.e., acquisition of minority interest or partial disposal of interest over a subsidiary that do not result in a loss of control, are accounted for as equity transactions.

Business Combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Company's share of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the minority interest, shall be considered.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

In cases where the business combination has no substance, the Company shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Company are reflected at their carrying values. Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

Investment in Shares of Stock of an Associate

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Adjustments, where necessary, are made to ensure consistency with the policies adopted by the Group.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's management has designated a business segmentation of the Group's operation as set out below (see Note 27):

a. Business segments

The Group has organized its reporting structure based on the grouping of similar products and services, resulting in three main business segments as follows:

- Raw sugar and molasses (Raw sugar milling operation)

This segment is involved in the extraction of juices from the canes to form sweet granular sugar which is light brown to yellowish in color. As at June 30, 2009 and 2008, the Group operates two boiling houses - one in La Carlota City, Negros Occidental with a daily cane capacity of 14,000 and 12,000 metric tons, respectively and the other in Nasugbu, Batangas with daily plant capacity of 13,000 and 11,000, respectively. Canes are sourced from both district and non-district planters and are milled by the Group under a production sharing agreement (see Note 16).

Molasses, a by-product, is a thick dark brown liquid obtained from the raw sugar manufacturing process which is also shared between the planters and the Group on the same sharing arrangement applied to raw sugar.

- Refined sugar (Refinery operation)

Aside from the raw sugar milling plant, the Group also operates a refinery plant in Nasugbu, Batangas. The refinery operation involves the processing of raw sugar (mill share and purchased) into refined sugar, a lustrous white-colored sugar. Segment assets of refinery operation are shared with Tolling operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

- Tolling operation

To ensure maximum utilization of the refinery, the Group also offers tolling service to traders and planters. This service involves the refining process of raw sugar owned by traders and planters to convert raw sugar into refined sugar. In consideration, the traders and planters pay tolling fees to the Group.

- Other segments

Other segments of the Group which are not reported separately pertain mainly to consultancy business.

a. Geographical segments

Geographical segments are organized according to the Group's two milling operations.

b. Segment revenue and expenses

The Group's main revenue stream comes from the sale of raw sugar, molasses and refined sugar. Its customers consist largely of sugar traders, wholesalers and beverage companies, which are situated in various parts of the Philippines, with concentration in the Visayas and Metro Manila.

c. Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, prepayments and property, plant and equipment, net of related accumulated depreciation. Segment liabilities include all operating liabilities and consist principally of trade payables, accruals and customers' deposits. Segments assets and liabilities do not include deferred income taxes.

d. Inter-segment transfers

Segment revenue, expenses and results include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unrelated customers or by suppliers for similar goods or services.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid interest-bearing fund placements with original maturities of three months or less from the date of acquisition and subject to insignificant risk in fluctuations in value.

Financial Assets and Financial Liabilities

Classification and recognition

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories:

- a. Financial assets at fair value through profit or loss
- b. Loans and receivables
- c. Held-to-maturity investments
- d. Available-for-sale financial assets

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

Financial liabilities, on the other hand, are classified into the following categories:

- a. Financial liabilities at fair value through profit or loss
- b. Other financial liabilities

The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

- a. Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities classified in this category are financial assets or financial liabilities that are held for trading or financial assets and financial liabilities that are designated by management as at fair value through profit or loss on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis, or
- The assets and liabilities are part of a group of financial assets and financial liabilities, respectively, or both financial assets and financial liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets are classified as held for trading if these are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in profit or loss. Interest earned is recorded as interest income, while dividend income is recorded in other income according to the terms of the contract, or when the right of the payment has been established. Interest incurred is recorded as interest expense.

The Group has not designated any financial asset or financial liability as at fair value through profit or loss as of June 30, 2009 and 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Embedded Derivatives

An embedded derivative is a component of a combined instrument that includes a nonderivative host contract with the effect that some or all of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. It is separated from the host financial or nonfinancial contract and accounted for as derivative if all the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contract when the Group first becomes a party to the contract. Reassessment only occurs if there is change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial asset or financial liabilities at fair value through profit or loss. Changes in the fair values are included in the consolidated statement of income.

As of June 30, 2009 and 2008, the Group has identified embedded prepayment options on its long-term borrowings. However, no amounts were recognized in relation to these options since the amounts are considered immaterial.

b. Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date, otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Group's cash in bank and cash equivalents, trade receivables, advances to employees, advances to related parties and other receivables (see Note 26).

c. Held-to-maturity investments

Held-to-maturity investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are carried at cost or amortized cost in the consolidated balance sheet. Where the Group sells other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale investments. Amortization is determined using the effective interest rate method. Assets under this category are classified as current assets if maturity is within 12 months of the balance sheet date, otherwise, these are classified as noncurrent assets.

The Group has not designated any financial asset as held-to-maturity as of June 30, 2009 and 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

d. Available-for-sale financial assets

Available-for-sale financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

The unrealized gains and losses arising from the fair valuation of available-for-sale financial assets, except for the foreign exchange fluctuations on available-for-sale debt securities and the related effective interest, are excluded, net of tax, from reported earnings, and are reported in the equity section of the consolidated balance sheet. These changes in fair values are recognized in equity until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the consolidated statement of income.

Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate method. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the balance sheet date.

The Group has not designated any financial assets as available-for-sale as of June 30, 2009 and 2008.

e. Other financial liabilities

This category pertains to financial liabilities that are not held for trading and are not designated at fair value through profit or loss upon the inception of the liability. These include liabilities arising from operating (e.g., accounts payable and accrued expenses, and customers' deposits), and financing (e.g., dividends payable, short and long-term borrowings, advances to related parties) activities.

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Accounts payable, accrued expenses, dividends payable and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. These are measured at amortized cost, normally equal to nominal amount.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium (or discount) and any directly attributable transaction costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Derecognition of Financial Assets and Financial Liabilities

a. Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee of over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

b. Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

a. Financial assets carried at amortized cost

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

b. Financial assets carried at cost

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

c. Available-for-sale financial assets

In case of equity investments classified as available-for-sale financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below their cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in income - is removed from equity and recognized in income. Impairment losses on equity investments are not reversed through income. Increases in fair value after impairment are recognized directly in the consolidated statement of changes in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount cash flows for the purpose of measuring impairment loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, the impairment loss is reversed through income.

Day 1 Difference

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

Offsetting Financial Instruments

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

Inventories

Raw and refined sugar inventory is valued at the lower of cost and net realizable value (NRV), cost being determined using the weighted average method. NRV is the estimated selling price in the ordinary course of business less variable selling expense. Molasses inventory is carried at the lower of cost and NRV. Production cost is allocated using the relative sales value of each of the joint products, i.e., raw and refined sugar and molasses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Materials and supplies inventory is valued at the lower of cost and NRV, cost being determined using the moving average method. A provision for inventory losses is provided for slow moving, obsolete, defective and damaged inventories based on physical inspection and management evaluation.

Consumable Biological Assets

Consumable biological asset is measured on initial recognition and at each balance sheet date at its fair value less estimated costs to sell, unless the fair value cannot be measured reliably. The fair value has been arrived at by discounting the present value of expected net cash flows from standing canes discounted at the relevant market determined pre-tax rate. Expected cash flows have been computed by estimating the expected crop and the sugar extraction rate and the forecasts of sugar prices which will prevail in the coming year. Costs to sell, which includes fertilizing, cultivation and other direct expenses, are estimated based on the yearly budgets of the Group.

A gain or loss arising on initial recognition of a consumable biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell is recognized in profit or loss for the period in which it arises.

Property, Plant and Equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any impairment, except for land which is stated at revalued amount less any impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs on qualifying assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period, in which they are incurred.

Construction in progress which represents properties under construction is stated at cost and depreciated only from such time as the relevant assets are completed and put into operational use. Upon completion, these properties are reclassified to the relevant property, plant and equipment account.

The net appraisal increment resulting from the revaluation of land is presented under "Revaluation increment on properties", net of related deferred income tax liability, in the consolidated balance sheets and consolidated statements of changes in equity. The Parent Company's share in net appraisal increase resulting from the revaluation of land of an associate is shown as "Share in revaluation increment on land of an associate" in the consolidated balance sheets. Increases in the carrying amount arising on revaluation of properties are credited to revaluation increment directly in equity, net of related deferred tax liability. Any resulting decrease is directly charged against the related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation in respect of the same asset. All other decreases are charged to the consolidated statements of income. Valuations are performed frequently enough to ensure that the fair value of properties does not differ significantly from its carrying amount.

The Group used the carrying amount of CADP, Inc.'s depreciable assets as of July 1, 2004, which is the revalued amount less accumulated depreciation from the Group's perspective, as their deemed costs at that date when the Group adopted PFRS 1, First-time Adoption of Philippine Financial Reporting Standards.

Land is not depreciated. Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

	Number of Years
Building and improvements	10 to 25
Machinery and equipment:	
Factory machinery and installations	17 to 25
Locomotives and other equipment	5 to 20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

	Number of Years
Safety equipment	5
Service vehicles	5 to 6
Railroad equipment	10 to 20
Office furniture, fixtures and equipment	3 to 10

Depreciation commences when an asset is in its location or condition capable of being operated in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations, and the date the asset is derecognized.

Major renovations that qualified for capitalization are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The asset's residual value, useful life and depreciation method are reviewed periodically to ensure that the residual values, period and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with carrying amount of the asset and are reflected as other income in the consolidated statement of income.

The portion of revaluation increment in land, net of related deferred income tax liability, realized upon disposal of the property is transferred to unrestricted retained earnings.

Impairment of Nonfinancial Assets

Assets that have an indefinite useful life, are not subject to amortization and tested annually for impairment. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Nonfinancial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset. Impairment loss recognized during interim period in respect to goodwill or an investment, either an equity instrument or a financial asset carried at cost, should not be reversed at year end.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Revenue Recognition

Revenue comprises the fair value of the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow into the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

Sale of raw and refined sugar

Sale of raw sugar is recognized upon endorsement and transfer of quedans, while sale of refined sugar is recognized upon shipment or delivery.

Sale of molasses

Sale of molasses is recognized upon transfer of molasses warehouse receipts.

Revenue from tolling services

Revenue from tolling services is recognized when the equivalent refined sugar is produced from raw sugar owned by tollees.

Interest income

Interest income on cash in banks and other short term investments is recognized on a time proportion basis using the effective interest rate method.

Other income

Other income is recognized when earned.

Employee Benefits

The Company and its subsidiaries have individual and separate defined benefit plan in accordance with local conditions and practices in the Philippines. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The plans are generally funded through payments to trustee-administered funds as determined by periodic actuarial calculations.

