MACAY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements
For the Three Months Ended March 31, 2024 and 2023

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

	P	W	0	0	0	0	0	9	9	8

COMPANY NAME

MACAY HOLDINGS, INC. AND SUBSIDIARIES

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

137 Yakal Street, San AntoniO Village, Makati CitY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
–	(02) 893-0733	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Calendar Year (Month / Day)
387	4th Wednesday of June	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number	Mobile Number
Mr. Renato J. Jamlang	rjjamlang@macayholdings.com.ph	(02) 893-0733	N/A

CONTACT PERSON'S ADDRESS

137 YAKAL STREET, SAN ANTONIO VILLAGE, MAKATI CITY

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

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

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE

1. For the quarterly period ended: **31 March 2024**
2. Commission identification number: **PW-998**
3. BIR Tax Identification No: **000-410-269-000**
4. Exact name of issuer as specified in its charter: **MACAY HOLDINGS, INC.**
5. Province, country or other jurisdiction of incorporation or organization

   Securities and Exchange Commission, Pasay City, Metro Manila, Philippines
6. Industry Classification Code: [ ] (SEC Use Only)
7. Address of issuer's principal office — Postal Code

   137 Yakal Street, San Antonio Village, Makati City — **1203**
8. Issuer's telephone number, including area code: **(632) 893-0733**
9. Former name, former address and former fiscal year, if changed since last report

   –
10. Securities registered pursuant to Sections 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	Amount of debt outstanding (Unpaid Subscription)
Common Share	1,068,393,223	None

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:

    THE PHILIPPINE STOCK EXCHANGE, INC.
12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

    Yes [X] No [ ]

    (b) Has been subject to such filing requirements for the past ninety (90) days.

    Yes [X] No [ ]

PART I--FINANCIAL INFORMATION

Item 1.Financial Statements.

Please see attached Financial Statements and Notes to Financial Statements.

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

Please see attached MD & A

SIGNATURES

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

Issuer: **MACAY HOLDINGS, INC.**

Signature and Title:

Antonio I. Panajon
President

Date:

Susan Ng

Susan L. Ng
Deputy Controller

Date:

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	For the three months ended March 31, 2024	December 31, 2023 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	**₱ 1,058,074,940**	₱840,404,945
Trade and other receivables	**1,129,924,651**	1,242,981,283
Inventories	**218,142,906**	231,259,214
Other current assets	**146,920,853**	212,987,108
Total Current Assets	**2,553,063,350**	2,527,632,550
Assets Classified as Held for Distribution to Owners	**5,122,555,909**	5,246,031,750
	7,675,619,259	7,773,664,300
Noncurrent Assets		
Property, plant and equipment	**124,734,385**	130,011,693
Right-of-use assets	**17,701,040**	15,233,378
Goodwill and other intangible assets	**4,107,837,547**	4,072,260,363
Deferred tax assets – net	**7,578,576**	41,808,086
Other noncurrent assets	**96,167,465**	94,864,699
Total Noncurrent Assets	**4,354,019,013**	4,354,178,219
TOTAL ASSETS	**₱12,029,638,272**	₱12,127,842,519

LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables	**₱ 721,744,446**	₱706,547,980
Short-term loans payable	**231,297,502**	230,000,000
Dividends payable	**2,695,818**	2,695,818
Long-term loans payable – current portion	**24,999,999**	263,049,535
Lease liability – current	**8,305,788**	8,455,632
Income tax payable	**8,783,250**	45,699,282
Total Current Liabilities	**997,826,803**	1,256,448,247
Liabilities Classified as Held for Distribution to Owners	**2,905,750,586**	3,029,226,422
	3,903,577,389	4,285,674,669
Noncurrent Liabilities		
Long-term loans payable - noncurrent portion	**1,322,532,167**	1,135,809,786
Lease liabilities – noncurrent	**11,784,587**	11,784,587
Retirement liability – net	**48,686,598**	48,994,233
Deferred tax liabilities - net	**–**	45,558,576
Total Noncurrent Liabilities	**1,383,003,352**	1,242,147,182
TOTAL LIABILITIES	**5,286,580,741**	5,527,821,851

**Forward*

	For the three months ended March 31, 2024	December 31, 2023 (Audited)
Equity		
Capital stock	**1,068,393,223**	1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Stock dividends for distribution	**224,362,576**	224,362,576
Equity reserve from common control business combination	**60,602,825**	60,602,825
Other comprehensive income:		
Remeasurement gain on retirement liability	**(1,129,298)**	(1,129,298)
Remeasurement gain on retirement liability – disposal group	**66,805,323**	66,805,323
Cumulative Translation Adjustment	**22,692,245**	(8,517,561)
Retained earnings	**4,147,762,348**	4,035,935,291
Total Equity	**6,743,057,531**	6,600,020,668
TOTAL LIABILITIES AND EQUITY	**₱12,029,638,272**	₱12,127,842,519

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the three months ended March 31, 2024 (Unaudited)	For the three months ended March 31, 2023 (Unaudited)
REVENUES	**₱ 993,900,958**	₱1,060,162,243
COST OF SALES AND SERVICES	**564,864,775**	644,854,905
GROSS PROFIT	**429,036,183**	415,307,338
EXPENSES		
Selling and marketing	**57,972,673**	9,452,402
General and administrative	**229,841,029**	257,855,902
	287,813,702	267,308,304
OTHER INCOME (CHARGES)		
Interest income	**2,047,423**	1,864,481
Interest expense	**(25,087,628)**	(29,699,661)
Foreign exchange gains (losses) - net	**5,512,085**	(6,449,964)
Gain on bargain purchase	**–**	91,620,404
Others	**–**	(1,106)
	(17,528,120)	57,334,154
INCOME (LOSS) BEFORE INCOME TAX	**123,694,361**	205,333,188
PROVISION FOR (BENEFIT) FROM INCOME TAX		
Current	**11,054,316**	12,353,325
Deferred	**720,923**	(1,880,487)
	11,775,239	10,472,838
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**111,919,122**	194,860,350
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	**(92,065)**	(112,305,803)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gains (loss) on retirementbenefits, net of tax	**–**	–
Foreign Currency Translation Gain (Loss)	**31,209,806**	(30,616,291)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱143,036,863**	₱51,938,256
EARNINGS PER SHARE		
Basic/Diluted Earnings Per Share	**₱ 0.10**	₱0.18

