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# COVER SHEET

SEC Number 727

Company TIN 000-229-931

CENTRAL AZUCARERA DE TARLAC
( Company's Full Name )

San Miguel , Tarlac , Tarlac
Makati Office – JCS Bldg., 119 Dela Rosa St.
Legaspi Village, Makati City
( Company's Address: No., Street, City, Town/Province )

818 – 3911
( Company's Telephone Number )

June 30, 2006
( Fiscal Year Ending )
( Month/Day )

Last Tuesday of January
Annual Meeting

17 – Q Quarterly Report – 3rd Quarter
(JANUARY to MARCH, 2006) of the FY 2005 - 06 )
( FORM TYPE )

( Amendment Designation, if Applicable )

( Secondary License Type, if any )

| ( Company Representative ) | ( TIN ) | ( Birth Date ) |
|---|---|---|
| WELLERITA D. AGUAS | 120 – 087 – 038 | 09 – 24 – 45 |

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Central Receiving Unit

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17 – Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER**

2

1. For the quarterly period ended **March 31, 2006 (3rd Qtr. of FY July 1, 2005 – June 30, 2006)**

………………………………………………..

2. Commission identification number **727** ………………… 3. BIR Tax Identification No **000229931** ………………

**CENTRAL AZUCARERA DE TARLAC**

…………………………………………………………………………………………….

4. Exact name of issuer as specified in its charter

**Manila, Philippines**

……………………………………………………………………………………………..

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

6. Industry Classification Code : ( SEC Use Only )

**San Miguel, Tarlac, Tarlac**

……………………………………………………………………………………………..

7. Address of issuer's principal office Postal Code

**818 – 3911**

……………………………………………………………………………………………..

8. Issuer's telephone number, including area code

**n.a.**

……………………………………………………………………………………………..

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

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

| Title of each Class | Number of shares of common Stock outstanding and amount of debt outstanding |
|---|---|
| **Common** | **28, 253, 876** |

……………………………………………………………………………………………..

……………………………………………………………………………………………..

……………………………………………………………………………………………..

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

Yes [ **X** ] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

## PART 1 – FINANCIAL INFORMATION

**Item 1. Financial Statements.**

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

A. Unaudited Balance Sheet as of March 31, 2006 and Audited June 30, 2005 Balance Sheet;

B. Unaudited Statements of Loss and Retained Earnings (Deficit) for the Nine (9) Months Ended March 31, 2006 and 2005 & Three (3) Months Ended March 25, 2006 and 2005

C. Unaudited Statements of Changes in Stockholder's Equity for the Nine (9) months ended March 31, 2006 and Audited June 30, 2005; and

D. Unaudited Statements of Cash Flows for the Nine (9) Months Ended March 31, 2006 and 2005 and Three (3) Months Ended March 31, 2006 and 2005.

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

**Financial Highlights**

**Profit and Loss Data (in thousand pesos)**

| | ended March 31 | | ended June 30 |
|---|---|---|---|
| | 2006 | 2005 | 2005 |
| **Profit and Loss Data (In thousand pesos)** | | | |
| Sales Revenues………………….. | 340,919 | 103,601 | 133,443 |
| Cost of goods Sold………………. | 240,366 | 311,232 | 331,541 |
| Gross Profit……………………….. | 100,553 | (207,631) | (198,098) |
| Operating Expenses…………….. | 70,358 | 102,787 | (137,833) |
| Operating Income(Loss)………… | 30,195 | (310,418) | (437,831) |
| Net Income(Loss)……………….. | (28,789) | (392,922) | (552,989) |
| **Balance Sheet Data (in Thousand Pesos)** | | | |
| Total Assets……………………… | 1,590,993 | 1,813,244 | 1,666,407 |
| Total Liabilities…………………… | 1,567,285 | 1,603,332 | 1,613,910 |
| Total Stockholders' Equity……… | 23,708 | 209,911 | 52,497 |
| **Financial Ratios** | | | |
| Gross Margin…………………….. | 29.49% | -200.41% | -148.45% |
| Operating Margin………………… | 8.86% | -299.63% | -328.10% |
| Net Profit Margin………………… | -8.44% | -379.26% | -414.40% |
| Current Ratio…………………….. | 0.84 | 0.92 | 0.78 |
| Debt-Equity Ratio……………….. | 66.11 | 7.64 | 30.74 |
| Return on Assets……………….. | (0.018) | (0.217) | (0.332) |
| Return on Equity………………… | (1.214) | (1.872) | (10.534) |

## Review of Operations

While the mill started its operations for this season some two months late on December 12, 2005, canes hauled by CAT reached 405,035 tons. This represents an increment of 162.68% or 250,841 tons from last year's 154,194 tons. The higher tonnage and improved quality of cane boosted raw sugar output. Raw sugar produced for the period was registered at 737,548 50-kg bags, up 181.58% or 475,620 bags from 261,928 bags of the same period last year. Recovery was at a higher 1.439 vs. 1.343 piculs per ton cane due to the better quality of cane for milling. Mill's share was at a higher 231,170 bags, up 177.17% or 147,766 bags from 83,404 bags the previous year.

The increment in cane tonnage boosted molasses production by 114.55% or 1,290,494 gallons, from 1,126,604 to 2,417,098 gallons. However, recovery was at a lower 5.97 vs. 7.31 gallons of molasses per ton cane due to the improved efficiency of the raw sugar mill. Mill's share rose 105.15% or 388,331 gallons to 757,625 gallons.

The increase in the available raws for melting propped up the refinery output. Refined sugar produced increased by 110.45% or 364,983 50-kg bags for 695,423 50-kg bags from 330,440 50-kg bags. Recovery was posted at a higher 1.1918 vs. 1.1714 due to the improved quality of raws melted.

Similarly, the increase in the available molasses for distilling resulted in a higher alcohol production. Gallons of molasses processed rose by 191.04% or 1,152,700 gallons to 1,755,126 gallons. The distillery produced a total of 2,901,000 g.l. of alcohol, 180.15% or 1,865,500 g.l. more than the previous 1,035,500 g.l. The inferior quality of molasses for distilling contributed to the lower alcohol recovery rate of 1.65 vs. 1.72 g.l. per gallon of molasses processed. Carbon dioxide production also posted as increment of 162.35% or 526,000 kilos, from 324,000 to 850,000 kilos.

### Financial Review

For the period in review, the total revenue generated was posted at P340.919M, up 229.07% or P237.318M from the previous P103.601M. With the resumption of the milling operations, traditional sources of revenues posted increments as against that of the previous year that was hampered by the yearlong labor problem.

