C O V E R S H E E T

SEC Registration Number

-	-	-	-	-	-	-	-	8	4	5

COMPANY NAME

S O L I D G R O U P I N C . A N D

S U B S I D I A R I E S

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

2 2 8 5 D O N C H I N O R O C E S A V E N U E

M A K A T I C I T Y

Form Type	Department requiring the report	Secondary License Type, If Applicable
SEC FORM 17-Q	CGFD/MSRD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
N/A	8843-1511	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
4,199	Last Thursday of June (Per AOI)	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Christopher James L. Tan	cjlt@solidgroup.com.ph	8843-1511	N/A

Contact Person's Address

2285 DON CHINO ROCES AVENUE MAKATI CITY

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: June 30, 2024

2. Commission Identification Number: 845

3. BIR Tax Identification No.: 321-000-508-536

4. Exact name of registrant as specified in its charter **SOLID GROUP INC.**

5. Province, Country or other jurisdiction of incorporation: Philippines

6. _________ (SEC Use Only)
Industry Classification Code

7. Address of principal office: Postal Code: 1231
2285 Don Chino Roces Avenue, Makati City, Philippines

8. Telephone No: (632) 8843-1511

9. Former name, former address and former fiscal year, if changed since last report: N/A

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, P1 par value	1,821,542,000 shares

11. Are any or all of the securities listed on the Philippine Stock Exchange?
Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:

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

Yes [X] No [ ]

(b) has been subject to such filing requirement for the past 90 days.

Yes [X] No [ ]

PART I. – FINANCIAL INFORMATION
Item 1. Financial Statements

The unaudited consolidated financial statements of the Company and its subsidiaries for the six (6) months period ended June 30, 2024 are attached to this report.

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

Key Performance Indicators

The following key performance indicators are identified by the Company and included in the discussion of the results of operations and financial condition: revenue growth, asset turnover, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share (EPS), current ratio and debt to equity ratio.

Key performance indicators for 2024 and 2023 are as follows:

	2024	2023
Revenue growth(decline)	3%	66%
Asset turnover	17%	17%
Operating expense ratio	24%	25%
EBITDA	P321 million	P228 million
EPS	P0.10	P0.07
Current ratio	7.04 : 1	7.14 : 1
Debt to equity ratio	0.20 : 1	0.16 : 1

Revenue growth (decline) is determined as follows: revenues for the current period less revenues for last period divided by the revenues of the previous period.

Asset turnover is computed based on the revenues (annualized) earned during the period divided by the average total assets.

Operating expense ratio is calculated as follows: operating expenses for the period divided by revenues for period.

EBITDA is determined by adding back interest expense, depreciation and amortization charges, to income from operations before income tax for the period.

Earnings per share (EPS) is computed based on the net income or loss for the period divided by the weighted average shares outstanding during the year.

Current ratio is computed as follows: total current assets as of end of the period divided by total current liabilities as of end of the period.

Debt to equity ratio is computed by dividing the total liabilities excluding amounts due to related parties as of end of the period by the total equity as of end of the period.

Revenue increased minimally by 3% in the first half of 2024 compared to 66% growth in the same period of 2023 mainly contributed by retail sales of distribution/retail segment.

Asset turnover stood at 17% for both periods.

Operating expense ratio slightly went down at 24% for the first half of 2024 as compared to 25% for the first half of 2023 mainly due to improved revenue and lower expenses reported for the period.

EBITDA grew to P321 million for the first half of 2024 from P228 million for the same period in 2023 driven by higher income for the period.

Earnings per share went up to P0.10 for the first half of 2024 from earnings per share of P0.07 for the same period in 2023 mainly from higher net profit for the period.

Current ratio was at 7.04 : 1 as of June 30, 2024 from 7.14 : 1 as of December 31, 2023 primarily due to increase in current liabilities.

Debt to equity ratio stood at 0.20 : 1 as of June 30, 2024 from 0.16 : 1 as of December 31, 2023 principally due to higher liabilities.

<u>Results of Operations</u>

Revenues in the first half of 2024 was slightly up to P1,212 million from P1,176 million for the same period in 2023 as explained below.

Sale of goods climbed 3% to P643 million for the first half of 2024 from P625 million for the same period in 2023 primarily from retail sales of distribution/retail segment. There was no material change for this account.

Service revenue was higher by 4% to P374 million for the first half of 2024 from P359 million for the same period in 2023. There was no material change for this account.

Rental income improved by 5% to P146 million for the first half of 2024 from P139 million for the same period in 2023 mainly due to higher occupancy.

Interest income declined by 24% to P39 million for the first half of 2024, from P52 million for the same period in 2023 mainly due to lower investible funds for the period.

Sale of real estate was P8 million in the first half of 2024 from sale of a condominium unit and two parking slots, none in same period in 2023.

Cost of sales, services, real estate sold and rentals increased by 5% to P822 million for the first half of 2024 from P781 million for the same period in 2023 as discussed below.

Cost of sales amounted to P504 million for the first half of 2024, an increase of 7% from P472 million for the same period of last year associated to increase in sales.

Cost of services reached P261 million for the first half of 2024 from P258 million for the same period of 2023. There was no material change for this account.

Cost of rentals grew by 4% at P52 million for the first half of 2024 from P50 million for the first half of 2023. There was no material change for this account.

Cost of real estate sold was P3.9 million in first half of 2024, nil in the same period of 2023.

Gross profit amounted to P389 million for the first half of 2024, slightly down by 1% from P395 million for the same period in 2023. There was no significant change for this account.

Other operating expenses (income) amounted to P256 million for the first half of 2024 from P258 million for the same period of 2023 as explained below.

General and administrative expenses went down by 13% to P210 million for the first half of 2024 from P242 million for the same period of 2023 arising mainly from impairment loss in investment in an associate in 2023 (none in 2024).

Selling and distribution costs surged by 33% to P75 million for the first half of 2024 from P56 million for the same period of 2023 brought primarily by increase in manpower cost, rental, outside services and bank charges from credit card transactions of the distribution/retail segment.

Other operating income – net reached P30 million for the first half of 2024, down by 26% from P40 million for the same period in 2023 attributable to lower income from utilities charged to tenants of the property & related services segment.

Operating profit (loss) weakened by 2% to P133 million for the first half of 2024 from P136 million for the same period in 2023 as explained above. There was no material change for this account.

Other income (charges) went up to P147 million income for the first half of 2024 against P51 million for the same period in 2023 principally from the following:

Finance costs diminished by 59% to P2.7 million for the first half of 2024 from P6.5 million in 2023 chiefly due to lower foreign currency exchange loss and impairment losses on trade and other receivables of the distribution/retail segment.

Finance income grew by 55% to P78 million for the first half of 2024 compared to P50 million for the same period of last year mainly due from increase in cash surrender value of investment in life insurance.

Other gains - net amounted to P71 million income in the first half of 2024, or higher by 910% compared with P7 million of the previous year primarily attributable to gain on sale of real property by property & related services segment.

Profit before tax was P281 million for the first half of 2024, up by 50% from P187 million for the same period in 2023 mainly due to increase in other gains – net and higher finance income as discussed above.

Tax expense went up by 22% to P69 million for the first half of 2024 from P57 million for the same period in 2023 from greater pre-tax income of the property & related services and logistics and technical solutions segments.

Net profit improved by 62% to P211 million for the first half of 2024 against P130 million for the same period in 2023 primarily due to higher other income (charges).

Net profit attributable to equity holders of the parent realized P174 million for the first half of 2024 against P122 million net profit in the same period of 2023 as discussed above.

Net profit attributable to non-controlling interests (NCI) amounted to P37 million for the first half of 2024 compared with P7 million in same period of 2023 due to gain on sale of real property of Starworld Corp. This represents minority share in net profit for the period.

Financial Position

Cash and cash equivalents grew by 25% to P3,396 million as of June 30, 2024 from P2,710 million as of December 31, 2023. Cash was principally provided from operating activities attributed to decrease in trade & other receivables of the distribution/retail segment.

Short-term placements went down by 52% to P73 million as of June 30, 2024 from P153 million as of December 31, 2023 from placements in time deposits with less than 90 days maturity period.

Trade and other receivables achieved P264 million as of June 30, 2024 against P251 million as of December 31, 2023, higher by 5% primarily from higher rental receivables of the property & related services and advances to suppliers of the distribution/retail segment. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties was maintained at P2.4 million as of June 30, 2024 and as of December 31, 2023. There was no change for this account.

Merchandise inventories and supplies - net reached P521 million as of June 30, 2024, up by 55% compared with P337 million as of December 31, 2023 principally from higher purchases of merchandise and finished goods of the distribution/retail segment.

Real estate inventories amounted to P424 million as of June 30, 2024 from P428 million as of December 31, 2023 from sale of one condominium unit and two parking slots of the property & related services segment. There was no material change for this account.

Other current assets went up to P516 million as of June 30, 2024 compared with P480 million as of December 31, 2023 attributable to higher input VAT.

Total current assets reached P5,199 million as of June 30, 2024 from P4,365 million as of December 31, 2023 mainly from higher cash and cash equivalents and merchandise inventories.

Non-current trade and other receivables declined by 57% to P471 million as of June 30, 2024 from P1,084 million as of December 31, 2023 in relation to termination of some investments in life insurance by investment & others segment.

Financial assets at fair value through other comprehensive income amounted to P55.4 million as of June 30, 2024 and as of December 31, 2023. There was no change for this account.

Investment in an associate stood at P48 million as of June 30, 2024 and as of December 31, 2023 representing deposits to the planned increase in authorized capital stock of Fekon Solid Motorcycle Mfg Corp. There was no change for this account.

Investment in bonds was P20 million as of June 30, 2024 and as of December 31, 2023 from investment made in 2021.

Property and equipment dropped to P1,593 million as of June 30, 2024 from P1,594 million as of December 31, 2023. There was no material change for this account.

Investment properties – net went up to P7,324 million as of June 30, 2024 from P6,967 million as of December 31, 2023 attributable to construction in progress of warehouse facility of the property & related services segment.

Rights-of-use (ROU) assets – net decreased to P3.6 million as of June 30, 2024, lower by 22% from P4.6 million as of December 31, 2023 from depreciation of ROU assets under PFRS 16, Leases.

Post-employment benefit assets - net stood at P123 million as of June 30, 2024 and as of December 31, 2023. There was no change for this account.

Deferred tax assets - net amounted to P11 million as of June 30, 2024 and as of December 31, 2023. There was no change for this account.

Other non-current assets increased to P46 million as of June 30, 2024, up by 19% from P38 million as of December 31, 2023 mainly due to deposit to supplier of the logistics and technical solutions segment.

Total non-current assets amounted to P9,697 million as of June 30, 2024 and P9,948 million as of December 31, 2023 as discussed above.

Total assets reached P14,896 million as of June 30, 2024 from P14,313 million as of December 31, 2023 as discussed above.

Trade and other payables rose by 20% to P703 million as of June 30, 2024 against P586 million as of December 31, 2023 principally from dividends payable to stockholders.

Customers' deposits increased by 267% at P15 million as of June 30, 2024 from P4 million as of December 31, 2023 mostly due to additional deposits received by distribution/retail segment.

Current lease liabilities dropped by 9% to P4.6 million as of June 30, 2024 from P5.1 million as of December 31, 2023 due to payments of lease liabilities.

Income tax payable was lower by 8% to P13 million as of June 30, 2024 from P15 million as of December 31, 2023 mainly from payment of income tax due for the period.

Total current liabilities went up by 21% to P738 million as of June 30, 2024 from P610 million as of December 31, 2023 due to higher trade and other payables.

Interest-bearing loans reached P500 million as of June 30, 2024, higher by 376% from P105 million as of December 31, 2023 due to additional bank loans to partially finance the construction of a warehouse facility in Calamba, Laguna of the property & related services segment.

Non-current refundable deposits amounted to P192 million as of June 30, 2024 and as of December 31, 2023. There was no significant change for this account.

Post-employment benefit obligation stood at P20 million as of June 30, 2024 and as of December 31, 2023. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P1,021 million and P1,031 million as of June 30, 2024 and as of December 31, 2023, respectively. There was no material change for this account.

Total non-current liabilities amounted to P 1,734 million as of June 30, 2024 and P 1,348 million as of December 31, 2023 mainly from increase in interest-bearing loans.

Total liabilities amounted to P2,473 million as of June 30, 2024 from P1,959 million as of December 31, 2023 as discussed above.

Capital stock stood at P2,030 million as of June 30, 2024 and December 31, 2023.

Additional paid-in capital was maintained at P4,641 million as of June 30, 2024 and as of December 31, 2023.

Treasury shares amounted to P115 million as of June 30, 2024 and as of December 31, 2023.

Revaluation reserves improved by 31% to P169 million as of June 30, 2024 from P128 million as of December 31, 2023 due to gain in currency exchange differences on translating financial statements of foreign operations.

Retained earnings slightly decreased to P5,354 million as of June 30, 2024 from P5,362 million as of December 31, 2023 as a result of net profit attributable to parent for the period offset against cash dividends declared to stockholders.

Total equity attributable to Equity holders of Parent amounted to P12,080 million as of June 30, 2024 and P12,048 million as of December 31, 2023. There was no material change for this account.

Non-controlling interests amounted to P342 million as of June 30, 2024 and P305 million as of December 31, 2023 pertaining to net profit for the period of Starworld Corp.

Total equity amounted to P12,423 million as of June 30, 2024 from P12,353 million as of December 31, 2023.

i. Known Trends or Demands, Commitments, Events or Uncertainties that will impact Liquidity.

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will materially impact on its liquidity.

ii. Events that will trigger Direct or Contingent Financial Obligation that is material to the Company, including any default or acceleration of an obligation.

As discussed in Notes of the financial statements under Contingencies, certain subsidiaries of the Company are involved in litigation or proceedings, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the Company.

Except of these contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

iii. Material Off-Balance Sheet Transactions, Arrangements, Obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

The Company has no material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period that is not included in the financial statements.

iv. Material Commitments for Capital Expenditures, the general purpose of the Commitment and Expected Sources of Funds

The Company estimates capital expenditures for the year 2024 to amount to P1.5 billion for various real estate development, renovation and upgrade of facilities and transportation equipment. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company and partly through loans.

v. Known Trends, Events or Uncertainties that will impact Sales/Revenues/Income from Continuing Operations

Amidst the slowdown of general local handset brands in the maturing telecom market in the Philippines, MySolid Technologies & Devices Corporation (MySolid), a wholly owned subsidiary of the Company under the distribution/retail segment downsized and rationalized its business in 2022 and focused mostly on tablet devises for institutional sales and feature phones for select territorial distributors. Following this, in 2023, MySolid discontinued distribution of the feature phones on account of low volume and demand for these low-end basic phones and shifted its focus for institutional sales through public biddings and new marketing strategy for its tablet devices. The Company expects MySolid's revenues to stabilize with break-even results.

In August 2019, Kita Corporation (Kita), a wholly owned subsidiary of the Company, 25-year contract of lease with Clark Development Corporation (CDC) covering parcels of land had expired. In 2019, Kita surrendered the buildings to Clark International Airport Corporation since these locations are part of the site for the second Clark Airport runway. In 2021, the Company decided not to renew the lease contact. Hence, Kita's leasing operations declined to its single residential property in Angeles, Pampanga. In May 2024, the property was sold to a related party. It will have no material impact in the Company's annual rental revenues.

vi. Significant elements of Income or Loss that did not arise from Continuing Operations

None

vii. Causes for any Material Changes from Period to Period

As explained in Section V under Known Trends, Events and Uncertainties above, MySolid Technologies & Devices Corporation (MySolid), a wholly owned subsidiary of the Company under the distribution segment downsized and rationalized its business in 2022 and focused mostly on tablet devises for institutional sales and feature phones for select territorial distributors. This resulted to further lower sales in 2023 and 2022 resulting to operating loss of P8.8 million in 2023 and net profit of P5.2 million arising from foreign currency gains in 2022.

In November 2022, the Company acquired Avid Sales Corporation (Avid) following a due diligence audit by Isla Lipana &Co. (a member firm of Price Waterhouse Coopers). Consequently, the one-month results of operation ending December 31, 2022 of Avid and its ensuing financial position as of December 31, 2022 was included in the 2022 consolidated financial statements of the Company. Following this, it resulted to considerable changes in the results of operations and financial position of the consolidated report. It also resulted to a gain on acquisition of shares of P14.55 million for the year 2022. In 2023, it reported a full year revenue of P895 million and net profit of P14 million.

In 2023, the Group retrospectively restated its 2022 and 2021 consolidated financial statements to correct the amount of its deferred tax liabilities. The effects of the restatement in the consolidated statements of financial position as of December 31, 2022 and January 1, 2022 resulted to a decrease in deferred tax liabilities and increase in retained earnings in the amount of P56 million. The restatement has no impact on the consolidated statements of comprehensive income and consolidated statements of cash flows as of December 31, 2022 and January 1, 2022

Based on the appraisal reports obtained in 2023, the Company reported fair value gains on investment property of P296 million as at year-end of 2023.

viii. Seasonal Aspects that had Material Effect on the Financial Condition or Results of Operations

There were no significant seasonality in the Company's business that materially affects financial condition or results of operations.