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock	Additional Paid-in Capital	Stock Dividend for Distribution	Equity Reserve	Remeasurement on retirement liability – disposal group	Remeasurement on retirement liability	Cumulative Translation Adjustment	Retained Earnings	Total
Balances at January 1, 2023	**₱1,068,393,223**	**₱1,153,568,289**	**₱224,362,576**	**₱–**	**₱–**	**₱80,042,745**	**₱–**	**₱4,934,646,094**	**₱7,461,012,927**
Net income	**–**	**–**	**–**	**–**	**–**			**(898,710,803)**	**(898,710,803)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(14,366,720)**	**(8,517,561)**	**–**	**(22,884,281)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(14,366,720)**	**(8,517,561)**	**(898,710,803)**	**(921,595,084)**
Acquisition of subsidiary	**–**	**–**	**–**	**60,602,825**	**–**	**–**	**–**	**–**	**60,602,825**
Discontinued operations	**–**	**–**	**–**	**–**	**66,805,323**	**(66,805,323)**	**–**	**–**	**–**
Balances at December 31, 2023	**₱1,068,393,223**	**₱1,153,568,289**	**₱224,362,576**	**₱60,602,825**	**₱66,805,323**	**(₱1,129,298)**	**(₱8,517,561)**	**₱4,035,935,291**	**₱6,600,020,668**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**111,827,057**	**111,827,057**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**–**	**31,209,806**	**–**	**31,209,806**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**31,209,806**	**111,827,057**	**143,036,863**
Balances at March 31, 2024	**₱1,068,393,223**	**₱1,153,568,289**	**₱224,362,576**	**₱60,602,825**	**₱66,805,323**	**(₱1,129,298)**	**₱22,692,245**	**₱4,147,762,348**	**₱6,743,057,531**

	Capital Stock	Additional Paid-in Capital	Stock Dividend for Distribution	Equity Reserve	Remeasurement on retirement liability – disposal group	Remeasurement on retirement liability	Cumulative Translation Adjustment	Retained Earnings	Total
Balances at January 1, 2022	₱1,068,393,223	₱1,153,568,289	₱224,362,576	₱–	₱–	₱ 34,945,429	₱–	₱5,041,725,855	₱7,522,995,372
Net income	–	–	–	–	–	–	–	(107,079,761)	(107,079,761)
Other comprehensive income	–	–	–	–	–	45,097,316	–	–	45,097,316
Total comprehensive income	–	–	–	–	–	45,097,316	–	(107,079,761)	(61,982,445)
Balances at December 31, 2022	₱1,068,393,223	₱1,153,568,289	₱224,362,576	₱–	₱–	₱80,042,745	₱–	₱4,934,646,094	₱7,461,012,927
Net income	–	–	–	–	–	–	–	82,554,547	82,554,547
Other comprehensive loss	–	–	–	–	–	–	(30,616,291)	–	(30,616,291)
Total comprehensive income	–	–	–	–	–	–	(30,616,291)	82,554,547	51,938,256
Balances at March 31, 2023	₱1,068,393,223	₱1,153,568,289	₱224,362,576	₱–	₱–	₱80,042,745	(₱30,616,291)	₱5,017,200,641	₱7,512,951,183

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31, 2024 (Unaudited)	For the three months ended March 31, 2023 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax from continuing operations	**₱ 123,694,361**	₱205,333,188
Income (loss) before income tax from discontinued operations	**6,161,934**	(112,305,803)
Adjustments for:		
Impairment loss on remeasurement of disposal group to fair value less cost to distribute	**(4,713,516)**	–
Depreciation and amortization	**218,798,975**	205,686,889
Retirement benefit expense	**–**	25,713,132
Interest Income	**(2,047,423)**	(2,574,945)
Interest expense	**25,087,628**	6,926,047
Gain on bargain purchase	**–**	(91,620,378)
Unrealized foreign exchange gains - net	**(5,512,085)**	3,383,822
Operating income before working capital changes	**361,469,874**	240,541,952
Decrease (increase) in:		
Trade and other receivables	**125,848,364**	(190,369,180)
Inventories	**49,969,878**	143,234,726
Other current assets	**50,392,191**	(4,633,611)
Decrease in:		
Trade and other payables	**376,944,326**	(92,933,191)
Net cash generated from operations	**964,624,633**	95,840,696
Interest received	**2,047,424**	2,574,945
Income taxes paid, including creditable withholding taxes	**(55,398,873)**	(72,496,910)
Interest paid	**(25,087,628)**	(6,926,047)
Net cash from operating activities	**886,185,556**	18,992,684
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities (placement) of short-term investments	**–**	470,000,000
Additions to:		
Deferred pallets and containers	**(100,151,541)**	(156,683,826)
Property, plant and equipment	**(41,899,477)**	(79,641,247)
Decrease (increase) in other noncurrent assets	**(17,063,300)**	75,757,945
Assets acquired through acquisition	**–**	(978,960,748)
Net cash used in investing activities	**(159,114,318)**	(669,527,876)

*Forward

	For the three months ended March 31, 2024 (Unaudited)	For the three months ended March 31, 2023 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:	**–**	66,157,395
Short-term loans	**–**	–
Long-term loans		
Payments of:		
Short-term loans	**(417,270,902)**	-
Long-term loans	**(51,327,155)**	(104,334,210)
Payment of principal portion of lease liabilities	**(5,828,585)**	(25,515,490)
Net cash used in financing activities	**(474,426,642)**	(63,692,305)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**₱ 5,512,085**	(₱3,383,822)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**258,156,681**	(717,611,319)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,324,045,238**	2,081,697,880
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱1,582,201,919**	₱1,364,086,561

1. Corporate Information

Macay Holdings, Inc. (the Parent Company or MHI) is a company incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1930 primarily to reflect the business of a holding company. Under its amended Articles of Incorporation, the corporate life of the Parent Company was extended for another 50 years up to October 16, 2030. The shares of stock of MHI are listed and traded as “MACAY” on the Philippine Stock Exchange (PSE) starting 2013.