Increased sales volume and higher raw sugar composite boosted raw sugar sales by 388.09% or P148.578M to the current P186.862M. Sales volume rose 289.69% or 128,514 50-kg bag to 172,876 50-kg bags at a higher composite price of P1,080.91 vs. P863.01 per 50-kg bag due mainly on speculative trading brought about by the perceived tightness in supply and improved world market prices.

The higher refinery output as a result of the normalization of the operations and the tolling rate adjustment from P179.00 to P205.76 per 50-kg bag of refined sugar effective the current refining season jacked up the tolling income. Refined sugar produced grew 110.45% or 364,983 50-kg bags to 695,423 50-kg bags due to the increased available raws for melting. As a result, tolling income went up to P143.090M, higher by 141.92% or P83.941M from last year's 59.149M.

A slightly higher increase in sales volume and average selling price pushed the sale of alcohol to P6.484M, up 10.58% or P0.620M from P5.864M. Sales volume inched up by 12,000 gauge liters to a total of 300,000 gauge liters on a slightly higher selling price of P21.61 as against last year's P20.36 per gauge liter.

Sales of Carbon Dioxide was posted as P4.482M, up 1,373.10% or P4.178M from last year's P0.304M. The decline in the average selling price per kilo of CO2 failed to dampen the increment in sales volume. Sales volume jumped 1,564.28% or 615,700 kilos to a total of 655,060 kilos. The average selling price though slumped a bit from P7.73 to P6.84 per kilo on a weakened market demand.

The table below presents the comparative breakdown of the Company's sales for the Nine (9) months ended March 25, 2005 and 2004, and a summary contribution to total sales:

| | As at March 31 2006 | Percentage Contribution | As at March 31 2005 | Percentage Contribution |
|---|---|---|---|---|
| Raw Sugar | 186,863,000 | 55 | 38,284,525 | 37 |
| Tolling Fees/Refined Sugar | 143,090,000 | 42 | 59,148,760 | 57 |
| Alcohol | 6,484,000 | 2 | 5,864,0000 | 6 |
| CO2 | 4,482,000 | 1 | 304,146 | - |
| T O T A L | 340,919,000 | 100 | 103,601,431 | 100 |

**Cost and Expenses**
(in thousand pesos)

| | For the Nine (9) months ended March 31 2006 | 2005 |
|---|---|---|
| Cost of Goods Sold ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 240,336 | 311,232 |
| Operating Expenses~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 70,358 | 102,787 |
| Depreciation ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 49,884 | 58,426 |

Central Azucarera de Tarlac registered a net loss equivalent to P 28.789M for the Nine (9) months ended March 31, 2006, lower by P363.133M from a net loss of P392.922M in 2005.

**Earnings (Loss) Per Share**
(in thousand pesos)

| | As at 31 March 2006 Year – to – date | As at 31 March 2005 Year – to – date |
|---|---|---|
| Weighted Ave. no. of Shares ~ ~ ~ ~ | 28,263 | 28,263 |
| Net (Loss) ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | (28,789) | (392,922) |
| (Loss) Per Share ~ ~ ~ ~ ~ ~ ~ ~ | (.09) | (1.38) |

**Changes in Assets and Liabilities**

Total Current Assets as of March 31, 2006 was P1.197B as compared to P1.068 B as of June 30, 2005 audited balance resulting to an increase of P128.9M brought about by the following:

1. Cash increased by P13.9M (394%) from P3.5M last June 30, 2005 to P17.5M in March 31, 2006. Please refer to attached Cash Flow Statements.

2. Receivables increased by P44.3M (4%) from P1.012B last June 30 2005 to P1.056B in March 31, 2006. Increases are mainly due to advances granted to planters for crop establishment-planters account.

**Aging of Accounts Receivable**
(in thousand pesos)

| | As of March 31 2006 | As of March 31 2005 |
|---|---|---|
| Current ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 101,388 | - |
| Over 30 days past due ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 273,647 | - |
| Over 60 days past due ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 231,142 | - |
| Over 90 days past due ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 453,421 | 1,064,965 |
| Sub Total ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 1,059,598 | 1,064,965 |
| Less: Allowance for Doubtful Accounts~ ~ ~ ~ ~ | 2,276 | 2,276 |
| Net: Accounts receivable-trade ~ ~ ~ ~ ~ ~ ~ ~ | 1,056,322 | 1,062,689 |

3. Inventories - Increased by P70.6M (134%) from P52.8M last June 30, 2004 to P123.5M in March 31, 2006 mainly due to increase in inventories of raw sugar and alcohol which are available for sale.

**Inventory Schedule**
(in thousand pesos)

| | As of March 31 2006 | As of March 31 2005 |
|---|---|---|
| Finished goods: | | |
| Raw sugar ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 44,142 | 37,407 |
| Alcohol ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 44,008 | 13,368 |
| Carbon Dioxide ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 975 | 690 |
| Molasses ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | - | - |
| Yeast ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 130 | 119 |
| Materials & Supplies ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 28,999 | 38,063 |
| Materials in Transit ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 5,279 | 2,094 |
| Total ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | 123,533 | 91,741 |

4. Due from related parties decreased by P157.1M (56%) from P280.8M last June 30, 2005 to P123.6M as of March 31, 2006 mainly due to collections from affiliated companies.

5. Property, Plant & Equipment decreased by P50.7M (21%) from P240.5M as of June 30, 2005 to P189.8M as of March 31, 2006 mainly due to depreciation charged to operations.

6. Other Non-current assets increased by P3.5M (10%) from P35.8M as of June 30, 2005 to P39.3M in March 31, 2006 due to increase in Creditable Withholding Tax arising from sales.

7. Notes Payable current portion decreased by P38.7M (4.8%) from P791M in June 30, 2005 to P752M as of March 31, 2006, while Notes Payable long term decreased by P85.5M (48.61%) from P176M in June 30, 2005 to P90.5M as of March 31, 2006 due to payments made during the period.

8. Accounts Payable and Accrued Expenses increased by P79M (14%) from P587M in June 30, 2005 to P666M as of March 31, 2006 due to increase in suppliers account and accrued expenses.

9. Due to Related Parties decreased by P1.4M (3%) from P59.7M last June 30, 2005 to P58.1M as of March 31, 2006 due to payment of related parties

10. Stockholders' Equity decreased by P28.7M (55%) from P52.4M last June 30, 2005 to P23.7M in March 31, 2006 due to losses during the period.

11. Retained Earnings (deficit) likewise increased by P29M (12.5%) from P230M in June 30, 2005 to P259M in March 31, 2006.

