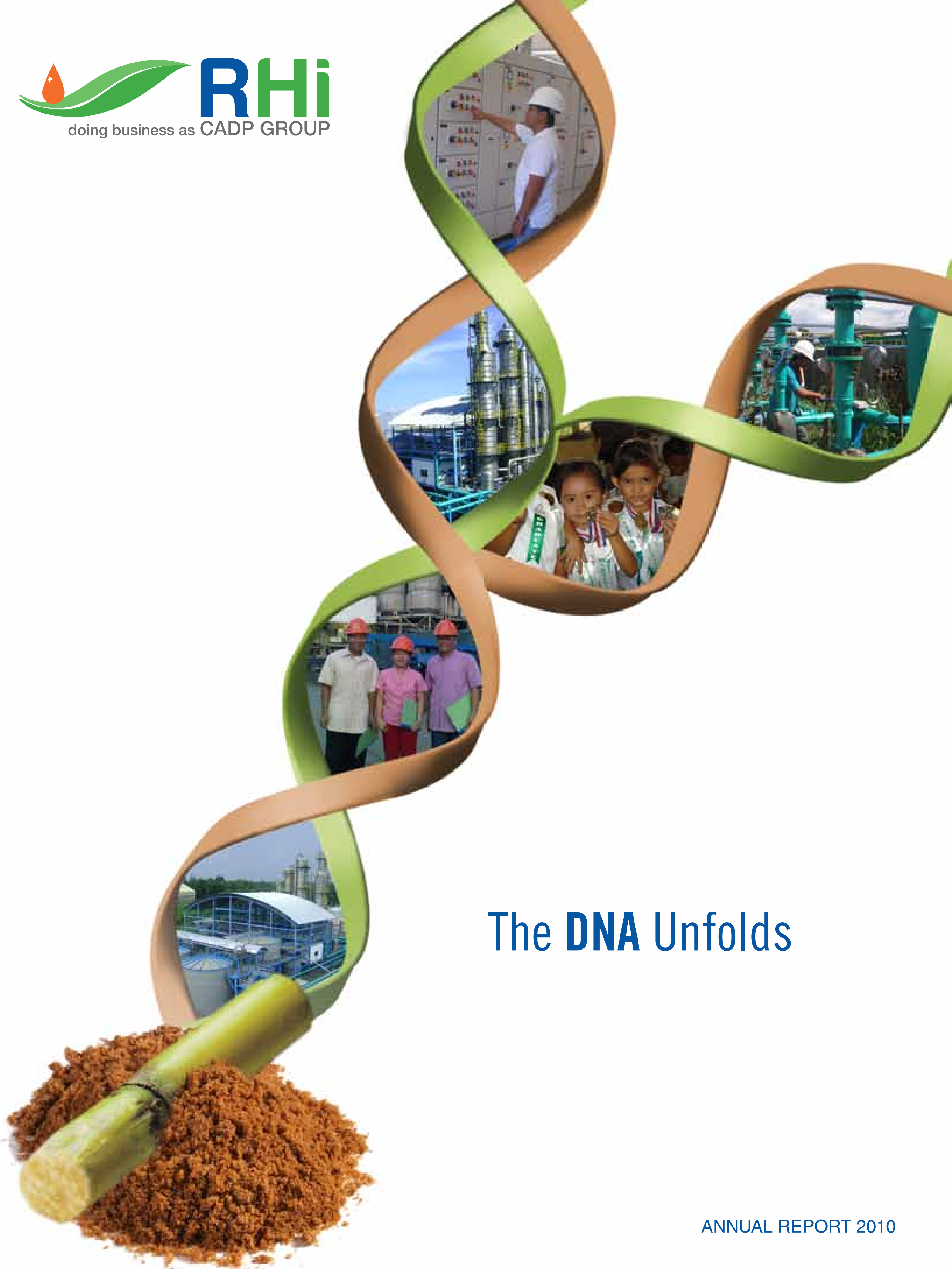

The **DNA** Unfolds

ANNUAL REPORT 2010

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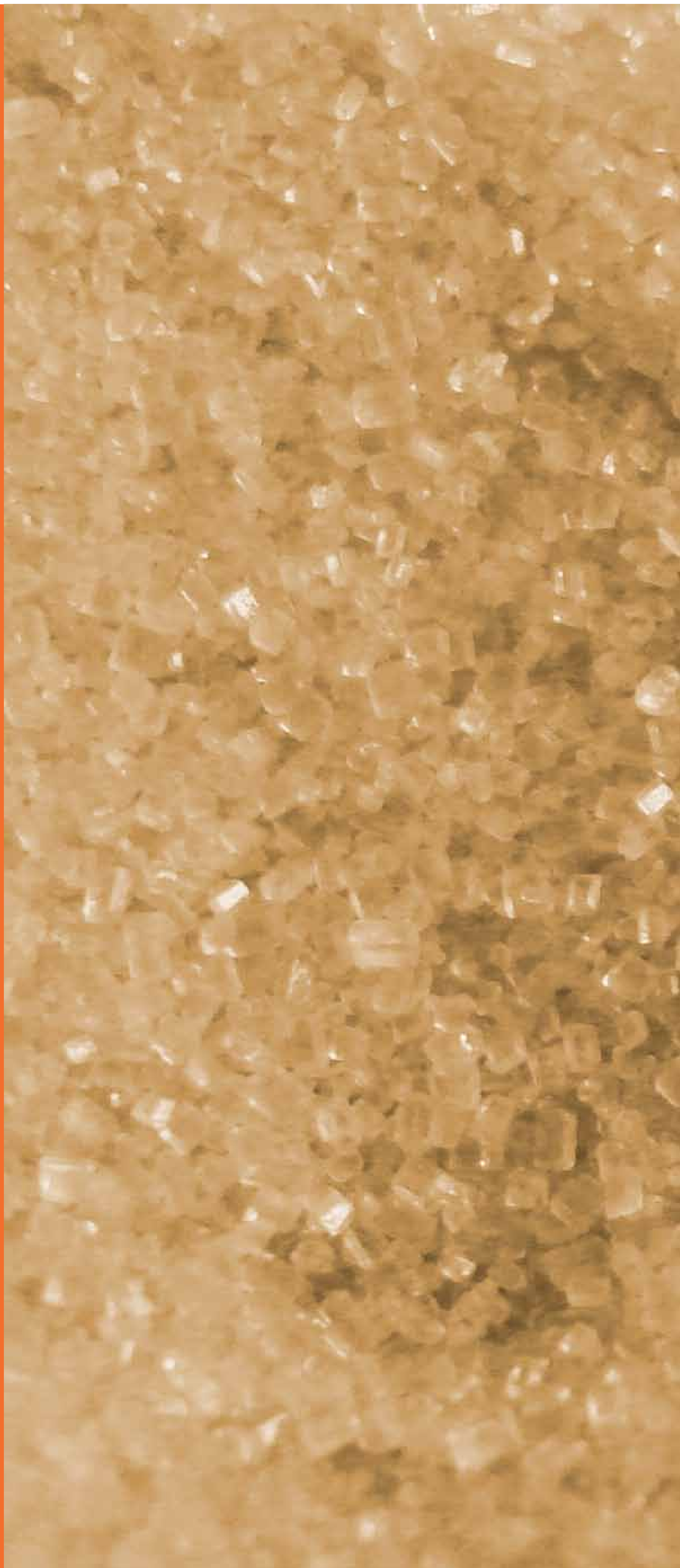
About the Cover

The proposed theme "The DNA Unfolds" is a sequel from last year's annual report theme, "DNA of Change", depicting the Company's transformation from being production driven to brand driven.

In science, it is said that when the DNA unfolds, many of its functions come about, particularly when it has to replicate during cell division or repair processes. This can be likened to RHI, which DNA of change has unfolded in recent years, taking creative and innovative strategies and responding with decisive and calculated actions today while positioning the business for growth tomorrow.



Vision

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

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

Mission

Powering lives with sugarcane-based products and services.

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

CHAIRMAN'S MESSAGE

"Your Company's consolidated revenues expanded six percent to P6.2 billion on the back of higher average selling prices of raw and refined sugar and molasses as prices of the commodity went up in the third quarter of crop year 2009-2010."

Fellow shareholders and friends,

We look back at the past year with mixed emotions as we celebrate milestones in our corporate history and reflect on the challenges we faced and rigorously surpassed.

We are proud to report that we substantially completed the massive expansion of our sugar milling subsidiaries, Central Azucarera Don Pedro, Inc. (CADPI) in Batangas and Central Azucarera de La Carlota, Inc. (CACI) in Negros Occidental.

The expansion raised CACI's milling capacity from 11,000 tons cane/day (TCD) to 18,000 TCD, while that of CADPI increased from 10,000 TCD to 13,000 TCD.

But this achievement was not an easy feat and we take pride in having weathered away the challenges. Migrating to a new core infrastructure is a major undertaking for any plant and albeit temporary, has caused your Company birth pains.

As previously reported, RHI started its expansion program when it acquired sugar mills in 2007 – one from the United States and another from Australia – to boost our production capacity, enhance our energy efficiency and in the process, increase our revenue-generating capability and cost-competitiveness.

Another milestone is the completion of our ethanol facility in Negros Occidental under ROXOL Bioenergy Corporation, which we set up in 2008 in response to the Biofuels Act mandating the blending of gasoline with 5 percent ethanol by 2009 and 10 percent in 2011. As of June 2010, the Company produced a total of 302,000 liters of combined hydrous and anhydrous alcohol from its testing and commissioning.

The ongoing debate on a price mechanism on ethanol fuel that is acceptable to all players coupled with the lack of tariff protection for local ethanol producers had us unwillingly defer full commercial operations, initially scheduled for July 2010. We, along with other ethanol producers, are pressing the government to impose the much needed tariff of 20 percent on imported ethanol not only to protect the local players but encourage potential investors to put up more facilities that will serve the growing demand for the commodity.

These unfortunate events validate the integrity of our strategy to design our ethanol plant to have the flexibility to produce not only fuel but other types of ethanol as well. Pending the resolution of the pricing and tariff protection, ROXOL will venture into the potable and industrial alcohol market to cater to the big demand of the industries concerned.

FINANCIAL RESULTS

Your Company's consolidated revenues expanded six percent to P6.2 billion on the back of higher average selling prices of raw and refined sugar and molasses as prices of the commodity went up in the third quarter of crop year 2009-2010.

Net income, on the other hand, surged to P311 million from its year-ago level of P143 million. This translated to earnings per share of P0.34 from the previous year's P0.20. Meanwhile, earnings before interest, taxes, depreciation and amortization (EBITDA) rose to P984 million from P697 million a year ago.

CORPORATE GOVERNANCE

RHI is committed to adhering to high standards of corporate governance and we are pleased to report that your Company received an above-average score of 83 percent in the 2009 Corporate Governance Scorecard for Publicly-Listed Companies in the Philippines. This rating is much higher than the average score of 73 percent.

The scorecard is released by the Institute of Corporate Directors in partnership with the Securities and Exchange Commission, Philippine Stock Exchange, Ateneo Law School, Institute of Internal Auditors of the Philippines and Center for International and Private Enterprise.

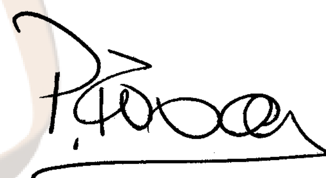
The scorecard aims to promote international standards of good corporate governance practices. Other countries in East Asia such as Thailand, Hong Kong, China and Indonesia use the same scorecard template.

CORPORATE SOCIAL RESPONSIBILITY

Your Company believes that in order to become a thriving and sustainable business, we must maintain our generous investment in the areas of sustainable development, community relations and labor management.

THE ROAD AHEAD

The past year was a test of resilience that opened doors for creativity and innovation. This experience will certainly come in handy as we trek the coming year undaunted but mindful of the bumps that we will face along the way. We are confident of our strategies, the competence of our Board and management team but we also know that we can only make things happen with the support of our stakeholders.



Pedro E. Roxas
Chairman
October 2010

PRESIDENT'S REPORT

Shareholders and Friends,

The El Nino phenomenon experienced during the year had taken its toll on the country's cane supply with cane tonnage sliding 12.5 percent to 19.2 million tons cane from the previous year's 21.6 million tons. Raw sugar production in the country similarly dropped 10.5 percent to 1.9 metric tons compared with the 2.1 metric tons recorded a year ago. Refined sugar production, on the other hand, was unchanged at 19.6 million bags.

MILLING AND REFINERY OPERATIONS

Your Company's cane tonnage, with its three mills combined – subsidiaries Central Azucarera Don Pedro, Inc. (CADPI) and Central Azucarera de La Carlota, Inc. (CACI) and associate Hawaiian-Philippine Company (HPCo)– dropped 3.3 million tons cane from the 4.02 million tons cane recorded the previous year. This is mainly due to the overall decrease in farm productivity during the year.

The RHI Group's raw sugar production, on the other hand, slid 14.5 percent to 6.95 million bags from the 8.1 million bags registered a year ago. Meanwhile, milling recovery went up to 2.09 LKG/TC from last year's 2.02 LKG/TC.

CADPI's refined sugar production went down to 3.32 million bags, or 16.2 percent lower than the 3.97 million bags generated the previous year, owing to the downtime encountered from the migration to new equipment as part of the capacity expansion and the difficulty of sourcing raw sugar due to its availability and high price.

FINANCIAL PERFORMANCE

As reported by our Chairman, your Company managed to arrive at a decent income despite the drawbacks experienced during the year.

However, the drop in production increased our cost of sales by 7 percent. Likewise, the lower tonnage

as a result of the weather and commissioning difficulties reduced our bagasse supply, forcing an increase in usage of bunker.

Since the expansion projects were substantially completed this year, total depreciation charged to operations increased to P407 million versus its year-ago level of P304 million. Interest expenses similarly went up as the related interest on loans used in the strategic projects closed to the Plant, Property and Equipment account was charged to expense. Total interest expense amounted to P314 million from P126 million in prior year.

Gross profit rate for the period slightly decreased from 15.5 percent to 14.5 percent in 2010, while operating expenses went up very slightly by P1 million to P621 million in the current year.

Equity in net earnings of our associate, HPCo, increased to P132 million from last year's P80 million brought about by its higher operating results.

SUSTAINABLE DEVELOPMENT

Your Company continued to ensure that our factories – CADPI, CACI and bioethanol plant ROXOL Bioenergy Corporation, uphold and carry out environmental and safety standards that are even above the regulatory requirements. We continue to invest on environmental management and pollution control abatement facilities as part of our measures and programs to surmount environmental challenges.

CORPORATE SOCIAL RESPONSIBILITY

Your Company, through the Roxas Foundation, Inc. (RFI), managed to leverage about P11.4 million to launch programs in the areas of health, education, environment and livelihood. About 51,000 individuals within our communities in Batangas and Negros Occidental directly benefited from these programs.

RFI launched capability training sessions on leadership, management and resources mobilization. This includes the socio-economic development projects under the Community Development Carbon Funds of the World Bank dubbed "Community Assistance for Rehabilitation of Barangays of Negros (CARBON) Program". This program will cover four communities in Negros Occidental.

About 100 children in Nasugbu, Batangas took part in a six-month nutrition feeding program RFI launched in partnership with the Children's Hour and Fuji Philippines. The program educated

pregnant women and new mothers on proper nutrition as well as on common diseases such as dengue, tuberculosis, H1N1 and pneumonia.

Another feeding program dubbed "Busog, Lusog, Talino Program", which targeted undernourished children in public elementary schools in La Carlota and Nasugbu, was rolled out together with Jollibee Foundation.

In the area of education, RFI expanded the Bright Minds Read (BMR) program to include public elementary schools in the municipality of Lian in Batangas and Silay City in Negros Occidental. This is on top of the ongoing BMR initiatives in La Carlota and Pontevedra towns in Negros and in Nasugbu.

RFI continues to initiate educational sponsorships for public elementary students in our communities, including the "Tulong Aral ng Sentral", a program that engages our own employees in social responsibility. Under the program, our employees subsidize the school expenses of children of rank and file employees on an annual basis.

In partnership with Children's International, RFI donated P1.1 million worth of textbooks to 70 schools in Negros Occidental and Batangas.

As for promoting self-sufficiency, RFI continued to spearhead livelihood programs, including training workshops on enterprise management, skills development and learning sessions on various business opportunities.

PEOPLE RESOURCES

In support of our redefined direction of becoming a brand driven from a production driven organization, we rolled out several human resource programs that will guide our employees in this transition and in the process, contribute to the fulfillment of our vision. The programs focused on strengthening the culture, building the human resource capability to better absorb the new technology brought about by the capacity expansion and modernization program, enhancing productivity and efficiency, improving employee management, sustaining industrial peace and nurturing partnership with stakeholders.

