STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **MACAY HOLDINGS, INC. AND SUBSIDIARIES** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2023, 2022, and 2021** in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has not realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements and submit the same to the stockholders or members.

Sycip, Gorres, Velayo and Co., the independent auditor, appointed by the stockholders has audited the consolidated financial statements of the Company in accordance with the Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Very truly yours,

Macay Holdings, Inc.

Signature: ______________________ Date:

ALFREDO M. YAO
Chairman of the Board

Signature: ______________________ Date:

ANTONIO I. PANAJON
President

Signature: ______________________ Date:

JEFFREY S. YAO
Treasurer

Subscribed and sworn to before me this day of 22 APR 2024 in the City of Makati Metro Manila Philippines. Affiant exhibiting his/hers/their ______________ issued in ______________ on ______________.

ATTY. RAYMOND A. RAMOS
COMMISSION NO. M-77
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2024
2364 ANGONO STREET
BARANGAY POBLACION 1210, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 374750/12-26-2023/Pasig City
PTR NO. MKT 10074525/01-02-2024/Makati City
MCLE Compliance No. VII-0020180/04-14-2025

Doc. No 424
Page No 86
Book No 321
Series of 2024.

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P W 0 0 0 0 0 9 9 8

COMPANY NAME

M A C A Y   H O L D I N G S ,   I N C .   A N D
S U B S I D I A R I E S

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

1 3 7   Y a k a l   S t r e e t ,   S a n   A n t o n i o
V i l l a g e ,   M a k a t i   C i t y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A C F S	S E C	N/ A

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal 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/s	Mobile Number
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 of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Macay Holdings, Inc.
137 Yakal Street, San Antonio Village
Makati City

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Macay Holdings, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment Testing of Goodwill

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2023, the Group's goodwill attributable to the acquisition of Artemisplus Express, Inc. in 2020 amounted to ₱1,588.30 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty, specifically revenue growth rate, cost of sales ratio, operating expenses ratio, long-term growth rate and discount rate.

The Group's disclosures about goodwill are included in Note 12 to the consolidated financial statements.

Audit Response

We obtained an understanding of the management's process for evaluating the impairment of goodwill. We involved our internal specialist in evaluating the methodology and the assumptions used. We compared the key assumptions used, such as revenue growth rate, cost of sales ratio, operating expenses ratio and long-term growth rate, against historical performance of the CGU, industry outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Valuation of ARC Refreshments Corporation as a Disposal Group

On August 14, 2023, the Parent Company's Board of Directors and Stockholders approved the declaration as property dividend its 100% ownership interest in ARC Refreshments Corporation (ARCRC), valued at ₱2,150 million, to stockholders of record as of October 23, 2023.

As of December 31, 2023, the Group is still waiting for the Securities and Exchange Commission's (SEC) approval for the distribution of the said property dividend. Accordingly, as of the same date, the Group classified the assets and liabilities of ARCRC as disposal group held for distribution to owners, and measured the same at the lower of its carrying amount and fair value less costs to distribute in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*.

The valuation of the disposal group which was based on the valuation of ARCRC shares is significant to our audit because it is inherently subjective as it involves the use of valuation inputs that are not market observable such as revenue growth rate, cost of sales ratio and operating expense ratio, long-term growth rate, discount rate and discount for lack of marketability. Management also applied judgment in selecting the valuation technique and the assumptions to be used.

The Group’s disclosures about the reclassification of the assets and liabilities of ARCRC as a disposal group and the results of operations of ARCRC as discontinued operations are included in Note 9 to the consolidated financial statements.

Audit Response

We obtained an understanding of the transaction and confirmed the details of the dividend declaration through inspection of the minutes of the BOD and stockholders' meetings.

We also evaluated the valuation technique and assumptions used. These assumptions include revenue growth rate, cost of sales ratio and operating expense ratio, long-term growth rate, discount rate and discount for lack of marketability. We compared the key assumptions such as revenue growth rate against historical performance of the disposal group, industry outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group’s disclosures about those assumptions to which the outcome of the valuation is most sensitive; specifically, those that have the most significant effect on the determination of the fair value of the unquoted equity investment.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023 but does not include the consolidated financial statements and our auditor’s report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A or Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of our auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ana Lea C. Bergado.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
Tax Identification No. 102-082-670
BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026
BIR Accreditation No. 08-001998-063-2023, September 12, 2023, valid until September 11, 2026
PTR No. 10079908, January 5, 2024, Makati City

April 22, 2024

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2023 (Note 9)	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱840,404,945**	₱2,081,697,880
Short term investments (Note 5)	**–**	470,000,000
Trade and other receivables (Note 6)	**1,242,981,283**	715,476,419
Inventories (Note 7)	**231,259,214**	1,597,446,250
Other current assets (Note 8)	**212,987,108**	708,967,408
Total Current Assets	**2,527,632,550**	5,573,587,957
Assets Classified as Held for Distribution to Owners (Note 9)	**5,246,031,750**	–
	7,773,664,300	5,573,587,957
Noncurrent Assets		
Property, plant and equipment (Note 10)	**130,011,693**	1,509,736,148
Right-of-use assets (Note 21)	**15,233,378**	90,633,268
Goodwill and other intangible assets (Notes 4 and 12)	**4,072,260,363**	1,737,296,246
Deferred pallets and containers (Note 11)	**–**	1,413,732,360
Deferred tax assets - net (Notes 12 and 23)	**41,808,086**	56,416,971
Other noncurrent assets (Note 8)	**94,864,699**	325,554,810
Total Noncurrent Assets	**4,354,178,219**	5,133,369,803
TOTAL ASSETS	**₱12,127,842,519**	₱10,706,957,760

LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	**₱706,547,980**	₱2,655,479,766
Short-term loans payable (Note 14)	**230,000,000**	205,979,089
Dividends payable (Note 15)	**2,695,818**	2,695,818
Long-term loans payable - current portion (Note 14)	**263,049,535**	35,013,560
Income tax payable (Note 23)	**45,699,282**	2,330,232
Lease liabilities - current (Note 21)	**8,455,632**	38,875,083
Total Current Liabilities	**1,256,448,247**	2,940,373,548
Liabilities Classified as Held for Distribution to Owners (Note 9)	**3,029,226,422**	–
	4,285,674,669	2,940,373,548
Noncurrent Liabilities		
Long-term loans payable - noncurrent portion (Note 14)	**1,135,809,786**	145,133,612
Lease liabilities - noncurrent (Note 21)	**11,784,587**	70,053,080
Retirement liability - net (Note 22)	**48,994,233**	90,384,593
Deferred tax liabilities - net (Notes 12 and 23)	**45,558,576**	–
Total Noncurrent Liabilities	**1,242,147,182**	305,571,285
TOTAL LIABILITIES	**₱5,527,821,851**	₱3,245,944,833

(Forward)

	December 31	
	2023 (Note 9)	2022
Equity		
Capital stock (Note 15)	**₱1,068,393,223**	₱1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Stock dividends for distribution (Note 15)	**224,362,576**	224,362,576
Equity reserve from common control business combination (Note 4)	**60,602,825**	–
Cumulative translation adjustment (Note 15)	**(8,517,561)**	–
Remeasurement gain on retirement liability – disposal group (Note 9)	**66,805,323**	–
Remeasurement gain (loss) on retirement liability (Note 22)	**(1,129,298)**	80,042,745
Retained earnings (Note 15)	**4,035,935,291**	4,934,646,094
TOTAL EQUITY	**6,600,020,668**	7,461,012,927
TOTAL LIABILITIES AND EQUITY	**₱12,127,842,519**	₱10,706,957,760

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2023	2022 (As restated, Note 9)	2021 (As restated, Note 9)
REVENUES (Note 16 and 20a)	**₱4,394,336,804**	₱1,892,231,034	₱1,154,410,254
COST OF SALES AND SERVICES (Note 17)	**(2,786,404,264)**	(1,321,853,498)	(798,843,411)
GROSS PROFIT	**1,607,932,540**	570,377,536	355,566,843
EXPENSES			
Selling and marketing (Note 18)	**44,073,396**	12,284,956	10,953,190
General and administrative (Note 19)	**979,193,163**	507,412,489	384,084,899
	1,023,266,559	519,697,445	395,038,089
OTHER INCOME (CHARGES)			
Interest income (Note 5)	**9,898,575**	32,684,702	23,681,197
Foreign exchange gains (losses) – net	**(2,502,273)**	25,317,232	16,899,634
Interest expense (Notes 14 and 21)	**(114,317,830)**	(14,386,204)	(13,509,184)
Others	**(23,077)**	178,571	(36,433)
	(106,944,605)	43,794,301	27,035,214
INCOME (LOSS) BEFORE INCOME TAX	**477,721,376**	94,474,392	(12,436,032)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**48,999,944**	24,654,428	1,886,867
Deferred	**(3,752,897)**	3,620,525	(4,835,314)
	45,247,047	28,274,953	(2,948,447)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**432,474,329**	66,199,439	(9,487,585)
NET LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX (Note 9)	**(1,331,185,132)**	(173,279,200)	(185,621,080)
NET LOSS	**(898,710,803)**	(107,079,761)	(195,108,665)
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (loss) on retirement benefits, net of tax (Note 22)	**(14,366,720)**	45,097,316	19,664,222
Translation adjustment (Note 15)	**(8,517,561)**	–	–
	(22,884,281)	45,097,316	19,664,222
TOTAL COMPREHENSIVE LOSS	**(₱921,595,084)**	(₱61,982,445)	(₱175,444,443)
EARNINGS PER SHARE			
Basic/Diluted Loss Per Share (Note 26)	**(₱0.84)**	(₱0.10)	(₱0.18)

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

	Capital Stock	Additional Paid-in Capital	Stock Dividend for Distribution	Equity Reserve (Note 4)	Remeasurement gain on retirement liability – disposal group (Note 9)	Remeasurement Gain on Retirement Liability	Cumulative Translation Adjustment (Note 15)	Retained Earnings	Total
Balances at January 1, 2021	**₱1,068,393,223**	**₱1,153,568,289**	**₱224,362,576**	**₱–**	**₱–**	**₱15,281,207**	**₱–**	**₱5,236,834,520**	**₱7,698,439,815**
Net loss	–	–	–	–	–	–	–	(195,108,665)	(195,108,665)
Other comprehensive loss (Note 22)	–	–	–	–	–	19,664,222	–	–	19,664,222
Total comprehensive income	–	–	–	–	–	19,664,222	–	(195,108,665)	(175,444,443)
Balances at December 31, 2021	**1,068,393,223**	**1,153,568,289**	**224,362,576**	**–**	**–**	**34,945,429**	**–**	**5,041,725,855**	**7,522,995,372**
Net loss	–	–	–	–	–	–	–	(107,079,761)	(107,079,761)
Other comprehensive income (Note 22)	–	–	–	–	–	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 loss	–	–	–	–	–	–	–	(898,710,803)	(898,710,803)
Other comprehensive loss (Note 22)	–	–	–	–	–	(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 (Note 4)	–	–	–	60,602,825	–	–	–	–	60,602,825
Discontinued operations (Note 9)	–	–	–	–	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**

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax from continuing operations	**₱477,721,376**	₱94,474,392	(₱12,436,032)
Loss before income tax from discontinued operations (Note 9)	**(1,269,419,973)**	(147,126,539)	(215,518,975)
Adjustments for:			
Impairment loss on remeasurement of disposal group to fair value less cost to distribute (Note 9)	**883,677,562**	–	–
Impairment loss on nonfinancial assets related to disposal group (Note 9)	**265,490,691**	–	–
Depreciation and amortization (Notes 10, 11, 17, 18, 19 and 21)	**854,205,301**	905,457,740	1,004,700,182
Interest income (Note 5)	**(11,112,753)**	(36,233,148)	(24,864,342)
Retirement benefit expense (Note 22)	**27,646,367**	30,316,061	32,754,947
Interest expense (Notes 14 and 21)	**125,884,666**	27,804,905	38,320,155
Unrealized foreign exchange gains - net	**(4,139,783)**	(16,709,634)	(18,754,588)
Loss on pretermination of lease	**8,577,542**	1,833,378	–
Gain on disposal of property and equipment (Note 10)	**(545,375)**	(391,615)	(566,813)
Operating income before working capital changes	**1,357,985,621**	859,425,540	803,634,534
Decrease (increase) in:			
Trade and other receivables	**(442,078,881)**	(198,821,986)	(28,866,398)
Inventories	**282,751,137**	(596,447,121)	83,589,314
Other assets	**95,174,831**	(137,010,419)	23,087,360
Increase (decrease) in trade and other payables	**239,185,695**	1,096,693,961	(250,770,988)
Net cash generated from operations	**1,533,018,403**	1,023,839,975	630,673,858
Interest received	**11,112,753**	46,721,468	14,425,070
Interest paid (Notes 14 and 21)	**(125,884,668)**	(27,804,905)	(38,320,155)
Contributions paid to plan assets (Note 22)	**(21,208,880)**	(44,816)	(10,000,000)
Income taxes paid, including creditable withholding taxes (Note 23)	**(77,287,744)**	(40,191,180)	(9,955,203)
Net cash provided by operating activities	**1,319,749,864**	1,002,520,542	586,823,570
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities (placement) of short-term investments	**470,000,000**	641,596,724	(1,111,596,724)
Additions to:			
Deferred pallets and containers (Note 11)	**(1,218,064,240)**	(250,219,365)	(435,442,140)
Property, plant and equipment (Notes 10)	**(302,475,264)**	(426,893,764)	(210,637,181)
Decrease (increase) in other noncurrent assets	**(8,885,544)**	(22,098,695)	(76,586,209)
Proceeds from disposal of property and equipment	**3,084,618**	3,156,300	3,573,205
Acquisition of a subsidiary - net of cash acquired (Note 12)	**(1,030,355,844)**	–	–
Net cash used in investing activities	**(2,086,696,274)**	(54,458,800)	(1,830,689,049)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of:			
Short-term loans (Notes 14 and 25)	**1,645,625,551**	507,475,032	412,993,526
Long-term loans (Notes 14 and 25)	**3,631,531**	–	200,000,000
Payments of:			
Short-term loans (Notes 14 and 25)	**(1,171,604,640)**	(333,631,761)	(420,900,989)
Long-term loans (Notes 14 and 25)	**(432,311,212)**	(25,376,857)	(2,792,123)
Principal portion of lease liabilities (Notes 21 and 25)	**(40,187,245)**	(136,607,877)	(137,651,463)
Net cash provided by financing activities	**5,153,985**	11,858,537	51,648,951

