



## Primed for Sweeter Heights



OUR COVER



Roxas Holdings, Inc. lays the groundwork for global leadership as it takes on a new strategic direction vis-à-vis the changes that have been happening in the world economies. We see change not as a threat, but as an opportunity for innovation, creativity and growth.

This year's annual report shows the headways we have made in terms of transforming the Roxas Group from being a commodity provider to a sugarcane-based conglomerate in order to overcome the threats the sugar industry will face in the coming years.

We, indeed, are primed for sweeter heights.



[www.roxas.com.ph](http://www.roxas.com.ph)



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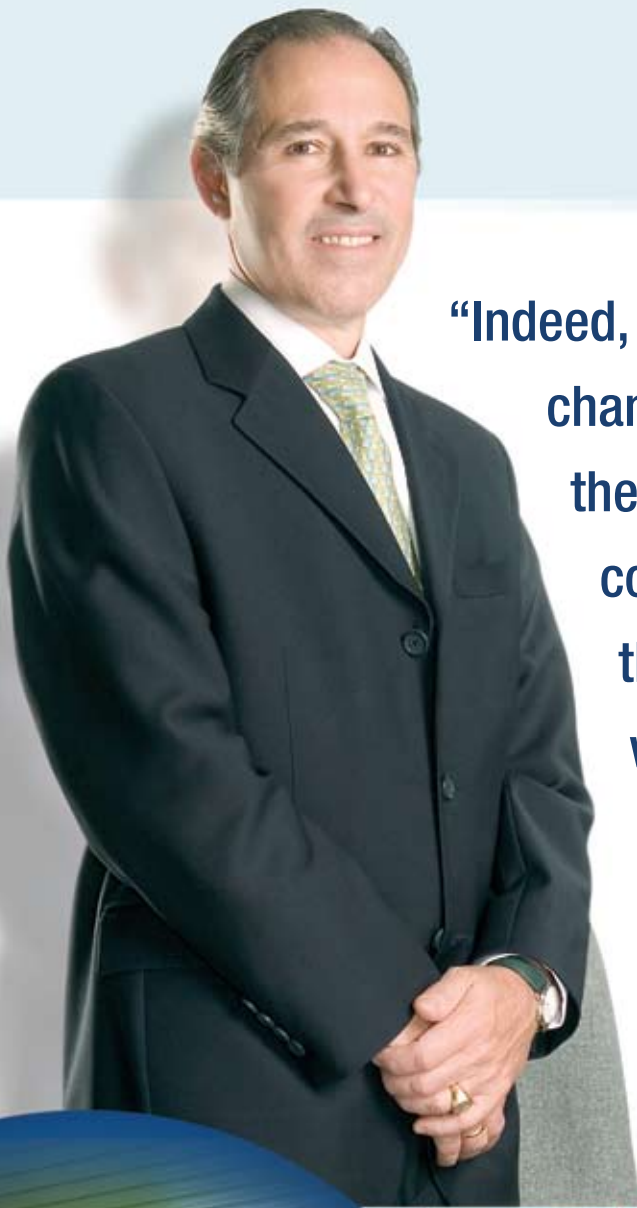
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# Financial Highlights

	2008	2007
<b>Financial Highlights (in thousand pesos except interest cover)</b>		
Sales	6,077,544	5,646,048
Operating income	644,612	566,639
Profit before income tax	665,954	572,618
Net income	455,160	383,110
Finance costs, net Interest cover	48,397	49,760
Working capital	697,605	1,551,604
Total assets	9,867,184	7,840,906
Current assets	2,448,406	2,839,293
Current liabilities	1,750,801	1,287,689
PPE	6,645,258	4,259,099
Total equity	5,500,895	5,481,109
<b>EBITDA Ratios</b>		
EBITDA	972,715	996,412
EBITDA / Total assets	10%	13%
EBITDA / Total equity	18%	18%
EBITDA / Capital employed	11%	14%
<b>Financial Ratios</b>		
Earnings per share	0.39	0.31
Cash income per share	0.69	0.69
Book value per share	5.17	4.90
Current ratio	1.40: 1	2.20: 1
Acid test ratio	0.53: 1	1.04: 1
Debt to equity ratio	0.79: 1	0.43: 1
Return on assets	5%	5%
Return on net sales	7%	7%
Return on equity	8%	7%





**“Indeed, we should not fear change, but embrace the opportunities that come with it and in the process, open the windows of creativity, innovation and growth.”**



# Chairman's Message

## Dear Shareholders and Friends,

Last year, we announced our plans to position your Company to grow in a new direction in the light of the changes that have been happening in the sugar industry as well as in the global economy.

Given that, we laid the groundwork for transforming ourselves from being a commodity provider to a value-added entity. This will enable us to weather away the threats the industry will face when sugar tariffs are reduced from the current 35 percent to a maximum of 5 percent in 2010. We envision being a leader in providing sugarcane-based products not only in the country but in the global arena as well.

Indeed, we should not fear change, but embrace the opportunities that come with it and in the process, open the windows of creativity, innovation and growth.

Myriad events have happened since then and we are proud to report the headways that we have made over the last year and how we intend to continue this exciting journey in the coming days.

We have set in motion our plan to implement new strategies to raise our revenue-generating capacity and enhance our cost-competitiveness through capacity expansion, business diversification and streamlining of our internal processes.

Our 90 percent-owned sugar holding company, CADP Group Corporation (CADPGC), is set to expand its production capacity by at least 50 percent with the acquisition of two sets of sugar manufacturing equipment – one from the United States and another from Australia.

On February 2008, we started the shipment and installation of these pieces of equipment in our manufacturing sites in Central Azucarera Don Pedro, Inc. (CADPI) in Batangas and Central Azucarera de la Carlota, Inc. (CACI) in Negros Occidental. We expect to reap the full benefits of this bold step once the transition is completed by October 2009 in CACI and by November 2009 in CADPI.

Moreover, this strategic move serves as a takeoff point for our entry into the energy sector to allow us to take advantage of the definite market for fuel ethanol brought about by the Biofuels Act of 2006, which mandates the use of locally-sourced biofuels.

We are full steam ahead in our foray into manufacturing fuel ethanol. The construction of the bioethanol plant of Roxol Bionergy Corporation, the company we established for this venture, started in August 2008 and is expected to be completed by late 2009. We engaged KBK Chem-Engineering, an India-based firm, to design, build and activate the plant's production facilities and equipment on a turnkey basis.



The bioethanol plant will produce 100,000 liters of fuel ethanol per day and is designed to manufacture not only fuel but other downstream products and thus, laying the groundwork for our plans to diversify our product mix.

To bankroll our capacity expansion and bioethanol venture, we secured a syndicated loan from three local banks amounting to about P6.1 billion in February 2008. We believe that debt financing was the best option to raise capital considering the lower interest rates at the time of the transaction.

We provided an exit mechanism for our shareholders via a tender offer of your Company's shares at P3.60 per share on February 2008. The tender offer exercise, which ran for two months, gave the minority shareholders an opportunity to monetize their stake in the Company.

However, only 20.5 percent of the 474 million shares we expected to buy back were tendered. This low turnout is a testament to the continued confidence and support its shareholders have in your Company.

In support of our strategic agenda, we are considering bringing in a strategic or financial partner, possibly in 2009. We are in talks with several groups, both local and foreign, that have expressed interest to invest in the Group and its projects. We believe that building strategic partnerships is crucial to the Group's continuing growth and success.

At the same time, we are mulling the conduct of a follow-on stock offering to raise additional funds for our diversification projects by 2009. The timetable for this exercise will depend on market conditions.

In order to streamline the Roxas Group's businesses into strategic units, we have drawn up the blueprint for a corporate reorganization. In the blueprint, we will consolidate all the Group's sugar-related businesses into one listed company to eliminate the extra holding company layer that exists at present, which will reduce the redundancies and improve our overall efficiency.

To achieve this, RHI will purchase all the operating subsidiaries of CADPGC. The shell company of CADPGC,

in turn, will be sold to Roxas & Company, Inc. (RCI), the flagship company of the Roxas Group. With this, we envision a cleaner and more transparent corporate structure with RHI as the lone arm for the Group's sugar subsidiaries.

But this is not to say that we will make it all happen no matter what the cost. Your Company continues to integrate the economic, social and environmental imperatives in its activities in order to improve the quality of life of its workforce, their families, the local community and the society at large.

This is being done through the livelihood, training, education and health programs being spearheaded by the Roxas Gargollo Foundation, Inc., the Group's social development entity.

It is indeed an exciting year for us in the Roxas Group, but we can never be complacent. We are getting ready for the threats ahead amid worries about the global financial crunch and its impact in our country.

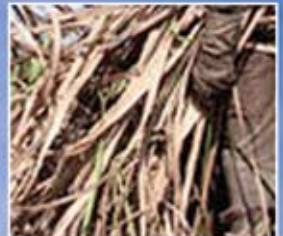
We, in your Board, believe that the strategic agenda we have taken on, alongside the support of the government and collaboration with industry and market players, will pave the way for a solid foundation to overcome the impact of possible shocks in the future.

In behalf of your Company, I extend my sincerest appreciation to my colleagues in the Board, the management, staff and personnel, peers in the sugar and financial communities, our shareholders, as well as to many others, who have helped us in Roxas Holdings, Inc.



**PEDRO E. ROXAS**

Chairman and Chief Executive Officer  
October 2008



# President's Report

## Dear Shareholders and Friends,

The country's economic growth slowed down in the second quarter of 2008, with the gross domestic product expanding only at 4.6 percent compared to the 8.3 percent recorded in the same period last year.

Despite this, we are proud to report that your Company enjoyed a healthy balance sheet with the consolidated net income after tax rising 19 percent to P455 million from the previous year's P383 million. This translated to earnings per share of P0.39 from P0.31 a year ago. Consolidated total assets, on the other hand, increased to P9.9 billion from its year-ago level of P7.8 billion.

Amid the challenging business environment as well as the dire effects of extreme wet weather condition experienced by our sugar holding company, CADP Group Corporation (CADPGC), our consolidated net sales surged 8 percent to P6.1 billion from the P5.6 billion recorded last year. This was driven by higher tolling volumes and the improvement in selling prices of raw sugar.

Cost of sales went up 8 percent to P4.9 billion from P4.6 billion in 2007, owing to the extended milling operations of our Batangas site, higher cost and usage of bunker fuel and increase in hauling cost of cane brought about by extreme wet weather conditions.

But this did not stop us from retaining our consolidated gross profit at 19 percent due to cost containment measures implemented by the Group.

Operating and selling expenses went up to P543 million from P514 million the previous year brought about by the soar in outside services cost, rental and taxes and licenses.

Operating profits surged to P645 million this year versus the P567 million recorded a year ago. Meanwhile, earnings before interests, taxes, depreciation and amortization (EBITDA) went down by 2 percent from P996 million to P973 million.

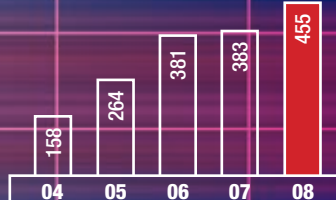
With our rosy performance, your Board declared a cash dividend of P0.06 per share in June 2008 and another P0.06 in October 2008. This translates to a dividend payout ratio of 0.28:1.

The book value of your Company's stock climbed to P5.17 from the P4.91 registered last year. Regardless of the general downtrend in global and domestic financial markets, its market price remained resilient at P2.75 per share in June 2008 from P2.70 apiece during the same period last year.

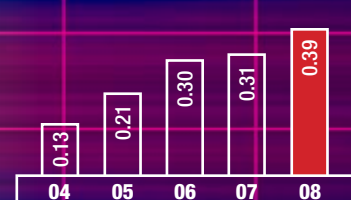
### Revenues (PhP mm)



### Net Income (PhP mm)



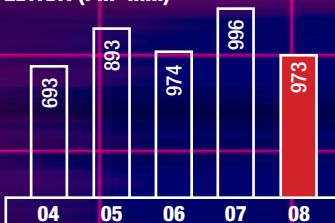
### Earnings per Share (PhP)



“...your Company enjoyed a healthy balance sheet with the consolidated net income after tax rising 19 percent to P455 million from the previous year’s P383 million.”