LOOKING AHEAD

The sugar industry has seen a bleak year. However, it is good to note

that a good number of planters are intensifying their replanting operations, an indication of continued confidence in the crop and desire to take advantage of better sugar prices. RHI is poised to make the most of this encouraging behavior, particularly by providing mechanized farming assistance to planters, through our farm services unit, CADP Farm Services, Inc.

In closing, the birth pains we experienced from the capacity expansion and successfully hurdled last year underscored our buoyancy and stability. With this, I thank the teams behind the capacity expansion, the various units in the CADPI, CACI and ROXOL factories for their hardwork and commitment, leaving no stone unturned in making sure that the projects are completed as planned. Our special thanks also go to our elders in the CADP Consultancy Services, Inc. for sharing their expertise, insights and know-how during this critical period of transition.

We once again extend our sincerest gratitude to our shareholders, planters, customers and traders, peers in the sugar industry and financial community and the government for continuously supporting us especially during trying times.

Ramon A. Picornell, Jr.
President and CEO
November 2010

BOARD OF DIRECTORS

ANTONIO J. ROXAS
Chairman Emeritus

PEDRO E. ROXAS
Chairman

RAMON A. PICORNELL, JR.
President and Chief
Executive Officer

SANTIAGO R. ELIZALDE
Director

GERONIMO C. ESTACIO
Director

RAMON R. DEL ROSARIO, JR.
Director

RAUL M. LEOPANDO
Director

BEATRIZ O. ROXAS
Director

RENATO C. VALENCIA
Director

BOARD OF DIRECTORS PROFILE

ANTONIO J. ROXAS is 68 years old and is a Filipino. Mr. Roxas is a member of the Compensation Committee. He has been a member of the Board of Directors since 1982 and is the Chairman Emeritus of the company. He is also a director of Roxas & Company, Inc. and Central Azucarera Don Pedro, Inc. Mr. Roxas graduated from the University of Notre Dame in Indiana, USA, where he obtained his degree in Bachelor of Science in Commerce. Mr. Roxas trained at the Standard Chartered Bank of London, the Shell Company in Paris, and the Olavarria and Co. and Lowry and Co., Inc. of New York, USA.

PEDRO E. ROXAS is 54 years old and is a Filipino. Mr. Roxas is the Chairman of the Nomination Committee. He has been a member of the Board of Directors since 1982 and is the Chairman of the Board of Directors as well as the Executive Committee. He is also the Chairman and Acting President & CEO of Roxas & Co., Inc., the Chairman of Central Azucarera Don Pedro, Inc. and Central Azucarera de la Carlota, Inc., and other subsidiaries of the company, Chairman of Hawaiian Philippine Company, 2nd Vice-Chairman of Batangas Assets Corporation, Chairman of Club Punta Fuego, President of Roxaco Land Corporation, President of Fundacion Santiago, Chairman & President of Roxas Foundation, Inc. and a director of Philippine Long Distance Telephone Company (PLDT), the Manila Electric Company (Meralco), Banco de Oro (BDO) Private Bank, Philippine Sugar Millers Association, Inc., Fuego Development Corporation, Philippine Business for the Environment and Philippine Business for Social Progress. Mr. Roxas was educated at Portsmouth Abbey School, USA and at the University of Notre Dame, USA where he obtained his degree in Business Administration. Mr. Roxas is married to Ms. Regina Tambunting and they have three (3) children.

RAMON A. PICORNELL, JR. is 59 years old and is a Filipino. Mr. Picornell was elected as a member of the Board of Directors and as President & CEO of the corporation on 25 March 2009. He is also the President & CEO of Central Azucarera Don Pedro, Inc. and Central Azucarera de la Carlota, Inc. and other subsidiaries of the company and a director of Hawaiian-Philippine Company. Mr. Picornell was educated at the University of San Carlos and is a Mechanical Engineer.

SANTIAGO R. ELIZALDE is 46 years old and is a Filipino. He has been a member of the Board of Directors since 2000. Mr. Elizalde is a member of the Executive Committee as well as the Compensation and Nomination Committees. He is also the Chairman of the Board of Directors of Elro Trading and a director of Central Azucarera Don Pedro, Inc. and Central Azucarera de la Carlota, Inc. Mr. Elizalde obtained his Bachelor of Arts degree in Economics in Denison University.

GERONIMO C. ESTACIO is 63 years old and is a Filipino. He was elected to the Board of Directors on 25 March 2009 and is the Chairman of the Audit Committee. Mr. Estacio is a member of the Board of Directors of Forefront Academic & Technical Center. He was formerly the Dean of the College of Business Administration of the University of the East, a consultant to the Chairman and CEO and Vice-President for Finance of ABS-CBN Broadcasting Corporation, a director for Regional Controls for Asia of the Procter & Gamble Company, a member of the Board of Directors of P&G Australia, P&G New Zealand, Max Factor Australia, Max Factor New Zealand, Noxell, Shulton, Australia and Shulton, New Zealand, P&G Philippines, Norwich, Philippines and a Trustee of P&G Pension Plan, among others. He graduated Magna Cum Laude from the University of the East, College of Business Administration, and is a Certified Public Accountant.

RAMON R. DEL ROSARIO, JR. is 65 years old and is a Filipino. He has been a member of the Board of Directors since 2002. Mr. del Rosario, Jr. is the Chairman of the Compensation Committee and a member of the Nomination Committee. He is the President & CEO of Philippine Investment Management, Inc. (PHINMA), Inc., the President & Vice-Chairman of Phinma Corp. and the President of Atlas Holdings Corp. and Microtel Development Corp. Mr. del Rosario is also the Chairman of the Board of Directors of CIP II Power Corp., Trans-Asia Renewable Energy Corp., Araullo University, Cagayan de Oro College, University of Iloilo, University of Pangasinan, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., Phinma A&E Outsource Corp., Phinma F&A Outsource Corp., Toon City Animation Inc. and Paramount Building Management & Services Corp. He is likewise the Vice-Chairman of Trans-Asia Oil & Energy Development Corp. and a director of Phinma Property Holdings Corp., Holcim (Phils.), Inc., TA Power Generation Corp., Union Galvasteel Corp. and Ayala Corporation. Mr. del Rosario graduated from Harvard Business School and De La Salle University and was a Ten Outstanding Young Men (TOYM) awardee in the field of Investment Banking and Finance in 1978.

RAUL M. LEOPANDO is 58 years old and is a Filipino. He was elected to the Board of Directors on 25 March 2009 and is a member of the Audit Committee. Mr. Leopando is presently the President & CEO of RCBC Capital Corporation and the Chairman of RCBC Securities Inc. He was the President of the Investment House Association of the Philippines (IHAP) in 1990, and a member of the Board of IHAP since 1986, a nominee of the Philippine Stock Exchange, a member of the Association of License Stock Brokers, Makati Sports Club Inc., and Eagle Ridge Golf Club. He became a member of the Board of Polar Mining Corporation, Fil Hispano Ceramics Inc. and Paxys, Inc. Mr. Leopnado is presently a member of the Board of Directors of Charter Land Inc., Intervest Co., Inc., RCBC Capital Corp. and Bankard, Inc. Mr. Leopando obtained his degree in AB Economics from the University of the Philippines, BSC Accounting in San Beda College and his Masters in Business Administration from the Ateneo de Manila University.

BEATRIZ O. ROXAS is 56 years old and a Spanish. She was elected to the Board of Directors on 25 March 2009. Ms. Olgado is presently a director of Roxas & Company, Inc.

RENATO C. VALENCIA is 68 years old and is a Filipino. He was elected to the Board of Directors on 29 September 2010.* He was likewise elected by the Board of Directors as a member of the Executive Committee and the Audit Committee on 29 September 2010. Mr. Valencia is presently a director of Metropolitan Bank & Trust Company, a member of the Phil. Coca Cola System Council Chairman of i-People, Inc., director of Anglo Philippine Holdings Corporation, Board Adviser of Philippine Veterans Bank, Chairman of Hypercash Payment Systems, Inc., Chairman of Bastion Payment Systems, Inc. and Vice-Chairman of Asia Pacific Network Holdings, Inc. Mr. Valencia obtained his degree in Bachelor of Science in General Engineering from the Philippine Military Academy in 1963 and his Master in Business Management from the Asian Institute of Management in 1971.

** Mr. Renato C. Valencia replaced Mr. Francisco F. Del Rosario, Jr., who resigned from the Company effective 01 September 2010.*

BOARD COMMITTEES

AUDIT COMMITTEE

GERONIMO C. ESTACIO
Chairman

RENATO C. VALENCIA
Member

RAUL M. LEOPANDO
Member

EDUARDO R. AREILZA
Member

COMPENSATION COMMITTEE

RAMON R. DEL ROSARIO, JR.
Chairman

ANTONIO J. ROXAS
Member

SANTIAGO R. ELIZALDE
Member

EDUARDO R. AREILZA
Member

NOMINATION COMMITTEE

PEDRO E. ROXAS
Chairman

SANTIAGO R. ELIZALDE
Member

RAMON R. DEL ROSARIO, JR.
Member

COMMITTEE OF ADVISORS

MIGUEL A. GASPAR

SENEN C. BACANI

VINCENT S. PEREZ

EDUARDO R. AREILZA

COMMITTEE OF ADVISORS PROFILE

MIGUEL A. GASPAR is 70 years old and is a Filipino. Mr. Gaspar was appointed by the Board of Directors as a member of the Committee of Advisors to the Board on 25 March 2009. Mr. Gaspar was educated at the De La Salle College where he obtained his Bachelor of Science degree in Mechanical Engineering as well as his Diploma in Management Development. He is a licensed Mechanical Engineer and he held various responsible positions in a number of prestigious companies.

SENEN C. BACANI is 63 years old and is a Filipino. Mr. Bacani was appointed by the Board of Directors as a member of the Committee of Advisors to the Board on 25 March 2009. Mr. Bacani holds key positions in a number of companies such as Ultrex Management & Investments, Corp., La Frutera, Inc., and Filipinas Palmoil Industries Holding, Inc., T'boli Agro-Industrial Development, Inc., Swift Foods, Inc. Philippine Chamber of Agriculture & Food, Inc. and several other companies. He was formerly the Secretary of the Department of Agriculture in 1990 until 1992. He was educated at the De La Salle University where he earned his degree in Commerce and at the University of Hawaii where he earned his Master in Business Administration.

VINCENT S. PEREZ is 51 years old and is a Filipino. He was appointed by the Board of Directors as a member of the Committee of Advisors to the Board on 25 March 2009. He is presently the CEO of Alternergy Partners, a power company focused on renewable power projects in emerging Asian countries, and is a Chairman of Merritt Partners, an energy advisory firm to international energy companies in Asia. Mr. Perez was the youngest Philippine Energy Minister from June 2001 to March 2005. He served briefly in early 2001 as Undersecretary for Industry at the Department of Trade and Industry. He founded Next Century Partners in 1997, a private equity firm that invested in companies such as Smart Communications, Del Monte Pacific and Fastech and in 2000, he founded Asian Conservation Company which acquired El Nido Resort. He is also an independent director of Nido Petroleum, Energy Development Corporation, SM Investments and ST Telemedia. He is the chairman of WWF-Philippines and was a member of the National Council of WWF-US. Mr. Perez is on the advisory board of the Center for Business and the Environment at Yale University, and has consulted for ADB and IFC on renewable energy policy. Mr. Perez obtained his MBA at the Wharton Business School of the University of Pennsylvania in 1983 and a Bachelor's Degree in Business Economics from the University of the Philippines in 1979.

EDUARDO R. AREILZA is 32 years old, married and a Spanish citizen. He was appointed by the Board of Directors as one of the members of the Committee of Advisors to the Board on 25 March 2009. Mr. Areilza obtained his degree in Business Administration in 1999 at the University of CUNEF Madrid, Spain.

CORPORATE OFFICERS

PEDRO E. ROXAS
Chairman

RAMON A. PICORNELL, JR.
President and CEO

ASUNCION S. AGUILAR
SVP, Finance & Treasurer

MELCHOR A. LAYSON
VP, Operations and Management Services

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

MA. ELIZABETH D. NASOL
VP, Corporate Human Resources

RAMON S. REYES
VP, Marketing

DEAN L. GUEVARRA
VP, Resident Manager,
Central Azucarera Don Pedro, Inc.

EDUARDO V. CONCEPCION
VP, Resident Manager,
Central Azucarera de La Carlota, Inc.

LUIS-MARI L. ZABALJAUREGUI
VP, ROXOL Bioenergy Corporation

LORNA PATAJO- KAPUNAN
Corporate Secretary

CORPORATE OFFICERS PROFILE

PEDRO E. ROXAS is 54 years old and is a Filipino. Mr. Roxas is the Chairman of the Nomination Committee. He has been a member of the Board of Directors since 1982 and is the Chairman of the Board of Directors as well as the Executive Committee. He is also the Chairman and President & CEO of Roxas & Co., Inc., the Chairman of Central Azucarera Don Pedro, Inc. and Central Azucarera de la Carlota, Inc., and other subsidiaries of the company, Chairman of Hawaiian Philippine Company, 2nd Vice-Chairman of Batangas Assets Corporation, Chairman of Club Punta Fuego, President of Roxaco Land Corporation, President of Fundacion Santiago, Chairman & President of Roxas Foundation, Inc., and a director of Philippine Long Distance Telephone Company (PLDT), the Manila Electric Company (Meralco), Banco de Oro (BDO) Private Bank, Philippine Sugar Millers Association, Inc., Fuego Development Corporation, Philippine Business for the Environment and Philippine Business for Social Progress. Mr. Roxas was educated at Portsmouth Abbey School, USA and at the University of Notre Dame, USA where he obtained his degree in Business Administration. Mr. Roxas is married to Ms. Regina Tambunting and they have three (3) children.

RAMON A. PICORNELL, JR. is 59 years old and is a Filipino. Mr. Picornell was elected as a member of the Board of Directors and as President & CEO of the corporation on 25 March 2009. He is also the President & CEO of Central Azucarera Don Pedro, Inc. and Central Azucarera de la Carlota, Inc. and other subsidiaries of the company and a director of Hawaiian-Philippine Company. Mr. Picornell was educated at the University of San Carlos and is a Mechanical Engineer.

ASUNCION S. AGUILAR is 50 years old and is a Filipino. Ms. Aguilar is the Senior Vice-President for Finance & Treasurer of the company since January 28, 1997. She is also Senior Vice-President for Finance & Treasurer of Central Azucarera Don Pedro, Inc., Central Azucarera de la Carlota, Inc. and the other subsidiaries of the company. She obtained her Master in Business Management from the Asian Institute of Management in Makati City and her Liberal Arts degree from the University of Santo Tomas.

MELCHOR A. LAYSON is 52 years old and is a Filipino. He was appointed as VP-Strategic Projects on 25 March 2009 and was later designated as VP-Operations & Management Services of the company on April 12, 2010. Mr. Layson holds a masteral degree in Business Administration from the Ateneo de Manila University and a BS Chemical Engineering from the Manuel L. Quezon University.

FLORENCIO M. MAMAUAG, JR. is 50 years old and is a Filipino. Atty. Mamauag, Jr. has been the Assistant Corporate Secretary, Vice-President for Legal Affairs and Compliance Officer of the company since September 25, 2002. He is also the Corporate Secretary and Vice-President for Legal Affairs of Central Azucarera Don Pedro, Inc., Central Azucarera de la Carlota, Inc. and the other subsidiaries of the company. Atty. Mamauag was educated at the San Beda College of Manila where he obtained his degrees in Accountancy and Law.

MA. ELIZABETH D. NASOL is 51 years old and is a Filipino. She was appointed as VP-Human Resource Management & Services on 25 March 2009. She is also the VP for Human Resource Management & Services Division of Central Azucarera Don Pedro, Inc. and Central Azucarera de la Carlota, Inc. She graduated from the University of Santo Tomas with a Bachelor of Science degree in Psychology. Ms. Nasol was formerly the Head for Center for Excellence in Globe Telecommunications, Inc. before she joined the company.

RAMON S. REYES is 47 years old and is a Filipino. He was appointed as VP for Marketing on 25 March 2009. He obtained his Master in Business Administration at the Ateneo de Manila University and earned his degrees in BSBA major in Marketing and AB Philisophy at the Ateneo de Davao University and Xavier University in Cagayan. He also completed Management Development Program at the Asian Institute of Management. Mr. Reyes was formerly the Program Director for Sales at the Ateneo de Manila University before he joined the company.

