House of Investments, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2022 and 2021
and Years Ended December 31, 2022,
2021 and 2020

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
House of Investments, Inc.

Opinion

We have audited the consolidated financial statements of House of Investments, Inc. (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 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 matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recognition of revenue from construction contracts

The Group's revenue from construction projects on electro-mechanical works, industrial, buildings and infrastructure accounts for 52% of the total revenue of the Group. Under PFRS 15, *Revenue from Contracts with Customers*, the Group assessed that there is only one performance obligation for each construction agreement that it has entered and that revenue arising from such agreements qualify for recognition over time. The Group also recognized as part of its construction revenue, the effects of variable considerations arising from various change orders and claims, to the extent that they reflect the amounts the Group expects to be entitled to and to be received from the customers, provided that it is highly probable that a significant reversal of the revenue recognized in connection with these variable considerations will not occur in the future. The Group elected to use the input method to measure the progress of the fulfilment of its performance obligation, which is based on the actual costs incurred to date relative to the total estimated cost to complete the construction projects.

Aside from the significance of the amount involved, we consider this as a key audit matter because this process involves significant judgment and estimates, particularly with respect to the estimation of the variable considerations arising from the change orders and claims and calculation of estimated cost to complete construction projects, which requires the technical expertise of the Group's engineers.

The Group's disclosures about construction revenue are included in Notes 5 and 23 to the consolidated financial statements.

Audit response

We inspected sample contracts and supplemental agreements and reviewed management's assessment on the identification of performance obligation within the contract and the timing of revenue recognition. For construction revenue which includes significant effects of the variable considerations, we obtained an understanding and tested the relevant controls over the management's process to estimate the amount of consideration expected to be received from the customers. For change orders and claims of sampled contracts, we compared the amounts recognized as revenue to the change orders and claims approved by the customers and other relevant documentary evidences supporting the management's estimate of revenue recognized.

For the measurement of progress of the construction projects, we obtained an understanding of the Group's processes to accumulate actual costs incurred and to estimate the expected cost to complete and tested the relevant controls. We also tested actual costs incurred by examining sample invoices and other supporting third-party correspondences. We also considered the competence, capabilities and objectivity of the Group's cost engineers by referring to their qualifications, experience and reporting responsibilities. We examined the approved total estimated completion costs, any revisions thereto, and the cost variance analysis with supporting details. We discussed the status of the projects under construction with the Group's engineers. We also inspected the related project documentation and inquired about the significant deviations from the targeted completion.

Accounting for investment in Al-Rushaid Construction Company Ltd.

The Group, through EEI, owns 49% equity interest in Al-Rushaid Construction Company Ltd. (ARCC), associate accounted for under the equity method. As of December 31, 2022, ARCC recognized deferred tax asset on net operating loss carryover of ₱435.92 million. We consider the accounting for the investment in ARCC as a key audit matter because the Group's share in ARCC's net losses and the carrying value of the investment represents 28% of the Group's consolidated net income and 2% of the Group's total assets, respectively. The Group's share in ARCC's net earnings is significantly affected by ARCC's revenue recognition from its construction contracts. In addition, management's assessment process on the recognition of deferred tax asset is based on assumptions, which are affected by expected future market or economic conditions.

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

Audit response
We sent instructions to statutory auditors of ARCC to perform an audit on the relevant financial information of ARCC for the purpose of the Group's consolidated financial statements. These audit instructions cover their scope of work, risk assessment procedures, audit strategy and reporting responsibilities. We discussed with ARCC's statutory auditors about their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment. We reviewed their working papers, focusing on the procedures performed on ARCC's revenue recognition, and obtained relevant conclusion statements related to their audit procedures. Furthermore, we evaluated management's assumptions on the recognition of deferred tax assets and inquired with the Group's management the basis of the financial forecast. We also compared management's forecast against historical performance of ARCC.

We also obtained the financial information of ARCC for the year ended December 31, 2022 and recomputed the Group's share in net earnings for the year ended December 31, 2022.

Valuation of unquoted equity investments carried at fair value through other comprehensive income

The Group has investments in unquoted equity securities of Hermosa Ecozone Development Corporation (HEDC) carried at fair value through other comprehensive income. As of December 31, 2022, the investments' carrying values amounted to ₱508.51 million. In determining the fair values of these investments, the Group engaged external valuers and exercised judgments in selecting the appropriate valuation methodology. This includes using assumptions and inputs taking into consideration the industry where the investee operates. This matter is significant to our audit because estimating the fair value of an unquoted equity instrument involves the use of valuation inputs that are not observable in the market.

The Group's disclosures about its unquoted equity investments are included in Notes 11 and 38 to the consolidated financial statements.

Audit response

We evaluated the competence, capabilities and qualifications of the external valuers by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of unquoted equity investment valued, which include sales price of comparable properties with reference to market data and cost to develop the parcels of land of HEDC. 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 investments.

Valuation of land classified as property and equipment

The Group accounts for its land, where the school buildings and other facilities are located, using the revaluation model. As at December 31, 2022, the revalued amount of the Group's land amounted to ₱9,875.43 million, representing 15% of the Group's total assets. The valuation of the land requires the assistance of external appraisers whose calculations involve certain assumptions, such as sales price of similar properties and adjustments to sales price based on internal and external factors. This matter is significant to our audit because it involves significant judgment and estimates.

Refer to Notes 4 and 13 to the consolidated financial statements for the detailed disclosures.

Audit response

With the assistance of our internal specialist, we reviewed the scope, bases, methodology and results of the work done by the Group's external appraisers whose professional qualifications and objectivity were also taken into consideration. We compared the relevant information supporting the sales price of similar properties and the adjustments made to the sales price against real estate industry data and made inquiries to the external appraisers as to the basis. We also reviewed the Group's disclosures with respect to the fair value of the land.

Recoverability of nonfinancial assets

Under PFRSs, the Group is required to annually test for impairment the nonfinancial assets such as the goodwill, intellectual property rights with infinite life and for those nonfinancial assets with finite useful life, whenever there are indicators of impairment. These nonfinancial assets are considered significant to the consolidated financial statements and management's assessment process involves judgments and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic. The assumptions used in estimating the discounted cash flow projections include forecasted revenue, long-term growth rates, royalty rates, and discount rates.

The Group's disclosures about nonfinancial assets are included in Notes 4, 13, 14, 15 and 17 to the consolidated financial statements

Audit response

We involved our internal specialist in evaluating the methodology and assumptions used. We obtained an understanding of the Group's impairment model and the assumptions on the key business drivers of the cash flow forecasts such as the revenue. We checked if the Group has considered the impact of the coronavirus pandemic on these key assumptions and also compared them against historical performance. We compared the long-term growth rates and royalty rates against relevant published market information. We tested the parameters used in the determination of discount rates against market data. In addition, we reviewed the Group's disclosures about those assumptions to which the outcome of the impairment tests is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of these assets.

Adequacy of allowance for expected credit loss (ECL)

The Group, through IPO, applies simplified approach in calculating expected credit loss (ECL) on its receivables derived from education segment. Under this approach, the Group establishes a provision matrix that is based on its historical credit loss experience and adjusted for forward-looking factors specific to the debtors and the economic environment. Allowance for ECL and the provision for ECL as of and for the year ended December 31, 2022 amounted to ₱337.62 million and ₱120.41 million, respectively.

The Group's calculation of allowance for ECL is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model such as the expected life of the financial asset; and incorporating forward-looking information (called overlays), including the impact of the coronavirus pandemic, in calculating ECL.

The disclosures on the allowance for ECL are included in Notes 5 and 7 to the consolidated financial statements.

Audit response

We updated our understanding of the approved methodology and assumptions used for the Group's different credit exposures and reassessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome and the best available forward-looking information.

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place and management's assessment of the impact of the coronavirus pandemic on the counterparties; (c) tested historical loss rates by inspecting historical recoveries including the write-offs; (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) evaluated the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices, including the impact of the coronavirus pandemic.

Further, we checked the data used in the ECL models, such as the historical analysis of defaults, and recovery data, by reconciling data from loss allowance analysis/model to the source reports and financial reporting system. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced or re-performed the disaggregation from source reports to the loss allowance analysis.

We also recalculated the impairment provisions. We checked the disclosures made in the financial statements on allowance for ECL by tracing such disclosures to the ECL analysis prepared by management.

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, 2022, 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 and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 Wenda Lynn M. Loyola.

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola
Partner
CPA Certificate No. 109952
Tax Identification No. 242-019-387
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 109952-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-117-2022, January 20, 2022, valid until January 19, 2025
PTR No. 9564644, January 3, 2023, Makati City

April 12, 2023

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱6,630,467,357**	₱9,056,486,073
Receivables (Note 7)	**4,250,815,749**	3,728,565,048
Contract assets (Note 8)	**5,182,274,282**	8,741,253,049
Inventories (Note 9)	**1,502,027,586**	1,540,267,273
Receivables from related parties (Note 22)	**178,008,353**	145,283,445
Prepaid expenses and other current assets (Note 10)	**2,132,246,953**	1,687,807,568
Total Current Assets	**19,875,840,280**	24,899,662,456
Noncurrent Assets		
Contract assets - net of current portion (Note 8)	**5,190,526,530**	1,079,458,807
Equity investments at fair value through other comprehensive income (FVOCI) (Note 11)	**650,642,033**	527,369,996
Investments in associates and joint ventures (Note 12)	**8,303,323,179**	7,834,124,308
Property and equipment (Note 13)		
At revalued amount	**9,875,430,378**	8,291,619,850
At cost	**7,225,811,452**	7,940,120,912
Investment properties (Note 16)	**8,109,162,827**	1,977,542,213
Deferred tax assets - net (Note 33)	**1,412,438,716**	1,222,749,651
Right-of-use assets (Note 14)	**1,194,764,548**	1,106,174,929
Goodwill (Note 15)	**484,829,719**	484,829,719
Retirement assets (Note 32)	**93,338,840**	18,129,661
Other noncurrent assets (Note 17)	**2,810,716,784**	1,811,979,369
Total Noncurrent Assets	**45,350,985,006**	32,294,099,415
Total Assets	**₱65,226,825,286**	₱57,193,761,871
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 18)	**₱7,023,609,751**	₱7,037,261,878
Loans payable (Note 19)	**8,217,000,000**	5,706,469,178
Current portion of long-term debt (Note 20)	**4,714,765,059**	3,547,206,477
Current portion of contract liabilities (Note 8)	**1,387,334,090**	1,112,517,781
Current portion of lease liabilities (Note 14)	**168,473,399**	124,406,516
Income tax payable	**17,927,194**	27,202,609
Due to related parties (Note 22)	**2,532,535**	2,482,255
Total Current Liabilities	**21,531,642,028**	17,557,546,694
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 20)	**4,316,758,220**	6,590,656,513
Contract liabilities - net of current portion (Note 8)	**826,701,427**	565,849,622
Lease liabilities - net of current portion (Note 14)	**1,210,356,879**	990,953,738
Deferred tax liabilities - net (Note 33)	**1,044,811,603**	855,546,115
Retirement liabilities (Note 32)	**200,096,343**	223,026,503
Other noncurrent liabilities	**232,075,531**	294,630,102
Total Noncurrent Liabilities	**7,830,800,003**	9,520,662,593
Total Liabilities	**₱29,362,442,031**	₱27,078,209,287

(Forward)

	December 31	
	2022	2021
Equity		
Attributable to equity holders of the Parent Company		
Preferred stock (Note 39)	**₱–**	₱–
Common stock (Note 39)	**1,162,540,326**	1,162,540,326
Additional paid-in capital	**154,578,328**	154,578,328
Equity reserve on acquisition of non-controlling interest (Note 36)	**1,932,007,449**	1,598,421,700
Revaluation increment on land - net (Note 13)	**2,218,473,182**	1,445,367,746
Cumulative translation adjustments	**352,101,517**	271,303,940
Fair value reserve of equity investments at FVOCI (Note 11)	**111,000,523**	67,330,660
Remeasurement loss on retirement obligation (Note 32)	**(14,062,367)**	(101,768,611)
Retained earnings (Note 40)		
Unappropriated	**4,944,402,862**	3,570,659,388
Appropriated	**7,505,355,000**	7,505,355,000
	18,366,396,820	15,673,788,477
Non-controlling interests (Note 36)	**17,497,986,435**	14,441,764,107
Total Equity	**35,864,383,255**	30,115,552,584
	₱65,226,825,286	₱57,193,761,871

See accompanying Notes to Consolidated Financial Statements.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2022	2021	2020
REVENUE (Note 23)	**₱23,905,286,435**	₱23,599,074,321	₱21,176,075,057
COSTS OF SALES AND SERVICES (Notes 9, 25, 26, 27 and 28)	**19,350,955,050**	19,776,263,509	21,825,884,505
GROSS PROFIT (LOSS)	**4,554,331,385**	3,822,810,812	(649,809,448)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 29)	**(3,209,680,321)**	(2,817,475,078)	(3,098,567,525)
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 12)	**425,036,868**	1,430,345,902	1,368,427,558
INTEREST AND FINANCE CHARGES (Notes 14, 19, 20, 22 and 31)	**(669,698,366)**	(708,368,551)	(712,571,097)
OTHER INCOME - Net (Note 24)	**742,570,523**	191,980,072	128,768,133
INCOME (LOSS) BEFORE INCOME TAX	**1,842,560,089**	1,919,293,157	(2,963,752,379)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 33)			
Current	**371,224,121**	69,761,830	126,237,181
Deferred	**(253,007,651)**	221,764,349	(1,396,274,909)
	118,216,470	291,526,179	(1,270,037,728)
NET INCOME (LOSS)	**₱1,724,343,619**	₱1,627,766,978	(₱1,693,714,651)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**₱1,174,088,374**	₱1,073,010,312	(₱824,954,066)
Non-controlling interests	**550,255,245**	554,756,666	(868,760,585)
	₱1,724,343,619	₱1,627,766,978	(₱1,693,714,651)
EARNINGS (LOSS) PER SHARE (Note 34)			
Basic	**₱1.1270**	₱1.3819	(₱1.0626)
Diluted	**₱1.1270**	₱1.3819	(₱1.0626)

See accompanying Notes to Consolidated Financial Statements.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2022	2021	2020
NET INCOME (LOSS)	**₱1,724,343,619**	₱1,627,766,978	(₱1,693,714,651)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Share in other comprehensive gain (loss) of an associate (Note 12)	**106,387,771**	(138,799,335)	(46,303,277)
Cumulative translation adjustments	**142,920,866**	82,902,765	58,977,308
Items not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments carried at FVOCI (Note 11)	**46,383,342**	40,293,502	(149,929,175)
Revaluation increment on land (Note 13)	**1,362,576,732**	333,961,750	(72,695,173)
Remeasurement gain (loss) on net retirement (Note 32)	**258,091,615**	295,174,036	(148,660,020)
Income tax effect	**(239,052,304)**	22,722,557	(18,077,259)
	1,677,308,022	636,255,275	(376,687,596)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱3,401,651,641**	₱2,264,022,253	(₱2,070,402,247)
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**₱2,269,856,628**	₱1,320,105,320	(₱1,068,608,442)
Non-controlling interests	**1,131,795,013**	943,916,933	(1,001,793,805)
	₱3,401,651,641	₱2,264,022,253	(₱2,070,402,247)

See accompanying Notes to Consolidated Financial Statements.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Attributable to Equity Holders of the Parent Company												
	Capital stock (Note 39)								**Retained earnings**				
	Preferred stock	**Common stock**	**Additional paid-in capital**	**Equity reserve on acquisition of non-controlling interest**	**Revaluation increment on land - net** (Note 13)	**Cumulative translation adjustments** (Notes 12 and 38)	**Fair Value reserve of equity investments at FVOCI** (Note 11)	**Remeasurement loss on retirement** (Note 32)	**Unappropriated** (Notes 13 and 40)	**Appropriated** (Note 40)	**Subtotal**	**Non-controlling interests** (Note 36)	**Total**
BALANCES AT JANUARY 1, 2020	**6,710,402**	**1,162,540,326**	**154,578,328**	**1,641,756,492**	**1,298,881,074**	**245,958,913**	**311,094,152**	**(188,329,963)**	**3,605,930,659**	**6,505,355,000**	**14,744,475,383**	**8,749,236,709**	**23,493,712,092**
Net loss	–	–	–	–	–	–	–	–	(824,954,066)	–	(824,954,066)	(868,760,585)	(1,693,714,651)
Other comprehensive loss	–	–	–	–	(11,714,131)	(23,145,055)	(139,313,149)	(69,482,041)	–	–	(243,654,376)	(133,033,220)	(376,687,596)
Total comprehensive loss	–	–	–	–	(11,714,131)	(23,145,055)	(139,313,149)	(69,482,041)	(824,954,066)	–	(1,068,608,442)	(1,001,793,805)	(2,070,402,247)
Redemption of preferred stock	(6,710,402)	–	–	–	–	–	–	–	–	–	(6,710,402)	–	(6,710,402)
Changes in non-controlling interest	–	–	–	(18,751,619)	7,410,470	2,219,251	3,701,886	(2,142,680)	499,588,991	–	492,026,299	(11,396,980)	480,629,319
Dividend declaration	–	–	–	–	–	–	–	–	(86,529)	–	(86,529)	(42,955,797)	(43,042,326)
BALANCES AT DECEMBER 31, 2020	**–**	**1,162,540,326**	**154,578,328**	**1,623,004,873**	**1,294,577,413**	**225,033,109**	**175,482,889**	**(259,954,684)**	**3,280,479,055**	**6,505,355,000**	**14,161,096,309**	**7,693,090,127**	**21,854,186,436**
Net income	–	–	–	–	–	–	–	–	1,073,010,312	–	1,073,010,312	554,756,666	1,627,766,978
Other comprehensive income (loss)	–	–	–	–	150,790,333	46,270,831	(108,152,229)	158,186,073	–	–	247,095,008	389,160,267	636,255,275
Total comprehensive income	–	–	–	–	150,790,333	46,270,831	(108,152,229)	158,186,073	1,073,010,312	–	1,320,105,320	943,916,933	2,264,022,253
Movement in equity	–	–	–	–	–	–	–	–	217,170,021	–	217,170,021	–	217,170,021
Acquisition and disposal of non-controlling interest	–	–	–	(24,583,173)	–	–	–	–	–	–	(24,583,173)	16,764,085	(7,819,088)
Reversal of appropriated retained earnings	–	–	–	–	–	–	–	–	2,500,000,000	(2,500,000,000)	–	–	–
Appropriation of retained earnings	–	–	–	–	–	–	–	–	(3,500,000,000)	3,500,000,000	–	–	–
Issuance of preferred stock by subsidiary	–	–	–	–	–	–	–	–	–	–	–	5,955,009,556	5,955,009,556
Declaration of dividend by subsidiary	–	–	–	–	–	–	–	–	–	–	–	(167,016,594)	(167,016,594)
BALANCES AT DECEMBER 31, 2021	**–**	**1,162,540,326**	**154,578,328**	**1,598,421,700**	**1,445,367,746**	**271,303,940**	**67,330,660**	**(101,768,611)**	**3,570,659,388**	**7,505,355,000**	**15,673,788,477**	**14,441,764,107**	**30,115,552,584**
Net income	–	–	–	–	–	–	–	–	1,174,088,374	–	1,174,088,374	550,255,245	1,724,343,619
Other comprehensive income	–	–	–	–	883,594,568	80,797,577	43,669,863	87,706,244	–	–	1,095,768,252	581,539,770	1,677,308,022
Total comprehensive income	–	–	–	–	883,594,568	80,797,577	43,669,863	87,706,244	1,174,088,374	–	2,269,856,626	1,131,795,015	3,401,651,641
Movement in equity	–	–	–	–	(110,489,132)	–	–	–	199,655,100	–	89,165,968	(89,165,968)	–
Declaration of dividend by subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(485,316,910)	(485,316,910)
Movement in non-controlling interest	–	–	–	333,585,749	–	–	–	–	–	–	333,585,749	2,498,910,191	2,832,495,940
BALANCES AT DECEMBER 31, 2022	**₱–**	**₱1,162,540,326**	**₱154,578,328**	**₱1,932,007,449**	**₱2,218,473,182**	**₱352,101,517**	**₱111,000,523**	**(₱14,062,367)**	**₱4,944,402,862**	**₱7,505,355,000**	**₱18,366,396,820**	**₱17,497,986,435**	**₱35,864,383,255**

See accompanying Notes to Consolidated Financial Statements.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱1,842,560,089**	₱1,919,293,157	(₱2,963,752,379)
Adjustments for:			
Depreciation, amortization and impairment (Notes 13, 14, 15, 16, 17 and 30)	**1,179,698,333**	1,148,132,605	1,369,129,177
Interest and finance charges (Notes 14, 19, 20, 22 and 31)	**669,698,366**	708,368,551	712,571,097
Movements in net retirement liabilities	**64,776,084**	(230,386,853)	167,325,957
Market gain on financial asset at fair value through profit or loss (FVPL)	**(118,787)**	(197,848)	(893,359)
Dividend income (Notes 4 and 24)	**(10,614,069)**	(35,266,666)	(37,855,583)
Unrealized foreign exchange loss (gain) (Note 24)	**(40,582,623)**	(10,151,384)	49,676,282
Interest income (Note 24)	**(107,629,251)**	(18,758,054)	(36,588,692)
Gain on sale of:			
Investment properties (Notes 16 and 24)	**(2,052,300)**	(14,750)	(204,500)
Property and equipment (Notes 13 and 24)	**(383,220,587)**	(19,732,100)	(14,855,241)
Equity in net earnings of associates and joint venture (Note 12)	**(425,036,868)**	(1,430,345,902)	(1,368,427,558)
Operating income (loss) before working capital changes	**2,787,478,387**	2,030,940,756	(2,123,874,799)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(522,250,702)**	1,617,508,789	900,412,888
Contract assets	**(1,621,647,147)**	(1,135,982,629)	1,878,223,184
Inventories	**38,239,688**	347,766,417	474,243,774
Receivables from related parties	**(32,724,909)**	(91,868,312)	17,820,168
Prepaid expenses and other current assets	**(444,439,385)**	857,136,279	(562,089,649)
Other noncurrent assets	**(1,020,166,692)**	(1,275,326,486)	(262,356,078)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(13,652,127)**	(1,741,011,003)	366,190,340
Contract liabilities	**535,668,114**	(878,634,431)	(957,608,563)
Due to related parties	**50,280**	(7,731,844)	(116,203,076)
Other noncurrent liabilities	**707,181,820**	(119,798,954)	(311,025,872)
Net cash generated from (used in) operations	**413,737,327**	(397,001,418)	(696,267,683)
Interest received	**107,629,251**	18,758,054	36,588,692
Income tax paid, including creditable withholding taxes	**(127,916,137)**	(143,005,151)	(60,723,415)
Interest and finance charges paid (Note 31)	**(669,698,366)**	(708,368,551)	(712,571,097)
Net cash flows used in operating activities	**(276,247,925)**	(1,229,617,066)	(1,432,973,503)

(Forward)

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Property and equipment (Note 13)	**₱713,586,006**	₱83,176,478	₱583,053,137
Equity investments at FVOCI (Note 11)	**1,200,000**	–	26,632,056
Investment properties (Note 16)	**420,500**	80,750	873,500
Dividends received (Notes 12 and 24)	**345,055,362**	393,559,175	209,471,914
Acquisitions of:			
Computer software (Note 17)	**(17,403,328)**	(20,131,041)	(4,515,025)
Investments in associates and joint ventures (Note 12)	**(47,761,482)**	–	–
Property and equipment	**(856,119,690)**	(631,905,739)	(1,386,009,107)
Investments properties (Note 16)	**(6,155,975,000)**	–	(450,000)
Proceeds from return of investments (Note 12)	–	454,139,216	575,959,276
Net cash flows provided by (used in) investing activities	**(6,016,997,632)**	278,918,839	5,015,751
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loans payable (Note 19)	**16,510,806,863**	10,778,700,000	16,524,230,000
Long-term debt - inclusive of transaction costs (Note 20)	**2,433,686,361**	5,502,371,404	4,116,506,064
Changes in non-controlling interests (Note 36)	**3,015,301,881**	6,386,504,164	(59,970,000)
Cash dividends paid (Notes 38 and 40)	**(485,316,910)**	–	(86,529)
Payments of:			
Lease liabilities (Note 14)	**(107,531,867)**	(50,235,057)	(287,547,391)
Long-term debt (Note 20)	**(3,540,026,072)**	(2,784,810,550)	(1,387,893,054)
Loans payable (Note 19)	**(14,000,276,041)**	(13,054,230,822)	(16,936,030,000)
Redemption of preferred shares (Note 39)	–	–	(6,710,402)
Net cash flows provided by financing activities	**3,826,644,215**	6,778,299,139	1,962,498,688
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**40,582,626**	10,151,386	(2,476,235)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,426,018,716)**	5,837,752,298	532,064,701
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,056,486,073**	3,218,733,775	2,686,669,074
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱6,630,467,357**	₱9,056,486,073	₱3,218,733,775

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Authorization for Issuance of Consolidated Financial Statements

Corporate Information

House of Investments, Inc. (the Parent Company) is a stock corporation incorporated under the laws of the Republic of the Philippines on May 21, 1959. As per Section 11 of Revised Corporation Code (RCC) enacted in 2020, a corporation shall have perpetual existence unless its articles of incorporation provide otherwise. Further explained in Securities and Exchange Commission (SEC) Memorandum Circular No. 22 Series of 2020, “the corporate term of a corporation with certificate of incorporation issued prior to the effectivity of the RCC and which continue to exist, shall be deemed perpetual upon the effectivity of the RCC, without any action on the part of the corporation.” Thus, there is no need to amend or extend Parent Company’s corporate life as it already enjoys perpetual existence.

The Parent Company and its subsidiaries (collectively known as the Group) are primarily engaged in car dealership, construction, education, afterlife services, consumer finance, property leasing and management, project management, security and pharmaceuticals.

The Parent Company’s common stock was listed with the Philippine Stock Exchange (PSE) on July 2, 1962, the Parent Company’s initial public offering. The Parent Company’s shares of stock are currently traded at the PSE. The ultimate parent company of the Group is Pan Malayan Management and Investment Corporation (PMMIC), a domestic corporation.

The registered office address and principal place of business of the Parent Company is at 9th Floor, Grepalife Building, 221 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila.

