

- *Short-term Leases.* The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date or initial application of PFRS 16 and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

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

Provisions

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they are incurred. Borrowing cost consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-denominated Transactions and Translation

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. The subsidiaries determine their own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are recorded using their functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange at the end of the reporting period. Exchange gains or losses arising from foreign currency translations are credited or charged to current operations. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Other than OAL, the functional and presentation currency of the subsidiaries within the Company is Philippine peso. The functional currency of OAL is U.S. dollar. The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the consolidated statement of income.



Taxes

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) and unused tax losses from net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused MCIT and NOLCO can be utilized, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interest in joint venture. Deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the reporting date.

Deferred income tax relating to items recognized outside the consolidated statement of income is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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



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

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of “Income and other taxes payable” account in the consolidated statements of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as part of “Input value-added taxes” account in the consolidated balance sheet to the extent of the recoverable amount.

Earnings per Common Share (EPS) Attributable to the Equity Holders of the Parent

Basic EPS is computed by dividing net income attributable to the common equity holders of the Parent Company by the weighted average number of outstanding common shares during the year after giving retroactive effect to any stock dividend declared during the year.

The Company does not have potential common share or other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

Segment Reporting

The Company is organized into five major business segments namely, investment holdings, property development, construction materials, educational services and business process outsourcing (BPO). In 2020, the Parent Company sold its ownership interest in ICI Asia which is under the BPO segment (see Note 7). Financial information about the Company’s business segments is presented in Note 41 to the consolidated financial statements.

Contingencies

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

Events After Financial Reporting Date

Post year-end events up to the date of approval of the consolidated financial statements by the BOD that provide additional information about the Company’s financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The accompanying consolidated financial statements prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. In preparing the Company’s consolidated financial statements, management has made its best judgments, estimates and assumptions of certain amounts, giving due consideration to materiality. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.



The Company believes the following represents a summary of these significant judgments, estimates and assumptions and related impact and associated risks in its consolidated financial statements.

Judgments

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

Material Partly-owned Subsidiaries. The consolidated financial statements include additional information about subsidiaries that have NCI that are material to the Company (see Note 8). Management determined material partly-owned subsidiaries as those with carrying value of NCI greater than 5% of total NCI as at end of the year.

Material Associates and Joint Ventures. Management determined material associates and joint ventures as those associates and joint ventures where the carrying amount of the Company's investment is greater than 5% of the total investments in associates and joint ventures as at end of the year and the associate or joint venture contributes more than 5% of the consolidated net income based on the equity in net earnings/losses. As at December 31, 2021 and 2020, the Company has no material associates and joint ventures (see Note 13)

Determining the Lease Term of Contracts with Renewal and Termination Options – Company as a Lessee. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

Rent expense for short-term leases amounted to ₱103.5 million, ₱112.5 million and ₱80.6 million for the years ended December 31, 2021, 2020 and 2019, respectively (see Notes 27, 28 and 38).

Estimates and Assumptions

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

Business Combination. The Company's consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. The Company accounts for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the Company's consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial performance.



On December 23, 2019, PEHI and the shareholders of RCI entered into a Share and Asset Purchase Agreement for the sale and transfer of 24,113.5 common shares representing 92.41% of the total issued and outstanding capital stock of RCI for a consideration of ₱15.6 million which resulted in allocation of the purchase consideration to the identifiable assets acquired and liabilities assumed. The fair values of the identifiable assets and liabilities of RCI as at the date of the acquisition were finalized in 2020 and disclosed in Note 6.

On July 31, 2020, PEHI and the shareholders of RCL entered into a Share and Asset Purchase Agreement to acquire 100% of the total issued and outstanding capital stock of RCL for a consideration of ₱448.8 million which resulted in allocation of the purchase consideration to the identifiable assets acquired and liabilities assumed. The fair values of the identifiable assets and liabilities of RCL as at the date of the acquisition were finalized in 2021 and disclosed in Note 6.

On May 21, 2021, PEHI and the shareholders of UCLI entered into a Share and Asset Purchase Agreement to acquire 65.76% of the total issued and outstanding capital stock of UCLI for a consideration of ₱86.8 million which resulted in allocation of the purchase consideration to the identifiable assets acquired and liabilities assumed. The fair values of the identifiable assets and liabilities of UCLI as at the date of the acquisition are disclosed in Note 6.

Leases - Estimating the Incremental Borrowing Rate. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The Company's lease liabilities amounted to ₱355.9 million and ₱419.7 million as at December 31, 2021 and 2020, respectively (see Note 38).

Estimating Allowance for ECLs

The following information explains the inputs, assumptions and techniques used by the Company in estimating ECL:

- General approach for cash and cash equivalents, other receivables and deposits

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Company considers the probability of its counterparty to default in its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized, forward-looking estimates and time value of money.

- Simplified approach for receivables from customers

The Company uses a simplified approach for calculating ECL on receivables from customers through the use of provision matrix to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type and rating).



The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the Company's operating segments, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking rates are analyzed.