DEAN L. GUEVARRA is 51 years old and is a Filipino. He was appointed as VP-Resident Manager of Central Azucarera Don Pedro, Inc. on 25 March 2009. He graduated from the University of the Philippines in Diliman with a Bachelor of Science degree in Metallurgical Engineering.

EDUARDO V. CONCEPCION is 54 years old and is a Filipino. He was appointed as VP-Resident Manager of Central Azucarera de la Carlota, Inc. on 25 March 2009. He obtained his BS Chemical Engineering degree from De La Salle University and completed his MBA in the University of San Agustin. Mr. Concepcion was formerly the Resident Manager of PASSI Sugar Central, Inc. in Iloilo.

LUIS-MARI L. ZABALJAUREGUI is 64 years old and is a Filipino. He was appointed as VP Ethanol Project on 25 March 2009. Mr. Zabaljauregui obtained his AB-BSBA degree from the De La Salle College in 1968 and his MBM degree from the Asian Institute of Management in 1971.

LORNA PATAJO-KAPUNAN is 57 years old and is a Filipino. Atty. Kapunan is the Corporate Secretary of the company. Atty. Kapunan is a Senior Partner at the Law Firm of Kapunan Lotilla Garcia & Castillo. She obtained her Bachelor of Laws degree at the University of the Philippines.

FINANCIAL STATEMENTS

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Shareholder Information

INDEPENDENT AUDITORS' REPORT

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 and Company, Inc.) and subsidiaries, which comprise the consolidated balance sheets as at June 30, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended June 30, 2010, 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 3.94% and 4.12% of the consolidated total assets as of June 30, 2010 and 2009, and its share in HPCo's net income in 2010, 2009 and 2008 represents 2.13%, 1.36% and 1.15% of the consolidated revenue and 42.47%, 55.82% and 15.32% of the consolidated net income, respectively.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Roxas Holdings, Inc. and subsidiaries as of June 30, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended June 30, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-2
Tax Identification No. 102-086-208
PTR No. 2087534, January 4, 2010, Makati City

September 29, 2010

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	June 30	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 26)	**₱176,827**	₱286,662
Receivables (Notes 5, 14 and 26)	**832,800**	1,087,188
Inventories (Note 6)	**1,873,137**	1,588,509
Prepayments and other current assets (Note 7)	**229,117**	152,199
Total Current Assets	**3,111,881**	3,114,558
Noncurrent Assets		
Property, plant and equipment (Notes 9 and 13):		
At cost	**9,297,237**	7,144,711
At appraised values	**2,485,001**	2,517,660
Investment in shares of stock of an associate (Note 8)	**618,322**	557,432
Net pension plan assets (Note 15)	**140,455**	142,552
Deferred income tax assets - net (Note 22)	**4,977**	–
Other noncurrent assets (Notes 5 and 13)	**27,342**	44,756
Total Noncurrent Assets	**12,573,334**	10,407,111
TOTAL ASSETS	**₱15,685,215**	₱13,521,669
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term borrowings (Notes 10 and 26)	**₱2,449,904**	₱2,937,000
Accounts payable and accrued expenses (Notes 11 and 26)	**608,673**	779,530
Customers' deposits (Notes 12 and 26)	**123,109**	185,813
Dividends payable (Notes 23 and 26)	**16,069**	41,074
Current portion of long-term borrowings (Notes 9, 13 and 26)	**51,724**	–
Total Current Liabilities	**3,249,479**	3,943,417
Noncurrent Liabilities		
Long-term borrowings - net of current portion (Notes 9, 13 and 26)	**5,682,584**	3,075,973
Net pension benefit obligation (Note 15)	**41,097**	74,210
Deferred income tax liabilities - net (Note 22)	**725,150**	711,465
Total Noncurrent Liabilities	**6,448,831**	3,861,648
Total Liabilities	**9,698,310**	7,805,065

(Forward)

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	June 30	
	2010	2009
Equity (Note 23)		
Attributable to the equity holders of the Parent Company:		
Share capital	**₱1,168,976**	₱1,168,976
Share premium	**554,960**	554,960
Excess of consideration received from parent company over carrying amount of disposed subsidiary (Note 23)	**577,148**	577,148
Effect of change in ownership interests in subsidiaries (Note 23)	**44,567**	44,567
Revaluation increment on properties (Note 23)	**1,412,834**	1,444,660
Share in revaluation increment on land of an associate (Note 8)	**207,492**	207,492
Retained earnings (Note 23)	**2,749,127**	2,441,429
Treasury shares - at cost	**(768,860)**	(768,860)
	5,946,244	5,670,372
Noncontrolling interests (Note 23)	**40,661**	46,232
Total Equity	**5,986,905**	5,716,604
TOTAL LIABILITIES AND EQUITY	**₱15,685,215**	₱13,521,669

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Basic/Diluted Earnings per Share)

	Years Ended June 30		
	2010	2009	2008
REVENUE (Note 17)	**₱6,202,967**	₱5,864,618	₱6,077,544
COST OF SALES (Note 18)	**5,302,740**	4,979,137	4,942,573
GROSS PROFIT	**900,227**	885,481	1,134,971
Selling expenses	**(24,585)**	(36,700)	(34,312)
General and administrative expenses (Note 19)	**(595,690)**	(560,233)	(508,664)
Equity in net earnings of an associate (Note 8)	**132,263**	79,564	69,739
Interest expense (Notes 10 and 13)	**(319,480)**	(133,334)	(60,080)
Interest income (Note 4)	**5,710**	7,438	11,683
Other income - net (Note 21)	**296,651**	75,703	52,617
INCOME BEFORE INCOME TAX	**395,096**	317,919	665,954
PROVISION FOR INCOME TAX (Note 22)			
Current	**54,660**	138,525	178,772
Deferred	**28,996**	36,865	32,022
	83,656	175,390	210,794
NET INCOME	**₱311,440**	₱142,529	₱455,160
Attributable to:			
Equity holders of the Parent Company	**₱307,698**	₱180,249	₱410,015
Noncontrolling interests	**3,742**	(37,720)	45,145
	₱311,440	₱142,529	₱455,160
BASIC/DILUTED EARNINGS PER SHARE (Note 24)	**₱0.34**	₱0.20	₱0.39

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended June 30		
	2010	2009	2008
NET INCOME	**₱311,440**	₱142,529	₱455,160
OTHER COMPREHENSIVE INCOME (LOSS)			
Increase (decrease) in revaluation increment on property, plant and equipment (Note 9)	**(58,756)**	–	531,177
Income tax effect	**17,627**	–	(159,353)
	(41,129)	–	371,824
TOTAL COMPREHENSIVE INCOME	**₱270,311**	₱142,529	₱826,984
Attributable to:			
Equity holders of the parent	**₱275,873**	₱180,249	₱781,839
Noncontrolling interests	**(5,562)**	(37,720)	45,145
	₱270,311	₱142,529	₱826,984

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended June 30		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱395,096**	₱317,919	₱665,954
Adjustments for:			
Depreciation (Notes 9, 18 and 19)	**407,025**	304,426	328,103
Loss (gain) on disposal of property and equipment	**(972)**	9,878	–
Equity in net earnings of an associate (Note 8)	**(132,263)**	(79,564)	(69,739)
Changes in fair value of biological assets (Note 7)	**(3,531)**	5,995	(5,940)
Interest income (Notes 4 and 5)	**(5,710)**	(7,438)	(11,683)
Interest expense (Notes 10 and 13)	**319,480**	133,334	60,080
Movement in net pension plan assets	**(31,016)**	(12,089)	(6,283)
Net cash from operations before working capital changes	**948,109**	672,461	960,492
Decrease (increase) in:			
Receivables	**254,388**	(284,576)	218,697
Inventories	**(284,628)**	(120,602)	27,858
Prepayments and other current assets	**(42,573)**	(78,822)	(73,016)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(271,133)**	194,747	87,738
Customers' deposits	**(62,704)**	(29,500)	130,029
Cash generated from operations	**541,459**	353,708	1,351,798
Interest received	**5,710**	7,438	11,683
Income taxes paid, including creditable withholding and final taxes	**(85,475)**	(272,061)	(217,513)
Net cash from operating activities	**461,694**	89,085	1,145,968
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 9)	**(2,538,628)**	(3,418,728)	(2,125,630)
Proceeds from sale of property, plant and equipment	**5,805**	22,028	10,649
Dividends received (Note 8)	**71,373**	68,520	68,805
Disposal of (additions to) other noncurrent assets	**(521)**	11,158	(9,614)
Net cash used in investing activities	**(2,461,971)**	(3,317,022)	(2,055,790)

(Forward)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended June 30		
	2010	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments of) short-term borrowings (Note 10)	(₱487,096)	₱2,234,448	₱397,000
Proceeds from long-term borrowings (Note 13)	2,671,000	1,249,000	1,850,000
Payments of long-term borrowings (Note 13)	–	(13,333)	(580,115)
Interest paid	(268,447)	(117,496)	(57,783)
Debt commitment fees paid	–	–	(60,306)
Dividends paid (Note 23)	(25,005)	(159,140)	(151,744)
Reacquisition of shares of stock by the Company (Note 23)	–	(29,143)	(675,940)
Reacquisition of shares of stock by subsidiaries (Note 23)	(10)	(10)	(3,938)
Net cash from financing activities	1,890,442	3,164,326	717,174
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	(109,835)	(63,611)	(192,648)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	286,662	350,273	542,921
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱176,827	₱286,662	₱350,273

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

As of June 30, 2010 and 2009, the Company is 65.70% owned by Roxas and Company, Inc. (RCI), a publicly listed company incorporated and domiciled in the Philippines. Prior to the merger effective June 29, 2009 as discussed below, the Company was 65.12% owned by Roxas & Company, Inc., a company incorporated and domiciled in the Philippines. The Company has 2,330, 2,356 and 2,393 equity holders as of June 30, 2010, 2009 and 2008, respectively.

The Company's corporate office is located at the 6th Floor, Cacho-Gonzales Building, 101 Aguirre Street, Legaspi Village, Makati City, while the manufacturing plants of its operating subsidiaries (see Note 27) are in Barrio Lumbangan, Nasugbu, Batangas and Barrio Consuelo, La Carlota City, Negros Occidental.

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

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

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

Approval of the Consolidated Financial Statements
The consolidated financial statements as of June 30, 2010 and 2009 and for each of the three years in the period ended June 30, 2010 have been approved and authorized for issue by the Company's BOD on September 29, 2010.

2. Summary of Significant Accounting and Financial Reporting Policies

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

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

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and revised standards, amendments to existing standards and new and amendments to Philippine Interpretation which became effective July 1, 2009.

- Amendment to PAS 1, *Presentation of Financial Statements*, separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income, which presents all items of recognized income and expense, either in a single statement, or in two linked statements. The Group has elected to present all items of recognized income and expense in two linked statements.

- PFRS 8, *Operating Segments*, adopts a full 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 its financial statements with a securities commission or similar party. Operating segment information based on PFRS 8 including the related revised comparative information is presented in Note 27.

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

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, has changes in respect of the holding companies' separate consolidated financial statements including (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required, and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in the consolidated statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The additional disclosures are presented in Note 26.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so. This interpretation will be applied on future distribution of non-cash assets to shareholders.

The following changes in PFRS are either not applicable or did not have any significant impact on the consolidated financial statements.

- Revised PAS 23, *Borrowing Costs*, requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This did not have an impact to the Group as its policy has been to capitalize borrowing costs on qualifying assets.
- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendment to PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
- PAS 38, *Intangible Assets*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Improvements to PFRSs
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard.

- Amendment to the Appendix to PAS 18, *Revenue*, specifies no transitional provisions, the amendment is effective immediately and retrospectively. The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: (a) has primary responsibility for providing the goods or services; (b) Group has inventory risk; (c) has discretion in establishing prices; and (d) bears the credit risk. The Group assessed its revenue arrangements against these criteria; and concluded that it is acting as principal in all arrangements. Accordingly, no change was made in the Group's revenue recognition policy.

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to June 30, 2010

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

Effective 2011

- Amendments to PFRS 2, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*, clarifies the scope and the accounting for group-settled share-based payment transactions.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result at anytime in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- Amendment to PAS 32, *Classification of Rights Issues*, this amendment to PAS 32, *Financial Instruments: Presentation,* addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment issued today requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 39, *Financial Instruments: Recognition and Measurement*, provides clarification on prepayment option, scope exemption for contracts between an acquirer and a vendor in a business combination, and gains or losses on cash flow hedges of a forecast transaction.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments,* provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. These transactions are often referred to as debt for equity swaps. It clarifies the requirements of PFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. It clarifies that: (a) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (b) the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished and (c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

Effective 2012

- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement,* applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

- PAS 24, *Related Party Disclosures* (Revised) was revised in response to concerns that the previous disclosure requirements and the definition of a 'related party' were too complex and difficult to apply in practice, especially in environments where government control is pervasive. It addresses these concerns by providing a partial exemption for government-related entities and by simplifying the definition of a related party and removing inconsistencies.

Effective 2013

- Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.

Effective 2014

- PFRS 9, *Financial Instruments*, introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement*. The approach in this new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2010 on the consolidated financial statements prior to period of initial application. The effects and required revised disclosures, if any, will be included in the consolidated financial statements when the relevant accounting standards and interpretation are adopted subsequent to June 30, 2010.

Consolidation

The consolidated financial statements include the financial statements of the Company and the following subsidiaries (all incorporated in the Philippines):

	Percentage of Ownership			
	2010	2009	2008	
	Direct		Direct	Indirect
CADPGC[(1)]	–	–	89.22	–
CADPI	100.00	100.00	–	89.22
CACI	100.00	100.00	–	89.22
CADP Insurance Agency, Inc. (CIAI)[(2)]	100.00	100.00	–	89.22
CCSI	100.00	100.00	–	89.22
CFSI	100.00	100.00	–	89.22
JOMSI	99.99	99.99	–	89.21

(Forward)

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

	Percentage of Ownership			
	2010	2009	2008	
	Direct		Direct	Indirect
NAVI	**77.38**	77.27	–	63.96
Roxol Bioenergy Corporation (RBC)[3]	**100.00**	100.00	100.00	–
CADP Port Services, Inc. (CPSI)[4]	**100.00**	100.00	–	–
Roxas Power Corporation (RPC)[4]	**50.00**	50.00	–	–

(1) The loss of ownership interest in CADPGC is the result of the restructuring undertaken by the Group through sale of all its equity interest in CADPGC to RCI effective January 23, 2009 (see Note 1). As a result, the Company has now a direct ownership interest in the sugar-related operating subsidiaries which were previously owned by CADPGC. Results of operation of CADPGC are included in the consolidated financial statements until January 23, 2009, the date on which the Company's control ceased.

(2) CIAI was incorporated on August 19, 2009 and has not yet started commercial operations.

(3) RBC was incorporated on February 29, 2008 and has completed the construction of its plant facility as of June 30, 2010 but has not yet started commercial operations.

(4) CPSI and RPC were incorporated on July 17, 2008 and have not yet started commercial operations. The Company has control on RPC since it has the power to cast the majority of votes at the BOD's meetings and the power to govern the financial and reporting policies of RPC.

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

Noncontrolling 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 the equity section of the consolidated balance sheet and consolidated statement of changes in equity, separately from Company's equity. Total comprehensive income is attributed to the portion held by the Group and to the noncontrolling interests even if this results in the noncontrolling interests having a deficit balance.

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 noncontrolling interest or partial disposal of interest over a subsidiary that do not result in a loss of control, are accounted for as equity transactions.

Business Combinations

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

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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

In cases where the business combination has no substance, the Company shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction. As discussed in Note 1, the Group recorded the difference as excess of consideration over carrying amount of disposed subsidiary and presented as separate component of equity in the consolidated balance sheet.

Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

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

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

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

Segment Reporting
Operating segments are components of the Group: (a) that engage in business activities from which they may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately on a per company basis, with each company representing a strategic business segment.

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.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

Financial Assets and Financial Liabilities

Classification and recognition

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

Financial assets 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.

Financial assets are classified into the following categories:

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

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

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

The classification of financial instruments depends on the purpose for which they were acquired and whether they are quoted in an active market. 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.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

Financial assets are classified as held for trading if these are acquired for the purpose of selling in the near term. Derivatives, including separated embedded 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. Subsequent changes in fair value are recorded in the consolidated statement of income. 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, 2010 and 2009.