EBITDA (PhP mm)



Through CADPGC, your Company recorded a 15 percent-jump in cane tonnage to 5 million tons cane from 4.24 million tons cane a year ago. CADPGC's raw sugar production increased to 9.17 million bags from last year's 8.43 million bags, while its refined sugar production slightly dipped to 3.66 million bags from the 3.88 million bags registered a year ago. Its milling recovery, on the other hand, decreased to 1.83 LKg/TC from its year-ago level of 1.99 LKg/TC.

Your Company passed a number of challenges during the last year and we remain committed to sustaining, if not surpassing this remarkable performance. As we announced last year, your Company is shifting from being a commodity provider to a sugarcane-based conglomerate to place us in a competitive position in view of the changing global economies.

As you know, a commodity product is subject to price fluctuations and the volatile behavior of the market. We therefore recognize the need to strengthen our research and development and marketing capabilities to enable us to respond better to the needs and requirements of our market.

To support this vision, we embarked on a massive expansion program of our sugar manufacturing plants with the acquisition of factory equipment from sugar mills in the United States and Australia. This also lays the groundwork for our foray into the bioethanol industry.

In addition, we are planning to invest in allied businesses to enhance our venture into the ethanol sector through power generation by boosting the efficiency and capacity of our bagasse and bunker power plant. While the main purpose of this undertaking is to provide adequate power supply for our sugar mills, the power plant may have a slight overcapacity, which we can sell to the grid.

Furthermore, it is our intention to spread out our industry leadership not only in the Philippines but on a Regional scale as well. We believe that forging alliances and partnerships with outside groups will play a key role in achieving this goal. This is why we have opened opportunities for talks with strategic partners, both local and foreign, who have expressed interest to invest in your Company and its projects.

There are many stakeholders involved in these endeavors and key to their success is the dissemination and disclosure of accurate information in a timely and efficient manner. To this end, we tweaked our corporate website to be able to better serve the needs of our stakeholders. Our enhanced website, [www.roxas.com.ph](http://www.roxas.com.ph), now contains the latest corporate information such as disclosures, financial reports, corporate governance reports and news and updates.

In closing, as we prepare ourselves to combat the lingering threats of the global financial meltdown, we in your Management are confident that we will surpass the obstacles ahead as long as our stakeholders will continue to support our plans and programs.

Once again, I wish to thank all our shareholders and peers in the sugar industry and financial community and the government for their support in our past initiatives as well as for the new ones we will undertake in the near future.



**FRANCISCO F. DEL ROSARIO, JR.**

President and Chief Operating Officer

October 2008



# Board of Directors



**Antonio J. Roxas**

- Chairman Emeritus
- Director
- Member, Compensation Committee



**Pedro E. Roxas**

- Chairman and Chief Executive Officer
- Chairman, Nominations Committee



**Francisco F. Del Rosario, Jr.**

- President and Chief Operating Officer



**Ramon R. Del Rosario, Jr.**

- Director
- Chairman, Audit Committee
- Member, Compensation Committee
- Member, Nominations Committee



# Roxas Holdings, Inc.



**Carlos G. Dominguez**

- Director
- Chairman, Compensation Committee
- Member, Audit Committee
- Member, Nominations Committee



**Santiago R. Elizalde**

- Director



**Renato C. Valencia**

- Director
- Member, Audit Committee



**Lorna C. Kapunan**

- Corporate Secretary

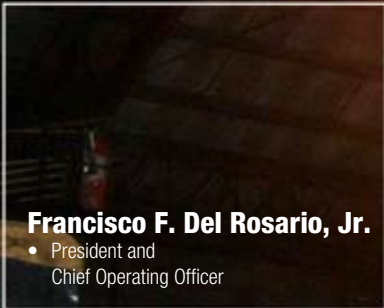


# Management Committee



**Pedro E. Roxas**

- Chairman and Chief Executive Officer



**Francisco F. Del Rosario, Jr.**

- President and Chief Operating Officer



# Roxas Holdings, Inc.



**Ramon A. Picornell, Jr.**  
• Senior Vice President for Operations



**Asuncion S. Aguilar**  
• Senior Vice President for Finance and Treasurer



**Florencio M. Mamauag, Jr.**  
• Vice President, Legal  
• Assistant Corporate Secretary and Compliance Officer





# FINANCIAL STATEMENTS



# Independent Auditor's Report



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Fax: (632) 819 0872  
www.sgv.com.ph

The Stockholders and the Board of Directors

**Roxas Holdings, Inc.**

6th Floor, Cacho-Gonzales Building  
101 Aguirre Street, Legaspi Village  
Makati City

We have audited the accompanying consolidated financial statements of Roxas Holdings, Inc. (a subsidiary of Roxas & Company, Inc.) and subsidiaries, which comprise the consolidated balance sheet as at June 30, 2008, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 5.53% of the consolidated total assets as of June 30, 2008 and its share in HPCo's net income represents 15.32% of the consolidated net income for the year then ended. The consolidated financial statements of Roxas Holdings, Inc. and subsidiaries as of June 30, 2007, and for the years ended June 30, 2007 and 2006, which are presented for comparative purposes, were audited by other auditors whose report thereon dated September 27, 2007 expressed an unqualified opinion. The opinion of such auditors, however, does not cover the restatement of those financial statements as discussed in Note 27 to the consolidated financial statements.

**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 audit. We conducted our audit 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.

**Opinion**

In our opinion, based on our audit 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, 2008, and their financial performance and their cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

**SYCIP GORRES VELAYO & CO.**

A handwritten signature in black ink, appearing to read "Josephine H. Estomo".

**Josephine H. Estomo**

Partner

CPA Certificate No. 46349

SEC Accreditation No. 0078-AR-1

Tax Identification No. 102-086-208

PTR No. 0017593, January 3, 2008, Makati City

October 3, 2008

# Consolidated Balance Sheet

JUNE 30, 2008

(With Comparative Figures for 2007)

(Amounts in Thousands, Except for Par Value)

	2008	2007 (As Restated, Note 27)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	P350,273	P542,921
Receivables (Note 5)	581,271	799,968
Inventories (Note 6)	1,348,287	1,376,145
Prepayments and other current assets (Note 7)	168,575	120,259
<b>Total Current Assets</b>	<b>2,448,406</b>	<b>2,839,293</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 9):		
At cost	4,127,598	2,272,612
At appraised values	2,517,660	1,986,487
Investment in shares of stock of an associate (Note 8)	546,388	545,454
Net pension asset (Note 15)	120,025	104,816
Deferred income tax assets - net (Note 22)	47,047	72,086
Other noncurrent assets	60,060	20,158
<b>Total Noncurrent Assets</b>	<b>7,418,778</b>	<b>5,001,613</b>
<b>TOTAL ASSETS</b>	<b>P9,867,184</b>	<b>P7,840,906</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term borrowings (Note 10)	P702,552	P313,000
Accounts payable and accrued expenses (Note 11)	630,628	474,788
Customers' deposits (Note 12)	215,313	85,282
Income tax payable (Note 22)	107,770	177,151
Dividends payable (Note 23)	81,205	105,629
Current portion of long-term borrowings (Notes 9 and 13)	13,333	131,839
<b>Total Current Liabilities</b>	<b>1,750,801</b>	<b>1,287,689</b>
<b>Noncurrent Liabilities</b>		
Long-term borrowings - net of current portion (Notes 9 and 13)	1,829,728	461,609
Deferred income tax liabilities - net (Note 22)	721,988	555,652
Net pension benefit obligation (Note 15)	63,772	54,847
<b>Total Noncurrent Liabilities</b>	<b>2,615,488</b>	<b>1,072,108</b>
<b>Total Liabilities</b>	<b>4,366,289</b>	<b>2,359,797</b>
<b>Equity (Note 23)</b>		
Attributable to the equity holders of the Parent Company:		
Share capital	P1,168,978	P1,168,978
Share premium	554,960	554,960
Revaluation increment on properties	1,526,900	1,174,123
Share in revaluation increment on land of an associate (Note 8)	207,492	207,492
Effect of change in ownership interest in subsidiaries	1,429	-
Retained earnings (Note 27)	2,257,128	1,938,824
Treasury shares - at cost	(739,707)	(63,767)
	<b>4,977,180</b>	<b>4,980,610</b>
Minority interest (Note 2)	523,715	500,499
<b>Total Equity</b>	<b>5,500,895</b>	<b>5,481,109</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P9,867,184</b>	<b>P7,840,906</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Income

FOR THE YEAR ENDED JUNE 30, 2008  
(With Comparative Figures for 2007 and 2006)  
(Amounts in Thousands, Except Basic/Diluted Earnings per Share)

	<b>2008</b>	2007 (As Restated, Note 27)	2006 (As Restated, Note 27)
<b>REVENUE</b> (Note 17)	<b>P6,077,544</b>	P5,646,048	P5,102,056
<b>COST OF SALES</b> (Note 18)	<b>4,942,573</b>	4,584,386	4,113,400
<b>GROSS PROFIT</b>	<b>1,134,971</b>	1,061,662	988,656
General and administrative expenses (Note 19)	<b>(508,664)</b>	(470,006)	(451,514)
Selling expenses	<b>(34,312)</b>	(43,785)	(35,531)
Equity in net earnings of an associate (Note 8)	<b>69,739</b>	55,739	51,766
Interest expense (Notes 10 and 13)	<b>(60,080)</b>	(61,885)	(99,828)
Interest income (Note 4)	<b>11,683</b>	12,125	30,500
Other income - net (Note 21)	<b>52,617</b>	18,768	26,095
<b>INCOME BEFORE INCOME TAX</b>	<b>665,954</b>	572,618	510,144
<b>PROVISION FOR INCOME TAX</b> (Note 22)			
Current	<b>178,772</b>	206,366	164,152
Deferred	<b>32,022</b>	(16,858)	(35,092)
	<b>210,794</b>	189,508	129,060
<b>NET INCOME</b>	<b>P455,160</b>	P383,110	P381,084
Attributable to:			
Equity holders of the Parent Company	<b>P410,015</b>	P344,203	P340,594
Minority interest	<b>45,145</b>	38,907	40,490
	<b>P455,160</b>	P383,110	P381,084
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 24)	<b>P0.39</b>	P0.31	P0.30