- Incorporation of forward-looking information

The Company considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. A broad range of forward-looking information are considered as economic inputs such as the gross domestic product, inflation rate, unemployment rates, industry growth rates and other economic indicators.

The macroeconomic factors are aligned with information used by the Company for other purposes such as strategic planning and budgeting.

The Company identifies and documents key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 to 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

- Grouping of instruments for losses measured on collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a segmentation are homogeneous. The Company segmentized its receivable from students on the basis of the geographical location of each school (e.g., Pangasinan, Cebu, Iloilo, Nueva Ecija, Manila, Quezon City, Cagayan de Oro) while receivable from customers of construction materials are segmentized based on the type of customer (e.g., contractors, hardwares, developers, roofing specialists, fabricators and end users). Receivable from patients, consultancy services, and others are assessed as separate segments.

The following credit exposures are assessed individually:

- a. All stage 3 assets, which are considered to be specifically impaired, regardless of the class of financial assets; and
- b. Cash and cash equivalents, other receivables and deposits

There have been no significant changes in estimation techniques or significant assumptions made in 2020. In 2021, the receivables of PEHI that were subjected to specific identification were not included in the credit loss computation. Specifically impaired receivables are receivables that have high non-collectibility risk and fully provided for ECL.



The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The changes in the gross carrying amount of receivables during the year and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.

Provision for ECL amounted to ₱185.9 million, ₱168.5 million and ₱96.5 million in 2021, 2020 and 2019, respectively. The allowance for ECL amounted to ₱1,198.6 million, ₱1,013.1 million as at December 31, 2021 and 2020. The carrying amounts of trade and other receivables amounted to ₱4,935.3 million and ₱3,422.4 million as at December 31, 2021 and 2020 (see Note 11).

Estimating Net Realizable Value of Inventories. The Company carries inventories at net realizable value when this becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The Company did not recognize provision for inventory obsolescence in 2021 and 2020. Write-off of inventory amounted to ₱3.0 million in 2020. The allowance for inventory obsolescence amounted to ₱10.1 million and ₱11.2 million as at December 31, 2021 and 2020, respectively. The carrying amounts of inventories amounted to ₱1,974.1 million and ₱1,608.0 million as at December 31, 2021 and 2020, respectively (see Note 12).

Impairment of Investments in Associates. The Company assesses impairment of investments in associates whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. This requires an estimation of the VIU of the CGUs. Estimating the VIU requires the Company to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate to calculate the present value of those cash flows. In cases wherein VIU cannot be reliably estimated, the recoverable amount is based on the fair value less costs to sell. Fair value less costs to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate.

No impairment loss on investment in associates was recognized in 2021, 2020 and 2019.

The carrying values of investments in associates amounted to ₱1,007.4 million and ₱965.1 million as at December 31, 2021 and 2020, respectively (see Note 13).

Impairment of Goodwill. The Company performs impairment testing of goodwill on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the VIU of the CGU to which the goodwill is allocated. VIU is determined by making an estimate of the expected future cash flows from the CGU and applies a discount rate to calculate the present value of these cash flows. Goodwill acquired through business combination has been allocated to one CGU which is also the operating entity acquired through business combination and to which the goodwill relates. The recoverable amount of goodwill has been determined based on VIU calculation using cash flow projections covering a five-year period. The calculation of VIU for the Company's goodwill is sensitive to revenue growth rates and discount rates. Revenue growth rates estimates are based on values acquired in previous years and also takes into account anticipated increase from various market initiatives. Discount rate reflects the current market assessment of the risk specific to each CGU. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.



The carrying amount of goodwill, pre-tax discount rates and growth rates applied to cash flow projections for impairment testing are as follows:

	Goodwill		Pre-tax Discount		Growth Rates	
	2021	2020	2021	2020	2021	2020
SWU	₱996,484	₱996,484	10.8%	9.6%	5%	5%
UPANG	385,817	385,817	10.8%	9.6%	5%	5%
UI	213,995	213,995	10.8%	9.6%	5%	5%
AU	35,917	35,917	10.8%	9.6%	5%	5%
COC	20,445	20,445	10.8%	9.6%	5%	5%
SJCI	103,992	103,992	10.8%	9.6%	5%	5%
RCI	61,286	61,286	10.8%	9.6%	5%	5%
UCLI	53,215	—	10.8%	—	5%	—
	₱1,871,151	₱1,817,936				

Management believes that no reasonably possible change in these key assumptions would cause the carrying values of goodwill to materially exceed its recoverable amount. The Company performs its annual testing of goodwill every December 31.

There was no impairment loss on goodwill in 2021 and 2020. Impairment loss on goodwill amounted to ₱14.1 million in 2019. The carrying amount of goodwill amounting to ₱1,871.2 million and ₱1,817.9 million as at December 31, 2021 and 2020, respectively, was presented under “Intangible assets” account in the consolidated statements of financial position (see Note 18).

Impairment of Property, Plant and Equipment, Investment Properties and Intangible Asset with Finite Useful Lives. The Company assesses impairment on property, plant and equipment, investment properties and intangible assets with finite useful lives whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance related to the expected or projected operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

The Company did not recognize impairment loss on property, plant and equipment, investment properties and intangible asset with finite useful lives in 2021, 2020 and 2019. The COVID-19 pandemic did not materially affect the recoverability of property, plant and equipment, investment properties and intangible asset with finite useful lives.