Embedded Derivatives
An embedded derivative is a component of a combined instrument that includes a nonderivative host contract with the effect that some or all of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. It is separated from the host financial or nonfinancial contract 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 assets or financial liabilities at fair value through profit or loss. Changes in the fair values are included in the consolidated statement of income.

As of June 30, 2010 and 2009, 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 amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized and impaired, as well as through amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the end of reporting period, otherwise, these are classified as noncurrent assets.

Trade receivables with average credit terms of 30 days are recognized and carried at original invoice amount less any allowance for impairment.

Classified as loans and receivables are the Group's cash in banks and cash equivalents, trade receivables, advances to related parties, advances to employees and other receivables as of June 30, 2010 and 2009 (see Note 26).

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

c. Held-to-maturity investments

Held-to-maturity investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold them to maturity. Where the Group sells other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale investments for at least the two financial years. After initial measurement, held-to-maturity investments are subsequently carried at 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 from the end of reporting period, otherwise, these are classified as noncurrent assets.

The Group has not designated any financial asset as held-to-maturity as of June 30, 2010 and 2009.

d. Available-for-sale financial assets

Available-for-sale financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments. The unrealized gains and losses arising from the fair valuation of available-for-sale financial assets, except for the foreign exchange fluctuations on available-for-sale debt securities and the related effective interest, are excluded, net of tax, from reported earnings, and are recognized in the statement of comprehensive income and are reported in the equity section of the consolidated balance sheet. These changes in fair values are recognized in equity until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the consolidated statement of income.

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

The Group has not designated any financial assets as available-for-sale as of June 30, 2010 and 2009.

e. Other financial liabilities

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

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings 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 end of reporting period.

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.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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

b. Financial liabilities

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

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

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether a financial asset or a group of financial assets is impaired.

a. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future

credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss, if any, is recognized in the consolidated statement of income.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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. The impairment assessment is performed at the end of each reporting period. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

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

b. Financial assets carried at cost

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

c. Available-for-sale financial assets

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

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

Determination of fair value

The fair value of financial instruments traded in active markets at the end of reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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

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

Inventories
Raw and refined sugar inventory is valued at the lower of cost and net realizable value (NRV), cost being determined using the weighted average method. The cost of alcohol includes direct materials and labor and a proportion of manufacturing overhead costs with unit cost determined using the moving average method. Molasses inventory is carried at the lower of cost and NRV. Production cost is allocated using the relative sales value of each of the joint products, i.e., raw and refined sugar and molasses. The costs of molasses include its purchase cost with unit cost determined using moving average method. NRV is the estimated selling price in the ordinary course of business less variable selling expense.

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

A gain or loss arising on initial recognition of a consumable biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell is recognized in the consolidated statement of income 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 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.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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 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 and consolidated statement of changes in equity. Increases in the carrying amount arising on revaluation of properties are recognized in the consolidated statement of comprehensive income and credited to revaluation increment in the consolidated statement of changes 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 CADPI's depreciable assets as of July 1, 2004, which is the revalued amount less accumulated depreciation from the Group's perspective, as their deemed costs at that date when the Group adopted PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost.

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

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

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

Impairment of Nonfinancial Assets

The carrying values of property, plant and equipment, investment in shares of stock of an associate and other noncurrent assets 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 the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation 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.

Share Capital and Share Premium

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax. The excess of proceeds from the issuance of shares over the par value of shares is credited to share premium.

Treasury Shares

Where any member of the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity 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 transactions costs and the related income tax effect, is included in equity attributable to the Company's equity holders.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy and other capital adjustments. Unappropriated retained earnings represent that portion which is free and can be declared as dividends to shareholders. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Dividend Distribution

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

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.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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

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

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

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

Farm income
Farm income is recognized when the related service is rendered.

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

Other income
Other income is recognized when earned.

<u>Other Comprehensive Income</u>
Other comprehensive income comprises items of income and expenses (including items previously presented under the statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS.

<u>Cost and Expenses</u>
Cost of sales
Cost of sales include direct materials and labor costs, and those related indirect cost incurred. It is recognized as expense when related goods are sold.

Selling, general and administrative expenses
Selling expenses are costs incurred to sell or distribute goods. General and administrative expenses constitute costs of administering the business. These costs are expensed when incurred.

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

Pension plan asset
The assets of the Group recognized in the consolidated balance sheet in respect of defined benefit pension plans is the lower of (a) the excess of the fair value of plan assets over the present value of the defined benefit obligation at the end of reporting period 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.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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 end of reporting period 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
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 end of reporting period 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.

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

These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

Transitional liability resulting from the Group's initial adoption of PAS 19 is being amortized for a period of five years from July 1, 2005. Outstanding transitional liability as of June 30, 2009 amounted to ₱32.6 million was fully amortized in 2010 (see Note 15).

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after end of reporting period are discounted to present value.

Borrowing Costs
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.

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

Debt commitment fees relating to the drawn amount are amortized using effective interest rate method and are presented as reduction in the principal loan balance. Debt commitment fees relating to the undrawn loans are recorded as deferred charges and are amortized using straight-line method. Amortization of debt commitment fees is recognized as interest expense and presented in the consolidated statement of income.

Leases

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

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.

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 the end of each reporting period and adjusted to reflect the current best estimate.

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

Foreign Currency-Denominated Transactions and Translations

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

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

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

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 end of reporting period.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the end of reporting period 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 liability 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. However, deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

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 sufficient future 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.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future 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 the end of each reporting period and are recognized to the extent that it has become probable that sufficient 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 end of reporting period.

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.

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

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.

Earnings per Share

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

2. Summary of Significant Accounting and Financial Reporting Policies (cont'd)

Events after the Reporting Period

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

3. Significant Judgments, Accounting Estimates and Assumptions

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

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

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

Judgments

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

Determination of the Company's functional currency

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

Classification of financial instruments

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

The classifications of the various financial assets and financial liabilities of the Group are disclosed in Note 26. The aggregate carrying value of the Group's financial assets and financial liabilities amounted to ₱969.5 million and ₱8,735.3 million as of June 30, 2010, respectively, and ₱1,323.7 million and ₱6,776.9 million, respectively, as of June 30, 2009 (see Note 26).

Classification of leases

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the assets held for lease are retained by the Group. Lease contracts which the Group retains substantially all the risks and rewards incidental to ownership of the lease item are accounted for as operating leases. Otherwise, these are considered as finance leases. The Group, as a lessee, 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.

3. Significant Judgments, Accounting Estimates and Assumptions (cont'd)

Allocation of cost to molasses inventory
Management uses judgment to measure and allocate value to the molasses inventory. When the costs of conversion of each product are not separately identifiable, they are allocated among the products on a rational and consistent basis. The allocation is based on relative sales value of cane 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.

A portion of molasses inventory amounting to ₱25.3 million and ₱19.9 million pertains to allocated cost from the total production costs of milled raw and refined sugar as of June 30, 2010 and 2009, respectively (see Note 6).

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

Determination of provision for impairment of receivables
The provision for impairment of receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total amount to be provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used, based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific allowances against amounts due to reduce receivable amounts expected to be collected. These specific allowances 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, 2010 and 2009, the carrying amount of the Group's receivables amounted to ₱832.8 million and ₱1,087.2 million, net of allowance for impairment of receivables of ₱20.6 million and ₱23.9 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, 2010 and 2009 amounted to ₱1,873.1 million and ₱1,588.5 million, respectively (see Note 6).

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

As of June 30, 2010 and 2009, the Group's consumable biological assets amounted to ₱24.3 million and ₱14.8 million, respectively (see Note 7).

3. Significant Judgments, Accounting Estimates and Assumptions (cont'd)

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.

As of June 30, 2010 and 2009, the carrying amount of the Group's creditable withholding taxes amounted to ₱84.3 million and ₱53.5 million, net of allowance for losses amounting to ₱13.7 million and ₱9.8 million, respectively (see Note 7).

Valuation of land under revaluation basis
The Group's land is carried at revalued amount, which approximate its fair value at the date of the revaluation, less any accumulated impairment losses. The valuation of land is performed by professionally qualified independent appraisers. The fair value was arrived at using the Market Data Approach for land based on the gathered available market evidences. 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 end of reporting period. Land carried at revalued amounts as of June 30, 2010 and 2009 amounted to ₱2,485.0 million and ₱2,517.7 million (see Note 9).

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

Estimation of useful lives and residual values of property, plant and equipment
The useful life of each of the Group's items of property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by the changes in the factors mentioned above. A change in the estimated useful life of any item of property, plant and equipment would impact the recorded operating expense and noncurrent assets. The total carrying value of the Group's depreciable property, plant and equipment as of June 30, 2010 and 2009 amounted to ₱9,297.2 million and ₱7,144.7 million, respectively (see Note 9).

Impairment of nonfinancial assets
The Group assesses at each reporting date whether there is any indication that a property, plant and equipment and investment in shares of stock of an associate 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 determined that the carrying values of property, plant and equipment and investment in shares of stock on an associate are recoverable.

The total carrying value of the Group's property, plant and equipment as of June 30, 2010 and 2009 amounted to ₱11,782.2 million and ₱9,662.4 million, respectively (see Note 9).

The carrying value of the Group's investment in share of stock of an associate amounted to ₱618.3 million and ₱557.4 million as of June 30, 2010 and 2009, respectively (see Note 8).

3. Significant Judgments, Accounting Estimates and Assumptions (cont'd)

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 the actuary 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, 2010 and 2009 amounted to ₱140.5 million and ₱142.6 million, respectively. On the other hand, net pension benefit obligation as of June 30, 2010 and 2009 amounted to ₱41.1 million and ₱74.2 million, respectively (see Note 15).

Provisions

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at the end of reporting period, 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, 2010 and 2009.

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, 2010 and 2009 (see Note 16).

Recognition of deferred income tax assets

The Group reviews the carrying amounts at the end of each reporting period 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 ₱117.4 million and ₱101.4 million as of June 30, 2010 and 2009, respectively (see Note 22).

4. Cash and Cash Equivalents

Cash and cash equivalents at June 30 consist of:

	2010	2009
	(In Thousands)	
Cash on hand and in banks	₱176,827	₱280,957
Short-term placements	–	5,705
	₱176,827	₱286,662

Short-term placements earn interest ranging from 1.3% to 2.5%, 1.5% to 3.0% and 1.5% to 5.1% per annum in 2010, 2009 and 2008, respectively. The average maturities of these placements is 30 days to 60 days. Interest income earned on cash in banks and short-term placements amounted to ₱5.7 million, ₱7.4 million and ₱11.7 million in 2010, 2009 and 2008, respectively.

5. Receivables

Receivables at June 30 consist of:

	2010	2009
	(In Thousands)	
Trade	₱681,216	₱756,680
Advances to:		
Related parties (Note 14)	49,022	201,423
Employees	38,762	50,481
Planters and cane haulers	38,547	27,664
Advances for raw sugar purchases	15,192	16,962
Others	30,705	57,871
	853,444	1,111,081
Less allowance for impairment of receivables	20,644	23,893
	₱832,800	₱1,087,188

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

Other receivables include advances to suppliers for the purchase of local and imported materials and supplies. The account also includes outstanding receivable from the 2002 sale of a portion of the Company's land in Barrio Bilaran, Nasugbu, Batangas to its employees. Due to the Reorganization Program discussed in Note 1, the employees were transferred to CADPI, whereas, the receivable remained with the Company. These loans bear annual interest of 12% and are payable over 10 years until 2012. As of June 30, 2010 and 2009, remaining balance on the current portion of such receivable amounted to ₱4.1 million, net of unearned interest income (presented as a deduction from such receivable) amounting to ₱0.8 million and ₱0.4 million as of June 30, 2010 and 2009, respectively.

Noncurrent portion of loans to CADPI employees as of June 30, 2010 and 2009 amounting to ₱3.2 million and ₱6.6 million, respectively, is presented under "Other noncurrent assets" account net of unearned interest income of ₱0.8 million and ₱2.2 million, respectively.

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

	2008	Additions (Note 19)	Write-offs	2009	Additions (Note 19)	Write-offs	2010
				(In Thousands)			
Trade	₱6,502	₱230	₱–	₱6,732	₱–	(₱3,817)	₱2,915
Advances to planters and cane haulers	6,044	103	(3)	6,144	1,891	–	8,035
Advances to employees	1,276	–	–	1,276	–	–	1,276
Others	9,718	23	–	9,741	150	(1,473)	8,418
	₱23,540	₱356	(₱3)	₱23,893	₱2,041	(₱5,290)	₱20,644

6. Inventories

Inventories at June 30 consist of:

	2010	2009
	(In Thousands)	
At cost:		
Refined sugar	₱732,092	₱310,593
Alcohol	21,278	–
Materials in transit	19,532	132,084
At NRV:		
Raw sugar	584,076	614,437
Molasses	135,025	19,869
Materials and supplies	381,134	511,526
	₱1,873,137	₱1,588,509

Details and movements of allowances for inventory losses of raw sugar and inventory obsolescence of materials and supplies as of June 30 follow:

	Raw Sugar		Materials and Supplies	
	2010	2009	2010	2009
	(In Thousands)			
Beginning	₱21,995	₱10,761	₱30,976	₱25,666
Provisions	12,365	11,234	2,685	5,310
Recovery	(2,601)	–	–	–
Write-offs	(31,759)	–	(4,545)	–
Ending	₱–	₱21,995	₱29,116	₱30,976

Recovery of inventory losses of raw sugar pertains to the increase in the net realizable value of inventory due to higher selling price.

Cost of inventories recognized as expense and included in “Cost of sales” amounted to ₱3,071.3 million, ₱3,118.7 million and ₱3,111.8 million in 2010, 2009 and 2008, respectively (see Note 18).

7. Prepayments and Other Current Assets

Prepayments and other current assets at June 30 consist of:

	2010	2009
	(In Thousands)	
Input VAT and other prepaid taxes	₱111,390	₱63,236
Creditable withholding taxes, net of allowance of ₱13.7 million in 2010 and ₱9.8 million in 2009 (Note 19)	84,267	53,452
Consumable biological assets	24,322	14,796
Others	9,138	20,715
	₱229,117	₱152,199

7. Prepayments and Other Current Assets (cont'd)

Consumable biological assets pertain to standing sugarcanes of NAVI.

Input value-added taxes arise from purchases of equipment and services relating to the Expansion Project and RBC Plant construction (see Note 9).

Other current assets consist of prepaid insurance and rentals, advance payments made to a sugar milling company for tolling services and advanced input VAT for refined sugar sales.

8. Investment in Shares of Stock of an Associate

As at June 30, 2010 and 2009, details of the investment in HPCo, 45.09%-owned associate, and incorporated in the Philippines, follow:

	2010	2009
	(In Thousands)	
Acquisition cost	₱127,933	₱127,933
Accumulated equity in net earnings		
Beginning of year	222,007	210,963
Equity in net earnings for the year	132,263	79,564
	354,270	290,527
Less dividend received	71,373	68,520
End of year	282,897	222,007
Share in revaluation increment	207,492	207,492
	₱618,322	₱557,432

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

The summarized financial information of HPCo as of and for the years ended June 30, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
		(In Thousands)	
Current assets	₱527,255	₱433,880	₱436,982
Noncurrent assets	800,414	750,103	731,052
Current liabilities	319,204	305,953	386,539
Noncurrent liabilities	92,044	96,435	14,986
Net assets	916,421	781,595	766,509
Revenue	1,720,225	1,567,874	1,304,346
Net income	293,331	176,457	154,667

9. Property, Plant and Equipment

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

	2010					
	Buildings and Improvements	Machinery and Equipment	Railroad Equipment	Office Furniture, Fixtures and Equipment	Construction in Progress	Total
	(In Thousands)					
Cost						
Beginning balances	₱1,224,798	₱5,165,361	₱123,144	₱605,646	₱4,967,334	₱12,086,283
Additions	129,408	1,346,670	23,597	267,563	797,146	2,564,384
Disposals	–	(10,820)	(118,449)	(982)	–	(130,251)
Reclassification	686,889	2,307,477	4,643	(803,557)	(2,217,363)	(21,911)
Ending balances	2,041,095	8,808,688	32,935	68,670	3,547,117	14,498,505
Accumulated depreciation						
Beginning balances	₱697,442	₱3,607,310	₱121,326	₱515,494	₱–	₱4,941,572
Depreciation	67,037	321,051	8,066	10,871	–	407,025
Disposals	–	(6,748)	(118,030)	(640)	–	(125,418)
Reclassification	(28,118)	477,941	(362)	(471,372)	–	(21,911)
Ending balances	736,361	4,399,554	11,000	54,353	–	5,201,268
Net Book Value	₱1,304,734	₱4,409,134	₱21,935	₱14,317	₱3,547,117	₱9,297,237

	2009					
	Buildings and Improvements	Machinery and Equipment	Railroad Equipment	Office Furniture, Fixtures and Equipment	Construction in Progress	Total
	(In Thousands)					
Cost						
Beginning balances	₱1,053,034	₱5,053,663	₱121,158	₱563,855	₱1,983,930	₱8,775,640
Additions	183,995	141,108	3,147	41,791	2,983,404	3,353,445
Disposals	(12,231)	(29,410)	(1,161)	–	–	(42,802)
Ending balances	1,224,798	5,165,361	123,144	605,646	4,967,334	12,086,283
Accumulated depreciation						
Beginning balances	659,861	3,377,179	121,158	489,844	–	4,648,042
Depreciation	42,975	235,614	187	25,650	–	304,426
Disposals	(5,394)	(5,483)	(19)	–	–	(10,896)
Ending balances	697,442	3,607,310	121,326	515,494	–	4,941,572
Net Book Value	₱527,356	₱1,558,051	₱1,818	₱90,152	₱4,967,334	₱7,144,711

9. Property, Plant and Equipment (cont'd)

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

	2010	2009
	(In Thousands)	
Beginning balance at appraisal values	₱2,517,660	₱2,517,660
Additions	26,097	–
Revaluation decrease	(58,756)	–
Ending balance at appraisal values	₱2,485,001	₱2,517,660
At cost	₱58,715	₱32,620

a. Construction in progress

Construction in progress as of June 30, 2010 and 2009 pertains mainly to the foregoing milling plant improvement project, refinery plant installation of sieving facilities, as well as construction and improvement of waste and pollution facilities of the Group.