On January 2023, the Parent company, through its 100% owned entity – Macay Global Ventures, Inc. (MGVI), entered into a share purchase agreement with RC Global Ventures, Inc. for the purchase of 100% shares of RC Global Beverages, Inc. (RCGBI). RCGBI owns the rights to the RC Cola brand globally, and has the ability to grant bottling and distribution licenses to bottlers in the continents of Asia, Europe, Africa, the Middle East, and in North and South America, except for the US, Canada, Mexico, and Puerto Rico. Today, RCGBI has existing relationships with 32 bottlers in 49 countries (including the Philippines).

On August 2020, the Parent company entered into share purchase agreement with Kitchen City Pte. Ltd. for the purchase of 100% shares of Artemisplus Express Inc (trade name “Kitchen City”) [AEI], a food concessionaire. On September 23, 2020 the acquisition of shares has been completed after the fulfillment of agreed closing conditions as provided under the agreement.

ARC Holdings, Inc. (ARCHI) has 50% interest with Asiawide Kalbe Philippines, Inc. (AKPI), a joint venture. In October 2020, the ARCHI purchased the remaining 50% interest of AKPI from Kalbe International Pte. Ltd. (Kalbe), making AKPI wholly owned by ARCHI.

On August 13, 2015, the Parent Company executed a Share Purchase Agreement with all shareholders of ARC Holdings Inc. (ARCHI). ARCHI is the holder of the trademark of Royal Crown Cola, Inc. (RCCI), owner of the RC Cola brand, which was assigned to ARC Refreshments Corporation (ARCRC). The purpose of the acquisition is to consolidate all the licensing, trademark and related rights on the RC Cola brand. All issued and outstanding common shares totaling 1.70 million shares shall be purchased by the Parent Company at ₱10 per share for a total consideration of ₱17.00 million. The consideration was settled on November 10, 2016.

As of December 31, 2020, the Parent Company is 84.79% owned by Mazy’s Capital, Inc. (MCI, a Filipino Corporation) and 15.12% owned by the public.

As of December 31, 2019, the Parent Company is 84.24% owned by Mazy’s Capital, Inc. (MCI, a Filipino Corporation) and 15.76% owned by the public.

MCI is 42.86% owned by Mega Asia Bottling Corporation (Mega Asia) and 57.14% owned by Zest-O Corporation (Zest-O). Mega Asia is an entity under common control while Zest-O is the ultimate parent company of the Group.

The Parent Company owns 100% interest and operates as the holding company of ARCRC, a beverage company, AEI, and ARCHI, a holding company.

The registered office address and principal place of business of the Parent Company is 137 Yakal Street, San Antonio Village, Makati City, Philippines 1203.

The Parent Company and its subsidiaries are collectively referred to in the notes to the consolidated financial statements as the "Group".

The accompanying consolidated financial statements of the Group as of March 31, 2024 and 2023 were approved and authorized for issue by the Board of Directors (BOD) on May 13, 2024.

2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company's functional currency. All amounts are rounded off to the nearest ₱, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year.

Below are the Group's subsidiaries and percentage of ownership:

	Percentage of Ownership			
	March 31, 2024		2023	
	Direct	**Indirect**	Direct	Indirect
*ARC Refreshements Corporation (ARC)	**100%**	**–**	100%	–
Artemisplus Express, Inc. (AEI)	**100%**	**–**	100%	–
Macay Global Ventures, Inc. (MGVI)	**100%**	**–**	100%	–
RC Global Ventures, Inc. (RCGBI)	**–**	**100%**	–	100%
Royal Crown Cola International (RCCI)	**–**	**100%**	–	100%
ARC Holdings, Inc. (ARCHI)	**100%**	**–**	100%	–
Asiawide Kalbe Philippines, Inc. (AKPI)	**–**	**100%**	–	100%

**Investment in ARCRC has been classified as held for distribution to owners, following the approval of the Parent's Company's BOD and stockholders on the declaration of its ownership interest as property dividends in 2023.*

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only, if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2023. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- o Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- o Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance.

- Amendments to PAS 8, Definition of Accounting Estimates

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

- Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. The Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2024
- Amendments to PAS 1, Classification of Liabilities as Current or Non-current
- Amendments to PFRS 16, Lease Liability in a Sale and Leaseback
- Amendments to PAS 7 and PFRS 7, Disclosures: Supplier Finance Arrangements

Effective beginning on or after January 1, 2025
- PFRS 17, Insurance Contracts
- Amendments to PAS 21, Lack of exchangeability

Deferred effectivity
- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2023 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Summary of Material Accounting Policy Information

Revenue

Revenue from contracts with customers is recognized when control of goods or services are transferred to the customers at an amount that reflects the consideration which the Group expects to be entitled to in exchange for those goods or services. Control refers to the ability of the customer to direct and obtain substantially all the transferred product benefits. Also, it implies that the customer has the ability to prevent a third-party from directing the use and obtaining substantially all the benefits of the transferred product

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring to the customers.

Sale of Goods

Most of the Group's revenue arises from its contract for sale of goods (e.g. RC Cola products and frozen meals). Revenue from sale of goods is recognized at a point when control of the goods is transferred to the customer, generally on delivery and acceptance of the goods.

Sale of Services

Sale of services pertains to revenue from canteen concession arrangement and sub-concession arrangements.

Revenue from canteen concession is recognized at point in time when control is transferred to the customer, which is normally when the order is served.
Revenue from sub-concession arrangements pertains to commission revenue that arises from transactions which the Group acts as a third-party collecting agent and consist of the net amount in the Group retains from sale from sub-concession's goods. Revenue from sub-concession arrangements is recognized as earned upon performance of the service (e.g., sale of sub-concession's goods).

Interest Income

Interest income from bank deposits and short-term investments is recognized as it accrues using the effective interest rate (EIR) method.

Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are generally recognized when the expense arises following the accrual basis of accounting.

Cost of Sales

Cost of sales, which comprise mainly of purchases of raw materials and related production cost, are recognized on a monthly basis in relation with the recognition of the related revenue arising from the sale.

Selling and Marketing Expenses

Selling and marketing expenses consist of costs associated with the development and execution of marketing promotion activities and all expenses connected with selling, servicing and distributing Group products.