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The assessment in the recognition of deferred tax assets on temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on past results and future expectations on revenues and expenses. However, there is no assurance that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilized.

Carrying values of deferred tax assets amounted to ₱286.3 million and ₱220.3 million as at December 31, 2021 and 2020, respectively (see Note 34). The Company’s deductible temporary differences, unused NOLCO and MCIT, for which no deferred tax assets are recognized in the consolidated statements of financial position are disclosed in Note 34.



Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangible Assets with Finite Useful Lives. The Company estimates the useful lives of depreciable property, plant and equipment, depreciable investment properties and intangible assets with finite useful lives based on the period over which the property, plant and equipment, investment properties and intangible assets with finite useful lives are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets and in the case of intangible assets, useful lives are also based on the contracts covering such intangible assets. The estimated useful lives of property, plant and equipment, investment properties and intangible assets with finite useful lives are reviewed at each financial year-end and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment, investment properties and intangible assets with finite useful lives. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

The carrying amounts of depreciable property, plant and equipment, investment properties and intangible assets with finite useful lives are as follows:

	2021	2020
Property, plant and equipment (see Note 16)	₱6,703,181	₱5,359,864
Investment properties (see Note 17)	16,714	17,945
Intangible assets with finite useful lives (see Note 18)	34,643	7,737

In 2020, the Company changed the useful lives of certain property and equipment from 10-20 years to 10-50 years. The change in useful lives were accounted for prospectively. The change in the useful lives of certain property and equipment decreased depreciation expense by ₱2.0 million in 2020 and will decrease the annual depreciation expense by the same amount from 2021 and onwards.

In 2020, the Company changed the useful lives of certain investment properties from 20 years to 50 years. The change in useful lives were accounted for prospectively. The change in the useful lives of certain investment properties decreased depreciation expense by ₱9.7 million in 2020 and will decrease the annual depreciation expense by the same amount from 2021 and onwards.

There were no changes in useful lives of intangible assets with finite useful lives in 2021 and 2020.

Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities. Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections. The fair values of the identifiable net assets acquired as at date of acquisition are disclosed in Note 6 to the consolidated financial statements.



Pension Benefits. The cost of pension plans is determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While the Company believes that its assumptions are reasonable and appropriate, significant differences in its actual experience or significant changes in its assumptions may materially affect its cost for pension and other retirement obligations.

All assumptions are reviewed every year-end (see Note 35).

Pension costs amounted to ₱79.7 million, ₱55.9 million and ₱58.2 million in 2021, 2020 and 2019, respectively. Pension and other-employment benefits liability amounted to ₱259.2 million and ₱253.7 million as at December 31, 2021 and 2020, respectively (see Note 35).

Fair Value of Financial Instruments. When the fair values of financial instruments recorded on the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility. The Company's investments held for trading, financial assets at FVPL, financial assets at FVOCI and derivatives instruments are recorded at fair value.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 37.

Contingencies and Tax Assessments. The Company is currently involved in various legal proceedings and assessments for local and national taxes

The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's consolidated financial statements. Based on management's assessment, appropriate provisions were made in the consolidated statements of financial position.

6. Business Combination

Acquisition of Union College of Laguna (UCLI). On May 21, 2021, PEHI signed and closed the Share and Asset Purchase Agreement and acquired 65.76% controlling shares of stock of UCLI for a consideration of ₱86.8 million. On September 9, 2021, PEHI subscribed to an additional 450,000 shares for ₱45.0 million, increasing ownership interest to 80.91%. UCLI offers Junior High School and the Academic Track (Accountancy & Business Management Strand, General Academic Strand, and Humanities and Social Sciences Strand), Technical Vocational Track (Home Economics) and ICT Track (Computer Hardware Servicing Strand) for Senior High School. UCLI also offers undergraduate courses in Psychology, Criminology, Education, Business Administration, Accountancy, Hospitality Management, and Information Technology, and graduate programs in Education and Public Administration. UCLI is a school that operates secondary, tertiary and graduate programs.



The fair value of the identifiable assets and liabilities of UCLI as at the date of the acquisition are as follows:

	Fair Values Recognized at Acquisition Date
Total assets:	
Cash and cash equivalents	₱2,377
Tuition fee and other receivables	9,419
Prepaid expenses and other current assets	178
Land	65,671
Building and improvements	19,504
Indemnification assets	13,747
<u>Total assets</u>	<u>110,896</u>
Total liabilities:	
Trade payables	3,086
Unearned income	2,964
Other payables	13,748
Deferred tax liabilities	5,964
Long-term payable	32,494
Pension liability	1,503
<u>Total liabilities</u>	<u>59,759</u>
Total identifiable net assets acquired	51,137
Proportionate share of NCI in net assets acquired	(17,509)
<u>Goodwill arising from acquisition</u>	<u>53,215</u>
<u>Purchase consideration transferred</u>	<u>₱86,843</u>

The net assets recognized in the December 31, 2021 financial statements were based on a provisional assessment of the fair value while PEHI sought an independent valuation for the fixed assets of the acquired business.