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

In August 2007, CADPGC entered into a purchase agreement, for and on behalf of its then wholly-owned subsidiaries, CADPI 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, USA, 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 local banks to finance the Expansion Project (see Notes 10 and 13).

RBC Plant Construction Project
On June 27, 2008, in line with the Group Expansion Project, RBC entered into an agreement to construct its bioethanol plant in La Carlota City, Negros Occidental for a total contracted amount of US$20.9 million. As of June 30, 2010 and 2009, the balance in the construction in progress relating to RBC plant amounted to ₱1,202.2 million and ₱584.8 million, respectively.

Capitalization of borrowing costs
Interests from short and long-term borrowings amounting to ₱174.6 million, ₱277.9 million and ₱45.5 million in 2010, 2009 and 2008, respectively, incurred to finance the Expansion Project were capitalized to property, plant and equipment. The Group amortizes such capitalized interest over the useful life of the qualifying asset to which it relates. Unamortized capitalized interest as of June 30, 2010 and 2009 amounted to ₱524.2 million and ₱370.4 million with corresponding deferred income tax liability of ₱157.2 million and ₱111.1 million, respectively (see Note 22). The rates used to determine the amount of borrowing costs eligible for capitalization were 8.8%, 6.7% and 6.6% in 2010, 2009 and 2008, respectively, which are the average effective interest rates of the borrowings.

9. Property, Plant and Equipment (cont'd)

Noncash additions to property, plant and equipment
The Group has outstanding liabilities for purchase of equipment relating to the Expansion Project and RBC Plant construction amounting to ₱54.7 million, ₱2.8 million and ₱68.1 million as of June 30, 2010, 2009 and 2008, respectively.

b. Depreciation

Depreciation charged to operations are as follows:

	2010	2009	2008
		(In Thousands)	
Cost of sales (Note 18)	**₱381,961**	₱274,204	₱301,858
General and administrative expenses (Note 19)	**25,064**	30,222	26,245
	₱407,025	₱304,426	₱328,103

As of June 30, 2010 and 2009, fully depreciated property, plant and equipment, with an aggregate cost of ₱1,400.6 million and ₱1,404.1 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 ₱1,053.5 million and ₱1,542.8 million as of June 30, 2010 and 2009, respectively.

10. Short-term Borrowings

At various dates in 2010, 2009 and 2008, CACI and CADPI 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 7.0%, 5.0% to 9.75% and 4.7% to 8.1% and have terms ranging from 29 to 32 days, 30 to 32 days and 28 to 179 days in 2010, 2009, 2008, respectively.

As of June 30, 2010 and 2009, the balance of the short-term loans, net of related unamortized debt commitment fees, amounted to ₱2,449.9 million and ₱2,937.0 million, respectively.

Total interest expense recognized from short-term borrowings amounted to ₱159.3 million, ₱76.4 million and ₱53.2 million in 2010, 2009 and 2008, respectively, excluding interest of ₱42.0 million in 2010 and ₱36.0 million in 2009 which were capitalized (see Note 9).

11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30 consist of:

	2010	2009
	(In Thousands)	
Trade suppliers	₱131,488	₱305,704
Accrued expenses:		
Interest (Notes 10 and 13)	80,999	35,234
Contractors	43,752	10,714
Outside services	17,738	13,523
Payroll and other benefits	9,834	6,689
Purchases and others	64,119	115,141
Due to planters	18,857	47,874
Payable to government agencies for taxes and contributions	73,681	56,638
Payable to retirement fund (Note 14)	58,555	31,731
Others	109,650	156,282
	₱608,673	₱779,530

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 ₱123.1 million and ₱185.8 million as of June 30, 2010 and 2009, respectively.

13. Long-term Borrowings

Long-term borrowings at June 30 consist of:

	2010	2009
	(In Thousands)	
Banco de Oro Unibank, Inc. (BDO)	₱3,770,000	₱1,938,494
Syndicated Loan Agreement:		
Bank of the Philippine Islands (BPI)	1,500,000	940,562
Rizal Commercial Banking Corporation (RCBC)	500,000	219,944
	5,770,000	3,099,000
Unamortized debt commitment fee	(35,692)	(23,027)
	5,734,308	3,075,973
Less current portion	51,724	–
	₱5,682,584	₱3,075,973

13. Long-term Borrowings (cont'd)

On February 8, 2008, RHI availed the loan facility from BDO with an aggregate amount of ₱6,189.0 million. The principal amount of debt accommodation is shared by RHI and CADPI/CACI amounting to ₱1,570.0 million and ₱4,619.0 million, respectively. In addition, on February 14, 2008, CADPI and CACI entered into a Syndicated Loan Agreement with BPI and RCBC (with BPI as the lead bank) for a total credit line of ₱1,500.0 million.

RHI
On May 5, 2008, RHI availed loans from BDO amounting to ₱143.3 million to finance its Shares Buy Back Program. The principal of the loan is payable quarterly starting on the 4th year of the 10-year term.

Short-term loans availed from BDO on May 5, 2008 and October 29, 2008 amounting to ₱400.0 million and ₱175.0 million, respectively, were rolled over to long-term borrowings. As such, the principal of the loan will be payable quarterly starting on the 4th year of the original 10-year term.

As of June 30, 2009, the interest rate of the long-term loans was 5.9% per annum, subject to quarterly repricing as agreed by the parties. In 2010, the Company exercised its option to fix the quarterly interest rate of the loans at 8.84% beginning August 5, 2009 until the end of the loan terms.

CADPI
On February 14, 2008, CADPI entered into a loan agreement with BPI to avail loans in two tranches with an aggregate principal amount of ₱500.0 million. Tranche "A" of the loan amounting to ₱300.0 million bears fixed annual interest of 8.00% and payable on the 5th anniversary date of the borrowing. On the other hand, Tranche "B" of the loan amounting to ₱200.0 million bears fixed annual interest of 8.40% and payable on an installment basis, ₱2.0 million on the 5th and 6th anniversary date of the borrowing and the balance on the 7th anniversary date of the borrowing.

On May 5, 2008, CADPI availed loans from BPI and RCBC amounting to ₱167.2 million and ₱83.6 million, respectively, which bear interest of 6.50% and 6.60%, respectively. As of June 30, 2009, interest rates were 5.80% and 5.90% for BPI and RCBC loan, respectively. Promissory notes issued by CADPI to the banks are under the terms set forth in the Syndicated Loan Agreement. Loans availed are with 10-year terms and will all mature on May 5, 2018.

Likewise, on May 5, 2008, CADPI availed additional loan from BDO amounting to ₱365.9 million. The principal of the loan is payable quarterly starting on the 4th year of the 10-year term. As of June 30, 2009, the interest rate was 5.90% subject to repricing based on loan agreements.

On October 29, 2008, additional loans were availed by CADPI from BDO, BPI and RCBC amounting to ₱459.0 million, ₱143.5 million and ₱71.4 million, respectively, with interest rates of 6.60%, 6.50% and 6.60%, respectively. As of June 30, 2009, the interest rates of the availed loans from BDO, BPI and RCBC were 5.90%, 5.80% and 5.90%, respectively, subject to quarterly repricing as agreed by the parties.

In 2010, CADPI also exercised its option to fix the quarterly interest rates of the floating rate loans availed in May 2008 and October 2008. Interest rate was fixed to 8.79% for BPI loans and 8.93% for BDO and RCBC loans, which became effective beginning August 5, 2009 until the end of the loan terms.

On February 12, 2010, CADPI availed additional loans from the undrawn portion of the total credit facility from BPI, BDO and RCBC amounting to ₱329.3 million, ₱1,050.5 million and ₱166.2 million, respectively. Loans availed from BPI and RCBC with fixed interest rates of 8.70% and 8.84%, respectively, are payable in 29 equal quarterly installments beginning May 2011, which is the end of the three years grace period from initial drawdown dated May 2008. Loans availed from BDO carries fixed interest rate of 8.84% and are payable in 28 monthly installments beginning August 5, 2011.

13. Long-term Borrowings (cont'd)

CACI
On May 5, 2008, CACI availed loans from BPI, BDO and RCBC amounting to ₱129.8 million, ₱395.3 million and ₱64.9 million, respectively, and with interest rates of 6.50%, 6.60% and 6.60%, respectively. Loans availed are with 10-year terms and payable in 29 and 28 quarterly installments beginning May 2011 for BPI and RCBC and August 2011 for BDO, respectively. As of June 30, 2009, interest rates of the availed loans with BDO, BPI and RCBC were 5.80%, 5.90% and 5.90%, respectively.

In 2010, CACI exercised its option to fix the quarterly interest rate of repricing BPI loans at 8.79% and BDO and RCBC loans at 8.84% beginning August 5, 2009 until the end of the loan terms.

On August 12, 2009, CACI availed additional loans from BPI and RCBC amounting to ₱230.2 million and ₱113.9 million, respectively. On November 5, 2009, CACI also obtained additional loan from BDO amounting to ₱781.0 million. Loans availed from BPI and RCBC with fixed interest rate of 8.74% and 8.88%, respectively, are payable in 29 equal quarterly installments beginning May 2011, which is the end of the three years grace period from initial drawdown dated May 2008. Loans availed from BDO, on the other hand, carries fixed interest rate of 8.94% and are payable in 28 quarterly installments beginning August 5, 2011.

Debt commitment fees
As part of the Syndicated Loan Agreement with BPI/RCBC, the Group incurred debt commitment fees amounting to ₱59.4 million in 2008. Of the total amount of debt commitment fees paid, ₱29.8 million pertains to the drawn portion of the total credit facility (referred to as "Unamortized debt commitment fees" and presented as a reduction from the principal loan balance), while the remaining ₱29.6 million pertains to the undrawn portion (presented as "Deferred charges" under "Other noncurrent assets"). In 2010, the deferred charges amounting to ₱16.3 million as of June 30, 2009 was all recognized as reduction from the outstanding loans upon full availment of the undrawn portion of the credit facility. As of June 30, 2010 and 2009, unamortized debt commitment fees on long-term loans amounted to ₱35.7 million and ₱23.0 million, respectively.

Borrowing costs
Interests from long-term borrowings recognized as expense amounted to ₱160.2 million, ₱56.9 million and ₱6.9 million, net of capitalized amounts of ₱136.6 million, ₱241.9 million and ₱45.5 million in 2010, 2009 and 2008, respectively.

Suretyship agreement, mortgage trust indenture and debt covenants
In relation with the BDO Loan Facility executed on February 8, 2008, RHI, CADPI and CACI, entered into a Continuing Suretyship Agreement with BDO. Under this Agreement, BDO shall have the right to set-off the secured obligations in solidarity against all the borrowers' properties.

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

Further, RHI, CADPI and CACI executed a Mortgage Trust Indenture (MTI) to secure the loans obtained from BDO, BPI and RCBC. The MTI covers properties in Nasugbu, Batangas which consist mainly of RHI's land and CADPI's properties with an aggregate carrying value of ₱1.9 billion and ₱4.5 billion, respectively, and CACI's properties in La Carlota, Negros Occidental amounting to ₱4.0 billion as of June 30, 2010.

The above loan agreements stipulate certain covenants, which include the following:
- maintenance of a reasonable amount of deposit with the creditor banks;
- registration of all collaterals, which must be free from liens and liabilities;
- maintenance of debt service coverage ratio and debt to equity ratio;

13. Long-term Borrowings (cont'd)

- prohibition on purchase of additional equipments except in pursuance of its sugar expansion and ethanol project; and
- prohibition on any material change in ownership or control of its business or capital stock or in the composition of its top level management.

As of June 30, 2010 and 2009, the Group is in compliance with these loan covenants.

The maturities of the noncurrent portion of the long-term borrowings as of June 30 is as follows:

	2010	2009
	(In Thousands)	
Between one and two years	₱797,192	₱–
Between two and five years	2,736,404	1,445,038
Over five years	2,200,712	1,630,935
	₱5,734,308	₱3,075,973

14. Related Party Transactions

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

a. As of June 30, 2010 and 2009, the Group's outstanding advances to RCI amounted to ₱49.0 million and ₱201.4 million, respectively. RHI granted the advances to RCI in 2009 which were used to defray cost and expenses relating to the restructuring activities undertaken by the Group during the year.

b. As of June 30, 2010 and 2009, the Company as a lessee, has a one-year lease agreement with CADP Retirement Fund, Inc. (CADPRFI), which is renewable annually at the option of the Company, CADPI and CACI under such terms and conditions mutually acceptable to all parties. Related rent expense charged to operations amounted to ₱3.0 million in 2010 and ₱2.8 million in 2009.

c. In December 2005, the Company also entered into a lease agreement with CADPRFI, for the lease of its office space. The contract, which is renewable annually, requires a monthly rental of ₱56,183. Related rent expense charged to operations in 2010, 2009 and 2008 amounted to ₱0.6 million.

d. Key management compensation for the years ended June 30 follows:

	2010	2009	2008
		(In Thousands)	
Salaries and wages	₱32,128	₱33,129	₱33,252
Employee and other benefits (income)	8,230	–	(3,057)
	₱40,358	₱33,129	₱30,195

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

15. Retirement Benefit Plans

Net Pension Plan Assets

Prior to Restructuring in fiscal year 2009 (see Note 1), the Company and CADPGC maintain an individual and separately funded, non-contributory defined benefit plan (the Plan) covering all eligible employees. On December 16, 2008, the Company assumed the transferred employees covered by the Plan and acquired the related net pension plan assets from CADPGC. The acquired net pension plan assets, including the related deferred income tax liabilities, were part of the total consideration received from the acquisition of CADPGC's investments in shares of stock and certain assets and liabilities (see Note 1).

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

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

	2010	2009
	(In Thousands)	
Present value of obligation	₱169,899	₱109,142
Fair value of plan assets	(248,544)	(252,445)
Surplus	(78,645)	(143,303)
Unrecognized actuarial gain (loss)	(61,810)	751
Net pension plan assets	(₱140,455)	(₱142,552)

Plan assets cannot be returned to RHI unless on circumstances discussed in Note 2. The net pension plan assets as of June 30, 2010 and 2009 of ₱140.5 million and ₱142.6 million, respectively, will be used to reduce future contributions to the retirement fund. Consequently, a portion of the Group's 2009 retained earnings related to pension plan asset, net of deferred income tax liability, is not available for dividend declaration (see Note 23).

The movements in the defined benefit obligation during the years follow:

	2010	2009
	(In Thousands)	
Beginning of year	₱109,142	₱116,788
Interest cost	11,350	12,020
Current service cost	5,893	4,554
Benefits paid	–	(1,768)
Actuarial loss (gain)	43,514	(22,452)
End of year	₱169,899	₱109,142

The movements in the fair value of plan assets during the year are as follows:

	2010	2009
	(In Thousands)	
Beginning of year	₱252,445	₱233,370
Expected return on plan assets	15,146	21,003
Benefits paid	–	(1,768)
Actuarial loss	(19,047)	(160)
End of year	₱248,544	₱252,445

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Retirement Benefit Plans (cont'd)

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

	2010		2009	
	Percentage	Amount *(In Thousands)*	Percentage	Amount *(In Thousands)*
Stocks and government securities	73%	₱181,762	74%	₱186,809
Cash and receivables	27%	66,782	26%	65,636
	100%	₱248,544	100%	₱252,445

The Company has no expected contributions for the fiscal year ending June 30, 2011.