PART II – OTHER INFORMATION

On April 11, 2024, the Board of Directors of Solid Group Inc. (SGI) approved the sale of certain assets of Solid Manila Corporation and Kita Corporation (both 100% owned by SGI) to AV Value Holdings Corporation. The prospective buyer, AV Value Holdings Corporation, is a holding company privately owned by the Lim family and a related party. The transaction was reviewed by the SGI Related Party Transaction Committee.

The Board of Directors also appointed Susan L. Tan, President and CEO of SGI, as the Company's Chief Sustainability Officer.

At the meeting held on May 12, 2023, the Board of Directors of Solid Group Inc. (SGI) approved the amendment of the Second Article of the Articles of Incorporation by including in the Primary Purpose Clause the authority to issue corporate guarantees and sureties in favor of the Corporation's subsidiaries. On June 7, 2024, the Solid Group Inc. received from the Securities and Exchange Commission (SEC) the Certificate of Filing of Amended Articles of Incorporation dated June 5, 2024 approving the amendments of the Articles of Incorporation.

On June 27, 2024, the Board of Directors approved the declaration of a cash dividend in the amount of P0.10 per share, in favor of stockholders of record as of July 15, 2024 and payable on August 8, 2024.

SIGNATURES

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

SOLID GROUP INC.

SUSAN L. TAN

President & Chief Executive Officer

VINCENT S. LIM

SVP & Chief Financial Officer and Chief Risk Officer

August 14, 2024

Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements as of June 30, 2024 and for the Six Months Period Ended June 30, 2024 and June 30, 2023

(with Comparative Audited Consolidated Statements of Financial Position as of December 31, 2023)

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 AND DECEMBER 31, 2023
(Amounts in Philippine Pesos)

	Notes	June 30, 2024	December 31, 2023
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	P 3,396,505,643	P 2,710,806,862
Short-term placements	5	73,692,908	153,780,405
Trade and other receivables - net	6	264,296,320	251,417,991
Advances to related parties	25	2,420,429	2,420,429
Merchandise inventories and supplies - net	8	521,303,762	337,347,302
Real estate inventories - net	9	424,967,513	428,929,955
Other current assets	13	516,258,903	480,578,047
Total Current Assets		5,199,445,478	4,365,280,991
NON-CURRENT ASSETS			
Trade and other receivables	6	471,526,985	1,084,168,861
Financial assets at fair value through other comprehensive income	7	55,400,000	55,400,000
Investment in an associate	7	48,022,714	48,022,714
Investment in bonds	7	20,000,000	20,000,000
Property and equipment - net	11	1,593,084,111	1,594,725,932
Investment properties - net	12	7,324,080,577	6,967,166,931
Right-of-use asset - net	10	3,621,894	4,665,980
Post-employment benefit asset - net	21	123,953,587	123,953,587
Deferred tax assets - net	22	11,044,677	11,044,677
Other non-current assets - net	13	46,496,161	38,933,179
Total Non-current Assets		9,697,230,706	9,948,081,861
TOTAL ASSETS		P 14,896,676,184	P 14,313,362,852

	Notes	June 30, 2024	December 31, 2023
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	15	**703,915,423**	586,312,082
Customers' deposits		**15,669,868**	4,272,982
Lease liabilities	10	**4,675,513**	5,120,889
Income tax payable		**13,987,507**	15,271,602
Total Current Liabilities		**738,248,311**	610,977,555
NON-CURRENT LIABILITIES			
Interest-bearing loans	14	**500,000,000**	105,000,000
Refundable deposits	16	**192,833,880**	192,693,811
Post-employment benefit obligation	21	**20,200,719**	20,200,719
Deferred tax liabilities - net	22	**1,021,862,549**	1,031,056,402
Total Non-current Liabilities		**1,734,897,148**	1,348,950,932
Total Liabilities		**2,473,145,459**	1,959,928,487
EQUITY			
Equity attributable to the Parent Company's stockholders			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital		**4,641,701,922**	4,641,701,922
Treasury shares - at cost	23	**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**169,206,418**	128,781,811
Retained earnings	23	**5,354,466,421**	5,362,557,945
Total equity attributable to the Parent Company's stockholders		**12,080,735,381**	12,048,402,298
Non-controlling interests	23	**342,795,344**	305,032,067
Total Equity		**12,423,530,725**	12,353,434,365
TOTAL LIABILITIES AND EQUITY		**P 14,896,676,184**	P 14,313,362,852

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2024 AND 2023
(Amounts in Philippine Pesos)

	Notes	June 30, 2024		June 30, 2023	
		2nd Quarter	Year-to-date	2nd Quarter	Year-to-date
REVENUES					
Sale of goods	4, 25	P 337,902,554	P 643,679,860	P 332,180,723	P 625,761,844
Rendering of services	25, 26	217,251,264	374,602,717	184,073,415	359,325,017
Rentals	12, 25, 27	74,555,388	146,330,639	75,998,365	139,078,055
Interest	5, 6, 7, 25	21,143,881	39,741,636	27,400,993	52,156,324
Sale of real estate		-	8,125,000	-	-
		650,853,087	1,212,479,852	619,653,496	1,176,321,240
COSTS OF SALES, SERVICES, RENTALS AND REAL ESTATE SALES	17, 18				
Cost of sales		260,058,751	504,648,695	256,425,185	472,857,055
Cost of services		147,895,057	261,809,779	134,207,482	258,305,947
Cost of rentals		11,755,012	52,094,283	12,537,899	50,140,105
Cost of real estate sold		-	3,962,442	-	-
		419,708,820	822,515,199	403,170,566	781,303,107
GROSS PROFIT		231,144,267	389,964,653	216,482,930	395,018,133
OTHER OPERATING EXPENSES (INCOME)					
General and administrative expenses	18	105,216,876	210,896,257	116,094,532	242,863,470
Selling and distribution costs	18	40,278,336	75,804,138	48,916,529	56,967,572
Other operating expense (income) - net	19	(16,194,352)	(30,170,591)	(19,208,886)	(40,859,874)
		129,300,860	256,529,804	145,802,175	258,971,168
OPERATING PROFIT (LOSS)		101,843,407	133,434,849	70,680,755	136,046,965
OTHER INCOME (CHARGES)					
Finance costs	20	(109,019)	(2,702,288)	(1,563,174)	(6,527,804)
Finance income	5, 6, 20	45,753,637	78,908,460	22,305,407	50,941,717
Other gains (losses) - net	20	64,837,664	71,668,735	3,564,922	7,093,101
		110,482,282	147,874,907	24,307,155	51,507,014
PROFIT (LOSS) BEFORE TAX		212,325,689	281,309,756	94,987,910	187,553,979
TAX EXPENSE (INCOME)	22	40,738,979	69,483,803	30,612,461	57,009,103
NET PROFIT (LOSS)		P 171,586,710	P 211,825,953	P 64,375,449	P 130,544,876
Net Profit (Loss) attributable to the:					
Parent Company's stockholders	24	P 138,366,185	P 174,062,676	P 60,987,440	P 122,720,883
Non-controlling interests		P 33,220,525	37,763,277	3,388,009	7,823,993
		P 171,586,710	P 211,825,953	P 64,375,449	P 130,544,876
Earnings (Loss) per share attributable to the Parent Company's stockholders	24	P 0.08	P 0.10	P 0.03	P 0.07

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2024 AND 2023
(Amounts in Philippine Pesos)

	Notes	June 30, 2024		June 30, 2023	
		2nd Quarter	Year-to-Date	2nd Quarter	Year-to-Date
NET PROFIT (LOSS)		P 171,586,710	P 211,825,953	P 64,375,449	P 130,544,876
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will be reclassified subsequently to profit or loss:					
Currency exchange differences on translating financial statements of foreign operations	23	27,937,454	40,424,607	15,611,404	(12,774,092)
		27,937,454	40,424,607	15,611,404	(12,774,092)
TOTAL COMPREHENSIVE INCOME		P 199,524,164	P 252,250,560	P 79,986,853	P 117,770,784
Total comprehensive income (loss) attributable to:					
Parent Company's stockholders		P 166,303,639	P 214,487,283	P 76,598,844	P 109,946,791
Non-controlling interests		33,220,525	37,763,277	3,388,009	7,823,993
		P 199,524,164	P 252,250,560	P 79,986,853	P 117,770,784

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2024 AND 2023
(Amounts in Philippine Pesos)

	Notes	June 30, 2024	June 30, 2023
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS			
CAPITAL STOCK - P1 par value			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 shares		P 2,030,975,000	P 2,030,975,000
ADDITIONAL PAID-IN CAPITAL		4,641,701,922	4,641,701,922
TREASURY SHARES - at cost			
Acquired at P0.5520 per share			
209,433,000 shares		(115,614,380)	(115,614,380)
REVALUATION RESERVES			
Balance at beginning of year			
As previously reported		128,781,811	149,200,491
Other comprehensive income (loss)		40,424,607	(12,774,092)
Balance at end of the period		169,206,418	136,426,399
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year			
As previously reported		5,362,557,945	4,906,253,479
Profit (loss) for the period attributable to Parent Company's stockholders		174,062,676	122,720,883
Dividends declared		(182,154,200)	-
Balance at end of the period		5,354,466,421	5,028,974,362
Total Equity Attributable to the Parent Company's stockholders		12,080,735,381	11,722,463,303
NON-CONTROLLING INTERESTS			
Balance at beginning of year		305,032,067	328,498,353
Profit (loss) for the period attributable to Non-controlling interests		37,763,277	7,823,993
Balance at end of the period		342,795,344	336,322,346
TOTAL EQUITY		P 12,423,530,725	P 12,058,785,649

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2024 AND 2023
(Amounts in Philippine Pesos)

	Notes	June 30, 2024	June 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax		281,309,756	187,553,979
Adjustments for:			
Interest income		(93,285,105)	(101,253,273)
Depreciation and amortization		39,533,446	40,384,373
Impairment losses (reversal) on trade and other receivables		1,103,021	2,524,261
Interest expense		219,865	131,108
Loss (reversal) on inventory obsolescence		139,814	2,824,632
Unrealized foreign currency losses (gains) - net		(31,027)	(1,212,114)
Loss (gain) on sale of investment property		6,338,666	(339,000)
Loss (gain) on sale of property and equipment		(280,713)	(1,351,850)
Provision for impairment loss on investment in an associate		-	30,000,000
		-	-
Operating profit before working capital changes		235,047,723	159,262,116
Decrease (increase) in trade and other receivables		637,703,479	(157,083,118)
Decrease (increase) in merchandise inventories and supplies		(184,096,274)	(1,310,934)
Decrease (increase) in real estate inventories		3,962,442	(
Decrease (increase) in other current assets		(78,214,365)	(43,611,363)
Decrease (increase) in other non-current assets		(7,562,982)	(33,493,114)
Increase (decrease) in trade and other payables		(64,635,780)	(47,592,688)
Increase (decrease) in customers' deposits		11,396,886	4,886,393
Increase (decrease) in refundable deposits		140,069	12,330,000
Cash generated from (used in) operations		553,741,198	(106,612,708)
Interest received		34,961,049	45,143,470
Cash paid for income taxes		(20,472,387)	(25,016,909)
Net Cash From (Used in) Operating Activities		568,229,860	(86,486,147)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(37,743,929)	(19,477,106)
Proceeds from disposal of property and equipment		1,177,103	2,571,269
Additional short-term placements		(320,049,067)	
Maturity of short-term placements		400,136,564	
Interest received		42,834,775	39,277,559
Proceeds from disposal of investment property		156,148,348	8,688,000
Acquisition of investment property		(519,400,660)	(445,746,726)
Net Cash From (Used in) Investing Activities		(276,896,866)	(414,687,004)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing loans - net		395,000,000	
Payment of lease liabilities and interest expense		(489,933)	(1,762,677)
Interest paid		(175,307)	(45,580)
Net Cash From (Used in) Financing Activities		394,334,760	(1,808,257)
Effects of Foreign Exchange Rate Changes on Cash and Cash Equivalents		31,027	1,212,114
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		685,698,781	(501,769,293)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,710,806,862	3,832,058,109
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		P 3,396,505,643	P 3,330,288,816

See Notes to Consolidated Financial Statements.

(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Group Background

Solid Group Inc. (SGI or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission ("the Commission") on October 16, 1933. SGI currently conducts business as an investment holding company. On September 4, 1996, SGI listed its shares of stock in the Philippine Stock Exchange (PSE).

The Parent Company holds effective ownership interests in the following subsidiaries (the Parent Company and the subsidiaries are collectively referred to herein as "the Group") and an associate:

Subsidiaries / Associate	Percentage of Ownership 2024	2023	Notes	Nature of Business
Subsidiaries:				
Avid Sales Corporation (Avid)	**100**	100		Distribution, wholesale and retail of home appliances and electronic products
Brilliant Reach Limited (BRL)	**100**	100	a	Investment holding company
Casa Bocobo Hotel, Inc. (CBHI)	**100**	100	b	Hotel and restaurant operation
Green Sun Hotel Management, Inc. (GSHMI)	**100**	100		Hotel and restaurant operation
Kita Corporation (Kita)	**100**	100		Leasing of real estate properties
My Solid Technologies & Devices Corporation (My Solid)	**100**	100		Sale of mobile phones and accessories
MyApp Corporation (MyApp)	**100**	100	c	Investment holding company
Omni Solid Services, Inc. (OSSI)	**100**	100		Logistics and assembly of consumer electronics products
Precos, Inc. (Precos)	**100**	100	c	Real estate
Solid Broadband Corporation (SBC)	**100**	100		Broadband, cable and satellite services
SolidService Electronics Corporation (SEC)	**100**	100		Repair services for audio and video products
Solid Group Technologies Corporation (SGTC)	**100**	100		Trading of prefabricated modular house and office units
Solid Manila Corporation (SMC)	**100**	100		Real estate
Solid Manila Finance, Inc. (SMFI)	**100**	100		Financing
Solid Video Corporation (SVC)	**100**	100		Trading of professional audio/ video equipment
Zen Towers Corporation (ZTC)	**100**	100		Real estate
SVC Hong Kong Limited (SVC HK)	**100**	100	f	Trading of professional audio/ video equipment
Skyworld Corporation (Skyworld)	**75**	75	b, c	Investment holding company
Starworld Corporation (Starworld)	**50**	50	b, d	Real estate
Associate –				
Fekon Solid Motorcycle Mfg. Corp. (Fekon)	**44**	**44**		Sale of motorcycle, motor parts and products

Notes:
(a) Incorporated and domiciled in the British Virgin Islands
(b) Indirectly owned through SMC
(c) Pre-operating or non-operating
(d) Starworld is 20% owned by SMC and 40% owned by Skyworld
(e) Indirectly owned through SVC

Additional information:

(i) In 2023, SMC sold its shares of stock in Interstar and LIIP. Details of deconsolidation are presented in Note 23.5.

(ii) In November 2022, the Parent Company acquired shares of Avid for P100.2 million to bring its ownership interest to 100%. Management assessed that it has control over Avid and was considered as a wholly owned subsidiary as of December 31, 2022. The Group has determined this acquisition to be a business combination for which the purchase price was allocated between the identifiable assets and liabilities at fair value [see Note 3.1(e)].

For the purpose of determining the gain on bargain purchase, the Group determined the fair value of the identified net assets of Avid as of November 2022 as presented below.

Fair value of assets acquired:	
Cash	P 53,056,028
Trade and other receivables - net	31,852,968
Merchandise inventories - net	82,416,221
Other current assets	43,951,983
Property and equipment - net	3,070,012
Right-of-use assets - net	845,801
Post-employment benefit asset - net	21,204,286
	236,397,299
Fair value of liabilities assumed:	
Trade and other payables	118,305,874
Lease liability	823,673
Deferred tax liability	2,515,979
	121,645,526
Fair value of net assets acquired	114,751,773
Cash consideration	(100,200,100)
Gain on bargain purchase	**P 14,551,673**

The fair values of the identifiable assets and liabilities assumed from Avid as at the date of acquisition was determined to be higher than the total cost; hence, the Group recognized a gain on bargain purchase amounting to P14.6 million, presented as Gain on Bargain Purchase under Other Income (Charges) – Net in the 2022 consolidated statement of income.

The revenues and net profit of Avid since the acquisition date included in the 2022 consolidated income amounted to P95.3 million and P0.5 million, respectively. On the other hand, the revenues and net profit of Avid in 2022, as though the acquisition had been as of January 1, 2022, amounted to P697.3 million and P10.4 million, respectively.

There are no contingent consideration arrangements arising from this acquisition.

The fair value of the receivable acquired as part of the business combination amounted to P31.9 million, with gross contractual amount of P33.3 million.

The acquisition-related costs amounted to P1.6 million, which is presented as part of Taxes and licenses and Outside services under General and Administrative Expenses in the 2022 consolidated statement of income (see Note 18).

(iii) In 2021, SVC incorporated SVC HK with a 100% interest over the latter. SVC HK is a foreign private entity domiciled and incorporated under the laws of Hong Kong. SVC HK started its operations in 2022.