From the date of acquisition, UCLI's revenues and net loss amounting to ₱18.1 million and ₱1.7 million, respectively, formed part of the 2021 consolidated statement of income. If the combination had taken place at the beginning of the year, the Company's consolidated revenues and net income attributable to parent would have been ₱16.0 billion and ₱1.1 billion, respectively.

Acquisition of Rizal College of Laguna. On July 31, 2020, PEHI signed and closed the Share and Asset Purchase Agreement and acquired 100.00% controlling shares of stock of RCL. Gain on bargain purchase of ₱11.4 million has been recognized as the value of the identifiable assets exceeded the value of the purchase consideration of ₱448.8 million. The gain on bargain purchase has been presented in the 2020 consolidated statement of income as part of "Other income (expenses)". RCL offers Junior High School and the Academic Track (Accountancy & Business Management Strand and the General Academic Strand), Technical Vocational Track (Industrial Arts, Electrical installation III and Maintenance Strands) and ICT Track (Computer Hardware Servicing Strand) for Senior High School. It also offers undergraduate courses in Education, Business Administration, Office Administration and Industrial Technology. It is a school that operates secondary, tertiary and graduate programs.



The fair value of the identifiable assets and liabilities of RCL as at the date of the acquisition are as follows:

	Fair Values Recognized at Acquisition Date
Total assets:	
Cash and cash equivalents	₱309
Tuition fee and other receivables	666
Land	488,450
Building and improvements	25,956
Indemnification assets	4,281
Total assets	519,662
Total liabilities:	
Trade and other payables	4,504
Deferred tax liabilities	51,269
Pension liability	3,777
Total liabilities	59,550
Total identifiable net assets acquired	460,112
Gain on bargain purchase	(11,351)
Purchase consideration transferred	₱448,761

The net assets recognized in the December 31, 2020 financial statements were based on a provisional assessment of the fair value. The valuation of the net assets was completed and finalized in 2021.

On December 5, 2020, PEHI entered into a Sale and Purchase Agreement with CARD Mutual Benefit Association, Inc., CARD MRI Development Institute, Inc. and CARD MRI Property Management Inc. and sold 10.00% of RCL's issued and outstanding capital stock for a total consideration of ₱46.5 million, reducing the ownership of PEHI from 100.00% to 90.00%. The sale resulted to equity adjustment due to changes in ownership interest of the Parent without loss of control (see Note 7).

Acquisition of Republican College, Inc. On December 23, 2019, PEHI and the shareholders of RCI entered into a Share and Asset Purchase Agreement for the sale and transfer of 23,103.5 common shares representing 92.41% of the total issued and outstanding capital stock of RCI for a consideration of ₱15.6 million. On March 12, 2020, the PEHI acquired additional 505 common shares for a total consideration of ₱0.3 million which increased its ownership interest to 94.41%.

On September 8, 2020, PEHI acquired additional 1,010 common shares for a total consideration ₱0.6 million, which increased its ownership to 98.41%.

RCI is a school that operates secondary, tertiary and graduate programs. The registered office address of RCI is in Cubao, Quezon City.



The fair value of the identifiable assets and liabilities of RCI as at the date of the acquisition are as follows:

	Fair Values Recognized at Acquisition Date
Total assets:	
Cash and cash equivalents	₱49,130
Tuition fee and other receivables	1,802
Prepaid expenses and other current assets	215
Land	143,100
Building and improvements	30,940
Deferred tax asset	5,596
Indemnification assets	7,149
Total assets	237,932
Total liabilities:	
Trade payables	79
Accruals and taxes payable	16,251
Unearned income	979
Other payables	268,451
Pension liability	1,658
Total liabilities	287,418
Total identifiable net liabilities acquired	(49,486)
Proportionate share of NCI in net assets acquired	3,755
Goodwill arising from acquisition	61,286
Purchase consideration transferred	₱15,555

The Company has elected to measure the NCI based on the NCI's proportionate share in the fair value of the net identifiable assets at acquisition date.

Goodwill arising from the acquisition amounted to ₱61.3 million. Goodwill is allocated entirely to the education segment. None of this goodwill recognized is expected to be deductible for income tax purposes.

The net assets recognized in the December 31, 2019 consolidated financial statements were based on a provisional assessment of the fair value while the Company sought an independent valuation for the land by RCI which is done by an independent appraiser accredited by the SEC.

In 2020, the valuation was completed, and the acquisition date fair value of the land was decreased by ₱56.0 million over the provisional value. Fair value of other net assets acquired were increased by ₱3.8 million.

Acquisition and Sale of PHINMA Solar Energy Corporation. On July 3, 2019, Phinma Energy Corporation (PHEN) and PHN, executed a Deed of Sale for the sale of PHEN's 225.0 million shares in PHINMA Solar to PHN representing 50.0% ownership for a consideration of ₱218.3 million.

PHN and PHINMA Solar are under common control of PHINMA, Inc. before and after the acquisition. Thus, the acquisition was considered as a combination of business under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements.



The assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. Financial information for periods prior to the date of business combination was not restated.

Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- Any difference between the consideration transferred and the net assets acquired is reflected within equity;
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities starting when the combination took place.

The acquisition resulted to equity adjustment from common control business combination, included under "Equity reserves" account, amounting to ₱8.7 million in 2019.

On December 22, 2020, PHN and UGC, executed a deed of sale for the sale of PHN's 225.0 million shares in PHINMA Solar to UGC representing 50.00% ownership for a consideration of ₱218.3 million. The sale resulted to equity adjustment due to changes in ownership interest of the Parent Company without loss of control (see Note 7).

7. Transactions with Non-controlling Interests and Others Changes in Ownership

Dilution of Ownership Interest in PEHI

On October 7, 2019, PEHI including Kaizen Private Equity II PTE. LTD. (Kaizen), Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) and Asian Development Bank (ADB) (collectively "the Investors") have amended and restated the First Investment Agreement (made and entered by PEHI, Kaizen and ADB on April 12, 2019) to reflect the terms and conditions of FMO's investment in PEHI and to reflect other agreed changes to the original terms of the First Investment Agreement. Other local investors including PHINMA, Inc. have also contributed in the capital of PEHI in 2019.

On January 9, 2020, ADB invested ₱625.0 million for 1.1 million shares of PEHI. As a result, ownership interest of Parent Company to PEHI decreased from 71.83% to 67.18%.

These transactions in 2020 and 2019 resulted to equity adjustments presented under changes in ownership interests of the Parent Company without loss of control.

In 2019, PEHI issued additional shares to its officers and employees as part of the stock sharing plan. The transaction resulted to increase in "Equity reserves" account by ₱21.4 million and decrease in retained earnings account by ₱26.3 million.

Call and Put Option over the NCI in PEHI

As part of the signed investment agreement of PEHI and the Investors, in the event that an initial public offering (IPO) of PEHI is not completed on the fifth anniversary of the agreement, the Investors have an irrevocable right and option to sell to and obligate the Parent Company to purchase all or portion of their shares (put option). On the other hand, the Parent Company has an irrevocable right and option to purchase and obligate all of the Investors to sell all of its shares under certain conditions.



The exercise price of the options is based at a price that generates 10% internal rate of return, based on the investor US dollar subscription price per share, which is calculated at the agreed exchange rate for the period beginning on the closing date and ending on the date of the relevant notice.

This transaction resulted to recognition of “Non-controlling interest put liability” amounting to ₱1,862.9 million and ₱1,585.9 million as at December 31, 2021 and 2020, respectively, and derecognition of “Non-controlling interests” amounting to ₱143.2 million and ₱358.2 million in 2021 and 2020, with the difference recorded as “Equity reserves” amounting to ₱133.8 million and ₱327.7 million in 2021 and 2020, respectively. As at December 31, 2021, the Company fully expects to complete the IPO within a certain period as agreed in the signed investment agreement and will at that point derecognize the put liability with a corresponding credit to the same component of equity.

Acquisition of Ownership Interest of NCI in AU and COC by PEHI

In June 2019, PEHI acquired the shares held by PHINMA, Inc. in AU and COC resulting to an increase in ownership interest of PEHI from 77.85% to 97.57% and from 73.18% to 91.27% in AU and COC, respectively. The transaction resulted to the decrease in “Non-controlling interests” and “Equity reserves” accounts by ₱107.0 million and ₱70.9 million, respectively.

Dilution and Acquisition of Ownership Interest of NCI in SJCI by PEHI

In October 2019, PEHI subscribed additional 110,000 shares in SJCI which increased PEHI’s total interest from 95.58% to 98.30%. The transaction resulted to the decrease in “Non-controlling interests” and increase “Equity reserves” accounts by ₱3.9 million and ₱5.3 million, respectively.

Dilution of Ownership Interest of NCI in UGC

In 2016, UGC issued a stock purchase plan in which a bonus will be paid out in five (5) equal annual amortizations from 2016 to 2020 to eligible officers/grantees approved by the Executive Committee.

In 2019, UGC have issued 127,710 shares as part of the stock purchase plan and also issued 291,571 shares to its officers which resulted in a decrease in “Equity reserve” account of ₱3.3 million and an increase in “Non-controlling interests” account by ₱3.7 million.

In 2020, UGC have issued 58,521 shares to its officers as part of the stock purchase plan which resulted in an increase in “Equity reserve” and “Non-controlling interests” accounts by ₱1.3 million and ₱3.4 million, respectively.

Acquisition of Ownership Interest of NCI in UGC

On July 3, 2019, PHN acquired the 1.5 million shares of UGC held by PHEN which increased PHN ownership interest from 96.82% to 98.32%. This resulted to a decrease in “Non-controlling interests” account by ₱35.9 million.

Divestment of Ownership Interest in ICI Asia

On September 18, 2020, the Parent Company executed a deed of absolute sale with the President of Integrative Competitive Intelligence Asia, Inc. (ICI Asia) for its entire ownership interest in ICI Asia for ₱0.5 million resulting to a loss of control to the latter by the Parent Company. As a result, the Company recognized a loss from deconsolidation amounting to ₱11.2 million and derecognized the net assets of ICI Asia.