(Forward)

	Years Ended December 31		
	2023	2022	2021
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**₱4,139,783**	₱16,709,634	₱18,754,588
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(757,652,642)**	976,629,913	(1,173,461,940)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,081,697,880**	1,105,067,967	2,278,529,907
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱1,324,045,238**	₱2,081,697,880	₱1,105,067,967

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The Parent Company is 84.79% owned by Mazy's Capital, Inc. (MCI, a Filipino Corporation) as of December 31, 2023 and 2022. Public ownership is 15.21% as of December 31, 2023 and 2022.

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

The Parent Company owns 100% interest and operates as the holding company of its subsidiaries. The details of these subsidiaries are disclosed in Note 2 under *Basis of Consolidation.* Details regarding the investment in Macay Global Ventures, Inc. in 2023 are disclosed in Note 4. The details on the declaration as property dividend of the Parent Company's investment in ARC Refreshments Corporation in 2023 and its impact in the 2023 consolidated financial statements are disclosed in Note 9.

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

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 accompanying consolidated financial statements of the Group as of December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023, were approved and authorized for issue by the Board of Directors (BOD) on April 22, 2024.

2. Basis of Preparation, Statement of Compliance and Material 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 wholly owned subsidiaries as at December 31 of each year.

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 consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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.

The consolidated financial statements include the accounts of the Parent Company and the subsidiaries listed below:

	Percentage of Ownership			
	2023		2022	
	Direct	**Indirect**	Direct	Indirect
ARC Refreshments Corporation (ARCRC) [a]	**100%**	–	100%	–
Artemisplus Express, Inc. (AEI)	**100%**	–	100%	–
ARC Holdings, Inc. (ARCHI)	**100%**	–	100%	–
Asiawide Kalbe Philippines, Inc. (AKPI)	–	**100%**	–	100%
Macay Global Ventures, Inc. (MGVI)* [British Virgin Islands] (Note 4)	**100%**	–	–	–
RC Global Beverages, Inc. (RCGBI)* [BVI]	–	**100%**	–	–
Royal Crown Cola International, LLC (RCCI)* [United States of America]	–	**100%**	–	–

(a) *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. See Note 9.*

The principal place of business and country of the subsidiaries listed above is in the Philippines except for those marked * which is indicated after the company name.

<u>Changes in Accounting Policies</u>
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:
  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - 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 December 31, 2023 and 2022, 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.

<u>Inventories</u>
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	2-6
Office space	2-5

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;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

Rent concession from lessors were accounted for as negative variable lease payments in profit or loss in 2022 and 2021.

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.

Business Combination – Acquisition of RCGBI
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).

Noncurrent Assets and Disposal Group Held for Distribution to Owners and Discontinued Operations
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.

Containers Deposit Liability

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.

Capital Stock and Additional Paid-in Capital

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. Financial information on segment reporting is presented in Note 27.

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.

See Note 9 for the full details.

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 (see Note 21).

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 December 31, 2023, and 2022, the Group has determined that goodwill, customer relationships and brand value are recoverable based on the computed VIU. Details of goodwill, customer relationships and brand are disclosed in Note 12.

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 fair value of the disposal group which was based on the valuation of ARCRC shares is disclosed in Note 9. The Group assessed that costs to distribute is immaterial. The Group recognized impairment loss on remeasurement of the disposal group to fair value less costs to distribute amounting to ₱883.68 million (see Note 9).

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.

The carrying value of deferred pallets and containers as at December 31, 2022 is disclosed in Note 11.

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 December 31, 2023 and 2022 are disclosed in Note 7.

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 December 31, 2023 and 2022 are disclosed in Note 12.

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 December 31, 2023 and 2022 are disclosed in Note 10.

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. These assumptions are described in Note 22 to the consolidated financial statements.

The carrying amounts of the Group's retirement liability as of December 31, 2023 and 2022 and retirement benefits cost in 2023, 2022 and 2021 are disclosed in Note 22.

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 December 31, 2023 and 2022 are disclosed in Note 6.

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 December 31, 2023 and 2022 are disclosed in Note 21.

4. Business Combination under Common Control

On September 6, 2022, the BOD of the Parent Company approved the acquisition of RC Global Beverages, Inc. (RCGBI) from RC Global Ventures Inc. (RCGVI). RCGVI is a wholly owned subsidiary of MCI. RCGBI is a corporation organized under the laws of the British Virgin Islands.

RCGBI holds the global licensing rights to RC Cola and associated brands in over 100 countries (excluding US, Mexico and Canada). RCGBI supplies RC Cola concentrates to its subsidiary, RCCI, who in turn sells the concentrates to third parties in countries covered by its global licensing rights.

The Parent Company's acquisition of RCGBI provides the Group a global platform and foreign currency revenues in addition to the current Peso revenues from its local operations. It also provides geographic and political/country risk diversification to the Group. The acquisition will strengthen the food and beverage investments portfolio of the Group.

On October 28, 2022, the Parent Company entered into a share purchase with RCGVI for the purchase of 100% shares of RCGBI for a consideration of US $21,400,000. In addition to the cash consideration which was received in 2023, RCGVI is also entitled to the earnings of RCGBI for the period from January 1, 2022 to September 30, 2022 amounting to US$1,053,475 (₱58.68 million) which is presented under "Due to related parties" in the consolidated statement of financial position (see Note 20).

On December 8, 2022, the Parent Company incorporated Macay Global Ventures, Inc. (MGVI) as a BVI business company and assigned its share purchase agreement with RCGVI to MGVI.
On January 17, 2023, the acquisition of RCGBI by MGVI was completed after the fulfillment of agreed closing conditions as provided under the agreement.

The Parent Company and RCGBI are under the common control of MCI before and after the acquisition. Thus, the acquisition was considered as a business combination under common control for which pooling of interests method was applied in the preparation of the financial statements. Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the business combination except those necessary to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- Any difference between the consideration transferred and the net assets acquired is reflected within equity.

At the date of acquisition, the carrying amount of the net assets of RCGBI amounted to ₱1,311.26 million (translated using the exchange rate at the date of acquisition). The excess of the carrying amount over the consideration amounting to ₱60.60 million is recognized as "Equity reserve" in the 2023 consolidated statement of financial position.

The net assets acquired from RCGBI at the date of acquisition are as follows:

ASSETS	
Current Assets	
Cash and cash equivalents	**₱213,019,255**
Trade and other receivables - net	**627,005,852**
Inventories	**17,743,337**
Total Current Assets	**857,768,444**
Noncurrent Assets	
Intangible assets	**2,353,650,121**
Deferred tax assets - net	**12,624,572**
Total Noncurrent Assets	**2,366,274,693**
TOTAL ASSETS	**₱3,224,043,137**
LIABILITIES	
Current Liabilities	
Trade and other payables	**₱83,690,142**
Short-term loans payable	**171,881,492**
Total Current Liabilities	**255,571,634**
Noncurrent Liability	
Long-term loans	**1,657,210,101**
TOTAL LIABILITIES	**₱1,912,781,735**
NET ASSETS ACQUIRED FROM RCGBI	**₱1,311,261,402**

5. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents

	2023	2022
Cash on hand and with banks	**₱949,529,917**	₱1,081,110,917
Cash equivalents	**374,515,321**	1,000,586,963
Cash and cash equivalents, including discontinued operations	**1,324,045,238**	2,081,697,880
Cash and cash equivalents attributable to discontinued operations (Note 9)	**(483,640,293)**	–
	₱840,404,945	₱2,081,697,880

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents consist of short-term placements which are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term placement rates.

Short-term investments
Short-term investments have maturities of more than three (3) months to one (1) year and earn annual interest rates that ranged from 0.25% to 7% in 2023 and 2022. As of December 31, 2022, the Group has short-term investment totaling to ₱470.00 million (nil in 2023).

Interest income
Interest income on cash and cash equivalents and short-term investments amounted to ₱9.90 million, ₱32.68 million, and ₱23.68 million in 2023, 2022 and 2021, respectively.

6. Trade and Other Receivables

	2023	2022
Trade (Note 16)	**₱1,295,654,625**	₱644,743,418
Due from related parties (Note 20)	**9,234,887**	91,421,404
Receivables from officers and employees	**23,898,237**	49,657,964
Accrued interest receivables	**774,466**	986,073
Receivables from government	**10,868,024**	8,393,887
Insurance receivables	**722,920**	898,583
Others	**109,452,343**	26,082,724
	1,450,605,502	822,184,053
Less allowance for ECL	**207,624,219**	106,707,634
	₱1,242,981,283	₱715,476,419

"Trade receivables" are non-interest bearing and are generally on 7 to 60 days term.

"Receivables from officers and employees" represent loans, cash advances and other receivables from employees.

"Others" include incentives and marketing support from suppliers, and reimbursement from customers, among others.

Movement of allowance for ECL follows:

	2023	2022
Beginning balance	**₱106,707,634**	₱97,988,862
Provision from continuing operations (Note 19)	**83,163,179**	–
Provision (reversal) from discontinued operation (Note 9)	**(37,488,156)**	8,718,772
Acquisition of a subsidiary (Note 4)	**116,421,626**	–
Translation adjustment	**(303,801)**	–
Transfer to a disposal group (Note 9)	**(60,876,263)**	–
	₱207,624,219	₱106,707,634

7. Inventories

	2023	2022
Inventories at NRV:		
Raw materials	**₱27,567,039**	₱27,567,035
Spare parts and supplies	–	282,742,120
Inventories at cost:		
Raw materials	**197,069,237**	1,021,519,405
Finished goods	**6,622,938**	204,784,801
Crushed shells and resin	–	60,832,889
	₱231,259,214	₱1,597,446,250

The costs of inventories carried at NRV follows:

	2023	2022
Raw materials	**₱32,812,333**	₱32,812,329
Spare parts and supplies	–	290,707,568
Finished goods	–	1,845,846
	₱32,812,333	₱325,365,743

The movement in the allowance for inventory obsolescence at December 31 are as follows:

	2023	2022
Balance at beginning of year	**₱15,056,588**	₱18,430,329
Provision from discontinued operations (Note 9)	**7,163,515**	3,477,025
Write-off from discontinued operations	**(7,103,706)**	(6,850,766)
Transfer to a disposal group (Note 9)	**(9,871,103)**	–
	₱5,245,294	₱15,056,588

8. Other Assets

	2023	2022
Current:		
Prepaid taxes and licenses	**₱90,071,737**	₱122,519,382
Advances to suppliers	**58,291,871**	115,403,978
Supplies	**4,111,753**	28,612,285
Prepaid insurance	**22,595,407**	28,644,172
Input VAT	**36,453,496**	51,509,304
Security deposits	**92,682**	353,057,679
Prepaid rent	–	3,908,616
Others	**1,370,162**	5,311,992
	₱212,987,108	₱708,967,408

"Prepaid taxes and licenses" pertains mainly to prepaid excise tax and creditable withholding taxes.

"Prepaid insurance" represents share in the health insurance coverage of regular employees, as well as fire and property insurance which are amortized over the period of the contract.

"Security deposits" pertain to various rental deposits for the lease of land and building to certain lessor which shall answer for any and all unpaid obligations of the Group to the lessor, as well as for any damage to the leased premises at the end of lease term. These were reclassified to asset held for distribution to owners in 2023 (see Note 9).