Authorization for Issuance of Consolidated Financial Statements

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 12, 2023.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for land, which is carried at revalued amount and financial assets at FVPL, included as part of “Prepaid expenses and other current assets,” and FVOCI which are measured at fair value. The accompanying consolidated financial statements are presented in Philippine Peso (Php, ₱), which is also the Parent Company’s functional currency. Except as indicated, all amounts are rounded off to the nearest peso.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements include the Parent Company and the following companies that it controls:

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership 2022 Direct	2022 Indirect	2021 Direct	2021 Indirect
Investment Managers, Inc. (IMI)	Philippines	Insurance agent, financing, trading and real estate	Philippine Peso	**100.00**	**–**	100.00	–
Landev Corporation	Philippines	Property management	Philippine Peso	**100.00**	**–**	100.00	–
San Lorenzo Ruiz Investment Holdings and Services Inc. (SLRHSI)[(a)]	Philippines	Holding company	Philippine Peso	**60.00**	**–**	100.00	–
ATYC, Inc. (ATYC) [(b)]	Philippines	Property leasing	Philippine Peso	**100.00**	**–**	–	–
Xamdu Motors, Inc. (XMI)	Philippines	Car dealership	Philippine Peso	**100.00**	**–**	100.00	–
Zamboanga Carriers, Inc. (ZCI)	Philippines	Transportation	Philippine Peso	**100.00**	**–**	100.00	–
Zambowood Realty and Development Corporation (ZRDC)	Philippines	Real estate	Philippine Peso	**100.00**	**–**	100.00	–
Greyhounds Security and Investigation Agency Corp.	Philippines	Security agency	Philippine Peso	**–**	**100.00**	–	100.00
Hexagon Lounge, Inc.	Philippines	Restaurant	Philippine Peso	**–**	**100.00**	–	100.00
Secon Professional Security Training Academy Inc.	Philippines	Training service provider	Philippine Peso	**–**	**100.00**	–	100.00
HI Cars, Inc. (HCI)[(c)]	Philippines	Car dealership	Philippine Peso	**100.00**	**–**	100.00	–
La Funeraria Paz Sucat, Inc. (LFPSI)	Philippines	Memorial services	Philippine Peso	**50.00**	**13.00**	50.00	13.00
EEI Corporation (EEI)	Philippines	Construction	Philippine Peso	**55.34**	**–**	55.34	–
EEI Limited	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
Clear Jewel Investments, Ltd.	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
Nimaridge Investments, Limited	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
EEI (PNG), Ltd	Papua New Guinea	Holding company	US Dollar	**–**	**100.00**	–	100.00
EEI Corporation (Guam), Inc.	United States of America	Construction	US Dollar	**–**	**100.00**	–	100.00
EEI Construction and Marine, Inc.	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
EEI Realty Corporation (EEI Realty)	Philippines	Real estate	Philippine Peso	**–**	**100.00**	–	100.00
EEI Subic Corporation	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
EEI Business Solutions, Inc. (formerly Equipment Engineers, Inc., EBSI) [(d)]	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
JP Systems Asia Inc. (JPSAI)	Philippines	Rental of scaffolding and formworks	Philippine Peso	**–**	**60.00**	–	60.00
BiotechJP Corporation	Philippines	Manufacturing food and therapeutic food	Philippine Peso	**–**	**60.00**	–	60.00
Learn JP Corp	Philippines	Service for improvement in language proficiency	Philippine Peso	**–**	**60.00**	–	60.00
EEI Power Corporation (EPC)	Philippines	Power generation	Philippine Peso	**–**	**100.00**	–	100.00
Gulf Asia International Corporation (GAIC)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
GAIC Professional Services, Inc. (GAPSI)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
GAIC Manpower Services, Inc. (GAMSI)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
Bagumbayan Equipment & Industrial Products, Inc.	Philippines	Consultancy services	Philippine Peso	**–**	**100.00**	–	100.00
Philmark, Inc.	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
Philrock Construction and Services, Inc.	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
EEI Energy Solutions Corporation (EESC)	Philippines	Retail electricity supplier	Philippine Peso	**–**	**100.00**	–	100.00
EEI Carga Digital Logistics Corporation (EEI Carga)[(e)]	Philippines	Digital logistics	Philippine Peso	**–**	**100.00**	–	100.00
iPeople, inc. (IPO)	Philippines	Education and Information Technology	Philippine Peso	**48.18**	**–**	48.18	–
Malayan Education System, Inc. (MESI) (Operating Under the Name of Mapua University)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Malayan Colleges Laguna, Inc., A Mapua School (MCLI)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Malayan Colleges Mindanao (A Mapua School), Inc. (MCMI)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Malayan High School of Science, Inc. (MHSSI)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Mapua Information Technology Center, Inc. (MITC)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Mapua Techserv, Inc. (MTI)	Philippines	Consultancy	Philippine Peso		**100.00**	–	100.00
Mapua Techpower Inc.	Philippines	Consultancy	Philippine Peso	**–**	**75.00**	–	75.00

(Forward)

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership 2022 Direct	2022 Indirect	2021 Direct	2021 Indirect
People eServe Corporation	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	100.00
Pan Pacific Computer Center, Incorporated (PPCCI)	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	100.00
Affordable Private Education Center, Inc doing business under the name of APEC Schools (APEC)	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	100.00
National Teachers College doing business under the name/s and style/s of The National Teachers College	Philippines	Education and Information Technology	Philippine Peso	–	**99.79**	–	99.79
University of Nueva Caceres	Philippines	Education and Information Technology	Philippine Peso	–	**83.62**	–	83.62
AC College of Enterprise and Technology, Inc	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	100.00
LINC Institute, Inc doing business under the Name and Style of LINC Academy	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	100.00

(a) In February 2022, the Parent Company sold 1,612,759 common shares representing 14.64% ownership of SLRHSI to Sojitz Corporation. Further, on November 15, 2022, Sojitz Corporation subscribed and paid for additional authorized capital stock applied for by SLRHSI. Accordingly, the ownership stake of the Parent Company decreased from 100% to 60%.
(b) On September 1, 2022, the Parent Company acquired 5,000,000 common shares representing 100% ownership in ATYC.
(c) In July 2021, the Parent Company acquired additional 27,000,000 shares resulting to 100% ownership of HCI
(d) On May 27, 2022, the corporate name of EBSI was changed for the purpose of establishing a separate and distinct identity from EEI.
(e) On May 14, 2021, EEI Carga Digital Logistics Corporation was incorporated as a wholly owned subsidiary of EE. EEI Carga's primary purpose is to own and operate a digital logistics platform that enables shippers to deliver their products through various transportation options available in the platform. EEI Carga's financial year end is December 31.

The consolidated financial statements are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intercompany transactions that are recognized in assets are eliminated in full.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

Specifically, the Parent Company controls an investee if and only if the Parent Company has:
a. power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

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

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

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company 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 statements of income and consolidated statements of comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date when such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest until the balance is reduced to nil. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Reclassifies to profit or loss, or transfer directly to retained earnings if required by other PFRSs, the amounts recognized in other comprehensive income in relation to the subsidiary; and recognizes any resulting difference as a gain or loss in profit or loss attributable to the Parent Company

Non-controlling interests (NCI) represent the portion of equity not attributable to the Parent Company. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interests are presented separately in the consolidated statements of comprehensive income and within the equity section of the consolidated statements of financial position and consolidated statements of changes in equity, separately from the equity attributable to equity holders of the Parent Company.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these pronouncements does not have a significant impact on the Group’s consolidated financial statements unless otherwise indicated.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendment has no impact to the consolidated financial statements.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The amendments have no impact to the consolidated financial statements.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach." The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

  The amendments have no impact to the consolidated financial statements.

- Annual Improvements to PFRSs 2018-2020 Cycle

o Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

  The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments have no impact to the consolidated financial statements.

- Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group. The amendments have no impact to the consolidated financial statements.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments have no impact to the consolidated financial statements.

Standards Issued But Not Yet Effective
Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2023

- 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. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

- 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.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- 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).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

  The Group is still assessing the impact of the amendments to the consolidated financial statements.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

  The amendments clarify:
  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

The Group is still assessing the impact of the amendments to the consolidated financial statements.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  The amendments are not expected to have a material impact on the Group.

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group is still assessing the impact of the amendments to the consolidated financial statements.

4. Summary of Significant Accounting Policies

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease. 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 ease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives (EUL) of the assets, as follows:

	Years
Land, land improvements and sites	5 to 66
Building, office spaces and warehouses	2 to 10
Other equipment	1 to 3

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 Group 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.

Lease liabilities that are expected to be settled for no more than 12 months after reporting period are classified as current liabilities presented as current portion of lease liabilities. Otherwise, these are classified as noncurrent liabilities.

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 property and 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.

Sale and leaseback
When entering into a sale and leaseback transaction, the Group determines whether the transfer qualifies as a sale based on the requirements satisfying a performance obligation under PFRS 15.

When the transfer of the asset is a sale, the Group measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the Group. Gain or loss is recognized only at the amount that relates to the rights transferred to the buyer-lessor.

When the transfer of the asset is not a sale under PFRS 15 requirements, the Group continues to recognize the asset in its statement of financial position and accounts for the proceeds from the sale and leaseback as a financial liability in accordance with PFRS 9.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Revenue from construction contracts
The Group assessed that there is only one performance obligation for each construction agreement that it has entered and that revenue arising from such agreements qualify for recognition over time because the Group's performance creates or enhances an asset that the customer controls as the asset

is created or enhanced by applying par. 35(b) of PFRS 15. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The customer, having the ability to specify the design (or any changes thereof) of the asset, controls the asset as it is being constructed. Furthermore, the Group builds the asset on the customer's land (or property controlled by the customer), hence, the customer generally controls any work in progress arising from the Group's performance. The Group also recognized as part of its construction revenue, the effects of variable considerations arising from various change orders and claims; to the extent that they reflect the amounts the Group expects to be entitled to and to be received from the customers, provided that it is highly probable that a significant reversal of the revenue recognized in connection with these variable considerations will not occur in the future. For unpriced change orders and claims, the Group uses the "most likely amount" method to predict the amounts the Group expects to be entitled to and to be received from the customers. The Group updates its estimate of the transaction price at the end of each reporting period to reflect any changes in circumstances that would result to changes in amount of variable consideration.

The Group elected to use the input method to measure the progress of the fulfilment of its performance obligation, which is based on the actual costs incurred to date relative to the total estimated cost to complete the construction projects because there is a direct relationship between the Group's effort (i.e., costs incurred) and the transfer of service to the customer. The Group excludes the effect of any costs incurred that do not contribute to the Group's performance in transferring control of goods or services to the customer (such as unexpected amounts of wasted materials, labor or other resources) and adjusts the input method for any costs incurred that are not proportionate to the Group's progress in satisfying the performance obligation (such as uninstalled materials).

Revenue from sale of goods
Revenue from sale of goods is recognized at a point in time when control of the asset is transferred to the customer, generally on delivery and acceptance of the inventory item.

Revenue from schools and related operations
Revenue from tuition fees and other matriculation fees are recognized over time as revenue over the corresponding school term using the output method (i.e., time lapsed over the service period such as semester or school year, depending on the curriculum registered). Upon enrollment, students have the option to pay the tuition and other matriculation fees in full or installment.

Admission, examination and other fees are recognized as income when examination has been granted by the school and related services have been provided to the students (at point in time).

Revenue from power-related
The Group's power supply agreement with its customer requires the Group to deliver certain units of electricity (in kWh) to the customer per month. As delivery of electricity constitutes a series of distinct good or services that are substantially the same and have the same pattern of transfer to the customer (i.e., the good or service would be recognized over time using the same measure of progress), this was treated by the Group as a single performance obligation. Because electricity is simultaneously provided and consumed, the Group's performance obligation to deliver electricity qualifies for revenue recognition over time by applying par. 35(a) of PFRS 15. The Group recognizes revenue from power generation by applying the "right to invoice" practical expedient since the Group's right to payment is for an amount that corresponds directly with the value to the customer of the Group's performance to date.

Revenue from manpower services
Under the Group's service agreements with its customers, the Group is required to provide manpower services (including but not limited to janitorial, messengerial and other allied services). As provision

of these services constitutes a series of distinct good or services that are substantially the same and have the same pattern of transfer to the customer (i.e., the good or service would be recognized over time using the same measure of progress), this was treated by the Group as a single performance obligation. Because the services are simultaneously provided and consumed by the customer, the Group's performance obligation to render such services qualifies for revenue recognition over time by applying par. 35(a) of PFRS 15. The Group recognizes revenue from manpower supply services by applying the "right to invoice" practical expedient since the Group's right to payment is for an amount that corresponds directly with the value to the customer of the Group's performance to date.

Onerous contracts
If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

Contract balances arising from revenue with customer contracts

Receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group presents each contract with customer in the consolidated statement of financial position either as a contract asset or a contract liability.

<u>Expenses</u>
Expenses are recognized in the consolidated statement of income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Cost of sales and services
Cost of sales is recognized as an expense when the related goods are sold. Cost of services include all direct materials and labor costs and those indirect costs related to contract performance which are recognized as incurred.

General and administrative expenses
Administrative expenses constitute costs of administering the business and are expensed as incurred.

Current versus Non-current Classification
The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities, respectively.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from date of placement and that are subject to an insignificant risk of changes in value.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

<u>Financial Instruments</u>
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. The Group follows the settlement date accounting where an asset to be received and liability to be paid are recognized on the settlement date and derecognition of an asset that is sold and the recognition of a receivable from the buyer are recognized on the settlement date.

Financial Instruments - Initial Recognition and Subsequent Measurement

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 classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)
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.

The Group's financial assets at amortized cost includes Cash and cash equivalents, Receivables, Receivables from related parties and Loan receivable under Other noncurrent asset account.

Financial assets at fair value through profit or loss
A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income (OCI). However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in OCI.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Included in this classification is the peso-denominated investment in Unit Investment Trust Fund in Rizal Commercial Banking Corporation (RCBC) under Prepaid expenses and other current assets account.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably all equity investments other than those classified to fair value through profit or loss under this category.

The Group does not have any debt financial assets at fair value through OCI as of December 31, 2022 and 2021.

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 and contract assets, 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 loss allowance was adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group generally considers a financial asset in default when contractual payments are 90 days past due. For a financial asset that arises from long-term construction contracts, the Group considers the asset to be in default if contractual payments are not settled within 30 days from the completion of the construction project. However, in certain cases, the Group may also 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
The Group initially measures a financial liability at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs. The Group has no financial liabilities at FVPL.

Subsequent to initial recognition, the Group's financial liabilities are carried at amortized cost. 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 consolidated statement of income. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

This category generally applies to the Group' Accounts payable and other current liabilities, Loans payable, Long-term debt, Due to related parties and Lease liabilities.

Derecognition of Financial Instruments

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the selling price in the ordinary course of business, less the estimated costs of completion of inventories and the estimated costs necessary to sell.

Cost includes purchase price and other costs directly attributable to its acquisition such as non-refundable taxes, handling and transportation cost.

The cost of real estate inventories includes (a) land cost; (b) freehold and leasehold rights for land; (c) amounts paid to contractors for construction; (d) planning and design cost, cost of site preparation, professional fees, property taxes, construction overheads and other related costs that are directly attributable in bringing the real estate inventories to its intended condition.

Cost of inventories is generally determined primarily using the moving-average method, except for automotive units of the car dealerships and real estate inventories of EEI Realty, which are accounted for using the specific identification method.

Materials issued but still uninstalled to construction projects are not considered as part of computation for percentage of completion of projects.

Prepaid Expenses
These are recorded as asset before they are utilized and apportioned over the period covered by the payment and charged to the appropriate account in the consolidated statement of income when incurred.

Advance to Suppliers and Subcontractors
Advance to suppliers and subcontractors represents advance payment for the purchase of various construction materials and down payment to subcontractors for the contract work to be performed.

Creditable Withholding Tax (CWT)
CWT pertains to the tax withheld source by the Group's customers and lessees and is creditable against its income tax liability.

Value-Added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position up to the extent of the recoverable amount.

Short-term Investments
Short-term investment pertains to interest bearing time deposits with terms of not more than one year and held for investment purposes.

Other Current Assets
Other current assets pertain to other resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group within the reporting period.

Investments in Associates and Joint Ventures
An associate is an entity in which the Group has significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint venture are accounted for using the equity method of accounting. Under this method, the investment amount is increased or decreased to recognize the Group's share in the profit or loss of the investee after the date of acquisition. Dividends received from the investee reduces the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

Gains and losses resulting from 'upstream' and 'downstream' transactions between the Group and its associate or joint venture are recognized in the consolidated financial statements only to the extent of unrelated investors' interests in the associate or joint venture.

The reporting dates and the accounting policies of the associates and joint venture conform to those used by the Group for like transactions and events in similar circumstances.

The Group discontinues applying the equity method when their investment in investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company subsequently reports net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee company and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates and joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates and joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the impairment loss in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associates or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

The Group's associates and joint venture accounted for using the equity method as of December 31 follows:

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership 2022	2021
Associates:					
Hi-Eisai Pharmaceutical, Inc. (HEPI)	Philippines	Pharmaceutical	Philippine peso	**50.00**	50.00
Petroenergy Resources Corporation (PERC)	Philippines	Renewable energy	Philippine peso	**29.10**	29.10
PetroGreen Energy Corporation (PGEC) [(a)]	Philippines	Renewable energy	Philippine peso	**8.55**	10.00
T'boli Agro-Industrial Development, Inc.	Philippines	Agriculture	Philippine peso	**28.47**	28.47
Manila Memorial Park Cemetery, Inc. (MMPC)	Philippines	Funeral service	Philippine peso	**25.98**	25.98
Sojitz G Auto Philippines Corporation (SGAPC)	Philippines	Automotive distributor	Philippine peso	**20.00**	20.00
RCBC Realty Corporation (RRC)	Philippines	Realty	Philippine peso	**10.00**	10.00
Al-Rushaid Construction Company Limited (ARCC)	Saudi Arabia	Construction	Saudi riyal	**49.00**	49.00
PetroSolar Corporation (PSOC)	Philippines	Renewable energy	Philippine peso	**44.00**	44.00
Joint ventures:					
PetroWind Energy, Inc. (PWEI)	Philippines	Renewable energy	Philippine peso	**20.00**	20.00
Shinbayanihan Heavy Equipment Corporation (SHEC)	Philippines	Equipment rental	Philippine peso	**40.00**	40.00
BEO Distribution and Marketing Corporation (BEO DMC)	Philippines	Distribution and marketing	Philippine peso	**30.00**	30.00
Shimizu-Fujita-Takenaka-EEI Joint Venture (SFTE)	Philippines	Construction	Philippine peso	**5.00**	5.00
Acciona-EEI Joint Venture (AE)	Philippines	Construction	Philippine peso	**30.00**	30.00
DL E&C-EEI-HEC Joint Venture (DEH)	Philippines	Construction	Philippine peso	**20.00**	20.00
LOTTE-GULERMAK-EEI Joint Venture (LGE)	Philippines	Construction	Philippine peso	**25.00**	25.00

In 2022, the Parent Company's indirect investment in PGEC, a subsidiary of PERC, was reduced from 10% to 8.55% due to sale of shares to Kyuden International Corporation (KIC). In 2023, PGEC applied for increase in authorized capital stock, which was subscribed and issued to KIC, this further reduced the Group's indirect investment from 8.55% to 7.50%.

Property and Equipment

Property and equipment, except for land, are stated at cost, less accumulated depreciation, amortization and impairment loss, if any. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as part of current operations.

Depreciation is computed using the straight-line method over the following average EUL:

	Years
Buildings and improvements	5 to 40
Machinery, tools and construction equipment	2 to 20
Transportation and service equipment	5
Furniture, fixtures and office equipment	3 to 10

Amortization of improvements is computed over the EUL of the improvement or term of the lease, whichever is shorter.

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

Minor repairs and maintenance costs are charged to consolidated statement of income as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost or revalued amount, appraisal increase and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are reflected in the consolidated statement of income.

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on 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 income in the year the asset is derecognized.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization are credited to or charged against current operations.

Land is carried at its revalued amount. The appraised values used for revaluation were determined by an independent firm of appraisers.

The initial cost of land consists of its purchase price and directly attributable costs of bringing the asset to its working condition and location for its intended use.

The appraisal increment (net of deferred tax) resulting from the revaluation is credited to OCI and accumulated in equity under "revaluation increment on land - net" account. Decreases in valuation is charged to profit or loss, except to the extent that it reverses the existing accumulated revaluation increment on the same asset and therefore such decrease is recognized in OCI. The decrease recognized in OCI reduces the revaluation increment on land - net account in equity. In case a subsequent revaluation increase of an asset reverses a revaluation decrease previously recognized in profit or loss, such increase is credited to income in profit or loss.

The same rules apply to impairment losses. An impairment loss on a revalued asset is first used to reduce the revaluation increment for that asset. Only when the impairment loss exceeds the amount in the revaluation increment for that same asset is any further impairment loss recognized in profit or loss.

Upon disposal of land, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Investment Properties

Investment properties are measured at cost less impairment loss, if any, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Except for land, depreciation is computed using the straight-line method over the following average EUL:

	Years
Building	32.5
Other equipment	12.5

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

Minor repairs and maintenance costs are charged to consolidated statement of income as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost or revalued amount, appraisal increase and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are reflected in the consolidated statement of income.

Investment properties are derecognized when they either have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation and commencement of an operating lease to another party. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from owner-occupied property to investment property, the deemed cost for subsequent accounting is the fair value at the date of change in use. Upon transfer of an asset accounted for under revaluation model to asset accounted for under cost model, any revaluation reserve relating to such particular asset is transferred to retained earnings.

Impairment of Nonfinancial Assets

For Investments in associate and joint venture, Property and equipment, Right-of-use asset and Investment properties, the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An assets' recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognized in equity up to the amount of any previous revaluation.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

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 subsidiary acquired, the difference is recognized in profit or loss. Before recognizing a gain on a bargain purchase, the Group assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and recognize any additional assets or liabilities that are identified in that review.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*

Impairment is determined 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, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful life of intangible assets is assessed as either finite or indefinite. The estimated useful lives of intangible assets are as follows:

	Number of Years
Intellectual property rights	Indefinite
Student relationship	5-7

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight-line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing 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 comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of comprehensive income when the intangible asset is derecognized.

Foreign Currency-denominated Transaction and Translation

The consolidated financial statements are presented in Philippine Peso. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. All differences are taken to consolidated statement of income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at reporting date, the assets and liabilities of subsidiaries whose functional currency is not the Philippines Peso are translated into the presentation currency of the Parent Company (the Philippine Peso) at the closing rate as at the reporting date, and the consolidated statement of income accounts are translated at monthly weighted average exchange rate. Likewise, the financials of the Group's associate whose functional currency is not the Philippine Peso that is accounted for under equity method are translated to the presentation currency of the Parent Company in a similar manner. The exchange differences arising on the *translation* are taken directly to a separate component of equity under "Cumulative translation adjustments" account.

Upon disposal of a foreign subsidiary, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of income.

Retirement Cost

Defined benefit plan

The defined benefit liability or asset 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 or refunds from the plan or reduction in the future contributions to the plan.

Defined benefit costs on the Group's defined benefit retirement plan are actuarially computed using the projected unit credit (PUC) valuation method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to the services rendered in the current period.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) 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 profit or loss. 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 government 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 profit or loss.

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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

<u>Income Tax</u>
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantially enacted by the end of the financial reporting date.

Deferred tax
Deferred tax is provided using the liability method on 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, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associate and interest in joint venture. With respect to investments in foreign subsidiaries, associate and interest in joint venture, deferred tax liabilities are recognized except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed by the end of each financial 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 asset to be used. Unrecognized deferred tax assets are reassessed at the end of each financial reporting date and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the financial reporting date.

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and deferred income taxes relate to the same entity and the same taxation authority.

Basic and Diluted Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to equity holders of the Parent Company adjusted for the after-tax amounts of dividends on preferred stock by the weighted average number of common stock outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits.

Diluted EPS is computed by adjusting the net income attributable to ordinary equity holders of the Parent Company to reflect any changes from dilutive potential shares divided by the weighted average number of common stock outstanding during the year after giving retroactive effect for any stock dividends, stock splits or reverse stock splits and adjusted for the effects of all dilutive potential common stock.

The calculation of diluted EPS does not assume conversion, redemption, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share. Potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share. As there are no potential dilutive ordinary shares, basic and diluted EPS are stated at the same amount.

Provisions
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

Stock Option Plan
No benefit expense is recognized relative to the shares issued under the stock options plan. When the shares related to the stock option plans are subscribed, these are treated as capital stock issuances. The stock option plan is exempt from PFRS 2, *Share-based Payment*.

Segment Reporting
The Group's operating business are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 37.

Capital Stock
The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Treasury Shares
When the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity (Note 39).

Equity Reserve
Equity reserve consist of equity transactions other than capital contributions, such as equity transactions arising from transactions with NCI.

Retained Earnings
Retained earnings represent accumulated earnings of the Group and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retroactively less dividends declared. It includes the accumulated equity in undistributed earnings of consolidated subsidiaries which are not available for dividends until declared by subsidiaries. Appropriated retained earnings are those that are restricted for planned investments and business expansion. Unappropriated retained earnings are those that can be allocated for specific purposes and can be distributed as dividend. Retained earnings are further restricted for the payment of dividends to the extent of the cost of treasury shares (Note 40).

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

5. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRSs requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates 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 for such estimates.

Judgment

Determining control over an entity in which Parent Company holds less than majority of voting rights
The Parent Company has determined that it is still the largest stockholder of IPO with 48.18% equity interest and continues to have control over IPO by virtue of its power to nominate majority of the members of the BOD of IPO thereby exercising control and supervision on IPO's operations as well as financing activities. Accordingly, the Parent Company assessed that IPO continues to be a subsidiary even though it owns less than 50% equity interest over IPO after the merger.

Determination of functional currency
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the following were considered:

- The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

The functional currency is Philippine peso as disclosed in Note 2.

Determination of lease term of contracts with renewal and termination options - Group as a 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 with shorter non-cancellable period (i.e., three to ten years). The Group 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 (Note 14).

Determination of sale and leaseback transaction as true sale or financing transaction - Group as lessee
The Group determines whether the transfer of assets qualifies as a sale by referring to the requirements for satisfying performance obligations under PFRS 15. The sale and leaseback transactions are considered as a true sale if there is a transfer of control over the related asset. If the transfer is not a sale under PFRS 15 requirements, the Group accounts for the sale and leaseback as a financing transaction in accordance with PFRS 9. The Group assessed that the sale and leaseback transactions in 2022 qualify as a true sale.

Recognition of revenue from construction contracts
Under PFRS 15, the Group assessed that there is only one performance obligation for each construction agreement that it has entered and that revenue arising from such agreements qualify for recognition over time. The Group elected to use the input method to measure the progress of the fulfilment of its performance obligation, which is based on the actual costs incurred to date relative to the total estimated cost to complete the construction projects. The Group believes that this method faithfully depicts the Group's performance towards satisfaction of its performance obligation because there is a direct relationship between the Group's effort (i.e., costs incurred) and the transfer of service to the customer (Note 23).

Recognition of schools and related operations fees over time
The Group determined that schools and related operations fees are to be recognized over time using the output method on the basis of time lapsed over the service period since it provides a faithful depiction of the Group's performance in transferring control of the services to the students. The fact that another entity would not need to re-perform the service that the Group has provided to date demonstrates that the customer or the student simultaneously receives and consumes the benefits of the Group's performance as it performs (Note 23).

Determination of significant influence on investment in an associate if ownership is less than 20%
Holding of less than 20% of voting rights is presumed not to give rise to significant influence unless it can be clearly demonstrated that there is in fact significant influence. The Parent Company is able to exercise significant influence for ownership less than 20% because it has an active participation in the policy-making process including operating decisions of the investee.