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2008  
(With Comparative Figures for 2007 and 2006)  
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company									Total
	Share Capital	Share Premium	Revaluation Increment on Properties	Share in Revaluation Increment on Land of an Associate	Effect of Change in Ownership Interest in Subsidiaries	Retained Earnings	Treasury Shares	Minority Interest		
<b>BALANCE AS OF JUNE 30, 2005,</b>										
<b>AS PREVIOUSLY REPORTED</b>	<b>P1,168,978</b>	<b>P554,960</b>	<b>P1,060,387</b>	<b>P207,492</b>	<b>P-</b>	<b>P1,336,948</b>	<b>(P29,847)</b>	<b>P418,448</b>		<b>P4,717,366</b>
Prior period adjustments (Note 27)	-	-	116,997	-	-	(18,674)	-	8,426		106,749
<b>BALANCE AS OF JUNE 30, 2005,</b>										
<b>AS RESTATED</b>	<b>1,168,978</b>	<b>554,960</b>	<b>1,177,384</b>	<b>207,492</b>	<b>-</b>	<b>1,318,274</b>	<b>(29,847)</b>	<b>426,874</b>		<b>4,824,115</b>
Share in MTC's negative goodwill upon adoption of PFRS 3 (Note 8)	-	-	-	-	-	117,827	-	14,148		131,975
<b>BALANCE AS OF JULY 1, 2005</b>	<b>1,168,978</b>	<b>554,960</b>	<b>1,177,384</b>	<b>207,492</b>	<b>-</b>	<b>1,436,101</b>	<b>(29,847)</b>	<b>441,022</b>		<b>4,956,090</b>
Net income for the year	-	-	-	-	-	340,594	-	40,490		381,084
Dividends declared (Note 23)	-	-	-	-	-	(67,158)	-	(9,942)		(77,100)
Share in revaluation increment on land of subsidiaries	-	-	15,786	-	-	-	-	9,908		25,694
Reacquisition of shares of stock (Note 23)	-	-	-	-	-	-	(21,705)	-		(21,705)
<b>BALANCE AS OF JUNE 30, 2006</b>	<b>P1,168,978</b>	<b>P554,960</b>	<b>P1,193,170</b>	<b>P207,492</b>	<b>P-</b>	<b>P1,709,537</b>	<b>(P51,552)</b>	<b>P481,478</b>		<b>P5,264,063</b>
<b>BALANCE AS OF JUNE 30, 2006,</b>										
<b>AS PREVIOUSLY REPORTED</b>	<b>P1,168,978</b>	<b>P554,960</b>	<b>P1,076,173</b>	<b>P207,492</b>	<b>P-</b>	<b>P1,730,858</b>	<b>(P51,552)</b>	<b>P473,585</b>		<b>P5,160,494</b>
Prior period adjustments (Note 27)	-	-	116,997	-	-	(21,321)	-	7,893		103,569
<b>BALANCE AS OF JUNE 30, 2006</b>										
<b>AS RESTATED</b>	<b>P1,168,978</b>	<b>P554,960</b>	<b>P1,193,170</b>	<b>P207,492</b>	<b>P-</b>	<b>P1,709,537</b>	<b>(P51,552)</b>	<b>P481,478</b>		<b>P5,264,063</b>
Net income for the year	-	-	-	-	-	344,203	-	38,907		383,110
Dividends declared (Note 23)	-	-	-	-	-	(133,963)	-	(19,886)		(153,849)
Reacquisition of shares of stock (Note 23)	-	-	-	-	-	-	(12,215)	-		(12,215)
Transfer of revaluation increment on properties absorbed through depreciation (Note 23)	-	-	(19,047)	-	-	19,047	-	-		-
<b>BALANCES AS OF JUNE 30, 2007</b>	<b>P1,168,978</b>	<b>P554,960</b>	<b>P1,174,123</b>	<b>P207,492</b>	<b>P-</b>	<b>P1,938,824</b>	<b>(P63,767)</b>	<b>P500,499</b>		<b>P5,481,109</b>
<b>BALANCES AS OF JUNE 30, 2007</b>										
<b>AS REPORTED</b>	<b>P1,168,978</b>	<b>P554,960</b>	<b>P1,076,173</b>	<b>P207,492</b>	<b>P-</b>	<b>P1,928,647</b>	<b>(P63,767)</b>	<b>P491,311</b>		<b>P5,363,794</b>
Prior period adjustments (Note 27)	-	-	97,950	-	-	10,177	-	9,188		117,315
<b>BALANCES AS OF JUNE 30, 2007,</b>										
<b>AS RESTATED</b>	<b>1,168,978</b>	<b>554,960</b>	<b>1,174,123</b>	<b>207,492</b>	<b>-</b>	<b>1,938,824</b>	<b>(63,767)</b>	<b>500,499</b>		<b>5,481,109</b>
Net income for the year	-	-	-	-	-	410,015	-	45,145		455,160
Dividends declared (Note 23)	-	-	-	-	-	(110,758)	-	(16,562)		(127,320)
Transfer of revaluation increment on properties absorbed through depreciation (Note 23)	-	-	(19,047)	-	-	19,047	-	-		-
Revaluation increment on land during the year (Note 23)	-	-	371,824	-	-	-	-	-		371,824
Change in ownership interest resulting in the reduction of minority interest of subsidiaries	-	-	-	-	1,429	-	-	(5,367)		(3,938)
Reacquisition of shares of stock (Note 23)	-	-	-	-	-	-	(675,940)	-		(675,940)
<b>BALANCES AS OF JUNE 30, 2008</b>	<b>P1,168,978</b>	<b>P554,960</b>	<b>P1,526,900</b>	<b>P207,492</b>	<b>P1,429</b>	<b>P2,257,128</b>	<b>(P739,707)</b>	<b>P523,715</b>		<b>P5,500,895</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2008  
(With Comparative Figures for 2007 and 2006)  
(Amounts in Thousands)

	2008	2007 (As Restated, Note 27)	2006 (As Restated, Note 27)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>P665,954</b>	P572,618	P510,144
Adjustments for:			
Depreciation (Note 9)	<b>328,103</b>	429,773	447,410
Equity in net earnings of an associate (Note 8)	<b>(69,739)</b>	(55,739)	(51,766)
Changes in fair value of biological assets (Note 7)	<b>(5,940)</b>	(2,313)	-
Interest income (Notes 4 and 5)	<b>(11,683)</b>	(12,125)	(30,500)
Interest expense (Notes 7, 10 and 13)	<b>60,080</b>	61,885	99,828
Gain on disposal of property, plant and equipment	<b>-</b>	(175)	(900)
Net cash from operations before working capital changes	<b>966,775</b>	993,924	974,216
Decrease (increase) in:			
Receivables	<b>217,999</b>	(25,979)	(444,480)
Inventories	<b>10,639</b>	(442,049)	(259,532)
Prepayments and other current assets	<b>(73,016)</b>	(34,451)	(48,685)
Advances from related party	<b>-</b>	1,209	-
Pension plan assets - net	<b>(6,283)</b>	679	36,962
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>87,738</b>	156,724	71,014
Customers' deposits	<b>130,029</b>	(58,076)	(85,070)
Provisions for:			
Impairment of receivables (Note 19)	<b>698</b>	3,739	8,944
Creditable withholding taxes (Note 19)	<b>-</b>	(2,174)	11,948
Sugar inventory losses (Note 18)	<b>15,001</b>	27,180	-
Materials and supplies obsolescence	<b>2,218</b>	-	-
Cash generated from operations	<b>1,351,798</b>	620,726	265,317
Interest received	<b>11,683</b>	10,601	28,708
Income taxes paid, including creditable withholding and final taxes	<b>(217,513)</b>	(140,666)	(139,727)
Net cash from operating activities	<b>1,145,968</b>	490,661	154,298
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment (Note 9)	<b>(2,125,630)</b>	(250,453)	(193,198)
Dividends received (Note 8)	<b>68,805</b>	51,389	51,766
Proceeds from sale of property, plant and equipment	<b>10,649</b>	717	1,532
Decrease (increase) in other noncurrent assets	<b>(9,614)</b>	3,005	3,656
Net cash used in investing activities	<b>(2,055,790)</b>	(195,342)	(136,244)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from (payments of) short-term borrowings (Note 10)	<b>P397,000</b>	P155,500	(P148,000)
Proceeds from long-term borrowings (Note 13)	<b>1,850,000</b>	-	-
Payments of long-term borrowings (Note 13)	<b>(580,115)</b>	(148,351)	(118,046)
Interest paid	<b>(57,783)</b>	(115,569)	(99,257)
Dividends paid (Note 23)	<b>(151,744)</b>	(147,057)	(64,709)
Debt commitment fees paid	<b>(60,306)</b>	-	-
Reacquisition of shares of stock by subsidiaries (Note 23)	<b>(3,938)</b>	-	-
Reacquisition of shares of stock by Parent Company (Note 23)	<b>(675,940)</b>	(12,215)	(21,705)
Net cash from (used in) financing activities	<b>717,174</b>	(267,692)	(451,717)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR</b>	<b>(192,648)</b>	27,627	(433,663)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b>542,921</b>	515,294	948,957
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 4)</b>	<b>P350,273</b>	P542,921	P515,294

# Notes to Consolidated Financial Statements

(Amounts in Thousands, unless otherwise stated and except amounts per unit)

## 1. Corporate Information and Business Operations

### *Corporate Information*

Roxas Holdings, Inc. (RHI or the "Parent 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 Parent Company's corporate life was extended for another 50 years until 2030.

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

The Parent Company is 51.13% owned by Roxas & Company, Inc. (RCI), a company incorporated and domiciled in the Philippines. The Parent Company has 2,393 equity holders as of June 30, 2008 and 2007.

The Parent 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.

### *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 Parent Company in Nasugbu, Batangas was spun-off to Central Azucarera Don Pedro, Inc. (CADP, Inc.) on December 1, 2002. Subsequently, the Parent 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 P1 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 Parent Company over CADPGC has been reduced to 89.28% following the declaration of property dividends to its shareholders.

### *Approval of the Consolidated Financial Statements*

The consolidated financial statements as of June 30, 2008 and for the year then ended (with comparative figures for 2007 and 2006) have been approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on October 3, 2008.

## 2. Summary of Significant Accounting and Financial Reporting Policies

### Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Parent 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), Standing Interpretations Committee, Philippine Interpretations Committee and International Financial Reporting Interpretations Committee (IFRIC) Interpretations which have been approved by the Philippine Financial Reporting Standards Council (FRSC) 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 Parent Company's functional and presentation currency, and rounded to the nearest thousand, except when otherwise indicated.

The preparation of consolidated financial statements in accordance with PFRS requires the use of certain 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 Adoption of New Accounting Standards and Amendments and Interpretations to Existing Accounting Standards

The accounting policies adopted are consistent with those of the previous financial years, except beginning on July 1, 2007, the Group adopted the following new and amended PFRS and Philippine Interpretations:

- PFRS 7, *Financial Instruments: Disclosures*, requires disclosures that enable users of the financial statements to evaluate the significance of an entity's financial instruments and the nature and extent of risks arising from those financial instruments. Additional disclosures required by PFRS 7 were included in the consolidated financial statements, where applicable (see Notes 5 and 26).

Adoption of this standard resulted in the inclusion of additional disclosures such as market risk sensitivity analysis, contractual maturity analysis of undiscounted financial liabilities, credit quality of financial assets that are neither past due nor impaired and aging analysis on financial assets that are neither past due nor impaired. The Group adopted the amendment to the transitional provisions of PFRS 7, as

approved by the Philippine FRSC, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group did not present comparative information for the disclosures required by paragraphs 31 to 42 of PFRS 7, unless the disclosure was previously required under PAS 32, *Financial Instruments: Presentation* (see Note 26).

- Amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosures*, requires the following additional disclosures: (a) an entity's objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such noncompliance. Additional disclosures required by this amendment were included in the consolidated financial statements, where applicable (see Note 25).
- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*, provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred tax. The adoption of this interpretation has no impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2, Share-based Payments*, requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The adoption of this interpretation has no impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The adoption of the interpretation has no significant impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The adoption of this interpretation has no significant impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when the subsidiary's employees receive rights to the equity instruments of the parent. The adoption of this interpretation has no impact on the consolidated financial statements.

#### Future Changes in Accounting Policies

The following are the amendments to accounting standards and Philippine Interpretations that will become effective to the Group subsequent to 2008. The revised disclosures required by these standards and interpretations will be included in the consolidated financial statements when the Group adopts them at their respective effective dates:

- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009), requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippine SEC for purposes of issuing any class of instrument in a public market. The Group is currently evaluating the effect on its consolidated financial statements when this standard is adopted.
- PFRS 3R, *Business Combinations* and PAS 27R, *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after July 1, 2009). PFRS 3R 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. PAS 27R requires that a change in a parent's controlling ownership interest that do not result in a loss of control of the subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Group is currently evaluating the effect on its consolidated financial statements when this standard is adopted.
- Amendment to PAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after January 1, 2009), introduces new disclosures to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owner changes in equity; (b) income and expenses are to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity; (c) components of other comprehensive income to be displayed in the financial statements. The Group is currently evaluating the effect of the amendment on its consolidated financial statements. Additional disclosures required by this amendment will be included in the consolidated financial statements when this amendment is adopted.
- Amendment to PAS 23, *Borrowing Costs* (effective for annual periods beginning on or after January 1, 2009), eliminates the option to immediately recognize borrowing cost as expense if they are directly attributable to the acquisition, construction or reproduction of a qualifying asset. The Group expects that the adoption of this amendment will not have significant impact on the consolidated financial statements upon its adoption since the Group already capitalizes borrowing costs on qualifying assets.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from entities providing public services. As the Group currently does not have service concession arrangements, and is not expecting to have such transaction upon adoption, the Group expects the adoption of this interpretation will not have any impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008), prescribes that loyalty awards are accounted for as a separate component of the sales transaction in which they are granted, in accordance with PAS 18, *Revenue*. Under this interpretation, a portion of fair value of the consideration received is allocated to the loyalty award credits and is deferred until the awards are redeemed. This interpretation also requires that an entity must apply judgment in determining the appropriate method of measuring award credits and the other components of the sale. As the Group currently does not offer loyalty awards to customers, and is not expecting to have such transaction upon its adoption, the Group expects the adoption of this interpretation will not have any impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after January 1, 2008), provides that the asset ceiling test under PAS 19, *Employee Benefits*, limits the measurement of the net pension asset in respect of a defined benefit plan at the balance sheet date to the total of any cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits that will be "available to the employer" in the form of refunds from the plan or reduction in future contributions to the plan. This interpretation specifies that so long as refunds from the plan will be realizable at some point during the life of the plan or at a final settlement, they will be considered to be "available to the employer" at the balance sheet date, regardless of whether or not the entity intends to settle the plan. This interpretation further clarifies that the entity controls the asset only if there is an unconditional right to the refund. This interpretation also prescribes how the following are determined: (1) economic benefits available as a reduction in future contributions; (2) how the availability of reductions in future contributions is affected by a minimum funding requirement; and (3) when a minimum funding requirement may give rise to a liability. The Group is currently evaluating the impact of this interpretation on the consolidated financial statements.