Pension plan asset

The assets of the Group recognized in the consolidated balance sheet in respect of defined benefit pension plans is the lower of (a) the excess of the fair value of plan assets over the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognized actuarial gains or losses and past service costs and (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

In cases when the amount determined results in a surplus (being the excess of the fair value of the plan assets over the present value of the defined benefit obligation), the Group measures the resulting asset at (a) the lower of the excess of the fair value of plan assets over the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognized actuarial gains or losses and past service costs and (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets represent assets that: (a) are held by an entity (a fund) that is legally separate from the Group; (b) are available to be used only to pay or fund employees benefits; and (c) are not available to the Group's own creditors, and cannot be returned to the Group unless: (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the Group; or (ii) the assets are returned to the Group to reimburse it for employee benefits already paid.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Pension costs and obligations

Pension costs are actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the present value of defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains and losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates of debt securities that are denominated in Philippine peso (currency in which the benefits will be paid) and that have terms to maturity approximating the terms of the related pension liability.

Past service costs are recognized immediately in income, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs.

Transitional liability resulting from the Group's initial adoption of PAS 19 is being amortized for a period of five years from July 1, 2005. Unamortized transitional liability as of June 30, 2009 and 2008 amounted to ₱32.6 million and ₱65.3 million, respectively (see Note 15).

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Borrowings Costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of funds. Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred regardless of how the borrowings are applied.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which necessarily takes a substantial period of time to prepare for its intended use are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably.

Debt commitment fees relating to the drawn amount are amortized using effective interest rate method and are presented as reduction in the principal loan balance. Debt commitment fees relating to the undrawn loans are recorded as deferred charges and are amortized using straight-line method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Leases

Lease of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term unless there is reasonable certainty that ownership will transfer to the Group by the end of the lease term, in which case it will be depreciated over the life of the asset.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When the Group enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Group assesses whether the arrangement is, or contains, a lease. The Group does not have such arrangements.

Contingent rent is recognized as income or expense in the periods in which they are earned or incurred.

Provisions and Contingencies

Provision for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Foreign Currency-Denominated Transactions and Translations

Items included in the financial statements of each of the Group's entities are measured using the functional currency.

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at the balance sheet date. Foreign exchange differences are credited or charged directly in the consolidated statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Related Party Relationships and Transactions

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

Income Taxes

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 the tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits (excess of minimum corporate income taxes or MCIT over regular corporate income taxes or RCIT) and unused tax losses (net operating loss carryover or NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax assets to be utilized. Unrecognized deferred income tax assets are re-assessed at each balance sheet 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 income 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 balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off the deferred income tax assets against the deferred tax liabilities and the deferred income tax relate to the same taxable entity and the same taxation authority.

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Share Capital

Ordinary or common shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of tax.

Where any member of the group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividend Distribution

Dividend distribution to the Company's shareholders and the minority interests is recognized as a liability in the consolidated financial statement in the period in which the dividends are approved by the Company's BOD.

Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holder of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary or common shares purchased by the Company and held as treasury shares. Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all the dilutive potential ordinary shares into ordinary shares.

Events after the Balance Sheet Date

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to exercise judgment, make estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and related disclosures. The Group makes estimates and uses assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group believes the following represent a summary of judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, as well as to the related revenues and expenses, within the next fiscal year, and related impact and associated risk in the consolidated financial statements:

Judgments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Determination of the Company's functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency is determined to be Philippine peso. Also, it is the currency of the primary economic environment in which its subsidiaries and associate operate.

Classification of financial instruments

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheet.

The classifications of the various financial assets and financial liabilities of the Group are disclosed in Note 26. The aggregate carrying value of the Group's financial assets and financial liabilities amounted to ₱1,323.7 million and ₱6,772.3 million, respectively as of June 30, 2009 and ₱842.5 million and ₱3,235.0 million, respectively, as of June 30, 2008 (see Note 26).

Classification of leases

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the assets held for lease are retained by the Group. Lease contracts which the Group retains substantially all the risks and rewards incidental to ownership of the lease item are accounted for as operating leases. Otherwise, these are considered as finance leases. The Group has entered into property leases where it has determined that the risks and rewards related to those properties are retained with the lessors. As such, these lease agreements are accounted for as operating lease.

Allocation of cost to molasses inventory

When the costs of conversion of each product are not separately identifiable they are allocated between the products on a rational and consistent basis. The allocation is based on relative sales value of cash product at the completion of production. When the cost of molasses is deemed immaterial, this is measured at NRV and the value is deducted from the cost of the raw and refined sugar. Management uses judgment to measure and allocate value to the molasses inventory.

Molasses inventory amounted to ₱19.9 million and ₱19.0 million as of June 30, 2009 and 2008, respectively (see Note 6).

Estimates and Assumptions

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

Determination of provision for impairment of receivables

The provision for impairment of receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total amount to be provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used, based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is determined. The amount and timing of recorded expenses for any period could therefore differ based on the judgments or estimates made. An increase in the Group's allowance for impairment of receivables would increase its recorded general and administrative expenses and decrease its current assets.

As of June 30, 2009 and 2008, the carrying amount of the Group's receivables amounted to ₱1,087.2 million and ₱581.3 million, net of allowance for impairment of receivables of ₱23.9 million and ₱23.5 million, respectively (see Note 5).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Determination of NRV of inventories

The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV. The Group's inventories as of June 30, 2009 and 2008 amounted to ₱1,468.9 million and ₱1,348.3 million, respectively (see Note 6).

Determination of fair value less estimated costs to sell on consumable biological asset

Management determines the age of the sugarcane and bases the fair value of the sugarcane on observable market data. Costs to sell, which includes fertilizing, cultivation and other direct expenses, are estimated based on the yearly budgets of the Group.

As of June 30, 2009 and 2008, the Group's consumable biological assets amounted to ₱14.8 million and ₱20.8 million, respectively (see Note 7).

Determination of provision for unrecoverable creditable withholding taxes

Provision for unrecoverable creditable withholding taxes is maintained at a level considered adequate to provide for potentially unrecoverable claims. The Group, on a continuing basis, makes a review of the status of the claims, designed to identify those to be provided with any impairment losses. In these cases, management uses judgment based on the best available facts and circumstances. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made. The Group's allowance for losses on the creditable withholding taxes amounted to ₱9.8 million as of June 30, 2009 and 2008 (see Note 7).

As of June 30, 2009 and 2008, the carrying amount of the Group's creditable withholding taxes amounted to ₱53.5 million and ₱23.0 million, respectively (see Note 7).

Valuation of land under revaluation basis

The Group's land is carried at revalued amount, which approximate its fair value at the date of the revaluation, less any subsequent accumulated impairment losses. The valuation of land is performed by professionally qualified appraisers. Revaluations are made on a regular basis to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at balance sheet date. Land carried at revalued amounts as of June 30, 2009 and 2008 amounted to ₱2,517.7 million (see Note 9).

The resulting increase in the valuation of these assets based on the 2008 and 2006 valuations is presented under "Revaluation increment on properties", net of the related deferred income tax liability and "Share in revaluation increment on land of an associate", respectively, in the equity section of the consolidated balance sheets and in the consolidated statements of changes in equity.

Estimation of useful lives and residual values of property, plant and equipment

The useful life of each of the Group's items of property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by the changes in the factors mentioned above. A change in the estimated useful life of any item of property, plant and equipment would impact the recorded operating expense and noncurrent assets. The total carrying value of the Group's depreciable property, plant and equipment as of June 30, 2009 and 2008 amounted to ₱7,144.7 million and ₱4,127.6 million, respectively (see Note 9).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Impairment of nonfinancial assets

The Group assesses at each reporting date whether there is any indication that a property, plant and equipment, investment in shares of stock of an associate and other nonfinancial assets may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows. The Group determines that there are no impairment indicators, hence, no impairment loss on nonfinancial assets was recognized in 2009, 2008 and 2007.

The total carrying value of the Group's property, plant and equipment as of June 30, 2009 and 2008 amounted to ₱9,662.4 million and ₱6,645.3 million, respectively (see Note 9).

The carrying value of the Group's investment in share of stock of an associate amounted to ₱557.4 million and ₱546.4 million as of June 30, 2009 and 2008, respectively (see Note 8).

Estimation of retirement benefits cost

The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions determined by management and used by actuaries in calculating such amounts. Those assumptions are described in Note 15 and include, among others, discount rate, expected rate of return on plan assets and rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Net pension plan assets as of June 30, 2009 and 2008 amounted to ₱142.6 million and ₱120.0 million, respectively. On the other hand, net pension benefit obligation as of June 30, 2009 and 2008 amounted to ₱74.2 million and ₱63.8 million, respectively (see Note 15).

Provisions

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. No provision is deemed necessary as of June 30, 2009 and 2008.

Contingencies

The Group is involved in various other labor disputes, litigations, claims, and tax assessments that are normal to its business. Based on the opinion of the Group's legal counsels on the progress and legal grounds of these cases, the Group believes that it does not have a present obligation arising from a past event and/or the likely outcome and estimated potential cash outflow cannot be reasonably determined as of this time. As such, no provision was made for these other contingencies as of June 30, 2009 and 2008.

Recognition of deferred income tax assets

The Group reviews the carrying amounts at each balance sheet date and reduces the amount of deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit in the future will be available to allow all or part of the deferred tax assets to be utilized. The Group has deductible temporary differences and carryforward benefits of NOLCO and MCIT amounting to ₱101.4 million and ₱92.4 million as of June 30, 2009 and 2008, respectively (see Note 22).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Cash and Cash Equivalents

Cash and cash equivalents at June 30 consist of:

	2009	2008
	<i>(In Thousands)</i>	
Cash on hand and in banks	P280,957	P303,363
Short-term placements	5,705	46,910
	P286,662	P350,273

Short-term placements earn interest ranging from 1.5% to 3.0%, 1.5% to 5.1% and 2.3% to 5.0% per annum in 2009, 2008 and 2007, respectively. The average maturities of these placements is 30 days to 60 days. Interest income earned on these placements amounted to P7.4 million, P10.4 million and P10.6 million in 2009, 2008 and 2007, respectively.

5. Receivables

Receivables at June 30 consist of:

	2009	2008
	<i>(In Thousands)</i>	
Trade	P756,680	P428,537
Advances to related parties (Note 14)	201,423	197
Advances to employees	50,481	73,027
Advances to planters and cane haulers	27,664	65,399
Advances for raw sugar purchases	16,962	23,799
Others	57,871	13,852
	1,111,081	604,811
Less allowance for impairment of receivables	23,893	23,540
	P1,087,188	P581,271

Advances to employees pertain to advances for the Group's expenses which are subsequently liquidated. These advances also include noninterest-bearing salary, housing and educational loans that are collected through salary deduction.

Other receivables include advances to suppliers for the purchase of local and imported materials and supplies.

Other receivables also include outstanding receivable from the 2002 sale of a portion of the Company's land in Barrio Lumbangan, Nasugbu, Batangas to its employees. Due to the Reorganization Program discussed in Note 1, the employees were transferred to CADP, Inc., whereas, the receivable remained with the Company. As of June 30, 2009 and 2008, remaining balance amounts to P4.1 million and P5.6 million, respectively. These loans bear annual interest of 12% and are payable over 10 years until 2012. Unearned interest income, relating to the current portion of such receivable (presented as a deduction from such receivable), amounts to P0.4 million and P0.5 million as of June 30, 2009 and 2008, respectively.