(iv) SBC holds a provisional authority, granted by the National Telecommunications Commission, to use its legislative franchise under Republic Act (R.A.) No. 9116, *An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines* (see Note 26.3).

(v) SMFI is subject to the rules and regulations provided under R.A. No. 8556, *The Financing Group Act of 1998* (see Note 31).

1.2 Other Corporate Information

The registered office addresses and principal places of business of the Parent Company and its subsidiaries, except those listed below, are located at 2285 Don Chino Roces Avenue, Makati City. The registered office addresses and principal places of business of the other subsidiaries are as follows:

Avid, SMC and CBHI	-	1000 J. Bocobo cor. T.M. Kalaw Street, Ermita, Manila
BRL	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	N7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Solid St., LIIP, Mamplasan, Biñan, Laguna
SEC	-	145 G. Araneta Avenue, Brgy. Tatalon, Quezon City
Starworld	-	CPIP Brgys. Batino & Prinza, Calamba, Laguna
SVC HK	-	RM A301, 3/F Blk. A Sea View Est 2-8 Watson Rd, Causeway Bay, Hong Kong
ZTC	-	1111 Natividad A. Lopez St., Brgy. 659-A, District 5, Ermita, Manila

1.3 Approval for Issuance of Audited Consolidated Financial Statements

The audited consolidated financial statements of the Group as of and for the year ended December 31, 2023 and for the years ended December 31, 2022 and 2021 and the corresponding figures as of January 1, 2022 were authorized for issue by the Parent Company's Board of Directors (BOD) on April 11, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information that has been used in the preparation of these consolidated financial statements is summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued and approved by the Securities and Exchange Commission (SEC) in response to the COVID-19 pandemic. The financial reporting reliefs availed of by the Group are disclosed in detail below and in the succeeding pages. PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS, as modified by the application of the financial reporting reliefs issued and approved by the SEC in response to the COVID-19 pandemic, for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) SEC Financial Reporting Reliefs Availed by the Group

The Group has availed of several financial reporting reliefs granted by the SEC relating to several implementation issues of PFRS 15, *Revenue from Contracts with Customers*, affecting the real estate industry under following Memorandum Circular (MC):

- MC No. 14-2018, *Philippine Interpretation Committee Question and Answer (PIC Q&A) No. 2018-12 Implementation Issues Affecting Real Estate Industry*
- MC No. 03-2019, *PIC Q&A Nos. 2018-12-H and 2018-14*
- MC No. 04-2020, *Deferment of the Implementation of IFRS Interpretations Committee (IFRIC) Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Costs) for Real Estate Industry*
- MC 34-2020, *Deferral of PIC Q&A No. 2018-12 and IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23) for Real Estate Industry for another period of three years or until 2023*

SEC MC No. 08-2021, *Amendment to SEC MC No. 14-2018, MC No. 03-2019, MC No. 04-2020, and MC No. 34-2020 to Clarify Transitory Provision*, provides real estate companies the accounting policy option of applying either the full retrospective approach or the modified retrospective approach when they apply the provisions of the PIC and IFRIC pronouncement.

Discussed below and in the succeeding page are the financial reporting reliefs availed of by the Group, including the descriptions of the implementation issues and their estimated qualitative impacts to the consolidated financial statements. The Group opted to avail the reliefs until the end of the deferment period as provided under the relevant MC.

(i) *IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23) for Real Estate Industry (deferred until June 30, 2024)*

The IFRIC concluded that any inventory (work-in-progress) for unsold units under construction that the entity recognizes is not a qualifying asset, as the asset is ready for its intended sale in its current condition (i.e., the developer intends to sell the partially constructed units as soon as it finds suitable customers and, in signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer). Accordingly, no borrowing costs can be capitalized on such unsold real estate inventories.

Had the Group elected not to defer the IFRIC Agenda Decision, it would have the following impact in the consolidated financial statements:

- interest expense would have been higher;
- cost of real estate inventories would have been lower;
- total comprehensive income would have been lower;
- retained earnings would have been lower; and,
- the carrying amount of real estate inventories would have been lower.

(ii) PIC Q&A No. 2018-12-D, *Concept of the Significant Financing Component in the Contract to Sell and PIC Q&A No. 2020-04, Addendum to PIC Q&A 2018-12-D: Significant Financing Component Arising from Mismatch between the Percentage of Completion and Schedule of Payments*

PFRS 15 requires that in determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component.

There is no significant financing component if the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. Further, the Group does not need to adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception that the timing difference of the receipt of full payment of the contract price and that of the completion of the project, are expected within one year and significant financing component is not expected to be significant.

Had the Group elected not to defer this provision of the standard, it would have an impact in the consolidated financial statements as there would have been a significant financing component when there is a difference between the POC of the real estate project and the right to the consideration based on the payment schedule stated in the contract. The Group would have recognized an interest income when the POC of the real estate project is greater than the right to the consideration and interest expense when lesser. Both interest income and expense will be calculated using the effective interest rate method.

This will impact the retained earnings, real estate sales, and profit or loss in the year of adoption and in comparative periods presented. Furthermore, these would have impacted the cash flows from operations and cash flows from financing activities for all years presented in case of a full retrospective approach. Should the Group elect to apply the modified retrospective approach as allowed by MC No. 2021-08, this will impact the opening retained earnings in the year of adoption.

(c) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents a consolidated statement of comprehensive income separately from the consolidated statement of income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(d) *Restatement of Prior Period Consolidated Financial Statements*

In 2023, the Group retrospectively restated its 2022 and 2021 consolidated financial statements to correct the amount of its deferred tax liabilities.

The effects of the restatement in the consolidated statements of financial position as of December 31, 2022 and January 1, 2022 are shown below.

	As Previously Reported	Adjustments	As Restated
December 31, 2022			
Deferred tax liabilities – net	P1,011,028,096	(P 55,977,624)	P 955,050,472
Retained earnings	4,906,253,479	55,977,624	4,962,231,103
Net effect in net assets		P -	
January 1, 2022			
Deferred tax liabilities – net	P 930,548,205	(P 55,977,624)	P 874,570,581
Retained earnings	4,587,923,980	55,977,624	4,643,901,604
Net effect in net assets		P -	

The restatement has no impact on the consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows as of December 31, 2022 and January 1, 2022.

Accordingly, the Group presents a third consolidated statement of financial position as of January 1, 2022 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

(e) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 Adoption of Amended Standards

(a) Effective in 2024 that are Relevant to the Group

The Group adopted for the first time the following amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2024:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)

(ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)

(iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)

(iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)

(b) Effective Subsequent to 2024 but not Adopted Early

There are pronouncements effective for annual periods subsequent to 2024, which are adopted by the FSRSC. Management will not adopt early the following relevant pronouncements in accordance with their transitional provisions; and none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

(ii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of*

Assets Between and Investor and its Associates or Joint Venture (effective date deferred indefinitely)

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.1, after the elimination of intercompany transactions.

Financial statements of entities in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are consolidated from the date the Group obtains control. The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of controls. Accordingly, entities are deconsolidated from the date that control ceases (see Note 1.1).

The acquisition method is applied to account for acquired subsidiaries. On an acquisition-by-acquisition basis, the excess of the consideration transferred, the amount of any non-controlling interest (NCI) in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill.

Acquired investment in associate is subject to the purchase method.

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the Group in their capacity as owners.

2.4 Financial Instruments

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on their settlement date (i.e., the date that the Group commits to purchase or sell the asset).

(a) Financial Assets

(i) Classification, Measurement and Reclassification of Financial Assets

The Group's financial assets include financial assets at amortized cost and at fair value through other comprehensive income (FVOCI).

Financial Assets at Amortized Cost

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Short-term Placements, Trade and Other Receivables (except advances to suppliers and receivable from officers and employees), Advances to Related Parties, Investment in Bonds, Refundable deposits (presented as part of Other Current Assets account) and Refundable deposits, Deposit to suppliers and Cash bond (presented as part of Other Non-current Assets account).

Financial Assets at FVOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as fair value through profit or loss (FVTPL). The Group has irrevocably designated equity instruments as at FVOCI on initial recognition.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(ii) Impairment of Financial Assets

At the end of the reporting period, the Group assesses and recognizes its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcomes.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables, except for loans receivables with significant financing component, and advances to related parties. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL using a provision matrix, the Group uses its historical experience, external indicators and forward-looking information.

The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due.

For loans receivables, which is presented under Trade and Other Receivables account in the consolidated statement of financial position, the Group recognizes lifetime ECL when there has been a significant increase in credit risk on a financial asset since initial recognition. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial asset, irrespective of the timing of the default. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures and provides for credit losses that are expected to result from default events that are possible within 12-months after the end of the reporting period.

For debt instruments (i.e., investment in bonds) measured at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Group recognized a loss allowance for such losses at each reporting date.

The Group determines whether there has been a significant increase in credit risk for financial asset since initial recognition by comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

(b) Financial Liabilities

Financial liabilities include interest-bearing loans, trade and other payables (excluding tax-related liabilities, advances from customers and reserve for warranty costs), lease liabilities, advances from related parties and refundable deposits.

2.5 Merchandise Inventories and Supplies

Inventories are valued at the lower of cost and net realizable value (NRV). The cost is determined using the moving average method.

2.6 Real Estate Inventories

Real estate inventories consist of land and land development costs and property development costs.

Subsequent to initial recognition, land and land development costs and property development costs are stated at the lower of cost and net realizable value. An item of land and land development cost is derecognized upon disposal or when no future economic benefits are expected to arise from the sale of asset.

2.7 Property and Equipment

Property and equipment, except land, are carried at acquisition cost or construction cost less subsequent depreciation, amortization and any impairment losses. Land held for use in production or administration is stated at cost less any impairment losses.

Construction in progress pertains to the accumulated costs of putting up the assets, additions or improvements including the applicable borrowing cost.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 to 25 years
Test, communication and other equipment	5 to 20 years
Machinery and equipment	5 to 10 years
Transportation equipment	5 years
Computer system	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Tools and equipment	2 to 3 years

Leasehold improvements are amortized over the estimated useful lives of the assets from two to 15 years or the terms of the relevant leases, whichever is shorter.

2.8 Intangible Assets

Intangible assets include non-proprietary club shares and computer software licenses, which are accounted for under the cost model.

The Group's non-proprietary club shares are assessed as having indefinite useful life.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as the lives of these intangible assets are considered finite. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred. Development costs not meeting these criteria for capitalization are expensed as incurred.

Intangible assets are subject to impairment testing when indications exist, as described in Note 2.13.

2.9 Investment Property

Investment property is accounted for under the fair value model. It is revalued annually and is included in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property.

Investment property, which consists mainly of land and improvements, and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs.

Construction-in-progress pertains to the accumulated costs of putting up the assets, additions or improvements including the applicable borrowing cost.

Transfers from other accounts (such as Land and Land Development Costs and Property and Equipment) are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers from investment property are made when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For tax purposes, investment property is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated net useful lives of the assets ranging from 11 to 25 years.

2.10 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Negative goodwill is charged directly to profit or loss. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

2.11 Revenue and Expense Recognition

Revenue comprises revenue from sale of goods and real estate and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for the foods sold and services rendered, excluding value-added tax (VAT) and trade discounts.

The Group often enters into transactions involving the sale of goods and real estate and rendering of services. The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied. The Group uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized as revenue as the Group's contracts with customers have original expected duration of one year or less, except for real estate sales.

In addition, the following specific recognition criteria must also be met before revenue is recognized significant judgments in determining the timing of satisfaction of the following performance obligations are disclosed in Note 3.1(b):

(a) *Rendering of services (other than commission income)* – Revenue, which primarily arise from service fees, room and events services, assembly and test lab services, warehousing and repair services, is recognized by the amount in which the Group has a right to invoice that corresponds directly with the value of services rendered that is completed over a period of time.

(b) *Sale of goods* – Revenue, which primarily includes the sale of handsets, devices, accessories, equipment, appliances and modular houses, is recognized at a point in time. This is generally when the customer has taken an undisputed delivery of goods.

(c) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty and network support fee is recognized over time upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support, which is a fixed amount per month as indicated in the contract, is accrued at the end of each month.

(d) *Sale of real estate*

(i) *Sale of real estate on pre-completed real estate properties* – Revenue from real estate sales is recognized over time proportionate to the progress of the development. The Group measures its progress based on actual costs incurred relative to the total expected costs to be incurred in completing the development.

(ii) *Sale of real estate on completed real estate properties* – Revenue from real estate sales is recognized at a point in time when the control over the real estate property is transferred to the buyer.

Payments received from buyers which do not meet the revenue recognition criteria are presented as Customers Deposits account in the consolidated statement of financial position.

(e) *Commission income (shown as part of Rendering of Services)* – Commission income is recognized over time when the performance of contractually agreed tasks have been substantially rendered.

(f) *Service charges and penalties* – Revenue is generally recognized over time when the service has been provided and when there is reasonable degree of certainty as to their collectability.

(g) *Other revenues from utilities charged and common use service area (CUSA)* – Other revenues arising from utilities and CUSA charges related to leasing activities are recognized over time as the Group performs the contractually agreed task. Customers are invoiced monthly as work progresses, which are also due upon receipt by the customers.

The Group assesses its revenue agreement against the specific criteria in order to determine if it is acting as a principal or an agent [see Note 3.1(h)]. Billings from the common area, air conditioning, utilities and other dues are presented at net amounts since the Group acts as a principal. Other revenues from electricity and water dues, in which the Group acts as an agent, are presented in excess of actual charges and consumption.

Further, the Group provides a product warranty for a period of 15 months from the time of sale on its sales of goods related to hidden and manufacturer's defect. Under the terms of this warranty, customers can return the product for repair or replacement if it fails to perform in accordance with published specifications. These warranties are accounted for under PAS 37. However, if the Group is required to refund the related purchase price for returned goods, it recognizes a refund liability for the expected refunds by adjusting the amount of revenues recognized during the period.

In obtaining customer contracts, the Group incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Group uses the practical expedient in PFRS 15 and expenses such costs as incurred. The Group also incurs costs in fulfilling contracts with customers. However, as those costs are within the scope of other financial reporting standards, the Group accounts for those costs in accordance with accounting policies related to those financial reporting standards.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income on an accrual basis, except capitalized borrowing costs, if applicable, which are included as part of the cost of the related qualifying asset.

2.12 Leases

The Group accounts for its leases as follows:

(a) *Group as a Lessee*

Subsequent to initial recognition, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Further, the lease liability will be reduced for payments made and increased for interest. The lease liability is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

(b) *Group as a Lessor*

Leases which do not transfer to the lessee substantially all the risks and rewards of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term.

2.13 Impairment of Non-financial Assets

The Group's property and equipment, investment in associate, intangible assets, right-of-use assets and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Except for impairment losses on goodwill, an impairment loss is reversed if the asset or cash-generating unit's recoverable amount exceeds its carrying amount.

2.14 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits.

The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory, and administered by an investment manager. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method.

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligation to pay further contributions after payment of the fixed contribution.

Termination benefits are payable when employment is terminated by the Group for authorized cause before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Short-term employee benefits are monetary and non-monetary benefits provided to current employees, which are expected to be settled 12 months after the end of the reporting period during which the employee services are rendered.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. 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 may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option.

Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated and the renewal of the contract is not subject to mutual agreement of both parties.

For leases of payment centers, the factors that are normally the most relevant are (a) if there are significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Group included the renewal period as part of the lease term for leases of some of its payment centers due to the significance of these assets to its operations. These leases have a short, non-cancellable lease period (i.e., one to five years) and there will be a significant negative effect on operations if a replacement is not readily available. However, there are other payment centers wherein the provision in the contract requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract; hence, renewal options for these leases were not included as part of the lease term.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

(b) *Determination of Timing of Satisfaction of Performance Obligations*

(i) *Rendering of Services*

The Group determines that its revenue from rendering of services shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The Group provides the services without the need of reperformance of other companies. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of the services as it performs.

In determining the best method of measuring the progress of the Group's rendering of services, management considers the output method under PFRS 15 because it directly measures the value of the services transferred to the customer.

(ii) *Sale of Goods*

The Group determines that its revenue from sale of goods shall be recognized at a point in time when the control of the goods has passed to the customer (i.e., generally when the customer has acknowledged delivery of the goods).

(iii) *Sale of Real Estate*

The Group exercises critical judgment in determining whether the performance obligation to deliver and transfer the control over the real estate properties (i.e., land and condominium building) to customers is satisfied over time or at a point in time.

In making this judgment, the Group considers the delivery to and acceptance by the buyer of the property as a transfer of control at specific point in time since the Group does not have a significant continuing involvement with the property sold to the buyer and the earning process is virtually complete. Further, the Group's enforceable right for payment becomes due upon transfer of control over the real estate property. The Group's management determines that its revenue from the sale of real estate inventories, which are completed and ready for use, shall be recognized at a point in time when the control has transferred to the customer (see Note 2.11).