#### Consolidation

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

	Country of incorporation	Percentage of ownership	
		2008	2007
CADPGC	Philippines	<b>89.34</b>	89.28
Roxol Bioenergy Corporation (Roxol)	Philippines	<b>100.00</b>	100.00
CADP Insurance Agency, Inc.	Philippines	<b>100.00</b>	100.00

The following are the subsidiaries of CADPGC:

	Country of incorporation	Percentage of ownership	
		2008	2007
CADP, Inc.	Philippines	<b>100.00</b>	100.00
Central Azucarera de La Carlota, Inc. (CACI)	Philippines	<b>100.00</b>	100.00
CCSI	Philippines	<b>100.00</b>	100.00
CFSI	Philippines	<b>100.00</b>	100.00
Jade Orient Management Services, Inc. (JOMSI)	Philippines	<b>99.99</b>	99.99
Najalin Agri Ventures, Inc. (NAVI)	Philippines	<b>71.69</b>	66.73

Subsidiaries are all entities over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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 Group'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 Group'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 parties 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.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Parent 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.

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 parent'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.

#### 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 management has designated a business segmentation of the Group's operation as set out below (see Note 28):

##### 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, 2008 and 2007, the Group operates two boiling houses - one in La Carlota City, Negros Occidental and the other in Nasugbu, Batangas, with a daily cane capacity of 12,000 metric tons and 11,000 metric tons, 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 showed with Tolling operations.

- 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.

- Geographical segments

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

- 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.

- 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.

- 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.

Financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- 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:

- Financial liabilities at fair value through profit or loss
- 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, 2008 and 2007.

*Embedded Derivatives*

An embedded derivative 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 at fair value through profit or loss. Changes in the fair values are included in the consolidated statement of income.

As of June 30, 2008, the Group has embedded prepayment option on its long-term borrowings, the value of which is 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 planters and cane haulers, advances to employees, advances for raw sugar purchases, advances to related parties and other receivables (see Note 26).

c. Held-to-maturity investments

Held-to-maturity investments are nonderivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at cost or amortized cost in the consolidated balance sheet. 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, 2008 and 2007.

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. Available-for-sale financial assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of

investments classified as available-for-sale financial assets are recognized in equity (net of the related deferred tax), except for the foreign exchange fluctuations on available-for-sale debt securities and the related effective interest which are taken directly to the consolidated statement of income. 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. 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 assets as available-for-sale as of June 30, 2008 and 2007.

e. Other financial liabilities

This category pertains to financial liabilities that are not held for trading and are not designated as 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) activities and advances to related parties.

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.

*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.

b. Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or 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. 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.

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. 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

If an available-for-sale financial asset is impaired, the amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit and loss, is transferred from equity to the consolidated statement of income. Increases in fair value after impairment is assessed as having sustained once the decline in value reaches 20% of cost. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of income. Increase in fair value after impairment are recognize directly in equity. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

*Day 1 Profit or Loss*

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

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 point-of-sale costs, 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. The harvesting costs 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 point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a consumable biological asset 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 sheet and consolidated statement 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 sheet. 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 statement 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 prospective, 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:	
Boilers and mill machinery	17 to 25
Locomotives and other equipment	5 to 20
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.

#### 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 possible that future economic benefits will flow into the entity and specific criteria have been met of reach 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 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 Parent 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.

#### *Pension costs and obligations*

Retirement benefits 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 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.

#### *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. Debt commitment fees relating to the undrawn loans are recorded as deferred charges and are amortized using straight line method.

#### 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. 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.

#### 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.

#### 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 Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Parent 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 Parent Company's equity holders.

#### Dividend Distribution

Dividend distribution to the Parent 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 Parent Company's BOD.

#### Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holder of the Parent Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary or common shares purchased by the Parent 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 (see Note 29).

### **3. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to exercise judgments, make estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and related disclosures. The Group makes estimates and 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 continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

#### Judgments

##### *Determination of the Parent Company's functional currency*

Based on the economic substance of the underlying circumstances relevant to the Parent 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.

##### *Classification of 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 P19.0 million as of June 30, 2008 (see Note 6).

#### Estimates

##### *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, 2008 and 2007, the carrying amount of the Group's receivables amounted to P581.3 million and P800.0 million, net of allowance for impairment of receivables of P23.5 million and P22.8 million, respectively (see Note 5).

##### *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, 2008 and 2007 amounted to P1,348.3 million and P1,376.1 million, respectively (see Note 6).

*Determination of fair value less estimated point-of-sale cost on consumable biological asset*

Management determines the age of the sugarcane and bases the fair value of the sugarcane on observable market data. Point-of-sale costs, such as harvesting costs and other direct expenses, are estimated based on the yearly budgets of the Group.

As of June 30, 2008 and 2007, the Group's consumable biological assets amounted to P20.8 million and P16.1 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 P9.8 million as of June 30, 2008 and 2007 (see Note 7).

As of June 30, 2008 and 2007, the carrying amount of the Group's creditable withholding taxes amounted to 23.0 million and P53.8 million, respectively.

*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, 2008 and 2007 amounted to P2,517.7 million and P1,986.5 million, respectively (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 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.

*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 these are no impairment indicators, hence, no impairment loss on nonfinancial assets was recognized in 2008, 2007 and 2006.

The total carrying value of the Group's property, plant and equipment as of June 30, 2008 and 2007 amounted to P4,127.6 million and P2,272.6 million, respectively (see Note 9).

The carrying value of the Group's investment in share of stock of an associate amounted to P546.4 and P545.5 million as of June 30, 2008 and 2007, 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, 2008 and 2007 amounted to P120.0 million and P104.8 million, respectively. On the other hand, net pension benefit obligation as of June 30, 2008 and 2007 amounted to P63.8 million and P54.8 million, respectively.

*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, 2008 and 2007.

*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, 2008 and 2007.

*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 P92.4 million and P92.9 million as of June 30, 2008 and 2007, respectively (see Note 22).

**4. Cash and Cash Equivalents**

Cash and cash equivalents at June 30 consist of:

	2008	2007
Cash on hand and in banks	<b>P303,363</b>	P282,741
Short-term placements	<b>46,910</b>	260,180
	<b>P350,273</b>	P542,921

Short-term placements earn interest ranging from 1.5% to 5.1%, 2.3% to 5.0% and 3.3% to 4.8% per annum and have average maturities of 30 days, 60 days and 32 days in 2008, 2007 and 2006, respectively. Interest income earned on these placements amounted to P10.4 million, P10.6 million and P17.2 million in 2008, 2007 and 2006, respectively.

**5. Receivables**

Receivables at June 30 consist of:

	2008	2007 (As Restated, Note 27)
Trade	<b>P428,537</b>	P644,582
Advances to planters and cane haulers	<b>65,399</b>	71,995
Advances for raw sugar purchases	<b>23,799</b>	34,989
Advances to employees	<b>73,027</b>	55,469
Advances to related parties (Note 14)	<b>198</b>	5,087
Others	<b>13,851</b>	10,688
	<b>604,811</b>	822,810
Less allowance for impairment of receivables	<b>23,540</b>	22,842
	<b>581,271</b>	799,968

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 which are collected through salary deduction.

Other receivable includes outstanding receivable from the 2002 sale of a portion of the Parent 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 Parent Company. As of June 30, 2008 and 2007, remaining balance amounts to P5.6 million and P6.9 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 P0.5 million and P1.3 million as of June 30, 2008 and 2007, respectively. These transactions were not recognized in prior years. In 2008, the Parent Company restated its financial statements to recognize the transactions. Resulting adjustment to the consolidated retained earnings as of July 1, 2007 amounted to P29.2 million (see Note 27).

Noncurrent portion of loans to CADP, Inc. employees as of June 30, 2008 and 2007 amounting to P12.1 million and P12.0 million, respectively, is presented under "Other noncurrent assets" account net of unearned interest income of P2.1 million and P2.6 million, respectively.

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

	2006	Additions	Write-offs	2007	Additions	Write-offs	2008
Trade	P4,260	P-	(P672)	P3,588	P2,914	P-	<b>P6,502</b>
Advances to planters and cane haulers	9,099	1,650	-	10,749	-	(4,705)	<b>6,044</b>
Advances to employees	3,250	205	-	3,455	-	(2,179)	<b>1,276</b>
Others	3,718	1,332	-	5,050	4,668	-	<b>9,718</b>
	<b>P20,327</b>	<b>P3,187</b>	<b>(P672)</b>	<b>P22,842</b>	<b>P7,582</b>	<b>(P6,884)</b>	<b>P23,540</b>

## 6. Inventories

Inventories at June 30 consist of:

	2008	2007
At NRV:		
Raw sugar	<b>P729,095</b>	P1,099,556
Materials and supplies	<b>352,394</b>	213,571
At cost:		
Refined sugar	<b>191,976</b>	35,476
Molasses	<b>18,955</b>	-
Materials in transit	<b>55,867</b>	27,542
	<b>P1,348,287</b>	P1,376,145

Allowance for inventory losses of raw sugar amounted to P10.8 million and P27.2 million as of June 30, 2008 and 2007, respectively.

Allowance for inventory obsolescence of materials and supplies amounted to P25.7 million and P25.6 million as of June 30, 2008 and 2007, respectively.

Cost of inventories recognized as expense and included in "Cost of sales" amounted to P3,111.8 million, P2,666.7 million and P1,956.8 million in 2008, 2007 and 2006, respectively.

## 7. Prepayments and Other Current Assets

Prepayments and other current assets at June 30 consist of:

	2008	2007 (As Restated, Note 27)
Prepaid taxes	<b>P59,393</b>	P11,000
Deposits to suppliers	<b>53,012</b>	23,606
Creditable withholding taxes, net of allowance of P9.8 million	<b>23,035</b>	53,677
Consumable biological assets	<b>20,791</b>	16,110
Others	<b>12,344</b>	15,866
	<b>P168,575</b>	P120,259

Consumable biological assets pertain to standing sugarcanes of NAVI.

The Group recognized the changes in the fair value of the standing cane and the amortization of the cane replantation cost, and has restated the opening balance of retained earnings. As a result of the restatement, retained earnings increased by P2.3 million as of July 1, 2007. The restatement has no impact on the retained earnings as of July 1, 2006.

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

Other current assets consist mainly of advance payment made to a sugar milling company for tolling services of CACI's raw sugar.