Noncurrent portion of loans to CADP, Inc. employees as of June 30, 2009 and 2008 amounting to P8.8 and P12.1 million, respectively, is presented under "Other noncurrent assets" account net of unearned interest income of P1.8 million and P2.1 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Receivables (continued)

Details and movement of allowance for impairment of receivables, determined using specific assessment, as of June 30 follow:

	2007	Additions (Note 19)	Write-offs	2008	Additions (Note 19)	Write-offs	2009
	<i>(In Thousands)</i>						
Trade	₱3,588	₱2,914	₱-	₱6,502	₱230	₱-	₱6,732
Advances to planters and cane haulers	10,749	-	(4,705)	6,044	103	(3)	6,144
Advances to employees	3,455	-	(2,179)	1,276	-	-	1,276
Others	5,050	4,668	-	9,718	23	-	9,741
	₱22,842	₱7,582	(₱6,884)	₱23,540	₱356	(₱3)	₱23,893

6. Inventories

Inventories at June 30 consist of:

	2009	2008
	<i>(In Thousands)</i>	
At NRV:		
Raw sugar	₱614,437	₱729,095
Materials and supplies	511,526	352,394
At cost:		
Refined sugar	310,593	191,976
Molasses	19,869	18,955
Materials in transit	12,464	55,867
	₱1,468,889	₱1,348,287

Allowance for inventory losses of raw sugar amounted to ₱22.0 million and ₱10.8 million as of June 30, 2009 and 2008, respectively (see Note 18).

Allowance for inventory obsolescence of materials and supplies amounted to ₱31.0 million and ₱25.7 million as of June 30, 2009 and 2008, respectively (see Note 18).

Cost of inventories recognized as expense and included in "Cost of sales" amounted to ₱3,118.7 million, ₱3,111.8 million and ₱2,666.7 million in 2009, 2008 and 2007, respectively (see Note 18).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Prepayments and Other Current Assets

Prepayments and other current assets at June 30 consist of:

	2009	2008
	<i>(In Thousands)</i>	
Prepaid taxes	P63,236	P59,393
Deposits to suppliers	119,620	53,012
Creditable withholding taxes, net of allowance of P9.8 million in 2009 and 2008	53,452	23,035
Consumable biological assets	14,796	20,791
Others	20,715	12,344
	P271,819	P168,575

Consumable biological assets pertain to standing sugarcanes of NAVI.

Prepaid taxes comprise mainly of input value-added tax on purchases of equipment and services relating to the Expansion Project and Roxol Plant Construction (see Note 9).

Other current assets consist mainly of advance payments made to a sugar milling company for tolling services of CACI's raw sugar and advance payment of input VAT for refined sugar sales.

8. Investment in Shares of Stock of an Associate

As at June 30, 2009 and 2008, details of the investment in Hawaiian Philippine Company (HPCo), 45.09%-owned associate, and incorporated in the Philippines, follow:

	2009	2008
	<i>(In Thousands)</i>	
Acquisition cost	P127,933	P127,933
Accumulated equity in net earnings		
Beginning of year	210,963	210,029
Equity in net earnings for the year	79,564	69,739
	290,527	279,768
Less dividend received	68,520	68,805
End of year	222,007	210,963
Share in revaluation increment	207,492	207,492
	P557,432	P546,388

HPCo is primarily engaged in the manufacturing and trading of raw and refined sugar, molasses and other sugar by-products.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Investment in Shares of Stock of an Associate (continued)

The summarized financial information of HPCo as of and for the years ended June 30, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Current assets	P433,880	P436,982	P413,960
Noncurrent assets	750,103	731,052	935,453
Current liabilities	305,953	386,539	505,233
Noncurrent liabilities	96,435	14,986	64,286
Net assets	781,595	766,509	779,894
Revenue	1,567,874	1,304,346	931,734
Net income	176,457	154,667	123,616

9. Property, Plant and Equipment

Details and movements of property, plant and equipment, valued at cost basis, for the years ended June 30 are shown below:

	2009					
	Buildings and Improvements	Machinery and Equipment	Railroad Equipment	Office Furniture, Fixtures and Equipment	Construction In Progress	Total
	<i>(In Thousands)</i>					
Cost						
Beginning balances	P1,053,034	P5,053,663	P121,158	P563,855	P1,983,930	P8,775,640
Additions	183,995	141,108	3,147	41,791	2,983,404	3,353,445
Disposals	(P12,231)	(P29,410)	(P1,161)	P-	P-	(P42,802)
Ending balances	1,224,798	5,165,361	123,144	605,646	4,967,334	12,086,283
Accumulated depreciation						
Beginning balances	659,861	3,377,179	121,158	489,844	-	4,648,042
Depreciation	42,975	235,614	187	25,650	-	304,426
Disposals	(5,394)	(5,483)	(19)	-	-	(10,896)
Ending balances	697,442	3,607,310	121,326	515,494	-	4,941,572
Net Book Value	P527,356	P1,558,051	P1,818	P90,152	P4,967,334	P7,144,711

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Property, Plant and Equipment (continued)

	2008					Total
	Buildings and Improvements	Machinery and Equipment	Railroad Equipment	Office Furniture, Fixtures and Equipment	Construction In Progress	
	(In Thousands)					
Cost						
Beginning balances	₱1,022,547	₱4,717,476	₱121,158	₱623,590	₱164,371	₱6,649,142
Additions	15,341	163,057	–	23,239	1,992,101	2,193,738
Disposals	(6,426)	(7,543)	–	–	–	(13,969)
Reclassifications	7,559	45,127	–	(105,957)	–	(53,271)
Completed projects	14,013	135,546	–	22,983	(172,542)	–
Ending balances	1,053,034	5,053,663	121,158	563,855	1,983,930	8,775,640
Accumulated depreciation						
Beginning balances	560,245	3,196,998	121,158	498,129	–	4,376,530
Depreciation	69,829	203,822	–	54,452	–	328,103
Disposals	(2,630)	(3,341)	–	–	–	(5,971)
Reclassifications	32,417	(20,300)	–	(62,737)	–	(50,620)
Ending balances	659,861	3,377,179	121,158	489,844	–	4,648,042
Net Book Value	₱393,173	₱1,676,484	₱–	₱74,011	₱1,983,930	₱4,127,598

Land at appraised values and had it been carried at cost at the beginning and end of June 30 are as follows:

	2009	2008
	(In Thousands)	
Beginning balance, at appraised values	₱2,517,660	₱1,986,487
Appraisal increase	–	531,173
Ending balance, at appraised values	₱2,517,660	₱2,517,660
At cost	₱32,620	₱32,620

a. Construction in progress

Construction in progress as of June 30, 2009 and 2008 pertains mainly to the foregoing milling plant improvement project, refinery plant installation of sieving facilities, as well as construction and improvement of waste and pollution facilities of the Group.

Milling plant improvement project (the Expansion Project)

With the intent of improving its revenue generating capability, the Group purchased second-hand mills and related equipment from Bryant, Florida, United States of America (USA) and Fairymead, Australia.

In August 2007, CADPGC entered into a purchase agreement, for and on behalf of its then wholly-owned subsidiaries, CADP, Inc. and CACI, with a foreign corporation to buy certain sugar mill equipment for a total purchase price of US\$19.5 million. The purchase pertains to different pieces of disassembled equipment that originated from “Bryant Sugar House”, a sugar mill located in Bryant, Florida, U.S.A., of which the sellers had purchased from United States Sugar Corporation through a purchase and removal agreement executed on April 30, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Property, Plant and Equipment (continued)

To complement the mills from Bryant Sugar House, mill components and shredder were purchased from Australia in March 2008.

The Group obtained short and long-term borrowings from various local banks to finance the Expansion Project (see Notes 10 and 13).

Roxol Plant Construction Project

On June 27, 2008, in line with the Group Expansion Project, Roxol entered into an agreement to construct its bioethanol plant in La Carlota City, Negros Occidental for a total contracted amount of US\$20.9 million. As of June 30, 2009, the balance in the construction in progress relating to Roxol plant development amounted to ₱615.4 million.

Capitalization of borrowing costs

In 2009 and 2008, interests from short and long-term borrowings amounting to ₱277.9 million and ₱45.5 million, directly incurred to finance the Expansion Project were capitalized to property, plant and equipment. The Group amortizes such capitalized interest over the useful life of the qualifying asset to which it relates. Unamortized capitalized interest as of June 30, 2009 and 2008 amounted to ₱370.4 million and ₱91.3 million with corresponding deferred income tax liability of ₱111.1 million and ₱30.0 million, respectively (see Note 22).

Noncash additions to property, plant and equipment

The Group has outstanding liabilities for purchase of equipment relating to the Expansion Project amounting to ₱2.8 million and ₱68.1 million as of June 30, 2009 and 2008, respectively.

b. Depreciation

Depreciation charged to operations are as follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Cost of sales (Note 18)	₱274,204	₱301,858	₱405,479
General and administrative expenses (Note 19)	30,222	26,245	24,294
	₱304,426	₱328,103	₱429,773

The Group has recorded additional depreciation amounting to ₱35.0 million in 2007 due to the revision of the estimated useful lives of some items.

As of June 30, 2009 and 2008, fully depreciated property, plant and equipment, with an aggregate cost of ₱1,404.1 million and ₱954.5 million, respectively, are still being used in operations.

c. Property, plant and equipment as collateral

Some property, plant and equipment of the Group are mortgaged to secure the Group's loan obligations with creditor banks (see Note 13).

d. Capital expansion commitments

The Group has outstanding capital expansion commitments amounting to P=1,542.8 million and P=2,319.0 million as of June 30, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Short-term Borrowings

At various dates in 2009 and 2008, CACI and CADP, Inc. obtained unsecured short-term loans from various local banks to meet their working capital requirements. The loans, which are payable in lump sum on various dates, are subject to annual interest rates ranging from 5.0% to 9.75% and 4.7 % to 8.1%, and have terms ranging from 30 to 32 days in 2009 and 28 to 179 days in 2008 and 2007.

As of June 30, 2009 and 2008, the balance of the short-term loan, net of related unamortized debt commitment fees, amounted to ₱2,937.0 million and ₱702.6 million, respectively.

11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30 consist of:

	2009	2008
	<i>(In Thousands)</i>	
Trade suppliers	₱305,704	₱215,703
Accrued expenses:		
Payroll and other benefits	6,689	43,374
Interest	35,234	18,749
Purchases and others	139,378	132,273
Due to planters	47,874	66,239
Payable to government agencies for taxes and contributions	56,638	22,428
Others	183,362	131,862
	₱774,879	₱630,628

Other payables include liabilities to third parties for sugar liens, and other related fees, and purchases of equipment relating to the Expansion Project (see Note 9).