As of December 31, 2022 and 2021, the Parent Company holds 10% of interest in RRC. The Parent Company exercises significant influence in RRC since the Parent Company's President is the concurrent president of RRC. The president is also a member of the BOD. As such, the president of the Parent Company effectively has a participation in the policy-making process of RRC. Hence, the Parent Company is able to exercise significant influence even if ownership is less than 20%.

Assessment of joint control
Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group assesses their rights and obligations arising from the arrangement and specifically considers:

- the structure of the joint arrangement - whether it is structured through a separate vehicle
- when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
- the legal form of the separate vehicle
- the terms of the contractual arrangement other facts and circumstances, considered on a case by case basis

Refer to Note 12 for details of the Group's investment in joint venture.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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 (such as the subsidiary's stand-alone credit rating).

The Group's Lease liabilities amounted to ₱1.38 billion and ₱1.12 billion as of December 31, 2022 and 2021, respectively (Note 14).

Estimating variable considerations arising from change orders and claims

The Group frequently agrees to change orders that modify the scope of its work previously agreed with customers and regularly submits claims to customers when unanticipated additional costs are incurred because of delays or changes in scope caused by the customers. PFRS 15 requires the Group to recognize, as part of its revenue from construction contracts, the estimated amounts the Group expects to be entitled to and to be received from customers due to these change orders and claims (otherwise known as variable considerations), provided that it is highly probable that a significant reversal of the revenue recognized in connection with these variable considerations will not occur in the future. For these unpriced change orders and claims, the Group uses the "most likely amount" method to predict the amount to which it will be entitled and expected to be received from the customers. The Group also updates its estimate of the transaction price to reflect any changes in circumstances that would result to changes in amount of variable considerations and corresponding increase or decrease in the contract assets.

The aggregate carrying values of receivables and contract assets amounted to ₱14.62 billion and ₱13.55 billion as of December 31, 2022 and 2021, respectively (Notes 7 and 8).

Fair value measurement of unquoted equity investments at FVOCI

The Group uses valuation techniques such as adjusted net asset method to estimate the fair value of investment in Hermosa Ecozone Development Corporation (HEDC). These valuation techniques require significant unobservable inputs to calculate the fair value of the Group's unquoted equity investments at FVOCI. These inputs include appraised value of real properties, among others. Changes in assumptions relating to these factors could affect the reported fair value of these unquoted equity financial instruments. For the investment in HEDC, the valuation made by the appraisers was based on sales comparison approach. The effects of COVID-19 were reflected in the selling price of comparable listings of real estate properties and were not accounted for separately.

The fair value of unquoted equity investments amounted to ₱0.51 billion and ₱0.42 billion as of December 31, 2022 and 2021, respectively (Note 11).

Provision for expected credit losses of trade receivables and contract assets
The Group uses the simplified approach in calculating the ECL of its trade receivables and contract assets wherein the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The model is based on the Group's historical observed default rates and adjusted to include forward looking information. 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.

As of December 31, 2022 and 2021, the aggregate carrying values of Receivables and Contract assets are disclosed in Notes 7, 8, 17 and 22 to the consolidated financial statements.

Purchase price allocation in business combinations and goodwill
The Group's consolidated financial statements reflect the acquired entities (AEI and its subsidiaries prior to the merger) after the completion of the merger between IPO and AEI which is effective May 2, 2019. The Group accounts for the acquired business using the acquisition method, which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the fair market values of the net assets acquired is recorded as goodwill in the consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair value to be assigned to the acquiree's assets and liabilities can materially affect the Group's financial position and performance.

The merger resulted in the recognition of student relationship, intellectual property rights and goodwill from the excess of the acquisition cost over the fair value of net assets acquired (Notes 15 and 17).

Valuation of land under revaluation basis
The Group's parcels of land are carried at revalued amounts. The valuations of these parcels of land were performed by SEC accredited independent appraisers and were determined using the market approach. Significant adjustments to inputs used in determining the fair value of land such as location and utility could affect the appraised value of the assets.
Land carried under revaluation basis amounted to ₱9.88 billion and ₱8.29 billion as of December 31, 2022 and 2021, respectively. The key assumptions used to determine the fair value of the parcels of land are disclosed in Note 13.

Impairment of nonfinancial assets
The Group assesses impairment on its nonfinancial assets other than goodwill and intellectual property rights whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for overall business, and significant negative industry or economic trends.

Impairment of Goodwill and Intellectual property rights are assessed at least on an annual basis. In assessing the impairment, the Group determines the recoverable amount using value in use with detailed disclosures made in Note 15.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Details of impairment of Intellectual property rights and Student relationships are disclosed in Note 15. As to the Group's other nonfinancial assets, no impairment loss was recognized for the years ended December 31, 2022, 2021 and 2020 (Notes 13, 14 and 15).

Estimation of retirement benefits
The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates which were disclosed in Note 32. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement and other obligations.

Retirement assets amounted to ₱93.34 million and ₱18.13 million as of December 31, 2022 and 2021, respectively whereas retirement liabilities amounted to ₱200.10 million and ₱223.03 million as of December 31, 2022 and 2021, respectively (Note 32).

Realizability of deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets 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. Where there is no absolute assurance that each legal entity in the Group will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized, deferred tax assets are not recognized.

Deferred tax assets recognized and unrecognized by the Group are disclosed in Note 33 to the consolidated financial statements.

Classification of CWT
The Group classify its CWT as current when it is expected to be realized (e.g., will be used as tax credit against income taxes due) for at least twelve months after the reporting period. The portion of CWT that is expected to be realized after twelve months after the reporting period is classified as noncurrent. In 2021, the Group classified CWT as non-current as management assessed that it will not be used as tax credits within the next twelve months.

CWT recognized by the Group are disclosed in Notes 10 and 17 to the consolidated financial statements.

Provisions and contingencies
The Group is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Management does not believe that these proceedings will have a material adverse effect on the Group's financial statement because management and its legal counsels believe that the Group has substantial legal and factual bases for its position (Notes 18 and 35).

6. Cash and Cash Equivalents

This account consists of:

	2022	2021
Cash on hand and in banks	**₱2,093,208,409**	₱2,929,391,629
Cash equivalents	**4,537,258,948**	6,127,094,444
	₱6,630,467,357	₱9,056,486,073

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents have terms with varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earns annual interest at the respective rates.

Interest income from cash in banks and short-term investments amounted to ₱105.89 million, ₱10.55 million, and ₱25.10 million for the years ended December 31, 2022, 2021 and 2020, respectively (Note 24).

7. Receivables

This account consists of:

	2022	2021
Trade		
Construction and infrastructure	**₱2,459,706,582**	₱2,317,099,708
Education	**1,472,085,613**	1,251,619,696
Car dealership	**575,277,366**	254,215,348
Other services	**141,001,981**	93,779,985
Other receivables		
Loans to officers and employees	**40,055,559**	30,070,838
Receivable from customers	**23,306,939**	16,061,797
Accrued referral incentives	**16,228,561**	19,288,160
Receivable from sale of investment properties	**15,997,014**	17,285,545
Receivables from car plant	**11,040,734**	40,500,435
Dividends receivable (Note 22)	**7,501,626**	10,414,928
Others	**49,173,492**	157,739,328
	4,811,375,467	4,208,075,768
Less allowance for impairment	**560,559,718**	479,510,720
	₱4,250,815,749	₱3,728,565,048

Trade receivables

The trade receivables are noninterest-bearing and collectible within one (1) year which consists of the following:

Receivable from construction and infrastructure

Receivables from construction and infrastructure mainly represent amounts arising from domestic construction contracts which are generally on a 30-day credit term.

Receivables from education
Receivables from education represent amounts arising from tuition and other matriculation fees which are normally collected at end of every school term before the students can proceed to the next term. This also includes receivable from Department of Education amounting to ₱319.80 million and ₱140.80 million as at December 31, 2022 and 2021, respectively, arising from the Senior High School (SHS) Voucher Program wherein qualified SHS students are given assistance on tuition fees. These receivables are noninterest-bearing and are generally collectible within one year.

Receivables from car dealership
Receivables from car dealership represent amounts arising from the sale of car, parts and accessories and services collectible within 30 days.

Receivables from other services
Receivables from other services represent amounts arising from management and consultancy services provided by the Group generally collectible within 30 days.

No trade receivables were used as collaterals to secure obligations as of December 31, 2022 and 2021.

Other receivables
Loans to officers and employees are interest-bearing and repaid on a monthly basis through salary deductions.

Receivable from customers
In 2017, certain trade receivables were reclassified as interest-bearing trade receivables after the Group and the customers agreed to extend the credit terms. These receivables bear interest of 5% per annum and will be repaid in five (5) years' time. As of December 31, 2022 and 2021, receivable from customers amounted to ₱23.31 million and ₱16.06 million, respectively. Interest income from trade receivables amounted to ₱1.31 million, ₱1.22 million and ₱2.3 million in 2022, 2021 and 2020, respectively (Note 24).

Receivables classified as "Others" consist of interest, commission, insurance and various receivables.

The movements in allowance for impairment for the years ended December 31 follow:

	2022					
	Construction and Infrastructure	**Car Dealership**	**Education ***	**Other Services**	**Other Receivables**	**Total**
Balance at beginning of year	**₱67,770,535**	**₱36,551,181**	**₱289,889,812**	**₱9,675,359**	**₱75,623,833**	**₱479,510,720**
Provisions – net of recoveries (Note 29)	**18,109,950**	**–**	**114,297,312**	**–**	**6,440,446**	**138,847,708**
Write-offs	**–**	**–**	**(57,798,710)**	**–**	**–**	**(57,798,710)**
Balance at end of year	**₱85,880,485**	**₱36,551,181**	**₱346,388,414**	**₱9,675,359**	**₱82,064,279**	**₱560,559,718**

Inclusive of tuition and other education-related receivables amounting to ₱337.62 million and ₱8.77 million, respectively.

	2021					
	Construction and Infrastructure	Car Dealership	Education*	Other Services	Other Receivables	Total
Balance at beginning of year	₱62,690,313	₱36,551,181	₱174,881,069	₱9,675,359	₱83,138,505	₱366,936,427
Provisions – net of recoveries (Note 29)	5,080,222	–	117,095,947	–	–	122,176,169
Write-offs	–	–	(2,087,204)	–	(7,514,672)	(9,601,876)
Balance at end of year	₱67,770,535	₱36,551,181	₱289,889,812	₱9,675,359	₱75,623,833	₱479,510,720

**Inclusive of tuition and other education-related receivables amounting to ₱289.8 million and nil, respectively.*

8. Contract Assets and Liabilities

Contract Assets

The Group presents contract receivable and retentions withheld by customers as contract assets as the Group's right for consideration is conditioned on the customer's approval of the related work performed and the lapse of the defect and liability period and the receipt of customer certification that there are no defects on the constructed asset, respectively. Amount recorded as contract receivable is reclassified to trade receivable upon customer's approval of the work performed while retentions withheld by customers are reclassified as trade receivables upon the lapse of the defects liability period and final customer acceptance.

The Group's contract assets amounted to ₱10.37 billion and ₱9.82 billion as of December 31, 2022 and 2021, respectively.

Details of the Group's contract assets as of December 31, 2022 and 2021 are shown below.

	2022		
	Current	**Noncurrent**	**Total**
Contract assets	**₱5,201,785,067**	**₱5,199,970,342**	**₱10,401,755,409**
Less: Allowance for expected credit losses	**19,510,785**	**9,443,812**	**28,954,597**
	₱5,182,274,282	**₱5,190,526,530**	**₱10,372,800,812**

	2021		
	Current	Noncurrent	Total
Contract assets	₱8,788,954,322	₱1,088,902,619	₱9,877,856,941
Less: Allowance for expected credit losses	47,701,273	9,443,812	57,145,085
	₱8,741,253,049	₱1,079,458,807	₱9,820,711,856

Movement in the allowance for expected credit losses for the years ended December 31, 2022 and 2021 follows:

	2022		
	Current	**Noncurrent**	**Total**
Balance at beginning of year	**₱47,701,273**	**₱9,443,812**	**₱57,145,085**
Reversal and others	**(28,190,488)**	**–**	**(28,190,488)**
Balance at end of year	**₱19,510,785**	**₱9,443,812**	**₱28,954,597**

	2021		
	Current	Noncurrent	Total
Balance at beginning of year	₱36,785,303	₱15,154,047	₱51,939,350
Provision (Note 29)	10,915,970	–	10,915,970
Reversal	–	(5,710,235)	(5,710,235)
Balance at end of year	₱47,701,273	₱9,443,812	₱57,145,085

Contract Liabilities

Details of the Group's contract liabilities as of December 31, 2022 and 2021 are shown below.

	2022	2021
Total contract liabilities	**₱2,214,035,517**	₱1,678,367,403
Less current portion	**1,387,334,090**	1,112,517,781
	₱826,701,427	₱565,849,622

Contract liabilities from construction and infrastructure segment consist of down payments received in relation to construction contracts that will be recognized as revenue in the future as the Group satisfies its performance obligations. Revenue recognized in 2022, 2021 and 2020 that were included in the prior year balance of contract liabilities amounted to ₱2.2 billion, ₱1.4 billion and ₱1.6 billion, respectively.

Contract liabilities from education sector represent the unearned tuition fees and accounts payable to students and will be recognized as revenue when the related educational services are rendered. Contract liabilities related to the remaining performance obligations of the education sector are generally recognizable within one (1) year.

9. Inventories

This account consists of:

	2022	2021
Construction materials	**₱721,551,074**	₱832,425,956
Merchandise:		
Automotive units	**295,774,798**	271,899,035
Parts, service materials and accessories	**114,029,054**	108,082,118
Others	**88,452,247**	93,311,776
	498,256,099	474,292,929
Real estate:		
Land and land development	**158,670,638**	152,710,557
Raw lands	**42,398,913**	45,073,466
Subdivision lots and contracted units for sale	**35,988,542**	38,156,275
	237,058,093	235,940,298
Spare parts and supplies	**88,819,064**	73,386,396
	1,545,684,330	1,616,045,579
Less: Allowance for inventory obsolescence	**43,656,744**	75,778,306
	₱1,502,027,586	₱1,540,267,273

Merchandise includes food and beverages, bookstore inventory, among others.

Spare parts and supplies pertain to inventory items used in the repair and maintenance of the Group's property and equipment.

The summary of the movement in real estate inventories is set out below:

	2022	2021
Balance at beginning of year	**₱235,940,298**	₱230,771,008
Construction/development costs incurred	**4,250,108**	12,683,984
Cost of real estate sales (Note 25)	**(3,132,313)**	(7,514,694)
Balance at end of year	**₱237,058,093**	₱235,940,298

The total cost of goods sold recognized in the Group's statements of comprehensive income amounted to ₱4,269.42 million, ₱3,339.06 million and ₱3,646.83 million in 2022, 2021 and 2020 respectively (Note 25).

The Group recognizes inventory write-down whenever the NRV of the existing inventories is lower than its cost.

The rollforward of allowance for inventory obsolescence is as follows:

	2022	2021
Balance at beginning of year	**₱75,778,306**	₱82,135,203
Provision (Recoveries) (Note 29)	**(14,301,872)**	8,728
Write-off	**(17,819,690)**	(6,365,625)
Balance at end of year	**₱43,656,744**	₱75,778,306

In 2022, the Group reversed allowance for inventory obsolescence amounting to ₱14.30 million (nil in 2021) after the spare parts and supplies inventory were found to be still serviceable. These were consumed and recorded as part of cost of services in 2022.

No inventories were pledged as security to obligations as of December 31, 2022 and 2021.

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2022	2021
Advances to suppliers and contractors	**₱677,201,222**	₱582,390,512
CWTs	**538,908,901**	269,509,910
Prepaid expenses	**239,843,886**	278,971,080
Input VAT	**179,180,977**	75,093,601
Short-term investments	**161,153,004**	56,284,600
Miscellaneous deposits	**145,760,576**	131,535,400
Bid deposit	**59,822,400**	59,822,400
Advances to officers and employees	**52,753,886**	50,822,589
Prepaid taxes	**30,490,161**	66,879,289
Others	**102,527,137**	132,956,855
	2,187,642,150	1,704,266,236
Less allowance for impairment	**55,395,197**	16,458,668
	₱2,132,246,953	₱1,687,807,568

Advances to suppliers and contractors represent down payment to subcontractors for the contract work to be performed and advance payment for the purchase of various construction materials.

CWTs pertain to unutilized creditable withholding tax which will be used as tax credit against income taxes due. This will be used as tax credit against income taxes due. EEI determines that taxes withheld can be recovered in future periods. In 2021, the Group classified CWT as non-current as management assessed that it will not be used as tax credits within the next twelve months (Note 17). This is accounted for as a noncash operating activity in the 2021 consolidated statement of cash flows. CWTs classified as current in 2022 are assessed to be utilized in 2023.

Prepaid expenses mainly include prepayments for membership fees, subscriptions, rentals and insurance, among others.

Short-term investments earn interest at the prevailing investment rates and have maturity of less than one year. These include investments held for government and private entities for the purpose of undertaking socio-economic studies and development projects amounting to ₱40.19 million and ₱34.82 million as of December 31, 2022 and 2021, respectively.

Miscellaneous deposits mainly represent the Group's refundable rental, utilities and guarantee deposits on various machinery and equipment items.

Others include financial assets at FVPL, various deposits, other supplies, among others.

Movements in allowance for impairment for the years ended December 31 are shown below:

	2022			
	Miscellaneous deposits	**Advances to officers and employees**	**Advances to suppliers and subcontractors**	**Total**
Balance at beginning of year	**₱3,335,193**	**₱29,516**	**₱13,093,959**	**₱16,458,668**
Provisions for ECL (Note 29)	**37,930,232**	**1,006,297**	**–**	**38,936,529**
Balance at end of year	**₱41,265,425**	**₱1,035,813**	**₱13,093,959**	**₱55,395,197**

	2021			
	Miscellaneous deposits	Advances to officers and employees	Advances to suppliers and subcontractors	Total
Balance at beginning of year	₱3,335,193	₱29,516	₱13,093,959	₱16,458,668
Provisions for ECL (Note 29)	–	–	–	–
Balance at end of year	₱3,335,193	₱29,516	₱13,093,959	₱16,458,668

11. Equity Investments at Fair Value through Other Comprehensive Income (FVOCI)

This account consists of:

	2022	2021
Quoted equity investments (Note 38)	**₱136,503,716**	₱109,266,412
Unquoted equity investments	**514,138,317**	418,103,584
	₱650,642,033	₱527,369,996

Movements in the fair value reserve recognized in other comprehensive income (net of tax effect) are as follows:

	2022	2021
Attributable to equity holders of the parent:		
Balance at beginning of year	**₱67,330,660**	₱175,482,889
Income (loss) recognized in OCI	**43,999,863**	(108,152,229)
Disposal	**(330,000)**	–
Balance at end of year	**111,000,523**	67,330,660
Non-controlling interests:		
Balance at beginning of year	**321,570,569**	232,495,478
Income recognized in OCI	**2,713,479**	89,075,091
Balance at end of year	**324,284,048**	321,570,569
	₱435,284,571	₱388,901,229

The Group elected to present the fair value changes of these equity investments in other comprehensive income because it does not intend to hold these investments for trading.

The fair value of the Group's unquoted equity investments in HEDC is determined using the adjusted net asset approach wherein the assets of investee are adjusted from cost to their fair value (Note 5). The valuation was performed by an independent SEC-accredited appraiser as of December 31, 2022.

In 2022, the Parent Company sold a golf share for total selling price of ₱1.20 million, resulting to a gain of ₱0.87 million (Note 24).

Dividends earned from equity investments at FVOCI amounted to ₱10.61 million, ₱35.27 million, and ₱37.86 million in 2022, 2021 and 2010, respectively (Note 24).

No equity investments at FVOCI were pledged as security to obligations as of December 31, 2022 and 2021.

12. **Investments in Associates and Joint Venture**

The rollforward analysis of this account follows:

	2022	2021
Acquisition cost:		
Balance at beginning of year	**₱4,236,124,304**	₱4,690,263,520
Additions	**47,761,482**	−
Return of investment in ARCC	**−**	(454,139,216)
Balance at end of year	**4,283,885,786**	4,236,124,304
Accumulated impairment loss	**74,536,609**	74,536,609
Accumulated equity in net earnings:		
Balance at beginning of year	**3,531,781,118**	2,459,727,725
Equity in net earnings	**425,036,868**	1,430,345,902
Dividends received	**(334,441,296)**	(358,292,509)
Balance at end of year	**3,622,376,690**	3,531,781,118
Subtotal	**7,831,725,867**	7,693,368,813
Share in other comprehensive gain (loss) of an associate	**106,387,771**	(138,799,335)
Share of cumulative translation adjustment	**365,209,541**	279,554,830
	₱8,303,323,179	₱7,834,124,308

The details of significant investments accounted for under the equity method are as follows:

(Amounts in millions)

	2022												
	RRC	PERC	PGEC	MMPC	SGAPC	ARCC	PSOC	PWEI	SHEC	BEO DMC	SFTE	AE	RICEI
Acquisition cost:													
Balance, January 1	₱959	₱889	₱478	₱120	₱50	₱596	₱691	₱257	₱21	₱1	–	–	₱–
Additions	–	–	–	–	–	–	3	31	–	–	–	–	14
Balance, December 31	959	889	478	120	50	596	694	288	21	1	–	–	14
Accumulated equity in net earnings (losses):													
Balance, January 1	559	640	79	610	37	929	429	214	(1)	(1)	7	21	–
Equity in net earnings (losses)	105	163	38	130	42	(387)	201	44	1	–	2	33	(1)
Dividends declared	(160)	(1)	–	(13)	(26)	–	(119)	–	–	–	–	–	–
Balance, December 31	504	802	117	727	53	542	511	258	–	(1)	9	54	(1)
Subtotal	1,463	1,691	595	847	103	1,138	1,205	546	21	–	9	54	–
Accumulated share in other comprehensive income:													
Balance, January 1	–	78	(46)	–	–	(57)	–	–	–	–	–	–	–
Share in other comprehensive income (loss)	–	50	186	–	–	(55)	–	–	–	–	–	–	–
Balance, December 31	–	128	140	–	–	(112)	–	–	–	–	–	–	–
Equity in cumulative translation adjustments	–	–	–	–	–	316	–	–	–	–	–	–	–
	₱1,463	₱1,819	₱735	₱847	₱103	₱1,342	₱1,205	₱546	₱21	₱–	₱9	₱54	₱13

	2021											
	RRC	PERC	PGEC	MMPC	SGAPC	ARCC	PSOC	PWEI	SHEC	BEO DMC	SFTE	AE
Acquisition cost:												
Balance, January 1	₱959	₱889	₱470	₱120	₱50	₱1,050	₱691	₱257	₱21	₱–	₱–	₱–
Additions	–	–	8	–	–	–	–	–	–	1	–	–
Return of investments	–	–	–	–	–	(454)	–	–	–	–	–	–
Balance, December 31	959	889	478	120	50	596	691	257	21	1	–	–
Accumulated equity in net earnings (losses):												
Balance, January 1	516	547	46	489	(18)	269	394	165	(2)	(1)	4	–
Equity in net earnings	133	93	50	136	55	660	192	49	–	–	3	21
Dividends declared	(90)	–	(17)	(15)	–	–	(157)	–	–	–	–	–
Balance, December 31	559	640	79	610	37	929	429	214	(2)	(1)	7	21
Subtotal	1,518	1,529	557	730	87	1,525	1,120	471	19	–	7	21
Accumulated share in other comprehensive income:												
Balance, January 1	603	66	(46)	–	–	(22)	(1)	–	–	–	–	–
Share in other comprehensive loss	(603)	(66)	–	–	–	(35)	–	–	–	–	–	–
Balance, December 31	–	–	(46)	–	–	(57)	(1)	–	–	–	–	–
Equity in cumulative translation adjustments						153	–	–	–	–	–	–
	₱1,518	₱1,530	₱512	₱730	₱87	₱1,621	₱1,119	₱471	₱19	₱–	₱7	₱21

RRC

RRC was incorporated on July 29, 1997 and is presently engaged in developing real estate and leasing condominium units for commercial and/or residential purposes.

PERC

In April 2019, the Parent Company purchased additional 4,153,651 shares of PERC, an entity listed with PSE, amounting to ₱17.8 million, resulting to an increase in ownership interest from 28.36% to 29.10%.

On February 2, 2018, the Parent Company purchased additional 69,285,418 shares amounting for

₱332.6 million on ₱4.8 per share resulting to an increase in ownership interest from 22.41% to 28.36%.

Its share price amounted to ₱4.01 per share as of December 31, 2022 and 2021.

PGEC
PGEC was incorporated on March 31, 2010 primarily to carry on the general business of generating, transmitting, and/or distributing power derived from renewable and conventional sources of power.

In 2022, the Group's indirect investment in PGEC, a subsidiary of PERC, was reduced from 10% to 8.55% due to sale of shares to KIC. In January 2023, PGEC applied for increase in authorized capital stock, which was subscribed and issued to KIC, this further reduced the Group's indirect investment from 8.55% to 7.50%.

MMPC
MMPC was incorporated and registered with the SEC on September 26, 1962 primarily to engage in development and sale of memorial lots.

SGAPC
On November 8, 2019, the Parent Company purchased 2,500,000 shares of SGAPC from Sojitz Corporation amounting to ₱50.00 million or equivalent to 20.00% ownership equity.

ARCC
In 2021 and 2020, ARCC repaid investment amounting to ₱454.11 million and ₱576.01 million, respectively. The transactions did not result to a change in the 49% ownership of EEI Limited over ARCC.

In 2017, the stockholders of ARCC extended advances amounting to ₱1,620.8 million (SAR121.75 million) to ARCC to refinance the associate's maturing bank loan and other funding requirements. The amount of the extended loan is proportionate to the ownership interests of the stockholders. Subsequently, the stockholders agreed to treat the ₱1,591.5 million (SAR121.75 million) loan as non-refundable Shareholders' funding in the statement of equity of ARCC. Consequently, the ₱794.2 million (SAR59.66 million) advances extended by the Group to ARCC was reclassified as additional investment in ARCC.

EEI Limited made additional investment of ₱294.9 million in ARCC in 2016.

PSOC
In 2022 and 2021, dividend received amounting to ₱118.80 million and ₱156.90 million, respectively.

In 2022, 2019 and 2018, EPC made additional investments of ₱2.75 million, ₱148.3 million and ₱175.80 million, respectively, in PSOC. These transactions did not result to a change in the 44% ownership of EPC over PSOC.

In 2015, the EPC purchased 3.7 million shares from PSOC amounting to ₱366.43 million which resulted to 44% ownership on the latter. PSOC was incorporated on June 17, 2015 primarily to carry out the general business of generating, transmitting, and/or distributing power derived from renewable energy resources. It has a 50-megawatt solar farm in Tarlac City.