(c) Determination of ECL on Trade and Other Receivables, Investment in Bonds and Advances to Related Parties

The Group uses a provision matrix to calculate ECL for trade and other receivables. The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

For loans receivables (presented under Trade and Other Receivables account), the allowance for impairment is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group also uses an external benchmarking approach to calculate ECL for investment in bonds. The provision rates are derived from published credit ratings by external rating agencies. As referenced to these external credit benchmarks, the Group defines the credit ratings based on certain financial ratios and appropriately determines the equivalent internal credit ratings. Referenced probability of default is then derived from the latest annual global corporate default study published by the external rating agency. The Group makes an annual reassessment of the applicability and reliability of the reference rates used.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Other portion of the Group's financial asset at amortized cost pertains to advances to related parties. In relation to this, the maximum period over which ECL should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these advances to related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related parties' highly liquid assets in order to repay the Group's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties. If the Group cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of receivables can be collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

The details about the ECL on the Group's trade and other receivables, investment In debt securities and advances to related parties are disclosed in Notes 6, 7.2, 25.4, 28.2(b), 28.2(c) and 28.2(e).

(d) Costing of Merchandise Inventories and Supplies

The Group's inventory costing policies and procedures were based on a careful evaluation of present circumstances and facts affecting production operations. A review of the benchmarks set by management necessary for the determination of inventory costs and allocation is performed regularly. Actual data are compared to the related benchmarks and critical judgment is exercised to assess the reasonableness of the costing policies and procedures which are currently in place and to make the necessary revisions in light of current conditions.

(e) Distinguishing Business Combination and Asset Acquisition

The Group determines whether the acquisition of an entity constitutes a business acquisition or an asset acquisition. The accounting treatment for the acquisition is determined by assessing whether the transaction involved a purchase of a business, as defined in PFRS 3, taking into consideration the substance of the transaction. Failure to make the right judgment will result in misstatement of assets.

On initial recognition, the assets and liabilities of the acquired businesses and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates will affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in profit or loss in the subsequent period.

Management has assessed that the acquisition of ownership in Avid is to be accounted for as a business combination since it does constitute an acquisition of a business. In 2022, the Group recognized a gain on bargain purchase amounting to P14.6 million, which represents the excess of total fair value of Avid's net identified assets over the total considerations transferred (see Note 1.1).

(f) Distinction Between Investment Property, Owner-occupied Properties and Real Estate Inventories

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the properties but also to other assets used in the production or supply process. On the other hand, real estate inventories are properties intended to be sold in the normal course of business.

(g) Distinction Between Operating and Finance Leases for Contracts where the Group is the Lessor

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on the management's judgment, all of the Group's lease agreements were determined to be operating leases.

(h) *Evaluating Principal Versus Agent Consideration*

The Group exercises judgment to determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the Group is a principal) or to arrange for the other party to provide those goods or services (i.e., the Group is an agent). Failure to make the right judgment will result in misstatement of revenues and expenses accounts. The Group assessed that it is only acting as an agent for utility transactions of its tenants under operating leases. The amount of utility revenues and utility expenses, which were set-off against each other amounted to P4 million and P14 million in 2024 and 2023, respectively, in the consolidated statements of income.

(i) *Recognition of Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources, and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. Similarly, possible outflows of economic benefits to the Group that do not meet the recognition criteria of a liability are considered contingent liabilities, hence, are not recognized in the consolidated financial statements.

Judgment is exercised by management to distinguish between provisions and contingencies. Disclosures on relevant provisions and contingencies are presented in Note 27.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Group measures its lease liabilities at the present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate.

In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses).

Specifically for loans receivables, the Group's ECL calculations are outputs of complex modes with a number of underlying assumptions which include: (1) the Group's criteria for assessing if there has been a significant increase in credit risk; and, (2) development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Notes 6, 7.2, 25.4, 28.2(b), 28.2(c) and 28.2(e).

(c) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Group's financial assets at FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Note 7.

(d) *Determination of Net Realizable Value of Merchandise Inventories and Supplies*

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made.

The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, modular houses, broadcast equipment and accessories (see Note 8). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next reporting period.

(e) *Determination of Net Realizable Value of Real Estate Inventories*

The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of real estate inventories. The net realizable value for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions.

Net realizable value in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar property at the same stage of completion, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

The carrying amounts of the real estate inventories are disclosed in Note 9.

(f) *Estimation of Useful Lives of Right-of-Use Assets, Property and Equipment and Intangible Assets*

The Group estimates the useful lives of right-of-use assets, property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of right-of-use assets, property and equipment and intangible assets are analyzed in Notes 10.1, 11 and 13.1, respectively. Based on management's assessment as of June 30, 2024 and December 31, 2023, there is no change in the estimated useful lives of property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in the factors mentioned above.

(g) *Fair Value Measurement of Investment Property*

The Group's investment property, which consists of parcels of land and improvements and buildings and improvements, are carried at fair value at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 30.4.

For investment properties with appraisals conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in these elements may affect prices and the value of the assets. The amounts of fair value gains recognized on investment property are disclosed in Note 12.

(h) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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.

The carrying value of recognized deferred tax assets, which management assessed may be fully utilized in the coming years, as of June 30, 2024 and December 31, 2023 is disclosed in Note 22.2. Certain deferred tax assets, however, were not recognized since management believes that there is no assurance that the related tax benefits will be realized in the coming years.

(i) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(j) Estimation of Reserve for Warranty Costs

The Group offers a warranty, for a period ranging from one to two years, for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales, as determined based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from expectations. Warranty costs also include the actual cost of materials used in repairing the electronic products.

The amounts of provision for warranty claims recognized and the outstanding balance of Reserve for warranty costs, which is presented as part of Trade and Other Payables account in the consolidated statements of financial position, are disclosed in Note 15.

(k) Valuation of Post-employment Defined Benefit

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit asset and obligation in the next reporting period.

The amounts of the fair value of the retirement benefit asset and present value of retirement benefit obligation and the analysis of the movements in the fair value of the retirement benefit asset and present value of retirement benefit obligation, as well as the significant assumptions used in estimating such asset and obligation are presented in Note 21.2.

4. SEGMENT INFORMATION

4.1 Business Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's BOD, its chief operating decision-maker. The BOD is responsible for allocating resources and assessing the performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and services. The Group's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit as each of these services requires different technologies and resources as well as marketing approaches.

The Group's different business segments are presented as follows:

(a) Distribution/Retail is involved in the sale of mobile phones and devices, home appliances and other electronic products, professional audio and video equipment, and prefabricated modular houses;

(b) Property and related services are involved in the leasing, development and sale of industrial and other real estate properties and hotel and restaurant operations;

(c) Logistics and technical solutions are presently engaged in the business of warehousing and distribution, after-sales services; and,

(d) Investment and others include investment holding companies, and those included in the business of financing and credit extension.

The measurement policies of the Group used for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements. In addition, corporate resources, which are not directly attributable to the business activities of any operating segment, are not allocated to a segment.

Segment assets are allocated based on their use or direct association with a specific segment and they include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories, investment properties and property and equipment, net of allowances and provisions.

Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

Segment revenues, expenses and performance include sales and purchases between business segments; such sales and purchases are eliminated in the consolidation.

4.2 Analysis of Segment Information

The tables below and in the succeeding page present certain asset and liability information regarding business segments as of June 30, 2024 and December 31, 2023 and the related revenue and profit information for the period ended June 30, 2024 and June 30, 2023 (amounts are in thousands).

	Distribution/ Retail	Property & Related Services	Logistics & Technical Solutions	Investment & Others	Elimination	Total
2024						
SEGMENT RESULTS						
Total revenues	P 643,461	P 185,915	P 341,090	P 470,676	(P 428,662)	P 1,212,480
Net profit (loss)	P 10,978	P 97,640	P 64,527	P 407,583	(P 368,902)	P 211,826
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 958,557	P 11,384,373	P 869,700	P 9,280,285	(P 7,596,239)	P 14,896,676
Total liabilities	P 261,962	P 2,512,938	P 160,702	P 276,819	(P 739,276)	P 2,473,145

	Distribution/ Retail	Property & Related Services	Logistics & Technical Solutions	Investment & Others	Elimination	Total
2023						
SEGMENT RESULTS						
Total revenues	P 608,326	P 174,742	P 349,655	P 101,234	(P 57,647)	P 1,176,321
Net profit (loss)	P 20,267	P 58,211	P 60,699	(P 8,184)	(P 499)	P 130,545
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 975,004	P 10,677,784	P 822,312	P 9,189,463	(P 7,351,200)	P 14,313,363
Total liabilities	P 289,688	P 1,926,375	P 177,904	P 82,614	(P 516,653)	P 1,959,928

There have been no significant changes from prior periods in the measurement methods used to determine reported segment information.

4.3 Disaggregation of Revenues from Contracts with Customers and Other Counterparties

When the Group prepares its investor presentations and when the Group management evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Note 4.2. The Group determines that the categories used in the investor presentations and financial reports used by the Group's management can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers and other counterparties (except for rentals accounted for under PFRS 16 included herein as additional information) into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A summary of additional disaggregation from the segment revenues and other unallocated income are shown below (amounts in thousands).

	Segment Revenues (Sales to External Customers)				
	Point in time	Over time	Leases	Interest	Total
June 30, 2024					
Distribution/Retail	**P 623,879**	**P 19,582**	**P -**	**P -**	**P 643,461**
Logistics and technical solutions	**19,801**	**263,933**	**54,886**	**-**	**338,620**
Property and related services	**8,125**	**39,149**	**91,445**	**-**	**138,719**
Investments and others	**-**	**51,939**	**-**	**39,741**	**91,680**
	P 651,805	**P 374,603**	**P 146,331**	**P 39,741**	**P 1,212,480**
June 30, 2023					
Distribution/Retail	P 594,997	P 9,570	P 2,592	P -	P 607,159
Logistics and technical solutions	30,765	263,791	52,347	-	346,903
Property and related services	-	46,936	84,139	-	131,075
Investments and others	-	39,028	-	52,156	91,184
	P 625,762	P 359,325	P 139,078	P 52,156	P 1,176,321

The Group's segment revenues (sales to external customers) include rendering of services, sale of goods, rentals and sale of real estate which are presented in the consolidated statements of income.

5. CASH AND CASH EQUIVALENTS AND SHORT-TERM PLACEMENTS

5.1 Cash and Cash Equivalents

Cash and cash equivalents include the following components as of June 30:

	2024	2023
Cash on hand and in banks	**P 378,803,742**	P 379,190,854
Cash equivalent	**3,017,701,901**	2,331,616,008
	P 3,396,505,643	P 2,710,806,862

Cash in banks generally earn interest based on daily bank deposit rates. Cash equivalents pertain to highly liquid short-term investment with maturity periods varying from four to 156 days and one to 90 days and earn annual interests ranging from 0.188% to 6.275% and 0.130% to 6.300% in 2024 and 2023 respectively.

Interest earned from cash in banks and cash equivalents are presented as part of Interest under Revenues and as part of Finance income under Other Income (Charges) – net in the consolidated statements of income (see Note 20.2).

5.2 Short-term Placements

Short-term placements, which is presented separately in the consolidated statements of financial position, pertain to time deposits with maturity periods varying between 91 to 179 days and earns effective interests ranging from 5.50% to 6.275% in 2024 and ranging from 6.00% to 6.25% in 2023. As of June 30, 2024 and December 31, 2023, short-term placements amounting to P73.6 million and P153.7 million, respectively, are presented separately in the consolidated statements of financial position.

Interest earned from short-term placements is presented as part of Interest under Revenues and as part of Finance income under Other Income (Charges) – net in the consolidated statements of income (see Note 20.2). The outstanding balance of such interest is presented as Interest receivable under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	**2024**	2023
Current:			
Trade receivables	6.1 26.1, 26.3	**P 216,365,776**	P 238,535,700
Loans receivables	6.3	**41,697,171**	38,181,893
Advances to:			
Suppliers	6.2(a)	**39,517,782**	28,152,028
Officers and employees	6.2(b), 25.10	**6,264,308**	2,387,919
Rental receivables	6.5	**36,457,244**	17,544,381
Interest receivable	5.2, 7.2	**10,414,611**	11,796,266
Non-trade receivables			
Other receivables	6.6	**22,965,989**	22,134,820
		373,682,881	358,733,007
Allowance for impairment	6.7	**(109,386,561)**	(107,315,016)
		264,296,320	251,417,991
Non-current:			
Trade receivables			
Advances to suppliers	6.2(a)	**14,000,000**	120,000,000
Loans receivables	6.3	**6,067,137**	3,867,284
Cash surrender value of investment in life insurance	6.4	**451,459,848**	960,301,577
		471,526,985	1,084,168,861
		P 735,823,305	P 1,335,586,852

All trade and other receivables are subject to credit risk exposure [see Note 28.2(b)]. The Group does not identify the specific concentration of credit risk with regard to trade and other receivables as the amounts recognized resemble a large number of receivables from various customers.

6.1 Trade Receivables

Aside from the sales of goods and services, trade receivables also include the Group's receivables related to the sold condominium units which are being paid for by the customers in monthly installments. Certain receivables from trade customers are covered by post-dated checks. Trade receivables are measured at amortized cost and have annual effective interest rates ranging from 4.60% to 12.00% in 2023, depending on the payment terms. Trade receivables which are expected to be settled beyond one year after the end of the reporting period are classified as non-current trade and other receivables.

Interest earned from real estate sales is presented as part of Finance Income under Other Income (Charges) – net in the consolidated statements of income (see Note 20.2).

Trade receivables from the sale of goods and services are usually due within 30 to 90 days, generally unsecured and do not bear interest.

6.2 Advances

(a) Suppliers

Generally, advances to suppliers include advance payments made to suppliers for future purchases of mobile phone units and accessories and for the purchases of pro-tapes, video and medical equipment, and spare parts. In 2023, the Group made an advance payment to its third-party supplier for the ongoing construction of investment property in Calamba, Laguna (see Note 12).

Advances to suppliers that will be applied as payment for future purchase of merchandise inventories and supplies are classified and presented under Current Assets account. On the other hand, advances to contractors and/or suppliers that will be applied as payment for future acquisition or construction of items of property and equipment, or acquisition and construction of investment property are classified and presented under the Non-Current Assets account. The classification and presentation are based on the eventual usage or realization of the asset to which it was advanced for.

(b) Officers and Employees

Advances to officers and employees, on the other hand, represent unsecured, noninterest-bearing cash advances for business-related expenditures and are subject to liquidation (see Note 25.10).

6.3 Loans Receivables

Loans receivables pertain to appliances loans, business loans and car loans offered by the Group to its customers. Loans receivables that are expected to be settled beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as part of non-current trade and other receivables.

Interest income recognized on the Group's loans receivables amounted to P6.1 million, P1.6 million in 2024 and 2023, respectively, and are presented as part of Interest under Revenues in the consolidated statements of income. The effective interest rates on loans receivables ranging from 5.00% to 36.00% in 2024 and 2023. There was no outstanding interest on loans receivable as of June 30, 2024 and December 31, 2023.

6.4 Cash Surrender Value of Investment in Life Insurance

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The beneficiary of this investment in life insurance is the Parent Company and accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of financial position. Subsequently, any increase in cash surrender value is recognized as part of Finance income under Other Income (Charges) account – net in the consolidated statements of income (see Note 20.2). In 2024 the increase in cash surrender value amounted to P10 million.

6.5 Rental Receivables

Rental receivables represent uncollected monthly receivables from a related party and third-party tenants of the Group. This includes rent receivables arising from the application of PFRS 16, which represent the difference between the cash basis rent income and the straight-line rent income of all outstanding lease contracts as of the end of the reporting periods.

6.6 Other Receivables

Other receivables include the following:

- amounts due from credit card companies for the sale of CCTV, which are collected the following day the receivables are recognized;
- testing fees and utility charges billed by the Group to its lessees;
- unsecured, noninterest-bearing cash advances made to Homeowners' Association for expenses incurred by the unit owners and related outstanding receivables; and,
- retention fees and other claims to government (i.e., Social Security System).

6.7 Allowance for Impairment

All of the Group's trade and other receivables have been assessed for impairment based on the ECL model. The fair value of these short-term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value. Based on management's assessment of the ECL using the simplified approach, certain trade receivables were found to be impaired; hence, adequate amount of allowance for impairment have been recognized.

7. INVESTMENTS

7.1 Financial Assets at Fair Value Through Other Comprehensive Income

The Group has equity securities pertaining to its 33% equity ownership interest in the common stock of Sony Philippines, Inc. (SPI). This investment is related to the Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan which has expired on May 8, 2005. On April 11, 2005, the Group received a formal notice of the expiry of the JVA. The Group and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration.

The Group determined that the fair value of this investment is nil as of December 31, 2023.

On the other hand, the fair values of the Group's investments in club shares which represent proprietary membership club shares, both as of June 30, 2024 and December 31, 2023, respectively, have been determined based on quoted prices in less active markets due to lack of trading activities among its participants (see Note 30.2).

The recognized fair value gains are presented as items that will not be reclassified subsequently to profit or loss under Other Comprehensive Income in the consolidated statements of comprehensive income.

7.2 Investment in Bonds

In 2021, the Group invested in held-to-collect corporate bonds, classified, and measured at amortized cost, amounting to P20.0 million, which bear fixed interest rate of 4.34% per annum and will mature on October 12, 2027. The amount of investment is presented as Investment in Bonds in the consolidated statements of financial position. There were no additional investments made in 2024 and 2023.