12. Customers' Deposits

Customers' deposits represent noninterest-bearing cash deposits from buyers of the Group's sugar and molasses. These deposits will be applied against future deliveries of sugar and molasses which are expected to be completed in the next 12 months. Customers' deposits amounted to ₱185.8 million and ₱215.3 million as of June 30, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Long-term Borrowings

Long-term borrowings at June 30 consist of:

	2009	2008
	<i>(In Thousands)</i>	
Banco de Oro (BDO)	P1,938,494	P904,500
Syndicated Loan Agreement:		
Bank of the Philippine Islands (BPI)	940,562	797,000
Rizal Commercial Banking Corporation (RCBC)	219,944	148,500
Planters Development Bank (PDB)	–	13,333
	3,099,000	1,863,333
Unamortized debt commitment fee	(23,027)	(20,272)
	3,075,973	1,843,061
Less current portion - PDB	–	13,333
	P3,075,973	P1,829,728

a. BDO Loan Facility and BPI/RCBC Syndicated Loan Agreement

On February 8, 2008, RHI availed the loan facility from BDO with an aggregate amount of P6,189.0 million. The principal amount of debt accommodation is shared by RHI and CADP, Inc./CACI amounting to P1,570.0 million and P4,619.0 million, respectively. In addition, on February 14, 2008, CADP, Inc. and CACI entered into a Syndicated Loan Agreement with BPI/RCBC (with BPI as the lead bank) for a total credit line of P1,500.0 million.

RHI

On May 5, 2008, RHI availed loans from BDO amounting to P143.3 million. The principal of the loan is payable quarterly starting on the 4th year of the 10-year term. As of June 30, 2009 and June 30, 2008, the interest rate was 5.94% and 6.63%, respectively, subject to quarterly repricing as agreed by the parties.

Short-term loans availed from BDO on May 5, 2008 and October 29, 2008, net of unamortized debt commitment fees, amounting to P392.6 million and P175.0 million, respectively were rolled over to long-term borrowings. As such, the principal of the loan will be payable quarterly starting on the 4th year of the original 10-year term. As of June 30, 2009 and June 30, 2008, the interest rate was 5.94% and 6.63%, respectively, subject to quarterly repricing as agreed by the parties.

RHI exercised its option to fix the quarterly interest rate of the loans at 8.84% beginning August 5, 2009 until the end of the loan terms.

CADP, Inc.

On February 14, 2008, CADP, Inc. entered into a loan agreement with BPI to avail loans in two tranches with an aggregate principal amount of P500.0 million. Tranche “A” of the loan amounting to P300.0 million bears fixed annual interest of 8.00% and payable on the 5th anniversary date of the borrowing. On the other hand, Tranche “B” of the loan amounting to P200.0 million bears fixed annual interest of 8.40% and payable on an installment basis, P2.0 million on the 5th and 6th anniversary date of the borrowing and the balance on the 7th anniversary date of the borrowing.

On May 5, 2008, CADP, Inc. availed loans from BPI and RCBC amounting to P167.2 million and P83.6 million, respectively, which bear interest of 6.50% and 6.60%, respectively. As of June 30, 2009, interest rates were 5.80% and 5.90% for BPI and RCBC loan, respectively. Promissory notes issued by CADP, Inc. to the banks are under the terms set forth in the Syndicated Loan Agreement. Loans availed are with 10-year terms and will all mature on May 5, 2018.

Likewise, on May 5, 2008, CADP, Inc. availed additional loan from BDO amounting to P365.9 million. The principal of the loans is payable quarterly starting on the 4th year of the 10-year term. As of June 30, 2009 and 2008, the interest rates were 5.90%, 6.63%, respectively, subject to repricing based on loan agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Long-term Borrowings (continued)

On October 29, 2008, additional loans were availed by CADP, Inc. from BDO, BPI and RCBC amounting to ₱459.0 million, ₱143.6 million and ₱71.4 million, respectively, with interest rates of 6.60%, 6.50% and 6.60%, respectively. As of June 30, 2009, the interest rates of the availed loans were 5.90%, 5.80% and 5.90%, respectively, subject to quarterly repricing as agreed by the parties.

CACI

On May 5, 2008, CACI availed loans from BPI, BDO and RCBC amounting to ₱129.8 million, ₱395.3 million and ₱64.9 million, respectively, and with interest rates of 6.50%, 6.60% and 6.60%, respectively. Loans availed are with 10-year terms and will all mature on May 5, 2018. As of June 30, 2009, interest rates of the availed loans were 5.80%, 5.90% and 5.90%, respectively.

CADP, Inc. and CACI exercised their options to fix the quarterly interest rate of repricing BPI loans at 8.79% and BDO and RCBC loans at 8.84% beginning August 5, 2009 until the end of the loan terms.

Debt commitment fees

As part of the Syndicated Loan Agreement with BPI/RCBC, the Group incurred debt commitment fees amounting to ₱59.4 million in 2008. Of the total amount of debt commitment fees paid, ₱29.8 million pertains to the drawn portion of the total credit facility (referred to as “Unamortized debt commitment fees” and presented as a reduction from the principal loan balance), while the remaining ₱29.6 million pertains to the undrawn portion (presented as “Deferred charges” under “Other noncurrent assets”). As of June 30, 2009 and 2008, unamortized debt commitment fees on long-term loans amounted to ₱23.0 million and ₱20.3 million, respectively, and ₱7.4 million relating to short-term loans as of June 30, 2008. Deferred charges amounted to ₱22.3 million and ₱30.3 million as of June 30, 2009 and 2008, respectively.

Suretyship agreement, mortgage trust indenture and debt covenants

In relation with the BDO Loan Facility executed on February 8, 2008, RHI, CADP, Inc. and CACI, entered into a Continuing Suretyship Agreement with BDO. Under this Agreement, BDO shall have the right to set-off the secured obligations in solidarity against all the borrowers’ properties.

On February 14, 2008, RHI, CADP, Inc., CACI and Roxol, entered into a separate suretyship agreement arising out of the Syndicated Loan Agreement which warrants the due and faithful performance by the borrowers of all obligations due to the creditor banks, BPI and RCBC. The suretyship shall remain in full force and effect until full and due payment of the indebtedness under the Syndicated Loan Agreement. In addition, all liens of the creditor banks shall have rights of set-off in solidarity against the borrower’s properties.

Further, RHI, CADP, Inc. and CACI executed a Mortgage Trust Indenture (MTI) to secure the loans obtained from BDO, BPI and RCBC. The MTI covers properties in Nasugbu, Batangas which consist mainly of RHI’s land and CADP, Inc.’s properties with an aggregate carrying value of ₱1.3 billion and ₱2.2 billion, respectively, and CACI’s properties in La Carlota, Negros Occidental amounting to ₱1.6 billion as of June 30, 2009.

The above loan agreements stipulate certain covenants, which include the following:

- maintenance of a reasonable amount of deposit with the creditor banks;
- registration of all collaterals, which must be free from liens and liabilities;
- maintenance of debt service coverage ratio and debt to equity ratio;
- prohibition on purchase of additional equipments except in pursuance of its sugar expansion and ethanol project;
- and prohibition on any material change in ownership of control of its business or capital stock or in the composition of its top level management.

As of June 30, 2009 and 2008, the Company is in compliance with these loan covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Long-term Borrowings (continued)

b. Loan with PDB

The loan with PDB is payable in 18 equal quarterly amortizations, with the first amortization to be paid on the 9th month from the date of release of the loan proceeds until December 16, 2008. The loan was used to finance capital expenditures for both sugar mill and refinery. Interest rate is fixed at 9.88% per annum.

The maturity of long-term borrowings as of June 30 is as follows:

	2009	2008
	<i>(In Thousands)</i>	
Between one and two years	P—	P141,586
Between two and five years	1,445,038	468,217
Over five years	1,630,935	1,219,925
	P3,075,973	P1,829,728

Total interest expense recognized from short and long-term borrowings, net of capitalized interest amounted to P133.3 million, P60.1 million and P61.9 million in 2009, 2008 and 2007, respectively.

14. Related Party Transactions

In the normal course of business, the Group has transactions with related parties as follows:

- a. As of June 30, 2009 and 2008, the Group's outstanding advances to RCI amounted to P201.4 million and P0.2 million, respectively. RHI granted the advances to RCI in 2009 which were used to defray cost and expenses relating to the restructuring activities undertaken by the Group during the year.
- b. On July 1, 2004, CADPGC entered into an agreement with RCI as lessor, for the lease of its corporate office. As a result of the sale of the corporate office by RCI to CADPRFI on December 29, 2005, the lease agreement with RCI was terminated and replaced by a one-year lease agreement with CADPRFI, which is renewable annually at the option of CADPGC, CADP, Inc. and CACI under such terms and conditions mutually acceptable to all parties. Related rent expense charged to operations amounted to P2.8 million in 2009 and P4.2 million each in 2008 and 2007.
- c. In December 2005, the Company also entered into a lease agreement with CADPRFI, for the lease of its office space. The contract, which is renewable annually, requires a monthly rental of P56,183. Related rent expense charged to operations in 2009, 2008 and 2007 amounted to P0.6 million.
- d. Key management compensation for the years ended June 30 follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Salaries and other benefits	P33,129	P33,252	P31,126
Retirement benefits (income)	—	(3,057)	6,023
	P33,129	P30,195	P37,149

There are no other long-term benefits, termination benefits and share-based payment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Retirement Benefit Plans

Net Pension Plan Assets

Prior to Restructuring in 2008 (see Note 1), the Company and CADPGC maintain an individual and separately funded, non-contributory defined benefit plan (the Plan) covering all eligible employees. On December 16, 2008, the Company assumed the transferred employees covered by the Plan and acquired the related net pension plan assets from CADPGC. The acquired net pension plan assets, including the related deferred tax liability, was part of the total consideration received from the acquisition of CADPGC's investments in shares of stock and certain assets and liabilities (see Note 1).

Under the Plan, the normal retirement age is 65. A participant may opt to retire at age 60 or after rendering 20 years of continuous service. Retirement benefit for both normal retirements is equivalent to two months average basic salary for each year of service rendered.

The amounts recognized in the consolidated balance sheets at June 30, are determined as follows:

	2009	2008
	<i>(In Thousands)</i>	
Present value of obligation	P109,142	P116,788
Fair value of plan assets	(252,445)	(233,370)
Surplus	(143,303)	(116,582)
Unrecognized actuarial gain (losses)	751	(3,443)
Net pension plan assets	(P142,552)	(P120,025)

Plan assets cannot be returned to RHI unless on circumstances discussed in Note 2. The net pension plan assets as of June 30, 2009 and 2008 of P142.6 million and P120.0 million, respectively, will be used to reduce future contributions to the retirement fund. Consequently, a portion of the Group's 2009 retained earnings related to pension plan asset, net of deferred income tax liability, is not available for dividend declaration (see Note 23).

The movement in the defined benefit obligation during the years follows:

	2009	2008
	<i>(In Thousands)</i>	
Beginning of year	P116,788	P114,778
Interest cost	12,020	9,182
Current service cost	4,554	6,181
Benefits paid	(1,768)	-
Actuarial gain	(22,452)	(13,353)
End of year	P109,142	P116,788

The movement in the fair value of plan assets during the year is as follows:

	2009	2008
	<i>(In Thousands)</i>	
Beginning of year	P233,370	P250,828
Expected return on plan assets	21,003	20,950
Benefits paid	(1,768)	-
Actuarial loss	(160)	(38,408)
End of year	P252,445	P233,370

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Retirement Benefit Plans (continued)

The Company's plan assets at June 30 consist of:

	2009		2008	
	Percentage	Amount (In Thousands)	Percentage	Amount (In Thousands)
Stocks and government securities	74%	₱186,809	72%	₱167,327
Cash and receivables	26%	65,636	28%	66,043
	100%	₱252,445	100%	₱233,370

The Company has no expected contributions for the fiscal year ending June 30, 2010.