12. The Company's Current Ratio in March 31, 2006 is 0.84 and 0.78 in June 30, 2005 while Debt to Equity registered 66.11 from 30.74 in June 30, 2005.

## PART II – OTHER INFORMATION

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

## SIGNATURES

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

Registrant **CENTRAL AZUCARERA DE TARLAC**

**NEREO C. MENDOZA**
Signature and Title **Vice President , Finance**

May 12, 2006
Date

Principal Financial / Accounting Officer / Controller **WELLERITA D. AGUAS**

Signature and Title **Asst. Vice President , Finance**

May 12, 2006
Date

# CENTRAL AZUCARERA DE TARLAC

UNAUDITED

**INTERIM FINANCIAL STATEMENTS**
( WITH COMPARATIVE STATEMENTS )

**MARCH 31, 2006**

**( IN THOUSAND PESOS )**

**CENTRAL AZUCARERA DE TARLAC**
**BALANCE SHEET**
**MARCH 31, 2006 AND JUNE 30, 2005**
**(In Thousand Pesos)**

| | UNAUDITED MARCH 31 2006 | AUDITED JUNE 30 2005 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| CASH | 17,508 | 3,541 |
| ACCOUNTS RECEIVABLE - NET | 1,056,322 | 1,012,000 |
| INVENTORIES | 123,533 | 52,875 |
| TOTAL CURRENT ASSETS | 1,197,364 | 1,068,416 |
| **NON CURRENT ASSETS** | | |
| DUE FROM AFFILIATES | 123,651 | 280,812 |
| INVESTMENTS IN SHARES OF STOCK | 27,814 | 27,814 |
| PROPERTY, PLANT & EQUIPMENT-NET | 189,873 | 240,572 |
| DEFERRED INCOME TAX | 12,915 | 12,915 |
| OTHER NON-CURRENT ASSETS | 39,376 | 35,878 |
| TOTAL NON-CURRENT ASSETS | 393,629 | 597,991 |
| TOTAL ASSETS | 1,590,993 | 1,666,407 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| CURRENT PORTION OF NOTES PAYABLE | 752,277 | 791,022 |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES | 666,374 | 587,089 |
| INCOME TAX PAYABLE | - | - |
| TOTAL CURRENT LIABILITIES | 1,418,649 | 1,378,111 |
| **NON-CURRENT LIABILITIES** | | |
| DUE TO AFFILIATES | 58,136 | 59,707 |
| NOTES PAYABLE | 90,500 | 176,092 |
| TOTAL NON-CURRENT LIABILITIES | 148,636 | 235,799 |
| **STOCKHOLDERS' EQUITY** | | |
| CAPITAL STOCK | 282,546 | 282,546 |
| RETAINED EARNINGS (DEFICIT) | (258,831) | (230,042) |
| | 23,715 | 52,504 |
| COST OF 720 SHARES OF STOCK IN TREASURY | (7) | (7) |
| TOTAL STOCKHOLDERS EQUITY | 23,708 | 52,497 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | 1,590,993 | 1,666,407 |
| **CURRENT RATIO** | 0.84 | 0.78 |
| **DEBT-EQUITY RATIO** | 66.11 | 30.74 |

**CENTRAL AZUCARERA DE TARLAC**
**STATEMENTS OF LOSS**
**FOR THE QUARTER ENDED MARCH 31, 2006 AND 2005**
**(in Thousand Pesos)**

| | 9 MOS. ENDED | | 3 MOS. ENDED | |
|---|---|---|---|---|
| | MARCH 31 2006 | MARCH 31 2005 | MARCH 31 2006 | MARCH 31 2005 |
| **REVENUES** | | | | |
| Net sales of sugar & by products | 197,829 | 44,452 | 175,288 | 6,099 |
| Tolling fees | 143,090 | 59,149 | 136,709 | - |
| Total | 340,919 | 103,601 | 311,997 | 6,099 |
| **COST OF GOODS SOLD & SERVICES** | | | | |
| Cost of goods sold | 199,567 | 263,952 | 153,527 | 82,999 |
| Cost of tolling | 40,799 | 47,280 | 32,479 | 5,081 |
| Total | 240,366 | 311,232 | 186,006 | 88,080 |
| GROSS INCOME (LOSS) | 100,553 | (207,631) | 125,991 | (81,981) |
| **OPERATING EXPENSES** | 70,358 | 102,787 | 49,424 | 37,300 |
| **INCOME (LOSS) FROM OPERATIONS** | 30,195 | (310,418) | 76,567 | (119,281) |
| **INTEREST & OTHER CHARGES – NET** | (58,984) | (82,504) | 927 | - |
| INCOME (LOSS) BEFORE INCOME TAX | (28,789) | (392,922) | 77,494 | (119,281) |
| **PROVISION FOR (INCOME TAX** | | | | |
| Current | - | - | - | - |
| Deferred | - | - | - | - |
| | - | - | - | - |
| **NET INCOME (LOSS)** | (28,789) | (392,922) | 77,494 | (119,281) |
| **INCOME (LOSS) PER SHARE** | (0.09) | (1.38) | (1.01) | (0.41) |

**CENTRAL AZUCARERA DE TARLAC**
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**MARCH 31, 2006 AND JUNE 30, 2005**
**(In Thousand Pesos)**

| | UNAUDITED MARCH 31 2006 | AUDITED JUNE 30 2005 |
|---|---|---|
| **CAPITAL STOCK** – P10.00 PAR VALUE | | |
| AUTHORIZED-40,000,000 SHARES | | |
| ISSUED – 28,254,596 SHARES | 282,546 | 282,546 |
| **RETAINED EARNINGS** | | |
| APPROPRIATED FOR PLANT EXPANSION & MODERNIZATION | 0 | 0 |
| UNAPPROPRIATED | | |
| BALANCE AT BEGINNING OF YEAR | 230,042 | 170,296 |
| NET INCOME/(LOSS) | (28,789) | (550,338 |
| REVERSAL OF APPROPRIATION | - | 150,000 |
| BALANCE AT END OF YEAR | (258,831) | (230,042) |
| **COST OF 720 SHARES OF STOCK IN TREASURY** | (7) | (7) |
| | 23,708 | 52,497 |