General and Administrative Expenses
General and administrative expenses are incurred in the normal course of business and are generally recognized when the services are used or the expenses arise.

Financial Instruments
Financial instruments are recognized in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The Group's financial assets consist of cash and cash equivalents, trade and other receivables and short-term investments classified as at amortized cost.

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

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

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

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

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The cash and cash equivalents are maintained in financial institution graded by the external credit rating agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

As of March 31, 2024 and December 31, 2023, the Group's financial liabilities include trade and other payables, dividend payables, loan payables and lease liabilities. It does not have financial liabilities at fair value through profit or loss or derivatives designated as hedging instruments in an effective hedge.

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

After initial recognition, trade and other payables, dividends payable, and interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

<u>Derecognition of Financial Instruments</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:
- The rights to receive cash flows from the assets have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted-average method and includes expenditures incurred in bringing the materials and supplies to their existing location and condition. NRV is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Estimated costs necessary to make the sale is not limited to those that are only incremental but includes costs that the Company must incur to sell its inventories that are not incremental to a particular sale.

Any write-down of materials, supplies, spare parts and finished goods to NRV is recognized as an expense in consolidated statement of comprehensive income in the year incurred.

The Group provides allowance for inventory losses on finished goods and raw materials whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation, 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 construction cost, and its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

The average estimated useful lives of property, plant and equipment are as follows:

Category	Number of Years
Building	20
Machinery and equipment	10
Vehicles	4 to 5
Waste water facility	2 to 5
Kitchen and laboratory equipment	2 to 5
Tools	3 to 5
Office and other equipment	2 to 5

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

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

When assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposals, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in consolidated statement of comprehensive income. Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Construction in progress under "Property, plant and equipment" is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and are available for use.

Leases

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The average estimated useful life of right-of-use assets are as follows:

Category	Number of Years
Land	More than one year to 7 years
Building	2 to 6
Office space	2 to 5

Right-of-use assets are subject to impairment. Refer to the accounting policies in section "Impairment of non-financial assets."

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

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

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

Lease modification
Lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term). The Company determines if the lease modification consists of a separate lease. The Company remeasures the lease liability using the incremental borrowing rate at modification date and charge any adjustment to right-of-use asset.

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of Covid-19 pandemic is a lease modification and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

Deferred Pallets and Containers
The Group purchases returnable containers (i.e., beverage bottles) that are being circulated in the normal course of trade. The containers are initially recorded at cost. These containers are presented as “Deferred pallets and containers” in the consolidated statements of financial position, and are carried at cost less accumulated amortization and any impairment in value. The cost of the containers less the salvage value, which is equal to the deposit value of the container, is subjected to amortization over four (4) years representing the trip life of the containers. Amortization of “Deferred pallets and containers” is included under “Cost of sales and services” account in the consolidated statement of comprehensive income.
Amortization of bottles, and shells and pallets commences once they are available for use over the estimated useful life of four (4) years. An allowance is provided for excess, unusable and obsolete returnable bottles and cases based on the specific identification method.

Deferred pallets and containers are retired at salvage value when it is withdrawn from use and no future economic benefits are expected, such as in the event of breakage and crushing.

Goodwill
Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the

net assets of the business acquired, the difference is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill at least annually.

Customer Relationships and Brand Value

Customer relationships and brand value are intangible assets acquired separately which are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, customer relationship from the acquisition of AEI that has finite life is carried at cost, less any accumulated amortization and accumulated impairment loss. Customer relationship and brand value from acquisition of RCGBI have indefinite life and are carried at cost, less any accumulated impairment loss.

Customer relationship with finite life is amortized over the estimated useful economic life of 40 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Customer relationship and brand value with indefinite lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.
An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss.

Impairment of Nonfinancial Assets

Property, plant and equipment, deferred pallets and containers and customer relationship are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less cost of disposal (FVLCD) and value in use (VIU). The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

<u>Business Combination – Acquisition of RCGBI</u>
An acquisition of a business (i.e., an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors) is a business combination.

Business combinations are accounted for using the acquisition method of accounting except for business combinations under common control in which an accounting similar to pooling of interest is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory

The acquisition of RCGBI qualifies as a business combination under common control and is accounted for using pooling for interest method. In applying the pooling of interest method, the Group follows the Philippine Interpretations Committee Q&A No. 2012-01, PFRS 3.2 – Application of Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements. Under PIC Q&A No. 2012-01, the Group has two approaches to choose from in applying the pooling of interest method:

- To restate the financial information in the consolidated statements for periods prior to the transaction; or
- Not to restate the financial information in the consolidated financial statements for periods prior to the transaction.

As a policy choice, the Group elected not to restate the comparative financial information in the consolidated financial statements for periods prior to the acquisition (Note 4).

<u>Noncurrent Assets and Disposal Group Held for Distribution to Owners and Discontinued Operations</u>
The Group classifies noncurrent assets and disposal group as held for distribution to owners if their carrying amounts will be recovered principally through distribution to owners. As such, noncurrent assets and disposal groups are measured at the lower of their carrying amounts and fair value less costs to distribute (i.e., the incremental costs directly attributable to the distribution, excluding finance costs and income taxes).

The Group regards the criteria for held for distribution to owners classification as met only when:

- the Group is committed to the plan to distribute the asset or disposal group to the owners, which should be available for immediate distribution in its present condition;
- the distribution is highly probable (i.e, expected to happen within one year from the date of the classification); and
- actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Group presents separately the assets and liabilities of disposal group classified as held for distribution to owners in the consolidated statement of financial position.

The Group classifies a disposal group as discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for distribution to owners, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The Group excludes discontinued operations from the results of continuing operations and presents them as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of comprehensive income.

If the above criteria are no longer met, the Group ceases to classify the asset or disposal group as held for distribution to owners. In such cases, the Group measures such asset or disposal group at the lower of its:

- carrying amount before it was classified as held for distribution to owners, adjusted for any depreciation, amortization or revaluations that would have been recognized had it not been classified as such; and
- recoverable amount at the date of the subsequent decision not to distribute.