## 8. Investment in Shares of Stock of an Associate

As at June 30, 2008 and 2007, details of the investment in Hawaiian Philippine Company (HPCo), 45.09%-owned associate, and incorporated in the Philippines, follow:

	2008	2007
Acquisition cost	<b>P127,933</b>	P127,933
Accumulated equity in net earnings		
Beginning of year	<b>210,029</b>	205,679
Equity in net earnings for the year	<b>69,739</b>	55,739
	<b>279,768</b>	261,418
Less dividend income	<b>68,805</b>	51,389
End of year	<b>210,963</b>	210,029
Share in revaluation increment	<b>207,492</b>	207,492
	<b>P546,388</b>	P545,454

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

### a. Merger of HPCo and Marina Trading Corp. (MTC)

On December 15, 2003, the Group through CADPGC, acquired 250,000 shares representing 45.78% equity interest in MTC, for a total consideration of P127.9 million. The underlying net assets of MTC on acquisition date amounted to P288.1 million, resulting in a negative goodwill of P4.0 million.

On November 25, 2005, the respective BOD of MTC and HPCo resolved to proceed with the statutory merger of MTC and HPCo with HPCo as the surviving entity. Pursuant to the plan of merger executed between MTC and HPCo, approved by the Philippine SEC on March 24, 2006, all the assets and liabilities of MTC with net asset value of P696.3 million were deemed transferred to HPCo as of that date.

Upon adoption of PFRS 3, *Business Combinations*, the Group recognized the negative goodwill amounting to P132.0 million, of which the Group's share amounts to P117.8 million, in the opening balance of the retained earnings as of July 1, 2005.

MTC equity holders exchanged their MTC shares for HPCo shares. CADPGC received 28.55 million of HPCo shares in exchange for its MTC shares representing 45.09% equity in HPCo. The carrying amount of CADPGC's share in net assets of MTC approximates the value of HPCo shares received in consideration for the transfer.

The summarized financial information of HPCo as of and for the years ended June 30, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Current assets	<b>P436,982</b>	P413,960	P462,965
Noncurrent assets	<b>731,052</b>	935,453	1,322,686
Current liabilities	<b>386,539</b>	505,233	269,252
Noncurrent liabilities	<b>14,986</b>	64,286	316,348
Net assets	<b>766,509</b>	779,894	1,200,051
Revenue	<b>1,304,346</b>	931,734	795,955
Net income	<b>154,669</b>	123,616	114,806

## 9. Property, Plant and Equipment

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

	2008					
	Buildings and Improvements	Machinery and Equipment	Railroad Equipment	Office Furniture, Fixtures and Equipment	Construction In Progress	Total
<b>Cost</b>						
Beginning balances	P1,022,547	P4,717,476	P121,158	P623,590	P164,371	P6,649,142
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
<b>Accumulated depreciation</b>						
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
<b>Net Book Value</b>	<b>P393,173</b>	<b>P1,676,484</b>	<b>P–</b>	<b>P74,011</b>	<b>P1,983,930</b>	<b>P4,127,598</b>
	2007					
	Buildings and Improvements	Machinery and Equipment	Railroad Equipment	Office Furniture, Fixtures and Equipment	Construction In Progress	Total
<b>Cost</b>						
Beginning balances	P1,012,941	P4,571,469	P121,158	P601,478	P92,185	P6,399,231
Appraisal increase	–	–	–	–	–	–
Additions	7,686	73,194	–	21,934	147,639	250,453
Disposals	–	–	–	(542)	–	(542)
Completed projects	1,920	72,813	–	720	(75,453)	–
Ending balances	1,022,547	4,717,476	121,158	623,590	164,371	6,649,142
<b>Accumulated depreciation</b>						
Beginning balances	P523,443	P2,844,848	P121,158	P457,308	P–	P3,946,757
Depreciation	36,802	352,150	–	40,821	–	429,773
Ending balances	560,245	3,196,998	121,158	498,129	–	4,376,530
<b>Net Book Value</b>	<b>P462,302</b>	<b>P1,520,478</b>	<b>P–</b>	<b>P125,461</b>	<b>P164,371</b>	<b>P2,272,612</b>

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

	2008	2007
Beginning balance, at appraised values	P1,986,487	P1,986,487
Appraisal increase	531,173	–
Ending balance, at appraised values	P2,517,660	P1,986,487
At cost	P32,620	P32,620

a. Construction in progress

Construction in progress as of June 30, 2008 and 2007 pertains mainly to the foregoing milling plant impairment project, 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 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.

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 banks to finance the Expansion Project (see Notes 10 and 13).

*Capitalization of borrowing costs*

In 2008, interests from short and long-term borrowings amounting to P45.5 million, directly incurred to finance the Expansion Project were capitalized to property, plant and equipment. No capitalized borrowing cost was recorded in 2007 and 2006. 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, 2008 and 2007 amounted to P91.3 million and P53.6 million with corresponding deferred income tax liability of P30.0 million and P18.8 million, respectively (see Note 22).

*Noncash additions to property, plant and equipment*

The Group has outstanding liability on purchase of equipment relating to the Expansion Project amounting to P68.1 million as of June 30, 2008.

## b. Depreciation

Depreciation charged to operations are as follows:

	2008	2007	2006
Cost of sales (Note 18)	<b>P301,858</b>	P405,479	P422,614
General and administrative expenses (Note 19)	<b>26,245</b>	24,294	24,796
	<b>P328,103</b>	P429,773	P447,410

As part of the Group's annual review of useful lives and residual values of its property, plant and equipment, the Group has recorded additional depreciation amounting to P35.0 million and P151.5 million in 2007 and 2006, respectively, due to the revision of the estimated useful lives of some items. In 2008, no significant changes were made in the useful lives and residual values of the property, plant and equipment.

As of June 30, 2008 and 2007, fully depreciated property, plant and equipment, with an aggregate cost of P954.5 million and P1,070.0 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 P2,319.0 million and P36.0 million as of June 30, 2008 and 2007, respectively.

**10. Short-term Borrowings**

At various dates in 2008 and 2007, 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 4.7 % to 8.1% and have terms ranging from 28 to 90 days.

Short-term loan amounting to P400.0 million availed by the Parent Company from Banco de Oro (BDO) is part of the Syndicated Loan Facility Agreement discussed in Note 13. As of June 30, 2008, the balance of the short-term loan, net of related unamortized debt commitment fees, amounted to P392.6 million.

## 11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30 consist of:

	2008	2007
Trade suppliers	<b>P215,703</b>	P241,550
Accrued expenses:		
Payroll and other benefits	<b>43,374</b>	42,131
Interest	<b>18,749</b>	3,222
Purchases and others	<b>132,273</b>	43,030
Due to planters	<b>66,239</b>	15,123
Payable to government agencies for taxes and contributions	<b>22,428</b>	97,430
Others	<b>131,862</b>	32,302
	<b>P630,628</b>	P474,788

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 P215.3 million and P85.3 million as of June 30, 2008 and 2007, respectively.

## 13. Long-term Borrowings

Long-term borrowings at June 30 consist of:

	2008	2007
Syndicated loan facility:		
BDO	<b>P904,500</b>	P-
Bank of the Philippine Island (BPI)	<b>797,000</b>	-
Rizal Commercial Banking Corporation (RCBC)	<b>148,500</b>	-
Planters Development Bank (PDB)	<b>13,333</b>	40,000
Land Bank of the Philippines (LBP)	-	553,448
	<b>1,863,333</b>	593,448
Unamortized debt commitment fee	<b>(20,272)</b>	-
	<b>1,843,061</b>	593,448
Less current portion:		
PDB	<b>13,333</b>	26,667
LBP	-	105,172
	<b>13,333</b>	131,839
	<b>P1,829,728</b>	P461,609

### a. Syndicated Loan Facility Agreement

On February 8, 2008, the Parent Company renewed its Syndicated Loan Facility Agreement with BPI, RCBC and BDO (with BPI as lead bank) with an aggregate amount of P6,136.0 million. The principal amount of debt accommodation is shared by the Parent Company and CADP, Inc./CACI amounting to P1,517.0 million and P4,619.0 million, respectively.

#### *CADP, Inc.*

On February 14, 2008, CADP, Inc. entered into 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 8.0% 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 8.4% 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. These loans were obtained to finance the Expansion Project discussed in Note 9.

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 6.5% and 6.6%, respectively. Promissory notes issued by CADP, Inc. to the banks are under the terms set forth in the Syndicated Loan Facility Agreement. Loans availed are with 10-year terms and will all mature on May 5, 2018.

Likewise, In 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, 2008, the interest rate was 6.63%, subject to repricing for every 30 to 180 days as agreed by the parties.

#### *CACI*

On May 5, 2008, CACI availed loans from BPI, BDO and RCBC amounting to P129.8 million, P395.3 million and P64.9 million, respectively, and with interest rates of 6.56%, 6.63% and 6.70%, respectively. Promissory notes issued by CACI to the banks are also under the terms set forth in the Syndicated Loan Facility Agreement. Loans availed are with 10-year terms and will all mature on May 5, 2018.

#### *Debt commitment fees*

As part of the Syndicated Loan Facility Agreement, the Group incurred debt commitment fees amounting to P59.4 million in 2008. Of the total amount of debt commitment fees paid, P29.8 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 P29.6 million pertains to the undrawn portion (presented as "Deferred charges" under "Other noncurrent assets"). As of June 30, 2008, unamortized debt commitment fees on long-term and short-term loans amounted to P20.3 million and P7.4 million, respectively, deferred charges amounted P30.3 million.

#### *Debt covenants*

The above loans stipulate certain affirmative and negative covenants, which include among others, the maintenance of debt service coverage ratio and debt to equity ratio based on the Group's audited consolidated financial statements; the prohibition on purchase of additional equipment except in pursuance of its sugar expansion and ethanol project; and the 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, 2008, the Group is in compliance with the loan covenants.

#### 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 above loans are secured by mortgage trust indenture covering properties in Nasugbu, Batangas consisting mainly of RHI's land with an aggregate carrying value of P1.3 billion as of June 30, 2008 and 2007 and CADP, Inc.'s real properties of P2.2 billion as of June 30, 2008 and 2007 (see Note 9).

The loan agreements stipulate certain covenants, which include among others, the maintenance of a reasonable amount of deposit with the bank maintenance of certain financial ratios and that all collateral must be registered and free from liens and liabilities. As at June 30, 2008 and 2007, CADP, Inc. is in compliance with the loan covenants.

#### c. Loans with LBP

##### *CADPGC*

As of June 30, 2007, the outstanding loan from LBP amounting to P250.0 million that was availed by CADPGC is secured by a mortgage on sugar mills and machinery and equipment spun off to CACI with an aggregate carrying value of P1.3 billion as of June 30, 2007. The loan is payable in 10 years, inclusive of three years grace period on principal amount, in equal quarterly installments commencing at the end of the 12th quarter from the initial draw down until October 30, 2012. CADPGC fully paid the remaining balance of the loan amounting to P250.0 million in March 2008.

##### *CADP, Inc.*

As of June 30, 2007, the loan with LBP amounting to P303.4 million was initially made jointly by CADP, Inc. and RHI on October 28, 2002. Pursuant to the terms of the agreement, the loan was assumed by CADP, Inc. on June 26, 2003. The loan is payable in 10 years, inclusive of two years and three quarters grace period on principal repayments, in 20 equal quarterly installments commencing at the end of the 12th quarter from the initial draw down until October 30, 2012. The loan was used partly to finance capital expenditures on both sugar mill and refinery, construction of support facilities, installation of air pollution abatement facilities, establishment of computerized key business system and for permanent working capital. Interest rate is based on 91-day Treasury bill rate plus 2% spread. In March 2008, CADP, Inc. pre-terminated the remaining balance of the loan amounting to P262.1 million. In accordance with the loan agreement, no pre-termination penalty was paid.

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

	2008	2007
Between one and two years	<b>P141,586</b>	P263,678
Between two and five years	<b>468,217</b>	329,770
Over five years	<b>1,219,925</b>	-
	<b>P1,829,728</b>	P593,448

Total interest expense recognized from short and long-term borrowings amounted to P57.5 million, P61.9 million and P99.8 million in 2008, 2007 and 2006, respectively.