	2023	2022
Noncurrent:		
Deferred input VAT	**₱11,650,742**	₱ 138,226,719
Deposits with suppliers	**3,040,772**	103,841,331
Creditable withholding tax	**45,408,441**	41,905,595
Security deposits	**25,199,058**	26,470,372
Others	**9,565,686**	15,110,793
	₱94,864,699	₱325,554,810

"Deposits with suppliers" pertain to deposits related to electricity supply and maintenance which are refundable upon termination of the related contracts, advances to suppliers for acquisition of machinery and equipment by the Group and advances made to brokers for the release of imported goods.

"Others" consist of other prepaid expense and computer supplies.

9. Assets and Liabilities Classified as Held for Distribution to Owners and Discontinued Operations

On August 14, 2023, the Parent Company's BOD approved the declaration of dividends equivalent to ₱2,150.00 million by way of property dividends of one (1) billion common shares of ARCRC to be distributed to the Parent Company's stockholders of record date of October 23, 2023, including the option to receive portion of the property dividends in cash. On October 11, 2023, the stockholders of the Parent Company approved the declaration of property dividends, including the cash option and the use of ₱2.15 per share as fair value of the ARCRC shares.

As of December 31, 2023, the declaration of property dividend is still pending SEC approval. This regulatory approval is considered customary for a similar transaction. Accordingly, the assets and liabilities related to ARCRC were classified as part of a disposal group held for distribution to owners and the results of the operations of ARCRC were presented as a discontinued operation. The results of discontinued operations in 2023 is presented as "Net loss from discontinued operations, net of tax" in the consolidated statement of comprehensive income. As a disclosure requirement of PFRS 5, the Group restated its 2022 and 2021 consolidated statements of comprehensive income to present separately the results of discontinued operations to conform with the 2023 presentation. As of April 22, 2024, the Group is still awaiting SEC approval of the property dividend declaration.

The details of the results of discontinued operations pertaining to ARCRC is presented below:

	2023	2022	2021
REVENUES	**₱8,317,962,968**	₱10,533,017,128	₱7,812,615,898
COST OF SALES	**(6,706,470,343)**	(8,881,876,112)	(6,503,610,053)
GROSS PROFIT	**1,611,492,625**	1,651,141,016	1,309,005,845
EXPENSES			
Selling and marketing	**1,318,867,955**	1,351,936,282	1,114,642,949
General and administrative	**674,992,413**	436,130,773	394,172,272
	1,993,860,368	1,788,067,055	1,508,815,221
(Forward)			

	2023	2022	2021
OTHER INCOME (CHARGES)			
Interest income	**₱1,214,178**	₱3,548,446	₱1,183,145
Interest expense	**(11,566,836)**	(13,418,701)	(24,810,971)
Foreign exchange gains (losses) – net	**6,642,056**	(8,607,598)	1,854,954
Others	**335,934**	8,277,353	6,063,273
	(3,374,668)	(10,200,500)	(15,709,599)
LOSS BEFORE INCOME TAX FROM DISCONTINUED OPERATIONS	**(385,742,411)**	(147,126,539)	(215,518,975)
PROVISION FOR (BENEFIT FROM) INCOME TAX	**61,765,159**	**26,152,661**	**(29,897,895)**
IMPAIRMENT LOSS RECOGNIZED ON THE REMEASUREMENT TO FAIR VALUE LESS COST TO DISTRIBUTE	**(883,677,562)**	–	–
NET LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	**(₱1,331,185,132)**	(₱173,279,200)	(₱185,621,080)
EARNINGS PER SHARE			
Basic/Diluted loss per share from discontinued operations (Note 26)	**(₱1.25)**	(₱0.16)	(₱0.17)

The major assets and liabilities of ARCRC classified as held for distribution to owners as of December 31, 2023 are as follows:

ASSETS	
Cash and cash equivalents (Note 5)	**₱483,640,293**
Trade and other receivables - net	**541,579,868**
Inventories	**1,083,435,900**
Property, plant and equipment (Note 10)	**948,302,549**
Right-of-use assets (Note 21)	**34,979,407**
Deferred pallets and containers (Note 11)	**1,422,492,911**
Deferred tax assets - net	**50,093,974**
Other assets	**681,506,848**
Assets classified as Held for Distribution to Owners	**₱5,246,031,750**
LIABILITIES	
Trade and other payables	₱2,274,422,540
Short-term loans payable	450,000,000
Due to related parties	169,266,572
Income tax payable	2,217,415
Lease liabilities (Note 21)	66,336,420
Retirement liability (Note 22)	66,983,475
Liabilities classified as Held for Distribution to Owners	**₱3,029,226,422**
Net assets classified as held for distribution to owners	**₱2,216,805,328**
Reserve of a Discontinued Operation classified as Held for Distribution to Owners	**₱66,805,323**

The net cash flows directly associated with ARCRC for the years ended December 31 follow:

	2023	2022	2021
Operating activities	**₱784,989,885**	₱873,281,941	₱515,517,298
Investing activities	**(1,433,695,186)**	(487,354,666)	(607,848,951)
Financing activities	**375,683,491**	(97,303,881)	(151,685,222)
Effect of exchange rates	**6,642,056**	(8,607,598)	1,854,954
NET CASH INFLOW (OUTFLOW)	**(₱266,379,754)**	**₱280,015,796**	**(₱242,161,921)**

Write-down of nonfinancial assets
Immediately before the classification of ARCRC as discontinued operations, the recoverable amount of ARCRC's nonfinancial assets was estimated and recognized impairment loss of ₱265.49 million (₱91.76 million on property, plant and equipment [see Note 10], ₱169.56 million on deferred pallets and containers [see Note 11], and ₱4.17 million on right-of-use assets [see Note 21]).

Following the classification, an impairment loss of ₱883.68 million was recognized to reduce the carrying amount of the net assets in the disposal group amounting to ₱3,033.68 million to their fair value less costs to distribute of ₱2,150.00 million. This was presented in as part of net loss from discontinued operations in the 2023 consolidated statement of comprehensive income.

The ₱883.68 million impairment loss was allocated pro-rata based on the carrying amount of the following nonfinancial assets:

- ₱305.42 million impairment loss on property, plant and equipment
- ₱564.38 million impairment loss on deferred pallets containers
- ₱13.88 impairment loss on right of use assets

Key assumptions used in the valuation
As of December 31, 2023, the fair value of ARCRC has been determined by the SEC-accredited appraiser based on discounted cash flows (DCF) method using five-year cash flow projections. Key assumptions in the calculation follow:

- *Future revenues and revenue growth rate.* Cash flows projections based on financial budgets approved by management covering a five-year period.
- *Cost of sales ratio of 80.6% and operating expense ratio of 17.8%.* The assumptions used are based on the past performance of ARCRC, and expectations in the industry.
- *Long-term growth rate of 5%.* The long-term growth rate is the expected growth rate in the industry.
- *Discount rate of 9.58%.* The discount rate used for the computation of the net present value is the weighted average cost of equity and was determined by reference to comparable entities.
- *Discount for lack of marketability (DLOM).* The percentage deducted from the value of an ownership interest to reflect the relative absence of marketability of unquoted investments.

As of December 31, 2023, there was no further write-down as the carrying amount of the disposal group did not fall below its fair value less costs to distribute.

10. **Property, Plant and Equipment**

2023

	Land	Building	Machinery and Equipment	Vehicles	Waste water Facility	Kitchen and Laboratory Equipment	Tools	Leasehold Improvements	Office and Other Equipment	Construction in Progress	Total
Cost:											
Balances at beginning of year	₱112,749,237	₱115,518,952	₱2,085,644,552	₱820,760,108	₱42,515,683	₱102,221,968	₱53,421,791	₱133,892,861	₱150,818,017	₱313,850,683	₱3,931,393,852
Additions	–	22,897,340	134,861,439	37,832,800	26,607	29,348,355	23,511,091	8,156,388	21,757,159	24,084,022	302,475,201
Transfers	–	156,416,816	137,285,299	–	–	–	–	–	7,053,555	(300,755,670)	–
Disposal	–	–	–	(8,650,954)	–	–	–	–	–	–	(8,650,954)
Transfer to a disposal group (Note 9)	(112,749,237)	(294,833,108)	(2,357,791,290)	(820,120,918)	(42,542,290)	(19,338,569)	(19,983,605)	(37,223,957)	(137,542,998)	(37,179,035)	(3,879,305,007)
Balances at end of year	–	–	–	29,821,036	–	112,231,754	56,949,277	104,825,292	42,085,733	–	345,913,092
Accumulated depreciation:											
Balances at beginning of year	–	19,128,157	1,395,020,229	705,381,960	27,984,572	65,035,117	36,297,977	61,845,636	110,964,056	–	2,421,657,704
Depreciation	–	10,178,782	179,566,171	58,566,061	3,761,043	25,982,981	14,523,447	16,574,599	25,434,917	–	334,588,001
Disposal	–	–	–	(6,517,789)	–	–	–	–	–	–	(6,517,789)
Transfer to a disposal group (Note 9)	–	(29,306,939)	(1,574,586,400)	(738,265,144)	(31,745,615)	(15,546,929)	(18,907,854)	(16,283,603)	(109,184,033)	–	(2,533,826,517)
Balances at end of year	–	–	–	19,165,088	–	75,471,169	31,913,570	62,136,632	27,214,940	–	215,901,399
Accumulated impairment:											
Balances at beginning of year	–	–	–	–	–	–	–	–	–	–	–
Provision	–	90,371,803	256,666,427	27,562,121	4,140,020	1,290,484	366,131	–	16,778,955	–	397,175,941
Transfer to a disposal group (Note 9)	–	(90,371,803)	(256,666,427)	(27,562,121)	(4,140,020)	(1,290,484)	(366,131)	–	(16,778,955)	–	(397,175,941)
Balances at end of year	–	–	–	–	–	–	–	–	–	–	–
Net book values	₱–	₱–	₱–	₱10,655,948	₱–	₱36,760,585	₱25,035,707	₱42,688,660	₱14,870,793	₱–	₱130,011,693

2022

	Land	Building	Machinery and Equipment	Vehicles	Waste water Facility	Kitchen and Laboratory Equipment	Tools	Leasehold Improvements	Office and Other Equipment	Construction in Progress	Total
Cost:											
Balances at beginning of year	₱112,749,237	₱115,439,817	₱1,977,106,267	₱794,669,471	₱42,256,103	₱78,415,683	₱40,886,417	₱125,740,142	₱116,379,879	₱109,347,752	₱3,512,990,768
Additions	–	79,135	106,271,086	34,568,817	259,580	23,806,285	12,535,374	8,152,719	34,450,638	206,770,130	426,893,764
Transfers	–	–	2,267,199	–	–	–	–	–	–	(2,267,199)	–
Disposal	–	–	–	(8,478,180)	–	–	–	–	(12,500)	–	(8,490,680)
Balances at end of year	112,749,237	115,518,952	2,085,644,552	820,760,108	42,515,683	102,221,968	53,421,791	133,892,861	150,818,017	313,850,683	3,931,393,852
Accumulated depreciation:											
Balances at beginning of year	–	13,355,177	1,240,249,462	651,535,191	24,283,026	44,218,366	26,137,021	41,428,622	88,676,132	–	2,129,882,997
Depreciation	–	5,772,980	154,770,767	59,570,680	3,701,546	20,816,751	10,160,956	20,417,014	22,290,008	–	297,500,702
Disposal	–	–	–	(5,723,911)	–	–	–	–	(2,084)	–	(5,725,995)
Balances at end of year	–	19,128,157	1,395,020,229	705,381,960	27,984,572	65,035,117	36,297,977	61,845,636	110,964,056	–	2,421,657,704
Net book values	₱112,749,237	₱96,390,795	₱690,624,323	₱115,378,148	₱14,531,111	₱37,186,851	₱17,123,814	₱72,047,225	₱39,853,961	₱313,850,683	₱1,509,736,148

Fully depreciated assets that are still being used in the operations have an aggregate cost of ₱26.53 million and ₱1,337.74 million in 2023 and 2022, respectively.

Total disposal of property and equipment resulted to gain on disposal amounting to ₱0.55 million, ₱ 0.39 million, and ₱0.57 million in 2023, 2022 and 2021, respectively.

Construction in progress account in 2022 mainly pertains to accumulated costs in relation to the construction of a new production plant in San Fernando, Cebu which was completed in 2023.