The Group also amends financial statements for the periods since classification as held for distribution to owners if the asset or disposal group that ceases to be classified as held for distribution to owners is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. Accordingly, for all periods presented, the Group reclassifies and includes in income from continuing operations the results of operations of the asset or disposal group previously presented in discontinued operations.

<u>Containers Deposit Liability</u>

Containers deposit liability is classified as a current liability under trade payables. Containers deposit liability consists of cash deposit received by the Group associated with the returnable containers (i.e., beverage bottles) upon sale of product. The cash deposit is paid back to customers upon return of returnable containers or reversed against the salvage value of the deferred containers upon determination that the containers will no longer be returned.

<u>Capital Stock and Additional Paid-in Capital</u>

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium the difference between the proceeds and the par value is credited to "Additional paid-in capital".

Retained Earnings

Retained earnings represent all accumulated profits or losses of the Group and dividend distributions, if any, to shareholders of the Parent Company and other capital adjustments. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

Stock Dividends for Distribution

Stock dividends for distribution represents the stock dividend declared and approved by the BOD and stockholders which will be issued to stockholders and reclassified to capital stock upon approval by SEC. The stock dividends for distribution is classified as equity.

Retirement Benefits Liability

The net defined benefit liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

Foreign Currency-denominated Transactions and Translations

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are recognized in the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Overseas Subsidiaries
At each reporting date, the Group translates the assets and liabilities of the overseas subsidiaries (MGVI, RCGBI and RCCI) in Philippine peso at the BAP closing rate prevailing at the reporting date, and their income and expenses at the average exchange rate for the year. Foreign exchange differences arising on translation are taken directly to OCI under "Cumulative translation adjustment", Upon disposal of a foreign entity, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the consolidated statement of comprehensive income.

Income Taxes
Current Income Tax
Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

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

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

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

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

Deferred income tax assets and liabilities are offset, if a legally enforceable right to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to income taxes levied by the same taxation authority.
Earnings Per Share ("EPS")
Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Segment Reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments, which operating results are regularly reviewed by the Chief Operating Decision Maker (CODM), to make decisions about how resources are to be

allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's financial position at the end of the 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 consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRSs requires the Group to make judgments and estimates that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from such estimates.

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

Determining the classification of assets and liabilities related to ARCRC as held for distribution to owners and results of operations as discontinued operations
With the declaration of ARCRC shares as property dividends, as of December 31, 2023, the Group assessed that the related assets and liabilities of ARCRC satisfied the requirements to be classified as held for distribution to owners and the results of operations as discontinued operations, for the following reasons:

- ARCRC represents a separate major line of business within the Group and its revenue, costs, expenses and cash flows can be separately measured.
- The investment in ARCRC is available for immediate distribution in its present condition.
- The Parent Company's BOD and stockholders approved the declaration as property dividend of the Parent Company's ownership interest in ARCRC and approval of the SEC is expected in 2024.

Determining the lease term of contracts with renewal and termination options - the Group as Lessee
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group included the renewal period as part of the lease term for leases of land and office spaces with shorter non-cancellable period. The Company typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of land and office spaces with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Estimating impairment of goodwill, customer relationships and brand value

The Group determines whether goodwill, customer relationships and brand value are impaired. For goodwill and customer relationships and brand value with indefinite life, the impairment testing is performed annually as at December 31 and when circumstances indicate that the carrying amount is impaired. The impairment testing requires an estimation of the recoverable amounts, which is the FVLCD or VIU of the CGU whichever is higher, to which the goodwill, customer relationships and brand value belongs.

Estimating the VIU requires the Group to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Group uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include future revenues and revenue growth rate, cost of sales ratio, operating expenses ratio and long-term growth rate, among others.

As of March 31, 2024 and December 31, 2023, the Group has determined that goodwill, customer relationships and brand value are recoverable based on the computed VIU.

Estimation of fair value of investment in ARCRC shares to value the assets and liabilities classified as disposal group held for distribution to owners

The Group uses its judgment to select the most appropriate valuation methodology to value its investment in ARCRC shares and make assumptions that are mainly based on market conditions existing at each reporting date. The Group engaged an SEC-accredited appraiser to assist in the valuation of investment in ARCRC shares using the discounted cash flows (DCF) method. Under the DCF method, the Group made an estimate of the expected future cash flows from ARCRC and applied a discount rate based on the weighted average cost of capital.

The Group recognized impairment loss on remeasurement of the disposal group to fair value less costs to distribute amounting to ₱883.68 million on 2023. An additional ₱4.71 million impairment loss was recognized for the first quarter of 2024.

Estimating useful life of deferred pallets and containers

In accordance with its policy, the Group reviews annually the estimated useful life of its deferred pallets and containers based on the profile of the assets and aging analysis. The estimation of useful life is based on internal technical evaluation done on a collective basis, and the Group's experience with similar assets in so far as breakages and bottle turnover are concerned. Based on the reassessment made by the Group, there was no change in the estimated useful life of deferred pallets and containers.

Estimating impairment losses on inventories
The Group determines the NRV of inventories annually in accordance with the accounting policy stated in Note 2. In determining the NRV, the Company considers the current selling price of the product and the estimated cost to sell. The Company considers any adjustments necessary for obsolescence, which is generally provided with 100% allowance on damage and specifically identified obsolete inventories and 10% allowance for spare parts and supplies aged 6 months and above.

The carrying amounts of inventories, net of allowance for inventory obsolescence, as at March 31, 2024 and December 31, 2023 amounted to ₱218.14 million and ₱231.26 million, respectively.

Estimating useful lives of customer relationships
The Group estimates the useful lives of customer relationships based on the period over which the assets are expected to be available for use which represents the number of years that the customers are expected to remain. The Group reviews the estimated useful lives based on the factors that include asset utilization, external technical valuation and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the aforementioned factors. A reduction in the estimated useful lives of customer relationships would increase amortization expenses and decrease noncurrent assets.

There is no change in the estimated useful lives of customer relationship from the effectivity of the acquisition. The carrying values of customer relationships as at March 31, 2024 and December 31, 2023 amounted to ₱1,385.64 million and ₱1,320.14 million, respectively.

Estimating useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

The carrying amounts of property, plant and equipment, excluding land and construction-in-progress, as at March 31, 2024 and December 31, 2023 amounted to ₱124.73 million and ₱130 million, respectively.