#### 14. Related Party Transactions

In the normal course of business, the Group has transactions with CADPI Retirement Fund, Inc. (CADPIRFI) as follows:

- a. 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 CADPIRFI on December 29, 2005, the lease agreement with RCI was terminated and replaced by a one-year lease agreement with CADPIRFI, 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 in 2008, 2007 and 2006 amounted to P4.22 million.
- b. In December 2005, the Parent Company also entered into a lease agreement with CADPIRFI, 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 2008, 2007 and 2006 amounted to P0.6 million, P0.6 million and P0.3 million, respectively.

Key management compensation for the years ended June 30 follows:

	2008	2007	2006
Salaries and other benefits	<b>P33,252</b>	P31,126	P39,180
Retirement benefits (income)	<b>(3,057)</b>	6,023	6,886
	<b>P30,195</b>	P37,149	P46,066

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

#### 15. Retirement Benefit Plans

##### Net Pension Plan Assets

RHI and CADPGC maintain individual and separate funded non-contributory defined benefit plan (the Plan) covering all eligible employees. Under the Plans, 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 retirement 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:

	2008	2007
Present value of obligation	<b>P116,788</b>	P114,778
Fair value of plan assets	<b>(233,370)</b>	(250,828)
Surplus	<b>(116,582)</b>	(136,050)
Unrecognized actuarial gains (losses)	<b>(3,443)</b>	21,610
Amount not recognized as asset, because of limit	-	9,624
Net pension plan assets	<b>(P120,025)</b>	(P104,816)

Plan assets cannot be returned to RHI and CADPGC unless on circumstances discussed in Note 2. The net pension plan assets as of June 30, 2008 and 2007 of P120.0 million and P104.8 million, respectively, will be used to reduce future contributions to the retirement fund. Consequently, a portion of the Group's 2008 and 2007 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 year is as follows:

	2008	2007
Beginning of year	<b>P114,778</b>	P125,466
Interest cost	<b>9,182</b>	13,801
Current service cost	<b>6,181</b>	4,293
Benefits paid	-	(29,246)
Actuarial gain	<b>(13,353)</b>	464
End of year	<b>P116,788</b>	P114,778

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

	2008	2007
Beginning of year	<b>P250,828</b>	P265,339
Expected return on plan assets	<b>20,950</b>	23,881
Contributions	-	827
Benefits paid	-	(29,246)
Actuarial loss	<b>(38,408)</b>	(9,973)
End of year	<b>P233,370</b>	P250,828

RHI and CADPGC's plan assets at June 30 consist of:

	2008		2007	
	Percentage	Amount	Percentage	Amount
Stocks and government securities	72%	<b>P167,327</b>	46%	P115,237
Cash and receivables	28%	<b>66,043</b>	54%	135,591
	<b>100%</b>	<b>P233,370</b>	100%	P250,828

RHI and CADPGC have no expected contributions for the fiscal year ending June 30, 2009.

Pension plan assets, which are managed by a trustee, include investments in equity securities of the Parent Company and CADPGC with a fair value amounting to P92.4 million and P1.9 million and P101.8 million and P2.3 million as of June 30, 2008 and 2007, respectively.

#### Net Pension Benefit Obligation

CACI maintains a funded non-contributory defined benefit plan covering all 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 Company may, at his 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. maintains funded non-contributory defined benefit plan covering all 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:

	2008	2007
Present value of obligations	<b>P364,890</b>	P473,623
Fair value of plan assets	<b>(244,021)</b>	(216,688)
Deficit	<b>120,869</b>	256,935
Unrecognized net transition obligation	<b>(65,255)</b>	(97,882)
Unrecognized actuarial losses (gains)	<b>8,158</b>	(104,206)
Net pension benefit obligation	<b>P63,772</b>	P54,847

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

	2008	2007
Beginning of year	<b>P473,623</b>	P380,803
Interest cost	<b>37,890</b>	41,888
Current service cost	<b>24,946</b>	20,797
Benefits paid	<b>(81,904)</b>	(39,789)
Curtailed loss	<b>6,430</b>	-
Actuarial loss (gain)	<b>(96,095)</b>	69,924
End of year	<b>P364,890</b>	P473,623

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

	2008	2007
Beginning of year	<b>P216,688</b>	P166,849
Expected return on plan assets	<b>16,012</b>	15,016
Contributions	<b>82,855</b>	73,545
Benefits paid	<b>(81,904)</b>	(39,789)
Actuarial gain	<b>10,370</b>	1,067
End of year	<b>P244,021</b>	P216,688

The subsidiaries' plan assets at June 30 consist of:

	2008		2007	
	Percentage	Amount	Percentage	Amount
Stocks and government securities	79%	P192,153	70%	P150,781
Cash and receivables	21%	51,868	30%	65,907
	100%	P244,021	100%	P216,688

CADP, Inc. and CACI are expected to contribute a total of P98.0 million to the fund for the year ending June 30, 2009. As of June 30, 2008 and 2007, net pension plan obligation, under noncurrent liabilities portion of the balance sheets, amounted to P63.8 million and P54.8 million, respectively.

#### Pension Cost

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

	2008	2007	2006
Current service cost	P31,127	P25,089	22,263
Interest cost	47,072	55,690	52,719
Return on plan assets	(36,962)	(38,897)	(29,962)
Actuarial loss (gain) recognized	5,898	(501)	4,108
Amortization of net transitional liability	32,627	32,627	32,627
Curtailment loss	6,430	-	-
Asset ceiling adjustment	(9,624)	9,624	-
	P76,568	P83,632	P81,755

The actual return on plan assets was P8.9 million, P29.3 million and P89.6 million in 2008, 2007 and 2006, 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:

	2007	2006	2005
Discount rate	8%	11%	12%
Expected return on plan assets	9%	9%	9%
Future salary increases	8%	5%	5%

As of June 30, 2008, the following are the assumptions: discount rate per annum of 10.3%, expected return on plan assets of 90% 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:

	2008	2007	2006
Present value of obligations	P481,678	P588,401	P506,268
Plan assets	477,391	467,516	432,187
Deficit	4,287	120,885	74,081
Experienced adjustments on plan assets-loss (gain)	(4,910)	(29,354)	2,500
Experienced adjustments on plan obligation-gain (loss)	(2,654)	51,521	(4,283)

#### 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 follow:

Present value of the obligation at the date of adoption	P333,645
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	P163,135

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 P32.6 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 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 retirement benefit is equivalent to 1.2 times of monthly salary for every year of service. Total payments made in 2008 amounted to P43.2 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:

	2008		2007	
	Total volume (In thousands) (Lkg*)	Estimated market value (in millions)	Total volume (In thousands) (Lkg*)	Estimated market value (in millions)
Raw sugar	1,411	P1,296	930	P920
Refined sugar	1,037	1,409	621	864
	<b>2,448</b>	<b>P2,705</b>	1,551	P1,784

\*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 trustee 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, 2008 and 2007, CADP, Inc. has outstanding sales contracts for refined sugar with a total value of P1,236.3 million and P841.06 million, equivalent to 817,091 LKg and 540,256 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, 2008 and 2007 (see Note 12), which will be applied against future deliveries of sugar and molasses.

- 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 P3.5 million, P3.7 million and P3.3 million in 2008, 2007 and 2006, respectively.
  - (ii) Contract for hauling services for the transport of sugarcane from the plantation to the mill. Related hauling expense charged to operations in 2008, 2007 and 2006 amounted to P172.3 million, P129.2 million and P116.2 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 P3.0 million shall be paid annually by CADP, Inc. to compensate RHI for the continuance of the mortgage.
- f. There are pending legal cases in the ordinary course of their business as at June 30, 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 2008, 2007 and 2006 consolidated financial statements.
- g. As of June 30, 2008 and 2007, the Group has unused lines of credit from local banks amounting to P3,165.0 million and P892.0 million, respectively.

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## 17. Revenue

The components of revenue are as follows:

	2008	2007 (As Restated, Note 27)	2006
Refined sugar	<b>P3,481,489</b>	P3,720,886	P3,434,918
Raw sugar	<b>1,958,135</b>	1,383,411	993,546
Tolling fees	<b>360,687</b>	264,841	358,005
Molasses	<b>268,611</b>	274,597	315,108
Others	<b>8,622</b>	2,313	479
	<b>P6,077,544</b>	P5,646,048	P5,102,056

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

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## 18. Cost of Sales

The components of cost of sales are as follows:

	2008	2007 (As Restated, Note 27)	2006 (As Restated, Note 27)
Purchased sugar	<b>P2,216,762</b>	P2,187,141	P1,463,656
Cost of transporting canes to mill (Note 16)	<b>714,573</b>	546,860	552,527
Net changes in inventories	<b>180,510</b>	(67,283)	(59,422)
Direct labor (Note 20)	<b>384,728</b>	367,674	345,414
Trading cost	<b>31,047</b>	17,968	288,967
Tolling fees	<b>1,313</b>	50,374	15,715
Manufacturing overhead:			
Materials and consumables	<b>403,945</b>	416,860	526,385
Repairs and maintenance	<b>365,696</b>	370,726	338,398
Depreciation (Note 9)	<b>301,858</b>	405,479	422,614
Taxes and licenses	<b>141,487</b>	90,607	69,920
Outside services	<b>64,224</b>	56,343	46,892
Communication, light and water	<b>55,342</b>	56,455	46,047
Rent (Notes 14 and 16)	<b>P38,723</b>	P35,532	P33,798
Provision for sugar inventory losses (Note 6)	<b>15,001</b>	27,180	-
Others	<b>27,364</b>	22,470	22,489
	<b>P4,942,573</b>	P4,584,386	P4,113,400

**19. General and Administrative Expenses**

The components of general and administrative expenses are as follows:

	<b>2008</b>	2007 (As Restated, Note 27)	2006 (As Restated, Note 27)
Employee benefits (Note 20)	<b>P189,939</b>	P202,550	P186,363
Taxes and licenses	<b>62,531</b>	48,261	32,700
Outside service	<b>52,350</b>	52,538	55,625
Travel and transportation	<b>31,558</b>	12,597	12,217
Depreciation (Note 9)	<b>26,245</b>	24,294	24,796
Rent (Notes 14 and 16)	<b>22,799</b>	14,551	16,314
Insurance	<b>16,043</b>	20,948	18,841
Materials and consumables	<b>14,958</b>	14,198	13,953
Pension costs (Notes 15 and 20)	<b>11,949</b>	24,478	24,769
Repairs and maintenance	<b>9,839</b>	7,985	17,007
Corporate social responsibility	<b>8,984</b>	5,479	4,261
Communication, light and water	<b>8,640</b>	7,180	8,727
Representation and entertainment	<b>3,496</b>	3,770	2,394
Provision for impairment of receivables and creditable withholding taxes (Notes 5 and 7)	<b>698</b>	3,739	20,892
Management fee	-	1,373	1,527
Others	<b>48,635</b>	26,065	11,128
	<b>P508,664</b>	P470,006	P451,514

**20. Employee Benefits**

The components of employee benefits are as follows:

	<b>2008</b>	2007	2006
Salaries and wages (Notes 18 and 19)	<b>P379,769</b>	P379,661	P378,490
Allowances and other employee benefits (Notes 18 and 19)	<b>130,279</b>	131,409	96,301
Pension costs (Note 15)	<b>76,568</b>	83,632	81,755
	<b>P586,616</b>	P594,702	P556,546

**21. Other Income - net**

The components of other operating income are as follows:

	<b>2008</b>	2007 (As Restated, Note 27)	2006 (As Restated, Note 27)
Sale of scrap	<b>P43,620</b>	P10,740	P7,733
Sugar and molasses handling fees	<b>9,801</b>	11,321	15,613
Foreign exchange losses - net	<b>(7,245)</b>	(7,418)	(7,456)
Others	<b>6,441</b>	4,125	10,205
	<b>P52,617</b>	P18,768	P26,095