As of June 30, 2010 and 2009, pension plan assets, which are managed by a trustee, include investments in equity securities of RHI with a fair value amounting to ₱104.8 million.

Net Pension Benefit Obligation

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

CADPI also maintains funded, non-contributory defined benefit plan covering all its regular employees. Under the plan, the normal retirement age is 65 irrespective of years of service. A participant may opt to retire at age 60 regardless of number of years in service or upon completion of 20 years of continuous service to CADPI 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:

	2010	2009
	(In Thousands)	
Present value of obligations	₱423,920	₱376,537
Fair value of plan assets	(334,273)	(261,780)
Deficit	89,647	114,757
Unrecognized net transition obligation	–	(32,627)
Unrecognized actuarial loss	(48,550)	(7,920)
Net pension benefit obligation	₱41,097	₱74,210

15. Retirement Benefit Plans (cont'd)

The movements in the present value of the defined benefit obligation over the year are as follows:

	2010	2009
	(In Thousands)	
Beginning of year	₱376,537	₱364,890
Interest cost	39,443	37,554
Current service cost	19,093	19,098
Benefits paid	(64,481)	(41,606)
Curtailment gain	–	(2,704)
Actuarial loss (gain)	53,328	(695)
End of year	₱423,920	₱376,537

The movements in the fair value of plan assets during the year are as follows:

	2010	2009
	(In Thousands)	
Beginning of year	₱261,780	₱244,021
Expected return on plan assets	16,901	17,842
Contributions	106,877	56,531
Benefits paid	(64,481)	(41,606)
Actuarial loss (gain)	13,196	(15,008)
End of year	₱334,273	₱261,780

The subsidiaries' plan assets at June 30 consist of:

	2010		2009	
	Percentage	Amount *(In Thousands)*	Percentage	Amount *(In Thousands)*
Stocks and government securities	63%	₱211,245	73%	₱191,099
Cash and receivables	38%	126,927	27%	70,681
Payable and accrued liabilities	(1%)	(3,899)	–	–
	100%	₱334,273	100%	₱261,780

CADPI and CACI are expected to contribute a total of ₱107.0 million to their respective fund for the year ending June 30, 2011. As of June 30, 2010 and 2009, net pension plan obligation amounted to ₱41.1 million and ₱74.2 million, respectively.

15. Retirement Benefit Plans (cont'd)

Pension Cost

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

	2010	2009	2008
		(In Thousands)	
Current service cost	₱24,986	₱23,652	₱31,127
Interest cost	50,793	49,574	47,072
Return on plan assets	(32,047)	(38,845)	(36,962)
Actuarial loss (gain) recognized	(499)	(2,190)	5,898
Amortization of net transitional liability	32,627	32,627	32,627
Curtailment loss (gain)	–	(2,704)	6,430
Asset ceiling adjustment	–	–	(9,624)
	₱75,860	₱62,114	₱76,568

The actual return on plan assets was ₱26.2 million, ₱26.8 million and ₱8.9 million in 2010, 2009 and 2008, 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:

	2009	2008	2007
Discount rate	8.5% to 10.7%	10.29%	8%
Expected return on plan assets	5% to 7%	7% to 9%	7% to 9%
Future salary increases	5%	8%	8%

As of June 30, 2010, the following are the assumptions: discount rate per annum of 8.8% to 9.2%, expected return on plan assets of 5% to 7%, and future annual increase on salary of 5%.

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:

	2010	2009	2008	2007	2006
			(In Thousands)		
Present value of obligations	₱593,819	₱485,679	₱481,678	₱588,401	₱506,268
Plan assets	582,817	514,225	477,391	467,516	432,187
Surplus (deficit)	(11,002)	28,546	(4,287)	(120,885)	74,081
Experience adjustments on plan assets-loss (gain)	–	23,005	(4,910)	(29,354)	2,500
Experience adjustments on plan obligation-gain (loss)	(25,025)	–	(2,654)	51,521	(4,282)

15. Retirement Benefit Plans (cont'd)

Transitional Liability
Upon the Group's adoption of PAS 19 in 2005, CADPI, CACI and NAVI computed their transitional liability for defined benefit plan as of July 1, 2005, total amount follows *(In thousands)*:

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

The Group recognizes the increase in net pension liability as an expense on a straight-line basis over a period of five years from July 1, 2005, as allowed under PAS 19. The amortization recognized amounts to ₱32.6 million each year until 2010.

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 benefit is equivalent to 1.2 times of the monthly salary for every year of service. Total payments made in 2008 amounted to ₱43.2 million.

16. Commitments and Contingencies

a. CACI and CADPI (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:

	2010		2009	
	Total volume (In thousands) (Lkg*)	Estimated market value *(In Millions)*	Total volume (In thousands) (Lkg*)	Estimated market value *(In Millions)*
Raw sugar	387	₱707	942	₱998
Refined sugar	506	1,264	1,014	1,384
	893	₱1,971	1,956	₱2,382

**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 trusteed sugar or their sales proceeds.

16. Commitments and Contingencies (cont'd)

c. CADPI entered into sales contracts with principal customers for the sale of raw and refined sugar and molasses. As of June 30, 2010 and 2009, CADPI has outstanding sales contracts for refined sugar with a total value of ₱1,441.6 million and ₱1,279.6 million, equivalent to 744,382 Lkg and 817,091 Lkg, respectively. No losses are expected to arise from these contractual obligations.

   CADPI received cash deposits from customers for the above transactions as of June 30, 2010 and 2009, which will be applied against future deliveries of sugar and molasses. These deposits are classified as current liabilities (see Note 12).

d. CADPI 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 ₱0.4 million in 2010 and ₱3.5 million each in 2009 and 2008.

   (ii) Contract for hauling services for the transport of sugarcane from the plantation to the mill. Related hauling expense charged to operations in 2010, 2009 and 2008 amounted to ₱105.5 million, ₱112.0 million and ₱172.3 million, respectively.

e. CADPI entered into an indemnity and guarantee fee agreement with RHI to continue to be a mortgage trust indenture (MTI) between and among CADPI, 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) CADPI shall protect the property and reimburse RHI with all expenses in case the mortgaged property is attached to satisfy the obligations of CADPI secured by the MTI; and

   (ii) A guarantee/mortgage fee of ₱3.0 million shall be paid annually by CADPI to compensate RHI for the continuance of the mortgage. This guarantee fee agreement expired in April 2009.

f. On January 14, 2009, Roxol and World Bank signed a $3.2 million Emission Reduction Purchase Agreement (ERPA) for the purchase of carbon emission credits under the CleanDevelopment Mechanism of the Kyoto Protocol. The ERPA will also avoid at least 50,000 metric tons of carbon dioxide each year and has a crediting period of 10 years starting 2010.

   As part of the ERPA, part of the revenue for the purchase of the credits will be used to finance RBC's community development projects (see Note 28).

g. There are pending legal cases in the ordinary course of the Group's business as at June 30, 2010 and 2009, 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 2010, 2009 and 2008 consolidated financial statements.

h. As of June 30, 2010 and 2009, the Group has unused lines of credit from local banks amounting to ₱2,814.0 million and ₱2,124.0 million, respectively (see Notes 10 and 13).

17. Revenue

The components of revenue are as follows:

	2010	2009	2008
		(In Thousands)	
Refined sugar	₱3,716,206	₱3,304,300	₱3,481,489
Raw sugar	1,853,949	1,909,110	1,958,135
Molasses	318,235	293,450	268,611
Tolling fees	290,268	356,464	360,687
Others	24,309	1,294	8,622
	₱6,202,967	₱5,864,618	₱6,077,544

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

18. Cost of Sales

The components of cost of sales are as follows:

	2010	2009	2008
		(In Thousands)	
Purchased sugar (Note 6)	₱2,776,875	₱2,808,927	₱2,216,762
Cost of transporting canes to mill (Notes 6 and 16)	641,979	618,205	714,573
Net changes in inventories (Note 6)	(347,547)	(308,469)	180,510
Direct labor (Note 20)	373,027	347,907	384,728
Tolling fees	12,086	22,041	1,313
Trading cost	–	1,525	31,047
Manufacturing overhead:			
Fuel and oil	408,900	250,963	174,416
Depreciation (Note 9)	381,961	274,204	301,858
Repairs and maintenance	372,401	358,433	365,696
Materials and consumables	266,560	256,805	229,529
Taxes and licenses	120,566	104,243	141,487
Outside services	113,089	103,107	64,224
Rent (Notes 14 and 16)	73,748	50,399	38,723
Communication, light and water	58,461	44,472	55,342
Inventory losses and obsolescence (Note 6)	12,449	16,544	17,219
Others	38,185	29,831	25,146
	₱5,302,740	₱4,979,137	₱4,942,573

19. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	2010	2009	2008
		(In Thousands)	
Employee benefits (Note 20)	₱237,514	₱196,808	₱201,888
Taxes and licenses	69,673	76,079	62,531
Outside service	41,261	37,861	52,350
Materials and consumables	38,484	31,158	14,958
Insurance	25,302	30,398	16,043
Depreciation (Note 9)	25,064	30,222	26,245
Travel and transportation	20,131	22,355	31,558
Rent (Notes 14 and 16)	18,404	26,095	22,799
Repairs and maintenance	14,546	17,913	9,839
Communication, light and water	8,259	10,036	8,640
Corporate social responsibility	7,334	7,822	8,984
Provision for impairment of receivables and creditable withholding taxes (Notes 5 and 7)	5,945	353	698
Representation and entertainment	1,744	1,528	3,496
Others	82,029	71,605	48,635
	₱595,690	₱560,233	₱508,664

20. Employee Benefits

The components of employee benefits are as follows:

	2010	2009	2008
		(In Thousands)	
Salaries and wages (Notes 18 and 19)	₱373,362	₱352,299	₱379,769
Allowances and other employee benefits (Notes 18 and 19)	161,319	130,302	130,279
Pension costs (Note 15)	75,860	62,114	76,568
	₱610,541	₱544,715	₱586,616

21. Other Income - Net

The components of other income are as follows:

	2010	2009	2008
		(In Thousands)	
Recovery from insurance claim	₱141,341	₱–	₱–
Sale of scrap	58,013	20,632	43,620
Sugar and molasses handling fees	20,481	8,216	9,801
Foreign exchange gains (losses) - net	2,824	8,836	(7,245)
Others	73,992	38,019	6,441
	₱296,651	₱75,703	₱52,617

Recovery from insurance claim pertains to the amount collected from the insurer, which represents recovery from irreparable equipment with carrying value of ₱1.8 million at the time of damage in 2009. As of June 30, 2009, no accrual was made on the insurance claim since management assessed that the collectability of such claim was not virtually certain.

22. Income Taxes

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

	2010		2009
	Net Deferred Income Tax Assets[2]	Net Deferred Income Tax Liabilities[1]	Net Deferred Income Tax Liabilities[1]
		(In Thousands)	
Deferred income tax assets on:			
Allowance for:			
Impairment of receivables (Note 5)	₱–	₱5,772	₱6,747
Sugar inventory losses (Note 6)	–	–	6,598
Inventory obsolescence (Note 6)	783	7,951	9,294
Pension benefit obligation (Note 15)	–	11,332	21,377
Unamortized past service cost	–	60,591	44,825
Unrealized foreign exchange loss	–	38	–
NOLCO	4,194	19,862	10,869
Excess MCIT	–	6,895	1,666
	4,977	112,441	101,376
Deferred income tax liabilities on:			
Revaluation increment on properties (Note 23)	–	(627,498)	(642,871)
Unamortized capitalized interest (Note 9)	–	(157,248)	(111,115)
Pension plan assets (Note 15)	–	(42,137)	(42,766)
Unrealized foreign exchange gain	–	–	(1,395)
Unamortized debt commitment fees	–	(10,708)	(14,694)
	–	(837,591)	(812,841)
Net deferred income tax assets (liabilities)	₱4,977	(₱725,150)	(₱711,465)

(1) *Pertain to RHI, CADPI, CACI, Roxol and NAVI.*
(2) *Pertain to CFSI.*

22. Income Taxes (cont'd)

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

NOLCO

Incurred in	Amount	Applied	Expired	Balances as of June 30, 2010	Tax Effect	Available Until
			(In Thousands)			
2007	₱5,213	(₱4,530)	(₱683)	₱–	₱–	2010
2008	18,078	–	–	18,078	5,423	2011
2009	50,985	–	–	50,985	15,296	2012
2010	44,128	–	–	44,128	13,238	2013
	₱118,404	(₱4,530)	(₱683)	₱113,191	₱33,957	

MCIT

Incurred in	Amount	Applied	Expired	Balances as of June 30	Available Until
			(In Thousands)		
2007	₱4,856	₱–	(₱4,856)	₱–	2010
2008	515	–	–	515	2011
2009	1,517	–	–	1,517	2012
2010	5,383	–	–	5,383	2013
	₱12,271	₱–	(₱4,856)	₱7,415	

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

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

	2010	2009
	(In Thousands)	
NOLCO	₱33,008	₱38,043
Excess MCIT	520	5,220
Allowance for impairment of receivables	1,405	1,405
Pension benefit obligation	3,325	2,954

Deferred income tax assets pertaining to NOLCO, MCIT and other deductible temporary differences amounting to ₱11.8 million and ₱17.9 million as of June 30, 2010 and 2009, respectively, were not recognized as management believes that it may not be probable that future taxable profits will be available against which the NOLCO, excess MCIT and other deductible temporary differences can be utilized.

22. Income Taxes (cont'd)

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

	2010	2009	2008
		(In Thousands)	
Provision for income tax at statutory rates	₱118,529	₱103,324	₱233,084
Adjustments resulting from:			
Capital gains tax on sale of subsidiaries (Note 1)	–	106,328	–
Realization of revaluation increment	–	(35,119)	–
Application of temporary differences and NOLCO for which no deferred income tax asset was previously recognized	(1,359)	(2,695)	(14,373)
Expiration of excess MCIT credits	–	–	4,827
Unrecognized deferred income tax assets arising from temporary differences and NOLCO	₱7,352	₱18,770	₱4,682
Effect of change in income tax rates applied on deferred income tax assets and liabilities	–	95	(3,277)
Tax effects of:			
Equity in net earnings of an associate (Note 8)	(39,679)	(25,858)	(24,408)
Interest and dividend income subjected to final tax	(381)	(1,253)	(1,556)
Depreciation on appraisal increase	952	6,190	6,666
Unallowable interest expense	323	701	1,411
Others	(2,081)	4,907	3,738
Provision for income tax	₱83,656	₱175,390	₱210,794

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

The President signed into law on June 17, 2008 RA 9504 amending provisions of the 1997 Tax Code. RA 9504 became effective on July 7, 2008, fifteen (15) days after its publication last June 22, 2008 in major newspapers of general circulation. The new law shall be effective starting taxable year 2008. The new law includes provisions relating to the availment of optional standard deductions (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in the return its intention to avail the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. On September 24, 2008, the Bureau of Internal Revenue issued Revenue Regulation No. 10-2008 for the implementing guidelines of this law.

23. Equity

a. Share capital and treasury shares

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

	2010		2009		2008	
	Number of shares	**Amount *(In Thousands)***	Number of shares	Amount *(In Thousands)*	Number of shares	Amount *(In Thousands)*
Authorized common shares "Capital A" at ₱1 par value each	**1,500,000,000**	**₱1,500,000**	1,500,000,000	₱1,500,000	1,500,000,000	₱1,500,000
Issued common shares "Class A"	**1,168,976,425**	**₱1,168,976**	1,168,976,425	₱1,168,976	1,168,976,425	₱1,168,976
Treasury shares	**(259,424,189)**	**(768,860)**	(259,424,189)	(768,860)	(251,330,189)	(739,707)
Issued and outstanding	**909,552,236**	**₱400,116**	909,552,236	₱400,116	917,646,236	₱429,269

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

Year Reacquired	**Number of Shares**	**Cost *(In Thousands)***
2009	8,094,000	₱29,153
2008	196,322,949	675,940
2007 and previous years	55,007,240	63,767
	259,424,189	₱768,860

b. Share premium and revaluation increment

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

On December 1, 2002, the Company exchanged its shareholdings in CADPI, CCSI and CFSI for 1,302.8 million of CADPGC's common shares with a par value of ₱1 per share for ₱2,050.2 million, the cost of investments in the Company's books immediately before the transfer. CADPGC recorded a premium of ₱596.8 million and set-up share in revaluation increment in properties of subsidiary amounting to ₱150.6 million. Consequently, the Company's ownership interest in CADPGC increased and CADPI, 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 ₱1.4 billion in exchange for CACI's 200 million common shares at ₱1 per share. The basis of valuation of the CACI shares received by CADPGC was the carrying value of the transferred net assets, which included the land at appraised value.