**CENTRAL AZUCARERA DE TARLAC**
**STATEMENTS OF CASH FLOWS**
**FOR THE QUARTER ENDING MARCH 31, 2006 AND 2005**

| | FROM JULY 1 TO | | FROM JAN. 1 TO | |
|---|---|---|---|---|
| | MARCH 31 2006 | MARCH 31 2005 | MARCH 31 2006 | MARCH 31 2005 |
| | (9 months) | | (3 months) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| INCOME BEFORE INCOME TAX | (28,789) | (392,922) | 77,494 | (142,693) |
| ADJUSTMENTS FOR: | | | | |
| INTEREST EXPENSE | 76,560 | 101,747 | (3,174) | 27,395 |
| INTEREST INCOME | (15,312) | (18,354) | 4,489 | (3,941) |
| DEPRECIATION AND AMORTIZATION | 39,181 | 63,204 | 15,716 | 19,914 |
| OPERATING INCOME (LOSS) BEFORE WORKING CAPITAL CHANGES | 71,639 | (246,325) | 94,524 | (99,325) |
| DECREASE (INCREASE) IN: | | | | |
| ACCOUNTS RECEIVABLE | (29,955) | (80,138) | (51,425) | 48,011 |
| INVENTORIES | (70,658) | (44,016) | (34,197) | 5,814 |
| INCREASE (DECREASE) IN: | | | | |
| ACCTS. PAYABLE & ACCRUED EXPENSES | 29,789 | 344,583 | 65,628 | 83,998 |
| CASH GENERATED FROM /USED FOR OPERATIONS | 815 | (25,898) | (56,726) | 38,496 |
| INCOME TAX PAID | (3) | - | - | - |
| NET CASH PROVIDED BY (USED FOR ) ACTIVITIES | 812 | (25,898) | (56,726) | 38,496 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| NET ADDITIONS TO PROPERTY, PLANT & EQUIP.-NET | 11,518 | 15,138 | 648 | 812 |
| DECREASE (INCREASE) IN: | | | | |
| DUE FROM AFFILIATES | 157,161 | 112,971 | 197,298 | (32,452) |
| OTHER NON CURRENT ASSETS | (3,498) | 10,873 | (2,290) | 13,104 |
| INTEREST RECEIVED | 945 | 3,286 | 944 | 165 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 166,126 | 142,269 | 196,600 | (18,370) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| INTEREST PAID | (27,064) | (99,382) | (14,413) | (34,731) |
| INCREASE IN DUE TO AFFILIATES | (1,571) | 10,637 | 20,610 | 8,851 |
| NET PROCEEDS FROM LONG TERM DEBT AND OTHER BORROWINGS | (124,336) | (1,942) | (145,524) | 1,058 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (152,971) | (90,688) | (139,327 | (24,823) |
| **NET INCREASE (DECREASE) IN CASH** | 13,967 | 25,685 | 548 | (4,691) |
| **CASH AT BEGINNING OF YEAR** | 3,540 | 13,715 | 16,960 | 44,091 |
| **CASH AT END OF YEAR** | 17,508 | 39,400 | 17,508 | 39,400 |

## PART 111 – OTHER MATTERS

The following are the stockholders owning more than 5.0% of the Issued and Outstanding Capital Stock of Central Azucarera de Tarlac as of March 31, 2006:

| Title of Class | Name and Address | Amount & Nature of Ownership Record/Beneficial | Percentage |
|---|---|---|---|
| Common | Luisita Trust Fund<br>JCS Bldg. 119 dela Rosa St.<br>Legaspi Vil., Mkti. City | 4,734,492 "b" | 16.76 |
| Common | Jose Cojuangco & Sons, Inc.<br>JCS Bldg. 119 dela Rosa St.<br>Legaspi Vil., Mkti. City | 7,855,828 "b" | 27.80 |
| Common | Tarlac Distilery Corp.<br>JCS Bldg. 119 dela Rosa St.<br>Legaspi Vil., Mkti. City | 1,586,382 "b" | 5.61 |

***Luisita Trust Fund*** ***is a retirement benefit program of the regular and permanent employees of the registran t and its affiliates which is wholly financed by the following contributing companies : Central Azucarera de Tarlac, Hacienda Luisita, Inc., Luisita Marketing Corporation, Jose Cojuangco & Sons, Inc., Tarlac Development Corporation and Tarlac Distillery Corporation. Mrs. Josephine C. Reyes, Chairman of the Board of Trustees, directs the voting and disposition of its securities with the registrant.***

***Jose Cojuangco & Sons, Inc.,*** ***is the General Managers of the registrant. Mr. Pedro Cojuangco, Chairman of t he Boad of Directors and President, directs the voting and disposition of the securities with the registrant.***

***Tarlac Distillery Corporation ,*** ***is the marketing arm of the registrant for its alcohol, molasses and liquefied carbon dioxide. Mr. Jose Cojuangco, Jr., President, directs the voting and disposition of the securities with the registrant.***

## 1. Corporate Information and Status of Operations

Central Azucarera de Tarlac is incorporated in the Philippines. The Company is an integrated sugar company engaged in the production of sugar (raw and refined) and sugar by-products such as molasses, alcohol and carbon dioxide. The average number of employees of the Company was 972 in 2005 and 998 in 2004. The registered office address and place of business of the Company is San Miguel, Tarlac City.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company stopped its milling operations because of a labor strike that was prompted by a Collective Bargaining deadlock. The workers went on strike in November 2004 without complying yet with the required cooling period and strike vote of the union members. The strike continued despite a return-to-work order issued by the Department of Labor and Employment. The labor dispute brought considerable hardship both to the operational and financial condition of the Company. This caused the Company to incur a net loss of ₱550.3 million resulting to a deficit of ₱230.0 million as of June 30, 2005. The Company was not able to recover its fixed costs representing mainly salaries and wages, depreciation, repairs and maintenance, and machine shop, powerhouse and service department costs, because of the resultant low volume of sales. Moreover, the Company has not been able to meet its maturing bank obligations. The situation placed the Company in a tight liquidity position.

The negotiation with the labor union to settle the dispute was concluded on December 8, 2005. Terms of the memorandum of agreement between the Company and the union members addressed the demands including back wages, bonuses, salary and wage adjustments, among others. There are also ongoing negotiations with the creditor banks to restructure loans into more serviceable terms, particularly, conversion of the ₱776.6 million short term loans into long-term facilities with a tenor of up to five years. As of June 30, 2005, ₱50.0 million of the loans were converted to long-term debt. Management believes that with the resumption of the Company's milling operations on December 10, 2005 and favorable outcome on the restructuring of its long-term debt, it will be able to generate revenues to turn-around current year's results of operations.

The ability of the Company to continue as a going concern depends largely on the resolution of the labor dispute, successful negotiation with the creditor banks and the resumption of milling operations. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The accompanying financial statements were authorized for issue by the Board of Directors on January 19, 2006.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis.