Changes in Ownership Interests of the Parent Company in Subsidiaries without Loss of Control

Equity reserves includes the effects in equity upon changes in ownership interest of the Parent Company without loss of control. The transactions above resulted to increase in “Equity reserves” and “Non-controlling interests” accounts by ₱194.8 million and ₱475.9 million, respectively, in 2020, and ₱480.2 million and ₱1.2 billion, respectively in 2019. There were no changes in ownership interest of the Parent Company in 2021.



8. Material Partly-owned Subsidiaries

Financial information of subsidiaries that have material NCI are provided below:

Proportion of equity interest held by NCI in 2021 and 2020 are as follows:

Name	Percentage of Ownership	
	2021	2020
API	42.38	42.38
Philcement	40.00	40.00
PEHI and subsidiaries	32.82	32.82

Accumulated balances of material NCI as at December 31 are as follow:

Name	2021	2020
PEHI and subsidiaries	₱1,660,856	₱1,421,554
Philcement	643,561	401,542
API	165,133	157,853

Profit allocated to material NCI for the years ended December 31 follows:

Name	2021	2020
PEHI and subsidiaries	₱455,551	₱30,230
API	7,280	2,313
Philcement	281,818	310,060

The summarized financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations.

Summarized total assets and liabilities as at December 31, 2021 are as follows:

	PEHI and subsidiaries	API	Philcement
Current assets	₱4,213,085	₱87,446	₱3,368,571
Noncurrent assets	8,877,363	256,639	3,432,732
Total assets	₱13,090,448	₱344,085	₱6,801,303
Current liabilities	₱2,663,252	₱52,175	₱2,785,592
Noncurrent liabilities	3,877,930	316	2,042,809
Total liabilities	₱6,541,182	₱52,491	₱4,828,401

Summarized total assets and liabilities as at December 31, 2020 are as follows:

	PEHI and subsidiaries	API	Philcement
Current assets	₱3,136,539	₱76,510	₱2,351,255
Noncurrent assets	8,537,832	250,468	2,601,426
Total assets	₱11,674,371	₱326,978	₱4,952,681
Current liabilities	₱1,954,225	₱52,235	₱2,916,718
Noncurrent liabilities	4,018,946	327	632,106
Total liabilities	₱5,973,171	₱52,562	₱3,548,824



Summarized statements of comprehensive income for the year ended December 31, 2021:

	PEHI and subsidiaries	API	Philcement
Revenues	₱3,690,805	₱11,837	₱7,646,635
Cost of sales	(1,517,216)	—	(6,527,758)
Administrative and selling expenses	(1,029,043)	(1,418)	(273,619)
Finance costs	(168,022)	—	(196,177)
Other income - net	83,944	6,837	34,220
Income before income tax	1,060,468	17,256	683,301
Income tax	(41,409)	(2)	19,054
Net income	1,019,059	17,254	702,355
Other comprehensive income (loss)	(12,539)	—	501
Total comprehensive income	₱1,006,520	₱17,254	₱702,856

Summarized statements of comprehensive income for the year ended December 31, 2020:

	PEHI and subsidiaries	API	Philcement
Revenues	₱2,094,989	₱11,011	₱5,809,152
Cost of sales	(1,056,255)	—	(4,638,695)
Administrative and selling expenses	(719,805)	(1,172)	(171,815)
Finance costs	(184,566)	—	(191,219)
Other expense - net	(92,914)	(4,162)	(24,292)
Income before income tax	41,449	5,677	783,131
Income tax	(27,154)	(219)	(7,980)
Net income	14,295	5,458	775,151
Other comprehensive income	—	—	—
Total comprehensive income	₱14,295	₱5,458	₱775,151

Summarized statements of cash flows for the year ended December 31, 2021:

	PEHI and subsidiaries	API	Philcement
Operating	(₱79,343)	₱845	(₱303,070)
Investing	(270,003)	16,742	(1,017,498)
Financing	(105,518)	—	1,404,688
Net increase (decrease) in cash and cash equivalents	(₱454,864)	₱17,857	₱84,120
Dividends paid to non-controlling interests	₱53,245	₱—	₱—

Summarized statements of cash flows for the year ended December 31, 2020:

	PEHI and subsidiaries	API	Philcement
Operating	₱27,989	(₱3,222)	₱1,407,822
Investing	(1,163,936)	(35,639)	(652,072)
Financing	709,095	—	(446,895)
Net increase (decrease) in cash and cash equivalents	₱426,852	(₱38,861)	₱308,855
Dividends paid to non-controlling interests	₱33,095	₱—	₱—



9. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand and in banks	₱2,156,148	₱1,784,418
Short-term deposits	1,539,766	1,104,445
	₱3,695,914	₱2,888,863

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income from cash and cash equivalents amounted to ₱7.8 million, ₱17.2 million and ₱52.7 million in 2021, 2020 and 2019, respectively (see Note 26).