23. Equity (cont'd)

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

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

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

Upon merger of CADPGC and RCI effective June 29, 2009, the note receivable from RCI amounting to ₱3,927.3 million was set off to the extent of the ₱3,838.0 million note payable from CADPGC and ₱35.8 million share of RCI in the dividends declared by the Company (see Note 1).

d. Retained earnings

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

	2010	2009	2008
		(In Thousands)	
Treasury shares	₱768,860	₱768,860	₱739,707
Pension plan asset - net of deferred income tax liability (Note 15)	98,319	99,786	63,377
	₱867,179	₱868,646	₱803,084

Further, unrestricted retained earnings include accumulated earnings of consolidated subsidiaries and unconsolidated associate amounting to ₱1,026.4 million, ₱634.1 million and ₱1,131.2 million as of June 30, 2010, 2009 and 2008, respectively, which are not available for distribution to the Company's shareholders unless received as cash dividends from investees.

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

Date Approved	Per Share	Total Amount *(In Thousands)*	Stockholders of Record Date	Date Paid/Issued
June 24, 2009	₱0.06	₱54,575	July 15, 2009	July 31, 2009
October 3, 2008	0.06	54,575	October 15, 2008	October 31, 2008
June 25, 2008	0.06	55,058	July 15, 2008	July 31, 2008
September 19, 2007	0.05	55,700	October 15, 2007	November 8, 2007

No dividends were declared by the Company in 2010.

23. Equity (cont'd)

e. Share prices

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

Quarter	High	Low
July 2009 through June 2010		
First	₱3.00	₱2.80
Second	3.50	2.80
Third	3.50	2.55
Fourth	2.70	2.55
July 2008 through June 2009		
First	₱3.50	₱2.30
Second	2.90	2.30
Third	2.40	2.00
Fourth	3.00	2.80
July 2007 through June 2008		
First	3.10	2.06
Second	2.95	2.48
Third	3.60	2.60
Fourth	3.60	2.20

f. Share Buy Back Program

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

24. Earnings Per Share

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

	2010	2009	2008
	(In Thousands, except EPS)		
Net income for the year attributable to the equity holders of the Parent Company	**₱307,698**	₱180,249	₱410,015
Weighted average number ofcommon shares outstanding	**909,552**	909,648	1,063,645
Basic/diluted EPS	**₱0.34**	₱0.20	₱0.39

There are no potential dilutive common shares as at June 30, 2010, 2009 and 2008.

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 thedividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2010 and 2009.

The Group met its objectives, policies or processes in 2010 and 2009.

Management considers the total consolidated equity reflected in the consolidated balance sheets as its capital. The Group monitors its use of capital using leverage ratios, specifically, debt ratio and debt-to-equity ratio. It also monitors its debts service coverage ratio to ensure that there would be sufficient amount of cash flow available to meet annual interest and principal payments on debt. The Group is required to maintain a maximum debt-to-equity ratio of 2.33:1 and minimum debt service coverage ratio of 1.25:1 by its bank creditors. As of June 30, 2010 and 2009, the Group has the following financial ratios:

	2010	2009
	(In Thousands, except ratio)	
Total liabilities	**₱9,698,310**	₱7,805,065
Total equity	**5,986,905**	5,716,604
Total liabilities and equity	**₱15,685,215**	₱13,521,669
Debt ratio	**0.62:1.00**	0.58:1.00
Debt-to-equity ratio	**1.62:1.00**	1.37:1.00

26. Financial Instruments

Financial Risk Management Objectives and Policies

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

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

Liquidity risk

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

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

The tables below summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments and the related financial assets used for liquidity management:

26. Financial Instruments (cont'd)

June 30, 2010

	On demand	<1 year	>1-<2 yrs	>2-<4 yrs	>4-<5 yrs	>5 yrs	Total
				(In Thousands)			
Accounts payable and accrued expenses*	₱494,961	₱40,031	₱–	₱–	₱–	₱–	₱534,992
Dividends payable	16,069	–	–	–	–	–	16,069
Short-term borrowings**	–	2,460,935	–	–	–	–	2,460,935
Current portion of long-term borrowings	–	51,724	–	–	–	–	51,724
Long-term borrowings - net of current portion**	–	482,346	1,379,326	2,506,782	1,060,146	2,537,906	7,966,506
	₱511,030	₱3,035,036	₱1,379,326	₱2,506,782	₱1,060,146	₱2,537,906	₱11,030,226
Cash in banks and cash equivalents	₱174,890	₱–	₱–	₱–	₱–	₱–	₱174,890
Trade receivables	116,553	561,748	–	–	–	–	678,301
Advances to related parties	49,022	–	–	–	–	–	49,022
Advances to employees***	–	35,887	4,823	–	–	–	40,710
Other receivables****	7,271	13,361	4,032	–	–	–	24,664
	₱347,736	₱610,996	₱8,855	₱–	₱–	₱–	₱967,587

* *Excludes payable to government agencies amounting to ₱73.7 million*

** *Includes expected interest payments for short-term and long-term borrowings of ₱11.0 million and ₱2,283.9 million, respectively.*

*** *Includes noncurrent portion of advances to employees amounting to ₱4.8 million and excludes advances to employees subject to liquidation amounting to ₱1.6 million.*

**** *Includes noncurrent portion of other receivables amounting to ₱4.0 million and excludes nonfinancial assets amounting to ₱1.7 million.*

June 30, 2009

	On demand	<1 year	>1-<2 yrs	>2-<4 yrs	>4-<5 yrs	>5 yrs	Total
				(In Thousands)			
Accounts payable and accrued expenses*	₱639,262	₱83,630	₱–	₱–	₱–	₱–	₱722,892
Dividends payable	–	41,074	–	–	–	–	41,074
Short-term borrowings**	–	3,139,905	–	–	–	–	3,139,905
Current portion of long-term borrowings	–	–	–	–	–	–	–
Long-term borrowings - net of current portion**	–	267,307	411,863	665,585	1,312,025	1,927,386	4,584,166
	₱639,262	₱3,531,916	₱411,863	₱665,585	₱1,312,025	₱1,927,386	₱8,488,037
Cash in banks and cash equivalents	₱283,280	₱–	₱–	₱–	₱–	₱–	₱283,280
Trade receivables	96,644	653,304	–	–	–	–	749,948
Advances to related parties	201,423	–	–	–	–	–	201,423
Advances to employees***	–	32,007	5,535	–	–	–	37,542
Other receivables	–	48,130	–	–	–	–	48,130
	₱581,347	₱733,441	₱5,535	₱–	₱–	₱–	₱1,320,323

* *Excludes payable to government agencies amounting to ₱56.6 million*

** *Includes expected interest payments for short-term and long-term borrowings of ₱690.0 million and ₱1,508.2 million, respectively.*

*** *Excludes advances to employees subject to liquidation amounting to ₱11.7 million.*

26. Financial Instruments (cont'd)

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

	2010	2009
	(In Thousands)	
Cash in banks and time deposits, excluding cash on hand	₱174,890	₱283,280
Trade receivables	678,301	749,948
Advances to related parties	49,022	201,423
Advances to employees	40,710	37,542
Other receivables	24,664	48,130
	₱967,587	₱1,320,323

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

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

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

26. Financial Instruments (cont'd)

June 30, 2010

	Neither past due nor impaired			Past due but not impaired			Impaired	
	High Grade	Standard Grade	Substandard Grade	Over 30 Days	Over 90 Days	Over 180 Days	Impaired Financial Assets	Total
				(In Thousands)				
Cash in bank and time deposits*	₱174,589	₱301	₱–	₱–	₱–	₱–	₱–	₱174,890
Trade receivables	142,803	465,205	–	25,639	39,252	5,402	2,915	681,216
Advances to related parties	49,022	–	–	–	–	–	–	49,022
Advances to employees**	–	40,710	–	–	–	–	1,276	41,986
Other receivables	13,313	1,961	2,581	5,997	312	500	8,418	33,082
Total	₱379,727	₱508,177	₱2,581	₱31,636	₱39,564	₱5,902	₱12,609	₱980,196

* *Excludes cash on hand amounting to ₱1.9 million.*
** *Excludes advances to employees subject to liquidation amounting to ₱1.6 million.*

June 30, 2009

	Neither past due nor impaired			Past due but not impaired			Impaired	
	High Grade	Standard Grade	Substandard Grade	Over 30 Days	Over 90 Days	Over 180 Days	Impaired Financial Assets	Total
				(In Thousands)				
Cash in bank and time deposits*	₱283,280	₱–	₱–	₱–	₱–	₱–	₱–	₱283,280
Trade receivables	176,188	506,167	30,400	15,082	2,926	19,185	6,732	756,680
Advances to related parties	201,423	–	–	–	–	–	–	201,423
Advances to employees**	362	36,012	1,168	–	–	–	1,276	38,818
Other receivables	8,366	886	33,808	4,309	261	500	9,741	57,871
Total	₱669,619	₱543,065	₱65,376	₱19,391	₱3,187	₱19,685	₱17,749	₱1,338,072

* *Excludes cash on hand amounting to ₱3.3 million.*
** *Excludes advances to employees subject to liquidation amounting to ₱11.7 million.*

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

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

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

The Group has recognized an impairment loss on its financial assets using specific assessment in 2008 amounting to ₱8.9 million. No impairment loss was recognized in 2010 and 2009.

26. Financial Instruments (cont'd)

Commodity price risk
The Group is exposed to commodity price risk from conventional physical sales and purchase of sugar managed through volume, timing and relationship strategies. The Group does not enter into commodity derivatives.

The Group's sales commitments are contracted at fixed prices, thus, has no impact on the consolidated cash flows in the next twelve months.

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.

As of June 30, 2010, the Group is exposed to fair value interest rate risk arising from its fixed rates long-term borrowings, which were originally issued at variable rates (see Note 13). Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group has long-term borrowings as of June 30, 2009 are susceptible to cash flow interest rate risk. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the consolidated income before income tax for one year, based on the floating rate non-trading financial liabilities held at June 30, with other variables held constant:

	Change in interest rates (in percentage)	Effect in income before income tax 2010	2009
		(In Thousands)	
For more than a year	+17%	₱–	(₱21,795)
	-17%	–	21,795
For less than a year	+10%	(115,145)	(12,821)
	-10%	115,145	12,821

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$0.3 million in 2010 and $0.8 million each in 2009 and 2008. As of June 30, 2010, 2009 and 2008, the exchange rates were ₱46.3, ₱48.1 and ₱44.9 per US$1.00, respectively.

Net foreign exchange gains or losses recognized in the consolidated statements of income amounted to ₱2.8 million gain, ₱8.8 million gain and ₱7.2 million loss in 2010, 2009 and 2008, respectively.

26. Financial Instruments (cont'd)

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

	Movement in US$-Philippine peso exchange rates	Net effect in income before income tax
	(In Thousands)	
2010	**+8.35%**	**(₱8,924)**
	-8.35%	**8,924**
2009	+5.00%	(2,614)
	-5.00%	2,614

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:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial assets:				
Cash on hand	**₱1,937**	**₱1,937**	₱3,382	₱3,382
Loans and receivables:				
Cash in banks and time deposits	**174,890**	**174,890**	283,280	283,280
Trade receivables	**678,301**	**678,301**	749,948	749,948
Advances to related parties	**49,022**	**49,022**	201,423	201,423
Advances to employees	**40,710**	**40,616**	37,542	37,561
Other receivables	**24,664**	**24,664**	48,130	48,130
	₱969,524	**₱969,430**	₱1,323,705	₱1,323,724
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued expenses:				
Trade payables	**₱131,488**	**₱131,488**	₱305,704	₱305,704
Accrued and other liabilities	**216,442**	**216,442**	181,301	181,301
Due to planters	**18,857**	**18,857**	47,874	47,874
Other liabilities	**168,205**	**168,205**	188,013	188,013
Dividends payable	**16,069**	**16,069**	41,074	41,074
Short-term borrowings	**2,449,904**	**2,449,904**	2,937,000	2,937,000
Current portion of long-term borrowings	**51,724**	**51,724**	–	–
Long-term borrowings - net of current portion	**5,682,584**	**5,690,693**	3,075,973	3,067,620
	₱8,735,273	**₱8,743,382**	₱6,776,939	₱6,768,586

26. Financial Instruments (cont'd)

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

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

Long-term borrowings-fixed interest bearing loans. The fair values are based on the expected cash flows on the instruments, discounted using the prevailing interest rates of 7.8% and 6.9% at June 30, 2010 and 2009 respectively, for comparable instruments in the market. The rates were obtained from *Bangko Sentral ng Pilipinas*, representing bank average lending rates in 2010 and 2009.

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

The Group's financial instruments recorded at fair value have the following hierarchy levels:

- *Level 1* - at quoted prices in active markets;
- *Level 2* - at inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3* - at inputs that are not based on observable market data.

The Group did not hold any financial instruments carried at fair value.

27. Segment Reporting

The Group's identified operating segments, which are consistent with the segments reported to the senior management, are as follows:

a. RHI, a diversified holding and investment corporation with specific focus on sugar milling and refining business. It provides management services to its subsidiaries, particularly CADPI, CACI and RBC.

b. CADPI, which is engaged in the business of producing, marketing and selling raw and refined sugar, molasses and other related products or by-products and offers tolling services to traders and planters. It has a raw sugar milling and refinery plant located in Nasugbu, Batangas with daily cane capacity of 13,000 metric tons as of June 30, 2010 and 2009, respectively. CADPI's raw sugar milling is involved in the extraction of juices from the canes to form sweet granular sugar which is light brown to yellowish in color. Canes are sourced from both district and non-district planters and are milled by CADPI under a production sharing agreement (see Note 16). The refinery operation, on the other hand, involves the processing of raw sugar (mill share and purchased) into refined sugar, a lustrous white-colored sugar. To ensure maximum utilization of the refinery, CADPI also offers tolling services, which converts raw sugar owned by planters and traders into refined sugar in consideration for a tolling fee.

c. CACI, which produces raw sugar and molasses and to trade the same on wholesale/retail basis. It also sells refined sugar upon tolling its raw sugar with other sugar mills. Its sugar milling plant, which has a similar process with CADPI and has a daily cane capacity of 13,000 metric tons as of June 30, 2010 and 2009, is located in La Carlota, Negros Occidental.

d. RBC, established to engage in the business of producing, marketing and selling of bio-ethanol fuel, both hydrous and anhydrous products from sugarcane and related raw materials. Its plant facility is located in La Carlota, Negros Occidental.

27. Segment Reporting (cont'd)

e. CFSI, established to engage in the business of transporting sugar cane, sugar and its by-products including all kinds of commercial cargoes to and from sugar factories, sugar refineries, millsites or warehouses and/or similar establishments by land. CFSI currently caters various planters in Batangas, Negros, and other provincial areas in Visayas and Southern Luzon.

Other segments of the Group which are not reported separately pertain mainly to consultancy business, dealer and trader of agricultural products and pre-operating companies.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

The Company's senior management regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statement of income. Financing costs (including interest expense) and income taxes are managed on per company basis and are not allocated to operating segments.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies, except for RHI investment properties which are carried at deemed cost in the parent company financial statements since adoption of PAS 40, *Investment Property*. RHI's investment property, which is being leased out to its subsidiary, is reclassified to property, plant and equipment and adjusted at the consolidated level to reflect its fair value.

a. 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.

Revenue from two major customers amounted to ₱1,005.0 million and ₱676.0 million in 2010 and ₱1,004.0 million and ₱626.0 million in 2009, which pertain to sales of CADPI.

b. 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.

c. 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.