PWEI
In 2022, EPC made an additional investment of ₱31.51 million. This did not result to a change in the 20% ownership of EPC over PWEI.

In 2013, EPC acquired 20% stake in PWEI for ₱118.75 million. PWEI was incorporated on March 6, 2013, primarily to carry on the general business of generating, transmitting and/or distributing power derived from renewable energy sources such as, but not limited to wind, biomass, hydro, solar, geothermal, ocean, wave and such other renewable sources of power, and from conventional sources such as coal, fossil fuel, natural gas, nuclear, and other viable or hybrid sources of power corporation, public electric utilities, electric cooperative and markets. PWEI has a wind energy project in Nabas, Aklan and has started construction activities on April 29, 2013.

On November 21, 2013, PGEC, CapAsia ASEAN Wind Holdings Cooperative, U.A. (CapAsia) and EPC entered into a Shareholders' Agreement (SA). The SA will govern their relationship as the shareholders of PWEI as well as containing their respective rights and obligations in relation to PWEI. Further, the SA contains provisions regarding voting requirements for relevant activities that require unanimous consent of all the parties. PGEC, CapAsia and EPC agree that their equity ownership ratio in PWEI is at 40%, 40% and 20%, respectively.

Although the Share Purchase Agreement (SPA) and the SA were executed on November 21, 2013, these did not result to PGEC's loss of control over PWEI in 2013. The loss of control did not happen until the Closing Date. On February 14, 2014, the Closing Date, the payment has been received from sale of the shares as executed in the Deed of Assignment covering the transfer of shares from PGEC to CapAsia and all the conditions precedent have been satisfactory completed. Hence, the transaction made PWEI a joint venture among PGEC, CapAsia and EPC by virtue of the SA signed among the three parties governing the manner of managing PWEI. PGEC lost control over PWEI while CapAsia was given full voting and economic rights as a 40% shareholder.

PWEI is owned 40% by PERC, 40% by BCPG Wind Cooperatief U.A. and 20% by EEI. BCPG Wind Cooperatief U.A. bought out the other shareholder (CapAsia ASEAN Wind Holdings Cooperatief U.A.) on May 16, 2017.

SHEC
In 2019, the Group, through EEI, acquired 40% stake in Shinbayanihan Heavy Equipment Corporation (SHEC) and was accounted as investment in joint venture. SHEC was incorporated on July 26, 2019 primarily to engage in the business of managing the operation of used and new construction equipment rental and used and new construction equipment wholesale business in the Philippines and import and export of used and new construction equipment without engaging in retail trading.

BEO DMC
In 2019, BiotechJP deposited ₱0.5 million with BEO Distribution and Marketing Corporation (BEO DMC) in exchange for 30% ownership in the latter. BEO DMC is in the business of distributing and marketing of goods. The deposit was recorded as "Deposit for Future Stock Subscription" pending receipt of the shares of capital stock of the investee.

In 2020, BiotechJP reclassified the deposit to investment in joint venture upon receipt of stock certificate of BEO DMC.

SFTE JV
On September 12, 2020, the Group entered into a joint venture agreement with Shimizu Corporation, Fujita Corporation, Takenaka Civil Engineering & Construction Co. Ltd. (SFTE JV) to contract with

the Department of Transportation (DOTr) of the Republic of the Philippines for the Metro Manila Subway Project (MMSP)-Phase 1, Contract Package 101. In the joint venture, the EEI Group acquired a proportionate share of 5% with regard to the assets, liabilities, costs, profits and losses arising out of the execution of the Works as identified in the contract with DOTr. The joint venture agreement also requires anonymous vote of all joint venture partners on the relevant activities of the joint venture.

<u>AE</u>
On October 13, 2020, EEI entered into a joint venture agreement with Acciona Construction Philippines, Inc. to undertake the construction of the Malolos-Clark Railway Project-Package No. CP N-04. The Group's participating interest in the joint venture is 30%. The group has no initial capital investment on the joint venture as it is an unincorporated joint venture. The joint venture agreement also requires unanimous vote of all joint venture partners on the relevant activities of the joint venture.

The EEI also entered into joint venture agreements with certain contractors for the purpose of establishing unincorporated joint ventures, the object of which are to submit bids for certain projects, and if such bids are successful, execute the project and jointly deliver the works in accordance with the project documents. As of December 31, 2022, these projects are yet to be awarded. EEI has no initial capital investment on the joint ventures as these are unincorporated. EEI accounts for these joint ventures under equity method of accounting.

<u>RICEI</u>
In 2022, the EEI acquired 49% stake in RICE Integrated Commercial Enterprises, Incorporation (RICEI) and was accounted for as an associate. RICEI was incorporated on February 23, 2019 primarily to engage in the production and trading of crops, orchards, groves, and all types of agricultural, fishery and farm products on wholesale basis.

The reconciliation of the net assets of the associates and joint ventures to the carrying amounts of the interests in significant associates and joint ventures recognized in the consolidated financial statements is as follows (in millions):

	2022												
	RRC	**PERC**	**PGEC**	**MMPC**	**SGAPC**	**ARCC**	**PSOC**	**PWEI**	**SHEC**	**BEO DMC**	**SFTE**	**AE**	**RICEI**
Net asset before adjustments	**₱2,421**	**₱12,066**	**₱11,203**	**₱2,956**	**₱414**	**₱2,738**	**₱2,738**	**₱2,730**	**₱53**	**₱0.22**	**₱186**	**₱181**	**₱27**
Adjustments	**12,210**	**(5,792)**	**(2,637)**	**302**	**99**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net assets	**₱14,631**	**₱6,274**	**₱8,596**	**₱3,258**	**₱513**	**₱2,738**	**₱2,738**	**₱2,730**	**₱53**	**₱0.22**	**₱186**	**₱181**	**₱27**
Proportionate ownership in the associate	**10%**	**29%**	**8.55%**	**26%**	**20%**	**49%**	**44%**	**20%**	**40%**	**30%**	**5%**	**30%**	**49%**
Share in net identifiable assets	**1,463**	**1,819**	**735**	**847**	**103**	**1,342**	**1,205**	**546**	**21**	**0.07**	**9**	**54**	**13**
Carrying value	**₱1,463**	**₱1,819**	**₱735**	**₱847**	**₱103**	**₱1,342**	**₱1,205**	**₱546**	**₱21**	**₱0.07**	**₱9**	**₱54**	**₱13**

	2021											
	RRC	PERC	PGEC	MMPC	SGAPC	ARCC	PSOC	PWEI	SHEC	BEO DMC	SFTE	AE
Net assets before adjustments	₱3,002	₱8,308	₱7,342	₱2,536	₱352	₱3,309	₱2,543	₱2,360	₱48	₱0.35	₱141	₱70
Adjustments	12,177	(3,046)	(2,221)	277	82	–	–	–	–	–	–	–
Net assets	₱15,179	₱5,259	₱5,121	₱2,813	₱434	₱3,309	₱2,543	₱2,360	₱48	₱0.35	₱141	₱70
Proportionate ownership in the associate	10%	29%	10%	26%	20%	49%	44%	20%	40%	30%	5%	30%
Share in net identifiable assets	1,518	1,531	512	731	87	1,621	1,119	472	19	0.11	7	21
Carrying value	₱1,518	₱1,531	₱512	₱731	₱87	₱1,621	₱1,119	₱472	₱19	₱0.11	₱7	₱21

Summarized financial information of the Group's significant associates and joint venture are as follows: *(in millions)*

	2022												
	RRC	**PERC**	**PGEC**	**MMPC**	**SGAPC**	**ARCC**	**PSOC**	**PWEI**	**SHEC**	**BEO DMC**	**SFTE**	**AE**	**RICEI**
Current assets	**₱1,094**	**₱5,331**	**₱4,950**	**₱2,642**	**₱7,468**	**₱14,560**	**₱633**	**₱687**	**₱45**	**₱2**	**₱29,393**	**₱2,690**	**₱27**
Noncurrent assets	**5,890**	**11,498**	**10,282**	**1,852**	**598**	**2,441**	**3,504**	**3,677**	**73**	**–**	**–**	**389**	**1**
Total assets	**₱6,984**	**₱16,829**	**₱15,232**	**₱4,494**	**₱8,066**	**₱17,001**	**₱4,137**	**₱4,364**	**₱118**	**₱2**	**₱29,393**	**₱3,079**	**₱28**
Current liabilities	**₱1,614**	**₱1,500**	**₱1,140**	**₱1,078**	**₱7,464**	**₱10,820**	**₱291**	**₱321**	**₱49**	**₱2**	**₱29,207**	**₱1,588**	**₱1**
Noncurrent liabilities	**2,949**	**2,963**	**2,889**	**460**	**188**	**3,443**	**1,109**	**1,313**	**–**	**–**	**–**	**1,309**	**–**
Total liabilities	**₱4,563**	**₱4,463**	**₱4,029**	**₱1,538**	₱7,652	**₱14,263**	**₱1,400**	**₱1,634**	**₱49**	**₱2**	**₱29,207**	**₱2,897**	**₱1**
Revenues	**₱2,291**	**₱2,551**	**₱1,821**	**₱1,124**	**₱11,178**	**₱16,230**	**₱872**	**₱641**	**₱7**	**2**	**₱46**	**₱2,143**	**₱3**
Cost	**–**	**(1,303)**	**(879)**	**(412)**	**(10,285)**	**(16,772)**	**(257)**	**(475)**	**(4)**	**(2)**	**–**	**(1,438)**	**(5)**
Gross margin	**2,291**	**1,248**	**942**	**712**	**893**	**(542)**	**615**	**166**	**3**	**–**	**46**	**705**	**(2)**
Selling and administrative, and other expenses	**(1,025)**	**(372)**	**(264)**	**(82)**	**(605)**	**(444)**	**(137)**	**57**	**(1)**	**–**	**–**	**(594)**	**–**
Pre-tax income (loss)	**₱1,266**	**₱876**	**₱678**	**₱630**	**₱288**	**(₱986)**	**₱478**	**₱223**	**₱2**	**₱–**	**₱46**	**₱111**	**(₱2)**
Proportionate ownership in the associate	**10%**	**29%**	**9%**	**26%**	**20%**	**49%**	**44%**	**20%**	**40%**	**30%**	**5%**	**30%**	**49%**
Share in pre-tax income (loss)	**127**	**254**	**61**	**164**	**58**	**(483)**	**210**	**45**	**1**	**–**	**2**	**33**	**(1)**
Income tax (benefit)	**(22)**	**(13)**	**(6)**	**(34)**	**(3)**	**(96)**	**8**	**2**	**–**	**–**	**–**	**–**	**–**
Non-controlling interest	**–**	**(77)**	**(17)**	**–**	**(13)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Equity in net earnings (losses)	**₱105**	**₱164**	**₱38**	**₱130**	**₱42**	**(₱387)**	**₱202**	**₱43**	**₱1**	**₱–**	**₱2**	**₱33**	**(₱1)**
Dividends received	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**

	2021											
	RRC	PERC	PGEC	MMPC	SGAPC	ARCC	PSOC	PWEI	SHEC	BEO DMC	SFTE	AE
Current assets	₱826	₱2,418	₱2,012	₱2,331	₱2,816	₱7,695	₱612	₱601	₱43	₱2	₱16,838	₱2,765
Noncurrent assets	5,980	10,798	9,927	1,538	642	1,558	3,552	3,629	24	–	–	774
Total assets	₱6,806	₱13,216	₱11,939	₱3,869	3,458	₱9,253	₱4,164	₱4,230	₱67	₱2	₱16,838	₱3,539
Current liabilities	₱1,881	₱1,242	₱1,000	₱968	₱2,834	₱4,537	₱268	₱321	₱3	₱1	₱16,697	₱3,469
Noncurrent liabilities	1,923	3,666	3,594	365	272	1,408	1,353	1,549	–	–	–	–
Total liabilities	₱3,804	₱4,908	₱4,594	₱1,333	₱3,106	₱5,945	₱1,621	₱1,870	₱3	₱1	₱16,697	₱3,469
Revenues	₱2,584	₱2,423	₱1,962	₱1,029	₱6,677	₱12,818	₱886	₱762	₱5	–	₱57	₱1,664
Cost	(767)	(1,158)	(822)	(121)	(5,858)	(10,776)	(251)	(351)	(2)	–	–	(841)
Gross margin	1,817	1,265	1,140	908	819	2,042	635	411	3	–	57	823
Selling and administrative, and other expenses	(88)	(181)	(103)	(294)	(509)	(396)	(160)	(164)	(2)	–	–	(754)
Pre-tax income (loss)	₱1,729	₱1,084	₱1,037	₱614	₱310	₱1,646	₱475	₱247	₱1	₱–	₱57	₱69
Proportionate ownership in the associate	10%	29%	10%	26%	20%	49%	44%	20%	40%	30%	5%	30%
Share in pre-tax income (loss)	173	315	104	160	62	807	209	49	–	–	3	21
Income tax	(40)	(16)	(6)	(24)	(7)	(147)	(17)	–	–	–	–	–
Non-controlling interest	–	(206)	(48)	–	–	–	–	–	–	–	–	–
Equity in net earnings (losses)	₱133	₱93	₱50	₱136	₱55	₱660	₱192	₱49	₱–	₱–	₱0.03	₱21
Dividends received	₱90	₱–	₱17	₱15	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–

The Group's share in the net income of ARCC is subject to 20% income tax rate in Saudi Arabia.

Other relevant financial information of RRC are as follows:

	2022	2021
Cash and cash equivalents	**₱706,615,152**	₱165,371,652
Current financial liabilities *	**359,035,952**	542,299,809
Noncurrent financial liabilities *	**2,843,703,410**	1,886,764,857
Depreciation and amortization	**179,916,232**	176,359,467
Interest income	**21,434,630**	3,836,413
Interest expense	**224,837,382**	199,584,482

**Excluding trade and other payables and provisions*

Other relevant financial information of PERC are as follows:

	2022	2021
Cash and cash equivalents	**₱1,677,231,584**	₱1,241,762,101
Current financial liabilities *	**947,144,643**	834,696,065
Noncurrent financial liabilities *	**2,530,784,409**	3,560,657,997
Depreciation and amortization	**551,078,397**	520,848,217
Interest income	**51,154,475**	12,913,159
Interest expense	**292,324,806**	333,375,545

**Excluding trade and other payables and provisions*

Other relevant financial information of PGEC are as follows:

	2022	2021
Cash and cash equivalents	**₱1,358,773,144**	₱1,082,397,539
Current financial liabilities *	**696,564,794**	644,696,064
Noncurrent financial liabilities *	**2,537,602,499**	3,560,657,996
Depreciation and amortization	**437,326,559**	436,959,811
Interest income	**47,096,107**	12,091,941
Interest expense	**286,056,967**	321,395,630

**Excluding trade and other payables and provisions*

Other relevant financial information of MMPC are as follows:

	2022	2021
Cash and cash equivalents	**₱542,678,726**	₱319,023,206
Current financial liabilities *	**20,964,238**	14,227,258
Noncurrent financial liabilities *	**95,489,617**	–
Depreciation and amortization	**52,402,456**	43,085,464
Interest income	**204,156,140**	152,362,846
Interest expense	**3,122,109**	3,089,611

**Excluding trade and other payables and provisions*

Other relevant financial information of SGAPC are as follows:

	2022	2021
Cash and cash equivalents	**₱383,160,000**	₱949,793,000
Current financial liabilities *	**1,160,634,000**	669,878,000
Noncurrent financial liabilities *	**188,289,000**	271,921,000
Interest income	**803,000**	711,592

**Excluding trade and other payables and provisions*

Other relevant financial information of PWEI are as follows:

	2022	2021
Cash and cash equivalents	**₱241,434,172**	₱210,926,150
Current financial liabilities *	**293,945,601**	290,734,202
Noncurrent financial liabilities *	**1,321,286,339**	1,512,560,580
Depreciation and amortization	**196,284,720**	194,393,893
Interest income	**6,334,910**	2,391,881
Interest expense	**122,621,186**	139,993,428

**Excluding trade and other payables and provisions*

Other relevant financial information of SHEC are as follows:

	2022	2021
Cash and cash equivalents	**₱31,503,060**	₱34,253,747
Current financial liabilities *	**7,164,732**	5,435,145
Depreciation and amortization	**4,301,670**	1,813,800
Interest income	**36,135**	43,322

**Excluding trade and other payables and provisions*

Other relevant financial information of BEO are as follows:

	2022	2021
Cash and cash equivalents	**₱1,686,802**	₱1,502,203
Current financial liabilities *	**970,183**	870,183
Interest income	**1,002**	1,349

Excluding trade and other payables and provisions

Other relevant financial information of SFTE are as follows:

	2022	2021
Cash and cash equivalents	**₱12,488,879,930**	₱9,800,712,506
Interest income	**46,086,858**	57,091,980

Other relevant financial information of AE are as follows:

	2022	2021
Cash and cash equivalents	**₱1,000,462,212**	₱268,799,174
Current financial liabilities *	**1,588,232,594**	421,140,200
Interest income	**4,420,740**	1,948
Depreciation and amortization	**44,385,972**	216,823,727

Excluding trade and other payables and provisions

13. **Property and Equipment**

Property and equipment at revalued amount
Movements in the revalued land are as follows:

	2022	2021
Balance at beginning of year	**₱8,291,619,850**	₱7,957,658,100
Change in revaluation increment	**1,783,465,628**	333,961,750
Transfer to Retained earnings	**(199,655,100)**	–
	1,583,810,528	333,961,750
Balance at end of year	**₱9,875,430,378**	₱8,291,619,850

Land at revalued amounts consists of owner-occupied property wherein the school buildings, car dealership showroom, and other facilities are located.

As of December 31, 2022 and 2021, the appraised values of the parcels of land were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, shape and terrain and location among others. The significant unobservable valuation input is price per square meter (level 3 – Significant unobservable inputs). The parcels of land were valued in terms of their highest and best use. The valuation was performed by an independent SEC-accredited appraiser as of December 31, 2022.

In 2022, 2021 and 2020, the Group revalued its land based on the appraisals made by SEC accredited appraisers. As of December 31, 2022 and 2021, the cost of the parcels of land carried at revalued amounts amounted to ₱5,551 million and ₱5,985 million, respectively.

Below is a listing of the properties owned by the Group together with the description of the valuation techniques used and key inputs to valuation of land:

Location	Valuation Techniques	Unobservable Inputs Used	Range (Weighted Average) 2022	2021
Quezon and Panay Avenue, Quezon City	Market Approach	Price per square meter	**₱220,000 to ₱250,000**	₱85,846 to ₱136,800
Barangay Tuding, Itogon, Benguet	Market Approach	Price per square meter	**₱8,000 to ₱8,200**	₱7,679 to ₱7,700
Barangay Biga I, Silang, Province of Cavite	Market Approach	Price per square meter	**₱11,500 to ₱11,600**	₱8,363 to ₱8,400
Makati and Intramuros, Manila	Market Approach	Price per square meter	**₱85,050 to ₱246,926**	₱57,375 to ₱266,000
Cabuyao, Laguna	Market Approach	Price per square meter	**₱11,875 to ₱13,500**	₱10,412 to ₱13,500
Davao City, Davao Del Sur	Market Approach	Price per square meter	**₱22,088 to ₱35,340**	₱23,750 to ₱32,148
Pandacan, Metro Manila	Market Approach	Price per square meter	**₱85,781 to ₱102,375**	₱61,200 to ₱79,475
San Jose Del Monte City, Bulacan	Market Approach	Price per square meter	**₱55,510 to ₱60,493**	₱55,510 to ₱59,993
Naga City, Camarines Sur	Market Approach	Price per square meter	**₱19,000 to ₱34,913**	₱18,573 to ₱27,075
Quiapo, Manila	Market Approach	Price per square meter	**₱89,100 to ₱135,000**	₱70,837 to ₱130,625

Adjustment factors arising from external and internal factors (i.e., location, size and road frontage) affecting the subject properties as compared to the market listing of comparable properties, ranges from -20% to +15% in 2022 and from -25% to +20% in 2021.

Significant increases (decreases) in estimated price per square meter would result in a significantly higher (lower) fair value of the land.

In 2019, IPO recorded provision for impairment in value of ₱21 million on a parcel of land charged to profit or loss [presented under 'Other income (charges) – net] as there was no previous revaluation increment recognized on said land. Based on the 2021 and 2020 appraisal of the same parcel of land, there was an increase in value that resulted to the reversal of the impairment loss amounting to ₱15.8 million in 2021 and ₱5.2 million in 2020. The increase was credited to profit or loss as "Other income (charges) – net" in the 2021 and 2020 statement of comprehensive income.

Property and equipment at cost

The rollforward analysis of this account follows:

	2022					
	Buildings and Improvements	**Machinery, Tools and Construction Equipment**	**Transportation and Service Equipment**	**Furniture, Fixtures, and Office Equipment**	**Construction in Progress**	**Total**
Cost						
Balance at beginning of year	**₱6,039,128,545**	**₱5,258,333,361**	**₱1,389,472,442**	**₱3,325,451,969**	**₱1,773,881,346**	**₱17,786,267,663**
Acquisitions	**400,821,288**	**203,057,739**	**58,141,274**	**184,762,606**	**9,336,783**	**856,119,690**
Disposals/Retirements	**(977,948,682)**	**(177,530,683)**	**(177,553,092)**	**(4,909,309)**	**–**	**(1,337,941,766)**
Balance at end of year	**5,462,001,151**	**-5,283,860,417**	**1,270,060,624**	**3,505,305,266**	**1,783,218,129**	**17,304,445,587**

(Forward)

	2022					
	Buildings and Improvements	**Machinery, Tools and Construction Equipment**	**Transportation and Service Equipment**	**Furniture, Fixtures, and Office Equipment**	**Construction in Progress**	**Total**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**₱2,657,759,859**	**₱3,408,396,310**	**₱993,820,883**	**₱2,786,169,699**	**₱–**	**₱9,846,146,751**
Depreciation and amortization (Note 30)	**498,255,753**	**110,005,610**	**88,096,481**	**237,877,656**	**–**	**934,235,500**
Disposals/retirements	**(444,683,279)**	**(227,990,998)**	**(25,482,449)**	**(3,591,390)**	**–**	**(701,748,116)**
Balance at end of year	**2,711,332,333**	**3,290,410,922**	**1,056,434,915**	**3,020,455,965**	**–**	**10,078,634,135**
Net Book Value at Cost	**₱2,750,668,818**	**₱1,993,449,495**	**₱213,625,709**	**₱484,849,301**	**₱1,783,218,129**	**₱7,225,811,452**

	2021					
	Buildings and Improvements	Machinery, Tools and Construction Equipment	Transportation and Service Equipment	Furniture, Fixtures, and Office Equipment	Construction in Progress	Total
Cost						
Balance at beginning of year	₱6,217,750,751	₱5,412,856,675	₱1,429,509,005	₱3,081,479,036	₱1,458,496,670	₱17,600,092,137
Acquisitions	74,075,701	79,186,056	26,965,937	255,053,655	196,624,390	631,905,739
Disposals	(103,951,000)	(266,643,597)	(67,066,049)	(8,069,567)	–	(445,730,213)
Reclassifications	(148,746,907)	32,934,227	63,549	(3,011,155)	118,760,286	–
Balance at end of year	6,039,128,545	5,258,333,361	1,389,472,442	3,325,451,969	1,773,881,346	17,786,267,663
Accumulated Depreciation and Amortization						
Balance at beginning of year	2,500,618,392	3,279,541,046	948,641,651	2,420,471,186	–	9,149,272,275
Depreciation and amortization (Note 30)	262,385,572	343,000,802	107,636,274	219,887,211	–	932,909,859
Disposals/retirements	(103,951,000)	(210,907,059)	(61,586,729)	(5,295,078)	–	(381,739,866)
Reclassifications	(1,293,105)	(3,238,479)	(870,313)	151,106,380	–	145,704,483
Balance at end of year	2,657,759,859	3,408,396,310	993,820,883	2,786,169,699	–	9,846,146,751
Net Book Value at Cost	₱3,381,368,686	₱1,849,937,051	₱395,651,559	₱539,282,270	₱1,773,881,346	₱7,940,120,912

Construction in progress mainly includes the general cost of construction of the Group's school building in Makati City and other direct cost.

The distribution of the depreciation and amortization expenses of the Group's property and equipment follows:

	2022	2021	2020
Cost of sales and services			
Construction contracts (Note 27)	**₱327,252,315**	₱368,679,702	₱446,829,677
Tuition and other fees (Note 28)	**286,481,061**	292,352,937	367,983,710
Manpower and other services (Note 16 and 27)	**32,231,047**	9,803,937	13,483,485
	645,964,423	670,836,576	828,296,872
General and administrative expenses (Note 29)	**288,271,077**	262,073,283	313,647,050
	₱934,235,500	₱932,909,859	₱1,141,943,922

In 2022, the Group, thru EEI entered into a sale and leaseback transaction with EEI Retirement Fund Inc. (EEI-RFI) for properties located in Bauan, Batangas for ₱1.2 billion. This transaction resulted to a gain on sale of ₱341.0 million and the recognition of right-of-use asset and lease liability amounting to ₱56.7 million and ₱206.1 million, respectively. The Revaluation increment in equity relating to the asset disposed of is transferred directly to Retained earnings when the asset was derecognized.

Gain on sale of property and equipment amounted to ₱383.22 million, ₱19.73 million and ₱14.86 million in 2022, 2021 and 2020, respectively (Note 24).

As at December 31, 2022 and 2021, no property and equipment items were pledged as security.

14. **Leases**

Group as a lessor
IPO's Intramuros and Makati campuses lease spaces to Digital Telecommunications Philippines or Digitel, IMI and Bell Telecommunication Philippines, Inc. The lease terms cover lease periods of between three (3) years to ten (10) years with escalation rates ranging from 3.00% to 10.00%.