10. Investments Held for Trading

This account consists of investments in:

	2021	2020
Unit Investment Trust Funds (UITFs)	₱1,302,457	₱2,115,856
Marketable equity securities	8,271	13,966
	₱1,310,728	₱2,129,822

Net gains from investments held for trading amounted to ₱16.0 million, ₱27.9 million and ₱52.9 million in 2021, 2020 and 2019, respectively (see Note 26).

Investments held for trading have yields ranging from 0.04% to 1.25% in 2021, 0.55% to 4.76% in 2020 and 0.97% to 1.47% in 2019. Interest income from investments held for trading amounted to nil, ₱6.9 million and ₱4.2 million, in 2021, 2020 and 2019, respectively (see Note 26).

11. Trade and Other Receivables

This account consists of:

	2021	2020
Receivables from customers	₱4,319,605	₱3,167,966
Advances to suppliers and contractors	1,195,954	791,767
Accrued interest receivables	139,137	18,666
Rent receivable	92,521	87,272
Advances to officers and employees	53,958	47,050
Due from related parties (see Note 33)	13,729	15,961
Loan receivables	4,634	36,634
Others	314,380	270,185
	6,133,918	4,435,501
Less allowance for ECLs	1,198,614	1,013,115
	₱4,935,304	₱3,422,386



Receivables from customers include receivables from sale of roofing and other steel products to customers which are normally on a 30-60 day term. Receivables from customers also include tuition and other school fees receivables which are normally collected within the current school semester. Other trade receivables are noninterest-bearing and are normally collected within the next financial year.

Advances to suppliers and contractors are noninterest-bearing and normally received within the next financial year. This account mainly consists of safeguard duties paid to Bureau of Customs in relation to the Philcement's importation of cement. In October 2019, Philcement filed a petition with the Court of Tax Appeals (CTA) to reverse and nullify the imposition by the Department of Trade and Industry (DTI) of safeguard duties on its importation of cement during the year. As at December 31, 2021 and 2020, safeguard duties paid amounted to ₱944.1 million and ₱476.1 million, respectively.

The terms and conditions of the amounts due from related parties are discussed in Note 33.

Rent receivables are noninterest-bearing and are collectible within the next financial year.

Advances to officers and employees pertain to advances made to officers and employees for business transactions they enter on behalf of the Company. These are normally liquidated within a year.

Accrued interest receivables are normally collected within the next financial year.

Loan receivables pertain to sums of money lent to third parties to be paid either in lump sum or in installment over the specified period of time. The loan receivables are due and demandable.

Other receivables include receivables from Social Security System (SSS) and Philippine Health Insurance Corporation (Philhealth), which are noninterest-bearing and are normally collected within the next financial year.

Receivables written off amounted to nil and ₱14.2 million in 2021 and 2020, respectively. These pertain to receivables of COC, SJCI, UPANG and RCI which are deemed worthless and uncollectible. The COVID-19 pandemic did not materially affect the allowance for ECLs.

Movements in the allowance for ECLs are as follows:

	2021		
	Customer	Others	Total
Balance at January 1, 2021	₱866,180	₱146,935	₱1,013,115
Provisions (see Note 28)	185,897	—	185,897
Reversals	(398)	—	(398)
Balance at December 31, 2021	₱1,051,679	₱146,935	₱1,198,614

	2020		
	Customer	Others	Total
Balance at January 1, 2020	₱719,748	₱146,935	₱866,683
Provisions (see Note 28)	168,492	—	168,492
Write-offs	(14,213)	—	(14,213)
Deconsolidation of a subsidiary (see Note 7)	(7,847)	—	(7,847)
Balance at December 31, 2020	₱866,180	₱146,935	₱1,013,115



12. Inventories

This account consists of:

	2021	2020
At cost:		
Finished goods	₱1,554,506	₱1,244,483
Raw materials	252,501	261,584
Other inventories	89,784	59,648
At net realizable value -		
Spare parts and others	69,980	42,266
Other inventories	7,283	—
	₱1,974,054	₱1,607,981

Under the terms of the agreements covering liabilities under trust receipts, certain inventories amounting to ₱1,711.4 million and ₱2,030.9 million as at December 31, 2021 and 2020, respectively, have been released to UGC in trust for the banks. UGC is accountable to the banks for the inventories under trust or its sales proceeds.

Finished goods mainly represent roofing and other steel products of UGC.

The cost of spare parts and other inventories carried at net realizable value amounted to ₱87.4 million and ₱53.5 million as at December 31, 2021 and 2020, respectively. The Company has allowance for inventory write-down amounting to ₱10.1 million and ₱11.2 million as at December 31, 2021 and 2020, respectively.

Cost of inventories sold, presented as “Inventories used” under “Cost of sales”, amounted to ₱8,868.4 million, ₱7,187.4 million and ₱6,248.4 million in 2021, 2020 and 2019, respectively (see Note 27).