Depreciation expense charged to operations is as follows:

	2023	2022	2021
Depreciation expense from continuing operations	**₱67,743,821**	₱62,235,807	₱65,764,107
Depreciation expense from discontinued operations	**266,844,180**	235,264,895	231,353,837
	₱334,588,001	₱297,500,702	₱297,117,944

Depreciation expense from continuing operations as a function of expense follows:

	2023	2022	2021
Cost of sales and services (see Note 17)	**₱4,087,041**	4,997,050	4,869,900
General and administrative expenses (see Note 19)	**63,656,780**	57,238,757	60,894,207
	₱67,743,821	₱62,235,807	₱65,764,107

11. **Deferred Pallets and Containers**

2023

	Containers	Pallets	Total
Net book values - beginning	**₱1,284,859,939**	**₱128,872,421**	**₱1,413,732,360**
Additions	**1,195,628,001**	**22,436,237**	**1,218,064,238**
Amortization	**(452,545,855)**	**(22,815,249)**	**(475,361,104)**
Impairment loss	**(690,209,866)**	**(43,732,717)**	**(733,942,583)**
Net book values - ending	**1,337,732,219**	**84,760,692**	**1,422,492,911**
Transfer to a disposal group (Note 9)	**(1,337,732,219)**	**(84,760,692)**	**(1,422,492,911)**
Net book values – ending	**₱–**	**₱–**	**₱–**

2022

	Containers	Pallets	Total
Net book values - beginning	₱1,549,904,933	₱172,447,545	₱1,722,352,478
Additions	239,545,025	3,538,522	243,083,547
Retirement	(41,261,106)	(20,118,957)	(61,380,063)
Amortization	(463,328,913)	(26,994,689)	(490,323,602)
Net book values - ending	₱1,284,859,939	₱128,872,421	₱1,413,732,360

As of December 31, 2021, acquisition of deferred pallets and containers that remained unpaid amounted to ₱7.14 million (nil in 2023 and 2022). These were treated as noncash investing activities in the 2021 consolidated statements of cash flows. These were subsequently paid in 2022 and treated as part of investing activities in 2022 consolidated statements of cash flows.

Amortization expense was charged under “Cost of sales and services” (see Note 9).

12. Goodwill and Other Intangible Assets

The breakdown of this account follows:

	2023	2022
From acquisition of AEI		
Goodwill	**₱1,558,301,663**	₱1,558,301,663
Customer relationships - net	**174,253,005**	178,994,583
From acquisition of RCGBI		
Customer relationships	**1,145,890,677**	–
Brand value	**1,193,815,018**	–
	₱4,072,260,363	₱1,737,296,246

a. Goodwill and Customer Relationships from Acquisition of AEI

In August 2020, the Parent Company entered into share purchase agreement with Kitchen City Pte. Ltd. for the purchase of 100% shares of AEI, a food concessionaire. On September 23, 2020, the acquisition of shares was completed after the fulfillment of agreed closing conditions as provided under the agreement.

The carrying value and movement of customer relationships as of and for the year ended December 31 follows:

	2023	2022
Cost from business combination	**₱189,663,135**	₱189,663,135
Accumulated amortization:		
Beginning balance	**10,668,552**	5,926,974
Amortization (Note 20)	**4,741,578**	4,741,578
Ending balance	**15,410,130**	10,668,552
Balance at end of the year	**₱174,253,005**	₱178,994,583

Impairment testing of goodwill and customer relationships
For purposes of impairment testing of goodwill and customer relationships, the Group considered AEI as the CGU. Based on the results of the management's impairment testing, there is no impairment on goodwill and customer relationships as at December 31, 2023 and 2022.

Key assumptions used in the VIU calculation
As of December 31, 2023 and 2022, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU follow:

- *Future revenues and revenue growth rate.* Cash flows projections based on financial budgets approved by management and the BOD covering a five-year period.
- *Cost of sales ratio and operating expense ratio (62% and 25%, respectively, in 2023, respectively, and 57% and 33%, respectively, in 2022).* The assumptions used are based on the past performance of AEI, and expectations in the industry.
- *Long-term growth rate of (6% in 2023 and 5% in 2022).* The long-term growth rate is the expected growth rate in the industry.
- *Discount rate (12% in 2023 and 2022).* The discount rate used for the computation of the net present value is the weighted average cost of equity and was determined by reference to comparable entities.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of goodwill to materially exceed its recoverable amount.

b. Customer Relationships and Brand Value from Acquisition of RCGBI
As disclosed in Note 1, the Parent Company, through MGVI, entered into share purchase agreement with RCGVI for the purchase of 100% shares of RCGBI, a beverage company. On January 17, 2023, the acquisition of shares was completed after the fulfillment of agreed closing conditions as provided under the agreement. RCGBI recognized customer relationships and brand value from its acquisition of RC business from a third party in 2019.

Impairment testing of customer relationships and brand value
For purposes of impairment testing of customer relationships and brand value with indefinite life, the Group considered RCGBI as the CGU. Based on the results of the management's impairment testing, there is no impairment on customer relationships and brand value as at December 31, 2023 (see Note 3).

Key assumptions used in the VIU calculation
As of December 31, 2023, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU follow:

- *Future revenues and revenue growth rate.* Cash flows projections based on financial budgets approved by management covering a five-year period.
- *Cost of sales ratio of 60% and operating expense ratio of 11 to 12%.* The assumptions used are based on the past performance of RCGBI, and expectations in the industry.
- *Long-term growth rate of 3.7%.* The long-term growth rate is the expected growth rate in the industry.
- *Discount rate of 14.10% to 15.10%.* The discount rate used for the computation of the net present value is the weighted average cost of equity and was determined by reference to comparable entities.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of goodwill to materially exceed its recoverable amount.

13. Trade and Other Payables

	2023	2022
Trade payables (Note 20)	**₱260,815,119**	₱1,804,538,752
Due to related parties (Note 20)	**147,692,352**	251,455,750
Containers deposit liability	**10,016,608**	289,363,300
Non-trade payables	**11,837,749**	29,747,105
Output VAT payable	**12,656,082**	28,700,311
Withholding taxes payable	**507,407**	11,660,069
Deferred output VAT payable	**4,530,685**	7,297,252
Accrued expenses:		
Advertising and promotions	**180,304,398**	4,750,411
Incentives	**11,755,051**	–
Salaries and wages	**18,863,117**	48,926,038
Contracted services and professional fees	**1,494,790**	49,546,479
Hauling	**–**	26,123,280
Utilities and facilities	**–**	17,777,972
Deferred credits	**–**	9,535,220
Travel, meeting and entertainment	**–**	4,079,633
Others	**46,074,622**	71,978,194
	₱706,547,980	₱2,655,479,766

"Trade payables" pertains to accounts payable to suppliers from purchases of materials and toll packing used in production. These are noninterest-bearing and with payment terms which are dependent on the supplier's credit terms, which is generally 30 to 90 days.

"Non-trade payables" pertains to all non-trade liabilities such as freight services and administration expenses, among others.

"Accrued expenses-others" pertain to accrued freight and handling expenses, among others.

14. Loans Payable

Loan payable refers to bank loans and letters of credit from certain financial institutions.

Short-term loans payable
Short term loan payable as of December 31 follows:

	2023	2022
Letters of credit	**₱–**	₱39,979,089
Short-term bank loans	**230,000,000**	166,000,000
	₱230,000,000	₱205,979,089

Letters of credit
The Group obtained unsecured Letters of Credit (LC) with various banks for its international purchases with terms ranging from 30 days to 3 months and with interest rate of 3% to 3.75% per annum in 2023 and 2022.

Short-term bank loan
The Group availed several unsecured short-term bank loans with certain local banks with interest rate ranging from 5% to 5.75% in 2023 and 4.75% to 5% in 2022 and terms of five to six months for 2023 and 2022.

Long-term loans payable

	2023	2022
AEI	**₱150,098,720**	₱180,147,172
RCGBI (Note 4)	**1,248,760,601**	–
Total	**1,398,859,321**	180,147,172
Less: current portion	**263,049,535**	35,013,560
Noncurrent portion	**₱1,135,809,786**	₱145,133,612

AEI
AEI has outstanding interest bearing loans for the acquisition of various transportation equipment through bank financing. ₱5.74 million and ₱5.15 million remains outstanding as of December 31, 2023 and 2022, respectively. The loans bear an annual effective interest rates ranging from 9% to 10%. The loan agreements require chattel mortgage on acquired transportation equipment.

In 2021, AEI obtained a clean long-term loan with a bank amounting to ₱200.00 million for the acquisition of food equipment for the expansion of its business. The loan will mature in seven (7) years, inclusive of a grace period of one (1) year on principal payment. The principal payments will be made in quarterly payments starting 2022. The loan is subect to a 5% fixed annual rate. The loan requires AEI to maintain certain financial ratio until termination of the loan. As of December 31, 2023 and 2022, the outstanding balance amounted to ₱141.67 million and ₱175.00 million, respectively.

As of December 31, 2023 and 2022, AEI has complied with its covenant obligations, including maintaining the required financial ratio.

RCGBI
RCGBI entered into an unsecured dollar-denominated loan in 2022 from a local bank amounting to $32.83 million with prevailing interest rate of 3.21%. The loan is payable in thirty-two (32) equal quarterly amortization while the interest is payable quarterly in arrears.

The outstanding balance of loan payable amounted to $22,553,017 (₱1,248.76 million) as of December 31, 2023 (see Note 4).

Total interest expense related to these short-term and long-term loans amounted to ₱112.67 million, ₱11.09 million, and ₱6.75 million in 2023, 2022 and 2021, respectively.

15. **Equity**

Capital Stock
Details of the Parent Company's capital stock as at December 31, 2023 and 2022 follow:

Common stock:	
Authorized - ₱1 par value	₱2,100,000,000
Issued and outstanding	1,068,393,223
Preferred stock:	
Authorized - ₱1,000 par value	₱200,000,000
Issued and outstanding	–

The following are the salient features of the preferred stock:

a. Cumulative dividend at a rate to be determined solely by the BOD;
b. Nonparticipating in the retained earnings remaining after dividend payments have been made on the preferred shares;
c. Redeemable at such price, within such period, in such manner and under such terms and conditions as may be determined by the BOD; and
d. Non-voting.

As of December 31, 2023, and 2022, the equity holdings of the shareholder groups of the Parent Company are as follows:

	2023		2022	
Shareholder Group	**Number of Shares**	**Percentage of Ownership**	Number of Shares	Percentage of Ownership
MCI	**905,942,329**	**84.79%**	905,942,329	84.79%
Public	**162,450,894**	**15.21%**	162,450,894	15.21%
	1,068,393,223	**100.00%**	1,068,393,223	100.00%

On April 8, 2016, the BOD of the Parent Company approved the increase in authorized capital stock by ₱800 million through the increase of common shares by 800,000,000 shares with a par value of ₱1.00. At the same time, the BOD approved the declaration of stock dividend equivalent to 21% of issued and outstanding common shares, amounting to ₱224.36 million, to be issued out of the aforementioned increase in authorized capital stock.

In January 2019, Philippine SEC approved the application for increase in authorized capital stock of the Parent Company but did not yet approve the ₱224.36 million stock dividends for distribution.

The Group has already submitted additional documents requested in relation to the stock dividends. As of December 31, 2023, the Group is still waiting for Philippine SEC's approval of the issuance of shares related to the stock dividends.

Cumulative Translation Adjustment
Cumulative translation adjustment represents the exchange differences arising from the translation of MGVI group's financial statements which are presented in US dollar to Philippine peso. See accounting policy on *Foreign Currency Transactions and Translation*s – *Overseas Subsidiaries*.

Retained Earnings
On August 14, 2023, the BOD of the Parent Company approved the declaration of dividends equivalent to ₱2,150 million by way of property dividends of 1,000,000,000 common shares of ARCRC to be distributed to stockholders of record as of October 23, 2023. The stockholders have the option to receive their portion of the property dividends in cash. As of December 31, 2023, the Parent Company is still waiting for the SEC's approval for the issuance of property dividend.

Unappropriated Retained Earnings
The income of subsidiaries included in the consolidated statements of comprehensive income is not available for dividend declaration unless declared by the subsidiaries. The Parent Company's retained earnings available for dividend declaration as of December 31, 2023 and 2022 amounted to ₱3,517.26 million and ₱3,512.66 million, respectively.

Securities Regulation Code Rule (SRC) Disclosures
Incorporation
Pursuant to the Articles of Incorporation ("AOI") in 1930, as reconstructed after the loss of documents during the Second World War, the Parent Company's authorized capital stock was ₱40,000, divided into 400 shares with par value of ₱100 per share. Its principal stockholder then was Mariano C. Mercado who owned 96 common shares. Other private stockholders owned 4 common shares.

Parent Company listing
The Parent Company listed its shares, with the stock symbol "PTR" in the Manila Stock Exchange and the Makati Stock Exchange on January 28, 1987 following BOD approval of the listing on November 5, 1986. Upon the merger of the two exchanges into the PSE in 1992, the Parent Company signed a listing agreement with PSE for its shares to be listed and traded on the unified exchange also as PTR.