Estimating retirement benefits cost
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Provision for expected credit losses of trade and other receivables
The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for individual customer. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., consumer price index rate) are expected to deteriorate over the next year which can lead to an increased number of customer defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The carrying amounts of the Group's trade and other receivables as of March 31, 2024 and December 31, 2023 amounted to ₱1,129.92 million and ₱1,242.98 million, respectively.

Leases - estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The carrying amounts of the Group's lease liabilities as of March 31, 2024 and December 31, 2023 amounted to ₱20.09 million and ₱20.24 million, respectively.

4. Seasonality of Operations

Similar to other beverage group, the group's sales are subject to seasonality. Sales are at a peak during summer from March through June and lower during the rainy season of July to October. Higher sales are likewise experienced around the Christmas/New Year period in the middle of December through early January. These may cause the Group's results to fluctuate. In addition, the Group's performance may be affected by unforeseen events such as production interruptions. Consequently, comparisons of Sales and operating results between periods within a single year, or between different periods in different financial years may be pointless and should not be relied upon as indicators.

5. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are considered to be related if they are subject to common control and common significant influence. Related parties may be individuals or corporate entities. Transactions with related parties are based on terms agreed to by the parties.

First quarter transactions and year-end balances with related parties for 2024 and December 31, 2023 are set out below:

Category	Year	Revenues	Interest Income	Costs and Expenses	Actual Lease Payments	Cash and Cash Equivalents	Due from Related Parties	Trade Payables	Due to Related Parties	Terms	Conditions
Stockholder											
Zest-O Corporation	**Mar 2024**	**₱71,365**	**₱–**	**₱15,732,288**	**₱–**	**₱–**	**₱83,648,062**	**₱–**	**₱91,434,953**	Non-interest bearing; due and demandable	No impairment; Unsecured
	Dec 2023	₱–	₱–	₱–	₱	₱–	₱891,672	₱–	₱1,167,423		
Entities under common control:											
Mega Asia Bottling Corporation	**Mar 2024**	**–**	**–**	**43,806,284**	**–**	**–**	**1,920,640**	**–**	**213,296,886**	Non-interest bearing; due and demandable	No impairment; Unsecured
	Dec 2023	–	–	–		–	–	–	–		
AMY Leasing Company (AMY)	**Mar 2024**	**–**	**–**	**269,467**	**290,170**	**–**	**–**	**–**	**–**	Non-interest bearing; due and demandable	Unsecured
	Dec 2023	–	–	1,076,558	1,113,402	–	–	–	–		
Asiawide Refreshments Corporation	**Mar 2024**	**–**	**–**	**5,133,431**	**–**	**–**	**–**	**–**	**227,326**	Non-interest bearing; due and demandable	No impairment; Unsecured
	Dec 2023	–	–	–	–	–	–	–	–		
Bev-pack Incorporated. (Bev-pack)	**Mar 2024**	**–**	**–**	**51,654,004**	**–**	**–**	**–**	**–**	**103,315,745**	Non-interest bearing; due and demandable	No impairment; Unsecured
	Dec 2023	–	–	–	–	–			–		
Solmac Marketing Inc. (Solmac;)	**Mar 2024**	**–**	**–**	**15,124,177**	**–**	**–**	**–**	**–**	**–**	Non-interest bearing; due and demandable	Unsecured
	Dec 2023	–	–	–		–	–	–	–		

**Forward*

Category	Year	Revenues	Interest Income	Costs and Expenses	Actual Lease Payments	Cash and Cash Equivalents	Due from Related Parties	Trade Payables	Due to Related Parties	Terms	Conditions
SMI Development Corporation	**Mar 2024**	**₱–**	**₱–**	**₱2,022,330**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,644,059**	Non-interest bearing; due and demandable	Unsecured
	Dec 2023	₱–	₱–	₱–	₱	₱–	₱–	₱–	₱		
Philippine Business Bank	**Mar 2024**	**–**	**1,921,735**	**–**	**–**	**740,788,682**	**–**	**–**	**–**	Interest bearing	Secured
	Dec 2023	–	8,446,521	–	–	682,835,458	–	–	–		
RC Global Ventures, Inc.	**Mar 2024**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	Interest bearing	Secured
	Dec 2023	–	–	–	–	–	–	–	130,195,531		
ARC Thailand	**Mar 2024**	**–**	**–**	**–**	**–**	**–**	**8,343,215**	**–**	**–**	Non-interest bearing; due and demandable	Unsecured
	Dec 2023	–	–	–	–	–	8,343,215	–	–		
	Mar 2024	₱71,365	₱1,921,735	₱133,741,981	₱290,170	₱740,788,682	₱85,568,702	₱–	₱410,918,969		
	Dec 2023	₱–	₱8,446,521	₱1,076,558	₱1,113,402	₱682,835,458	₱891,672	₱–	₱131,362,954		

a. ARCRC entered into various lease agreements with Zest-O for the use of its land, building facilities, and machinery and equipment located in Luzon.

   AKPI made sales of energy drinks to Zest-O and remained outstanding as of March 31, 2024 and December 31, 2023. AKPI also made purchases with Zest-O. The payables are unsecured, noninterest bearing and payable in cash.

b. ARCRC entered into various lease agreements with Mega Asia Bottling Corporation (Mega Asia) for the use of its land and building situated in various locations in the country.

Mega Asia also provides specialty contractor services in all plants except Cabuyao. The specialty contractor services ceased thereafter. The specialty contractor fee was presented under discontinued operations in the consolidated statements of comprehensive income

c. The Parent Company entered into lease agreement with AMY Leasing Company for the use of its office space in Makati City

d. ARCRC entered into a lease agreement with Asiawide Refreshments Corporation for the use of its land and building situated in Sitio Puting Bato, Inarawan, Antipolo City.

e. The Parent Company made advances to ARC Thailand in 2017 and 2018 for various expenditures and remained outstanding as of March 31, 2024 and December 31, 2023.