## 22. Income Taxes

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

	2008		2007 (As Restated, Note 27)	
	Net Deferred Income Tax Assets <sup>(1)</sup>	Net Deferred Income Tax Liabilities <sup>(2)</sup>	Net Deferred Income Tax Assets <sup>(1)</sup>	Net Deferred Income Tax Liabilities <sup>(2)</sup>
<b>Deferred income tax assets on:</b>				
Allowance for:				
Impairment of receivables (Note 5)	P7,747	P–	P7,546	P–
Sugar inventory losses (Note 6)	911	–	9,513	–
Inventory obsolescence (Note 6)	11,839	–	8,971	–
Pension benefit obligation (Note 15)	21,911	–	18,604	–
Unamortized past service cost	42,243	1,370	33,478	1,858
Unrealized foreign exchange loss	819	12	–	–
NOLCO	–	4,630	9,968	–
Excess MCIT	6,894	411	4,828	–
	<b>92,364</b>	<b>6,423</b>	92,908	1,858
<b>Deferred income tax liabilities on:</b>				
Revaluation increment on properties (Note 23)	(2,054)	(680,178)	(2,054)	(520,824)
Unamortized capitalized interest	(29,988)	–	(18,768)	–
Changes in fair value of biological assets (Note 7)	–	(2,079)	–	–
Pension plan assets (Note 15)	–	(42,009)	–	(36,686)
Unamortized debt commitment fees	(13,275)	(4,145)	–	–
	<b>(45,317)</b>	<b>(728,411)</b>	(20,822)	(557,510)
Net deferred income tax assets (liabilities)	<b>P47,047</b>	<b>(P721,988)</b>	P72,086	(P555,652)

(1) Pertain to CADP, Inc. and CACI

(2) Pertain to RHI, CADPGC and NAVI

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

	July 1, 2007 (As restated)	Charged to Consolidated Statement of Income	Charged to Consolidated Statement of Changes in Equity	June 30, 2008
Net deferred income tax assets	P72,086	(P25,039)	P–	<b>P47,047</b>
Net deferred income tax liabilities	(555,652)	(6,983)	(159,353)	<b>(721,988)</b>
Net deferred income tax liabilities	(P483,566)	(P32,022)	(P159,353)	<b>(P674,941)</b>

Restatements have been made for 2007 and 2006 to recognize the effect of changes in future tax rates on deferred income tax assets and liabilities for which the corresponding temporary differences will only be reversed in the subsequent periods.

Deferred income tax liability on revalued land is determined using an income tax rate of 30%. Other deferred tax assets and liabilities are determined using an income tax rate of 35%.

- b. Details of NOLCO benefits and corresponding analysis of deferred income tax asset as of June 30 follow:

Incurring in	Amount	Applied	Expired	Balances as of June 30	Tax Effect	Available Until
2005	P77,104	(P69,358)	(P7,746)	P–	P–	2008
2007	13,504	–	–	13,504	4,051	2010
2008	11,178	–	–	11,178	3,353	2011
	<b>P101,786</b>	<b>(P69,358)</b>	<b>(P7,746)</b>	<b>P24,682</b>	<b>P7,404</b>	

Deferred income tax asset on NOLCO amounting to P7.4 million and P21.8 million as of June 30, 2008 and 2007, respectively, was not recognized as management believes that it is not probable that future taxable profit will be available against which the NOLCO can be utilized.

- c. The Parent Company and subsidiaries are subject to MCIT of 2% based on its gross income as defined under the tax code, if normal income tax is less than the computed MCIT. The excess of MCIT over the normal income tax shall be 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.
- d. Details of unused MCIT as at June 30 in the consolidated balance sheets follow:

Incurring in	Amount	Applied	Expired	Balances as of June 30	Available Until
2005	P4,871	P-	P4,871	P-	2008
2006	6,588	-	-	6,588	2009
2007	4,856	-	-	4,856	2010
2008	6,998	-	-	6,998	2011
	<b>P23,313</b>	<b>P-</b>	<b>P4,871</b>	<b>P18,442</b>	

MCIT of CACI and NAVI amounting to P11.5 million and P6.7 million as of 2008 and 2007, respectively, were not recognized as management believes that it is not probable that future taxable profit will be available against which MCIT can be utilized.

- e. Details of other temporary differences for which no deferred income tax assets are recognized as at June 30 follow:

	2008	2007
Allowance for impairment of receivables	<b>P1,404</b>	P1,283
Pension benefit obligation	<b>4,017</b>	1,517
	<b>5,421</b>	2,800
Deferred income tax liabilities at 35%	<b>P1,897</b>	P980

- f. 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:

	2008	2007 (As Restated, Note 27)	2006 (As Restated, Note 27)
Provision for income tax at statutory rate	<b>P233,084</b>	P200,416	P178,550
Adjustments resulting from:			
Application of temporary differences and NOLCO for which no deferred income tax asset was previously recognized	<b>(14,373)</b>	-	(33,256)
Expiration (application) of excess MCIT credits	<b>4,827</b>	-	(575)
Unrecognized deferred income tax assets arising from temporary differences and NOLCO	<b>4,682</b>	1,346	4,095
Effect of change in income tax rates applied on deferred income tax assets and liabilities	<b>(3,277)</b>	-	(2,069)
Tax effects of:			
Equity in net earnings of an associate	<b>(24,408)</b>	(19,509)	(17,600)
Interest and dividend income subjected to final tax	<b>(1,556)</b>	(3,711)	(9,581)
Depreciation on appraisal increase	<b>6,666</b>	6,666	6,476
Nondeductible expenses	<b>3,731</b>	9,605	3,010
Unallowable interest expense	<b>1,411</b>	773	3,315
Others	<b>7</b>	(6,078)	(3,305)
Provision for income tax	<b>P210,794</b>	P189,508	P129,060

- g. On May 24, 2005, Republic Act (RA) 9337 (the "Act"), otherwise known as "Expanded Value Added Tax (EVAT) of 2005" amending certain sections of the National Internal Revenue Code of 1997 (NIRC), was passed into law and became effective on November 1, 2005. The following are the more salient provisions of the new act that are relevant to the Company:

- Imposition of 70% cap on the input tax credit which a taxpayer could claim against output tax in the event that total input tax credits are higher than output tax. In such case, the taxpayer is required to remit a minimum of 30% of the total output tax due;

- Input tax on capital goods shall be claimed on a staggered basis over 60 months or if the useful life of the related assets, whichever is shorter; and,
- Increase of VAT rate from 10% to 12% effective February 1, 2006.

The same Act changed the normal corporate income tax from 32% to 35% effective November 1, 2005 and 35% to 30% effective January 1, 2009.

On November 21, 2006, under RA 9361, the NIRC was amended anew with the deletion of the provision imposing the 70% cap on input tax that may be credited in every taxable quarter.

- d. 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.

### 23. Equity

- a. Share capital and treasury shares

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

	2008		2007		2006	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Authorized common shares "Capital A" at P1 par value each	<b>1,500,000</b>	<b>P1,500,000</b>	1,500,000	P1,500,000	1,500,000	P1,500,000
Issued common shares "Class A"	<b>1,168,978</b>	<b>P1,168,978</b>	1,168,978	P1,168,978	1,168,978	P1,168,978
Treasury shares	<b>(251,330)</b>	<b>(739,707)</b>	(55,007)	(63,767)	(50,274)	(51,552)
Issued and outstanding	<b>917,648</b>	<b>P429,271</b>	1,113,971	P1,105,211	1,118,704	P1,117,426

Reacquisitions of shares by the Parent Company on its Share Buy Back Program in fiscal years 2008, 2007 and 2006 follow:

Year Reacquired	Number of Shares	Cost
2008	196,323	P675,940
2007	4,733	12,215
2006	17,774	21,705

- b. Share premium and revaluation increment

As discussed in Note 1, in 2002, the Group has undertaken major activities relating to the Reorganization Program. The sugar milling and refinery business in Nasugbu, Batangas was spun-off to CADP, Inc (see Note 1). The assets and liabilities, excluding land in Nasugbu, were transferred by the Parent Company as capital contribution to CADP, Inc. Such properties transferred include revaluation increment on depreciable property, plant and equipment amounting to P150.6 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 Parent 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 P1 per share for P2,050.2 million, the cost of investments in the Parent Company's books immediately before the transfer. CADPGC recorded a premium of P596.8 million and set-up share in revaluation increment in properties of subsidiary amounting to P150.6 million. Consequently, the Parent 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 Negros 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 P1.4 billion in exchange for CACI's 200 million common shares at P1 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.

In 2008, the Parent Company restated retroactively its investment in shares of stock by P150.6 million to adjust the investment to its historical cost. Furthermore, the revaluation increment, unrestricted retained earnings and deferred income tax liability amounting to P7.2 million and P128.4 million and P15.0 million, respectively, were also restated to reflect the remaining balance of the revaluation increment, the amount of revaluation increment absorbed through depreciation for the past years and the related deferred income tax liability.

c. Retained earnings

*Restricted retained earnings*

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

	<b>2008</b>	2007 (Restated, Note 27)	2006
Treasury shares	<b>739,707</b>	63,767	51,552
Pension plan asset - net of deferred income tax liability (Note 15)	<b>63,377</b>	53,143	56,067
	<b>P803,084</b>	P116,910	P107,619

The Company restated the 2007 financial statements to reflect restriction of retained earnings on the treasury shares of the Company. The restriction resulted to a decrease in unrestricted retained earnings and an increase in restricted retained earnings as of July 1, 2007 amounting to P63.8 million.

Further, unrestricted retained earnings includes P1,131.2 million, P846.6 million and P615.5 million as of June 30, 2008, 2007 and 2006, respectively, which represents accumulated earnings of consolidated subsidiaries and unconsolidated associate which are not available for distribution to the Parent Company's shareholders unless received as cash dividends from investees.

*Dividend declaration*

Cash dividends declared by the Parent Company from retained earnings during the years ended June 30, 2008, 2007 and 2006 follow:

Date Approved	Per Share	Total Amount	Stockholders of Record Date	Date Paid/Issued
June 25, 2008	P0.06	P55,058	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	67,124	October 12, 2006	November 10, 2006
June 29, 2006	0.06	67,158	July 14, 2006	July 26, 2006

d. Share Prices

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

Quarter	High	Low
July 2007 through June 2008		
First	P3.10	P2.06
Second	2.95	2.48
Third	3.60	2.60
Fourth	3.60	2.20
July 2006 through June 2007		
First	P3.65	P3.60
Second	4.05	1.32
Third	2.48	2.42
Fourth	2.75	2.70
July 2005 through June 2006		
First	1.10	1.10
Second	1.32	1.28
Third	2.55	2.46
Fourth	2.70	2.60

e. Share Buy Back Program

In 2008, CADPGC re-acquired portion of its shares amounting to P2.9 million (1,506,000 shares). As a result, the Parent 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 Parent Company (through CADPGC) from the minority interest amounted to P1.4 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:

	2008	2007 (As Restated, Note 27)	2006 (As Restated, Note 27)
Net income for the year attributable to the equity holders of the Parent Company	<b>P410,015</b>	P344,203	P340,594
Weighted average number of common shares outstanding	<b>1,063,645</b>	1,117,263	1,118,702
Basic/diluted earnings per share	<b>P0.39</b>	P0.31	P0.30

There are no potential dilutive common shares as at June 30, 2008, 2007 and 2006.

## 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 2008.

Management considers the total 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, 2008:

	2008	2007 (As Restated, Note 27)
Total liabilities	<b>P4,366,289</b>	P2,359,797
Total equity	<b>5,500,895</b>	5,481,109
Total liabilities and equity	<b>P9,867,184</b>	P7,840,906
Debt ratio	<b>0.44:1.00</b>	0.30:1.00
Debt-to-equity ratio	<b>0.79:1.00</b>	0.43:1.00

## 26. Financial Instruments

### Financial Risk Management Objectives and Policies

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 Parent 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.