The future minimum rentals receivable under the aforementioned lease agreements follow:

	2022	2021
Within one year	**₱74,235,000**	₱75,419,000
More than one year but not more than five years	**315,474,000**	285,777,000
Later than five years	**168,035,000**	76,996,000
	₱557,744,000	₱438,192,000

Group as a lessee
The Group has lease contracts for various items of land, improvements, office spaces, warehouses, school sites and annexes and other equipment used in its operations, among others. Leases of land, improvements and school sites generally have lease terms between 2 and 66 years, while other equipment generally have lease terms between 1 and 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 with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

a. The Parent Company's lease contract term is one (1) year and includes renewal option for another year subject to mutual agreement of the lessee and lessor. Management exercises significant judgement in determining whether the renewal option is reasonably certain to be exercised.

b. Starting January 2007, EEI and EEI RFI entered into a lease agreement for the lease of land and improvements. The lease terms are for one year and renewable every year with 5% increase effective January 1, 2014.

c. EEI entered into a sublease agreement for a lease of 2,459.22 square meters of land in Clark City, Pampanga. Lease term is until 2085.

d. EEI Group leases a staff house which it occupies for its operations for a period of two years, both parties has the option to renew as per agreement.

e. In May 2016, EEI Group entered into a lease agreement for a period of five (5) years commencing on July 7, 2016 and expired on July 6, 2021. The leased premises has an escalation of 10% starting the second year of lease. This was renewed for a period of five (5) years covering July 7, 2021 to July 6, 2026.

f. In June 2020, the EEI Group entered into a lease of parcel of land for a period of fourteen (14) months commencing on July 1, 2020 and expiring on August 31, 2021. The said lease is no longer renewed.

g. In December 2022, the EEI Group entered into a lease contract with EEI-RFI for the lease of land and improvements where its fabricated shop is located. The lease is for a term of 5 years with annual escalation of 5%.

h. IPO leases building spaces for office and school sites and annexes from third-party lessors for a period ranging from one to ten years. The Group applies the ‘short-term lease’ recognition exemption for those leases with lease term of one year or less.

i. Landev Corporation entered into lease agreements that are renewable upon mutual agreement of Landev Corporation and the lessors:

Lessor	**Commencement date**	**Term**	**Monthly Rental**
Grepa Realty Holdings Corporation	January 1, 2022	1 year	₱324,802
Rizal Commercial Banking Corporation	July 25, 2020	3 years	134,474*
Rizal Commercial Banking Corporation	January 1, 2020	5 years	13,899
Grepa Realty Holdings Corporation	January 1, 2022	1 year	7,252*

**subject to 5% annual escalation rate*

Rent expense recognized in 2022, 2021 and 2020 amounted ₱5.7 million, ₱4.9 million and ₱5.7 million, respectively.

Future minimum lease payments of above lease agreements as at December 31 are as follows:

	2022	2021
Within one year	**₱1,178,201**	₱1,656,391
After one year but not more than five years	**183,896**	1,028,245
	₱1,362,097	₱2,684,636

j. The Greyhounds Security and Investigation Agency Corporation entered into an agreement with Grepa Realty Holdings Corporation for the lease of office space. The lease is renewable annually upon mutual agreement by both parties. Rent expense recognized in 2022, 2021 and 2020 amounted to ₱0.69 million, ₱0.68 million and ₱0.66 million respectively.

k. In 2011, IMI entered into lease agreements with Mapua Information Technology Centers, Inc., Malayan Colleges, Inc. and Malayan High School of Science for canteen spaces. In 2016, the Company started to lease a canteen space from Malayan Colleges Laguna, Inc. In 2022, another canteen space started to lease from Malayan Colleges Mindanao. These lease agreements cover a period of one year with monthly lease payments ranging from ₱4,464 to ₱159,936.

l. Hexagon Lounge, Inc. entered into a lease agreement for the lounge and office space it occupies. The lease is renewable annually as may be mutually agreed upon by the parties with monthly minimum lease payments of ₱10,000 or 2% of net restaurant sales, whichever is higher.

m. In 2020, the Group pre-terminated the lease contracts of property used by the following closed car dealership branches:

Closed Branches	**Contract Date**	**Contract End Date**	**Date Terminated**
Honda Cars Fairview	April 24, 2014	April 23, 2020	June 30, 2020
Honda Cars Marikina	January 1, 2009	June 15, 2020	June 30, 2020
Honda Cars Marcos Highway	June 1, 2013	May 31, 2023	July 30, 2020
Isuzu Greenhills	January 26, 2009	January 25, 2024	June 30, 2020

The carrying amount of right-of-use assets and the movement for the years ended December 31 follow:

	2022	2021	2020
Balance at beginning of year	**₱1,106,174,929**	₱1,271,074,183	₱1,605,726,653
Additions	**265,110,318**	56,387,533	41,738,517
Derecognition	**(1,277,968)**	(11,780,572)	(156,244,383)
Amortization of right-of-use asset	**(175,242,731)**	(209,506,215)	(220,146,604)
Balance at end of year	**₱1,194,764,548**	₱1,106,174,929	₱1,271,074,183

In 2022, the carrying amounts of leased land, land improvements and sites, building, office spaces and warehouses and other equipment are ₱1,041.7 million, ₱139.5 million and ₱13.6 million, respectively.

In 2021, the carrying amounts of leased land, land improvements and sites, building, office spaces and warehouses and other equipment are ₱891.1 million, ₱202.7 million and ₱12.4 million, respectively.

The distribution of the amortization of the Group's right-of-use assets follow:

	2022	2021	2020
Cost of sales and services			
Construction contracts (Note 27)	**₱22,450,811**	₱58,227,556	₱71,004,873
Tuition and other fees (Note 28)	**51,833,674**	52,013,000	4,628,679
	74,284,485	110,240,556	75,633,552
General and administrative expenses	**100,958,246**	99,265,659	144,513,052
	₱175,242,731	₱209,506,215	₱220,146,604

The carrying amount of lease liability and the movement for the years ended December 31 follow:

	2022	2021	2020
Balance at beginning of year	**₱1,115,360,254**	₱1,250,332,847	₱1,538,664,329
Interest expense	**68,565,220**	97,449,099	107,042,613
Additions	**322,091,268**	35,299,308	94,311,240
Derecognition	**(19,654,597)**	(52,838,575)	(202,137,944)
Payments	**(107,531,867)**	(214,882,425)	(287,547,391)
Balance at end of year	**1,378,830,278**	1,115,360,254	1,250,332,847
Less: Current portion	**168,473,399**	124,406,516	164,647,368
Noncurrent portion	**₱1,210,356,879**	₱990,953,738	₱1,085,685,479

Derecognition pertains to termination of lease contracts of closed car dealership branches. The difference between right-of-use asset and lease liability is accounted for under miscellaneous expense of General and administrative expenses in the consolidated statement of income (Note 29).

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

	2022	2021	2020
Amortization of right-of-use assets under cost of sales and services (Notes 27, 28, and 30)	**₱74,284,485**	₱110,240,556	₱75,633,552
Amortization of right-of-use assets under general and administrative expenses (Notes 29 and 30)	**100,958,246**	99,265,659	144,513,052
Gain on derecognition of right-of-use assets and lease liabilities	**(18,376,629)**	(41,058,003)	(45,893,561)
Interest expense on lease liabilities	**68,565,220**	97,449,099	107,042,613
Expenses relating to short-term leases and low value assets	**12,528,360**	19,980,316	15,438,735
	₱237,959,682	₱285,877,627	₱296,734,391

The COVID-19-related lease concessions amounting to ₱19.42 million were accounted as negative variable lease expense charged against depreciation and amortization under General and administrative expense account in the 2020 consolidated statement of income.

Shown below is the maturity analysis of the undiscounted lease payments for years ended December 31 as follow:

	2022	2021
Within one year	**₱239,499,588**	₱229,589,347
After one year but not more than five years	**816,997,091**	823,985,041
Five years and more	**721,251,232**	480,640,298
Total	**₱1,777,747,911**	₱1,534,214,686

15. **Goodwill**

The carrying amount of goodwill allocated to each of the CGUs follows:

	2022	2021
EEI Corporation and Subsidiaries	**₱300,859,305**	₱300,859,305
MESI	**137,853,346**	137,853,346
IPO	**32,644,808**	32,644,808
Business combination of IPO and AEI	**13,472,260**	13,472,260
	₱484,829,719	₱484,829,719

Goodwill of EEI and IPO

The Group performed impairment testing on goodwill arising from acquisition of EEI and IPO. For purposes of impairment testing, EEI and IPO are considered as the CGUs.

Management determined that the recoverable amount of the goodwill balances of EEI and IPO were fair values less costs of disposal wherein the fair values are the quoted prices of the shares of stocks of EEI and IPO in the Philippine Stock Exchange as of December 31, 2022 and 2021 and incorporated control premium in the said fair values (Level 3 – Significant unobservable inputs). Management assessed that the costs of disposal, which mainly consist of the stock transaction tax, brokers' commission and transaction fee with the stock exchange to be insignificant.

In 2022, 2021 and 2020, Management assessed that the recoverable amount of the goodwill balances exceed their carrying values, thus, no impairment loss should be recognized.

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 CGU to which the goodwill was attributed to materially exceed its recoverable amount.

Goodwill of MESI
The goodwill recognized in the consolidated statement of financial position amounting ₱137.85 million as at December 31, 2022 and 2021 pertains to the excess of the acquisition cost over the fair values of the net assets of MESI acquired by the Group through IPO in 1999.

The Group performed impairment testing on goodwill arising from acquisition of MESI wherein MESI was considered as the CGU.

In 2022, 2021 and 2020, Management assessed that the recoverable amount of the goodwill balances exceed their carrying values, thus, no impairment loss should be recognized.

Key assumptions used in the value in use (VIU) calculation
As at December 31, 2022 and 2021, 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 are most sensitive to the following:

- Future revenues and revenue growth rates. Cash flow projections based on financial budgets approved by management covering a five-year period and considers the impact of the coronavirus pandemic, among others.
- Long-term growth rates (5.79% for 2022 and 4.84% for 2021). The Long-term growth rate is the expected growth rate in the education industry sector.
- Discount rate (14% for 2022 and 11% for 2021). The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to IPO's capital structure.

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.

In 2022, 2021 and 2020, Management assessed that no impairment loss should be recognized.

Goodwill arising from Business Combination
With the effectivity of the merger on May 2, 2019 between IPO and AC Education, Inc. (AEI), the wholly owned education arm of Ayala Corporation (AC), IPO became 48.18% owned by HI and 33.5% owned by AC.

As a result of the merger, IPO issued to AC an aggregate of 295,329,976 shares with par value of ₱1.0 per share for a total fair value of ₱3,591.21 million based on IPO's quoted closing rate per share as of May 2, 2019 in exchange for the transfer of the net assets of AEI. The excess of the fair value of shares issued over the par value was recognized as additional paid-in capital.

The IPO Group recognized the following intangible assets in 2019 as a result of the merger (amount in thousands):

Intellectual property rights	₱523,103
Student relationship	116,009
Goodwill	13,472
	₱652,584

Intellectual property rights have infinite life and the student relationship have an estimated useful life of 5 years to 7 years based on the contractual relationship between the school entities and its students. These assets are attributed from the acquisition of operating schools NTC, APEC and UNC.

Intellectual Property Rights
As of December 31, 2022 and 2021, the Group performed impairment testing on intellectual property rights using the income approach (royalty relief method) wherein recoverable value is computed based on royalty savings.

Key assumptions used are as follows:

- Revenue projections and long-term growth rate (3% for 2022 and 2021). Revenue projections based on financial budgets approved by management and considers the impact of the coronavirus pandemic. The long-term growth rate is the expected growth rate in the education industry sector.
- Discount rates (16% to 17% for 2022 and 14% to 15% for 2021). The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to comparable listed companies in the educational sector.
- Royalty rates (1% to 6% for 2022 and 2021). This is based on the publicly available information on franchising of educational institutions in the Philippines, with consideration on the operational risk of the involved entity.

The IPO Group's impairment testing on intellectual property rights resulted to the recognition of ₱32.2 million impairment loss on APEC in 2022 (nil in 2021 and 2020) and presented as part of General and administrative expense in the consolidated statement of income. The carrying value of intellectual property rights as of December 31, 2022 and 2021 amounted to ₱490.9 million and ₱523.1 million, respectively.

Student Relationship
The carrying value and movement of student relationship as of and for the year ended December 31 follows (amount in thousands):

	2022	2021
Cost from business combination	**₱116,009**	₱116,009
Accumulated amortization:		
Beginning balance	**(72,248)**	(37,184)
Amortization and impairment	**(33,002)**	(35,064)
Ending balance	**(105,250)**	(72,248)
Balance at end of the year	**₱10,759**	₱43,761

Amortization amounted to ₱33.0 million and ₱22.3 million in 2022 and 2021. In 2021, the IPO Group recognized ₱12.8 million impairment loss on APEC student relationship because the remaining students from the time of the merger in 2019 significantly decline as of December 31, 2021 due to the impact of coronavirus pandemic.

16. **Investment Properties**

The rollforward analysis of this account follows:

<u>2022</u>

	Land	Building and building improvements	Machinery and equipment	Total
Cost				
Balance at beginning of year	**₱1,977,542,213**	**₱–**	**₱–**	**₱1,977,542,213**
Acquisitions	**3,344,425,000**	**2,624,140,525**	**187,409,475**	**6,155,975,000**
Disposals	**(420,500)**	**–**	**–**	**(420,500)**
Balance at end of year	**5,321,546,713**	**2,624,140,525**	**187,409,475**	**8,133,096,713**
Accumulated Depreciation				
Balance at beginning of year	**–**	**–**	**–**	**–**
Depreciation (Note 27)	**–**	**20,185,696**	**3,748,190**	**23,933,886**
Balance at end of year	**–**	**20,185,696**	**3,748,190**	**23,933,886**
Net Book Value	**₱5,321,546,713**	**₱2,603,954,829**	**₱183,661,285**	**₱8,109,162,827**

<u>2021</u>

Cost:	
Balance at beginning of year	₱1,977,608,213
Disposals	(66,000)
Balance at end of year	₱1,977,542,213

Land classified as investment properties include the following:

- Parcel of land located in Makati owned by SLRHSI with the carrying value of ₱1,763.30 million.
- Other parcels of land owned by EEI located in Benguet, Cavite, Nueva Ecija, and Bulacan with carrying values of ₱6.6 million, ₱0.5 million, ₱0.2 million, and ₱7.0 million, respectively, as of December 31, 2022. Carrying values of parcels of land located in Benguet, Cavite, Nueva Ecija, Bulacan and memorial lots in Las Piñas were ₱6.6 million, ₱0.5 million, ₱0.2 million, ₱7.0 million and ₱0.2 million, respectively, as of December 31, 2021.
- Heritage lots held for capital appreciation of the Parent Company amounted to ₱1.7 million and ₱2.0 million as of December 31, 2022 and 2021, respectively.

Additions pertain to parcel of land, building and building improvements and machinery and equipment situated in Taguig City owned by ATYC with carrying value of ₱6,132.04 million, which was acquired by the Parent Company in 2022.

Depreciation expense recognized on Investment properties in 2022 amounted to ₱23.93 million is accounted for under Cost of services in the consolidated statement of income (Note 27).

In 2022 and 2021, the Group sold parcels of land located in various locations for ₱2.44 million and ₱0.1 million, respectively. The Group recognized a gain of ₱2.05 million and ₱0.01 million in 2022 and 2021, respectively in relation to the sale.

As of December 31, 2022, the aggregate fair values of Investment properties amounted to ₱10.05 billion, which was determined based on valuation performed by an independent SEC accredited appraiser in 2022. The fair value of the land was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, and shape (Level 3 – Significant unobservable inputs).

Rental income derived from the investment properties amounted to ₱181.78 million, ₱0.3 million, and ₱1.2 million in 2022, 2021 and 2020, respectively (Note 23). Total direct expenses incurred in relation to these investment properties amounted to ₱73.73 million, nil and ₱0.1 million in 2022, 2021 and 2020, respectively.

None of the investment properties were pledged as a security to obligations as of December 31, 2022 and 2021.

17. Other Noncurrent Assets

This account consists of:

	2022	2021
Loans receivable	**₱1,200,000,000**	₱–
CWT - net of current portion	**857,168,028**	924,336,073
Intellectual property rights (Note 15)	**490,882,064**	523,103,000
Miscellaneous deposit	**40,721,209**	27,081,140
Computer software	**31,456,026**	27,336,914
Deferred input VAT	**26,982,216**	162,009,652
Student relationship (Note 15)	**10,759,086**	43,761,227
Receivable from DANECO	–	54,570,275
Others	**152,748,155**	49,781,088
	₱2,810,716,784	₱1,811,979,369

In December 2022, the Group, thru EEI entered into an agreement with EEI-RFI granting a loan amounting to ₱1.20 billion to the latter. The loan is to be paid in 10 annual installments commencing in 2025 with annual interest rate of 5%.

Intellectual property rights and student relationship are the intangible assets acquired in May 2019 through the merger between IPO and AC Education, Inc. (AEI), the wholly owned education arm of Ayala Corporation (Note 15).

Miscellaneous deposits include rental and security deposits.

As of December 31, 2022, the average remaining useful of the computer software is 1 to 2 years.

Rollforward of computer software follows:

	2022	2021
Cost		
Balance at beginning of year	**₱163,955,660**	₱144,137,032
Additions	**17,403,328**	20,131,041
Reclassification	**–**	(312,413)
Balance at end of year	**181,358,988**	163,955,660
Accumulated Amortization		
Balance at beginning of year	**136,618,746**	130,902,215
Amortization (Note 30)	**13,284,216**	5,716,531
Balance at end of year	**149,902,962**	136,618,746
Net Book Value	**₱31,456,026**	₱27,336,914

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2022	2021
Accounts payable	**₱5,669,425,919**	₱5,919,553,024
Deferred output taxes	**305,215,529**	277,084,033
Output tax payable	**292,171,632**	137,643,666
Accrued expenses	**256,799,240**	288,359,148
Withholding taxes and others	**174,456,359**	109,946,406
Provisions (Note 35)	**168,717,150**	159,266,271
SSS and other contributions	**57,141,763**	47,316,542
Dividends payable	**26,153,938**	2,137,962
Chattel mortgage payable	**8,986,234**	10,294,436
Payable to Land Transportation Office	**4,180,525**	4,227,497
Deferred income	**2,663,589**	2,173,986
Others	**57,697,873**	79,258,907
	₱7,023,609,751	₱7,037,261,878

Accounts payable pertains to the Group's obligation to local suppliers. The normal trade credit terms of accounts payable and accrued expenses of the Group are expected to be settled within the next twelve (12) months.

Accrued expenses consist of:

	2022	2021
Accrued salaries and wages	**₱51,251,570**	₱20,687,569
Accrued interest	**17,352,492**	68,985,444
Accrued professional fees	**16,648,558**	15,359,000
Accrued security services	**8,505,172**	15,805,414
Accrued utilities	**7,777,006**	4,311,000
Accrued insurance	**4,855,724**	23,935,800
Others	**150,408,718**	139,274,921
	₱256,799,240	₱288,359,148

Other accrued expenses mainly consist of accrual for professional fees, outside services, utilities and other expenses that are expected to be settled within one year.

Provisions were provided for claims by third parties in the ordinary course of business. As allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided as the disclosure of additional details beyond the present disclosures may prejudice the Group's position and negotiation strategies with respect to these matters.

19. **Loans Payable**

This account consists of:

	2022	2021
Unsecured bank loans	**₱8,217,000,000**	₱5,306,469,178
Secured bank loans	–	400,000,000
	₱8,217,000,000	₱5,706,469,178

Unsecured
Unsecured bank loans are obtained from local banks and related party financial institutions with annual interest rates ranging from 4.625% to 6.5% and 2.50% to 5.50% in 2022 and 2021, respectively.

Secured
In 2017, the Group, through MCMI, obtained a short-term loan (STL) facility with Bank of Philippine Island (BPI), which was earmarked from the long-term loan facility of the Group from same bank, to finance the construction of MCMI's school building. Each STL facility may be re-availed/renewed/ extended within a period of one year provided that the sum of the terms of re-availements/renewal/ extension will not exceed 360 days. The STL facility may be converted into a 10-year term loan facility which shall be partially secured by the real estate mortgage on the real property of MCMI. The STL facility is secured by the Continuing Suretyship Agreement of MESI. Annual interest rates range from 3.00% to 5.50%. STL facility amounting to ₱400.0 million as at December 31, 2021 was paid in 2022.

Movements in loans payable during the years ended December 31 follow:

	2022	2021
Balance at beginning of year	**₱5,706,469,178**	₱7,982,000,000
Availments	**16,510,806,863**	10,778,700,000
Payments	**(14,000,276,041)**	(13,054,230,822)
Balance at end of year	**₱8,217,000,000**	₱5,706,469,178

Interest expense incurred on these loans amounted to ₱186.34 million, ₱319.48 million and ₱434.3 million in 2022, 2021 and 2020, respectively.

20. **Long-term Debt**

This account consists of:

	2022	2021
Fixed-rate corporate promissory notes	**₱7,016,954,132**	₱8,078,421,328
Fixed-rate term loan	**2,014,569,147**	2,059,441,662
	9,031,523,279	10,137,862,990
Less: Current portion of long-term debt	**3,218,142,674**	3,547,206,477
Reclassification to current liability of secured loan	**1,496,622,385**	–
	4,714,765,059	3,547,206,477
	₱4,316,758,220	₱6,590,656,513

Parent Company
On December 16, 2015, the Parent Company acquired from BPI loan amounting ₱500.0 million, payable within five (5) years. The proceeds of the loan were used for general financing requirements and working capital purposes. In 2020, the loan was fully settled.

EEI
In 2014, the Group through EEI received ₱500.0 million proceeds from the issuance of unsecured fixed-rate corporate promissory notes to a local bank that bear annual interest of 5.20%. Subsequently, the bank reduced the interest rate to 4.80% effective May 26, 2015 until maturity. The promissory notes mature within seven (7) years from the date of issuance. The loan was fully paid in 2021.

On June 15, 2015, the Group through EEI received ₱1,000.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 4.80%. The promissory note matures within seven (7) years from the date of issuance. The loan was fully paid on March 31, 2021.

On May 23, 2018, the Group through EEI received ₱2,000.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 4.80%. The promissory note matures within five (5) years from the date of issuance.

On November 11, 2019, the Group through EEI received ₱909.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 3.9%. The promissory note matures within three (3) years from the date of issuance. The proceeds from the promissory notes were used for general corporate and project financing requirements. The loan was fully paid in November 11, 2022.

On October 15, 2020, the Group through EEI received ₱3,000.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 3.5%. The promissory note matures within three (3) years from the date of issuance.

On November 23, 2020, the Group through EEI received ₱1,000.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 3.3%. The promissory note matures within three (3) years from the date of issuance.

On March 22, 2021, the Group through EEI received ₱1,500.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 4.5%. The promissory note matures within three (3) years from the date of issuance.

On October 7, 2021, the Group through EEI received ₱2,500.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 4.8%. The promissory note matures within three (3) years from the date of issuance.

On December 3, 2021, the Group through EEI received ₱1,500.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 3.4%. The promissory note matures within three (3) years from the date of issuance.

The proceeds from the promissory notes were used for general corporate and project financing requirements.

EEI Power Corporation
On August 28, 2015, EEI Power availed an unsecured ₱500.0 million long-term loan from a local bank that bears an annual interest of 4.80%. The loan is payable in equal quarterly installments and will mature on August 27, 2022. The loan was prepaid in 2021.

Biotech JP
On August 12, 2016, Biotech JP obtained an unsecured five-year long-term loan from Biotech Japan Corporation that bears an annual interest rate of 0.05%. The loan is payable at maturity date, including accrued interest.

On October 1, 2018, the Biotech JP obtained an unsecured 4.5 year long-term loan from Biotech Japan Corporation that bears an annual interest rate of 0.30%. The loan is payable in five equal annual installments and will mature on March 31, 2021.

In 2019, Biotech JP obtained an unsecured ₱47.60 million long-term loan from Biotech Japan Corporation that bears an annual interest of 0.30%. The loan is payable in equal semi-annual installments and will mature on September 13, 2030.

On April 24, 2020, BiotechJP availed an unsecured ₱21.8 million long-term loan from a foreign bank that bears an annual interest based from floating rate. In absence of quotations, if the then-current Floating Rate is USD LIBOR and no rate is quoted pursuant to the definition of USD LIBOR on any Quotation Date, the applicable Floating Rate shall be the average (rounded upwards, if necessary, to the nearest one-sixteenth of one per cent (1/16%)) of the rates per annum. The loan is payable in 18 equal semi-annual installments and will mature on September 13, 2030.

On September 25, 2020, BiotechJP availed an unsecured ₱92.3 million long-term loan from Biotech Japan Corporation that bears an annual interest of 3.0%. The loan is payable in equal semi-annual installments and will mature on March 31, 2030.

IPO
IPO, through NTC, entered into a 10-year unsecured term loan facility with a third party local bank for ₱650.0 million to finance its building refurbishment and/or expansion. The principal payments will be made in 28 quarterly payments starting May 2022. As of December 30, 2020, total drawdown from the long-term loan facility amounted to ₱380 million. The ₱300 million is subject to 5.5% fixed rate and the ₱80 million is subject to annual repricing based on higher of 5.5% or the prevailing one year benchmark rate or done rate of a liquid/active security, as agreed by the parties, with the same tenor if benchmark rate is not reflective of market rate, plus interest spread.

In September 2021, the ₱80 million is converted to a 5.5% fixed rate.

The loan is subject to certain covenants including maintaining a maximum debt-to-equity structure ratio of 3:1. As of December 31, 2022 and 2021, NTC has complied with its covenant obligations, including maintaining the required debt-to-equity ratio.

In 2019, the IPO Group, through MCMI, entered into a ten-year secured long-term loan agreement with a local bank for ₱1,500.0 million to refinance the construction of MCMI's school buildings and facilities that were initially funded by short-term loans. MCMI made partial drawdowns against this agreement amounting to ₱680.0 million, ₱350.0 million and ₱470.0 million in January, June and July 2019, respectively. The loans were subject to prevailing borrower's rate, plus a minimum spread of 0.50% per annum, but in no case lower than 4% per annum, subject to quarterly repricing. MCMI shall repay the loan in 20 equal quarterly installments to start at the end of 21st quarter from the initial drawdown date. The loans were secured by the land and related improvements owned by MCMI with carrying value of ₱2,385.0 million and ₱2,382.0 million as of December 31, 2022 and 2021, respectively, and suretyship of MESI. The loans were subject to certain positive and negative covenants such as the requirement for MCMI to maintain its debt service cover ratio of at least 1.0 at all times and its debt-to-equity ratio of at least 75:25 starting on the third year of the loan reckoned from initial drawdown date of January 2019.

In April 2022, MCMI requested the bank to waive the compliance in D:E ratio requirement in 2022. In February 2023, the bank confirmed in writing the approval of the non-declaration of MCMI in default for not meeting the required financial covenant for D:E ratio for as long as MCMI continues to follow the existing payment term/schedule and other terms and conditions stipulated in the loan agreement.

As of December 31, 2022, the D:E ratio of 77:23 did not meet the required D:E ratio. Hence, MCMI classified the loan from bank amounting to ₱1.5 billion as current liability. The loans were reclassified from noncurrent to current because the letter from the bank was issued after December 31, 2022. Although the loans are classified as current as of December 31, 2022, it will remain long-term based on the terms of the loan agreement and will not be paid in the next twelve months. The reclassification was done to comply with PFRS.

<u>ATYC</u>
On September 29, 2022, the Company received ₱2.4 billion proceeds from the issuance of promissory note to RCBC that bears annual interest of 6.04%. The promissory note matures within three (3) years from the date of issuance.

Movements in the account follow:

	2022	2021
Balance at beginning of year	**₱10,137,862,990**	₱7,420,302,136
Availments	**2,419,177,388**	5,500,000,000
Reclassification	**1,496,622,385**	–
Payments	**(5,036,648,457)**	(2,784,810,550)
Transaction costs	**14,508,973**	2,371,404
Balance at end of year	**9,031,523,279**	10,137,862,990
Less current portion	**(4,714,765,059)**	(3,547,206,477)
	₱4,316,758,220	₱6,590,656,513

Interest expense incurred on these loans amounted to ₱398.5 million, ₱273.6 million and ₱159.4 million in 2022, 2021 and 2020, respectively (Note 31).