   Impairment losses on due from ARC Thailand was provided in 2021 amounting to ₱8.34 million

f. Bev-pack Incorporated supplies the caps for ARCRC's production of 800 ml bottled softdrinks.

g. ARCRC has a lease agreement with Solmac Marketing Inc. for its corporate office in Makati City.

h. On February 1, 2014, ARCRC entered into a lease agreement with SMI for the use of its 16,398 sq. meter land in Antipolo.

i. The Group has cash and cash equivalents with Philippine Business Bank that earns average interest rate of 0.1875% to 5.25 %.

6. **Financial Risk Management and Capital Management**

The main purpose of the Group's dealings in financial instruments is to fund its operations, capital expenditures and financing activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control, identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

Management addresses the risks faced by the Group in the preparation of its annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

<u>Credit Risk and Quality</u>
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk exposure arises principally from the possibility that the counterparties may fail to fulfill their agreed obligations. To manage such risk, the Group monitors its receivables on an ongoing basis. The objective is to reduce the risk of loss through default of counterparties.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, receivables, short-term investments and security deposits, the Group's exposure to credit risk arises from a possible default of the counterparties with a maximum exposure equal to the carrying amounts of these instruments.

An impairment analysis is performed at each reporting date. The mechanics of the ECL calculations and key elements are, as follows:

Probability of default (PD) is an estimate of the likelihood of default over a given time horizon.

Exposure at default (EAD) is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.

Loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time.

Financial assets are written off when there is no reasonable expectation of recovery, such as debtor failing to engage in a repayment plan despite collection efforts. Where receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

Financial assets that are over 30 days or more are not considered in default when the reason for non-payment was due to administrative oversight or other reasonable circumstances rather than resulting from financial difficulty of the borrower. An impairment analysis is performed using a provision matrix for trade and other receivables to measure expected credit losses. The provision rates are based on days past due of customers. Generally, trade and other receivables are written-off if past due for more than a year and are not subjected to enforcement activity. Set out in the succeeding page is the information about the credit risk exposure on the Group's trade receivables, receivables from officers and employees and due from related parties as of March 31, 2024 and December 31, 2023 using a provision matrix:

March 31, 2024

	Days Past Due				
	Current	**1-30 days**	**31-60 days**	**>60 days**	**Total**
Expected credit loss rate	**0.00%**	**0.00%**	**0.00%**	**67.01%**	
Estimated total gross carrying amount at default	**₱170,390,552**	**₱230,906,850**	**₱46,200,908**	**₱302,049,792**	**₱749,548,102**
Expected credit loss				**₱202,412,203**	**₱202,412,203**

December 31, 2023

	Days Past Due				
	Current	1-30 days	31-60 days	>60 days	Total
Expected credit loss rate	0.05%	2.61%	5.72%	67.55%	
Estimated total gross carrying amount at default	₱809,142,278	₱114,810,969	₱121,787,533	₱292,046,969	₱1,337,787,749
Expected credit loss	₱398,553	₱2,997,012	₱6,962,224	₱197,266,430	₱207,624,219

The Group's other financial assets at amortized cost are composed of cash and cash equivalent, short term investment and security deposit. For cash and cash equivalents and short-term investments which are maintained in financial institution graded by the external credit rating agency, the Group applies the low credit risk simplification where the Group measures the ECL on a 12-month basis based on the PD and LGD which are publicly available. The Group also evaluates the credit rating of the banks and other financial institutions to determine whether the debt instruments has significantly increased in credit risk and to estimate ECLs.

For security deposit, the Group limits its exposure on credit risk by engaging to related parties or third parties with good credit standing and reputation in the industry. It is the Group's policy to measure ECL on this financial assts on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. The due to related parties will be paid when the Group has the means to pay. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

March 31, 2024

	March 31, 2024				
	Due and Demandable	**Within 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
Cash and cash equivalents	**₱1,058,074,940**	**₱–**	**₱–**	**₱–**	**₱1,058,074,940**
Trade and other receivables	**903,119,276**	**201,201,582**	**18,550,770**	**7,053,023**	**1,129,924,651**
Security Deposits*	**20,327,871**	**1,447,296**	**2,103,107**	**–**	**23,878,274**
	1,981,522,088	**202,648,878**	**20,653,877**	**7,053,023**	**2,211,877,865**
Trade and Other payables	**(558,746,764)**	**(162,997,681)**	**–**	**–**	**(721,744,446)**
Short-term loans payable	**(231,297,502)**	**–**	**–**	**–**	**(231,297,502)**
Lease liabilities	**(636,659)**	**(4,129,379)**	**(4,129,379)**	**(11,194,959)**	**(20,090,375)**
Long-term loans payable	**(24,999,999)**	**(153,692,437)**	**(261,852,923)**	**(906,986,807)**	**(1,347,532,166)**
Dividends payable	**(2,695,818)**	**–**	**–**	**–**	**(2,695,818)**
	(818,376,742)	**(320,819,497)**	**(265,982,302)**	**(918,181,766)**	**(2,323,360,307)**
Liquidity Position (Gap)	**₱1,163,145,345**	**(₱118,170,620)**	**(₱245,328,425)**	**(₱911,128,743)**	**(₱111,482,441)**

December 31, 2023

	December 31, 2023				
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 Year	Total
Cash and cash equivalents	₱499,806,895	₱340,598,050	₱–	₱–	₱840,404,945
Trade and other receivables	982,181,675	236,901,370	–	–	1,219,083,045
Security Deposits	25,291,920	–	–	–	25,291,920
	1,507,280,490	577,499,420	–	–	2,084,779,910
Trade and Other payables	(334,202,079)	(355,308,847)	–	–	(689,510,926)
Short-term loans payable	–	–	(230,000,000)	–	(230,000,000)
Lease liabilities	–	(4,642,130)	(4,642,130)	(11,819,450)	(21,103,710)
Long-term loans payable	–	(152,611,458)	(160,611,150)	(1,152,348,314)	(1,465,570,922)
Dividends payable	(2,695,818)	–	–	–	(2,695,818)
	(336,897,897)	(512,562,435)	(395,253,280)	(1,164,167,764)	(2,408,881,376)
Liquidity Position (Gap)	₱1,170,382,593	₱64,936,985	(₱395,253,280)	(₱1,164,167,764)	(₱324,101,466)

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group uses the Peso (₱) as its functional currency and is therefore exposed to foreign exchange movements, primarily on the US Dollar ($). The Group follows a policy to manage this risk by closely monitoring its cash flow position and by providing forecast on its exposures in non-peso currency.