27. Segment Reporting (cont'd)

The following tables present information about the Group's operating segments:

As of and for the year ended June 30, 2010:

	RHI	CADPI	CACI	RBC	CFSI	All Others	Eliminations and Adjustments	Consolidated
				(In Thousands)				
Revenue								
External customers								
Refined sugar	₱–	₱3,593,629	₱122,577	₱–	₱–	₱–	₱–	₱3,716,206
Raw sugar	–	142,927	1,690,787	–	–	20,235	–	1,853,949
Tolling fees	–	290,268	–	–	–	–	–	290,268
Molasses	–	258,768	57,596	–	–	1,871	–	318,235
Others	–	3,000	–	–	21,302	7	–	24,309
	–	4,288,592	1,870,960	–	21,302	22,113	–	6,202,967
Inter-segment	235,454	62,676	666,160	–	–	4,538	(968,828)	–
	235,454	4,351,268	2,537,120	–	21,302	26,651	(968,828)	6,202,967
Costs and expenses	(135,655)	(4,136,079)	(2,456,596)	(31,503)	(36,569)	(24,479)	897,866	(5,923,015)
Interest income	1,217	692	3,577	684	14	207	(681)	5,710
Interest expense	(61,454)	(121,757)	(135,536)	(5,703)	(1,397)	(689)	7,056	(319,480)
Others	462	207,369	79,764	1,219	70	14,537	(6,770)	296,651
Income (loss) before income tax	40,024	301,493	28,329	(35,303)	(16,580)	16,227	(71,357)	262,833
Provision for income tax	9,405	(91,359)	(8,494)	(19)	4,974	(288)	2,125	(83,656)
Segment profit (loss)	49,429	210,134	19,835	(35,322)	(11,606)	15,939	(69,232)	179,177
Equity in net earnings of an associate	–	–	–	–	–	–	132,263	132,263
Consolidated profit (loss)	₱49,429	₱210,134	₱19,835	(₱35,322)	(₱11,606)	₱15,939	₱63,031	₱311,440

(Forward)

27. Segment Reporting (cont'd)

As of and for the year ended June 30, 2010: (cont'd)

	RHI	CADPI	CACI	RBC	CFSI	All Others	Eliminations and Adjustments	Consolidated
				(In Thousands)				
Other Information								
Major costs and expenses								
Depreciation and amortization	₱3,723	₱207,877	₱191,943	₱2,581	₱572	₱329	₱–	₱407,025
Fuel and oil	–	385,906	22,994	–	–	–	–	408,900
Materials and consumables	₱5,308	₱203,982	₱79,328	₱4,429	₱11,932	₱65	₱–	₱305,044
Repairs and maintenance	1,156	207,164	169,540	430	8,591	66	–	386,947
Additions to noncurrent assets								
Property, plant and equipment	29,204	1,285,989	1,488,303	641,703	21,126	143	(902,084)	2,564,384
Other noncurrent assets	3,372	–	9,385	63,655	–	–	(58,997)	17,415
Investment in associate	–	–	–	–	–	–	–	618,322
Assets and Liabilities								
Current assets	₱360,269	₱3,730,047	₱906,905	₱294,433	₱51,043	₱44,929	(₱2,275,745)	₱3,111,881
Noncurrent assets	5,726,984	4,490,225	3,994,788	1,233,258	26,086	173,636	(3,071,643)	12,573,334
Total assets	₱6,087,253	₱8,220,272	₱4,901,693	₱1,527,691	₱77,129	₱218,565	(₱5,347,388)	₱15,685,215
Current liabilities	₱368,657	₱2,154,713	₱1,326,666	₱1,512,273	₱90,144	₱72,701	(₱2,275,675)	₱3,249,479
Noncurrent liabilities	1,159,453	3,361,886	1,724,605	–	–	51,481	151,406	6,448,831
Total liabilities	₱1,528,110	₱5,516,599	₱3,051,271	₱1,512,273	₱90,144	₱124,182	(₱2,124,269)	₱9,698,310

27. Segment Reporting (cont'd)

As of and for the year ended June 30, 2009:

	RHI	CADPGC	CADPI	CACI	RBC	CFSI	All Others	Eliminations and Adjustments	Consolidated
					(In Thousands)				
Revenue									
External customers									
Refined sugar	₱–	₱–	₱2,945,352	₱358,948	₱–	₱–	₱–	₱–	₱3,304,300
Raw sugar	–	–	227,295	1,662,346	–	–	19,469	–	1,909,110
Tolling fees	–	–	356,464	–	–	–	–	–	356,464
Molasses	–	–	197,166	94,775	–	–	1,509	–	293,450
Others	–	–	–	–	–	1,268	26	–	1,294
	–	–	3,726,277	2,116,069	–	1,268	21,004	–	5,864,618
Inter-segment	268,816	124,774	178,464	157,967	–	–	6,388	(736,409)	–
	268,816	124,774	3,904,741	2,274,036	–	1,268	27,392	(736,409)	5,864,618
Costs and expenses	(94,869)	(38,916)	(3,660,755)	(2,200,960)	(19,776)	(2,903)	(42,922)	485,031	(5,576,070)
Interest income	1,177	822	1,225	3,672	235	1	306	–	7,438
Interest expense	(56,908)	–	(45,073)	(32,880)	–	(17)	(1,491)	3,035	(133,334)
Others	3,245	167	35,485	38,769	(4,314)	(1)	8,992	(6,640)	75,703
Income (loss) before income tax	121,461	86,847	235,623	82,637	(23,855)	(1,652)	(7,723)	(254,983)	238,355
Provision for income tax	8,220	(67,204)	(83,570)	(26,615)	(4,412)	–	316	(2,125)	(175,390)
Segment profit (loss)	129,681	19,643	152,053	56,022	(28,267)	(1,652)	(7,407)	(257,108)	62,965
Equity in net earnings of an associate	–	–	–	–	–	–	–	79,564	79,564
Consolidated profit (loss)	₱129,681	₱19,643	₱152,053	₱56,022	(₱28,267)	(₱1,652)	(₱7,407)	(₱177,544)	₱142,529

(Forward)

27. Segment Reporting (cont'd)

As of and for the year ended June 30, 2009: (cont'd)

	RHI	CADPGC	CADPI	CACI	RBC	CFSI	All Others	Eliminations and Adjustments	Consolidated
					(In Thousands)				
Other Information									
Major costs and expenses									
Depreciation and amortization	₱1,083	₱102	₱178,203	₱123,460	₱1,361	₱–	₱217	₱–	₱304,426
Fuel and oil	–	–	230,282	20,681	–	–	–	–	250,963
Materials and consumables	3,697	5,355	202,821	72,571	3,399	78	42	–	287,963
Repairs and maintenance	514	670	226,711	147,606	818	2	25	–	376,346
Additions to noncurrent assets									
Property, plant and equipment	10,824	–	1,689,759	1,025,892	532,969	–	–	94,001	3,353,445
Other noncurrent assets	4,633	–	3,518	10,145	–	–	18,296	–	36,592
Investment in associate	–	–	–	–	–	–	–	–	557,432
Assets and Liabilities									
Current Assets	₱351,089	₱–	₱3,531,291	₱1,049,396	₱69,369	₱2,464	₱123,544	(₱2,012,595)	₱3,114,558
Noncurrent Assets	5,707,683	–	3,421,067	2,700,230	615,413	555	229,913	(2,267,750)	10,407,111
Total Assets	₱6,058,772	₱–	₱6,952,358	₱3,749,626	₱684,782	₱3,019	₱353,457	(₱4,280,345)	₱13,521,669
Current Liabilities	₱378,666	₱–	₱2,635,931	₱1,273,128	₱634,043	₱4,428	₱165,151	(₱1,147,930)	₱3,943,417
Noncurrent Liabilities	1,170,393	–	1,822,888	646,100	4,379	–	68,736	149,152	3,861,648
Total Liabilities	₱1,549,059	₱–	₱4,458,819	₱1,919,228	₱638,422	₱4,428	₱233,887	(₱998,778)	₱7,805,065

27. Segment Reporting (cont'd)

As of and for the year ended June 30, 2008:

	RHI	CADPGC	CADPI	CACI	RBC	CFSI	All Others	Eliminations and Adjustments	Consolidated
					(In Thousands)				
Revenue									
External customers									
Refined sugar	₱–	₱–	₱3,241,717	₱239,772	₱–	₱–	₱–	₱–	₱3,481,489
Raw sugar	–	–	312,853	1,629,146	–	–	16,136	–	1,958,135
Molasses	–	–	150,334	116,901	–	–	1,376	–	268,611
Tolling fees	–	–	360,687	–	–	–	–	–	360,687
Others	–	–	–	–	–	–	8,622	–	8,622
	–	–	4,065,591	1,985,819	–	–	26,134	–	6,077,544
Inter-segment	181,499	376,272	31,020	127,825	–	–	9,574	(726,190)	–
	181,499	376,272	4,096,611	2,113,644	–	–	35,708	(726,190)	6,077,544
Costs and expenses	(19,108)	(84,369)	(3,619,771)	(2,017,949)	(373)	(38)	(36,195)	292,255	(5,485,548)
Interest income	5,454	1,682	10,487	3,226	–	–	224	(9,391)	11,682
Interest expense	(6,851)	(20,881)	(14,937)	(77,462)	–	–	(1,721)	61,772	(60,080)
Others	1,995	(34)	2,913	47,646	–	–	97	–	52,617
Income (loss) before income tax	162,989	272,670	475,303	69,105	(373)	(38)	(1,887)	(381,554)	596,215
Provision for income tax	(8,905)	(10,318)	(171,485)	(17,793)	–	–	(2,293)	–	(210,794)
Segment profit (loss)	154,084	262,352	303,818	51,312	(373)	(38)	(4,180)	(381,554)	385,421
Equity in net earnings of an associate	–	–	–	–	–	–		69,739	69,739
Consolidated profit (loss)	₱154,084	₱262,352	₱303,818	₱51,312	(₱373)	(₱38)	(₱4,180)	(₱311,815)	₱455,160

(Forward)

27. Segment Reporting (cont'd)

As of and for the year ended June 30, 2008: (cont'd)

	RHI	CADPGC	CADPI	CACI	RBC	CFSI	All Others	Eliminations and Adjustments	Consolidated
					(In Thousands)				
Other Information									
Major costs and expenses									
Depreciation and amortization	₱528	₱198	₱169,293	₱157,767	₱–	₱–	₱317	₱–	₱328,103
Fuel and oil	–	–	162,797	11,619	–	–	–	–	174,416
Materials and consumables	56	2,078	170,657	71,601	2	–	93	–	244,487
Repairs and maintenance	75	937	217,058	157,361	–	–	104	–	375,535
Additions to noncurrent assets					–	–			
Property, plant and equipment	732	459	1,575,836	611,472	–	–	5,239	–	2,193,738
Other noncurrent assets	1,731	–	17,003	18,072	–	–	3,642	–	40,448
Investment in associate	–	–	–	–	–	–	–	–	546,388
Assets and Liabilities									
Current Assets	₱181,184	₱177,865	₱1,704,784	₱990,025	₱67	₱289	₱32,559	(₱638,367)	₱2,448,406
Noncurrent Assets	4,085,197	4,124,290	2,815,693	1,823,983	100	–	248,780	(5,679,265)	7,418,778
Total Assets	₱4,266,381	₱4,302,155	₱4,520,477	₱2,814,008	₱167	₱289	₱281,339	(₱6,317,632)	₱9,867,184
Current Liabilities	₱471,125	₱475,287	₱975,848	₱393,388	₱478	₱47	₱72,996	(₱638,368)	₱1,750,801
Noncurrent Liabilities	599,964	42,989	1,103,092	646,078	–	–	72,096	151,269	2,615,488
Total Liabilities	₱1,071,089	₱518,276	₱2,078,940	₱1,039,466	₱478	₱47	₱145,092	(₱487,099)	₱4,366,289

28. Other Matter

Registration with the Board of Investments (BOI)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company (Notes 1 and 23)										
	Share Capital	Share Premium	Excess of Consideration Received from Parent Company over Carrying Amount of Disposed Subsidiary	Effect of Change in Ownership Interests in Subsidiaries	Revaluation Increment on Properties	Share in Revaluation Increment on Land of an Associate	Retained Earnings	Treasury Shares	Total	Noncontrol-ling Interests (Notes 1 and 23)	Total
BALANCES AS OF JUNE 30, 2007	₱1,168,976	₱554,960	₱–	₱–	₱1,174,123	₱207,492	₱1,938,826	(₱63,767)	₱4,980,610	₱500,499	₱5,481,109
Net income for the year	–	–		–	–	–	410,015	–	410,015	45,145	455,160
Other comprehensive income	–	–	–	–	371,824	–	–	–	371,824	–	371,824
Total comprehensive income	–	–	–	–	371,824	–	410,015	–	781,839	45,145	826,984
Transfer of revaluation increment on properties absorbed through depreciation	–	–	–	–	(19,047)	–	19,047	–	–	–	–
Dividends declared	–	–		–	–	–	(110,758)	–	(110,758)	(16,562)	(127,320)
Change in ownership interest resulting in the reduction of noncontrolling interests in subsidiaries	–	–	–	1,429	–	–	–	–	1,429	(5,367)	(3,938)
Reacquisition of shares of stock	–	–	–	–	–	–	–	(675,940)	(675,940)	–	(675,940)

(Forward)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company (Notes 1 and 23)										
	Share Capital	Share Premium	Excess of Consideration Received from Parent Company over Carrying Amount of Disposed Subsidiary	Effect of Change in Ownership Interests in Subsidiaries	Revaluation Increment on Properties	Share in Revaluation Increment on Land of an Associate	Retained Earnings	Treasury Shares	Total	Noncontrol-ling Interests (Notes 1 and 23)	Total
BALANCES AS OF JUNE 30, 2008	1,168,976	554,960	–	1,429	1,526,900	207,492	2,257,130	(739,707)	4,977,180	523,715	5,500,895
Net income for the year	–	–	–	–	–	–	180,249	–	180,249	(37,720)	142,529
Other comprehensive income	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	180,249	–	180,249	(37,720)	142,529
Transfer of revaluation increment on properties absorbed through depreciation	–	–	–	–	(7,179)	–	7,179	–	–	–	–
Realization of revaluation increment on land upon disposal of subsidiary	–	–	–	–	(106,021)	–	106,021	–	–	–	–
Dividends declared	–	–	–	–	–	–	(109,150)	–	(109,150)	(9,859)	(119,009)
Reacquisition of shares of stock	–	–	–	–	–	–	–	(29,153)	(29,153)	–	(29,153)
Excess of consideration received from parent company over carrying value of investment in a subsidiary and change in ownership interest in subsidiaries resulting in the reduction of noncontrolling interests in subsidiaries	–	–	577,148	43,138	30,960	–	–	–	651,246	(429,904)	221,342

(Forward)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company (Notes 1 and 23)										
	Share Capital	Share Premium	Excess of Consideration Received from Parent Company over Carrying Amount of Disposed Subsidiary	Effect of Change in Ownership Interests in Subsidiaries	Revaluation Increment on Properties	Share in Revaluation Increment on Land of an Associate	Retained Earnings	Treasury Shares	Total	Noncontrolling Interests (Notes 1 and 23)	Total
BALANCES AS OF JUNE 30, 2009	₱1,168,976	₱554,960	₱577,148	₱44,567	₱1,444,660	₱207,492	₱2,441,429	(₱768,860)	₱5,670,372	₱46,232	₱5,716,604
Net income for the year	–	–	–	–	–	–	307,698	–	307,698	3,742	311,440
Other comprehensive income	–	–	–	–	(31,826)	–	–	–	(31,826)	(9,303)	(41,129)
Total comprehensive income	–	–	–	–	(31,826)	–	307,698	–	275,872	(5,561)	270,311
Change in ownership interest resulting in the reduction of noncontrolling interest in a subsidiary	–	–	–	–	–	–	–	–	–	(10)	(10)
BALANCES AS OF JUNE 30, 2010	₱1,168,976	₱554,960	₱577,148	₱44,567	₱1,412,834	₱207,492	₱2,749,127	(₱768,860)	₱5,946,244	₱40,661	₱5,986,905

See accompanying Notes to Consolidated Financial Statements

SHAREHOLDER INFORMATION

COMPANY HEADQUARTERS

6th Floor, Cacho-Gonzales Building
101 Aguirre Street, Legaspi Village
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Fax: (632) 894-2664

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 2010 Annual Stockholders' Meeting will be held on November 24, 2010, 10:00 A.M. at Makati Shangri-La, Ayala Avenue corner Makati Avenue, Makati City, Philippines.

SHAREHOLDER INQUIRY

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

STOCK TRANSFER AGENT

UNIONBANK
Union Bank Plaza Building
Meralco Avenue cor. Onyx Street, Pasig City
Tel.: (632) 638-0325/638-0259
Fax: (6320 638-0234

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Hawaiian Philippine Co.