The aforementioned loans require the Group to maintain certain financial ratios such as debt to equity ratio, current ratio and debt service coverage ratio calculated based on stipulation with the lender banks. As of December 31, 2022, the Group was in compliance with all other loan covenants.

21. EEI's Stock Option Plan

EEI's stock option plan, as amended (Amended Plan), had set aside 35 million common shares for stock options available to regular employees, officers and directors of the Group.

Under the Amended Plan, the option or subscription price must be equal to the book value of the EEI's common stock but not less than 80% of the average market price quoted in PSE for five trading days immediately preceding the grant, but in no case less than the par value. The option or subscription price should be paid over a period of five years in 120 equal semi-monthly installments. Shares acquired under the Amended Plan are subject to a holding period of one year.

A summary of the plan availments is shown below:

	Number of Shares
Shares allocated under the Original Stock Option Plan	19,262,500
Shares allocated under the Amended Stock Option Plan	15,737,500
Total shares allocated	35,000,000
Shares subscribed under the Original Stock Option Plan	19,365,815
Shares subscribed under the Amended Stock Option Plan	10,886,188
Total shares subscribed	30,252,003
Shares allocated at end of year	4,747,997

EEI opted to avail the exemption in PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, from applying PFRS 2 upon adoption on January 1, 2005 as it allows non-adoption of PFRS 2 for equity instruments that were granted on or before November 7, 2002. Since 2000, there were no shares under the stock option plan that were granted, forfeited, exercised and expired.

No benefit expense is recognized relative to the shares issued under the stock option plan. When options are exercised, these are treated as capital stock issuances.

22. 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 operating decisions. Parties are also considered to be related if they are subject to common control or the party is an associate or a joint venture. Related parties may be individuals or corporate entities.

Related parties include entities under common control, which pertains to other subsidiaries of PMMIC, which is the Group's ultimate parent company.

The year-end balances and transactions with respect to related parties included in the consolidated financial statements are as follows (amounts in thousands):

		2022			
Category		**Amount/ Volume**	**Outstanding Balance Receivable (Payable)**	**Terms**	**Conditions**
Parent Company - PMMIC					
a.	Accounts payable	**₱2,389**	**(₱61)**	Noninterest-bearing	Unsecured
	Miscellaneous expenses incurred	**2,400**	–		
Associates					
b.	Dividends earned	**41,590**	**7,502**	Noninterest-bearing	Unsecured, no impairment
c.	Receivables from related parties	–	**1,742**	Noninterest-bearing	Unsecured, with impairment
	Rendering management and audit services	**2,897**	–		
	Rendering of services	–	**125,258**	Noninterest-bearing	Unsecured, no impairment
d.	Due to related parties	–	**(1,562)**	Noninterest-bearing	Unsecured
Other affiliates					
e.	Sale of property	**365,116**	**8,493**	Noninterest-bearing	Unsecured
	Rendering of construction services	–	**1,387**	Noninterest-bearing	Unsecured
	Lease of property	**(8,186)**	**123,512**	Noninterest-bearing	Unsecured
	Loans	**1,200,000**	**1,200,000**	Interest bearing, 5% per annum	Unsecured, no impairment
Entities under common control					
f.	Cash and cash equivalents	**43,368**	**2,612,181**	Interest-bearing at prevailing bank deposit rates	Unrestricted
	Interest earned	**21,731**	–	–	–
	Trust fees	–	–	–	–
g.	Accounts receivable - Trade	–	**47,197**	Noninterest-bearing	Unsecured, no impairment
	Sale of vehicles	**52,013**	–	–	–
	Agency fee income earned	**81,191**	–	–	–
h.	Dividends earned	**1**	–	–	–
i.	Receivables from related parties	–	**61,635**	Noninterest-bearing	Unsecured, no impairment
	Rendering janitorial service	**381,887**	–	–	–
	Other income earned	–	–	–	–
	Audit fee income earned	–	–	–	–
j.	Management fee receivable	–	**44,054**	Noninterest-bearing	Unsecured, no impairment
	Rendering management services	**197,458**	–	–	–
k.	Accounts payable and accrued expenses	–	–	–	–
	Rental of office space	**6,050**	–	–	–
l.	Insurance expense	**14,927**	–	–	–
Entities with significant influence					
m.	Management fee receivable	**9,000**	–	–	–
	Due to related parties	–	–	–	–

Category		2021 Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
Parent Company - PMMIC					
a.	Accounts payable	₱10,615	(₱1,135)	Noninterest-bearing	Unsecured
	Miscellaneous expenses incurred	10,615	–		
Associates					
b.	Dividends earned	124,620	10,415	Noninterest-bearing	Unsecured, no impairment
c.	Receivables from related parties	–	2,429	Noninterest-bearing	Unsecured, with impairment
	Rendering management and audit services	2,373	–		
	Rendering of services	–	30,070	Noninterest-bearing	Unsecured, no impairment
d.	Due to related parties	154,123	–	Noninterest-bearing	Unsecured
Other affiliates					
e.	Sale of property	342	–	Interest-bearing, 5% per annum	Unsecured, with impairment
	Rendering of construction services	144	–		
	Lease of property	(74,464)	–	Non-interest bearing	Unsecured
Entities under common control					
f.	Cash and cash equivalents	–	3,303,797	Interest-bearing at prevailing bank deposit rates	Unrestricted
	Interest earned	12,232	–		
	Trust fees	6,532	–		
g.	Accounts receivable - Trade	293,004	81,805	Noninterest-bearing	Unsecured, no impairment
	Sale of vehicles	113,256	–		
	Agency fee income earned	50,764	–		
h.	Dividends earned	545	–		
i.	Receivables from related parties	2,282	48,582	Noninterest-bearing	Unsecured, no impairment
	Rendering janitorial service	350,970	–		
	Other income earned	475	357	Noninterest-bearing	Unsecured, no impairment
	Audit fee income earned	2,282	–		
j.	Management fee receivable	–	59,607	Noninterest-bearing	Unsecured, no impairment
	Rendering management services	160,107	–		
k.	Accounts payable and accrued expenses	–	15	Noninterest-bearing	Unsecured
	Rental of office space	8,606	–	–	–
l.	Insurance expense	13,284	–	–	–
Entities with significant influence					
m.	Management fee receivable	10,802	–	–	–
	Due to related parties	–	3,136	Noninterest-bearing	Unsecured, no impairment

Parent Company - PMMIC

a. Accounts payable to PMMIC pertains to unpaid expenses on shared costs such as legal expenses which are included under "Miscellaneous expense". Accounts payable to PMMIC as at December 31, 2022 and 2021 amounted to ₱0.06 million and ₱1.1 million, respectively.

Associates

b. In 2022 and 2021, dividend income earned from associates amounted to ₱41.6 million and ₱124.6 million, respectively. Outstanding dividends receivable from associates as at December 31, 2022 and 2021 amounted to ₱7.5 million and ₱10.4 million, respectively.

c. Receivable from related parties arises from services rendered by the Parent Company and EEI to its associates. These services include management consultancy, internal audit fees and extension of advances. As at December 31, 2022 and 2021, the Group has an outstanding receivable from its associates amounting ₱127.0 million and ₱32.5 million, respectively. Management fee income charged to associates is fixed per month while audit fee income depends on the audit engagement letter agreed by both parties.

d. Due to related parties pertains to advances extended by EEI Limited to ARCC. As at December 31, 2022 and 2021, the Group has an outstanding payable to its associates amounting ₱1,562.0 million.

Other affiliates

e. Starting January 2007, EEI and EEI-RFI entered into operating lease agreements for the said land and improvements. The terms are for one year and renewable every year with 5% increase effective January 1, 2014.

   In 2013, the receivable from the EEI-RFI amounting to ₱390.0 million was restructured and reclassified to other noncurrent assets with fixed 5% interest rate per annum. In 2016, the Parent Company and the Fund agreed to extend the term of the payment until April 30, 2021.

   Outstanding receivables amounted to ₱123.5 million and nil as of December 31, 2022 and 2021 respectively. Interest income earned from receivable from EEI-RFI amounted to nil, ₱0.3 million and ₱3.2 million for the years ended December 31, 2022, 2021 and 2020, respectively.

   In December 2022, EEI entered into a sale and leaseback transaction with EEI-RFI, a trustee of the Parent Company employees retirement fund (the Fund) for parcels of land sold located in Bauan, Batangas. The related lease is for a term of 5 years, with an annual escalation rate of 5%.

   In December 2022, EEI extended a loan to EEI-RFI amounting to ₱1.2 billion payable in 10 annual installments commencing in 2025. The loan bears an annual interest of 5%.

Entities under common control of PMMIC

f. The Group maintains cash and cash equivalents with RCBC, an entity under common control. As at December 31, 2022 and 2021, cash and cash equivalents with RCBC amounted to ₱2,612.2 million and ₱3,303.8 million, respectively. The related deposits earn interest at the prevailing bank deposit rates. Interest income earned from cash and cash equivalents amounted to ₱21.7 million, ₱12.2 million and ₱18.7 million in 2022, 2021 and 2020, respectively.

g. The Group generates income by providing security services at a 20% mark-up to entities under common control. In 2022, 2021 and 2020, the Group's agency fee income is attributable to security services provided to majority of RCBC branches in the country. As at December 31, 2022 and 2021, the Group's accounts receivable from RCBC amounted to ₱47.2 million and ₱81.8 million, respectively. Agency fees amounted to ₱81.2 million, ₱50.8 million and ₱53.3 million in 2022, 2021 and 2020, respectively.

   The Group sold vehicle units to various entities under common control of PMMIC with terms ranging from 30-60 days. The outstanding receivable from the sale amounted to nil as at

December 31, 2022 and 2021. Revenues from motor vehicle sales amounted to ₱52.1 million, ₱113.3 million and ₱77.5 million in 2022, 2021 and 2020, respectively.

h. Dividend income earned in 2022, 2021 and 2020 from entities under common control of PMMIC amounted to nil, ₱0.55 million and ₱0.31 million, respectively. Dividends were all collected in 2022 and 2021.

i. Receivable from related parties arises mainly from janitorial services rendered by EEI (GAMSI) to the Group's affiliates. The service revenue earned from janitorial serviced rendered in 2022, 2021 and 2020 amounted to ₱381.9 million, ₱351.0 million and ₱225.9 million, respectively.

j. One of the subsidiaries entered into various agreements with entities under common control to perform property and project management services. Receivable from this transaction is accounted under "Management fee receivable". The Group's outstanding receivable from property and project management fees amounted to ₱44.1 million and 59.6 million as at December 31, 2022 and 2021, respectively. Services fees amounted to ₱197.5 million, ₱160.1 million and ₱104.6 million in 2022, 2021 and 2020, respectively.

k. Payable to an entity under common control pertains to rental of office space and share in the utilities expense of the Group amounting to ₱6.1 million and ₱8.6 million as at December 31, 2022 and 2021, respectively.

l. IPO and EEI obtains property and personnel insurance from its affiliated insurance company, Malayan Insurance Company, Inc. (MICO). Insurance contract coverage pertains to Group's fire, accident, group and other insurance policies.

m. In 2022 and 2021, payable to an entity with significant influence mainly pertains to management fees charged for the administration of the operations of IPO amounting to ₱9.0 million and ₱10.8 million, respectively.

The Group maintains its retirement fund with RCBC trust division. As at December 31, 2022 and 2021, the fair values of the plan assets of the retirement fund amounted to ₱1,629.7 million and ₱1,749.4 million, respectively (Note 32). Trust fees amounting to ₱5.57 million, ₱6.5 million and ₱6.2 million were recognized by the retirement plan arising from its transactions with RCBC for the years ended December 31, 2022, 2021 and 2020, respectively.

Remuneration of key management personnel
The remuneration of directors and other members of key management of the Group are as follows:

	2022	2021	2020
Compensation and short-term benefits	**₱621,750,482**	₱538,722,773	₱422,792,086
Post-employment benefits	**24,827,707**	37,690,202	28,962,153
	₱646,578,189	₱576,412,975	₱451,754,239

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. These mainly consist of advances and reimbursement of expenses. The Group has not recognized any impairment on amounts due from related parties for the years ended December 31, 2022 and 2021. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

Identification, review and approval of related party transactions
Material related party transactions (MRPT) refers to any related party transactions, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited financial statements.

All material related party transactions shall be reviewed by the Group's Corporate Governance Committee and approved by the BOD with at least 2/3 votes of BOD, with at least a majority vote of the independent directors. In case that the vote of a majority of the independent directors is not secured, the material related party transactions may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.

23. Revenue from Contracts with Customers

Set out below is the disaggregation of the Group's revenue from contracts with customers for the years ended December 31:

	2022	2021	2020
Construction contracts	**₱12,528,768,650**	₱14,942,556,591	₱12,631,990,026
Sales of goods	**4,497,925,608**	3,580,696,783	3,810,574,547
Schools and related operations	**3,944,946,284**	3,351,067,232	3,017,106,523
Power-related services	**882,809,648**	97,052,592	–
Manpower	**624,787,528**	568,014,461	555,262,502
Others	**1,426,048,717**	1,059,686,662	1,161,141,459
	₱23,905,286,435	₱23,599,074,321	₱21,176,075,057

Included in Others are rental income amounting to ₱181.78 million in 2022 (nil in 2021 and 2020) and other income from car repairs and maintenance services, among others (Note 16).

Disaggregation of Revenue from construction contracts:

	2022	2021	2020
Building	**₱5,751,318,973**	₱6,825,132,430	₱4,113,537,063
Infrastructure	**2,239,205,309**	5,048,584,055	6,503,627,515
Industrial`	**3,343,019,707**	2,426,797,483	444,691,963
Electro-mechanical	**1,195,224,661**	642,042,623	1,570,133,485
	₱12,528,768,650	₱14,942,556,591	₱12,631,990,026

Disaggregation of Revenue from sale of goods:

	2022	2021	2020
Merchandise sales	**₱4,493,945,362**	₱3,566,667,120	₱3,777,839,060
Real estate sales	**3,980,246**	14,029,663	32,735,487
	₱4,497,925,608	₱3,580,696,783	₱3,810,574,547

Disaggregation of Revenue from schools and related operations:

	2022	2021	2020
Tuition and other matriculation fees	**₱3,646,494,492**	₱3,281,270,686	₱2,950,748,493
Other student-related income:			
Seminar fee income	**12,071,883**	6,443,958	4,352,513
Bookstore sales	**19,940,975**	2,850,419	7,589,123
Others	**266,438,934**	60,502,169	54,416,394
	₱3,944,946,284	₱3,351,067,232	₱3,017,106,523

Performance obligations

Information about the Group's performance obligations are summarized below:

The transaction price allocated to the remaining performance obligations of the Group (unsatisfied or partially unsatisfied) in connection with the construction contracts that have an original expected duration of more than one year (otherwise known as backlogs) as at December 31 are as follows:

	2022	2021	2020
Within one year	**₱12,454,978,158**	₱12,448,951,193	₱12,653,212,583
More than one year	**19,547,810,287**	18,517,252,543	30,942,788,536
	₱32,002,788,445	₱30,966,203,736	₱43,596,001,119

24. **Other Income -** Net

This account consists of:

	2022	2021	2020
Gain on sale of assets (Notes 13 and 16)	**₱385,272,887**	₱19,746,850	₱15,059,741
Income from reversal of payable	**119,568,427**	–	–
Interest income (Notes 6 and 7)	**107,629,251**	18,758,054	36,588,692
Foreign exchange gain	**40,582,623**	10,151,384	–
Space and car rental	**12,198,674**	18,346,346	8,658,371
Dividend income (Note 11)	**10,614,069**	35,266,666	37,855,583
Rental income	**8,208,017**	5,744,844	6,418,072
Miscellaneous	**58,496,575**	83,965,928	24,187,674
	₱742,570,523	₱191,980,072	₱128,768,133

Gain on sale of assets arose from the sale of the following assets:

	2022	2021	2020
Property and equipment (Note 13)	**₱383,220,587**	₱19,732,100	₱14,855,241
Investment properties (Note 16)	**2,052,300**	14,750	204,500
	₱385,272,887	₱19,746,850	₱15,059,741

In 2022, certain payables that were long-outstanding amounting to ₱119.81 million were written-off and recognized as other income. Based on management's assessment, the settlement of these payables is remote.

Interest income consists of income from:

	2022	2021	2020
Cash and cash equivalents (Note 6)	**₱105,892,334**	₱10,552,161	₱25,104,821
Installment contract receivable (Note 7)	**1,311,766**	1,222,926	2,288,438
Receivable from EEI-RFI (Notes 7, 17 and 22)	**–**	342,262	3,237,599
Others	**425,151**	6,640,705	5,957,834
	₱107,629,251	₱18,758,054	₱36,588,692

Miscellaneous include income from sale of sludge and used oil, rebate from purchase of fuel, commission income, income from reversal of impairment, among others.

25. Costs of Sales and Services

This account consists of:

	2022	2021	2020
Cost of services (Note 27)			
Cost of construction contracts	**₱10,690,843,098**	₱13,367,776,852	₱15,038,354,818
Cost of manpower and other services	**2,131,517,697**	1,154,849,552	1,125,289,917
	12,822,360,795	14,522,626,404	16,163,644,735
Cost of goods sold			
Cost of merchandise sold (Notes 9 and 26)	**4,266,290,200**	3,331,543,396	3,624,366,462
Cost of real estate sold (Note 9)	**3,132,313**	7,514,694	22,465,250
	4,269,422,513	3,339,058,090	3,646,831,712
Cost of tuition and other fees (Note 28)	**2,259,171,742**	1,914,579,015	2,015,408,058
	₱19,350,955,050	₱19,776,263,509	₱21,825,884,505

26. Cost of Merchandise Sold

This account consists of (Notes 9 and 25):

	2022	2021	2020
Inventory, beginning	**₱1,304,326,975**	₱1,657,262,683	₱2,122,740,026
Purchases	**4,184,324,123**	2,963,847,860	3,149,623,135
Total goods available for sale	**5,488,651,098**	4,621,110,543	5,272,363,161
Less inventory end	**1,264,969,493**	1,304,326,975	1,657,262,683
Cost of inventories sold	**4,223,681,605**	3,316,783,568	3,615,100,478
Personnel expenses	**33,917,416**	9,506,042	5,957,078
Others	**8,691,179**	5,253,786	3,308,906
	₱4,266,290,200	₱3,331,543,396	₱3,624,366,462

27. **Cost of Services**

	2022	2021	2020
Cost of construction contracts (Note 25)			
Labor	**₱5,182,108,357**	₱6,562,578,720	₱6,592,720,054
Materials	**2,763,017,237**	3,296,936,017	4,745,558,101
Equipment costs and others	**2,396,014,378**	3,081,354,857	3,182,242,113
Depreciation and amortization (Notes 13 and 14)	**349,703,126**	426,907,258	517,834,550
	10,690,843,098	13,367,776,852	15,038,354,818
Cost of manpower and other services (Note 25)			
Personnel expenses	**905,851,268**	762,332,402	626,705,529
Power-related services	**801,248,304**	87,100,486	–
Materials	**225,746,440**	218,494,291	238,395,229
Depreciation and amortization (Notes 13 and 16)	**56,164,933**	9,803,937	13,483,485
Parts, accessories and others	**142,506,752**	77,118,436	246,705,674
	2,131,517,697	1,154,849,552	1,125,289,917
	₱12,822,360,795	₱14,522,626,404	₱16,163,644,735

28. **Cost of Tuition and Other Fees**

This amount consists of:

	2022	2021	2020
Personnel expenses	**₱1,086,584,504**	₱1,032,944,491	₱1,037,807,796
Depreciation and amortization (Notes 13 and 14)	**338,314,735**	344,365,937	372,612,389
Student-related expenses	**158,724,908**	70,926,030	100,529,199
Management and other professional fees	**142,905,191**	91,715,625	129,207,556
Periodicals	**139,507,039**	94,060,084	89,553,547
IT expense - software license	**98,622,799**	79,619,671	76,467,455
Utilities	**82,589,418**	50,130,961	61,547,432
Advertising	**45,019,490**	30,388,180	18,478,261
Accreditation cost	**31,267,549**	23,077,466	31,681,806
Repairs and maintenance	**34,443,423**	24,628,924	20,049,447
Tools and library books (Note 13)	**27,907,252**	15,991,777	17,587,086
Research and development fund	**20,403,120**	19,870,434	10,738,408
Insurance	**13,886,139**	10,325,336	10,600,753
Seminar	**11,179,819**	7,620,601	7,266,635
Taxes and licenses	**7,296,766**	7,978,310	7,320,662
Transportation and travel	**4,134,122**	1,150,313	917,313
Office supplies	**3,756,042**	2,432,053	6,437,394
Laboratory supplies	**3,191,620**	1,600,975	3,727,810
Rent	**2,687,795**	265,208	183,544
Entertainment, amusement and recreation	**1,775,372**	1,124,314	1,209,702
Miscellaneous	**4,974,639**	4,362,325	11,483,863
	₱2,259,171,742	₱1,914,579,015	₱2,015,408,058

29. **General and Administrative Expenses**

This account consists of:

	2022	2021	2020
Personnel expenses	**₱1,243,680,502**	₱1,247,399,922	₱1,349,418,384
Depreciation and amortization (Notes 13, 14, 17 and 30)	**435,515,539**	367,055,473	465,198,753
Taxes and licenses	**208,869,547**	155,608,331	313,930,251
Security, janitorial and utilities	**176,401,857**	82,377,551	72,986,778
Advertising and promotions	**165,552,725**	104,307,166	41,805,526
Rent, light and water	**170,514,081**	95,683,929	107,830,247
Provision for probable losses on Loans and Accounts receivables and Contract assets (Notes 7 and 8)	**138,847,708**	133,092,139	148,263,273
Transportation and travel	**102,290,582**	76,394,632	74,627,404
Management and other fees	**92,267,718**	66,354,650	87,769,526
Professional fees	**89,754,688**	30,126,345	80,527,537
Repairs and maintenance	**79,686,930**	101,325,762	84,500,850
Selling expenses	**52,027,381**	5,899,498	4,266,581
Commissions	**41,410,612**	28,627,187	23,715,324
Provision for impairment of Advances to suppliers and subcontractors (Note 10)	**38,936,529**	–	11,548,630
Insurance	**35,059,356**	31,912,844	31,513,021
Entertainment, amusement and recreation	**29,238,789**	18,641,515	28,478,722
Seminars	**23,718,533**	24,685,348	19,061,446
Office expenses	**15,862,342**	13,139,673	14,611,586
Donations and contributions	**4,924,793**	26,388,196	12,020,323
Provision for (recoveries of) inventory obsolescence (Note 9)	**(14,301,872)**	8,728	21,960,851
Miscellaneous	**79,421,981**	208,446,189	104,532,512
	₱3,209,680,321	₱2,817,475,078	₱3,098,567,525

Miscellaneous expense includes dues and subscriptions, periodicals, training and seminar, bank charges, legal and notarial fees, other contracted services and other admin charges.

Below are the details of net provision for probable losses on Receivables and Contract assets (Notes 7 and 8):

	2022	2021	2020
Provision			
Receivable	**₱138,847,708**	₱122,176,169	₱105,623,601
Contract assets	**–**	10,915,970	42,639,672
	₱138,847,708	₱133,092,139	₱148,263,273

30. **Depreciation and Amortization**

This account consists of depreciation and amortization included in Notes 13, 14 and 17:

	2022	2021	2020
Cost of sales and services			
Construction contracts (Note 27)	**₱349,703,126**	₱426,907,258	₱517,834,550
Tuition and other fees (Note 28)	**338,314,735**	344,365,937	372,612,389
Manpower and other services (Note 27)	**56,164,933**	9,803,937	13,483,485
	744,182,794	781,077,132	903,930,424
General and administrative expenses (Note 29)	**435,515,539**	367,055,473	465,198,753
	₱1,179,698,333	₱1,148,132,605	₱1,369,129,177

Depreciation and amortization for the different assets follow:

	2022	2021	2020
Property and equipment (Note 13)	**₱934,235,500**	₱932,909,859	₱1,141,943,922
Right-of-use asset (Note 14)	**175,242,731**	209,506,215	220,146,604
Investment property (Note 16)	**23,933,886**	–	–
Computer software (Note 17)	**13,284,216**	5,716,531	7,038,651
Student relationship	**33,002,000**	–	–
	₱1,179,698,333	₱1,148,132,605	₱1,369,129,177

31. **Interest and Finance Charges**

The Group’s interest and finance charges consist of interest on the following:

	2022	2021	2020
Long-term debt (Note 20)	**₱398,534,932**	₱273,556,326	₱159,410,033
Loans payable (short-term) (Note 19)	**186,339,521**	319,475,191	434,306,860
Lease liabilities (Note 14)	**68,565,220**	97,449,099	107,042,613
Advances to affiliates and other finance charges	**16,258,693**	17,887,935	11,811,591
	₱669,698,366	₱708,368,551	₱712,571,097

32. **Retirement Plan**

The Group has funded, noncontributory retirement plans (the Plans) for all of its regular employees, in compliance with RA No. 7641, The New Retirement Pay Law. The Plans provide for normal, early retirement, death and disability benefits. The most recent actuarial valuation was made for the Group’s retirement plans as of December 31, 2022.

The following tables summarize the components of the benefit expense recognized in the consolidated statements of comprehensive income and amounts recognized in the consolidated statements of financial position for the retirement plans.