Changes in Accounting Policies

On July 1, 2004, the Company adopted Statement of Financial Accounting Standards (SFAS) 12/ International Accounting Standard (IAS) 12, Income Taxes, which requires deferred income taxes to be determined using the balance sheet liability method.

The Company also adopted SFAS 17/IAS 17, Leases, which prescribes the accounting policies and disclosures to apply to finance and operating leases.

Adoption of these standards has no material impact on the Company's financial position and results of operations.

Receivables

Receivables are recognized and carried at original invoice amount or face value less an allowance for uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

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

Investments in Shares of Stock

Investments in shares of stock are carried at cost less any significant and apparently permanent decline in values.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

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

When assets are sold or retired, their costs and the related accumulated depreciation and amortization and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statements of income.

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

| | |
|---|---|
| Machinery and equipment | 5-10 years |
| Buildings and improvements | 5-15 years |
| Land improvements | 5-15 years |
| Furniture, fixtures and equipment | 5 years |
| Transportation equipment | 5 years |
| Communication and utility systems | 5 years |
| Roads and bridges | 10 years |
| Agricultural machinery and equipment | 5-7 years |

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in-progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Asset Impairment

The carrying values of property, plant and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment and other long-lived assets is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction, less cost to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the statements of income.

Provisions

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

Related Party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sales are recognized when title to the goods has passed to the buyer through endorsement of quedans or physical delivery.

Tolling fee is recognized when services have been rendered.
Interest income is recognized as it accrues.

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets are measured at the tax rate that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Operating Leases
Operating lease payments are recognized as expense in the statements of income on a straight-line basis over the lease term.

Retirement Costs
Retirement costs are actuarially determined using the attained age actuarial cost method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Borrowing Costs
Borrowing costs are expensed as incurred.

Earnings (Loss) Per Share
Earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares issued and outstanding after giving retroactive effect to any stock dividends declared during the year.

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

New Accounting Standards Effective in 2005
New accounting standards based on IAS, referred to as Philippine Accounting Standards (PAS) will become effective in 2005. The Company will adopt the following PAS that are relevant to the Company beginning July 1, 2005:

- PAS 19, "Employee Benefits," which will result in the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires a company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date. The Company will avail of the services of a qualified actuary to perform an actuarial valuation of the Company's retirement benefit obligations in accordance with PAS 19, and to determine the amount of transitional liability or asset that will be adjusted against deficit upon adoption of this standard. As discussed in Note 13, the fair value of the plan assets amounted to ₱91.0 million and actuarial accrued liability amounted to ₱183.7 million as of January 1, 2002, the Company's latest actuarial valuation.

- PAS 32, "Financial Instruments: Disclosure and Presentation," covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form.

- PAS 39, "Financial Instruments: Recognition and Measurement," establishes the accounting and reporting standards for recognizing, measuring, and disclosing information about a company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualify as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. A company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

The impact on the financial statements of the adoption of PAS 32 and 39 is not presently quantifiable. Certain detailed activities shall be undertaken, which include, among others, the following:

1. Review of contracts for the purpose of identifying and, where required, bifurcating derivatives that are embedded in both financial and non-financial contracts.

2. Development of a financial instruments policy that will cover accounting for financial instruments, to include the preparation of hedge accounting guidelines and requirements for derivatives that are designated and qualify as hedges.

3. Evaluation of the proper classification of financial instruments, including determining whether a financial instrument should be accounted for as debt or equity; and,

4. Assessment of required process and systems changes.

In 2006, the impact of adopting PAS 32 and 39 will be retroactively computed, as applicable, and adjusted to the July 1, 2005 retained earnings. Prior year's financial statements will not be restated as allowed by the Securities and Exchange Commission (SEC).

- PAS 40, "Investment Property," prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon effectivity of PAS 40, the Company will adopt the cost model and will continue to carry its investment property at depreciated cost less any accumulated impairment losses.

The Company will also adopt the following standards based on revised IAS:

- PAS 1, "Presentation of Financial Statements," provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies.

- PAS 2, "Inventories," reduces the alternatives for measurement of inventories. It does not permit the use of the last in, first out (LIFO) formula to measure the cost of inventories.

- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error.

- PAS 10, "Events After the Balance Sheet Date," provides a limited clarification of the accounting for dividends declared after the balance sheet date.

- PAS 16, "Property, Plant and Equipment," provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, "Leases," provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors.

- PAS 24, "Related Party Disclosures," provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type.

Except for PAS 1, PAS 16, PAS 32 and PAS 39 adoption of the revised standards will not materially impact the Company's financial position and results of operations.

3. **Receivables**

This account consists of:

| | 2005 | 2004 |
|---|---|---|
| Trade (see Note 14) | **₱28,899,576** | ₱25,614,680 |
| Planters' receivables (see Note 14) | **957,648,460** | 910,923,229 |
| Others (see Note 14) | **33,853,229** | 48,567,423 |
| | **1,020,401,265** | 985,105,332 |
| Less allowance for doubtful accounts (see Note 14) | **8,400,965** | 2,276,016 |
| | **₱1,012,000,300** | ₱982,829,316 |

4. **Inventories**

This account consists of:

| | 2005 | 2004 |
|---|---|---|
| At cost: | | |
| Alcohol | **₱12,262,152** | ₱4,173,439 |
| Raw sugar (see Note 8) | – | 7,837,900 |
| Yeast and carbon dioxide | – | 1,055,910 |
| Spare parts in transit | **6,288,387** | 703,360 |
| At net realizable value: | | |
| Spare parts and supplies | **34,324,607** | 33,954,714 |
| | **₱52,875,146** | ₱47,725,323 |

The cost of spare parts and supplies amounted to ₱35.4 million and ₱35.0 million as of June 30, 2005 and 2004, respectively.

5. **Investments in Shares of Stock**

This account consists of:

| | 2005 | 2004 |
|---|---|---|
| Proprietary shares (see Note 8): | | |
| Luisita Golf and Country Club, Inc. (LGCCI) | ₱25,208,825 | **₱25,208,825** |
| Others | **942,500** | 942,500 |
| Quoted in the stock exchange | **308,093** | 308,093 |
| Not quoted in the stock exchange: | | |
| CAT Realty Corporation | **334,652** | 334,652 |
| Others | **1,019,820** | 1,039,820 |
| | **₱27,813,890** | ₱27,833,890 |

Investment in propriety shares with a carrying value of ₱20,000 was sold in 2005.