Interest income generated from investment in bonds amounting to P216 thousand in both 2024 and 2023 are presented as part of Interest under Revenues section of the consolidated statements of income. The outstanding balance of such interest amounting to P0.2 million as of June 30, 2024 and December 31, 2023 is presented as part of Interest receivable under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The Group's investment in bonds, which are subject to credit risk exposure [see Note 28.2(e)], has been reviewed for impairment. Based on such review, the management determines that no impairment loss is needed to be recognized in 2024 and 2023 as the bonds were in good credit standing.

7.3 Investment in an Associate

The Parent Company's investment in an associate pertains to its ownership interest in Fekon. Fekon is a private company incorporated and domiciled in the Philippines. Fekon's primary purpose is to engage in the business of manufacturing, selling, distributing, marketing, trading and assembling of all kinds of goods such as but not limited to motorcycles, e-bicycles, motor parts and products, electronic devices and other electronic merchandise.

Fekon's registered office address and principal place of business is located at Block 7, Lot 8B, San Simon Industries Park, San Isidro, San Simon, Pampanga.

In 2022, the Group made additional deposits in the share of Fekon, totaling P11.5 million in relation to the planned increase in authorized capital stock of the latter. There were no additional deposits made in 2023.

As of December 31, 2023, Fekon is still in the process of completing its documents on its application to increase its authorized capital stock with the Commission. Management believes that upon approval by the Commission, the Group will have significant influence with 44% ownership interest over Fekon. Accordingly, the deposits are recognized as Investment in an Associate in the consolidated statements of financial position. The total equity interest of the Group is at 44% as of December 31, 2023.

Initially, the Group's investment is measured at cost and subsequently, upon approval of the application with the Commission, will be measured using the equity method.

The summarized unaudited financial information for Fekon is shown below.

	2023
Current assets	**P 154,760,429**
Non-current assets	**15,635,082**
Total assets	**P 170,395,511**
Current liabilities	**P 54,416,378**
Non-current liabilities	**11,154,103**
Total liabilities	**P 65,570,481**
Revenue	**P 66,049,185**
Net loss for the year	**(P 29,585,227)**

In December 2023, due to the downturn in Fekon business prospects, the Group recognized an impairment loss relative to its investment amounting to P40.0 million which is presented as Impairment Loss on Investments in Associates under Operating Expenses.

8. MERCHANDISE INVENTORIES AND SUPPLIES

Inventories at the end of 2024 and 2023 were stated at lower of cost or NRV. The details of inventories are shown below.

	Note	**2024**	2023
At cost:			
Merchandise inventories	17.1	**P 309,146,340**	P 96,411,950
Service parts, supplies and others		**32,181,094**	33,679,231
		341,327,434	130,091,181
At NRV:			
Merchandise inventories	17.1	**208,672,933**	222,907,343
Service parts, supplies and others		**107,164**	13,012,734
		208,780,097	235,920,077
Allowance for inventory obsolescence		**(28,803,769)**	(28,663,956)
		179,976,328	207,256,121
		P 521,303,762	P 337,347,302

The Group's inventories are primarily composed of appliances, handsets, devices, accessories, professional tapes, equipment, spare parts and modular houses.

The movements in the allowance for inventory obsolescence are as follows:

	Note	2024	2023
Balance at beginning of year		**P 28,663,956**	P 26,489,175
Impairment losses		**447,674**	6,591,114
Reversal of allowance for inventory obsolescence		**(307,861)**	(4,416,333)
		P 28,803,769	P 28,663,956

The Group recognized a net provision for inventory obsolescence amounting to nil in 2024 and a net reversal of provision from previous write-down of inventories upon sale of those inventories amounting to P2.2 million in 2023, respectively. The net provision and reversal are included as an adjustment to Cost of Sales in the consolidated statements of income.

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as of June 30, 2024 and December 31, 2023.

An analysis of the cost of merchandise inventories charged to operations is presented in Note 17.1.

9. REAL ESTATE INVENTORIES

This account is composed of:

	2024	2023
Land and land development costs	**P 26,386,874**	P 26,386,874
Property development costs	**398,580,639**	402,543,081
	P 424,967,513	P 428,929,955

9.1 Land and Land Development Costs

In November 2023, the cost of land and land development held by LIIP, which was provided with full allowance for impairment, were included as part of the consideration transferred upon the disposal of the investment in LIIP (see Note 23.5).

In 2022, Starworld sold parcels of land to SMC for P22.6 million. As a result of this transaction, the parcels of land with a total cost of P22.5 million were transferred to investment properties with the purpose of earning rentals and/or long-term capital appreciation. There were no land sales in 2023.

Management believes that the carrying values of these assets are lower than their realizable values considering present market rates; thus, no valuation allowance has been provided in the financial statements.

9.2 Property Development Costs

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. Construction was started by ZTC in 2005. The construction of Tower 1 and Tower 2 were completed in 2008 and 2012, respectively, and while the construction of Tower 3 has not yet started, it has already incurred expenses for the planning phase as of June 30, 2024.

Property development costs, at the end of each reporting periods, represent condominium units for sale, office tower units, construction in progress of land and Tower 3, office tower and parking units for which Group has been granted permit to sell by the Housing and Land Use Regulatory Board of the Philippines.

Based on management's assessment, the related asset is still recoverable as of the end of the reporting periods (see Note 27.2).

10. LEASES

The Group is a lessee under non-cancellable operating leases covering certain office spaces and store branches. The lease for these office spaces and store branches has a term of one to five years. Generally, termination of lease contracts shall be communicated to the lessee by the lessor prior to the termination or expiration of the lease contract. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the consolidated statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index, or a rate are excluded from the initial measurement of the lease liability and asset.

The Group classifies its right-of-use assets and lease liabilities as separate line items in the consolidated statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublease the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. The Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

Refundable security deposits represent the lease deposits made for the lease of the Group's business spaces, both short and long-term lease agreements. Related security deposits for these leases amounted to P33.6 million and P36.7 million as of June 30, 2024 and December 31, 2023, respectively, and are presented as part of Other Current Assets and Other Non-current Assets account in the consolidated statements of financial position (see Note 13). Refundable security deposits which are expected to be settled beyond one year after the end of the reporting period are classified as non-current assets.

10.1 Right-of-use Assets

The carrying amounts of the Group's right-of-use assets, which pertain to office spaces and store branches, as of June 30, 2024 and December 31, 2023, including the movements during the reporting period are shown below.

	Note	**2024**	2023
Balance at beginning of year		**P 4,665,980**	P 2,901,782
Additions			8,257,280
Amortization		**(1,044,086)**	(6,493,082)
Impact of the acquisition	1.1	**-**	
Balance at end of year		**P 3,621,894**	P 4,665,980

10.2 Lease Liabilities

Lease liabilities are presented in the consolidated statements of financial position as of June 30, 2024 and December 31, 2023 as follows:

	2024	2023
Current	**P 4,675,513**	P 5,120,889
Non-current	**-**	
	P 4,675,513	P 5,120,889

The movements in the lease liabilities recognized in the consolidated statements of financial position as of June 30, 2024 and December 31, 2023 as follows:

	Notes	**2024**	2023
Balance at beginning of year		**P 5,120,889**	P 3,539,747
Additional lease liabilities			8,257,280
Repayments of lease liabilities	10.4	**(445,376)**	(7,201,585)
Interest accretion	10.4		525,447
		P 4,675,513	P 5,120,889

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceed the expected overall cost.

The table below and in the succeeding page describes the nature of the Group's leasing activities by type of right-of-use asset recognized in the consolidated statements of financial position as of June 30, 2024 and December 31, 2023

	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with termination options
Office space and store branches	**7**	**3 months to 1 year**	**1 year**	**1**	**2**

10.3 Lease Payments Not Recognized as Liabilities

The Group has elected not to recognize lease liabilities for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The amount of expense relating to short-term leases for the year ended June 30, 2024 and 2023 is allocated in the consolidated statements of income as follows:

	Notes	**2024**	2023
Cost of services	17.2	**P 6,388,267**	P 4,794,080
Cost of rental	17.3	**109,200**	108,600
General and administrative expenses		**1,014,545**	1,568,785
Selling and distribution costs		**20,826,594**	16,248,578
	18	**P 28,338,606**	P 22,720,043

10.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases, including interest, amounted to P489 thousand, P1.7 million in 2024 and 2023, respectively. Interest expense in relation to lease liabilities is presented as part of Finance costs under Other Income (Charges) – net in the consolidated statements of income (see Note 20.1).

11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property and equipment at the beginning and end of 2024 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
June 30, 2024											
Cost	P 1,288,354,682	P 400,004,131	P 199,871,052	P 290,865,159	P 256,742,716	P 39,108,967	P 86,516,429	P 132,698,246	P 107,403,586	P 37,869,625	P 2,839,434,593
Accumulated depreciation and amortization	-	(215,735,009)	(182,893,855)	(266,348,523)	(213,757,467)	(34,361,083)	(77,989,898)	(128,373,108)	(91,891,539)	14,346,250	(1,197,004,232)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	(14,346,250)	(49,346,250)
Net carrying amount	**P 1,288,354,682**	**P 149,269,122**	**P 16,977,197**	**P 24,516,636**	**P 42,985,249**	**P 4,747,884**	**P 8,526,531**	**P 4,325,138**	**P 15,512,047**	**P 37,869,625**	**P 1,593,084,111**
December 31, 2023											
Cost	P 1,288,354,682	P 379,659,325	P 195,106,677	P 312,676,797	P 282,703,618	P 25,425,998	P 86,669,310	P 117,262,423	P 109,669,602	P 27,137,678	P 2,824,666,110
Accumulated depreciation and amortization	-	(186,753,104)	(176,143,668)	(291,898,485)	(237,514,731)	(21,050,804)	(77,559,323)	(112,499,158)	(91,520,905)	14,346,250	(1,180,593,928)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	(14,346,250)	(49,346,250)
Net carrying amount	**P 1,288,354,682**	**P 157,906,221**	**P 18,963,009**	**P 20,778,312**	**P 45,188,887**	**P 4,375,194**	**P 9,109,987**	**P 4,763,265**	**P 18,148,697**	**P 27,137,678**	**P 1,594,725,932**

Construction in progress pertains to accumulated costs incurred on building improvements being constructed in various properties of the Group. Completed constructions were reclassified to specific items of property and equipment. In 2024 and 2023, no borrowing costs were capitalized.

The amount of depreciation and amortization computed on property and equipment is presented as part of the following accounts:

	Notes	**2024**	2023
Cost of services	17.2	**P 20,595,691**	P 23,249,266
Cost of rentals	17.3	**6,956,906**	7,431,326
Selling and distribution cost		**1,681,595**	1,269,313
General and administrative expenses		**9,255,168**	6,786,143
	18	**P 38,489,360**	P 38,736,048

As of June 30, 2024 and December 31, 2023, none of the Group's property and equipment were held as collateral for loans. Further, no impairment losses were recognized in 2024 and 2023 as the management believes that the carrying amount of property and equipment is recoverable in full.

There were no restrictions on titles and items of property and equipment as of June 30, 2024 and December 31, 2023.

12. INVESTMENT PROPERTIES

The Group's investment properties, accounted for under the fair value method, consist mainly of land and improvements, and buildings and improvements that are held under operating lease agreements. These properties earn rental income amounting to P146 million and P139 million in 2024 and 2023, respectively, and are presented as Rentals under Revenues in the consolidated statements of income. The Group also incurred direct costs such as real property taxes, repairs and maintenance and utilities, which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 17.3).

The fair values of the Group's investment properties as of December 31, 2023 were determined based on appraisal report dated December 12, 2023. Management obtains annual appraisal reports on its investment properties from independent appraisers (see Note 30.4).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position are summarized as follows:

	Land and Improvements	**Building and Improvements**	**Construction in Progress**	**Total**
2024:				
Balance at beginning of year	**P 5,120,560,888**	**P 769,699,957**	**P 1 076,906,086**	**P 6,967,166,931**
Additions		**1,800,236**	**517,600,426**	**519,400,660**
Reclassification	**107,000**	**1,995,777**	**(2,102,777)**	**-**
Disposals	**(74,892,929)**	**(87,594,087)**	**-**	**(162,487,014)**
Balance at end of year	**P 5,045,774,959**	**P 685,901,883**	**P 1,592,403,735**	**P 7,324,080,577**

	Land and Improvements	Building and Improvements	Construction in Progress	Total
2023:				
Balance at beginning of year	P 4,810,678,828	P 782,639,879	P 15,273,617	P 5,608,592,324
Additions	120,000	3,909,390	1,066,197,651	1,070,227,041
Fair value gains (losses) – net (see Note 19)	318,111,060	(21,414,494)	-	296,696,566
Reclassification	-	4,565,182	(4,565,182)	-
Disposals	(8,349,000)	-	-	(8,349,000)
Balance at end of year	P 5,120,560,888	P 769,699,957	P 1,076,906,086	P 6,967,166,931

The Group is continuously incurring expenses for the construction of a certain warehouse intended for leasing purposes. These expenses are capitalized and recorded as part of construction in progress. There were no capitalized borrowing costs in 2024 and 2023.

In 2022, the Group paid cash bond amounting to P15.0 million for its application for conversion of land and is presented as part of Cash bond under Other Non-current Assets account in the consolidated statement of financial position (see Note 13.2).

In 2024 and 2023, the Group received payment from an association managing an industrial park as compensation for damages to Group's property amounting to both P1.3 million, which is presented under Other Operating Income in the consolidated statements of income (see Note 19).

The Group sold certain land and improvements with a total appraised value of P162 million in 2024. The related gain on this sale is presented under Other Gains - net under Other Income (Charges) – net in the consolidated statements of income (see Note 20.3).

Certain investment property is used as collateral on loan payable as of June 30, 2024 (see Note 14).

13. OTHER ASSETS

The composition of these accounts is shown below.

	Notes	**2024**	2023
Current:			
Input VAT – net	13.3	**P 335,559,941**	P 252,416,753
Creditable withholding taxes		**126,403,286**	139,000,438
Prepayments	13.3	**13,182,226**	37,020,692
Refundable deposits	10	**32,362,202**	32,165,777
Deferred input VAT		**4,009,353**	15,590,124
Deferred cost	13.3	**474,016**	692,786
Others	13.3	**4,267,879**	3,691,477
		516,258,903	480,578,047

Non-current:			
Deposit on purchase land		**7,737,903**	
Cash bond	13.2	**15,635,346**	15,635,346
Intangible assets – net	13.1	**13,229,950**	13,099,425
Refundable deposits	10	**1,240,995**	4,529,457
Others	13.3	**8,651,967**	5,668,951
		46,496,161	38,933,179
		P 562,755,064	P 519,511,226

13.1 Intangible Assets

Intangible assets include non-proprietary club shares and computer software licenses, which are accounted for under the cost model.

Intangible assets are subject to annual impairment testing whenever there is an indication of impairment. Certain non-proprietary club shares were assessed to be impaired as determined by the management; hence, an adequate amount of allowance for impairment has been recognized in prior years. There were no impairment losses recognized in 2024 and 2023 as the recoverable amount of intangible assets determined by management is higher than the carrying value.

There are no intangible assets that have been pledged as security for any liabilities. Further, there were no other contractual commitments entered into in 2023 related particularly for intangible assets.

13.2 Cash Bond

Cash bond represents primarily the payments made by the Group for its application for conversion of land (see Note 12). It also includes deposit made with the Bureau of Customs for taxes and duties related to its importations.

As of June 30, 2024 and December 31, 2023, the total amount is currently demandable; however, the Group does not expect to refund the cash bond within 12 months from the end of the reporting period.

13.3 Others

There was no allowance for impairment of input VAT in 2024 and 2023.

Prepayments pertain to prepaid insurance, prepaid rent, and prepayments for professional fees, import charges and others.

Deferred costs represent the cost of inventories which have not been charged to cost of sales pending the completion of the Group's certain projects. In 2024 and 2023, upon the continuation of all projects deferred in previous years, a significant amount of deferred cost has been charged to cost of sales and services.

Deposits to suppliers represent the refundable amount paid by the Group to its suppliers for the distribution utilities provided to the Group.

Other current assets include deferred installation costs which pertain to the costs paid by the Group to its contractors for the installation of modular houses. Upon completion of installation, the cost is transferred to cost of sales. On the other hand, other non-current assets mostly pertain to land properties held by SMC which are subject to transfer to certain individuals under R.A. No. 6657, *Comprehensive Agrarian Reform Law of 1988*.

14. INTEREST-BEARING LOAN

As of June 30, 2024, the Group received proceeds from the drawdowns of long-term loan from a local bank amounting to P500 million to partially finance the construction of warehouse facility in Calamba, Laguna. The outstanding loan has a term of ten years with a two-year grace period. The loan bears interest ranging from 6.75% to 6.85% per annum subject to quarterly interest rate repricing. The related debt issuance costs of P2.96 million and P0.8 million for the documentary stamp tax is presented as part shown as part of Taxes and licenses under General and Administrative Expenses in the consolidated statement of income (see Note 18).