As of June 30, 2009, pension plan assets, which are managed by a trustee, include investments in equity securities of RHI with a fair value amounting to ₱104.8 million. As of June 30, 2008, the fair value of investments in equity shares of RHI and CADPGC amounted to ₱92.4 million and ₱1.9 million, respectively.

Net Pension Benefit Obligation

CACI maintains a funded, non-contributory defined benefit plan covering all its eligible employees. Under the plan, the normal retirement age is 65 irrespective of years of service. A participant may, at his option, elect to retire or the CACI may, at its option, retire any participant at any time after attaining the age of 50 regardless of number of years in service or upon completion of 20 years of continuous service to CACI even if below 50 years of age. Normal and early retirement benefits are equivalent to one month latest salary for every year of service.

CADP, Inc. also maintains funded, non-contributory defined benefit plan covering all its regular employees. Under the plan, the normal retirement age is 65 irrespective of years of service. A participant may opt to retire at age 60 regardless of number of years in service or upon completion of 20 years of continuous service to CADP, Inc. even if below 60 years of age. Normal retirement benefits consist of an amount equivalent to two times the employee's latest monthly salary multiplied by the number of years of service.

The amounts recognized as net pension benefit obligation in the consolidated balance sheets at June 30 are determined as follows:

	2009	2008
	(In Thousands)	
Present value of obligations	₱376,537	₱364,890
Fair value of plan assets	(261,780)	(244,021)
Deficit	114,757	120,869
Unrecognized net transition obligation	(32,627)	(65,255)
Unrecognized actuarial losses (gains)	(7,920)	8,158
Net pension benefit obligation	₱74,210	₱63,772

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Retirement Benefit Plans (continued)

The movement in the present value of the defined benefit obligation over the year is as follows:

	2009	2008
	<i>(In Thousands)</i>	
Beginning of year	P364,890	P473,623
Interest cost	37,554	37,890
Current service cost	19,098	24,946
Benefits paid	(41,606)	(81,904)
Curtailement loss (gain)	(2,704)	6,430
Actuarial gain	(695)	(96,095)
End of year	P376,537	P364,890

The movement in the fair value of plan assets during the year is as follows:

	2009	2008
	<i>(In Thousands)</i>	
Beginning of year	P244,021	P216,688
Expected return on plan assets	17,842	16,012
Contributions	56,531	82,855
Benefits paid	(41,606)	(81,904)
Actuarial gain	(15,008)	10,370
End of year	P261,780	P244,021

The subsidiaries' plan assets at June 30 consist of:

	2009		2008	
	Percentage	Amount <i>(In Thousands)</i>	Percentage	Amount <i>(In Thousands)</i>
Stocks and government securities	73%	P191,099	79%	P192,153
Cash and receivables	27%	70,681	21%	51,868
	100%	P261,780	100%	P244,021

CADP, Inc. and CACI are expected to contribute a total of P98.0 million to their respective fund for the year ending June 30, 2010. As of June 30, 2009 and 2008, net pension plan obligation amounted to P74.2 million and P63.8 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Retirement Benefit Plans (continued)

Pension Cost

The consolidated pension costs recognized for the years ended June 30 follow:

	2009	2008	2007
	<i>(In Thousands)</i>		
Current service cost	P23,652	P31,127	P25,089
Interest cost	49,574	47,072	55,690
Return on plan assets	(38,845)	(36,962)	(38,897)
Actuarial loss (gain) recognized	(2,190)	5,898	(501)
Amortization of net transitional liability	32,627	32,627	32,627
Curtailement loss (gain)	(2,704)	6,430	-
Asset ceiling adjustment	-	(9,624)	9,624
	P62,114	P76,568	P83,632

The actual return on plan assets was P26.8 million, P8.9 million and P29.3 million in 2009, 2008 and 2007, respectively.

The expected return on plan assets were determined based on a reputable fund trustee's yield rate for risk portfolio similar to that of the fund with consideration to the funds' past performance.

The principal actuarial assumptions used in determining retirement benefits and gratuities cost for the Group's plans as of July 1 of each year:

	2008	2007	2006
Discount rate	10.29%	8%	11%
Expected return on plan assets	7% to 9%	7% to 9%	9%
Future salary increases	8%	8%	5%

As of June 30, 2009, the following are the assumptions: discount rate per annum of 10.3%, expected return on plan assets of 9% and future annual increase on salary of 8%.

Assumptions regarding future mortality and disability are based on advice from published statistics and experience in the Philippines.

The Group's consolidated amounts for the current and previous years are as follows:

	2009	2008	2007	2006
	<i>(In Thousands)</i>			
Present value of obligations	P485,679	P481,678	P588,401	P506,268
Plan assets	514,225	477,391	467,516	432,187
Surplus (deficit)	28,546	(4,287)	(120,885)	74,081
Experience adjustments on plan assets-loss (gain)	23,005	(4,910)	(29,354)	2,500
Experience adjustments on plan obligation-gain (loss)	-	(2,654)	51,521	(4,282)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Retirement Benefit Plans (continued)

Transition Liability

Upon the Group's adoption of PAS 19, CADP, Inc., CACI and NAVI, CADPGC's subsidiaries, computed their transitional liability for defined benefit plan as of July 1, 2005, total amount follows (In thousands):

Present value of the obligation at the date of adoption	₱333,645
Fair value of plan assets at the date of adoption	(153,303)
Transitional liability	180,342
Pension liability already recognized	(17,207)
Increase in net pension liability	₱163,135

The Group recognizes the increase in net pension liability as an expense on a straight-line basis over a period of five years from July 1, 2005, as allowed under PAS 19. The amortization recognized amounts to ₱32.6 million each year.

CACI's Rightsizing Program

CACI implemented a rightsizing program which involved two phases. The first is an early retirement package and the second is the phasing out or abolition of departments, sections and positions which are have been identified as redundant or no longer necessary to CACI's core business.

On July 20, 2007, CACI announced its early retirement program to employees, whereby the benefit is equivalent to 1.2 times of the monthly salary for every year of service. Total payments made in 2008 amounted to ₱43.2 million.

16. Commitments and Contingencies

- a. CACI and CADP, Inc. (the "Mills") have milling contracts with the planters which provide for a 65% and 35% sharing between the planters and the Mills, respectively, of sugar, molasses and other sugar cane by-products, except bagasse, produced every crop year.
- b. As of June 30, the Group has in its custody the following sugar owned by quedan holders:

	2009		2008	
	Total volume (In thousands) (Lkg*)	Estimated market value (In Millions)	Total volume (In thousands) (Lkg*)	Estimated market value (In Millions)
Raw sugar	942	₱998	1,411	₱1,296
Refined sugar	1,014	1,384	1,037	1,409
	1,956	₱2,382	2,448	₱2,705

* Equivalent to 50 kilogram bag unit.

The above volume of sugar is not reflected in the consolidated balance sheets since these are not assets of the Group. The Group is accountable to quedan holders for the value of trusted sugar or their sales proceeds.

- c. CADP, Inc. entered into sales contracts with principal customers for the sale of raw and refined sugar and molasses. As of June 30, 2009 and 2008, CADP, Inc. has outstanding sales contracts for refined sugar with a total value of ₱1,279.6 million and ₱1,236.3 million, equivalent to 839,152 Lkg and 817,091 Lkg, respectively. No losses are expected to arise from these contractual obligations.

CADP, Inc. received cash deposits from customers for the above transactions as of June 30, 2009 and 2008, which will be applied against future deliveries of sugar and molasses. These deposits are classified as current liabilities (see Note 12).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Retirement Benefit Plans (continued)

- d. CADP, Inc. entered into agreements as follows:
- (i) Lease of offsite warehouse for a period of one year renewable at the option of the lessee through notification in writing not later than 90 days prior to the expiration of the agreement. Related rent expense charged to operations amounted to ₱3.5 million, ₱3.5 million and ₱3.7 million in 2009, 2008 and 2007, respectively.
 - (ii) Contract for hauling services for the transport of sugarcane from the plantation to the mill. Related hauling expense charged to operations in 2009, 2008 and 2007 amounted to ₱112.0 million, ₱172.3 million and ₱129.2 million, respectively.
- e. CADP, Inc. entered into an indemnity and guarantee fee agreement with RHI to continue to be a mortgage trust indenture (MTI) between and among CADP, Inc., RHI and BPI. RHI conveyed unto BPI as mortgage trustee its land located in Nasugbu, Batangas (mortgaged property) (see Note 13). RHI agreed to continue to subject the mortgaged property to the MTI on the following conditions:
- (i) CADP, Inc. shall protect the property and reimburse RHI with all expenses in case the mortgaged property is attached to satisfy the obligations of CADP, Inc. secured by the MTI; and
 - (ii) A guarantee/mortgage fee of ₱3.0 million shall be paid annually by CADP, Inc. to compensate RHI for the continuance of the mortgage.
- f. On January 14, 2009, Roxol and World Bank signed a \$3.2 million Emission Reduction Purchase Agreement (ERPA) for the purchase of carbon emission credits under the Clean Development Mechanism of the Kyoto Protocol. The ERPA will also avoid at least 50,000 metric tons of carbon dioxide each year and has a crediting period of 10 years starting 2010. As part of the ERPA, part of the revenue for the purchase of the credits will be used to finance Roxol's community development projects.
- g. There are pending legal cases in the ordinary course of the Group's business as at June 30, 2009 and 2008, but in the opinion of management and legal counsel, the ultimate outcome of these cases will not have a material impact on the financial position and results of operations of the Group. Consequently, no provision related to these legal cases was made in the 2009, 2008 and 2007 consolidated financial statements.
- h. As of June 30, 2009 and 2008, the Group has unused lines of credit from local banks amounting to ₱2,124.0 million and ₱3,165.0 million, respectively.