The estimated aggregate market value of the investments in shares of stock exceeds cost by ₱204.3 million as of June 30, 2005.

6. **Property, Plant and Equipment**

This account consists of:

| | Balance at Beginning of Year | Additions | Disposals/ Write-offs/ Reclassifications | Balance at End of Year |
|---|---|---|---|---|
| Cost: | | | | |
| Machinery and equipment | ₱1,036,079,438 | ₱– | ₱– | **₱1,036,079,438** |
| Buildings and improvements | 72,390,948 | – | – | **72,390,948** |
| Land and improvements | 68,398,944 | – | 60,103 | **68,459,047** |
| Furniture, fixtures and equipment | 63,571,531 | 271,044 | 120,709 | **63,963,284** |

| | Balance at Beginning of Year | Additions | Disposals/ Write-offs/ Reclassifications | Balance at End of Year |
|---|---|---|---|---|
| Transportation equipment | 26,131,674 | – | (1,264,545) | **24,867,129** |
| Communication and utility systems | 17,169,696 | – | – | **17,169,696** |
| Roads and bridges | 12,350,552 | – | – | **12,350,552** |
| Agricultural machinery and equipment | 850,840 | – | – | **850,840** |
| | 1,296,943,623 | 271,044 | (1,083,733) | **1,296,130,934** |
| Less accumulated depreciation and amortization: | | | | |
| Machinery and equipment | 786,654,082 | 72,848,083 | – | **859,502,165** |
| Buildings and improvements | 49,277,738 | 3,947,617 | – | **53,225,355** |
| Land improvements | 34,613,092 | 1,143,172 | – | **35,756,264** |
| Furniture, fixtures and equipment | 58,691,179 | 2,484,354 | – | **61,175,533** |
| Transportation equipment | 22,531,440 | 1,189,388 | (1,264,543) | **22,456,285** |
| Communication and utility systems | 15,729,905 | 521,604 | – | **16,251,509** |
| Roads and bridges | 7,966,171 | 829,062 | – | **8,795,233** |
| Agricultural machinery and equipment | 849,709 | – | – | **849,709** |
| | 976,313,316 | 82,963,280 | (1,264,543) | **1,058,012,053** |
| | 320,630,307 | | | **238,118,881** |
| Construction in-progress | 21,086,371 | 4,526,039 | (23,159,501) | **2,452,909** |
| | ₱341,716,678 | | | **₱240,571,790** |

Appropriation of retained earnings pursuant to the Company's plant expansion and modernization program was reversed in 2005 against deficit.

Certain property, plant and equipment are covered with indentures (see Note 8).

## 7. Other Noncurrent Assets

This account consists of:

| | **2005** | 2004 |
|---|---|---|
| Land not used in operations (at cost) | **₱14,986,709** | ₱14,986,709 |
| Advances to directors, officers and employees - net of allowance for doubtful accounts of ₱959,036 in 2005 and 2004 (see Note 14) | **9,908,224** | 11,055,743 |
| Prepaid taxes | **7,319,099** | 6,668,382 |
| Refundable deposits | **2,439,910** | 3,024,599 |
| Others | **1,223,780** | 1,315,398 |
| | **₱35,877,722** | ₱37,050,831 |

## 8. Notes Payable

This account consists of borrowings from:

| | **2005** | 2004 |
|---|---|---|
| Local banks | **₱952,114,826** | ₱954,000,000 |
| Related parties (see Note 14) | **15,000,000** | 15,000,000 |
| | **967,114,826** | 969,000,000 |
| Less current portion | **791,022,402** | 840,500,000 |
| | **₱176,092,424** | ₱128,500,000 |

Notes payable from local banks consist of collateralized loans covered by deeds of assignments on a portion of the proceeds of the Company's share in sugar production, certificates of proprietary shares of stock with carrying book value of ₱25.2 million in 2005 and 2004 (see Note 5) and mortgage participation certificates under a Mortgage Trust Indenture trusteed by a local bank with interest rates ranging from 13.0% to 19.3% in 2005 and 7.6% to 13.0% in 2004. This indenture covers certain property, plant and equipment with carrying value of ₱237.2 million and

₱319.3 million as of June 30, 2005 and 2004, respectively. Based on the latest appraisal of the properties made by an independent appraiser in 2003, these properties have an appraised value of ₱2.3 billion.

The agreements covering the notes payable aggregating ₱128.5 million in 2005 require maintenance of certain financial ratios, and also provide, among others, certain negative covenants requiring prior written bank approval for specified corporate acts such as the declaration of cash or property dividends, granting of additional loans or advances and investments, merger or consolidation, sale of assets, amendment of articles of incorporation and by-laws, entering into any new management contracts and mortgage of properties of the Company and certain related parties (see Note 14). The Company was not able to meet certain requirements under the loan agreements including repayment schedules for principal and interest. Certain bank loans aggregating ₱100.0 million due in March 2005 were extended until December 2005.

The Company sought for the restructuring of its maturing bank loans aggregating ₱776.6 million. There are on-going negotiations for the conversion of these short-term loans including accrued interest to certain banks into long-term facilities with tenors of ranging up to five years. Maturing portion of the loans that were converted to term loans amounted to ₱50.0 million in 2005 and ₱126.5 million in 2004.

Scheduled payments of the long-term loans from creditor banks amounting to ₱176.1 million and from a related party amounting to ₱10.0 million are as follows:

| Year | Amount |
|---|---|
| Creditor banks: | |
| 2006 | ₱23,555,597 |
| 2007 | 33,043,848 |
| 2008 | 34,057,024 |
| 2009 | 30,260,955 |
| 2010 | 22,495,000 |
| 2011 | 22,680,000 |
| Related party: | |
| 2006 | 10,000,000 |

Notes payable to related parties (see Note 14) are exempt commercial papers registered with the SEC with interest rates ranging from 8% to 10%.