Amendments to the authorized capital stock
Subsequent to the Parent Company filing its AOI in 1930, the Parent Company made the following amendments on its authorized capital stock:

Year	**Authorized Capital Stock**	**Composition**	**Par Value**
1939 [a]	₱200,000	2,000 common shares	₱100
1957 [b]	₱12,000,000	1,200,000 common shares	₱10
1966	₱30,000,000	3,000,000 common shares	₱10
1973	₱60,000,000	6,000,000 common shares	₱10
1977	₱100,000,000	10,000,000 common shares	₱10
1984	₱110,000,000	11,000,000 common shares	₱10
1987	₱200,000,000	20,000,000 common shares; later divided into 12,000,000 Class "A" common shares and 8,000,000 Class "B" common shares	₱10
1989	₱360,000,000	21,600,000 Class "A" common shares and 14,400,000 Class "B" common shares	₱10
1994	₱700,000,000 divided into ₱500,000,000 common capital and ₱ 200,000,000 preferred capital [c]	32,400,000 Class "A" common shares and 17,600,000 Class "B" common shares; 200,000 preferred shares	₱10 - common; ₱1,000 - preferred

(Forward)

Year	Authorized Capital Stock	Composition	Par Value
2001	₱250,000,000 divided into ₱50,000,000 common capital and ₱200,000,000 preferred capital	32,400,000 Class "A" common shares and 17,600,000 Class "B" common shares; 200,000 preferred shares	₱1 - common; ₱1,000 - preferred
2002	₱300,000,000 divided into ₱100,000,000 common capital and ₱ 200,000,000 preferred capital	62,400,000 Class "A" common shares and 37,600,000 Class "B" common shares (later declassified into 100,000,000 authorized common capital); 200,000 preferred shares	₱1 - common; ₱1,000 - preferred
2003	₱1,300,000,000 divided into ₱1,100,000,000 common capital and ₱200,000,000 preferred capital	1,100,000,000 common shares; 200,000 preferred shares	₱1 - common; ₱1,000 - preferred
2010	₱1,500,000,000 divided into ₱1,300,000,000 common capital and ₱200,000,000 preferred capital	1,300,000,000 common shares; 200,000 preferred shares	₱1 - common; ₱1,000 - preferred
2019	₱2,300,000,000 divided into ₱2,100,000,000 common capital and ₱200,000,000 preferred capital	2,100,000,000 common shares; 200,000 preferred shares	₱1 - common; ₱1,000 - preferred

(a) Based on a reconstruction of records, including the AOI, in 1948
(b) Existing shareholders were issued 150 shares with par value of ₱10 for each share with par value of ₱100 they already held through a stock dividend
(c) The creation of the preferred shares of stock was approved by the BOD in its regular meeting on March 18, 1993 and by the shareholders at the annual shareholders' meeting on April 30, 1993. It was subsequently approved by the SEC on January 11, 1994.

Track record of subsequent offerings

Below is a summarized discussion of the Parent Company's track record of registration of securities under the SRC:

						Number of shares after offering	
Year	Date of SEC approval	Type of offering	Number of shares offered	Par value	Offer price	Authorized	Issued and outstanding
2003	April 24, 2003	Rights with warrants offer	499,997,540	₱1.00	₱2.00	1,100,000,000	599,997,048
			99,999,508[d]				629,997,412[g]
			99,999,508[e]	₱1.00	₱2.00[f]		652,477,229[h]
2008	November 24, 2008	Rights offer	296,775,950	₱1.00	₱2.10[f]	1,100,000,000	989,253,179

(d) Warrants
(e) Underlying common shares
(f) Exercise price
(g) After exercise of warrants in 2004
(h) After exercise of warrants in 2005

16. **Revenue**

Disaggregation of revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Sources of revenue

Continuing operations:

	2023	2022	2021
Canteen concession arrangements	**₱2,076,690,706**	₱1,584,024,869	₱908,416,499
Sale of goods	**1,915,301,512**	–	–
Catering services	**261,695,313**	166,273,100	111,730,242
Sale of frozen meals	**109,938,895**	120,099,881	127,923,500
Sub-concession arrangements	**30,710,378**	21,833,184	6,340,013
	₱4,394,336,804	₱1,892,231,034	₱1,154,410,254

Discontinued operations:

	2023	2022	2021
Sale of beverages	**₱8,317,962,968**	₱10,533,017,128	₱7,812,615,898

Timing of recognition of revenue

	2023	2022	2021
Revenue recognized at point in time from continuing operations	**₱4,394,336,804**	₱1,892,231,034	₱ 1,154,410,254
Revenue recognized at point in time from discontinued operations (Note 9)	**8,317,962,968**	10,533,017,128	7,812,615,898

Contract Balances

The Group's trade receivables arising from contracts from customers amounted to ₱1,295.65 million and ₱644.73 million as of December 31, 2023 and December 31, 2022, respectively (see Note 6).

There are no contract assets and contract liabilities as of December 31, 2023 and 2022.

17. **Cost of Sales and Services**

Details of cost of sales and services follow:

	2023	2022	2021
Materials used (see Note 7)	**₱2,592,453,791**	₱1,111,905,347	₱647,616,430
Direct labor	**152,029,983**	132,033,701	97,008,851
Gas and utilities	**30,467,847**	45,276,664	32,063,100
Rent (see Note 21)	**7,365,602**	11,163,077	12,318,491
Depreciation and amortization (see Notes 10, 11 and 21)	**4,087,041**	4,997,050	4,869,900
Others	–	16,477,659	4,966,639
	₱2,786,404,264	₱1,321,853,498	₱798,843,411

"Others" consists of personnel development expenses, transportation and travel, and insurance, among others.

18. Selling and Marketing Expenses

	2023	2022	2021
Advertising	**₱35,406,368**	₱–	₱–
Promotions and commissions	**8,667,028**	11,579,571	₱10,729,323
Others	–	705,385	223,867
	₱44,073,396	₱12,284,956	₱10,953,190

"Others" consist of toll and market fees, freight and handling fees and entertainment and recreation expenses, among others.

19. General and Administrative Expenses

	2023	2022	2021
Salaries, wages and benefits (see Note 22)	**₱425,005,659**	₱299,860,402	₱201,191,249
Contracted services and professional fees	**161,161,735**	20,318,797	18,664,728
Net provision for ECL on receivables (see Note 6)	**83,163,179**	–	8,343,215
Repairs and utilities	**62,148,060**	29,815,792	20,858,584
Depreciation (see Notes 10 and 21)	**69,890,259**	63,065,929	68,792,486
Supplies and transportation	**54,178,047**	32,325,870	13,582,864
Rent (see Note 21)	**38,670,056**	5,740,645	2,422,375
Sanitary and hauling expenses	**15,447,528**	12,973,765	7,868,070
Taxes, licenses and registrations	**13,103,293**	8,727,673	10,821,325
Management fees	**5,357,600**	9,364,497	7,044,343
Insurance	**1,270,902**	784,880	1,364,161
Meetings and entertainment	**165,325**	122,706	147,661
Others	**49,631,520**	24,311,533	22,983,838
	₱979,193,163	₱507,412,489	₱384,084,899

"Others" consist of donations and miscellaneous expenses, among others.

20. 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.

Transactions during the years ended December 31 with related parties are set out below:

Category	Year	Revenues	Interest Income	Costs and Expenses	Actual Lease Payments (see Note 21)
Stockholder					
Entities under common control:					
AMY Leasing Company (AMY); (see Note 20c)	**2023**	**–**	**–**	**₱1,076,558**	**₱1,113,402**
	2022	–	₱–	₱1,136,945	₱1,121,922
	2021	–	–	₱717,457	₱655,702
Philippine Business Bank (PBB, Note 20i)	**2023**	–	8,446,521	–	–
	2022	–	32,701,060	–	–
	2021	–	23,468,902	–	–

Outstanding balances as of December 31 with related parties are set out below:

Category	Year	Cash and Cash Equivalents/ Short term investments	Due from Related Parties (see Note 5))	Trade Payables (see Note 12)	Due to Related Parties (see Note 12)	Terms	Conditions
Stockholder							
Zest-O Corporation (see Notes 20a)	**2023**	**₱–**	**₱891,672**	**₱–**	**₱1,167,423**	Non-interest bearing; due and demandable	No impairment; Unsecured
	2022	₱–	₱ 82,092,574	₱–	₱ 103,265,496		
Entities under common control:							
Mega Asia Bottling Corporation (see Notes 20b)	**2023**	**–**	**–**	**–**	**–**	Non-interest bearing; due and demandable	No impairment; Unsecured
	2022	–	101,640	–	144,415,834		
(Forward)							
Asiawide Refreshments Corporation (see Notes 20d)	**2023**	**₱–**	**₱–**	**₱–**	**₱–**	Non-interest bearing; due and demandable	No impairment; Unsecured
	2022	₱–	₱–	₱–	₱1,851,660		
Bev-pack Incorporated. (Bev-pack; see Note20f)	**2023**	**–**	**–**	**–**	**–**	Non-interest bearing; due and demandable	No impairment; Unsecured
	2022	–	820,491	109,667,859	–		
SMI Development Corporation (see Note 20h)	**2023**	**–**	**–**	**–**	**–**	Non-interest bearing; due and demandable	Unsecured
	2022	–	–	–	1,922,761		
Philippine Business Bank (PBB, Note 20i)	**2023**	**682,835,458**	**–**	**–**	**–**	Interest bearing	Secured
	2022	1,911,266,422	21,428	–	–	Interest bearing	Secured
RC Global Ventures, Inc. (Note 4)	**2023**	**–**	**–**	**–**	**130,195,531**	Non-interest bearing; due and demandable	No impairment; Unsecured
	2022	–	–	–	–		
ARC Thailand (see Note 20e)*	**2023**	–	–	–	–	Non-interest bearing; due and demandable	Unsecured
	2022	–	–	–	–		
Royal Crown Cola International, LLC (see Note 20j)	**2023**	–	–	–	–	Non-interest bearing; due and demandable	No impairment; Unsecured
	2022	–	–	168,603,668	–		
	2023	**₱682,835,458**	**₱891,672**	**₱–**	**₱131,362,954**		
	2022	₱1,911,266,422	₱83,036,133	₱278,271,527	₱251,455,751		

**Net of allowance for impairment losses amounting to ₱8.34 million as of December 31 2023 and 2022.*

a. Zest-O Corporation (Zest-O) purchased various raw materials from ARCRC amounting to ₱ ₱1.08 million and ₱21.23 million in 2022 and 2021, respectively.

   ARCRC entered into various lease agreements with Zest-O for the use of its land, building facilities, and machinery and equipment located in Luzon (see Notes 9 and 21).

AKPI made sales of energy drinks to Zest-O and remained outstanding as of December 31, 2023 and 2022. 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 (see Notes 9 and 21).

   Mega Asia also provides specialty contractor services in all plants except Cabuyao. In May 2022, ARCRC absorbed 209 employees from Mega Asia for plants located in Kaybiga, Pampanga, Pangasinan, Isabela, Davao, Iloilo and Tagoloan. The specialty contractor services ceased thereafter. The specialty contractor fee was presented under discontinued operations in the consolidated statements of comprehensive income (see Note 9).

c. The Parent Company entered into lease agreement with AMY Leasing Company for the use of its office space in Makati City (see Note 21).

d. ARCRC entered into a lease agreement with Asiawide Refreshments Corporation (Asiawide) for the use of its land and building situated in Sitio Puting Bato, Inarawan, Antipolo City (see Notes 9 and 21).

   ARCRC also incurred its share in electricity and telecommunication costs to the leased properties.

e. The Parent Company made advances to ARC Thailand in 2017 and 2018 for various expenditures and remained outstanding as of December 31, 2023 and 2022.
   Impairment losses on due from ARC Thailand was provided in 2021 amounting to ₱8.34 million (see Note 18).

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. (Solmac) for its corporate office in Makati City (see Note 21).

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 %.

j. The Group purchases concentrates used in the production of soft drinks from Royal Crown Cola International, LLC.

k. The compensation of key management personnel are as follows:

	2023	2022	2021
Salaries and wages	**₱47,868,842**	₱ 30,600,157	₱6,955,867
Allowances and benefits	**1,739,527**	–	–
	₱49,608,369	₱30,600,157	₱6,955,867

21. **Lease Agreements**

The Group has lease contracts for various items of land, building, and office space used in its operations. Leases of land and office spaces generally have lease terms between one (1) and six (6) years, while other equipment generally have lease terms between one (1) and three (3) years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemptions for these leases.