17. Revenue

The components of revenue are as follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Refined sugar	₱3,304,300	₱3,481,489	₱3,720,886
Raw sugar	1,909,110	1,958,135	1,383,411
Tolling fees	356,464	360,687	264,841
Molasses	293,450	268,611	274,597
Others	1,294	8,622	2,313
	₱5,864,618	₱6,077,544	₱5,646,048

Others include changes in fair value of consumable biological assets (see Note 7).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Cost of Sales

The components of cost of sales are as follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Purchased sugar (Note 6)	P2,808,927	P2,216,762	P2,187,141
Cost of transporting canes to mill (Notes 6 and 16)	618,205	714,573	546,860
Net changes in inventories (Note 6)	(308,469)	180,510	(67,283)
Direct labor (Note 20)	347,907	384,728	367,674
Tolling fees	22,041	1,313	50,374
Trading cost	1,525	31,047	17,968
Manufacturing overhead:			
Materials and consumables	507,768	403,945	416,860
Repairs and maintenance	358,433	365,696	370,726
Depreciation (Note 9)	274,204	301,858	405,479
Taxes and licenses	104,243	141,487	90,607
Outside services	79,565	64,224	56,343
Rent (Notes 14 and 16)	50,399	38,723	35,532
Communication, light and water	44,472	55,342	56,455
Provision for inventory losses and obsolescence (Note 6)	16,544	17,219	27,180
Others	29,831	25,146	22,470
	P4,955,595	P4,942,573	P4,584,386

19. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Employee benefits (Note 20)	P196,808	P201,888	P227,028
Taxes and licenses	76,079	62,531	48,261
Outside service	61,403	52,350	52,538
Materials and consumables	31,158	14,958	14,198
Insurance	30,398	16,043	20,948
Depreciation (Note 9)	30,222	26,245	24,294
Rent (Notes 14 and 16)	26,095	22,799	14,551
Travel and transportation	22,355	31,558	12,597
Repairs and maintenance	17,913	9,839	7,985
Communication, light and water	10,036	8,640	7,180
Corporate social responsibility	7,822	8,984	5,479
Representation and entertainment	1,528	3,496	3,770
Provision for impairment of receivables and creditable withholding taxes (Notes 5 and 7)	353	698	3,739
Management fee	-	-	1,373
Others	71,605	48,635	26,065
	P583,775	P508,664	P470,006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Employee Benefits

The components of employee benefits are as follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Salaries and wages (Notes 18 and 19)	P352,299	P379,769	P379,661
Allowances and other employee benefits (Notes 18 and 19)	130,302	130,279	131,409
Pension costs (Note 15)	62,114	76,568	83,632
	P544,715	P586,616	P594,702

21. Other Income - Net

The components of other operating income are as follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Sale of scrap	P20,632	P43,620	P10,740
Sugar and molasses handling fees	8,216	9,801	11,321
Foreign exchange gains (losses) - net	8,836	(7,245)	(7,418)
Others	38,019	6,441	4,125
	P75,703	P52,617	P18,768

22. Income Taxes

- a. Components of the Group's recognized deferred income tax assets and liabilities at June 30 represent the tax effects of the following temporary differences:

	2009	2008	
	Net Deferred Income Tax Liabilities ⁽³⁾	Net Deferred Income Tax Assets ⁽²⁾	Net Deferred Income Tax Liabilities ⁽¹⁾
	<i>(In Thousands)</i>		
Deferred income tax assets on:			
Allowance for:			
Impairment of receivables (Note 5)	P6,747	P7,747	P-
Sugar inventory losses (Note 6)	6,598	911	-
Inventory obsolescence (Note 6)	9,294	11,839	-
Pension benefit obligation (Note 15)	21,377	21,911	-
Unamortized past service cost	44,825	42,243	1,370
Unrealized foreign exchange loss	-	819	12
NOLCO	10,869	-	2,551
Excess MCIT	1,666	6,894	411
	101,376	92,364	4,344

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Income Taxes (continued)

	2009	2008	
	Net Deferred Income Tax Liabilities ⁽³⁾	Net Deferred Income Tax Assets ⁽²⁾	Net Deferred Income Tax Liabilities ⁽¹⁾
	<i>(In Thousands)</i>		
Deferred income tax liabilities on:			
Revaluation increment on properties (Note 23)	(642,871)	(2,054)	(680,178)
Unamortized capitalized interest (Note 9)	(111,115)	(29,988)	–
Pension plan assets (Note 15)	(42,766)	–	(42,009)
Unrealized foreign exchange gain	(1,395)	–	–
Unamortized debt commitment fees	(14,694)	(13,275)	(4,145)
	(812,841)	(45,317)	(726,332)
Net deferred income tax assets (liabilities)	(P711,465)	P47,047	(P721,988)

⁽¹⁾ *Pertain to RHI, CADPGC and NAVI*

⁽²⁾ *Pertain to CADP, Inc. and CACI*

⁽³⁾ *Pertain to RHI, CADP, Inc., CACI, Roxol and NAVI*

The gross movement in deferred income tax assets and liabilities during the year is as follows:

	July 1, 2008	Charged to Consolidated Statement of Income	Charged to Consolidated Statement of Changes in Equity	Net deferred taxes transferred	June 30, 2009
	<i>(In Thousands)</i>				
Net deferred income tax assets	P47,047	(P47,047)	P–	P–	P–
Net deferred income tax liabilities	(721,988)	10,182	4,242	(3,901)	(711,465)
Net deferred income tax liabilities	(P674,941)	(P36,865)	P4,242	(P3,901)	(P711,465)

- b. Details of benefits arising from NOLCO and MCIT and the corresponding analysis of deferred income tax assets as of June 30 follow:

NOLCO

Incurred in	Amount	Applied	Expired	Balances as of June 30	Tax Effect	Available Until
	<i>(In Thousands)</i>					
2005	P77,104	(P69,358)	(P7,746)	P–	P–	2008
2007	13,504	(8,291)	–	5,213	1,564	2010
2008	18,078	–	–	18,078	5,423	2011
2009	50,986	–	–	50,986	15,296	2012
	P159,672	(P77,649)	(P7,746)	P74,277	P22,283	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Income Taxes (continued))

MCIT

Incurring in	Amount	Applied	Expired	Balances as of June 30	Available Until
<i>(In Thousands)</i>					
2005	₱4,871	₱–	(₱4,871)	₱–	2008
2006	6,588	–	(6,588)	–	2009
2007	4,856	–	–	4,856	2010
2008	7,409	6,894	–	515	2011
2009	1,517	–	–	1,517	2012
	₱25,241	₱6,894	(₱11,459)	₱6,888	

The Company and its subsidiaries are subject to MCIT of 2% based on its gross income as defined under the Philippine tax code, if normal income tax is less than the computed MCIT. The excess of MCIT over the normal income tax is carried forward on an annual basis and credited against the normal income tax for three immediately succeeding taxable years. Any balance of MCIT which has not been applied against the normal income tax for the three-year period will be closed to provision for income tax for financial reporting purposes.

- c. Details of NOLCO, MCIT and other deductible temporary differences for which no deferred income tax assets were recognized as of June 30 follow:

	2009	2008
<i>(In Thousands)</i>		
NOLCO	₱38,043	₱15,883
MCIT	5,220	11,548
Allowance for impairment of receivables	1,405	1,404
Pension benefit obligation	2,954	4,017

Deferred income tax assets pertaining to NOLCO, MCIT and other deductible temporary differences amounting to ₱17.9 million and ₱20.9 million as of June 30, 2009 and 2008, respectively, were not recognized as management believes that it may not be probable that future taxable profits will be available against which the NOLCO can be utilized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Income Taxes (continued)

- d. The reconciliation between the provision for income tax computed at the applicable statutory tax rate and provision for income tax presented in the consolidated statement of income for the years ended June 30 follows:

	2009	2008	2007
	<i>(In Thousands)</i>		
Provision for income tax at statutory rate	P103,324	P233,084	P200,416
Adjustments resulting from:			
Capital gains tax on sale of subsidiaries (Note 1)	106,328	–	–
Realization of revaluation increment	(35,119)	–	–
Application of temporary differences and NOLCO for which no deferred income tax asset was previously recognized	(2,695)	(14,373)	–
Expiration of excess MCIT credits	–	4,827	–
Unrecognized deferred income tax assets arising from temporary differences and NOLCO	18,770	4,682	1,346
Effect of change in income tax rates applied on deferred income tax assets and liabilities	95	(3,277)	–
Tax effects of:			
Equity in net earnings of an associate (Note 8)	(25,858)	(24,408)	(19,509)
Interest and dividend income subjected to final tax	(1,253)	(1,556)	(3,711)
Depreciation on appraisal increase	6,190	6,666	6,666
Unallowable interest expense	701	1,411	773
Others	4,907	3,738	3,527
Provision for income tax	P175,390	P210,794	P189,508

- e. Under Republic Act 9337, the Expanded Value-Added Tax Act of 2005, which took effect on November 1, 2005, the corporate income tax rate shall be 35% for three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter; and the unallowable deduction for interest expense shall be 42% of the interest income subject to final tax, effective November 1, 2005 and 33% effective January 1, 2009.

The President signed into law on June 17, 2008 RA 9504 amending provisions of the 1997 Tax Code. RA 9504 became effective on July 7, 2008, fifteen (15) days after its publication last June 22, 2008 in major newspapers of general circulation. The new law shall be effective starting taxable year 2008. The new law includes provisions relating to the availment of optional standard deductions (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in the return its intention to avail the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made.

On September 24, 2008, the Bureau of Internal Revenue issued Revenue Regulation No. 10-2008 for the implementing guidelines of this law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Equity

a. Share capital and treasury shares

Details of share capital and treasury shares at June 30 follow:

	2009		2008		2007	
	Number of shares	Amount (In Thousands)	Number of shares	Amount (In Thousands)	Number of shares	Amount (In Thousands)
Authorized common shares "Capital A" at ₱1 par value each	1,500,000,000	₱1,500,000	1,500,000,000	₱1,500,000	1,500,000,000	₱1,500,000
Issued common shares "Class A"	1,168,976,425	₱1,168,976	1,168,976,425	₱1,168,976	1,168,976,425	₱1,168,976
Treasury shares	(259,424,189)	(768,860)	(251,330,189)	(739,707)	(55,007,240)	(63,767)
Issued and outstanding	909,552,236	₱400,116	917,646,236	₱429,269	1,113,969,185	₱1,105,209

Requisitions of shares by the Parent Company on its Share Buy Back Program follow:

Year Reacquired	Number of Shares	Cost (In Thousands)
2009	8,094,000	₱29,153
2008	196,322,949	675,940
2007 and previous years	55,007,240	63,767

b. Share premium and revaluation increment

As discussed in Note 1, in 2002, the Group has undertaken major activities relating to the Reorganization Program. As part of this, the sugar milling and refinery business in Nasugbu, Batangas was spun-off to CADP, Inc (see Note 1). The assets and liabilities, excluding the land in Nasugbu, were transferred by the Company as capital contribution to CADP, Inc. Such properties transferred include revaluation increment on depreciable property, plant and equipment amounting to ₱150.6 million. Thus, the carrying value of the net assets transferred to CADP, Inc., including the revaluation increment, was deemed as the historical cost of such assets for CADP, Inc.

On December 1, 2002, the Company exchanged its shareholdings in CADP, Inc., CCSI and CFSI for 1,302.8 million of the CADPGC's common shares with a par value of ₱1 per share for ₱2,050.2 million, the cost of investments in the Company's books immediately before the transfer. CADPGC recorded a premium of ₱596.8 million and set-up share in revaluation increment in properties of subsidiary amounting to ₱150.6 million. Consequently, the Company's ownership interest in CADPGC increased and CADP, Inc., CCSI and CFSI became 100%-owned subsidiaries of the CADPGC.