The loan is secured by a real estate mortgage for a total amount of P1.2 billion on real estate property recorded as part of Investment Properties in the consolidated statement of financial position (see Note 12) and a suretyship agreement with one subsidiary.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	**2024**	2023
Trade payables		**P 295,479,674**	P 364,062,277
Non-trade payables		**214,598,904**	46,409,082
Accrued expenses		**29,355,770**	43,602,144
Refundable deposits	16, 25.2	**34,910,670**	35,890,057
Deferred output VAT		**3,755,549**	20,430,061
Output VAT		**33,009,640**	13,617,604
Unearned rental		**14,312,425**	12,673,977
Withholding taxes payable		**7,028,855**	10,230,077
Advances from customers		**62,618,900**	9,538,653
Rentals payable		**4,278,523**	4,278,523
Reserve for warranty costs		**2,495,977**	2,514,215
Retention payable		**1,304,883**	1,564,727
Other payables		**765,653**	21,500,685
		P 703,915,423	P 586,312,082

Trade payables mainly represent obligations to various suppliers for the acquisition of goods, materials and supplies necessary for the Group's operations and productions.

Nontrade payables are the obligations arising from transactions that are not within the ordinary course of business which includes dividends payable to stockholders, lessees' deposits for electricity, communication costs, gasoline expenses, professional fees and others.

Accrued expenses include amounts charged for rentals, outside services, salaries and other incidental operating expenses of the Group which are expected to be settled within the next reporting period.

The Group receives refundable deposits from various lessees. The long-term portion of the refundable deposits from various tenants is shown as a separate line item in the consolidated statements of financial position (see Note 16). Refundable deposits are remeasured at amortized cost using effective interest rates ranging from 5.45% to 9.63% in 2023 at the inception of the lease term. Interest expense recognized from the amortization of refundable deposits are presented as part of Finance costs under Other Income (Charges) account in the consolidated statements of income.

Unearned rentals represent advance payments received from lessees.

Advances from customers pertain to the integration services in progress and customer deposit on sale of goods paid in advance to the Group.

Management considers the carrying amounts of trade and other payables recognized in the consolidated statements of financial position to be reasonable approximation of their fair values.

16. REFUNDABLE DEPOSITS

The Group has long-term refundable deposits from various tenants. These refundable deposits are remeasured at amortized cost using the effective interest ranging from 3.48% to 5.50% at the inception of the lease terms.

In 2022, the Group entered into a Built to Specification Agreement (BTSA) with a third-party lessee. The lessee will lease a warehouse for 15 years with an option to renew for another five years. The warehouse will be built to the specifications included in BTSA. The lease will commence once the certificate of completion has been obtained. The Group received a security deposit amounting to P172.4 million which serves as protection in the event the lessee refuses to pay the Group when the conditions have been met. The accumulated costs for the construction of the warehouse are presented as part of Construction-in-progress under Investment Properties in the statements of financial position (see Note 12).

As of June 30, 2024 and December 31, 2023, the outstanding balance of these refundable deposits amounted to P192.7 million. The current portion of the refundable deposits are presented as part of Trade and Other Payables account in the consolidated statements of financial position (see Note 15). On the other hand, non-current portion is presented separately under Non-current Liabilities section of the consolidated statements of financial position.

17. COSTS OF SALES, SERVICES, RENTALS AND REAL ESTATE SALES

17.1 Cost of Sales

The details of this account are shown below.

	Notes	2024	2023
Merchandise inventories at beginning of year	8	**P 319,319,293**	P 307,125,964
Net purchases of merchandise inventories during the year	18, 25.1	**703,008,861**	481.090.122
Goods available for sale		**1,022,328,154**	788,216,086
Merchandise inventories at end of year	8	**(517,819,273)**	(318,183,663)
Net provision of allowance for inventory obsolescence	8	**139,814**	2,824,632
	18	**P 504,648,695**	P 472,857,055

17.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:

	Notes	2024	2023
Subcontracting services		**P 56,213,448**	P 49,471,896
Materials, supplies and other consumables		**33,823,646**	41,577,064
Service fees		**49,447,457**	39,454,691
Salaries and employee benefits	21.1	**29,565,982**	28,127,994
Transportation and travel		**21,486,210**	22,139,613
Depreciation and amortization	10.1, 11	**20,988,913**	24,274,272
Outside services		**12,989,162**	11,744,318
Rentals	10.3	**6,388,267**	4,794,080
Repairs and maintenance		**3,670,974**	5,259,466
Communication, light and water		**6,626,405**	10,684,387
Taxes and licenses		**224,538**	2,393,230
Food and beverage		**1,812,473**	3,901,317
Insurance		**2,127,222**	1,868,535
Integration		**11,168,315**	4,217,625
Others		**5,276,767**	8,397,459
	18	**P 261,809,779**	P 258,305,947

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2024	2023
Taxes and licenses		**P 27,677,331**	P 25,394,858
Depreciation and amortization	11	**6,956,906**	7,431,326
Repairs and maintenance		**4,194,363**	2,608,855
Outside services		**5,723,625**	4,788,493
Salaries and employee benefits	21.1	**675,692**	648,937
Common usage service area		**3,615,628**	4,788,434
Rentals	10.3	**109,200**	108,600
Others		**3,141,538**	4,370,602
	12, 18	**P 52,094,283**	P 50,140,105

Others primarily consist of franchise fees and insurance expenses.

17.4 Cost of Real Estate Sales

This account pertains to the Group's cost of condominium unit and parking lots sold amounting to P3.9 million in 2024 (see Note 18). There was no sale of real estate inventories in 2023.

18. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2024	2023
Net purchases of merchandise inventories	17.1, 25.1	**P 703,008,861**	P 481,090,122
Salaries and employee benefits	21.1, 21.2, 25.8	**143,217,389**	141,352,553
Subcontracting services		**70,893,452**	66,313,823
Materials, supplies and other consumables		**36,410,934**	61,603,619
Taxes and licenses	1.1	**63,512,348**	56,962,270
Depreciation and amortization	10.1, 11, 13.1	**39,533,446**	40,384,373
Service fees		**49,447,457**	39,454,691
Utilities and communication		**38,687,941**	42,396,815
Transportation and travel		**29,708,045**	12,278,134
Outside services	1.1	**32,573,536**	28,290,789
Rentals	10.3	**28,338,606**	22,720,043
Repairs and maintenance		**15,537,246**	17,527,688
Selling and bank charges		**9,985,764**	7,133,393
Representation and entertainment		**3,686,435**	4,761,624
Food and beverage		**1,812,473**	3,901,317
Advertising and promotions		**4,967,125**	935,308
Installation cost		**978,761**	
Warranty claims		**14,679**	392,185
Provision of allowance for inventory obsolescence – net	8	**139,814**	2,824,632
Provision for impairment on an investment. in an associate			30,000,000
Excess on actual over standard input VAT			287,691
Insurance		**6,087,356**	4,701,664
Cost of real estate sold		**3,962,442**	
Integration		**11,168,315**	4,217,625
Changes in merchandise, work-in-process inventories	17.1	**(198,499,980)**	(11,057,699)
Miscellaneous		**14,043,149**	22,661,489
		P 1,109,215,594	P 1,081,134,149

These expenses are classified in the consolidated statements of income as follows:

	Notes	2024	2023
Cost of sales	17.1	**P 504,648,695**	P 472,857,055
Cost of services	17.2	**261,809,779**	258,305,947
General and administrative expenses		**210,896,257**	242,863,470
Selling and distribution costs		**75,804,138**	56,967,572
Cost of rentals	17.3	**52,094,283**	50,140,105
Cost of real estate sold	17.4	**3,962,442**	-
		P 1,109,215,594	P 1,081,134,149

19. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Notes	**2024**	2023
Income from utilities charged to tenants		**P 12,036,673**	P 22,695,757
Common usage service area	25.7	**14,016,610**	12,773,435
Compensation for damages	12	**2,678,571**	2,678,571
Miscellaneous – net		**1,438,737**	2,712,111
		P 30,170,591	P 40,859,874

20. OTHER INCOME (CHARGES)

20.1 Finance Costs

This account consists of the following:

	Notes	**2024**	2023
Foreign currency exchange losses		**P 1,187,336**	P 3,316,442
Interest expense on:			
Lease liabilities	10.4	**44,557**	45,580
Interest-bearing loans		**175,307**	85,528
Impairment losses on trade & other receivable		**1,127,330**	2,923,907
Miscellaneous		**167,758**	156,347
		P 2,702,288	P 6,527,804

20.2 Finance Income

This account consists of the following:

	Notes	**2024**	2023
Interest income from:			
Cash and cash equivalents and short-term placements	5	**P 53,557,189**	P 48,636,660
Real estate sale	6.1	**4,560**	460,289
Increase in cash surrender value of investment in life insurance	6.4	**14,851,765**	-
Reversal on impairment losses on Trade and other receivables		**24,308**	399,646
Foreign currency exchange gain		**10,470,638**	1,445,122
		P 78,908,460	P 50,941,717

20.3 Other Gains

The breakdown of this account is as follows:

	Notes	**2024**	2023
Gain on sale of property and equipment	11	**P 280,713**	P 1,351,850
Gain on sale of scrap			184,585
Gain on sale of road lot		**67,690,000**	
Proceeds from old savings acct.			1,963,314
Gain (loss) on sale of investment property	12	**(6,338,666)**	-
Networking support fee		**6,095,520**	1,750,000
Miscellaneous		**3,941,168**	1,843,352
		P 71,668,735	P 7,093,101

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below.

	Notes	**2024**	2023
Short-term benefits		**P 143,217,389**	P 141,352,553
	18	**P 143,217,389**	P 141,352,553

These expenses are classified in the consolidated statements of income as follows:

	Notes	**2024**	2023
General and administrative expenses		**P 95,534,636**	P 99,845,379
Cost of services	17.2	**29,565,982**	28,127,994
Selling and distribution costs		**17,441,079**	12,730,243
Cost of rentals	17.3	**675,692**	648,937
	18	**P 143,217,389**	P 141,352,553

21.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

The Group maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by an investment manager that is legally separated from the Group. The investment manager manages the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The Group's post-employment benefit plan provides retirement benefits ranging from 100% to 115% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2023.

The amounts of retirement benefit asset recognized in the consolidated statements of financial position are determined as follows:

	2023
Fair value of plan assets	P 256,663,816
Present value of obligation	(132,710,229)
	P 123,953,587

On the other hand, the retirement benefit obligation recognized by certain subsidiaries, which does not have an established post-employment benefit plan, amounted to P20.2 million as of December 31, 2023.

The movements in the fair value of plan assets of the Group are presented below.

	2023
Balance at beginning of year	P 252,778,811
Interest income	18,174,971
Benefits paid	(13,262,276)
Loss on plan assets (excluding amounts included in net interest)	(1,027,690)
Balance at end of year	P 256,663,816

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2023
Balance at beginning of year	P 116,413,058
Benefits paid	(13,262,276)
Current service costs	9,034,932
Interest costs	8,312,357
Remeasurements –	
Actuarial gains arising from:	
Changes in financial assumptions	25,676,853
Experience adjustments	12,312,686
Changes in demographic assumptions	46,415
Benefits paid from book reserve	(5,623,077)
Balance at end of year	P 152,910,948

The significant actuarial gains in 2023 arising from the financial assumptions pertains to the effects of differences between the discount rates and salary projection rates used while the actuarial gains arising from experience adjustments pertains to the effects of differences between the previous actuarial assumptions and what has actually occurred, including the changes in those actuarial assumptions during the applicable reporting periods.

The plan assets consist of the following as of December 31 (see Note 25.6):

	2023
Debt securities:	
Philippines government bonds	P 233,627,163
UITF	17,348,796
Corporate bonds	2,905,252
Others	2,782,605
	P 256,663,816

The fair values of the debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). UITF is classified as Level 2 while other assets are classified as Level 3 in the fair value hierarchy.

The plan assets earned a net return of P17.1 million in 2023. Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts of post-employment benefit expense recognized in the consolidated statements of income and consolidated statements of comprehensive income in respect of the post-employment defined benefit plan are presented below.

Current service cost and past service cost are presented as part of Salaries and employee benefit account under General and Administrative Expenses in the consolidated statements of income.

The net interest income is included in Other Gains – net in the consolidated statements of income. Amounts recognized in other comprehensive income, net of tax, were classified within items that will not be reclassified subsequently to profit or loss in the consolidated statements of comprehensive income.

For determination of the post-employment benefit obligation, the following actuarial assumptions were used:

	2023
Discount rates	5.94% - 6.12%
Salary increase rate	8.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working lives of employees before retirement at the age of 60 ranges from 6.0 to 25.0 years for males and 2.0 to 32.0 years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is generally concentrated on investment in debt securities, although the Group also invests in UITF.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) Inflation Risk

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset as of December 31, 2023:

	Impact on Post-employment Benefit Asset/Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2023			
Discount rate	**+/- 0.5%**	**(P 8,321,225)**	**P 9,411,097**
Salary increase rate	**+/- 1.0%**	**19,426,351**	**(15,098,506)**

The sensitivity analysis in the preceding page is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve those long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency.

The Group actively monitors how the duration, and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolios, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as of December 31, 2023 are generally concentrated in government debt securities, although the Group also invests in UITF for liquidity purposes.

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P144.2 million based on the latest actuarial valuation. On the other hand, the Group is yet to determine how much and when to fund its retirement benefit obligation as of December 31, 2023.

The Group does not expect to make any contribution to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	2023
Within one year	P 16,693,335
More than one year to 5 years	25,230,402
More than 5 years to 10 years	100,433,980
More than 10 years to 15 years	137,561,319
More than 15 years to 20 years	238,349,183
More than 20 years	1,828,849,849
	P2,347,118,068

The weighted average duration of the defined benefit obligation at the end of the reporting period is 19 years.

22. TAXES

22.1 Registration with Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

22.2 Current and Deferred Taxes

The components of tax expense reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	2024	2023
Reported in consolidated statements of income:		
Current tax expense:		
RCIT at 25% / 20%	**P 61,017,916**	P 36,868,978
Final tax at 20% / 15%	**16,870,934**	19,382,598
MCIT at 2% in 2024, 1% in 1Q 2023	**703,885**	308,845
	77,592,735	56,560,421
Deferred tax expense (income) arising from:		
Origination and reversal of temporary differences	**(9,108,933)**	448,681
	P 69,483,802	P 57,009,102

The net deferred tax assets of certain subsidiaries relate to the following:

	2024	2023
Deferred tax assets:		
Allowance for inventory obsolescence	**P 4,708,858**	P 4,708,858
Allowance for impairment on trade and other receivables	**3,343,463**	3,343,463
Fair value loss on investment property	**2,265,698**	2,265,698
Retirement benefit obligation	**2,259,958**	2,259,958
Provision for warranty claims	**628,554**	628,554
Accrued expenses	**585,352**	585,352
PFRS 16 adoption	**(150,658)**	(150,658)
MCIT	**76,435**	76,435
Deferred rental income	**44,724**	44,724
	13,762,384	13,762,384
Deferred tax liabilities:		
Unrealized foreign currency loss	**(1,672,838)**	(1,672,838)
Accumulated depreciation on investment property	**(1,044,869)**	(1,044,869)
	(2,717,707)	(2,717,707)
Deferred tax assets - net	**P 11,044,677**	P 11,044,677

The net deferred tax liabilities of certain subsidiaries relate to the following:

	2024	2023
Deferred tax assets:		
Accumulated amortization on right-of-use asset	**P 10,903,452**	P 10,903,452
Allowance for impairment on trade and other receivables	**5,446,168**	5,446,168
Impairment losses on property and equipment	**3,586,563**	3,586,563
Allowance for inventory obsolescence	**3,265,156**	3,265,156
Retirement benefit obligation		
Unearned rent income	**2,947,303**	2,947,303
Impairment losses on trade and other receivables	**1,412,121**	1,412,121
MCIT	**1,358,889**	1,358,889
NOLCO	**(389,188)**	(389,188)
Deferred rent income	**251,972**	251,972
Inventory losses due to obsolescence	**238,418**	238,418
Impairment losses on input VAT	**200,981**	200,981
Amortization of ROU assets		
Unamortized past service costs	**127,835**	127,835
Unrealized forex loss – DTL net	**159**	159
	29,349,829	29,349,829

Deferred tax liabilities:		
Fair value gains on investment property – net	**(840,293,153)**	(851,066,215)
Accumulated depreciation on investment property	**(150,386,998)**	(148,807,789)
Retirement benefit asset	**(30,050,639)**	(30,050,639)
Excess of FV over cost of property	**(12,211,529)**	(12,211,529)
Amortization of lease liabilities	**(10,828,319)**	(10,828,319)
Accrued rent income	**(4,216,982)**	(4,216,982)
Unrealized foreign currency gains	**(3,163,842)**	(3,163,842)
PFRS 16	**(60,916)**	(60,916)
	(1,051,212,378)	(1,060,406,231)
Deferred tax liabilities – net	**(P 1,021,862,549)**	(P 1,031,056,402)

Presented below are the details of NOLCO, which can be claimed as deductions from future taxable profit within three to five years from the year the tax loss was incurred. Specifically, NOLCO incurred in 2021 and 2020 can be claimed as a deduction from the gross income until 2026 and 2025, respectively, in accordance with R.A. No. 11494, *Bayanihan to Recover as One Act*. In 2022, the NOLCO carry-over period is reverted to three years from the year the tax loss was incurred.