The rollforward analysis of the right-of-use assets as of and for the year ended December 31, 2023 and 2022 follows:

2023

	Land	**Building**	**Office Space**	**Total**
Cost				
Beginning balance	**₱376,065,884**	**₱96,032,874**	**₱37,536,588**	**₱509,635,346**
Additions	**–**	**11,900,835**	**6,228,861**	**18,129,696**
Retirements*	**(346,796,311)**	**(5,668,734)**	**(4,121,199)**	**(356,586,244)**
Transfer to a disposal group (Note 9)	**(29,269,573)**	**(86,841,076)**	**–**	**(116,110,649)**
Ending balance	**–**	**15,423,899**	**39,644,250**	**55,068,149**
Accumulated Depreciation				
Beginning balance	**360,099,981**	**36,603,504**	**22,298,593**	**419,002,078**
Depreciation (Notes 17, 18 and 19)	**15,226,909**	**18,300,308**	**6,233,479**	**39,760,696**
Retirements*	**(346,646,833)**	**(5,076,535)**	**(4,121,200)**	**(355,844,568)**
Transfer to a disposal group (Note 9)	**(28,680,057)**	**(34,403,378)**	**–**	**(63,083,435)**
Ending balance	**–**	**15,423,899**	**24,410,872**	**39,834,771**
Accumulated Impairment Loss:				
Beginning balance	**–**	**–**	**–**	**–**
Provision	**3,726,080**	**14,321,727**	**–**	**18,047,807**
Transfer to a disposal group (Note 9)	**(3,726,080)**	**(14,321,727)**	**–**	**(18,047,807)**
Ending balance	**–**	**–**	**–**	**–**
Net book value	**₱–**	**₱–**	**₱15,233,378**	**₱15,233,378**

2022

	Land	Building	Office Space	Total
Cost				
Beginning balance	₱493,266,335	₱60,930,278	₱38,882,551	₱593,079,164
Additions	–	55,561,392	–	55,561,392
Adjustments	–	–	(1,345,963)	(1,345,963)
Retirements*	(117,200,451)	(20,458,796)		(137,659,247)
Ending balance	376,065,884	96,032,874	37,536,588	509,635,346
Accumulated Depreciation				
Beginning balance	341,120,603	44,002,729	16,471,421	401,594,753
Depreciation (Notes 17, 18 and 19)	109,369,369	13,059,571	5,827,172	128,256,112
Retirements*	(90,389,991)	(20,458,796)	–	(110,848,787)
Ending balance	360,099,981	36,603,504	22,298,593	419,002,078
Net book value	₱15,965,903	₱59,429,370	₱15,237,995	₱90,633,268

** Retirements arise from the end of the lease term and pretermination of lease in 2022.*

The rollforward analysis of lease liability follows:

	2023	2022
Beginning balance	**₱108,928,163**	₱235,235,977
Additions	**18,606,138**	54,506,115
Interest expense	**7,215,536**	13,848,212
Termination	**(770,417)**	(33,583,376)
COVID-19 rent concessions	–	(10,622,676)
Payments	**(47,402,781)**	(150,456,089)
Transfer to a disposal group (Note 9)	**(66,336,420)**	–
	20,240,219	108,928,163
Less: current portion	**(8,455,632)**	(38,875,083)
Non-current lease liability	**₱11,784,587**	₱70,053,080

The following are the amounts recognized in the consolidated statement of comprehensive income:

	2023	2022	2021
From continuing operations			
Depreciation expense of right-of-use assets	**₱6,233,479**	₱5,827,172	₱7,898,282
Interest expense on lease liabilities	**1,652,192**	1,760,712	2,400,151
Rent expenses on short-term leases	**46,035,658**	16,903,722	14,740,866
	53,921,329	24,491,606	25,039,299
From discontinued operations			
Depreciation expense of right-of-use assets	**33,527,217**	111,806,204	127,103,849
Interest expense on lease liabilities	**5,563,344**	12,087,500	23,504,396
Rent expenses on short-term leases	**254,024,188**	181,182,908	181,322,571
	₱293,114,749	₱305,076,612	₱331,930,816

Depreciation expense from continuing operations as a function of expense follows:

	2023	2022	2021
General and administrative expenses (see Note 19)	**₱6,233,479**	₱5,827,172	₱7,898,282

The Company received rent concessions from lessors amounting to ₱10.62 million and ₱5.72 million accounted for as negative variable lease payments in the statement of comprehensive income in 2022 and 2021, respectively.

Rent expense on short-term leases charged to operations from continuing operations are as follows:

	2023	2022	2021
Cost of sales and services (see Note 17)	**₱7,365,602**	₱11,163,077	₱12,318,491
General and administrative expenses (see Note 19)	**38,670,056**	5,740,645	2,422,375
	₱46,035,658	₱16,903,722	₱14,740,866

Future minimum lease payments are as follows:

	2023	2022	2021
Within one year	**₱9,284,260**	₱44,943,857	₱141,545,051
More than one year	**11,819,450**	77,385,712	218,536,865
	₱21,103,710	₱122,329,569	₱360,081,916

Details of the Group's continuing operations' lease commitments follow:

a. On August 20, 2015, the Parent Company entered into a lease agreement with AMY Leasing Company for the use of its office space in Makati City. The contract is for the period of five years which was subsequently extended until January 1, 2025 under the same term. The rental fee is subject to annual escalation rate of 5%.

   Total depreciation on right-of-use asset amounted to ₱0.52 million in 2023, 2022 and 2021, respectively. Total interest expense on lease liability amounted to ₱0.67 million, ₱0.88 million, and ₱0.11 million in 2023, 2022 and 2021 respectively.

b. On October 5, 2021, the Parent Company entered into a new lease agreement with AMY Leasing Company for the use of additional office space in Makati City. The contract is for the period of one (1) year renewable upon mutual agreement of both parties. The lease contract was accounted for as short-term lease. The lease was subsequently renewed in 2022 and 2023.

c. On March 1, 2016, AEI has entered into a lease agreement with FTI for the lease of the corporate office and commissary. The lease term will end on December 31, 2020 and is subject to 5% annual escalation per year starting the second year of lease term. The monthly lease payments provided in the agreement amounts to ₱0.34 million, exclusive of 12% management fee and output VAT. AEI leases commercial spaces which it occupies for its operations during the period of the lease with option to renew as per agreement.

   On January 1, 2020, AEI renewed its lease agreement that will end on December 31, 2025 and is subject to 5% annual escalation per year starting the second year of lease term. The monthly lease payments provided in the agreement amounts to 0.46 million, exclusive of 12% management fee and output VAT.

Details of the Group's discontinued operations' lease commitments follow:

<u>Lease Agreements with Mega Asia, a related party (see Note 20)</u>

a. ARCRC leases a piece of land and building located in Pampanga for three (3) years commencing from February 1, 2014 to January 31, 2017 and was extended for another 3-year lease until January 31, 2020. The lease was further extended to January 31, 2023. Upon mutual agreement of both parties, the lease contract was renewed for another year until January 31, 2024.

b. ARCRC leases a piece of land and building located in Cagayan de Oro, Misamis Oriental for three (3) years commencing from February 1, 2014 to January 31, 2017 and was extended for another 3-year lease until January 31, 2020. The lease was subsequently renewed for one year in 2020, 2021, ,2022 and 2023 upon mutual agreement of both parties.

c. ARCRC leases a piece of land and building located in Pangasinan for three (3) years commencing from February 1, 2014 to January 31, 2017 and was extended for another 3-year lease until January 31, 2020. The lease was subsequently renewed for one year in 2020, 2021, ,2022 and 2023 upon mutual agreement of both parties.

d. ARCRC leases a piece of land and building located in Isabela for three (3) years commencing from February 1, 2014 to January 31, 2017 and was extended for another 3-year lease until January 31, 2020. The lease was subsequently renewed for one year in 2020, 2021, ,2022 and 2023 upon mutual agreement of both parties.

e. ARCRC leases a piece of land and building located in Davao for three (3) years commencing from February 1, 2014 to January 31, 2017 and was extended for another 3-year lease until January 2020. The lease was subsequently renewed for one year in 2020, 2021, ,2022 and 2023 upon mutual agreement of both parties.

f. ARCRC leases a piece of land and building located in Cabuyao, Laguna for one (1) year commencing from February 1, 2018 to January 31, 2019, renewable upon mutual agreement of the parties. The lease was subsequently renewed for one year in 2020, 2021, ,2022 and 2023.

The above lease agreements require ARCRC to pay rental security deposits amounted to ₱350.35 million, ₱350.31 million and ₱349.82 million as of December 31, 2023, 2022 and 2021, respectively.

Total depreciation expense on right-of-use assets and interest expense on lease liabilities amounted to ₱2.31 million, ₱0.02 million and in 2023, ₱27.77 million and ₱1.88 million in 2022, and ₱27.28 million and ₱4.60 million in 2021, respectively. Total rent expense from short-term lease amounted to ₱172.17 million, ₱179.61 million and ₱148.01 million in 2023, 2022 and 2021, respectively.

<u>Lease Agreement with Zest-O, a related party (see Note 20)</u>

On February 1, 2017, ARCRC leases a piece of land and building on which the manufacturing plant and administrative office of ARCRC are located in Kaybiga, Novaliches, Quezon City for a period of three (3) years up to 2020 and further extended until 2023.

Total depreciation expense on right-of-use assets and interest expense on lease liabilities amounted to ₱2.32 million, ₱.02 million and in 2023, ₱27.79 million and ₱1.91 million in 2022, and ₱27.79 million and ₱4.69 million in 2021, respectively. Total rent expense from short-term lease amounted to ₱29.55 million and P- million in 2023 and 2022, respectively.

<u>Lease Agreements with Solmac, a related party (see Note 20)</u>

a. Solmac is the owner of the building where the corporate office of ARCRC is located. ARCRC leases 13 units with lease term ranging from 5 to 6 years and an average rental of ₱341.20 per sq. meter for 2023, 2022 and 2021.

Rental security deposit amounted to ₱1.21 million, ₱1.17 million and ₱1.14 million as of December 31, 2023, 2022 and 2021, respectively.

Total depreciation on right-of-use asset and interest expense on lease liability amounted to ₱6.06 million and ₱1.04 million in 2023, ₱5.44 million and ₱1 million in 2022, and ₱5.27 million and ₱1.42 million in 2021 respectively (see Note 21).

Others

a. ARCRC entered into a lease agreement with Asiawide, a related party, for a lease of a piece of land and building located at Km 27 Sitio Putting Bato, Inarawan, Antipolo City. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017 and was extended until 2020. The lease was further extended to January 31, 2023 and subsequently renewed for another year effective until January 31, 2024.

   Total depreciation expense on right-of-use asset and interest expense on lease liability amounted to ₱1.52 million and ₱0.15 million in 2023, ₱18.18 million and ₱1.27 million in 2022, and ₱18.18 million and ₱3.11 million in 2021, respectively. Total rent expense from short-term lease amounted to ₱ 18.70 million and ₱ - million in 2023 and 2022, respectively.

b. The Company entered into a lease agreement with SMI, a related party, for a lease of a piece of land in Antipolo City. The lease shall be for three (3) years commencing from February 1, 2017 to January 31, 2020 and was further extended until 2023 and subsequently renewed for another year effective until January 31, 2024.

   Total depreciation expense on right-of-use asset and interest expense on lease liability amounted to
   ₱.60 million and ₱0.60 million in 2023, ₱7.22 million and ₱0.51 million in 2022, and and ₱7.22 million and ₱1.23 million in 2021, respectively (see Note 19). Total rent expense from short-term lease amounted to ₱ 7.42 million and ₱ - million in 2023 and 2022, respectively.

c. The Company entered into various lease agreements from third parties for lease of land and office space located in various locations with lease term ranging from 1.5 to 6 years. Total depreciation and interest expense recognized in relation to these leases amounted to ₱20.72 million and ₱4.46 million in 2023, ₱36.03 million and ₱5.52 million in 2022, ₱46.63 million and ₱8.41 million in 2021, respectively. Rental security deposit amounted to ₱8.35 million, ₱6.75 million and ₱11.49 million as of December 31, 2023, 2022 and 2021 respectively.

22. **Retirement Liability**

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The defined retirement benefit obligation is determined using the projected unit credit method.

The net retirement benefits costs recognized in the consolidated statements of comprehensive income for the years ended December 31, 2023, 2022 and 2021 are as follows:

	2023	2022	2021
Service cost	**₱21,174,086**	₱24,507,828	₱28,201,368
Net interest cost	**6,472,281**	5,808,233	4,553,579
	27,646,367	30,316,061	32,754,947
Retirement benefits costs from discontinued operations	**21,223,608**	22,543,050	24,872,955
Retirement benefits costs from continuing operations	**₱6,422,759**	₱7,773,011	₱7,881,992

Retirement benefits costs are charged under General and administrative expenses.