	2022	2021
Retirement liabilities	**₱200,096,343**	₱223,026,503
Retirement assets	**93,338,840**	18,129,661
Net retirement liabilities	**106,757,503**	204,896,842
Net retirement expenses	**170,945,496**	238,454,645

The net retirement expenses recognized by the Group (included in personnel expense in the consolidated statements of comprehensive income) are as follows:

	2022	2021	2020
Current service cost	**₱165,107,134**	₱217,307,806	₱180,066,728
Net interest cost	**5,838,362**	24,883,272	19,356,338
Past service cost	**–**	(3,497,005)	(7,488,530)
Actuarial gain on settlement	**–**	(239,428)	(5,604,065)
	₱170,945,496	₱238,454,645	₱186,330,471

The amounts recognized in the consolidated statements of financial position follow:

Net retirement liabilities	**2022**	2021
Present value of defined benefit obligation	**₱1,612,418,233**	₱1,777,367,543
Fair value of plan assets	**(1,412,321,890)**	(1,554,341,040)
	₱200,096,343	₱223,026,503

Net retirement assets	**2022**	2021
Present value of defined benefit obligation	**₱89,939,839**	₱101,170,071
Fair value of plan assets	**(188,964,404)**	(119,660,452)
Effect of asset ceiling	**5,685,725**	360,720
	(₱93,338,840)	(₱18,129,661)

The movements in the net retirement liability follow:

	2022	2021
Balance at beginning of year	**₱204,896,842**	₱606,872,847
Net retirement expense	**170,945,496**	238,454,645
Adjustment to defined benefit obligation	**25,371,284**	(163,297,717)
Derecognition/ transfer	–	(99,220)
Benefit paid	**(894,155)**	(10,595,730)
Contributions	**(35,470,349)**	(171,263,947)
Remeasurement gain	**(258,091,615)**	(295,174,036)
Balance at end of year	**₱106,757,503**	₱204,896,842

The movements in the present value of defined obligation follow:

	2022	2021
Balance at beginning of year	**₱1,954,270,323**	₱2,227,248,385
Current service cost	**165,107,134**	217,307,806
Interest cost on obligation	**92,883,321**	85,340,096
Derecognition/transfer	**–**	(100,099,220)
Benefits paid	**(143,972,262)**	(130,869,871)
Remeasurement gain	**(331,869,779)**	(344,656,873)
Balance at end of year	**₱1,736,418,737**	₱1,954,270,323

The movements in the fair value of plan assets follow:

	2022	2021
Balance at beginning of year	**₱1,749,373,481**	₱1,620,375,538
Contributions	**35,470,349**	171,263,947
Derecognition/transfer	**–**	63,363,904
Asset return in net interest cost	**87,044,959**	60,456,824
Adjustments to plan assets	**(25,371,284)**	3,670,246
Remeasurement loss	**(73,778,164)**	(49,482,837)
Benefits paid	**(143,078,107)**	(120,274,141)
Balance at end of year	**₱1,629,661,234**	₱1,749,373,481

The major categories of plan assets and its fair value are as follows:

	2022	2021
Cash	**₱388,797,594**	₱448,001,074
Investment in government securities	**923,017,305**	899,123,775
Investments in shares of stock	**281,657,933**	333,000,804
Investments in other securities and debt instruments	**18,445,031**	58,410,555
Interest receivables and other receivables	**19,876,541**	21,513,483
Accrued trust fees and other payables	**(2,133,170)**	(10,676,210)
	₱1,629,661,234	₱1,749,373,481

The Group expects to contribute ₱112.12 million to its defined benefit retirement plans in 2023. The Retirement fund (Fund) of the Group is being maintained and managed, in trust, by RCBC Trust and Investment Group (TIG), an affiliate financial institution. Investment in shares of stocks comprised of investments in shares within the Group that are traded in the Philippine Stock Exchange.

Trust fees paid in 2022, 2021 and 2020 amounted to ₱5.57 million, ₱6.57 million and ₱6.17 million, respectively.

The composition of the fair value of the trust fund includes:

Investment in government securities - include investment in Philippine Retail Treasury Bonds (RTBs) and Fixed Rate Treasury Notes (FXTNs).

Cash - include savings and time deposit with affiliated bank and special deposit account with Bangko Sentral ng Pilipinas (BSP SDA).

Investment in equity securities - include investment in common and preferred shares traded in the Philippine Stock Exchange.

Investment in debt and other securities - include investment in long-term debt notes and retail bonds.

Interest and other receivables - pertain to interest and dividends receivable on the investments in the fund.

In 2022, the Fund has investment in equity securities of related parties with fair values and accumulated loss of ₱86.42 million and ₱0.69 million, respectively.

In 2021, the Fund has investment in equity securities of related parties with fair values and accumulated loss of ₱92.71 million and ₱8.2 million, respectively.

The voting rights of the above equity securities were assigned to RCBC TIG, being the investment manager who manages and administers the investments and reinvestments of the fund.

The principal actuarial assumptions used in determining retirement expense are as follows:

	2022	2021
Discount rate		
Beginning	**3.42%-5.17%**	3.65%-4.96%
End	**7.02%-8.03%**	3.42%-5.17%
Future salary increases		
Beginning	**3.31%-6.50%**	3.00%-6.50%
End	**2.95%-6.00%**	3.31%-6.50%

The sensitivity analysis that follows has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of the end of financial reporting date, assuming all other assumptions were held constant.

	2022		2021	
	Increase (decrease)	**Effect on defined benefit obligation**	Increase (decrease)	Effect on defined benefit obligation
Discount rates	**+50bps to +100bps**	**(₱299,244,307)**	+50bps to +100bps	(₱286,559,363)
	-50bps to -100bps	**348,428,787**	-50bps to -100bps	370,322,817
Salary increase rates	**+50bps to +100bps**	**361,456,243**	+50bps to +100bps	389,403,437
	-50bps to -100bps	**(221,086,835)**	-50bps to -100bps	(296,521,871)

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

	2022	2021
Less than one year	**₱247,470,711**	₱254,087,078
More than one to five years	**378,128,511**	362,713,854
More than five years	**11,182,480,141**	11,953,863,850

The average duration of the defined benefit obligation ranges from 16-24 years and 17-24 years as of December 31, 2022 and 2021, respectively.

33. **Income Taxes**

The reconciliation between the statutory and effective income tax rates follows:

	2022	2021	2020
Statutory income tax rate	**25.00%**	25.00%	(30.00%)
Add (deduct) reconciling items:			
Movement of deferred income tax assets not recognized	**1.31**	(1.00)	(1.01)
Impact of CREATE	**–**	10.29	–
Equity in net earnings of associates and joint venture	**(5.74)**	(18.63)	(13.86)
Income subject to final taxes and lower rates	**(11.59)**	–	(5.73)
Others	**(2.56)**	(0.47)	7.75
Effective income tax rate	**6.42%**	15.19%	(42.85%)

All companies in the Group are subject to the RCIT rate of 25%, except for MESI, MHSSI, MCLI, MCMI, UNC, NTC and APEC which are subject to a lower tax rate of 1% as provided by CREATE that special tax rate is to be applied to proprietary educational institutions and hospitals.

The Group's net deferred tax assets and liabilities consist of the following:

	2022	2021
Net deferred tax assets on a per subsidiary level:		
Contract deposits	**₱1,200,855,490**	₱–
NOLCO	**113,637,664**	1,113,066,250
Allowance for ECL, inventory, obsolescence and other expenses	**95,723,667**	77,746,224
Excess of Right-Of-Use-assets over lease liability	**23,574,377**	–
MCIT	**23,587,499**	24,547,365
Others	**(44,939,981)**	7,389,812
	₱1,412,438,716	₱1,222,749,651
Net deferred tax liabilities on a per subsidiary level:		
Revaluation increment on land	**₱1,201,404,707**	₱860,760,524
Accrued expenses	**(16,479,000)**	(15,430,739)
Retirement	**(10,622,430)**	(27,623,745)
Others	**(129,491,674)**	37,840,075
	₱1,044,811,603	₱855,546,115

The reconciliation of the Group's net deferred tax liabilities (assets) follow:

	2022	2021
Balance at beginning of year	**(₱367,203,536)**	(₱532,656,925)
Tax expense (income) recognized in:		
Other comprehensive income (loss)	**252,584,074**	(56,310,960)
Profit and loss	**(253,007,651)**	221,764,349
	(₱367,627,113)	(₱367,203,536)

The Group did not recognize deferred tax assets on the following temporary differences because the Group believes that it may not be probable that sufficient taxable income will be available in the near foreseeable future against which the tax benefit can be realized.

	2022	2021
NOLCO	**₱327,675,164**	₱602,276,748
Allowance for inventory obsolescence	**283,478,560**	60,295,832
MCIT	**871,742**	2,882,751
Accrued retirement expense	**3,883,620**	4,081,204

On September 30, 2020, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 25-2020 implementing Section 4 (bbbb) 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, 2022, the amount of NOLCO incurred before taxable year 2022 which can be claimed as deduction from the regular taxable income for the next three (3) consecutive taxable years:

Year incurred	Amount	Applied/Expired	Balance	Expiry Year
2022	₱202,370,094	₱–	₱202,370,094	2025

As of December 31, 2022, the Group has incurred NOLCO in taxable years 2021 and 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year incurred	Amount	Applied/Expired	Balance	Expiry Year
2021	₱550,405,019	₱380,407,068	₱169,997,951	2026
2020	4,584,026,845	4,174,169,069	409,857,777	2025
	₱5,134,431,864	₱4,554,576,137	₱579,855,728	

As of December 31, 2022, the amounts of MCIT still allowable as tax credit consist of:

Year incurred	Amount	Applied/Expired	Balance	Expiry Year
2022	₱2,988,842	₱–	₱2,988,842	2025
2021	20,981,292	14,764,695	6,216,597	2024
2020	15,253,802	–	15,253,802	2023
	₱39,223,936	₱14,764,695	₱24,459,241	

RA No. 11534 otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act or CREATE

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. RA No. 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- MCIT rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

- Imposition of improperly accumulated earnings tax is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes. Current and deferred taxes as of and for the year ended December 31, 2021 were computed and measured using the new tax rates in 2021.

The effect of CREATE Act in 2020 of a lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, which was reflected in the Group's 2020 annual income tax return was only recognized for financial reporting purposes in the 2021 consolidated financial statements. Also, the effect in 2020 of a lower deferred tax assets and liabilities as of December 31, 2020 and provision for deferred tax for the year then ended of ₱259.25 million were recognized for financial reporting purposes only in the 2021 consolidated financial statements.

34. Earnings Per Share

Basic and diluted earnings (loss) per share amounts attributable to equity holders of the Group are computed as follows:

Basic earnings (loss) per share

	2022	2021	2020
Net income (loss)	**₱1,174,088,374**	₱1,073,010,312	(₱824,954,066)
Less dividends attributable to preferred shares (Note 36)	**299,050,374**	–	86,529
Net income (loss) applicable to common shares	**875,038,000**	1,073,010,312	(825,040,595)
Divided by the weighted average number of common shares	**776,465,281**	776,465,281	776,465,281
Basic earnings (loss) per share	**₱1.1270**	₱1.3819	(₱1.0626)

Diluted earnings (loss) per share

	2022	2021	2020
Net income (loss) applicable common share for basic earnings per share	**₱875,038,000**	₱1,073,010,312	(₱825,040,595)
Net income (loss) applicable to common stockholders for diluted earnings per share	**₱875,038,000**	1,073,010,312	(825,040,595)
Weighted average number of shares of common stock	**776,465,281**	776,465,281	776,465,281
Weighted average number of shares of common stock for diluted earnings per share	**776,465,281**	776,465,281	776,465,281
Diluted earnings (loss) per share	**₱1.1270**	₱1.3819	(₱1.0626)

The weighted average number of shares of common stock is computed as follows:

	2022	2021	2020
Number of shares of common stock issued	**776,765,281**	776,765,281	776,765,281
Less treasury shares	**300,000**	300,000	300,000
	776,465,281	776,465,281	776,465,281

35. **Contingencies and Commitments**

Provisions and Contingencies

The Group is involved in certain claims arising from the ordinary conduct of business which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. The estimate of the probable costs for the resolution of these claims has been developed in consultation with external counsels handling the defense in these matters and is based upon an analysis of potential results. The ultimate disposition of these matters cannot be determined with certainty. The Group will exhaust all legal remedies available to it in defending itself in these claims and proceedings.

The disclosure of additional details beyond the present disclosure may prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed under paragraph 92 of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

36. Non-controlling Interests

The summarized financial information attributable to non-controlling interests for significant subsidiaries as of and for the years ended December 31, 2022, 2021 and 2020 are as shown below:

	HI Cars, Inc.[(a)]			iPeople, inc. (IPO) and Subsidiaries[(b)]			EEI Corporation (EEI) and Subsidiaries[(c)]			San Lorenzo Ruiz Investment Holdings and Services Inc.[(d)]		
	2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020
Assets												
Current assets	–	–	380	**3,614**	3,063	2,662	**12,769**	20,465	15,938	**1,430**	–	–
Noncurrent assets	–	–	122	**14,088**	13,065	13,050	**16,205**	11,750	10,955	**2,279**	–	–
	–	–	502	**17,702**	16,128	15,712	**28,974**	32,215	26,893	**3,709**	–	–
Liabilities and Equity												
Current liabilities	–	–	462	**3,516**	2,183	2,298	**12,283**	12,728	14,374	**8**	–	–
Noncurrent liabilities	–	–	58	**1,445**	2,826	2,922	**3,274**	6,146	6,111	–	–	–
	–	–	520	**4,961**	5,009	5,220	**15,557**	18,874	20,485	**8**	–	–
Revenue	–	–	1,175	**3945**	3,351	3,017	**14,652**	16,150	13,881	–	–	–
Net income (loss)	–	–	(121)	**782**	664	242	**200**	479	(2,072)	**27**	–	–
Total comprehensive income (loss)	–	–	(124)	**1,813**	940	832	**466**	978	(2,197)	**27**	–	–
Share of NCI in net assets	–	–	(11)	**5,472**	4,655	4,336	**9,252**	9,498	3,083	**1,480**	–	–
Share of NCI in net income (loss)	–	–	(54)	**399**	341	127	**93**	219	(914)	**11**	–	–
Dividends paid	–	–	–	**87**	162	38	**399**	–	–	–	–	–
Operating	–	–	117	**1,231**	848	95	**(543)**	(1,597)	(2,418)	**(58)**	–	–
Investing	–	–	96	**(214)**	(193)	1,220	**(210)**	564	778	**(374)**	–	–
Financing	–	–	(205)	**(659)**	(370)	(1,152)	**(3,820)**	6,827	1,824	**1,851**	–	–

(a) Proportion of ownership owned by non-controlling interests as of December 31, 2022 and 2021: 0.00%.
(b) Proportion of ownership owned by non-controlling interests as of December 31, 2022 and 2021: 51.82%
(c) Proportion of ownership owned by non-controlling interests as of December 31, 2022 and 2021: 44.66%
(d) Proportion of ownership owned by non-controlling interests as of December 31, 2022 and 2021: 40.00% and 0.00%, respectively

Material Partly-Owned Subsidiaries

SLRHSI

In February 2022, the Parent Company sold 1,612,759 common shares representing 14.64% ownership of SLRHSI to Sojitz Corporation. Further, on November 15, 2022, Sojitz Corporation subscribed and paid for additional authorized capital stock applied for by SLRHSI. Accordingly, the ownership stake of the Parent Company decreased from 100% to 60%.

HCI

In July 2021, the Parent Company purchased additional 27,000,000 HCI shares for ₱9.18 million or 0.34 per share resulting to an increase in ownership interest from 55.00% to 100.00%. The non-controlling interest decreased from 45.00% to 0.00%.

EEI

On December 23, 2021, EEI issued and listed in the PSE non-convertible preferred shares generating net proceeds of ₱5.96 billion. Cumulative dividends in arrears on preferred shares as at December 31, 2022 and 2021 amounted to ₱229.05 million and ₱6.55 million, respectively.

As of December 31, 2022 and 2021, the Parent Company holds 55.34% ownership stake in EEI while the non-controlling interest is at 44.66%.

IPO

In May 2019, the Parent Company sold the 281,642 shares of MESI to IPO, which represents 7% ownership in MESI. With this acquisition, MESI became 100% indirectly-owned subsidiary of the Parent Company through IPO. Subsequently, IPO issued 295,329,976 common shares from its unissued capital stock to AC, the parent company of AEI, in exchange for the merger of IPO and AEI, with IPO being the surviving corporation. Upon merger, the Parent Company's ownership interest over IPO was reduced from 67.34% to 48.18%. The non-controlling interest increased from 32.66% to 51.82% or an increase of ₱2.52 billion.

LFPSI

As of December 31, 2022 and 2021, the Parent Company's effective ownership including its indirect ownership through MMPC is 63.00%. As a result, Parent Company has obtained control over LFPSI and started accounted for the investee as a subsidiary using consolidation method under PFRS 10. The non-controlling interest is 27.00%.

The Group recognized equity reserve from the changes in ownership amounting to an increase and a decrease of ₱333.59 million and ₱24.58 million in 2022 and 2021, respectively. This was included in "Equity reserve" representing the excess consideration paid for the carrying amount of the non-controlling interest.

37. **Operating Segment Information**

For management purposes, the Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Segment financial information is reported on the basis that it is used internally for evaluating segment performance and allocating resources to segments.

The Group derives its revenue from the following reportable segments:

Construction and Infrastructure - mainly consists of revenues from EEI as a general contractor and trader of construction equipment and parts. The subsidiaries of EEI are mainly involved in the provision for manpower services, construction, trading of equipment, power-related activities, steel fabrication, real estate and others.

Property and Property Services - represents property leasing activities from ATYC and project management services of the Group.

Education - primarily consists of revenues from IPO and subsidiaries in education and other related support services.

Cars Business - represents automotive dealerships of the Group.

Other Services - represent support services which cannot be directly identified with any of the reportable segments mentioned above. These include sale of pharmaceutical products, trading of consumer goods and rendering various services to the consumers.

Segment assets and liabilities exclude deferred income tax assets and liabilities. Inter-segment income arises from transactions that were made on terms equivalent to those that prevail in an arms-length transactions.

Management monitors construction revenue and segment net income for the purpose of making decisions about resource allocation. Segment performance is evaluated based on net income and construction revenue.

Segment reporting is consistent in all periods presented as there are no changes in the structure of the Group's internal organization that will cause the composition of its reportable segment to change.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

In 2022, revenue from two (2) customers from the construction and infrastructure segment each represents 10% or more of the Group's revenue. Following are the revenue contributed by each of these customers: ₱2,616 million and ₱3,144 million.

In 2021, revenue from two (2) customer from the construction and infrastructure segment contributed revenue that exceeded 10% of the Group's revenue. Following are the revenue contributed by each of these customers: ₱4,485 million and ₱3,821 million.

In 2020, revenue from two (2) customers from the construction and infrastructure segment each represents 10% or more of the Group's revenue. Following are the revenue contributed by each of these customers: ₱2,668 million and ₱2,384 million.

(Amounts in Millions)

	Construction and Infrastructure			**Education**			**Cars Business**			**Property and Property Services**			**Other Services**			**Elimination**			**Consolidation**		
	2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020
Revenue	**14,652**	16,150	13,881	**3,945**	3,351	3,017	**4,855**	3,726	4,155	**458**	231	225	**390**	691	322	**(395)**	(550)	(424)	**23,905**	23,599	21,176
Net Income (loss) attributable to share of parent	**209**	490	(2,046)	**769**	659	246	**30**	61	(114)	**120**	200	61	**844**	664	131	**(798)**	(1,000)	897	**1,174**	1,073	(825)
Other Information																					
Segment assets	**28,974**	32,215	26,893	**17,701**	16,129	15,712	**11,135**	2,566	2,686	**10,538**	2,287	223	**7,874**	7,402	9,165	**(10,995)**	(3,405)	(2,792)	**65,227**	57,194	51,885
Deferred tax assets	**(1,289)**	(1,112)	(1,471)	**(38)**	(38)	(32)	**59**	(26)	(26)	**(29)**	(4)	(4)	**(84)**	(3)	(79)	**(31)**	39	32	**(1,412)**	(1,223)	(1,580)
Net segment assets	**27,685**	31,103	25,422	**17,664**	16,091	15,680	**11,193**	2,539	2,660	**10,509**	2,283	219	**7,789**	7,400	9,086	**(11,026)**	(3,444)	(2,760)	**63,814**	56,500	50,305
Segment liabilities	**15,557**	18,874	20,485	**4,961**	5,009	5,220	**9,453**	1,507	1,505	**5,741**	307	176	**2,040**	1,782	2,835	**(8,390)**	(401)	(189)	**29,362**	27,078	30,031
Income tax payable	**(6)**	(16)	(23)	**(5)**	(2)	(12)	**–**	(7)	(6)	**(1)**	(1)	(2)	**(6)**	(1)	–	**–**	–	–	**(18)**	(27)	(44)
Deferred tax liabilities	**(128)**	(128)	(90)	**(590)**	(489)	(477)	**(237)**	(192)	(173)	**(2)**	–	–	**–**	(46)	(166)	**(88)**	(116)	(141)	**(1,045)**	(856)	(1,048)
Net segment liabilities	**15,423**	18,730	20,371	**4,366**	4,518	4,730	**9,216**	1,308	1,326	**5,738**	306	174	**2,034**	1,734	2,669	**(8,477)**	(285)	(331)	**28,300**	26,724	28,939
Investments in associates and joint ventures	**3,190**	3,260	2,890	**–**	–	–	**–**	–	–	**7**	7	7	**7,134**	6,399	5,066	**(2,028)**	(1,831)	(871)	**8,303**	7,834	7,093
Equity in net earnings (losses) of associates	**(106)**	925	981	**–**	–	–	**42**	55	–	**105**	139	–	**384**	311	–	**–**	–	388	**425**	1,430	1,368
Cash flows arising from:																					
Operating activities	**(543)**	(1,578)	(2,418)	**1,231**	849	467	**397**	397	397	**78**	78	78	**(495)**	(495)	(495)	**(991)**	(1,926)	538	**(323)**	(1,299)	(1,433)
Investing activities	**(210)**	583	778	**(214)**	(194)	1,220	**170**	170	170	**–**	–	–	**1,373**	1,373	1,373	**(7,089)**	4,075	(3,536)	**(5,970)**	279	5
Financing activities	**(3,820)**	(6,789)	(1,824)	**(659)**	(370)	(1,152)	**(290)**	(290)	(290)	**53**	53	53	**5,634**	5,634	5,634	**2,909**	(4,357)	459	**3,827**	6,778	1,962
Capital expenditures	**(171)**	(171)	(489)	**(184)**	(184)	(881)	**(73)**	(73)	(73)	**6,156**	–	–	**53**	53	53	**1,248**	(2,042)	(2,781)	**7,029**	652	1,391
Interest income	**35**	8	17	**20**	6	11	**1**	0	2	**27**	1	–	**26**	3	8	**(1)**	(7,407)	(5,928)	**108**	19	37
Interest expense	**(398)**	413	466	**(113)**	137	178	**(24)**	15	69	**(77)**	1	1	**(58)**	85	–	**–**	47	1	**(670)**	708	713
Provision/ (Benefit) for income tax	**(70)**	305	(1,285)	**5**	(30)	33	**(16)**	1	4	**(22)**	14	20	**(15)**	2	(42)	**–**	–	–	**(118)**	292	(1,270)
Earnings (loss) before income tax	**270**	784	(3,358)	**777**	633	275	**57**	(17)	(295)	**142**	75	81	**848**	444	274	**(251)**	–	(59)	**1,843**	1,919	(2,964)
Earnings before income tax and depreciation and amortization	**817**	959	(2,592)	**1,252**	746	738	**128**	2	(203)	**163**	77	85	**858**	615	326	**(263)**	(668)	(51)	**2,955**	3,067	(1,595)
Noncash items:																					
Additional revaluation increment on land	**129**	–	–	**1,005**	201	497	**614**	37	89	**–**	–	–	**–**	–	–	**(385)**	96	(659)	**1,363**	334	(73)
Depreciation and amortization	**547**	176	766	**475**	112	463	**70**	19	92	**21**	2	4	**44**	171	53	**(11)**	(668)	9	**1,146**	1,148	1,369

38. **Financial Instruments and Financial Risk Management Objectives and Policies**

Financial Risk Management Objectives and Policies
The main purpose of the Group's financial instruments is to raise finances for the Group's operations.

The main risks arising from the Group's financial instruments are liquidity risk, market risk, and credit risk. The BOD reviews and agrees on the policies for managing these risks, as well as approving and authorizing risk limits set by management, summarized below. There were no changes in the policies for managing these risks.

a. *Liquidity risk*
Liquidity risk is the risk that the Group will be unable to meet its payment obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and service maturing debts. As an inherent part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover its short-term and funding requirements, the Group intends to use internally generated funds and available short-term and long-term credit facilities.

The maturity groupings are based on the remaining period from the end of the reporting period to the contractual maturity date.

The tables below summarize the maturity profile of the Group's financial assets and financial liabilities as at December 31:

	2022				
	On demand	**< 1 year**	**1 to < 2 years**	**> 2 years**	**Total**
Financial Liabilities					
Accounts payable and accrued expenses*	**₱2,297,475,028**	**₱3,689,591,609**	**₱–**	**₱–**	**₱5,987,066,637**
Bank loans					
Peso loan	–	**8,217,000,000**	–	–	**8,217,000,000**
Interest	–	**199,271,388**	–	–	**199,271,388**
Long-term debt					
Peso loan	–	**4,728,956,659**	**1,469,514,970**	**2,852,713,400**	**9,051,184,029**
Interest	–	**294,111,032**	**183,130,293**	**132,928,300**	**610,169,625**
Due to related parties	**2,532,535**	–	–	–	**2,532,535**
Lease liabilities	–	**239,499,588**	**816,997,091**	**444,643,116**	**1,501,139,795**
	2,300,007,563	**17,368,430,276**	**2,469,642,354**	**3,430,284,816**	**25,568,364,009**
Financial Assets					
Cash					
Cash on hand and in banks	**2,093,208,409**	–	–	–	**2,093,208,409**
Short-term investments	**4,537,258,948**	–	–	–	**4,537,258,948**
Accounts receivables					
Trade receivables	**2,712,906,334**	**1,859,239,629**	**42,139,880**	**33,785,699**	**4,648,071,542**
Receivables from car plant	**11,040,734**	–	–	–	**11,040,734**
Others	**126,956,848**	**18,244,146**	**298,166**	**6,764,031**	**152,263,191**
Receivable from related parties	**178,008,353**	–	–	–	**178,008,353**
	9,659,379,626	**1,164,660,866**	**42,438,046**	**40,549,730**	**10,907,028,268**
Liquidity gap (position)	**₱7,359,372,063**	**(₱16,203,769,410)**	**(₱2,427,204,308)**	**(₱3,389,735,086)**	**(₱14,661,335,741)**

**Excluding statutory liabilities*

	2021				
	On demand	< 1 year	1 to < 2 years	> 2 years	Total
Financial Liabilities					
Accounts payable and accrued expenses*	₱2,961,165,811	₱3,533,131,173	₱–	₱–	₱6,494,296,984
Bank loans					
Peso loan	–	5,706,469,178	–	–	5,706,469,178
Interest	–	319,475,191	–	–	319,475,191
Long-term debt					
Peso loan	–	3,400,851,292	5,010,490,241	1,750,120,302	10,161,461,835
Interest	–	182,713,433	70,244,772	20,598,121	273,556,326
Due to related parties	2,482,255	–	–	–	2,482,255
Lease liabilities	–	229,589,347	823,985,041	480,640,298	1,534,214,686
	2,963,648,066	13,372,229,614	5,904,720,054	2,251,358,721	24,491,956,455
Financial Assets					
Cash					
Cash on hand and in banks	2,929,391,629	–	–	–	2,929,391,629
Short-term investments	6,127,094,444	–	–	–	6,127,094,444
Accounts receivables					
Trade receivables	2,356,905,000	1,559,809,737	–	–	3,916,714,737
Receivables from car plant	40,500,435	–	–	–	40,500,435
Others	105,577,151	–	–	–	105,577,151
Receivable from related parties	145,283,445	–	–	–	145,283,445
	11,704,752,104	1,559,809,737	–	–	13,264,561,841
Liquidity gap (position)	(₱8,741,104,038)	₱11,812,419,877	₱5,904,720,054	₱2,251,358,721	₱11,227,394,614

**Excluding statutory liabilities*

As of December 31, 2022, the Group has available undrawn committed borrowing facilities with local banks totaling to ₱22.5 billion.

b. *Market risk*
Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in equity prices, foreign currency exchange rates and interest rates.

c. *Equity price risk*
The Group's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as available-for-sale securities.