Year Incurred	Amount	Applied Amount	Expired Amount	Remaining Balance	Valid Until
2023	P 58,202,069	P -	P -	P 58,202,069	2026
2022	30,654,231	-	-	30,654,231	2025
2021	138,523,393	-	-	138,523,393	2026
2020	166,054,076	(13,088,254)	-	152,965,822	2025
	P 393,433,769	**(P 13,088,254)**	**P -**	**P 380,345,515**	

The Group is subject to MCIT which is computed at 2% in 2024 and 1.5% in 2023 of gross income, as defined under the tax regulations or RCIT, whichever is higher. The details of the Group's MCIT are as follows:

Year Incurred	Amount	Applied Amount	Expired Amount	Remaining Balance	Valid Until
2023	P 1,500,636	P -	P -	P 1,500,636	2026
2022	612,193	-	-	612,193	2025
2021	686,785	-	-	686,785	2024
2020	1,360,982	(458,706)	(902,276)	-	
	P 4,160,596	**(P 458,706)**	**(P 902,276)**	**P 2,799,614**	

The Group did not recognize the deferred tax assets on NOLCO, MCIT and other deductible temporary differences of certain subsidiaries as management has assessed that those subsidiaries may not be able to realize their related tax benefits within the prescribed availment period. The NOLCO, MCIT and other deductible temporary differences as of December 31 for which the related deferred tax assets have not been recognized by certain entities in the Group are shown below.

	2023	
	Amount	**Tax Effect**
NOLCO	**P 116,633,288**	**P 29,730,789**
Allowance for inventory obsolescence	**5,640,616**	**1,410,154**
Unamortized past service cost	**1,614,359**	**403,590**
Allowance for impairment of trade receivables	**1,509,192**	**377,298**
Retirement benefit obligation	**1,204,196**	**301,049**
Allowance for impairment of intangible assets	**272,127**	**68,032**
MCIT	**117,104**	**117,104**
Unrealized foreign currency gains – net	**(51,968)**	**(12,992)**
Reserve for commission	**-**	**-**
	P 126,938,914	**P 32,395,024**

In 2024 and 2023, the Group opted to use itemized deduction in computing for its income tax due, except for certain subsidiaries which still opted to claim OSD in the current year.

23. EQUITY

23.1 Capital Stock

The Parent Company has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the Commission issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced.

The Parent Company offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares consist of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of December 31, 2023, the Parent Company has issued shares of 2,030,975,000 (with P1 par value), of which, 468,787,704 shares are held by the public in 2023. There are 4,199 and 4,209 of the listed shares which closed at P1.05 and P0.94 per share on June 30, 2024 and December 31, 2023.

23.2 Retained Earnings

The BOD approved the declaration of cash dividends in 2024 and 2023 as follows:

Date of Declaration	Stockholders of Record as of	No. of Shares Outstanding	Amount per Share	Total
June 27, 2024	**July 15, 2024**	**1,821,542,000**	**P 0.10**	**P 182,154,200**
August 3, 2023	**August 18, 2023**	**1,821,542,000**	**P 0.06**	**P 109,292,520**

The dividend in 2024 will be paid on August 8, 2024. In 2023, the dividend was paid within the year of declaration and approval. Retained earnings is restricted in the amount of P115.6 million as of June 30, 2024 and December 31, 2023, equivalent to the cost of 209,433,000 shares held in treasury.

23.3 Revaluation Reserves

The components of this account and its movements are as follows:

	Notes	2024	2023
Balance at beginning of year		**128,781,811**	149,200,491
Currency exchange differences on translating financial statements of foreign operations		**40,424,607**	(12,774,092)
Balance at end of year		**169,206,418**	136,426,399

23.4 Subsidiary with Material Non-controlling Interest

Non-controlling interests (NCI) pertain to the 25.0% and 50.0% equity ownership of minority stockholders in Skyworld and Starworld, respectively. In fourth quarter of 2023, the Group sold its shares of stock in Interstar and LIIP (see Notes 1.1). The details of deconsolidation are presented in Note 23.5.

The selected financial information (before inter-company eliminations) of Starworld and LIIP, which are considered the material NCI are shown below.

	Starworld 2023
Current assets	**P 576,695,016**
Non-current assets	**1,656,883**
Total assets	**P 578,351,899**
Current liabilities	**P 365,911**
Non-current liabilities	**2,093,711**
Total liabilities	**P 2,459,622**
Equity (capital deficiency) attributable to owners of the parent	**P 287,946,139**
NCI	**P 287,946,139**
Revenue	**P 38,404,858**
Profit (loss) for the year attributable to owners of the parent	**P 12,120,868**
Profit (loss) for the year attributable to NCI	**12,120,868**
Profit (loss) for the year	**24,241,736**
Other comprehensive loss for the year (all attributable to owners of the parent)	**(76,949)**
Total comprehensive income (loss) for the year attributable to owners of the parent	**12,043,919**
Total comprehensive income (loss) for the year attributable to NCI	**12,120,868**
Total comprehensive income (loss) for the year	**P 24,164,787**
Net cash used in operating activities	**(P 13,572,748)**
Net cash from investing activities	**29,189,428**
Net cash used in financing activities	**(100,000,000)**
	(84,383,320)
Effect of exchange rate on cash and cash equivalent	**(693)**
Net cash inflow (outflow)	**(P 84,384,013)**

The corporate information of Starworld and LIIP, as well as the Parent Company's stockholding thereto, is provided in Note 1.2.

In the second half of 2023, cash dividend amounting to P51.3 million was declared to NCI which was paid within the year of declaration and approval.

Management determined that the difference between the respective equity ownership of minority stockholders over the equity of the aforementioned subsidiaries and the amount of NCI recognized in the consolidated statements of financial position is not material to the consolidated financial statements.

23.5 Loss of Control Over Subsidiaries

As discussed in Notes 1 and 23.4, the Group sold its shares of stock in Interstar and LIIP in the fourth quarter of 2023. At the date of disposal, the net carrying amount of these entities and the determination of the gain or loss on deconsolidation are as follows:

	LIIP	Interstar	Total
Cash & cash equivalents	P 87,791	P 35,824	P 123,615
Real estate inventories – land	248,000	-	248,000
Real estate inventories – land development	2,419,600	-	2,419,600
Real estate inventories – allowance	(2,667,600)	-	(2,667,600)
Total current assets	87,791	35,824	123,615
Trade and other payables	-	38,987	38,987
Advances from related parties	8,039,271	5,083,105	13,122,376
LIIP advances from Interstar	(4,003,358)	-	(4,003,358)
Total current liabilities	(4,035,913)	(5,122,092)	(9,158,005)
Net assets	(3,948,122)	(5,086,268)	(9,034,390)
Net assets - NCI	(4,316,539)	(1,373,292)	(5,689,831)
Share of the Parent Company in net assets of Interstar and LIIP	368,417	(3,712,976)	(3,344,559)
Consideration received	(100)	(100)	(200)
Gain (loss) in deconsolidation	**(P 368,317)**	**P 3,713,076**	**P 3,344,759**

The net gain on deconsolidation amounting to P3.4 million is presented as part of other gains under Other Income (Charges) – net section of the 2023 audited consolidated statement of income.

24. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing net profit attributable to the Parent Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

Basic and diluted earnings for profit attributable to the Parent Company's stockholders are computed as follows:

	2024	2023
Net profit for the year attributable to the Parent Company's stockholders	**P 174,062,676**	P 122,720,883
Divided by weighted average shares outstanding:		
Number of shares issued	**2,030,975,000**	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)
	1,821,542,000	1,821,542,000
Earnings per share – basic and diluted	**P 0.10**	P 0.07

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of June 30, 2024 and December 31, 2023; hence, diluted earnings per share is equal to the basic earnings per share.

25. RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form. Based on the requirement of the SEC Memorandum Circular 2019-10, *Rules on Material Related Party Transactions for Publicly Listed Companies*, transactions amounting to 10% or more of the total assets based on the latest audited financial statements that were entered into with related parties are considered material. All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent director's vote is not secured; the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a one-year period that breaches the 10% materiality threshold, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

The Group's related parties include other companies owned by the Parent Company's majority stockholders and the Group's key management personnel as described below. The summary of the Group's significant transactions in 2024 and 2023 with its related parties and the outstanding balances as of December 31, 2023 are as follows:

	Amounts of Transaction		Outstanding Receivable (Payable)	
Related Party Category	Notes	**2023**	**2023**	2023
Related Parties Under Common Ownership:				
Purchase of mobile phones		**P -**	**P -**	P -
Purchase of supplies and services		**-**	**-**	-
Purchase of spare parts		**-**	**-**	-
Advances to suppliers		**-**	**-**	-
Lease of real property	25.1	**5,858,891**	**-**	-
Refundable deposits		**-**	**(891,305)**	(891,305)
Collection of business loans		**-**	**-**	-
Interest income		**-**	**-**	-
Cash advances granted – net of allowance	25.3	**33,578**	**2,420,429**	2,386,851

Related Parties Under Common Ownership:				
Cash advances obtained	25.4	**-**	**-**	(1,881,570)
Commissions	25.5	**-**	**-**	-
Sale of goods	25.6	**-**	**-**	-
Rendering of services	25.4	**853,334**	**-**	-
Key Management Personnel:				
Compensation	25.	**52,838,952**	**-**	-

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

Further, transactions with Avid, as disclosed on the succeeding pages, transpired before the acquisition of ownership of the Parent Company over Avid in 2022. Transactions after the acquisition between related parties were eliminated at consolidated financial statements.

Unless otherwise stated, the Group's outstanding receivables from and payables to related parties arising from advances, sale and purchase of goods, management services and other services, are unsecured, noninterest-bearing and generally settled in cash within 12 months from the end of the reporting period.

Based on the management assessment, certain receivables were found to be impaired using the provision matrix; hence, adequate amount of allowance for impairment have been recognized as of December 31, 2023.

25.1 Lease of Real Property

The Group leases its office space to TCL Sun Inc. (TCL), a related party under common ownership, with a lease term of five years with escalation rates. Likewise, prior to the acquisition, certain subsidiaries leased out land, buildings and office spaces to Avid. Revenues arising from these transactions are presented as part of Rentals under the Revenues of the consolidated statements of income.

Deposits received from the related parties for these lease agreements are refundable at the end of the lease term. There were no additional deposits received in 2023. The outstanding balance of refundable deposits are presented under Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

25.2 Granting of Loans

Prior to the acquisition, the Group granted an unsecured business loan to Avid with the original principal loan amounting to P80.0 million which bears an annual interest rate of 8.0%. The loan will mature in 2025.

25.3 Advances to and from Related Parties

In the normal course of business, certain subsidiaries of the Group grant and obtain unsecured, noninterest-bearing cash advances to and from related parties under common ownership for working capital requirements and other purposes. As of June 30, 2024 and December 31, 2023, outstanding balances of these advances are presented as Advances to and from Related Parties account in the consolidated statements of financial position.

In 2023, the Group granted insignificant amount of additional advances to its related party, which remains uncollected as of June 30, 2024, is presented under Advances to Related Parties account in the 2023 consolidated statement of financial position.

The outstanding balances related to advances obtained from related parties as of December 31, 2022 was fully settled in 2023.

There were no impairment losses recognized in 2023.

25.4 Rendering of Services

In 2023, a certain subsidiary bills TCL service charges for common usage and service area and consumption of utilities. Charges arising from these transactions are presented as part of Common usage and service area and utilities charges under Other Operating Income section of the consolidated statements of comprehensive income (see Note 19).

As of June 30, 2024 and December 31, 2023, there are no outstanding receivables arising from these transactions.

25.5 Key Management Personnel Compensation

The compensation of key management personnel are shown as part of Salaries and employee benefits under General and Administrative Expenses in the consolidated statements of income.

25.6 Transactions with the Retirement Fund

The Group has established a formal multi-employer retirement plan which is administered by an investment manager, except for certain subsidiaries whose retirement fund remained unfunded as of June 30, 2024 and December 31, 2023.

The retirement fund consists of corporate bonds, government securities and UITF with fair values totaling P256.7 million as of June 30, 2024 and December 31, 2023, respectively. The retirement fund neither provides any guarantee nor surety for any obligation of the Group.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 21.2.

25.7 Advances to Officers

In the ordinary course of business, the Group provided unsecured, noninterest-bearing advances to its officers subject to liquidation. The outstanding receivable arising from these transactions are presented as part of Advances to officers and employees under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.2).

26. SIGNIFICANT CONTRACTS AND AGREEMENTS

26.1 Memorandum of Understanding with SPI

On July 1, 2003, the Group entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony. Under the MOU, Sony authorized the Group to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee calculated as a percentage of Sony's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by Sony. Network support fees are billed at a fixed rate per month. The agreement is effective unless revoked by any of the parties.

Network support fees and in-warranty service fees relating to Sony products are presented as part of Rendering of Services in the consolidated statements of income.

The outstanding balances arising from these transactions are included as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.1).

26.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)

The Group has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, the Group was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, the Group shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by the Group which are covered under the 12 month-warranty period at its own costs and expenses. The Agreement was effective until March 31, 2022.

26.3 Management Agreement with Sky Cable Corporation

For continuity of services to subscribers, the Group and SkyCable Corporation (SkyCable) undertook to cooperate with each other and to execute further actions as may be necessary to carry out the purposes of the agreement on sale of assets pending the approval of the National Telecommunications Commission (NTC). The Management Agreement shall be automatically terminated on the date of the NTC's approval of the transfer of the assets in favor of SkyCable. As of December 31, 2023, the NTC approval has not yet been obtained.

The Group was given the overall power and responsibility to handle all aspects necessary to carry out the administration and operations of SkyCable and to accord the necessary additional authorizations, should the need arise.

Revenues arising from these transactions is presented as part of Rendering of services under Revenues in the consolidated statements of income. The outstanding receivable is included as part of Trade receivables under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6.1).

27. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

27.1 Operating Lease Commitments – Group as Lessor

Certain subsidiaries are lessors under various non-cancellable operating lease agreements covering certain real estate properties. These leases have terms ranging from one to 10 years, with renewal options, and include annual escalation rates ranging from 5% to 10%. These subsidiaries receive fixed monthly payments.

The Group is subject to risks associated with the rights it retains in the properties it leases, such as alterations made by the lessee that may impair the value of the leased properties. To manage the exposure on such risks, the Group exercises strict control over the fit-out process and no alterations are allowed to be made without prior approval of the Group. The Group also requires security deposits and advance rentals equivalent to at least three months of rent. Moreover, the Group retains its right to inspect the leased properties during the lease term. In case of expiration of lease term or early termination due to the default of the lessee, the Group is entitled to the improvements installed on the leased properties without an obligation to reimburse the lessee for the costs of improvements.

The future minimum lease receivables under these non-cancellable operating leases as of December 31 are presented below.

	2023
Within one year	P 139,786,685
After one year but not more than two years	109,479,747
After two year but not more than three years	91,681,740
After three year but not more than four years	84,909,324
After four year but not more than five years	20,014,941
More than five years	48,713,683
	P 494,586,120

The total rent income recognized from these transactions, including rent income resulting from the application of the straight-line basis of revenue recognition for the reporting periods, are presented as Rentals under Revenues section of the consolidated statements of income. There was no contingent rent (i.e., variable rent considerations) related to these operating leases.

27.2 Purchase Commitments

In 2007, the Group has entered into several construction contracts with various subcontractors for the construction of Tri-Towers condominium building. The construction of Tower 1 and Tower 2 were completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started, yet it has incurred expenses for the planning phase as of June 30, 2024 and December 31, 2023 (see Note 9.2).

27.3 Deficiency Tax Assessments

Certain subsidiaries have outstanding deficiency tax assessments with the BIR and outstanding tax cases filed with the Court of Tax Appeals (CTA) covering the taxable years 2011, 2012, 2015, 2016 and 2017 to which the BIR and CTA have sought to investigate, and consequently, examine certain books, records and accounts that relate to transactions in the ordinary course of business. Pursuant to the Group's policy of addressing such actions in line with prudent business practice, the Group has engaged tax counsel and advisors in relation to these matters.

As of June 30, 2024, the majority of these deficiency tax assessments and tax cases are still under protest or reconsideration. Management believes that the Group has enough legal basis under the law to support their claims, and that the outcome of such tax assessments will not have a material impact in the Group's consolidated financial statements; hence, no provision was recognized as of June 30, 2024.

27.4 Purchase Agreement

In previous year, the Group entered into a purchase agreement with Asia Travel Philippines Inc. (ATPI). As of December 31, 2023, the unearned portion with ATPI is presented as part of Other Payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

27.5 Others

The Group has unused credit facilities amounting to P1.1 billion both in 2024 and 2023.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. As of December 31, 2023, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 29. The main types of risks are market risk, credit risk, liquidity risk and operational risk.

The Group's risk management is coordinated with its BOD and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate continuous returns.