Retirement liability recognized in the consolidated statements of financial position as of December 31, 2023 and 2022 are as follows:

	2023	2022
Present value of defined benefit obligation	**₱48,994,233**	₱175,455,592
Fair value of plan assets	–	(85,070,999)
Balance at end of year	**₱48,994,233**	₱90,384,593

The present value of defined benefit retirement obligation as of December 31, 2023 and 2022 are as follows:

	2023	2022
Balance at beginning of year	**₱175,455,592**	₱202,643,129
Retirement cost	**21,174,086**	24,507,828
Interest cost	**12,529,336**	10,188,438
Benefits paid	**(9,002,381)**	(4,286,746)
Remeasurement loss (gain) due to change in:		
Financial assumptions	**24,196,163**	(47,685,282)
Demographic assumptions	–	–
Experience adjustments	**(7,630,199)**	(9,911,775)
Transfer to a disposal group	**(167,728,364)**	–
Balance at end of year	**₱48,994,233**	₱175,455,592

The changes in fair value of plan assets are as follows:

	2023	2022
Balance at beginning of year	**₱85,070,999**	₱87,604,094
Contributions	**19,850,000**	44,816
Interest income	**6,057,055**	4,380,205
Benefits paid	**(7,643,501)**	(3,940,592)
Actuarial loss from experience adjustments	**(2,589,664)**	(3,017,524)
Transfer to a disposal group	**(100,744,889)**	–
Balance at end of year	**₱–**	₱85,070,999

The plan assets are being held by trustee bank and an insurance company. The investing decisions of the Plan are made by certain officers duly authorized by the BOD. The latest actuarial valuation report is as of December 31, 2023.

The net plan assets as of December 31, 2023 and 2022 are as follows:

	2023	2022
Cash and cash equivalents	**₱27,459,800**	₱16,655,526
Investment in common fund of insurance company	**73,285,089**	68,415,473
	100,744,889	₱85,070,999

The cumulative amount of remeasurement gain as of December 31, 2023 and 2022 follows:

	2023	2022
Beginning balance	**₱106,723,660**	₱52,144,128
Remeasurement gain on defined benefit obligation	**(16,565,964)**	57,597,056
Remeasurement loss on plan assets	**(2,589,664)**	(3,017,524)
Balance at end of year	**87,568,032**	106,723,660
Tax effect	**(21,892,007)**	(26,680,915)
	65,676,025	80,042,745
Transfer to a disposal group	**(66,805,323)**	–
Cumulative remeasurement gain, net of tax	**(₱1,129,298)**	₱–

The principal assumptions used to determine the retirement benefit obligation as of December 31 are as follows:

	2023	2022
Discount rate:		
Beginning	**3.76% to 7.34%**	3.76% to 5.18%
End	**6.08% to 6.13%**	3.76% to 7.34%
Future salary increases:		
Beginning	**2.00% to 5.00%**	2.00% to 5.00%
End	**2.00% to 5.00%**	2.00% to 5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

		Increase (decrease) in defined benefit obligation	
Assumptions	Increase (decrease)	2023	2022
Discount rate	+100bps	**₱(22,480,356)**	(₱17,247,222)
	-100bps	**26,578,236**	20,312,314
Salary increase rate	+100bps	**26,835,610**	20,790,163
	-100bps	**(23,313,920)**	(14,047,551)

The average duration of the retirement at the end of the reporting date is 20 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2023	2022
Within one (1) year	**₱15,520,758.00**	₱–
More than 1 year to 5 years	**90,825,230**	62,277,299
More than 5 years to 10 years	**602,986,827**	1,225,204,082

23. Income Taxes

The current provision for income tax in 2023, 2022 and 2021 represents the regular corporate income tax or minimum corporate income tax, whichever is higher.

RCGBI is registered as a BVI Business Company and is not subject to tax under BVI laws. RCCI is subject to U.S. federal income tax as well as income tax in the states of Georgia and Florida.

The components of the Group's net deferred tax assets (liabilities) as of December 31, 2023 and 2022 are as follows:

	2023	2022
Items recognized in profit or loss		
Deferred tax asset:		
Accrued bonuses	**₱18,693,023**	₱–
Net operating loss carry over (NOLCO)	**6,236,510**	45,104,602
Retirement benefits liability	**11,711,643**	49,277,063
Allowance for impairment loss on receivables	**2,085,804**	26,676,909
Lease liabilities	**1,221,973**	27,072,878
Allowance for inventory obsolescence and condemnation	–	2,452,824
Unamortized past service costs	–	282,530
Deferred tax liability:		
Right of use assets		(22,547,312)
Unrealized foreign exchange gain	**(2,816,993)**	(472,962)
	37,131,960	127,846,532
Item recognized directly in other comprehensive income		
Deferred tax asset (liability) on retirement liability	**4,676,126**	(26,680,915)
	41,808,086	101,165,617
Item recognized at consolidation		
Deferred tax liability on customer relationships (Note 12)	**(43,563,251)**	**(44,748,646)**
	(₱3,750,490)	**₱56,416,971**

The reconciliation of income tax computed based on the statutory income tax rates to the provision for income tax in the consolidated statement of comprehensive income is as follows:

	2023	2022	2021
Income tax at statutory tax rates in 2023, 2022 and 2021	**₱46,675,069**	₱38,567,402	₱662,201
Dividend income exempt from tax	–	–	(10,370,503)
Adjustments in income tax resulting from:			
Interest income already subjected to final tax	**(2,307,340)**	(8,171,176)	(5,920,300)
Nondeductible expenses	**₱757,122**	₱105,097	₱154,265
Change in unrecognized DTA/L	122,196	(2,226,370)	621,698
Effect of remeasurement of current income tax arising from change in tax rate due to CREATE Act	–	–	11,904,192
	₱45,247,047	₱28,274,953	(₱2,948,447)

The Group did not recognize deferred income tax assets for the items presented below. Management believes that it may not be probable that sufficient taxable income will be available in the future against which the tax benefits can be realized prior to their expiration or reversal.

	2023	2022	2021
Excess MCIT	**₱–**	₱30,280,920	₱13,667,950
NOLCO	**192,550**	246,088,152	1,005,443

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(b) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2023, details of NOLCO which pertain to ARCHI, MHI and ARCRC follows:

	Beginning Balance	Addition	Ending Balance	Expiry Year
2023	₱–	₱154,492,186	₱154,492,186	2026
2022	202,052,791	–	202,052,791	2025
2021	224,166,684	–	224,166,684	2026
	₱426,219,475	₱154,492,186	₱580,711,661	

As of December 31, 2023, details of MCIT which pertains to MHI and ARCRC as follows:

	Beginning Balance	Addition	Ending Balance	Expiry Year
2023	₱–	₱24,454,716	₱24,454,716	2026
2022	16,602,970	–	16,602,970	2025
2021	13,547,448	–	13,547,448	2024
	₱30,150,418	₱24,454,716	₱54,605,134	

24. **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.

Credit Risk and Quality
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 December 31, 2023 and 2022 using a provision matrix:

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**

December 31, 2022:

	Days Past Due				
	Current	1-30 Days	31-60 Days	>60 Days	Total
Expected credit loss rate	0.80%	4.47%	12.73%	47.39%	
Estimated total gross carrying amount at default	₱471,115,617	₱87,221,872	₱25,361,498	₱202,123,799	₱785,822,786
Expected credit loss	3,770,606	3,897,959	3,228,263	95,810,806	106,707,634

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:

	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**
Short term investment	**–**	**–**	**–**	**–**	**–**
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)**

**Excluding receivables from officers and employees amounting to ₱23.90 million*
***Excluding statutory payables amounting to ₱17.69 million*
****Inclusive of future interest payment*
*****Undiscounted minimum lease payment and inclusive of future interest payment*

	2022				
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 year	Total
Cash and cash equivalents	₱1,081,110,917	₱1,000,586,963	₱–	₱–	₱2,081,697,880
Short term investment	–	470,000,000	–	–	470,000,000
Trade and other receivables*	581,308,196	84,510,259	–	–	665,818,455
Security deposits	–	–	353,057,679	26,470,372	379,528,051
	1,662,419,113	1,555,097,222	353,057,679	26,470,372	3,597,044,386
Trade and other payables**	(2,595,497,798)	–	–	–	(2,595,497,798)
Short-term loans payable***	–	(40,128,432)	(166,625,724)	–	(206,754,156)
Lease liabilities****	–	(22,471,928)	(22,471,929)	(77,385,712)	(122,329,569)
Long-term loans payable***	–	–	(34,270,666)	(145,133,612)	(179,404,278)
Dividends payable	(2,695,818)	–	–	–	(2,695,818)
	(2,598,193,616)	(62,600,360)	(223,368,319)	(222,519,324)	(3,106,681,619)
Liquidity Position (Gap)	(₱935,774,503)	₱1,492,496,862	₱129,689,360	(₱196,048,952)	₱490,362,767

**Excluding receivables from officers and employees amounting to ₱32.86 million*
***Excluding statutory payables amounting to ₱59.98 million*
****Inclusive of future interest payment*
*****Undiscounted minimum lease payment and inclusive of future interest payment*

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 December 31, 2023 and 2022, are as follows:

	2023			
	Original Currency in $	**Translated in ₱**	**Original Currency in €**	**Translated in ₱**
Financial assets:				
Cash and cash equivalents	**$10,698,299**	**₱592,364,824**	**€–**	**₱–**
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)**	**€–**	**₱–**

	2022			
	Original Currency in $	Translated in ₱	Original Currency in €	Translated in ₱
Financial assets:				
Cash and cash equivalents	$7,273,665	₱405,543,181	€31,735	₱2,140,189
Financial liabilities:				
Trade and other payables	(3,024,010)	(168,603,668)	–	–
Net exposure	$4,249,655	₱236,939,513	€31,735	₱2,140,189

As of December 31, 2023, and 2022, the exchange rate of Philippine peso (₱) to USD is ₱55.37 and ₱55.75, respectively, while the exchange rate for EUR is ₱61.47 and ₱67.44, respectively.

The table below demonstrates the sensitivity to a reasonably possible change in ₱ to $ and ₱ 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 consolidated 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				
2023	**₱17,530,905**	**(₱17,530,905)**	**₱–**	**₱–**
2022	₱11,846,976	(₱11,846,976)	₱107,009	(₱107,009)

<u>Fair Values of Financial Instruments</u>

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 liabilities have carrying values that approximate their fair values as of December 31, 2023 and 2022:

Cash and cash equivalents, trade and other receivables, trade and other payables, short-term loans payable, customer deposits and dividends payable

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

Long-term loans payable
Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest rates used in discounting cash flows ranged from 3% to 3.48% in 2023 and 2022 using the remaining terms to maturity.

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 years ended December 31, 2023, 2022 and 2021.

The following table summarizes what the Group considers as its total capital as of December 31:

	2023	2022
Capital stock	**₱1,068,393,223**	₱1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Retained earnings	**4,035,935,291**	4,934,646,094
	₱6,257,896,803	₱7,156,607,606

25. Notes to Consolidated Statement of Cash Flows

Disclosed below is the rollforward of liabilities under financing activities:

December 31, 2023:

Continuing operations:

		Non-cash Change				
	Beginning Balance	Additions	Others	Cash Inflow	Cash Outflow	Ending Balance
Lease liabilities	₱19,384,741	₱6,705,303	₱–	₱–	(₱5,849,825)	₱20,240,219
Short-term loans	166,000,000	–	–	162,000,000	(98,000,000)	230,000,000
Long-term loans	180,147,172		1,647,391,830	3,631,531	(432,311,212)	1,398,859,321
Dividend payable	2,695,818	–	–	–	–	2,695,818
	₱368,227,731	₱6,705,303	₱1,647,391,830	₱165,631,531	(₱536,161,037)	₱1,651,795,358

Discontinued operations:

		Non-cash Change				
	Beginning Balance	Additions	Others	Cash Inflow	Cash Outflow	Ending Balance
Short-term loans	₱39,979,089	₱–	₱–	₱1,483,625,551	(₱1,073,604,640)	₱450,000,000
Lease liabilities	89,543,422	11,900,835	(770,417)	–	(34,337,420)	66,336,420
	₱129,522,511	₱11,900,835	(₱770,417)	₱1,483,625,551	(₱1,107,942,060)	₱516,336,420

December 31, 2022:

	Non-cash Change					
	Beginning Balance	Additions	Others	Cash Inflow	Cash Outflow	Ending Balance
Lease liabilities	₱235,235,977	₱54,506,115	(₱44,206,052)	₱–	(₱136,607,877)	₱108,928,163
Short-term loans	32,135,818	–	–	507,475,032	(333,631,761)	205,979,089
Long-term loans	205,524,029	–	–	–	(25,376,857)	180,147,172
Dividend payable	2,695,818	–	–	–	–	2,695,818
	₱475,591,642	₱54,506,115	(₱44,206,052)	₱507,475,032	(₱495,616,495)	₱497,750,242

December 31, 2021:

	Non-cash Change					
	Beginning Balance	Additions	Others	Cash Inflow	Cash Outflow	Ending Balance
Lease liabilities	₱370,334,534	₱8,272,897	(₱5,719,991)	₱–	(₱137,651,463)	₱235,235,977
Short-term loans	40,043,281	–	–	412,993,526	(420,900,989)	32,135,818
Long-term loans	8,316,152	–	–	200,000,000	(2,792,123)	205,524,029
Dividend payable	2,695,818	–	–	–	–	2,695,818
	₱421,389,785	₱8,272,897	(₱5,719,991)	₱612,993,526	(₱561,344,575)	₱475,591,642

26. Basic/Dilutive Earnings (Loss) Per Share

Basic and dilutive earnings (loss) per share is computed as follows:

	2023	2022	2021
Net income(loss) from continuing operations	**₱432,474,329**	₱66,199,439	(₱9,487,585)
Weighted average number of common shares outstanding	**1,068,393,223**	1,068,393,223	1,068,393,223
Basic and dilutive earnings (loss) per share	**₱0.40**	₱0.06	(₱0.01)

	2023	2022	2021
Net loss from discontinued operations	**(₱1,331,185,132)**	(₱173,279,200)	(₱185,621,080)
Weighted average number of common shares outstanding	**1,068,393,223**	1,068,393,223	1,068,393,223
Basic and dilutive earnings (loss) per share	**(₱1.25)**	(₱0.16)	(₱0.17)

As at December 31, 2023 and 2022, there are no potential ordinary shares that have a dilutive effect on the basic EPS of the Parent Company. The Group did not include the stock dividends for distribution in the calculation of EPS, pending the approval of the Philippine SEC to effect the issuance of the related stock dividends (Note 15).