The balances of the Group's financial assets and liabilities denominated in foreign currency translated in Philippine peso, as of March 31, 2024 and December 31, 2023, are as follows:

	March 31, 2024			
	Original Currency in $	**Translated in ₱**	**Original Currency in €**	**Translated in ₱**
Financial assets:				
Cash and cash equivalents	**$14,204,925**	**₱798,884,965**	**€–**	**₱–**
Trade and other receivables	**9,749,249**	**548,297,760**	**–**	**–**
Financial liabilities:				
Trade and other payables	**(9,338,988)**	**(525,224,678)**	**–**	**–**
Long-term loans payable	**(21,527,072)**	**(1,210,682,529)**	**–**	**–**
Net exposure	**($6,911,886)**	**(₱388,724,482)**	**€–**	**₱–**

	December 31, 2023			
	Original Currency in $	Translated in ₱	Original Currency in €	Translated in ₱
Financial assets:				
Cash and cash equivalents	$10,698,299	₱592,364,824	€–	₱–
Trade and other receivables	12,262,662	678,983,574	–	–
Financial liabilities:				
Trade and other payables	(6,463,561)	(357,887,373)	–	–
Long-term loans payable	(22,553,018)	(1,248,760,601)	–	–
Net exposure	($6,055,618)	(₱335,299,576)	€–	₱–

As of March 31, 2024 and December 31, 2023, the exchange rate of the Philippine peso to the USD is ₱56.24 and ₱55.37, respectively, while the exchange rate for EUR is ₱60.66 and ₱61.47, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in Philippine Peso/US Dollar and Philippine Peso to Euro exchange rates, with all other variables held constant, of the Group's income before income tax. There is no other impact on the Group's equity other than those affecting the statement of comprehensive income.

	Change in exchange rate			
	$ strengthens by 5%	$ weakens by 5%	€ strengthens by 5%	€ weakens by 5%
Increase (decrease) in income before income tax and equity				
March 31, 2024	**₱19,436,224**	**(₱19,436,224)**	₱–	₱–
December 31, 2023	₱17,530,905	(₱17,530,905)	₱–	₱–

Fair Values of Financial Instruments

Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following financial assets and financial liabilities approximate their fair values as of March 31, 2024 and December 31, 2023:

Cash and cash equivalents, Trade and other receivables, Short-term investments, Trade and other payables, Short-term loans payable and Dividends Payable and cash equivalents

The carrying amounts of cash and cash equivalents, trade and other receivables, short-term investments, trade and other payables, short-term loans payable and dividends payable approximate their fair values due to the short-term maturity of these financial instruments.

Security Deposits

These are presented at cost since the timing and amounts of future cash flows related to the refundable deposits are linked to the termination of the contract which cannot be reasonably and reliably estimated.

Similarly, the carrying amounts of these instruments which are all subject to normal trade terms, approximate their fair values due to their short-term nature.

Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to increase the value of shareholders' investment. The Group sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure upon commencement of its operations.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry. No changes were made in the objectives, policies or processes during the three-month period ended March 31, 2024 and for the year ended December 31, 2023.

The following table summarizes what the Group considers as its total capital as at reporting dates:

	March 31, 2024	December 31, 2023
Capital Stock	**1,068,393,223**	1,068,393,223
Additional Paid-in Capital	**1,153,568,289**	1,153,568,289
Retained Earnings	**4,147,762,348**	4,035,935,291
	6,369,723,860	6,257,896,803

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

Results of Operations

There has been no significant change on the Group's Sales for the first quarter of 2024 and 2023, with only ₱66.26 million decrease in sales. The Cost of Sales and Services, however, decreased by 12.40% or ₱79.99 million, thereby resulting to a ₱13.73 million increase in Gross Profit.

The Operating Expenses on the other hand, slightly increased by 7.67% or ₱20.51 million. This increase may be accounted mainly from RCGBI's increase in Selling Expenses by ₱48.77 million and decrease in General and Admin Expenses by ₱32.58 million. With the increase in Operating Expenses, the Operating Income slightly decreased to ₱141.22 million in March 31, 2024 compared to ₱148.00 million in March 31, 2023.

The net income from continuing operations resulted in a net income of ₱111.92 million and ₱194.86 million in the first quarter of 2024 and 2023, respectively. The net income from discontinued operations (ARC), on the other hand, reported a net loss of ₱0.09 million and ₱112.31 million in the first quarters of 2024 and 2023, respectively

Financial Condition

Current Assets decreased by ₱25.43 million from ₱2,527.63 million as of December 31, 2023 to P2,553.06 million as of March 31, 2024. This is accounted for mainly to the increase in cash by ₱217.67 million and a decrease in receivables and other currents assets by ₱179.12 million. With no significant movement in Noncurrent Assets, the Total Assets decreased from ₱12,127.84 million as of December 31, 2023 to ₱12,029.64 million as of March 31, 2024.

Total Liabilities decreased from ₱5,527.82 million as of December 31, 2023 to ₱5,286.58 million as of March 31, 2024 mainly due to repayments of Loans Payable and a decrease in Deferred Tax Liability. Working capital ratio remained high at 2.56.

Key Performance indicators

The following are the Group’s key performance indicators.

		For 3 months Ended Mar 31	
		2024	2023
Net Sales		**0.99B**	1.06B
Gross Profit Margin	Gross Profit over Sales	**43.17%**	39.17%
Operating Margin	Operating Income over Net Sales	**14.21%**	13.96%
Net Profit Margin	Net Profit over Net Sales	**11.25%**	7.79%

		Mar 31, 2024	Dec 31, 2023
Current Ratio	Current Assets over Curent Liabilities	**2.56:1**	2.01:1
Solvency Ratio	Net Income plus Depreciation and Amortization over Total Liabilities	**0.06:1**	(0.01:1)
Bank Debt to Equity Ratio	Bank Debt over Total Equity	**0.23:1**	0.25:1
Asset To Equity ratio	Total Assets over Equity	**1.78:1**	1.84:1