The Group does not engage in the trading of financial assets for speculative purposes, nor does it write options. The most significant financial risks to which the Group is exposed are described below and in the succeeding pages.

28.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other receivables and trade and other payables, which are primarily denominated in USD and HKD. The Group also holds USD-denominated and HKD-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate are as follows:

	2024		2023	
	USD	**HKD**	USD	HKD
Financial assets	**P 202,691,987**	**P 14,600,458**	P 2,409,551	P 13,774,612
Financial liabilities	**(940,706)**	**-**	(1,115,666)	-
Short-term exposure	**P 201,751,281**	**P 14,600,458**	P 1,293,885	P 13,774,612

The following table illustrates the sensitivity of the Group's profit before tax in 2024 and 2023 with respect to changes in the exchange rates of Philippine peso against foreign currencies. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months prior to the end of the reporting period at a 99% confidence level.

	2024		2023	
	Reasonably Possible Change in Rate	**Effect in Profit Before Tax**	Reasonably Possible Change in Rate	Effect in Profit Before Tax
PHP – USD	**9.26%**	**P 18,677,726**	16.02%	P 207,280
PHP – HKD	**9.26%**	**1,351,973**	17.38%	2,394,028
		P 20,029,699		P 2,601,308

If the Philippine peso had strengthened against the USD and HKD, with all other variables held constant, the Group's profit before tax would have been lower by P20 million and P2.6 million in 2024 and 2023, respectively. Conversely, if the Philippine peso had weakened against the USD and HKD by the same percentage, with all variables held constant, profit before tax and equity would have been higher in 2024 and 2023 by the same amount.

Exposures to foreign exchange rates vary during the period depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be a reasonable estimation of the Group's currency risk.

(b) *Interest Rate Risk*

As of June 30, 2024 and 2023, the Group is exposed to changes in market interest rates through its cash and cash equivalents, short-term placements, loans receivables and interest-bearing loans which are subject to variable interest rates. All other financial assets and financial liabilities have fixed rates or are noninterest-bearing.

The sensitivity of profit or loss before tax are based on a reasonably possible change in interest rates of +/-1.44% in 2024 and +/-3.00% in 2023 for Philippine peso. On the other hand, the Group's exposure to foreign currency interest rates is insignificant. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with the effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P57 million and +/-P90.9 million in 2024 and 2023, respectively.

(c) *Other Price Risk*

The Group's market price risk arises from its investments carried at fair value (i.e., financial assets measured at FVOCI). The Group manages exposure to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

28.2 Credit Risk

Credit risk is the risk that the counterparties may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting loans and selling goods and services to customers including related parties, placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position and in the detailed analysis provided in the notes to the consolidated financial statements, as summarized below.

	Notes	2024	2023
Cash and cash equivalents	5.1	**P 3,396,505,643**	P 2,710,806,862
Short-term placements	5.2	**73,692,908**	153,780,405
Trade and other receivables – net*	6	**676,041,216**	1,185,046,905
Investment in bonds	7.2	**20,000,000**	20,000,000
Refundable deposits**	13	**33,603,196**	36,695,234
Advances to related parties	25.4	**2,420,429**	2,420,429
Cash bond**	13	**15,635,346**	15,635,346
		P 4,217,898,738	P 4,124,385,181

** Except for Advances to suppliers, officers and employees*
*** Presented as part of Other Assets*

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents and short-term placements as described below and in the succeeding pages.

(a) Cash and Cash Equivalents and Short-term Placements

The credit risk for cash and cash equivalents and short-term placements in the consolidated statements of financial position is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and cash equivalent with maturities of less than three months, and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) Trade and Other Receivables

The Group applies the simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other receivables.

With respect to other receivables from third parties, management assessed that these financial assets have a low probability of default since the Group can apply the related payables to these counterparties in case it defaults.

For loans receivable, the Group is not exposed to significant credit risk to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about borrower default rates, management considers the credit quality of loans receivables that are not past due or impaired in assessing the credit risk. Further, the Group holds collateral against loans and other receivables in the form of personal guaranty, chattel mortgage and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

To measure the ECL, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The Group also concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other receivables as it shares the same credit risk characteristics.

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic value factors, which includes gross domestic product, inflation and consumer price index, affecting credit risk and ECL for the loan portfolio.

On that basis, the loss allowance as of December 31, 2023 was determined based on months past due, for trade and other receivables (except advances to suppliers and officers and employees, interest receivables and cash surrender value of investment in life insurance) are as follows:

	Not more than 60 days	More than 60 days but not more than 90 days	More than 90 days but not more than 120 days	More than 120 days	Total
December 31, 2023					
Expected loss rate	**0.54%**	**9.99%**	**20.12%**	**85.51%**	
Gross carrying amount	**P 151,016,795**	**P 19,747,672**	**P 35,657,441**	**P 113,842,170**	**P 320,264,078**
Loss allowance	**820,280**	**1,971,956**	**7,174,927**	**97,347,853**	**107,315,016**

(c) *Advances to Related Parties*

For intercompany receivables that are repayable on demand, the ECL is based on the assumption that repayment of the receivables is demanded at the reporting date. The management determines the probability of collection upon demand. If a related party is unable to make repayment, the management considers the manner of recovery (i.e., sustained operations, availability of liquid and illiquid asset, etc.) to measure the ECL.

(d) *Refundable and Other Deposits*

With respect to refundable and other deposits, management assessed that these financial assets have a low probability of default since these relate to reputable power and water distribution companies (i.e., with high quality external credit rating). Moreover, the Group has operating lease contracts as lessee with the counterparty lessors, wherein the Group can refund by the end of the term or can apply to future lease payments in case of defaults.

(e) *Investment in Bonds*

Investment in bonds measured at amortized cost are considered to have low credit risk, and therefore, the loss allowance during the period is determined to be equivalent to 12 months ECL. Management considers "low credit risk" for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default, and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

No impairment loss on investment in bonds has been recognized in 2024 and 2023 since the bonds are in good credit standing as of June 30, 2024 and December 31, 2023.

(f) *Cash Bond*

With respect to cash bond, management assessed that this financial asset has low probability of default since this relates to refundable deposits made with Bureau of Customs for taxes and duties relative to importations.

28.3 Liquidity Risk

Liquidity risk is the risk that cash may not be available to meet operating requirements and to pay obligations when due at a reasonable cost. Prudent liquidity risk management requires maintaining sufficient cash and credit facilities at reasonable cost to satisfy current requirements whenever the need arises. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.
The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in short-term placements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.
As of June 30, 2024 and December 31, 2023, the Group's financial liabilities [except for lease liabilities (see Note 10.2)] have contractual maturities, which are presented below.

	Current		Non-current
	Within 6 Months	6 to 12 Months	1 to 5 Years
2024			
Trade and other payables	**P 579,928,423**	**P -**	**P -**
Advances from related parties		**-**	**-**
Interest-bearing loans			**500,000,000**
Refundable deposits		**-**	**192,833,880**
	P 579,928,423	**P -**	P **692,833,880**
2023			
Trade and other payables	P 495,806,810	P -	P -
Advances from related parties		-	-
Interest-bearing loans			105,000,000
Refundable deposits	-	-	192,693,811
	P 495,806,810	P -	P 297,693,811

The contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of the reporting period.

28.4 Operational Risk

The Group's exposure to significant operational risk relates to SMFI's secondary license to operate as a financing company under R.A. No. 8556 (see Note 1.2). Also, SMFI is under the regulation of the Commission. Management is aware that the Group will always have operational risk but seeks to minimize the probability and impact of such in its operations and consolidated financial statements.

The Group manages this risk through applicable controls, process and procedures, including effective organization structure. Internal controls ensure compliance with laws and regulations, including R.A. No. 8556 and SEC regulations, and the overall protection of SMFI's resources.

SMFI, as a financing company, is subject to, but not limited to, the following regulatory requirements under the implementing rules and regulations of the provisions of R.A. No. 8556:

(a) Total investment in real estate and in shares of stock in a real estate development corporation shall not exceed 25% of its net worth;

(b) More than 50% of the funds are invested in financing company activities;

(c) Total credit extended to its directors, officers, and stockholders shall not exceed 15% of its net worth; and,

(d) Total credit extended to any person, company, corporation or firm shall not exceed 30% of its net worth.

As of June 30, 2024 and December 31, 2023, the Group is compliant with the foregoing requirements.

29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

29.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

		2024		2023	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial assets					
At amortized cost:					
Cash and cash equivalents	5.1	**P 3,396,505,643**	**P 3,396,505,643**	P 2,710,806,862	P 2,710,806,862
Short-term placements	5.2	**73,692,908**	**73,692,908**	153,780,405	153,780,405
Trade and other receivables – net	6	**676,041,216**	**676,041,216**	1,185,046,905	1,185,046,905
Investment in bonds	7.2	**20,000,000**	**20,000,000**	20,000,000	18,198,220
Refundable deposits	13	**33,603,196**	**33,603,196**	36,695,234	36,695,234
Advances to related parties	25.4	**2,420,429**	**2,420,429**	2,420,429	2,420,429
Cash bond	13	**15,635,346**	**15,635,346**	15,635,346	15,635,346
		4,217,898,738	**4,217,898,738**	4,124,385,181	4,122,583,401
Financial assets at FVOCI	7.1	**55,400,000**	**55,400,000**	55,400,000	55,400,000
		P4,273,298,738	**P 4,273,298,738**	P 4,179,785,181	P 4,177,983,401

	Notes				
Financial liabilities					
At amortized cost:					
Interest-bearing loan		**P 500,000,000**	**P 500,000,000**	P 105,000,000	P 94,891,203
Trade and other payables	15	**579,928,423**	**579,928,423**	495,806,810	495,806,810
Refundable deposits	16	**192,833,880**	**192,833,880**	192,693,811	192,693,811
Advances form related parties		**-**	**-**	-	**-**
Lease liabilities	10.2	**4,675,513**	**4,675,513**	5,120,889	5,120,889
		P 1,277,437,816	**P 1,277,437,816**	P 798,621,510	P 788,512,713

A description of the Group's risk management objectives and policies for financial instruments is provided in Note 28.

29.2 Offsetting of Financial Instruments

The Group has not set off financial instruments as of June 30, 2024 and December 31, 2023 and it does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the respective BODs and stockholders of both parties.

The financial assets presented as part of Advances to Related Parties account can be offset by the amount of outstanding Advances from Related Parties account in the consolidated statements of financial position (see Note 25.4).

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, certain agreements between the Group and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both parties elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

30. FAIR VALUE MEASUREMENTS AND DISCLOSURES

30.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities, and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

30.2 Financial Instruments Measured at Fair Value

The Group's financial assets at FVOCI include proprietary golf club shares which are categorized within Level 2 as their prices are not derived from market considered due to lack of trading activities among market participants at the end or close to the end of the reporting period. As of June 30, 2024 and December 31, 2023, the Group's financial assets at FVOCI measured at fair value amounted to both P55.4 million, respectively (see Note 7.1).

The Group has no financial liabilities measured at fair value. Also, there were neither transfers between Levels 1 and 3 nor changes in the carrying amount of Level 2 instruments in both years.

30.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The tables below summarize the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 3	Total
2024				
Financial Assets				
At amortized cost:				
Cash and cash equivalents	5	**P 3,396,505,643**	**P -**	**P 3,396,505,643**
Trade and other receivables – net	6	**-**	**676,041,216**	**676,041,216**
Short term placements		**73,692,908**		**73,692,908**
Advances to related parties	25.4	-	**2,420,429**	**2,420,429**
Investment in bonds	7.2	**20,000,000**		**20,000,000**
Refundable deposits	13	**-**	**33,603,196**	**33,603,196**
Cash bond	13	**-**	**15,635,346**	**15,635,346**
		P 3,490,198,551	**P 727,700,187**	**P 4,217,898,738**

	Notes						
Financial Liabilities							
At amortized cost:							
Trade and other payables	15	**P**	**-**	**P**	**579,928,423**	**P**	**579,928,423**
Interest – bearing loans					**500,000,000**		**500,000,000**
Refundable deposits	16		**-**		**192,833,880**		**192,833,880**
Advances from related parties					-		**-**
Lease liabilities	10.2		**-**		**4,675,513**		**4,675,513**
		P	**-**	**P**	**1,277,437,816**	**P**	**1,277,437,816**
2023							
Financial Assets							
At amortized cost:							
Cash and cash equivalents	5.1	P	2,710,806,862	P	-	P	2,710,806,862
Short-term placements	5.2		153,780,405		-		153,780,405
Trade and other receivables – net	6		-		1,185,046,906		1,185,046,906
Advances to related parties	25.4		-		2,420,429		2,420,429
Investment in bonds	7.2		18,198,220		-		18,198,220
Refundable deposits	13		-		36,695,234		36,695,234
Cash bond	13		-		15,635,346		15,635,346
		P	2,882,785,487	P	1,239,797,915	P	4,122,583,402
Financial Liabilities							
At amortized cost:							
Interest-bearing loans	14	P	-	P	94,891,203	P	94,891,203
Trade and other payables	15		-		495,806,810		495,806,810
Refundable deposits	16		-		192,693,811		192,693,811
Lease liabilities	10.2		-		5,120,889		5,120,889
		P	-	P	788,512,713	P	788,512,713

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data. Further, management considers that the carrying amounts of these financial instruments approximate their fair values as the effect of discounting is insignificant.

30.4 Fair Value Measurements of Non-financial Assets

The fair value of the Group's investment properties is determined on the basis of the appraisals performed by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The fair value of these non-financial assets was determined based on the following approaches (see Note 12):

(a) Fair Value Measurement for Land and Improvements

The Level 3 fair value of land and improvements amounted to P5,120.6 million as of December 31, 2023, and was derived through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

(b) Fair Value Measurement for Building and Building Improvements

The Level 3 fair value of the buildings and improvements amounted to P769.7 million as of December 31, 2023, and was derived through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

(c) Fair Value Measurement for Construction in Progress

The Level 3 fair value of the construction in progress amounted to P1,076.9 million as of December 31, 2023. These fair values were determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees.

These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

The discount rates and terminal capitalization rates were determined with reference to published risk free rates and risk premium rates at the date of valuation.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2024 and 2023.

31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities, excluding amounts advances from related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

The computation of the Group's debt-to-equity ratio is presented below.

	2024	2023
Total liabilities (excluding advances from related parties)	**P 2,473,145,459**	P 1,959,928,487
Total equity	**12,423,530,725**	12,353,434,365
	0.20 : 1.00	0.16 : 1.00

As of June 30, 2024, the Group is not subject to any externally imposed capital requirements, except for SMFI. Under Section 6 of R.A. No. 8556, SMFI is subject to an externally imposed capital requirement of a minimum of P10.0 million paid-up capital. SMFI is in compliance with the minimum paid-up capital requirement as of June 30, 2024 and December 31, 2023.

Solid Group Inc. and Subsidiaries
Schedule of Financial Soundness Indicators

RATIO	FORMULA	Unaudited as of June 30, 2024		Audited as of December 31, 2023	
Current ratio	Current Assets / Current Liabilities	5,199,445,478 / 738,248,311	**7.04**	4,365,280,991 / 610,977,555	**7.14**
Acid Test ratio	Quick Assets (Cash & Cash Equivalents + Short term Placements + Trade Receivables) / Current Liabilities	3,734,494,871 / 738,248,311	**5.06**	3,116,005,258 / 610,977,555	**5.10**
Solvency ratio	Total Liabilities / Total Assets	2,473,145,459 / 14,896,676,184	**0.17**	1,959,928,487 / 14,313,362,852	**0.14**
Debt to Equity ratio	Total Liabilities (excluding advances from related parties) / Total Equity	2,473,145,459 / 12,423,530,725	**0.20**	1,959,928,487 / 12,353,434,365	**0.16**
Gearing ratio	Financial Debt / Total Equity	500,000,000 / 12,423,530,725	**0.04**	105,000,000 / 12,353,434,365	**0.01**
Asset to Equity ratio	Total Assets / Total Equity	14,896,676,184 / 12,423,530,725	**1.20**	14,313,362,852 / 12,353,434,365	**1.16**
RATIO	**FORMULA**	**Unaudited for the period ended June 30, 2024**		**Unaudited for the period ended June 30, 2023**	
Interest Coverage ratio	EBIT (Earnings before interest and tax) / Interest Expense	281,529,621 / 219,865	**1,280.47**	187,685,087 / 131,108	**1,431.54**
Operating Margin	Operating Profit (Loss) / Total Revenues	133,434,849 / 1,212,479,852	**11.01%**	136,046,965 / 1,176,321,240	**11.57%**
Net Profit Margin	Net Profit (Loss) after Tax / Total Revenues	211,825,953 / 1,212,479,852	**17.47%**	130,544,876 / 1,176,321,240	**11.10%**
Return on Total Assets	Net Profit (Loss) after Tax (annualized) / Average Total Assets	423,651,906 / 14,605,019,518	**2.90%**	261,089,752 / 13,708,876,615	**1.90%**
Return on Equity	Net Profit (Loss) after Tax (annualized) / Total Equity	423,651,906 / 12,423,530,725	**3.41%**	261,089,752 / 12,058,785,649	**2.17%**