27. **Segment Information**

The business segment is determined as the primary segment reporting format as the Group's risk and rates of return are affected predominantly by each operating segment.

Management monitors the operating results of the business for purposes of making decisions about resource allocation and performance assessment.

For management purpose, the Group is organized into only one operating division, food and beverage industry, which primarily consists of operations from ARCRC, AEI, AKPI, RCGBI and RCCI. Net sales, net income, total assets and total liabilities of the food and beverage industry segment as at and for the years ended December 31, 2022, 2021 and 2020, respectively, are as follows:

(in millions)	**Food and Beverage Industry**			**Others**			**Elimination**			**Consolidation**		
	2023	2022	2021	**2023**	2022	2021	**2023**	2022	2021	**2023**	2022	2021
Net sales - external customers	**₱6,272**	₱1,988	₱,176	**₱24**	₱24	₱-	**(₱1,901)**	(₱120)	(₱22)	**₱4,394**	₱1,892	₱1,154
Cost of sales and services	**4,659**	1,358	798	**–**	–	–	**(1,873)**	(37)	–	**2,786**	1,321	798
Net income (loss) from continuing operation	**425**	78	1	**5**	51	9	**2**	(63)	(19)	**432**	66	(9)
Net income (loss) from discontinued operation	**(1,331)**	(173)	(185)	**–**	–	–	**–**	–	–	**(1,331)**	(173)	(185)
									–			–
Other information												
Total assets	**12,187**	7,296	6,299	**7,232**	5,982	5,929	**(7,291)**	(2,571)	(2,548)	**12,127**	10,707	9,680
Total liabilities	**6,937**	3,312	2,204	**74**	14	12	**(1,483)**	(80)	(59)	**5,528**	3,246	2,157
Interest expense	**114**	14	16	**–**	–	–		–	(3)	**114**	14	13
Provision for (benefit from) income tax	**47**	23	1	**–**	6	(2)	**–**	(1)	(2)	**47**	28	(3)

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

To the Board of Directors and Shareholders
Macay Holdings, Inc.
137 Yakal Street, San Antonio Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Macay Holdings, Inc. and its Subsidiaries (the Group) as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023, and have issued our report thereon dated April 22, 2024. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
Tax Identification No. 102-082-670
BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026
BIR Accreditation No. 08-001998-063-2023, September 12, 2023, valid until September 11, 2026
PTR No. 10079908, January 5, 2024, Makati City

April 22, 2024

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INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

To the Board of Directors and Shareholders
Macay Holdings, Inc.
137 Yakal Street, San Antonio Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Macay Holdings, Inc. and its Subsidiaries (the Group) as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023, and have issued our report thereon dated April 22, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2023 and for each of the three years in the period ended December 31, 2023 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
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BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026
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April 22, 2024

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**INDEPENDENT AUDITOR'S REPORT
ON THE SCHEDULE OF RECONCILIATION
OF RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION**

To the Board of Directors and Shareholders
Macay Holdings, Inc.
137 Yakal Street, San Antonio Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Macay Holdings, Inc. and its Subsidiaries (the Group) as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023, and have issued our report thereon dated April 22, 2024. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Group's management. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. This has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
Tax Identification No. 102-082-670
BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026
BIR Accreditation No. 08-001998-063-2023, September 12, 2023, valid until September 11, 2026
PTR No. 10079908, January 5, 2024, Makati City

April 22, 2024

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AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2023

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Annex B: Map Showing Relationships between and among the Companies in the Group, its Ultimate Parent Company and its Subsidiaries

Annex C: Supplementary Schedules Required by Annex 68-J

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Annex A

MACAY HOLDINGS, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2023

Unappropriated Retained Earnings, January 1, 2023 available for dividend declaration	**₱3,512,660,649**
Add: Net income for the current year	**5,560,183**
Less: Other items that should be excluded from the determination of the amount of available for dividends distribution	
Net movement of deferred tax asset not considered in the reconciling items under the previous categories	(961,812)
Unappropriated Retained Earnings Available For Dividend Declaration, December 31, 2023	**₱3,517,259,020**

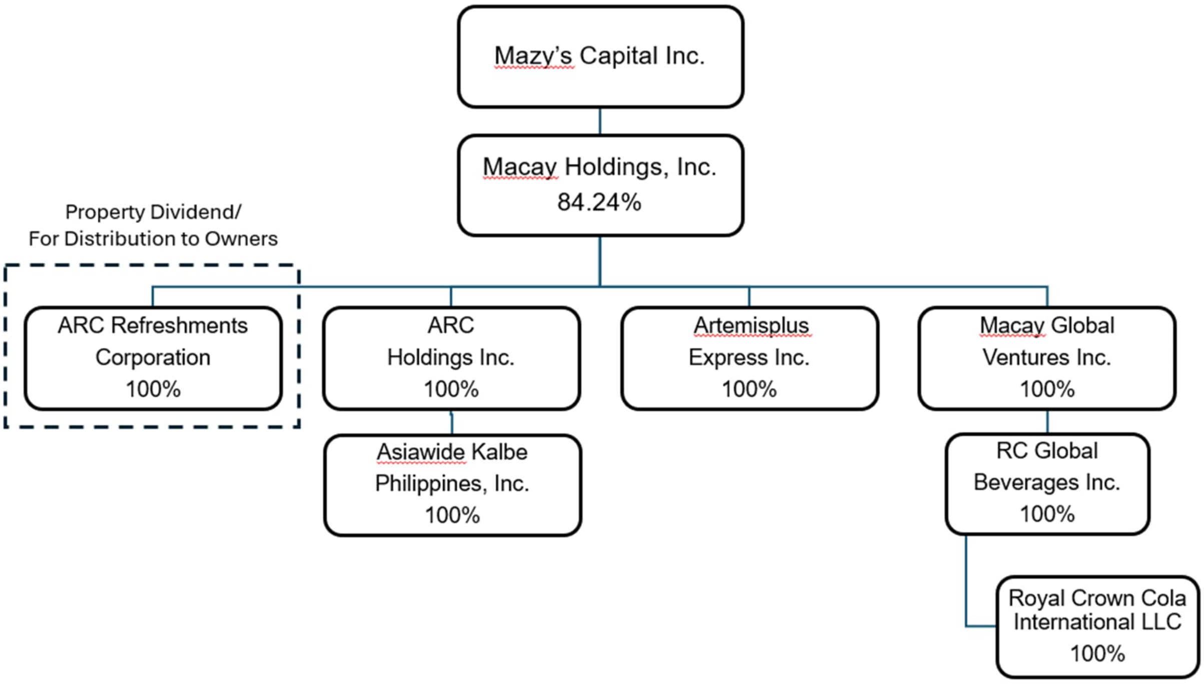
Note: In accordance with SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the Parent Company financial statements.

Annex B

MACAY HOLDINGS, INC. AND SUBSIDIARIES

MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES

DECEMBER 31, 2023



MACAY HOLDINGS, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-J AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2023

Bellow are the additional information and schedules required by Revised Securities Regulation Code Rule 68. The information is presented for purpose of filing with the SEC and is not required parts of the basic consolidated financial statements.

Schedule A. Financial Assets

Below is the schedule of financial assets of the Group as of December 31, 2023:

	Name of issuing entity and association of each issue	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash and cash equivalents	N/A	₱840,404,945	₱840,404,945	₱9,898,575
Short term investments	N/A	–	–	–
Trade and other receivables				
Trade receivables	N/A	1,295,654,625	1,295,654,625	–
Due from related parties	N/A	9,234,887	9,234,887	–
Receivables from officers and employees	N/A	32,898,237	32,898,237	–
Others	N/A	100,452,343	100,452,343	–
Security deposits	N/A			
		₱2,278,645,037	₱2,278,645,037	₱9,898,575

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)

Below is the schedule of amounts owed by officers and employees of the Group with balances above ₱100,000.

Amounts owed by Officers and Employees

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Non-current	Balance at the end of the period
Officers and employees	₱ 23,906,884	₱–	(₱8,647)	₱23,898,237	–	₱23,898,237

Below is the schedule of amounts owed by related parties of the Group.

Amounts owed by Related Parties

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Non-current	Balance at the end of the period
Zest-O	₱891,672	₱	₱	₱	–	₱891,672
ARC Thailand	8,343,215	–	–	8,343,215	–	8,343,215
	₱320,332,492	₱21,315,035,440	(₱21,368,341,574)	₱267,071,359	–	₱246,543,649

Schedule C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements

Below is the schedule of receivables with related parties which are eliminated in the consolidated financial statements as at December 31, 2023.

Receivables from related parties which are eliminated during the consolidation (under Trade and other receivables)

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Noncurrent	Balance at end of period
ARC Refreshments, subsidiary	₱3,880,000	₱–	₱–	₱–	₱3,880,000	₱–	₱3,880,000
Artemisplus Express, Inc.	27,083,549	24,000,000	(16,240,000)	₱–	34,843,549	₱–	34,843,549
	₱30,963,549	₱24,000,000	(₱16,240,000)	₱–	₱38,723,549	₱–	₱38,723,549

Schedule D. Long-term Debt

As of December 31, 2023, the Group has outstanding long-term debts as follows:

Long-term Debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
Car loan with an annual effective interest rate of 9.09% to 10.95% that will mature in five (5) years	₱8,432,053	₱2,489,737	₱5,942,316
Peso term loan that will mature in seven (7) years	141,666,667	33,333,333	108,333,334
Unsecured dollar-denominated loan that will mature in (8) years with an indicative rate of 3.21%	₱1,248,760,601	227,226,465	1,021,534,136

Schedule E. Indebtedness to Related Parties

Below is the Group's indebtedness to related parties.

Indebtedness to related parties

Name of related party	Balance at beginning of period	Balance at end of period
RC Global Ventures, Inc.	₱–	₱130,195,531
Zest-O	1,167,423	1,167,423
	₱1,167,423	₱131,362,954

Schedule F. Guarantees of Securities of Other Issuers

As of December 31, 2023, the Group does not guarantee any securities as indicated in the table below.

Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
Not Applicable				
The Group does not have any guarantees of securities of other issuing entities by the issuer for which the consolidated financial statement is filed.				

Schedule G. Capital Stock

	2023	2022
Common stock:		
Authorized - ₱1 par value	**₱2,100,000,000**	₱2,100,000,000
Issued and outstanding	**₱1,068,393,223**	₱1,068,393,223
Preferred stock:		
Authorized - ₱1,000 par value	**₱200,000,000**	₱200,000,000
Issued and outstanding	**₱–**	₱–

MACAY HOLDINGS, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE ON FINANCIAL SOUNDNESS INDICATORS AS AT DECEMBER 31, 2023

Below are the financial ratios that are relevant to the Group for the years ended December 31, 2023 and 2022:

Financial ratios		**2023**	2022
Current ratio	Current assets / Current liabilities	**2.01**	1.90
Acid test ratio	Cash and receivables / current liabilities	**1.66**	0.95
Solvency ratio	Net income plus depreciation and amortization / Total liabilities	**0.09**	0.04
Debt-to-equity ratio	Total liabilities* / Total equity	**0.84**	0.44
Asset-to-equity ratio	Total asset / Total equity	**1.84**	1.44
Interest rate coverage ratio	Net income before interest expense and taxes / Interest expense	**5.18**	7.57
Return on equity	Net income / Total equity	**(0.14)**	(0.01)
Return on asset	Net income / Total asset	**(0.07)**	(0.01)
Net profit margin ratio	Net income / Total revenue	**(0.07)**	0.03

**Including both total current and noncurrent liabilities*