On July 1, 2004, CADPGC's Negross sugar milling business was spun-off, which was the last phase of the Reorganization Program. The said spin-off, as approved by the Philippine SEC on February 10, 2004, involved the transfer of CADPGC's net assets aggregating to ₱1.4 billion in exchange for CACI's 200 million common shares at ₱1 per share. The basis of valuation of the CACI shares received by CADPGC was the fair carrying value of the transferred net assets, which included the land of appraised value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Equity (continued)

- c. Excess of consideration received from parent company over carrying amount of disposed subsidiary and effect of change in ownership interest in subsidiaries

As discussed in Note 1, the Group has undertaken a corporate restructuring. On December 16, 2008, RHI acquired the sugar-related operating subsidiaries and an associate from CADPGC for a total consideration of ₱3,838.0 million, which represents the cost of CADPGC's investments in shares of stock in subsidiaries and an associate amounting to ₱4,101.0 million reduced by the net liabilities transferred by CADPGC amounting to ₱263.0 million. As a result, RHI increased its effective ownership interest in the sugar-related operating subsidiaries and recognized the effect of the change in ownership interest in subsidiaries and an associate as a result of reduction of minority interests in subsidiaries of ₱44.5 million and presented as a separate component of the Group's total consolidated equity.

On January 23, 2009, following the acquisition of the sugar-related operating subsidiaries and an associate from CADPGC, RHI sold its investment in CADPGC to RCI on account for a total consideration of ₱3,927.3 million. The excess of consideration received from RCI over the carrying amounts of share of the Company in the net assets of CADPGC amounted to ₱577.1 million.

On June 29, 2009, as a result of merger of RCI and CADPGC, the note payable from CADPGC was set off against the note receivable from RCI amounting to ₱3.8 billion.

- d. Retained earnings

Restricted retained earnings

The following amounts of retained earnings as of June 30 are not available for dividend declaration:

	2009	2008	2007
	<i>(In Thousands)</i>		
Treasury shares	₱768,860	₱739,707	₱63,767
Pension plan asset - net of deferred income tax liability (Note 15)	99,786	63,377	53,143
	₱868,646	₱803,084	₱116,910

Further, unrestricted retained earnings includes ₱634.1 million, ₱1,131.2 million and ₱846.6 million as of June 30, 2009, 2008 and 2007, respectively, which represents accumulated earnings of consolidated subsidiaries and unconsolidated associate which are not available for distribution to the Company's shareholders unless received as cash dividends from investees.

Dividend declaration

Cash dividends declared by the Company from retained earnings during the years ended June 30, 2009, 2008 and 2007 follow:

Date Approved	Per Share	Total Amount (In Thousands)	Stockholders of Record Date	Date Paid/Issued
June 25, 2009	₱0.06	₱54,575	July 15, 2009	July 31, 2009
October 3, 2008	0.06	54,575	October 15, 2008	October 31, 2008
June 25, 2008	0.06	55,058	July 15, 2008	July 31, 2008
September 19, 2007	0.05	55,700	October 15, 2007	November 8, 2007
June 20, 2007	0.12	66,840	July 13, 2007	July 31, 2007
October 25, 2006	0.12	67,123	October 12, 2006	November 10, 2006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Equity (continued)

e. Share Prices

The principal market for the Company's shares of stock is the Philippine Stock Exchange. The high and low trading prices of the Company's shares for each quarter within the three fiscal years are as follows:

Quarter	High	Low
July 2008 through June 2009		
First	₱3.50	₱2.30
Second	2.90	2.30
Third	2.40	2.00
Fourth	3.00	2.80
July 2007 through June 2008		
First	3.10	2.06
Second	2.95	2.48
Third	3.60	2.60
Fourth	3.60	2.20
July 2006 through June 2007		
First	3.65	3.60
Second	4.05	1.32
Third	2.48	2.42
Fourth	2.75	2.70

f. Share Buy Back Program

In 2008, CADPGC re-acquired portion of its shares amounting to ₱2.9 million (1,506,000 shares). As a result, the Company's effective ownership interest has increased from 89.28% to 89.36%. The difference between the re-acquisition cost and the book value of shares acquired by the Company (through CADPGC) from the minority interest amounted to ₱1.4 million and was recognized in equity under "Effect of change in ownership interest" account.

24. Earnings Per Share

Earnings per share (EPS) for the years ended June 30 is computed as follows:

	2009	2008	2007
Net income for the year attributable to the equity holders of the Parent Company	₱180,249	₱410,015	₱344,203
Weighted average number of common shares outstanding	909,648	1,063,645	1,117,263
Basic/diluted earnings per share	₱0.20	₱0.39	₱0.31

There are no potential dilutive common shares as at June 30, 2009, 2008 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Capital Management

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

The Group's dividend declaration is dependent on availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2009.

Management considers the total consolidated equity reflected in the consolidated balance sheets as its capital. The Group monitors its use of capital using leverage ratios, specifically, debt ratio and debt-to-equity ratio. Liabilities and equity pertain to total liabilities and total equity as shown in the consolidated balance sheets. The table below shows the leverage ratios of the Group as of June 30:

	2009	2008
	<i>(In Thousands, except ratio)</i>	
Total liabilities	₱7,805,065	₱4,366,289
Total equity	5,716,604	5,500,895
Total liabilities and equity	₱13,521,669	₱9,867,184
Debt ratio	0.58:1.00	0.44:1.00
Debt-to-equity ratio	1.37:1.00	0.79:1.00

26. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of advances to employees and a related party, dividends payable, short and long-term borrowings and cash and cash equivalents. The Group has various financial instruments such as trade receivables and accounts payable and accrued expenses, which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The Group also monitors the market price risk arising from all financial instruments. Risk management is carried out by the President and Senior Vice President for Finance and Treasurer under the direction of the BOD of the Company.

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet maturing obligations.

The Group's objective is to maintain sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the business, the Group aims to maintain flexibility in funding by keeping track of daily cash flows and maintaining committed credit lines available.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Financial Instruments (continued)

The tables below summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

June 30, 2009

	On demand	<1 year	>1-<2 yrs	>2-<4 yrs	>4-<5 yrs	>5 yrs	Total
<i>(In Thousands)</i>							
Accounts payable and accrued expenses*	₱634,611	₱83,630	₱—	₱—	₱—	₱—	₱718,241
Dividends payable	—	41,074	—	—	—	—	41,074
Short-term borrowings	—	3,139,905	—	—	—	—	3,139,905
Current portion of long-term borrowings	—	—	—	—	—	—	—
Long-term borrowings - net of current portion	—	267,307	411,863	665,585	1,312,025	1,927,386	4,584,166
	₱634,611	₱3,531,916	₱411,863	₱665,585	₱1,312,025	₱1,927,386	₱8,483,386

* Excludes payable to government agencies amounting to ₱56,638

June 30, 2008

	On demand	<1 year	>1-<2 yrs	>2-<4 yrs	>4-<5 yrs	>5 yrs	Total
<i>(In Thousands)</i>							
Accounts payable and accrued expenses*	₱565,898	₱42,302	₱—	₱—	₱—	₱—	₱608,200
Dividends payable	—	81,205	—	—	—	—	81,205
Short-term borrowings	225,000	485,000	—	—	—	—	710,000
Current portion of long-term borrowings	—	13,333	—	—	—	—	13,333
Long-term borrowings - net of current portion	—	39,009	45,723	161,344	169,993	1,904,759	2,320,828
	₱790,898	₱660,849	₱45,723	₱161,344	₱169,993	₱1,904,759	₱3,733,566

* Excludes payable to government agencies amounting to ₱22,428

Credit risk

Credit risk is the risk that the Group will incur financial loss through default by counterparties in performing their obligations.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different geographic areas. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Financial Instruments (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk as of June 30 for the components of the consolidated balance sheet. The maximum exposure is shown gross before the effect of mitigation through the use of master netting and collateral agreements.

	2009	2008
	(In Thousands)	
Cash in banks and time deposits, excluding cash on hand	P283,280	P348,843
Trade receivables	749,948	422,035
Advances to related parties	201,423	197
Advances to employees	37,542	65,827
Other receivables	48,130	4,134
	P1,320,323	P841,036

Collaterals and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Credit quality per class of financial assets

The credit quality of receivables is managed by the Group through its Marketing Department. High grade accounts are those receivables from counterparties with whom collections are made without much collection effort. Standard grade accounts consist of receivables from its distributors with good financial condition and with relatively low defaults. Substandard grade accounts on the other hand, are receivables from other counterparties with history of defaulted payments.

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts:

June 30, 2009

	Neither past due nor impaired			Past due but not impaired			Impaired Financial Assets	Total
	High Grade	Standard Grade	Substandard Grade	Over 30 Days	Over 90 Days	Over 180 Days		
	(In Thousands)							
Cash in bank and time deposits*	P283,280	P-	P-	P-	P-	P-	P-	P283,280
Trade receivables	176,188	506,167	30,400	15,082	2,926	19,185	6,732	756,680
Advances to related parties	201,423	-	-	-	-	-	-	201,423
Advances to employees**	362	36,012	1,168	-	-	-	1,276	38,818
Other receivables	8,366	886	33,808	4,309	261	500	9,741	57,871
Total	P669,619	P543,065	P65,376	P19,391	P3,187	P19,685	P17,749	P1,338,072

* Excludes cash on hand amounting to P3.3 million.

** Excludes advances to employees subject to liquidation amounting to P11.7 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Financial Instruments (continued)

June 30, 2008

	Neither past due nor impaired			Past due but not impaired			Impaired Financial Assets	Total
	High Grade	Standard Grade	Substandard Grade	Over 30 Days	Over 90 Days	Over 180 Days		
<i>(In Thousands)</i>								
Cash in bank and time deposits*	₱348,843	₱–	₱–	₱–	₱–	₱–	₱–	₱348,843
Trade receivables	147,130	221,528	28,059	16,059	5,167	4,092	6,502	428,537
Advances to employees**	16,345	49,482	–	–	–	–	1,276	67,103
Advances to related party	–	197	–	–	–	–	–	197
Other receivables	17	–	–	974	262	2,881	9,718	13,852
Total	₱512,335	₱271,207	₱28,059	₱17,033	₱5,429	₱6,973	₱17,496	₱858,532

* Excludes cash on hand amounting to ₱1.4 million.

** Excludes advances to employees subject to liquidation amounting to ₱5.9 million.

Impairment assessment

The main consideration for impairment assessment includes whether there are known difficulties in the cash flow of the counterparties. The Group assesses impairment in two ways: individually and collectively.

First, the Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, non-moving accounts receivable and other accounts of defaulted counterparties.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is not objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect their collectibility.

The Group has recognized an impairment loss on its financial assets using specific assessment in 2008 amounting to ₱8.9 million.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows on a financial instrument will fluctuate because of changes in market interest rates.

The Group's cash flow interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group has long-term borrowings with interest being repriced on a quarterly basis. Such borrowings are susceptible to cash flow interest rate risk. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Financial Instruments (continued)

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held at June 30.