## 9. Trade and Other Payables

This account consists of:

| | **2005** | 2004 |
|---|---|---|
| Trade payables (see Note 14) | **₱128,937,374** | ₱101,419,257 |
| Customers' advances (see Notes 14 and 16) | **330,382,261** | 20,312,583 |
| Interest and other accrued expenses (see Note 14) | **82,731,015** | 21,967,812 |
| Liens payable | **3,484,073** | 18,131,243 |
| Output VAT | – | 44,560,492 |
| Other payables | **41,554,147** | 49,747,992 |
| | **₱587,088,870** | ₱256,139,379 |

## 10. Cost of Goods Sold

This account consists of:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Salaries, wages, bonuses and other benefits | **₱107,934,632** | ₱146,286,360 | ₱147,593,264 |
| Depreciation and amortization | **54,214,781** | 85,481,508 | 83,528,894 |
| Machine shop, powerhouse and service department costs | **40,605,075** | 48,531,976 | 65,024,572 |
| Change in inventory costs, spare parts, and supplies (see Note 14) | **22,058,176** | 89,759,461 | 46,564,729 |
| Security and outside services | **18,023,829** | 29,986,640 | 26,373,077 |
| Retirement cost (see Note 13) | **13,880,510** | 13,880,509 | 13,880,509 |
| Freight and transportation | **8,420,420** | 35,907,904 | 34,509,419 |

(Forward)

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Repairs and maintenance | **₱7,545,697** | ₱54,907,416 | ₱52,889,719 |
| Purchases (see Note 14) | **2,555,899** | 273,991,561 | – |
| Taxes and licenses | **927,343** | 4,747,861 | 5,407,204 |
| Commission (see Note 14) | **920,201** | 12,724,275 | 8,182,780 |
| Others (see Note 14) | **8,158,754** | 28,727,610 | 19,404,873 |
| | **₱285,245,317** | ₱824,933,081 | ₱503,359,040 |

## 11. Cost of Tolling Services

This account consists of:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Salaries, wages, bonuses and other benefits | **₱19,757,547** | ₱29,430,507 | ₱24,338,581 |
| Machine shop, powerhouse and service department costs | **12,298,794** | 44,963,503 | 23,694,076 |
| Spare parts and supplies | **5,290,336** | 26,010,890 | 27,072,165 |
| Retirement cost (see Note 13) | **2,269,090** | 2,269,091 | 2,269,091 |
| Repairs and maintenance | **2,165,849** | 9,757,060 | 9,382,399 |
| Depreciation and amortization | **2,161,504** | 3,727,130 | 3,843,366 |
| Taxes and licenses | **322,847** | 1,349,061 | 1,887,918 |
| Commission (see Note 14) | **585,618** | 2,946,017 | 2,283,395 |
| Freight and transportation | **–** | 2,993,347 | 3,030,134 |
| Others | **1,444,416** | 2,195,032 | 2,824,801 |
| | **₱46,296,001** | ₱125,641,638 | ₱100,625,926 |

12. **Operating Expenses**

This account consists of:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Salaries, wages and other benefits | **₱39,227,675** | ₱39,093,737 | ₱42,906,141 |
| Transportation and travel | **16,572,060** | 15,047,458 | 11,053,327 |
| Dues and advertisements | **10,880,787** | 10,238,184 | 10,190,544 |
| Professional fees | **10,487,758** | 12,574,677 | 12,496,974 |
| Rentals (see Note 14) | **9,031,598** | 10,837,917 | 10,837,917 |
| Light and water | **7,615,279** | 5,090,618 | 3,615,715 |
| Security and janitorial services | **7,254,167** | 7,242,833 | 7,126,615 |
| Management fees and bonuses (see Note 14) | **6,775,200** | 9,177,299 | 6,775,200 |
| Provision for doubtful accounts | **6,124,949** | 2,276,016 | 1,894,777 |
| Postage, telephone and telegram | **5,465,771** | 8,386,334 | 6,098,252 |
| Taxes and licenses | **5,347,411** | 3,638,293 | 4,073,418 |

(Forward)

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Retirement cost (see Note 13) | **₱3,209,100** | ₱3,209,100 | ₱3,209,100 |
| Repairs and maintenance | **2,765,752** | 3,251,892 | 2,994,226 |
| Depreciation and amortization | **2,672,925** | 6,560,490 | 7,173,519 |
| Entertainment, amusement and recreation | **726,022** | 7,800,117 | 5,162,998 |
| Provision for inventory obsolescence | **–** | 1,054,656 | – |
| Others | **3,676,952** | 6,931,304 | 3,288,578 |
| | **₱137,833,406** | ₱152,410,925 | ₱138,897,301 |

13. **Retirement Plan**

The Company has a noncontributory retirement plan covering substantially all of its permanent employees. Retirement costs charged to operations amounted to ₱19.4 million in 2005, 2004 and 2003.

Based on the latest actuarial valuation as of January 1, 2002, fair value of the plan assets amounted to ₱91.0 million and actuarial accrued liability amounted to ₱183.7 million. The unfunded actuarial liability amounted to ₱92.7 million. The principal actuarial assumptions used to determine retirement benefits include an interest rate and annual salary increase of 8%. Actuarial valuations are made at least once every three years. The Company's annual contribution to the retirement fund consists of a payment covering the current service cost for the year plus a payment toward funding the actuarial accrued liability.

14. **Related Party Transactions**

Significant transactions with related parties include the following:

a. Commission expenses of ₱1.5 million in 2005, ₱15.7 million in 2004, and ₱10.5 million in 2003 related to marketing agreements with Tarlac Distillery Corporation (TADISCO) and Luisita Marketing Corporation (LMC).

b. Management fees of ₱6.8 million in 2005, ₱9.2 million in 2004, and ₱6.8 million in 2003 pursuant to a management agreement with Jose Cojuangco and Sons, Inc. (JCSI). Sugar supply arrangement assumed from JCSI aggregated ₱687.0 million in 2004.

c. Office rentals of ₱9.0 million in 2005 and ₱10.8 million in 2004 and 2003 for the lease of office space from J.C. Enterprises, Inc. (JCE).

d. Purchases of molasses of ₱2.1 million in 2005, ₱18.1 million in 2004, and ₱20.2 million in 2003 from Hacienda Luisita, Inc. (HLI) at prevailing market price.

   Extensions of advances to HLI, its major planter, for working capital requirements.

   Assignment of the Company's trading arrangements with a customer to HLI for the supply of raw sugar aggregating ₱86.4 million in 2005. The said amount was applied against the Company's receivable account from HLI.

e. Purchases of raw sugar of ₱2.6 million from other affiliated planters in 2005 at prevailing market price (see Note 10).

   Sharing of sugar and molasses produced every crop year at 67.0% and 33.0% between HLI and the Company pursuant to a milling agreement (see Note 16).

f. Intercompany advances and reimbursements of expenses. Due from related parties represents mainly advances from the Company. Interest is generally computed on the monthly outstanding balance at prevailing rates. Intercompany advances, except for Luisita Realty Corporation (LRC), ceased to be interest bearing starting 2004.

g. Certain properties of the Company's related parties are held as collateral to the Company's loans.