Quoted available-for-sale securities assets are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The analysis below is performed for reasonably possible movements in the market index with all other variables held constant, showing the impact on equity.

	2022		2021	
Market Index	**Change in variable**	**Effect on equity**	Change in variable	Effect on equity
PSE	**18.28%**	**4,069,020**	12.24%	3,326,397
	(18.28%)	**(4,069,020)**	(12.24%)	(3,326,397)
Others	**20.51%**	**1,948,004**	18.47%	1,274,272
	(20.51%)	**(1,948,004)**	(18.47%)	(1,274,272)

The percentage of increase and decrease in market price is based on the movement in the Philippine Stock Exchange Index (PSEI) and other market index pertaining to golf and country club shares from beginning to end of the year. The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index and other quoted equity securities will be most likely be limited to an upward or downward fluctuation of 18.28% and 12.24% in 2022 and 2021, respectively.

The impact of sensitivity of equity prices on the Group's equity already excludes the impact on transactions affecting the consolidated statements of income.

Foreign currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's currency risk arise mainly from cash and receivables which are denominated in a currency other than the Group's functional currency or will be denominated in such a currency.

Foreign currency risk is monitored and analyzed systematically and is managed centrally by the central finance department. The Group's policy is to maintain foreign currency exposure within existing internal regulations, and within acceptable risk limits as approved by the BOD.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar (USD, US$), Singaporean dollar (SGD, S$), Euro (EUR, €), Japanese yen (JPY, ¥) and British pound (GBP, £) currency rates, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	2022		2021	
	Percentage increase/ decrease in foreign currency	**Effect on profit before tax**	Percentage increase/ decrease in foreign currency	Effect on profit before tax
USD	**+2.2%**	**₱32,810,102**	4.40%	₱12,772,442
SGD	**+1.4%**	**10,248**	2.70%	17,886
EUR	**+3.3%**	**15,402**	1.00%	4,373
YEN	**+5.2%**	**222,919**	1.30%	83,553
GBP	**+4.5%**	**–**	0.60%	–
USD	**-2.2%**	**(₱32,810,102)**	-4.40%	(₱12,772,442)
SGD	**-1.4%**	**(10,248)**	-2.70%	(17,886)
EUR	**-3.3%**	**(15,402)**	-1.00%	(4,373)
YEN	**-5.2%**	**(222,919)**	-1.30%	(83,553)
GBP	**-4.5%**	**–**	-0.60%	–

The forecasted movements in percentages used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months.

The foreign currency-denominated financial assets and financial liabilities in original currencies and equivalents to the functional and presentation currency are as follows:

				2022		
	USD[1]	**SGD[2]**	**EUR[3]**	**YEN[4]**	**GBP[4]**	**Equivalents in PHP**
Financial assets						
Cash and cash equivalents	**$26,601,434**	**$17,680**	**€7,722**	**¥8,682,102**	**£–**	**₱1,497,691,393**
Receivables	**153,130**	**–**	**–**	**1,621,004**	**–**	**9,194,399**
	26,754,564	**17,680**	**7,722**	**10,303,106**	**–**	**1,506,885,792**
Financial liabilities						
Accounts payable and accrued expenses	**187,680**	**–**	**–**	**–**	**–**	**10,532,602**
	$26,566,884	**$17,680**	**€7,722**	**¥10,303,106**	**£–**	**₱1,496,353,190**

[1] *Exchange rate used - ₱55.76 to US$1*
[2] *Exchange rate used - ₱41.58 to US$1*
[3] *Exchange rate used - ₱59.56 to €1*
[4] *Exchange rate used - ₱0.42 to ¥1*
[5] *Exchange rate used - ₱67.44 to £1*

				2021		
	USD[1]	SGD[2]	EUR[3]	YEN[4]	GBP[4]	Equivalents in PHP
Financial assets						
Cash and cash equivalents	$5,657,415	$17,680	€7,722	¥12,657,997	£–	₱293,943,666
Receivables	388,067	–	–	1,439,193	–	20,338,812
	6,045,482	17,680	7,722	14,097,190	–	314,282,478
Financial liabilities						
Accounts payable and accrued expenses	294,720	–	–	–	–	14,964,113
	US$5,750,762	S$17,680	€7,722	¥14,097,190	£–	₱299,318,365

[1] *Exchange rate used - ₱50.99 to $1*
[2] *Exchange rate used - ₱37.55 to S$1*
[3] *Exchange rate used - ₱57.51 to €1*
[4] *Exchange rate used - ₱0.44 to ¥1*
[5] *Exchange rate used - ₱68.53 to £1*

There are no other effects of the foreign currency sensitivity on the Group's equity other than those already affecting the consolidated statements of income.

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's short-term and long-term obligations.

In order to effectively manage its interest rate risk and its financing costs, the Group closely monitors the movements of interest rates, as well as, economic factors affecting the trends of these movements. In certain cases, depending on its assessment of future movements of interest rates, the Group would pre-terminate its debt and obtain a new loan facility which provides for either floating or fixed interest rates. This is intended to minimize its financing costs.

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

	2022		2021	
	Increase/decrease in basis points	**Effect on profit before tax**	Increase/decrease in basis points	Effect on profit before tax
Peso floating rate borrowing	**+873**	**(32,327,042)**	+963	(76,902,038)
	-873	**32,327,042**	-963	76,902,038

The forecasted movements in percentages of interest rates used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months.

There are no other impact on the Group's equity other than those already affecting the consolidated statements of income.

d. *Credit risk*
The Group's exposure to credit risk on its receivables relates primarily to the inability of the debtors to pay and fully settle the unpaid balance of receivables owed to the Group. The Group manages its credit risk in accordance with its credit risk policies which requires the evaluation of the creditworthiness of the debtors. The Group's exposure to credit risk on its other receivables from debtors and related parties is managed through close account monitoring and setting limits.

For a financial asset that arises from long-term construction contracts, the Group considers the asset to be in default if contractual payments are not settled within 90 days from the completion of the construction project. The Group's normal credit terms for construction projects is within 90 days based on its historical experience. However, in certain cases, the Group may also 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Group's maximum credit risk exposure for its secured loans receivables is equal to its carrying value in 2022 and 2021. The Group holds collateral against these loans receivables in the form of mortgage interests over property. The fair values of the collateral amounts to nil in 2022 and 2021. This resulted to a nil net exposure as at December 31, 2022 and 2021.

With respect to credit risk arising from cash and cash equivalents, unsecured loans receivables, accounts receivable, due from related parties, available-for-sale securities and receivables from EEI- RFI, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The information about the credit exposure on the Group's financial assets using provision matrix and the credit quality of other financial assets is as follows:

	2022			
	Neither past due nor impaired		Past Due and Impaired Financial Assets	
	High Grade	**Standard Grade**		**Total**
Cash in bank and cash equivalents	**₱6,618,657,398**	**₱–**	**₱–**	**₱6,618,657,398**
Receivables from:				
Construction and infrastructure	**1,474,217,805**	**899,608,292**	**85,880,485**	**2,459,706,582**
Education	**946,505,281**	**179,191,918**	**346,388,414**	**1,472,085,613**
Car dealership	**384,844,769**	**153,881,416**	**36,551,181**	**575,277,366**
Other services	**94,326,456**	**37,000,166**	**9,675,359**	**141,001,981**
Other receivables:				
Receivables from car plant	**11,040,734**	**–**	**–**	**11,040,734**
Others	**35,595,096**	**11,296,877**	**82,064,279**	**128,956,252**
Due from related parties	**178,008,353**	**–**	**–**	**178,008,353**
Receivable from a customer	**23,306,939**	**–**	**–**	**23,306,939**
Receivable from EEI-RFI	**1,200,000,000**	**–**	**–**	**1,200,000,000**
Miscellaneous deposits	**145,216,359**	**–**	**41,256,426**	**186,472,785**
	₱11,111,719,190	**₱1,280,978,669**	**₱601,816,144**	**₱12,994,523,003**

	2021			
	Neither past due nor impaired		Past Due and Impaired Financial Assets	
	High Grade	Standard Grade		Total
Cash in bank and cash equivalents	₱9,042,578,390	₱–	₱–	₱9,042,578,390
Receivables from:				
Construction and infrastructure	983,818,549	1,265,510,624	67,770,535	2,317,099,708
Education	382,073,950	579,655,934	289,889,812	1,251,619,696
Car dealership	154,023,156	63,641,011	36,511,181	254,175,348
Other services	58,585,742	25,518,884	9,675,359	93,779,985
Other receivables:				
Receivables from car plant	40,500,435	–	–	40,500,435
Others	147,167,100	12,007,866	75,623,833	234,798,799
Due from related parties	145,283,445	–	–	145,283,445
Receivable from a customer	16,061,797	–	–	16,061,797
Miscellaneous deposits	155,281,347	–	3,335,193	158,616,540
	₱11,125,373,911	₱1,946,334,319	₱482,805,913	₱13,554,514,143

Neither past due nor impaired accounts receivables, other receivables are classified into 'high grade' and 'standard grade'. The Group sets financial assets as 'high grade' based on the Group's positive collection experience. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. On the other hand, 'standard grade' are those which have credit history of default in payments.

Past due and impaired financial assets are those outstanding balances which are historically collected after due dates. Impairment is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., type of customers). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company has the following financial assets that are subject to the expected credit loss model under PFRS 9:

- Cash and cash equivalents
- Receivables
- Contract assets
- Advances to officers and employees
- Due from related parties
- Receivable from EEI-RFI
- Miscellaneous deposits

The ending loss allowances as of December 31, 2022 and 2021 reconcile to the opening loss allowances as follows (Note 7):

	2022	2021
Balance at beginning of year	**₱479,510,720**	₱366,936,427
Provisions	**138,847,708**	122,176,169
Write off	**(57,798,710)**	(9,601,876)
Balance at end of year	**₱560,559,718**	₱479,510,720

Credit Quality
The Group maintains internal credit rating system. Neither past due nor impaired financial assets are graded as either "Grade A/ High Grade" or "Grade B/ Standard Grade" based on the following criteria:

- Grade A are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

- Grade B are active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to the Group's collection efforts and update their payments accordingly.

Cash in banks and cash equivalents are short-term placements and working cash fund placed, invested or deposited in reputable foreign and local banks in the Philippines. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency.

Receivables, Receivables from related parties and Receivables from EEI-RFI are Grade A because they are from related parties, employees and accredited customers who are highly reputable, progressive and consistently pay their accounts.

Security and other deposits and construction bond are Grade A since these were paid to creditworthy third parties.

The Group's financial assets considered as neither past due nor impaired are all graded "A" based on the Group's assessment.

A summary of Group exposure to credit risk under general and simplified approach as of December 31, 2022 and 2021 follows:

2022

	General Approach			Simplified
	Stage 1	Stage 2	Stage 3	Approach
Amortized cost				
Cash and cash equivalents	**₱6,630,467,357**	**₱–**	**₱–**	**₱–**
Trade receivables	**–**	**–**	**–**	**4,648,071,542**
Nontrade receivables	**163,303,925**	**–**	**–**	**–**
Contract asset	**–**	**–**	**–**	**10,401,755,409**
Receivables from EEI-RFI	**1,200,000,000**	**–**	**–**	**–**
Total gross carrying amounts	**7,993,771,282**	**–**	**–**	**15,049,826,951**
Less allowance	**–**	**–**	**–**	**589,514,315**
	₱7,993,771,282	**₱–**	**₱–**	**₱14,460,312,636**

2021

	General Approach			Simplified
	Stage 1	Stage 2	Stage 3	Approach
Amortized cost				
Cash and cash equivalents	₱9,056,486,073	₱–	₱–	₱–
Trade receivables	–	–	–	3,916,714,738
Nontrade receivables	291,361,030	–	–	–
Contract asset	–	–	–	9,877,856,941
Total gross carrying amounts	9,347,847,103	–	–	13,794,571,679
Less allowance	–	–	–	536,655,805
	₱9,347,847,103	₱–	₱–	₱13,257,915,874

In 2022 and 2021, there were no movements between stage 1, 2 and 3.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group which is composed of diversified operations (i.e. construction and infrastructure operations, education and finance and leasing activities) manages its capital on a per entity basis. Each entity manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2022 and 2021.

Parent Company, EEI and IPO
The Parent Company, EEI (construction and infrastructure operations) and IPO (education) monitor capital using gearing ratio. The Parent Company, EEI and IPO's policies are to keep the gearing ratio up to a maximum of 2:1, 4:1 and 2:1, respectively.

	2022	2021
Current liabilities	**₱18,334,972,156**	₱17,188,279,183
Noncurrent liabilities	**5,176,526,382**	9,326,900,885
Total liabilities (a)	**23,511,498,538**	26,515,180,068
Equity (b)	**33,593,340,866**	30,552,860,553
Debt to Equity Ratio (a/b)	**0.70:1**	0.87:1

On December 23, 2021, EEI issued and listed in the PSE non-convertible preferred shares generating net proceeds of ₱5.96 billion. Cumulative dividends in arrears on preferred shares as at December 31, 2022 and 2021 amounted to ₱299.06 million and ₱6.55 million, respectively.

In 2022, the BOD of EEI approved the declaration of dividends to Series A and B preferred shareholders amounting to ₱398.7 million.

Fair Value Information
The Group uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation techniques:

- *Level 1* - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- *Level 2* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- *Level 3* - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

- *Cash and cash equivalents, receivables, due from related parties, accounts payable and other current liabilities, short-term loans and due to related parties*
  Carrying amounts approximate fair values due to the short-term nature of these accounts.

- *Interest-bearing trade receivables*
  The fair value of interest-bearing trade receivables amounting to ₱23.3 million and ₱16.1 million as of December 31, 2022 and 2021, respectively, was estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rate used in 2022 and 2021 was 5.21% and 1.66%, respectively.

- *Receivable from sale of investment properties* (Note 7)
  The fair value of the receivable from sale of investment property amounting to ₱16.00 million and ₱17.3 million as of December 31, 2022 and 2021, respectively, was estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rate used in 2022 and 2021 was 5.21% and 1.66%, respectively.

- *Equity investments at FVOCI* (Note 11)
  <u>Quoted investments</u>
  Fair value of investments in equity shares listed with Philippine Stock Exchange amounting to ₱136.50 million and ₱109.27 million as of December 31, 2022 and 2021, respectively, were determined by reference to the quoted price in the stock exchange at the end of the reporting period (Level 1 - quoted prices in active market).

  Fair values of investments in club/golf shares amounting to ₱20.60 million and ₱19.01 million as of December 31, 2022 and 2021, respectively, were determined by reference to the price of the most recent transaction at the end of the reporting period (Level 2 - significant observable inputs).

  Hermosa Ecozone Development Corporation
  The fair value of the Group's investment in HEDC is determined using the adjusted net asset approach wherein the assets of HEDC consisting mainly of parcels of land are adjusted from cost to their fair value. The valuation was performed by an independent SEC-accredited appraiser as of December 31, 2022.

  The significant unobservable inputs (Level 3) used in the fair value measurement of HEDC are as follows:

  The fair values of the land were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (20%), location (20%) and facilities and utilities (10%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Depending on the status of the development, the value of the land per sqm ranges from ₱650 to ₱7,500.

A 5% increase (decrease) in the appraised value of the land per sqm could increase (decrease) the Group's investment by ₱20.0 million.

Loan receivable from EEI-RFI (Note 17)
The fair values of the receivable amounting to ₱1.09 billion from sale of Bauan Batangas Property was estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rates used in 2022 were 5.21% to 7.03%.

- *Long-term debt* (Note 20)
  The carrying value approximates the fair value using the EIR method because future payments are discounted based on interest at market rate.

  The fair values of the interest-bearing long-term debt amounting to ₱9,031.5 million and ₱10,137.9 million as of December 31, 2022 and 2021, respectively, were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 -significant observable inputs). Discount rates used in 2022 and 2021 were and 5.97% to 3.25%, respectively.

- *Long-term retention payable*
  The fair values of the retention payable which is included in other noncurrent liabilities amounting to ₱128.2 million and ₱242.9 million as of December 31, 2022 and 2021, respectively, were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rates used in 2022 and 2021 were 5.97% and 1.66%, respectively.

As at December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements. There are no financial assets and financial liabilities recognized at fair value based on Level 3 and there are no transfers in and out of Level 3 categories in 2022 and 2021. No financial instrument fall within Level 3.

There were no transfers between levels of fair value measurements in 2022 and 2021. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period.

39. **Capital Stock**

Preferred stock
The authorized preferred stock is 2,500,000,000 shares at ₱0.40 par value. A reconciliation of the number of preferred shares outstanding as at December 31, 2022, 2021 and 2020 follows:

	2022		2021		2020	
	Amount	**Shares**	Amount	Shares	Amount	Shares
Balance at beginning of year	**₱–**	–	₱–	–	₱6,710,402	16,776,001
Redemption of preferred stock	–	–	–	–	(6,710,402)	(16,776,001)
Conversion of preferred stock to common stock	–	–	–	–	–	–
Balance at end of year	**₱–**	–	₱–	–	₱–	–

Redeemed preferred shares carried at ₱0.40 par value are treasury shares.

Common stock

The authorized common stock is 1,250,000,000 shares at ₱1.50 par value. A reconciliation of the number of common shares outstanding as at December 31, 2022, 2021 and 2020 follows:

	2022		2021		2020	
	Amount	**Shares**	Amount	Shares	Amount	Shares
Balance at beginning of year	**₱1,162,540,326**	**776,465,281**	₱1,165,147,926	776,765,281	₱1,165,147,926	776,765,281
Conversion of preferred stock	–	–	–	–	–	–
Balance at end of year	–	–	1,165,147,926	776,765,281	1,165,147,926	776,765,281
Treasury stock	–	–	(2,607,600)	(300,000)	(2,607,600)	(300,000)
	₱1,162,540,326	**776,465,281**	₱1,162,540,326	776,465,281	₱1,162,540,326	776,465,281

On May 24, 2013, the Parent Company repurchased 300,000 shares held as treasury stock at ₱8.69 per share for ₱2.61 million.

Details of the capital redemption and conversion follow:

Date of Redemption	**Amount**		**Record Date**	**Payment Date**
March 30, 2020	₱6,710,402	₱0.40	April 27, 2020	May 20, 2020
April 6, 2018	₱6,343,953	₱0.40	May 3, 2018	May 30, 2018
March 31, 2017	₱7,020,070	₱0.40	April 28, 2017	May 21, 2017
July 21, 2017	6,844,569	0.40	August 18, 2017	September 12, 2017
September 29, 2017	6,673,454	0.40	October 27, 2017	November 24, 2017
December 8, 2017	6,506,618	0.40	January 4, 2018	January 30, 2018
	₱27,044,711			
March 31, 2016	₱7,768,247	₱0.40	April 28, 2016	May 24, 2016
July 15, 2016	7,574,040	0.40	August 12, 2016	September 8, 2016
September 30, 2016	7,384,690	0.40	October 28, 2016	November 24, 2016
December 2, 2016	7,200,072	0.40	December 29, 2016	January 23, 2017
	₱29,927,049			

On March 30, 2020, after the declaration of cash dividends (Note 40), the BOD approved the redemption of 16,766,001 preferred shares at par value with a total amount of ₱6.71 million to the stockholders of the Parent Company's preferred shares on record as of April 27, 2020, payable on May 20, 2020.

In 2019 and prior years, the Parent Company's preferred shares have the following features:

a) Entitled to dividends at the rate of average 91-day T-Bill plus two percent;
b) Fully participating as to distribution of dividends;
   - Convertible into common shares at the option of the holders thereof from the date of issue at the conversion rate of 3 and 3/4 preferred shares to 1 common share for a price of ₱1.50 per common share subject to adjustments;
c) Redeemable at any one time or from time to time, at the option of the BOD of the Parent Company, subject to availability of funds; and
d) With voting rights and preferences as to assets upon dissolution of the Parent Company over common shareholders.

Below is the summary of the outstanding number of shares and holders of security as at December 31, 2022:

Year	Number of shares registered	Number of holders of securities
Preferred shares:		
January 1, 2020	–	–
Movement	–	–
December 31, 2020	–	–
Movement	–	–
December 31, 2021	–	–
Movement	–	–
December 31, 2022	**–**	**–**
Common Shares:		
January 1, 2020	–	–
Movement	–	–
December 31, 2020	776,465,281	384
Movement	–	–
December 31, 2021	776,465,281	384
Movement	–	(7)
December 31, 2022	776,465,281	377

The SEC approved the registration of the Parent Company's authorized capital stock before its listing date with the PSE, which was on July 2, 1962. The actual number of shares initially listed were 584,085 at an offer price of ₱10.0 per share. Total number of preferred and common shareholders was nil and 377, respectively, as of December 31, 2022 and nil and 384, respectively, as of December 31, 2021.

40. Retained Earnings

Cash Dividends

The BOD declared cash dividends in 2022, 2021 and 2020 as follows:

Date of BOD Approval	Amount	Amount per share Preferred Shares	 Common Shares	Record Date	Payment Date
March 30, 2020	₱86,529	₱0.00515	₱–	April 27, 2020	May 20, 2020

On April 12, 2023, the Parent Company's BOD approved additional appropriation of retained earnings amounting to ₱0.5 billion, for planned investments and business expansion that the Parent Company intends to carry out for the next three (3) years.

On December 31, 2021, the Parent Company's BOD approved appropriation of retained earnings amounting to ₱3.5 billion, for planned investments and business expansion that the Parent Company intends to carry out for the next 2-3 years. On the same date, the Parent Company approved the reversal of ₱2.5 billion appropriations made in 2019 and 2018 following the completion of its previous planned investment and business expansion.

On March 30, 2020, the BOD approved the declaration of cash dividends of ₱0.00516 per share with a total amount of ₱0.09 million to the stockholders of the Parent Company's preferred shares on record as of April 27, 2020, payable on May 20, 2020.

Retained earnings include ₱4,831.3 million and ₱3,582.3 million as of December 31, 2022 and 2021, respectively, representing treasury shares, appropriated retained earnings and deferred tax assets that are not available for dividend declaration. After reconciling items, the retained earnings of the Parent Company that are available for dividend declaration amounted to ₱1,419.74 million and ₱650.9 million as of December 31, 2022 and 2021, respectively.

Under the Tax Code, publicly-held Corporations are allowed to accumulate retained earnings in excess of capital stock and are exempt from improperly accumulated earnings tax.

Restrictions

The Group's retained earnings include accumulated earnings of subsidiaries, associate and joint venture amounting to ₱7,365.54 million and ₱5,766.5 million as of December 31, 2022 and 2021, respectively, not declared as dividends to the Group. Accordingly, these are not available for dividend declaration.

41. Other Matters

Changes in Liabilities Arising from Financing Activities

2022

	January 1, 2022	**Net cash flows**	**Non-cash movement**	**December 31, 2022**
Loans payable (Note 19)	**₱5,706,469,178**	**₱2,510,530,822**	**₱–**	**₱8,217,000,000**
Long-term debt (Note 20)	**10,137,862,990**	**(1,106,339,711)**	**–**	**9,031,523,279**
Lease liabilities (Note 14)	**1,115,360,254**	**(38,966,647)**	**302,436,671**	**1,378,830,278**
	₱16,959,692,422	**₱1,365,224,464**	**₱302,436,671**	**₱18,627,353,557**

2021

	January 1, 2021	Net cash flows	Non-cash movement	December 31, 2021
Loans payable (Note 19)	₱7,982,000,000	(₱2,275,530,822)	₱–	₱5,706,469,178
Long-term debt (Note 20)	7,420,302,136	2,717,560,854	–	10,137,862,990
Lease liabilities (Note 14)	1,250,332,847	(117,433,326)	(17,539,267)	1,115,360,254
	₱16,652,634,983	₱324,596,706	(₱17,539,267)	₱16,959,692,422

COVID-19 related considerations

a. Risks and Impacts of COVID-19

The Group, in cooperation with the Yuchengco Group of Companies Business Continuity Management - Disaster Recovery Management ("YGC BCM-DRM) Council have taken the necessary precautionary measures to mitigate the risks that may cause disruptions to its various businesses.

1. Risk to the health and safety of employees, clients, suppliers, and communities. House of Investments and its subsidiaries have adopted the Department of Health guidelines and regularly give advisories on COVID-19 precautionary measures to ensure compliance with the Inter-Agency directives on Community Quarantine. The Group has also adopted its own protocols, including, but not limited to regular and frequent disinfection of buildings and

office premises, temperature checks at all entry points and restricting entry of visitors to office premises. To further minimize the risk of person-to-person transmission, the Group has limited the assembly of people by conducting meetings via video- and/or tele-conferencing. The Group also implemented a combination of Four-day Work Week and Work-from-Home arrangements while ensuring that service interruptions to its clients are minimized.

2. Disrupted business operations. The Group is compliant with national and local ordinances. To ensure minimal service interruptions and that its operations are not hampered, its various businesses have identified and designated essential and non-essential employees and wherever appropriate, have setup skeletal workforce.

   Despite the suspension of classes, disruptions on the academic outcomes of students were minimized as the Group's schools utilized alternative means to continue course work, e.g. on-line classes, coursework online, and independent projectized learning, among others. All these blended learning initiatives using multiple e-learning and course monitoring platforms allowed the students to fulfill their course requirements to comply with CHED or DepEd academic requirements amid the prolonged suspension of classes.

   With the continued positive development on COVID-19 vaccination and the lifting of the community quarantine, face-to-face classes were resumed starting SY2022-2023.

3. The Group's Property Management team enhanced their services being at the forefront of the crisis management operations. The team is working hand-in-hand with the YGC BCM-BRM Council on the Group's group-wide risk mitigation initiatives.

4. Disrupted supply chain management. The Group is conducting assessments on all resources expected to come in and those expected to be ordered, particularly on the supply of resources coming from infected areas while taking into consideration the community quarantine declared in Metro Manila. In coordination with their respective planning groups, each business unit is working on making adjustments to minimize the impact of such disruption. This includes focusing on activities that have no issues with the supply of resources and looking for alternative suppliers from "virus-free" areas.

5. Disruption in Construction Sector. The COVID-19 pandemic has continuously impacted the Group's operation and financial performance in 2022.

   At the end of 2022, the construction sector's unworked portion of existing contracts stood at ₱57.9 billion, including ARCC's backlog of ₱26.4 billion. The construction sector considers this backlog of projects as healthy and sustainable. The construction sector expects an overall strong performance in its domestic operations driven by the current buildings, infrastructure, electromechanical, and industrial projects in its pipeline as production continues to pick-up. Despite the delays in operations caused by the COVID-19 pandemic, the backlog was preserved and will be realized as construction works resume.

The COVID-19 pandemic was treated as an opportune time to recalibrate the Yuchengco Group of Companies' investment portfolio strategy via sharper focus on optimizing returns from existing businesses and a more disciplined process on capital deployment. The recovery exhibited in the operating results of its various business segments starting 2021 was a testament that the Group's efforts were effective.