	Change in interest rates (in percentage)	Effect in income before income tax	
		2009	2008
<i>(In Thousands)</i>			
For more than a year	+17%	(P21,795)	(P20,925)
	-17%	21,795	20,925
For less than a year	+10%	(P12,821)	(6,711)
	-10%	12,821	6,711

There is no other impact on the Group's equity other than those already affecting the profit and loss.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign currency risk relates to its US\$-denominated cash and cash equivalents. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. The Group currently does not enter into derivative transactions to hedge its currency exposure.

The Group's foreign currency denominated asset consist of cash in banks in US\$ amounting to US\$0.8 million each in 2009, 2008 and 2007. As of June 30, 2009, 2008 and 2007, the exchange rates were P48.3, P44.90 and P46.24 per US\$1.00, respectively.

Net foreign exchange gains or losses recognized in the consolidated statements of income amounted to P8.8 million gain, P7.2 million loss and P7.4 million loss in 2009, 2008 and 2007, respectively.

Shown below is the impact on the Group's income before income tax of reasonably possible changes in exchange rate of the US\$ against the Philippine peso as of June 30:

	Movement in US\$-Philippine peso exchange rates	Net effect in income before income tax
		<i>(In Thousands)</i>
2009	+5.00%	(P2,614)
	-5.00%	2,614
2008	+3.65%	(3,114)
	-3.65%	3,114

There is no other impact on the Group's equity other than those already affecting the profit and loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Financial Instruments (continued)

Fair Values

The following is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are reflected in the consolidated financial statements as of June 30:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousands)</i>				
Financial assets:				
Cash on hand	₱3,382	₱3,382	₱1,430	₱1,430
Loans and receivables:				
Cash in banks and time deposits	283,280	283,280	348,843	348,843
Trade receivables	749,948	749,948	422,035	422,035
Advances to employees	37,542	37,561	65,827	69,481
Advances to related parties	201,423	201,423	197	197
Other receivables	48,130	48,130	4,134	4,134
	₱1,323,705	₱1,323,724	₱842,466	₱846,120
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued expenses:				
Trade payables	₱305,704	₱305,704	₱215,703	₱215,703
Accrued and other liabilities	181,301	181,301	194,396	194,396
Due to planters	47,874	47,874	66,239	66,239
Other liabilities	183,362	183,362	131,862	131,862
Dividends payable	41,074	41,074	81,205	81,205
Short-term borrowings	2,937,000	2,937,000	702,552	702,552
Current portion of long-term borrowings	—	—	13,333	13,333
Long-term borrowings - net of current portion	3,075,973	3,067,620	1,829,728	1,825,173
	₱6,772,288	₱6,763,935	₱3,235,018	₱3,230,463

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade receivables, advances to employees and related parties, other receivables, accounts payable and accrued expenses, dividends payable, short-term borrowings, and current portion of long-term borrowings. The carrying amounts of these instruments approximate fair values due to their short-term maturities.

Long-term borrowings-fixed interest bearing loans. The fair values are based on the expected cash flows on the instruments, discounted using the prevailing interest rates of 6.9% and 7.0% at June 30, 2009 and 2008 respectively, for comparable instruments in the market. The rates were obtained from Bangko Sentral ng Pilipinas, representing bank average lending rates in 2009 and 2008.

Long-term borrowings-variable interest bearing loans. The carrying value of the financial instrument approximates the fair value at June 30, 2009 and 2008 due to repricing of interest rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. Segment Reporting

Business Segments

Financial information about business segments as of and for the years ended June 30 follow:

	2009					Total
	Raw sugar and molasses	Refined sugar	Tolling service	Other Segments	Unallocated/ Elimination	
	<i>(In Thousands)</i>					
REVENUE						
External sales (Note 17)	₱2,202,560	₱3,304,300	₱356,464	₱1,294	₱–	₱5,864,618
Inter-segment sales	157,967	145,979	32,485	399,978	(736,409)	–
Total revenue	₱2,360,527	₱3,450,279	₱388,949	₱401,272	(₱736,409)	₱5,864,618
SEGMENT RESULT	(₱224,521)	₱580,202	₱27,838	₱233,430	(553,984)	62,965
Equity in net earnings of an associate	79,564	–	–	–	–	79,564
Consolidated segment results	(₱144,957)	₱580,202	₱27,838	₱233,430	(₱553,984)	₱142,529
OTHER INFORMATION						
Segment assets	₱3,498,368	₱6,219,320	–	₱2,850,521	₱396,028	₱12,964,237
Investment in an associate (Note 8)	557,432	–	–	–	–	557,432
Consolidated segment assets	₱4,055,800	₱6,219,320	–	₱2,850,521	₱396,028	₱13,521,669
Segment liabilities	₱546,282	₱1,373,509	₱–	₱3,902	₱5,881,372	₱7,805,065
Additions to property, plant and equipment	932,260	2,414,488	–	5,198	1,499	3,353,445
Depreciation	84,630	219,187	–	472	137	304,426
Non-cash expenses other than depreciation	3,244	–	–	927	7,416	11,587
	2008					
	Raw sugar and molasses	Refined sugar	Tolling service	Other segments	Unallocated/ Elimination	Total
	<i>(In Thousands)</i>					
REVENUE						
External sales (Note 17)	₱2,226,746	₱3,481,489	₱360,687	₱8,390	₱232	₱6,077,544
Inter-segment sales	153,564	–	31,020	89,943	(274,527)	–
Total revenue	₱2,380,310	₱3,481,489	₱391,707	₱98,333	(₱274,295)	₱6,077,544
SEGMENT RESULT	(₱47,778)	₱663,646	(₱98,778)	₱86,130	(₱217,799)	₱385,421
Equity in net earnings of an associate	69,739	–	–	–	–	69,739
Consolidated segment results	₱21,961	₱663,646	(₱98,778)	₱86,130	(₱217,799)	₱455,160
OTHER INFORMATION						
Segment assets	2,514,047	4,491,658	–	213,630	2,101,461	9,320,796
Investment in an associate (Note 8)	546,388	–	–	–	–	546,388
Consolidated segment assets	₱3,060,435	₱4,491,658	₱–	₱213,630	₱2,101,461	₱9,867,184
Segment liabilities	₱304,572	₱769,746	₱–	₱475,645	₱2,816,326	₱4,366,289
Additions to property, plant and equipment	611,510	1,575,836	–	1,263	5,129	2,193,738
Depreciation	157,936	169,293	–	346	528	328,103
Non-cash expenses other than depreciation	5,426	–	–	36	15,236	20,698

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. Segment Reporting

	2007					Total
	Raw sugar and molasses	Refined sugar	Tolling service	Other segments	Unallocated/ Elimination	
	<i>(In Thousands)</i>					
REVENUE						
External sales (Note 17)	₱1,658,008	₱3,720,886	₱264,841	₱2,313	₱–	₱5,646,048
Inter-segment sales	183,835	53,943	30,913	138,557	(407,248)	–
Total revenue	₱1,841,843	₱3,774,829	₱295,754	₱140,870	(₱407,248)	₱5,646,048
SEGMENT RESULT	(₱317,377)	₱1,024,183	(₱212,443)	₱243,300	(₱410,292)	₱327,371
Equity in net earnings of an associate	55,739	–	–	–	–	55,739
Consolidated segment results	(₱261,638)	₱1,024,183	(₱212,443)	₱243,300	(₱410,292)	₱383,110
OTHER INFORMATION						
Segment assets	₱2,333,275	₱3,502,788	₱–	₱7,685,541	(₱6,226,152)	₱7,295,452
Investment in an associate (Note 8)	545,454	–	–	–	–	545,454
Consolidated segment assets	₱2,878,729	₱3,502,788	₱–	₱7,685,541	(₱6,226,152)	₱7,840,906
Segment liabilities	₱142,579	₱734,651	₱–	₱433,587	₱1,091,070	₱4,401,887
Additions to property, plant and equipment	125,555	124,315	–	583	–	250,453
Depreciation	204,447	224,522	–	804	–	429,773
Non-cash expenses other than depreciation	29,717	1,202	–	–	–	30,919

Geographical Segments

Sales revenue from external customers by geographical market (regardless of where the goods were produced or service has been rendered) for the years ended June 30 follow:

	2009	2008	2007
	<i>(In Thousands)</i>		
Nasugbu, Batangas	₱3,600,794	₱4,065,592	₱3,985,727
La Carlota City, Negros Occidental	2,241,552	1,985,845	1,658,008
Other segments/unallocated	22,272	26,107	2,313
	₱5,864,618	₱6,077,544	₱5,646,048

The details of the carrying amounts of segment assets at June 30 and additions to property, plant and equipment by geographical area in which those assets are located for the years ended June 30 follow:

	Carrying amounts of segment assets			Additions to property, plant and equipment		
	2009	2008	2007	2009	2008	2007
	<i>(In Thousands)</i>					
Nasugbu, Batangas	₱6,952,358	₱4,486,463	₱3,291,189	₱2,178,481	₱1,575,836	₱124,898
La Carlota City, Negros Occidental	3,749,756	2,793,976	2,383,001	1,174,964	611,969	125,555
	₱10,702,114	₱7,280,439	₱5,674,190	₱3,353,445	₱2,187,805	₱250,453

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. Other Matter

Registration with the Board of Investments (BOI)

On October 24, 2008, the BOI approved the registration of Roxol as New Producer of Bioethanol (Anhydrous) and Potable (Hydrous) Ethanol on a Pioneer Status under the Omnibus Investments Code of 1987 or Executive Order (E.O.) 226. Under the terms of its registration, Roxol is required to achieve certain production and sales volume for both anhydrous and hydrous ethanol. As a registered enterprise, Roxol is entitled to certain tax incentives, which include, among others: (1) income tax holiday (ITH) of six years for its anhydrous ethanol and for four years for its hydrous ethanol, from January 2010 or actual start of commercial operations, whichever is earlier; (2) extension of ITH provided that the aggregated ITH availment does not exceed eight years, subject to certain conditions; (3) for the first five years from the date of registration, additional deduction from taxable income of 50% of the wages arising from additional workers hired, provided that it is not simultaneously availed with the ITH; (4) tax credit for taxes and duties on raw materials and supplies and semi-manufactured products used in producing its export product; (5) exemption from wharfage dues, any export tax, duties imposts and fees for ten years from date of registration; (6) may qualify to import capital equipment, spare parts and accessories at 0% duty from date of registration up to June 16, 2011 pursuant to E.O. 528 and its Implementing Rules and Regulations and (7) tax- and duty-free importation of equipment.

SHAREHOLDER INFORMATION

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Website: www.roxas.com.ph

COMMON STOCK

Roxas Holdings, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "ROX".

ANNUAL STOCKHOLDERS' MEETING

The 2009 Annual Stockholders' Meeting will be held on November 25, 2009, 10:00 A.M. at Renaissance Makati City Hotel Manila, Esperanza Street corner Makati Avenue, Makati City, Philippines.

SHAREHOLDER INQUIRY

Inquiries regarding dividend payments, accounts status, address changes, stock certificates, and other pertinent matters may be addressed to the Company's registrar and transfer agent.

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Union Bank Plaza Building
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Hawaiian Philippine Co.