Outstanding balances of receivables and payables resulting from related party transactions shown in the balance sheets are summarized below:

| | **2005** | 2004 |
|---|---|---|
| Due from related parties: | | |
| LRC | ₱246,907,558 | ₱226,282,259 |
| Tarlac Development Corporation (TDC) | **33,411,389** | 83,339,821 |
| Linis Abe Corporation | **388,379** | 575,095 |
| JCE | **104,957** | 113,949 |
| JCSI | – | 70,467,356 |
| LGCCI | – | 8,611,524 |
| | **₱280,812,283** | ₱389,390,004 |
| Due to related parties: | | |
| CAT Realty Corporation | ₱30,200,584 | ₱22,053,396 |
| JCSI | 26,603,247 | – |
| LGCCI | 2,903,279 | – |
| LMC | – | 496,933 |
| | **₱59,707,110** | ₱22,550,329 |
| Trade receivables from (see Note 3): | | |
| TADISCO | ₱19,922,237 | ₱10,515,312 |
| LMC | **6,027,938** | – |
| | 25,950,175 | 10,515,312 |
| Allowance for doubtful accounts | **6,027,938** | – |
| | **₱19,922,237** | ₱10,515,312 |
| Planters' receivables - HLI (see Note 3) | **₱953,809,465** | ₱899,140,878 |
| Advances to directors, officers and employees - net (see Note 7) | **₱9,908,224** | ₱11,055,743 |
| Accrued management fees - JCSI (see Note 3) | **₱–** | ₱581,007 |
| Notes payable to (see Note 8): | | |
| Luisita Trust Fund | **₱10,000,000** | ₱10,000,000 |
| J. C. Enterprise | **5,000,000** | 5,000,000 |
| | **₱15,000,000** | ₱15,000,000 |

HLI experienced a prolonged labor strike and temporarily ceased its operations. The labor strike was settled only in December 2005. Correspondingly, it is in a tight liquidity position.

Moreover, the Presidential Agrarian Reform Council (PARC) issued a resolution calling for the revocation of HLI's Stock Distribution Option (SDO) with its farmworkers. Subsequently, on January 4, 2006, the Office of the PARC issued notices of coverage (NOC) covering HLI's landholdings. HLI has filed a motion for reconsideration on the resolution. Management and its legal counsel strongly believe that the PARC lacks jurisdiction in promulgating the resolution and that the NOC issued is without legal basis.

The Company and HLI are currently discussing the settlement of the Company's receivable. The Company's management believes that HLI on its own, and its major shareholders, have adequate resources to fully settle the Company's receivable. No allowance for any loss on this receivable has been recognized in the accounts.

In 2005, JCSI assumed the liabilities of HLI and TDC to the Company amounting to ₱68.9 million and ₱130.5 million, respectively.

In 2005, receivables from certain shareholders and employees recorded as part of other receivables in 2004 aggregating ₱32.9 million were assumed by TDC.

The Company and the foregoing related parties, except directors and officers, have common stockholders.

15. **Income Taxes**

The components of the Company's deferred tax assets are as follows:

| | **2005** | 2004 |
|---|---|---|
| Deferred tax assets: | | |
| Unamortized portion of past service costs | **₱9,270,198** | ₱10,252,494 |
| Allowance for doubtful accounts | **3,276,000** | 1,035,216 |
| Allowance for inventory obsolescence | **369,130** | 337,490 |
| | **12,915,328** | 11,625,200 |
| Less deferred tax liability - unamortized portion of taxes and duties | – | 1,360,831 |
| | **₱12,915,328** | ₱10,264,369 |

Deferred tax asset related to NOLCO amounting to ₱157.3 million in 2005 was not recognized in the books because the Company is not expecting that future taxable profits will be sufficient to avail the benefits of deferred tax assets.

The carryforward benefit of NOLCO amounting to ₱449.1 million which can be claimed as tax deduction against the taxable income will expire in 2008. In 2004, the carryforward benefits of the excess of MCIT over RCIT amounting to ₱0.6 million was applied against RCIT due.

The reconciliation of income tax on income before income tax computed at the statutory tax rate to provision for income tax as shown in the statements of income is summarized as follows:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Income tax computed at statutory tax rate | **(₱176,956,600)** | ₱5,815,048 | ₱5,524,809 |
| Change in: | | | |
| Unrecognized deferred tax assets | **157,332,379** | – | – |
| Income tax rate | **(14,592,661)** | – | – |
| Income tax effects of: | | | |
| Losses from non-operating due to labor strike | **35,994,024** | – | – |
| Gain on sale of investment in shares of stock already subjected to capital gains tax | **(3,865,230)** | – | – |
| Interest income already subjected to final tax | **(1,069,867)** | (2,210,078) | (208,065) |
| Unallowable portion of interest expense | **508,187** | 1,049,787 | 98,831 |
| Others | **(1,191)** | 79,368 | 196,206 |
| | **(₱2,650,959)** | ₱4,734,125 | ₱5,611,781 |

16. **Agreements**

Milling Agreements

The Company's milling agreements with various planters provide for a 67.0% and 33.0% sharing between the planters (including related parties) and the Company, respectively, of sugar and molasses produced every crop year. As a consequence of the milling agreements and tolling contracts (for refined sugar) with planters and traders, the Company holds the sugar stock of the planters and traders for safekeeping. The Company still has sugar for safekeeping on hand which could not be withdrawn as a result of the labor problem discussed in Note 1.

Supply Agreement

The Company has entered into a supply agreement with a customer for the delivery of refined sugar with an aggregate value of ₱375.0 million in 2005. Customer's advances relative to this agreement amounted to ₱300.0 million as of June 30, 2005. Because of the on-going labor problem, the Company failed to process the sugar requirements and comply with the scheduled delivery date under the agreement. The outstanding supply agreement, on which the delivery schedules were extended, is collateralized by real estate mortgage by certain shareholders.

Lease Agreement

The Company has lease agreement with JCE (see Note 14), renewal of which is in the process as of to date.

17. **Earnings (Loss) Per Share**

The Company's earnings (loss) per share for the years ended June 30, 2005, 2004, and 2003, are computed as follows:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Net income (loss) (a) | **(₱ 550,338,415)** | ₱ 13,437,899 | ₱ 11,653,247 |
| Weighted average number of shares (b): | | | |
| Outstanding and issued shares | **28,254,596** | 28,254,596 | 28,254,596 |
| Less treasury shares | **720** | 720 | 720 |
| | **28,253,876** | 28,253,876 | 28,253,876 |
| Earnings (loss) per share (a/b) | **(₱19.48)** | ₱0.48 | ₱0.41 |