The table below summarizes the maturity profile of the Group's financial liabilities at June 30, 2008 based on contractual undiscounted payments:

	On demand	<1 year	>1-<2 yrs	>2-<4 yrs	>4-<5 yrs	>5 yrs	Total
Accounts payable and accrued expenses	P459,693	P16,646	P-	P-	P-	P-	P476,339
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
Other liabilities	106,204	25,657	-	-	-	-	131,861
	P790,897	P660,850	P45,723	P161,344	P169,993	P1,904,759	P3,733,566

#### 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.

#### 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 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.

	Gross maximum exposure as at June 30, 2008
Cash in banks and time deposits, excluding cash on hand	P348,843
Trade receivables	428,537
Advances to employees	67,103
Advances to related party	198
Other receivables	23,644
	P868,325

#### 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 table below shows the credit quality of financial assets and an aging analysis of past due but not impaired accounts as of 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		
Cash in bank and time deposits*	P348,843	P-	P-	P-	P-	P-	P-	P348,843
Trade receivables	147,130	221,528	16,677	16,059	5,167	4,092	17,884	428,537
Advances to employees	16,345	50,098	-	-	-	-	660	67,103
Advances to related party	-	198	-	-	-	-	-	198
Other receivables	17	12,349	3,039	1,342	262	2,881	3,754	23,644
Total	P512,335	P284,173	P19,716	P17,401	P5,429	P6,973	P22,298	P868,325

\* Excludes cash on hand amounting to P1.4 million as of June 30, 2008.

#### *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 yet 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 in 2008 amounting to P8.9 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. Borrowings issued at fixed rates expose the Group to fair value 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 statement of income.

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, 2008.

Change in interest rates (in %)	Effect in income before income tax
For more than a year:	
+17%	P20,925
- 17%	(20,925)
For less than a year:	
+10%	P6,711
-10%	(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, US\$0.8 million and US\$1.9 million in 2008, 2007 and 2006, respectively. As of June 30, 2008, 2007 and 2006, the exchange rates were P44.90, P46.24 and P53.11 per US\$1.00, respectively.

Net foreign exchange gains or losses recognized in the consolidated statements of income amounted to P7.2 million loss, P7.4 million loss and P7.5 million loss in 2008, 2007 and 2006, 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, 2008.

Movement in US\$-Philippine peso exchange rates	Net effect in income before income tax
+3.65%	(P3,114)
-3.65%	P3,114

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

#### 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:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Cash on hand	P1,430	P1,430	P16,070	P16,070
Loans and receivables:				
Cash in banks and time deposits	348,843	348,843	527,097	527,097
Trade receivables	410,653	410,653	624,798	624,798
Advances to employees	67,103	69,481	60,649	62,259
Advances to related parties	198	198	5,057	5,057
Other receivables	19,890	19,890	7,431	7,431
	<b>P848,117</b>	<b>P850,495</b>	P1,241,102	P1,242,712
<b>Financial liabilities:</b>				
Other financial liabilities:				
Accounts payable and accrued expenses:				
Trade payables	P215,703	P215,703	P95,281	P95,281
Accrued and other liabilities	194,397	194,397	162,897	162,897
Due to planters	66,239	66,239	123,101	123,101
Other liabilities	131,772	131,772	36,056	36,056
Dividends payable	81,205	81,205	105,629	105,629
Short-term borrowings	702,552	702,552	313,000	313,000
Current portion of long-term borrowings	13,333	13,333	131,839	131,839
Long-term borrowings - net of current portion	1,829,728	1,825,173	461,609	461,609
	<b>P3,234,929</b>	<b>P3,230,374</b>	P1,429,412	P1,429,412

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 planters and cane haulers, 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 rate of 7% at June 30, 2008, for comparable instruments in the market. The rate was obtained from Bangko Sentral ng Pilipinas, representing bank average lending rates in 2008 and 2007.

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

## 27. Prior Period Adjustments

The 2007 and 2006 consolidated financial statements were restated to retroactively reflect the following adjustments:

- In 2008, the Group recognized receivables from CADP, Inc. employees for the sale of a portion of its land in Barrio Lumbangan, Nasugbu, Batangas made in prior years. The said loan bears annual interest of 12% and are payable for 10 years from 2002. The Parent Company restated its opening balances to recognize the following impact to the Parent Company's accounts: increase in receivables by P21.3 million, decrease in accounts payable by P8.1 million, and increase in retained earnings to P29.4 million as of July 1, 2005.
- The Group recognized the changes in the fair value of the standing cane and the amortization of the cane replantation cost in accordance with PAS 41, Agriculture, thereby increasing retained earnings and biological assets (see Note 7) by P2.3 million as of July 1, 2007. Adjustments relating to the recognition of this asset in 2006 and 2005 and are deemed immaterial and were not adjusted in the beginning balances as of July 1, 2006 and 2005.
- The Group restated its equity to account for the transactions relating to the Reorganization Program as discussed in Notes 1 and 23, resulting in an increase in deferred income tax liability by P56.0 million, increase in revaluation increment on transferred properties to a subsidiary amounting to P38.0 million and decrease in retained earnings by P18.0 million as of June 30, 2007.
- In 2008, the Group reversed the overaccrual of interest expense recorded in 2007, resulting in an increase in retained earnings by P14.4 million as of July 1, 2007.

## 28. Segment Reporting

### Business Segments

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

	2008					
	Raw sugar and molasses	Refined sugar	Tolling service	Other segments	Unallocated/ Elimination	Total
<b>REVENUE</b>						
External sales (Note 17)	P2,226,746	P3,481,489	P360,687	P8,390	P232	P6,077,544
Inter-segment sales	153,564	–	31,020	89,943	(274,527)	–
Total revenue	P2,380,310	P3,481,489	P391,707	P98,333	(P274,295)	P6,077,544
<b>SEGMENT RESULT</b>	(P47,778)	P663,646	(P98,778)	P86,130	(P262,944)	P340,276
Equity in net earnings of an associate	69,739	–	–	–	–	69,739
Consolidated segment results	P21,961	P663,646	(P98,778)	P86,130	(P262,944)	P410,015
<b>OTHER INFORMATION</b>						
Segment assets	P2,514,047	P4,491,658	P–	P213,630	P2,101,461	P9,320,796
Investment in an associate (Note 8)	546,388	–	–	–	–	546,388
Consolidated segment assets	P3,060,435	4,491,658	P–	P213,630	P2,101,461	P9,867,184
Segment liabilities	P304,572	P769,746	P–	P475,645	P2,816,326	P4,366,289
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

	2007					
	Raw sugar and molasses	Refined sugar	Tolling service	Other segments	Unallocated/ Elimination	Total
<b>REVENUE</b>						
External sales (Note 17)	P1,658,008	P3,720,886	P264,841	P–	P–	P5,643,735
Inter-segment sales	183,835	53,943	30,913	138,557	(407,248)	–
Total revenue	P1,841,843	P3,774,829	P295,754	P138,557	(P407,248)	P5,643,735
<b>SEGMENT RESULT</b>	(P317,377)	P1,024,183	(P212,443)	P243,300	(P410,292)	P327,371
Equity in net earnings of an associate	55,739	–	–	–	–	55,739
Consolidated segment results	(P261,638)	P1,024,183	(P212,443)	P243,300	(P410,292)	P383,110
<b>OTHER INFORMATION</b>						
Segment assets	P2,333,275	P3,502,788	P–	P7,685,541	(P6,226,152)	P7,295,452
Investment in an associate (Note 8)	545,454	–	–	–	–	545,454
Consolidated segment assets	P2,878,729	P3,502,788	P–	P7,685,541	(P6,226,152)	P7,840,906
Segment liabilities	P142,579	P734,651	P–	P433,587	P1,091,070	P2,401,887
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

	2006					Total
	Raw sugar and molasses	Refined sugar	Tolling service	Other segments	Unallocated/ Elimination	
<b>REVENUE</b>						
External sales (Note 17)	P1,308,654	P3,434,918	P358,005	P479	P-	P5,102,056
Inter-segment sales	113,848	221,617	61,776	218,987	(616,228)	-
<b>Total revenue</b>	<b>P1,422,502</b>	<b>P3,656,535</b>	<b>P419,781</b>	<b>P219,466</b>	<b>(P616,228)</b>	<b>P5,102,056</b>
<b>SEGMENT RESULT</b>	(P421,944)	P966,540	(P88,417)	P215,628	(P342,489)	P329,318
Equity in net earnings of an associate	51,766	-	-	-	-	51,766
<b>Consolidated segment results</b>	<b>(P370,178)</b>	<b>P966,540</b>	<b>(P88,417)</b>	<b>P215,628</b>	<b>(P342,489)</b>	<b>P381,084</b>
<b>OTHER INFORMATION</b>						
Segment assets	P2,279,605	P3,116,176	P-	P7,346,128	(P5,779,228)	P6,962,681
Investment in an associate (Note 8)	541,104	-	-	-	-	541,104
<b>Consolidated segment assets</b>	<b>P2,820,709</b>	<b>P3,116,176</b>	<b>P-</b>	<b>P7,346,128</b>	<b>(P5,779,228)</b>	<b>P7,503,785</b>
Segment liabilities	P335,263	P849,067	P-	P679,971	P495,496	P2,359,797
Additions to property, plant and equipment	74,994	115,361	-	2,843	-	193,198
Depreciation	242,940	204,125	-	345	-	447,410
Non-cash expenses other than depreciation	16,530	3,540	-	-	-	20,070

#### 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:

	2008	2007	2006
Nasugbu, Batangas	<b>P4,065,592</b>	P3,985,727	P3,793,389
La Carlota City, Negros Occidental	<b>1,985,845</b>	1,658,008	1,308,654
	<b>P6,051,437</b>	P5,643,735	P5,102,043

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		
	2008	2007	2006	2008	2007	2006
Nasugbu, Batangas	<b>P4,486,463</b>	P3,291,189	P3,055,414	<b>P1,575,836</b>	P124,898	P115,476
La Carlota City, Negros Occidental	<b>2,793,976</b>	2,383,001	2,311,716	<b>611,969</b>	125,555	74,994
	<b>P7,280,439</b>	P5,674,190	P5,367,130	<b>P2,187,805</b>	P250,453	P190,470

## 29. Events After the Balance Sheet Date

### a. Increase in authorized capital stock of Roxol

On July 11, 2008, the BOD of Roxol approved the increase in its authorized capital stock from 1 million shares at P1 par value or P1.0 million to 1.2 billion shares at P1 par value or P1.2 billion. The Parent Company has paid up a total of P75.0 million for its subscription of Roxol's capital stock. Roxol's application for the increase in authorized capital stock is still pending Philippine SEC's approval.

### b. New business ventures of the Group

#### Port Services

In line with the Group's plan to enter in the highly-competitive port services business, a newly-organized company, CADP Port Services Inc. (CADP Port), with an initial authorized capital stock of P2.0 million, has already applied for its business registration with the Philippine SEC last July 17, 2008. Its primary purpose is to engage in the general business of providing port ancillary services such as port cargo handling, arrastre and stevedoring, shoring, cleaning, rebundling, rebagging and other related services on board vessels. Out of the P2.0 million capitalization, P0.5 million has been subscribed and P0.1 million has been paid for by the Parent Company. On October 3, 2008, the Parent Company's BOD approved the proposal to engage in the business of providing port services at the Port of Nasugbu.

#### Power Company

The Group incorporated Roxas Power Corporation (Roxas Power), an energy company to engage in "selling" CADP, Inc.'s excess electricity capacity. Roxas Power has an initial authorized capital stock of P16.0 million and has already applied for its business registration with the Philippine SEC last July 16, 2008. Out of the P16.0 million capitalization, P4.0 million has been subscribed and P1.9 million has been paid for by the Parent Company.

### c. Dividend declaration

On October 3, 2008, the Parent Company's BOD approved the declaration of cash dividends amounting to P0.06 per share payable to shareholders of record as of October 17, 2008, payable on or before October 30, 2008





# Shareholder Information

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Facsimile: (632) 817-1875  
Website: [www.roxas.com.ph](http://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 2008 Annual Stockholders' Meeting will be held on November 26, 2008, 10:00 A.M. at Mandarin Oriental Manila, 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.

## STOCK TRANSFER AGENT

UNIONBANK  
Union Bank Plaza Building  
Meralco Avenue cor. Onyx Street, Pasig City  
Telephone: (632) 638-0325/638-0259  
Facsimile: (632) 638-0234

## EXTERNAL AUDITOR

SyCip Gorres Velayo & Co.  
6760 Ayala Avenue  
1226 Makati City, Philippines  
Telephone: (632) 891-0307  
Facsimile: (632) 819-0872  
Website: [www.sgv.com.ph](http://www.sgv.com.ph)

## INVESTOR RELATIONS

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