13. Investment in Associates and Joint Ventures

The Company’s associates and joint ventures consist of the following:

	Percentage of Ownership			
	2021		2020	
	Direct	Effective	Direct	Effective
Investment in associates:				
PHINMA Property Holdings Corporation (PPHC) ^(a)	35.42	42.71	35.42	42.71
ABCIC Property Holdings, Inc. (APHI) ^(b)	26.51	28.15	26.51	28.15
Coral Way City Hotel Corporation (Coral Way) ^(c)	23.75	29.27	23.75	29.27
PHINMA Hospitality, Inc (PHI) ^(d)	—	20.88	—	20.88
Interests in joint ventures:				
PHINMA Saytanar Education Company Limited (PHINMA Saytanar) ^(e)	—	35.92	—	35.92
PT Ind Phil Managemen (IPM) ^(e)	—	47.89	—	47.89

(a) Indirect ownership through API.

(b) Indirect ownership through UGC.

(c) Indirect ownership through PHI.

(d) Formerly Microtel Development Corporation (MDC). Indirect ownership through API.

(e) Indirect ownership through PEHI.



Investment in Associates

The Company's associates are all incorporated in the Philippines. The reporting period of the associates ends at December 31 as the end of reporting period. The detailed carrying values of investments in associates (accounted for under the equity method) are as follows:

	2021	2020
PPHC	₱632,669	₱591,804
APHI	174,586	161,121
PHI	133,827	137,542
Coral Way	66,326	74,652
	₱1,007,408	₱965,119

The movements and details of the investments in associates are as follows:

	2021	2020
Acquisition costs, balance at beginning and end of year	₱1,863,322	₱1,863,322
Accumulated equity in net losses:		
Balance at beginning of year	(912,021)	(908,288)
Equity in net earnings (losses)	28,614	(3,733)
Balance at end of year	(883,407)	(912,021)
Share in other comprehensive income (loss) of associates:		
Balance at beginning of year	13,818	(5,010)
Share in other comprehensive income	13,675	18,828
Balance at end of year	27,493	13,818
	₱1,007,408	₱965,119

The Company has no material associate as at December 31, 2021 and 2020.

The aggregate comprehensive income of associates that are not individually material follows:

	2021	2020	2019
Share in net income (loss)	₱28,614	(₱3,733)	₱45,779
Share in other comprehensive income	13,675	18,828	1,644
Share in total comprehensive income	₱42,289	₱15,095	₱47,423

Following are the status of operations and significant transactions of certain associates:

a. PPHC

PPHC was incorporated in the Philippines and is engaged in real estate development, particularly in the development of affordable medium and high-rise condominium units. The registered office address of the PPHC is PHINMA Properties Center, No. 29 EDSA, Mandaluyong City.



Pursuant to the deeds of assignment dated December 28, 2018, the Company and APHI transferred real properties in exchange for PPHC shares. PPHC will issue 65,622 shares to the Company at par value of ₱5,000.00 per share in exchange for the real property with appraised value of ₱328.1 million, costing ₱20.0 million. In 2018, the Company and APHI applied for a tax-free exchange pursuant to Section 40(C) of the Tax Code, as amended. In addition, the Company recorded a gain on sale of ₱164.2 million from the tax-free exchange.

As at December 31, 2021, the Transfer of Certificate of Title over the property has yet to be transferred in the name of PPHC. PPHC is yet to issue the shares to the Company and APHI, pending approval of the request for increase in capital stock of PPHC by SEC as at March 1, 2022.

b. APHI

APHI is primarily engaged in selling real and personal properties.

c. Coral Way

Coral Way owns and operates Microtel Mall of Asia (the Hotel) which started commercial operations on September 1, 2010.

d. PHI

In 2015, API, a subsidiary of PHN, subscribed to 12.5 million shares of PHI representing 36.23% of PHI's outstanding shares for ₱125 million. Subscription payable amounting to ₱52.0 million is included in "Due to related parties" in the consolidated statements of financial position as at December 31, 2021 and 2020.

Interests in Joint Ventures

PHINMA Saytanar and IPM were incorporated in Myanmar and Indonesia, respectively. The reporting period of the joint ventures end at December 31. The detailed carrying values of interests in joint ventures (accounted for under the equity method) are as follows:

	2021	2020
IPM	₱239,678	₱235,352
PHINMA Saytanar	—	—
	₱239,678	₱235,352

The movements and details of the investments in joint venture are as follows:

	2021	2020
Acquisition costs, balance at beginning and end of year	₱235,503	₱235,503
Accumulated equity in net losses:		
Balance at beginning of year	(151)	(5,852)
Equity in net earnings	4,326	5,701
Balance at end of year	4,175	(151)
	₱239,678	₱235,352

The Company has no material joint venture as at December 31, 2021 and 2020.



The aggregate comprehensive income of joint ventures that are not individually material follows:

	2021	2020	2019
Share in net income (loss)	₹4,326	₹5,701	(₹1,562)
Share in other comprehensive income	—	—	—
Share in total comprehensive income (loss)	₹4,326	₹5,701	(₹1,562)

Following are the status of operations and significant transactions of the interests in joint ventures:

(a) PHINMA Saytanar

In February 2018, PEHI entered into a Joint Venture Agreement (JVA) with T K A H Company Ltd. (TKAH) to establish PHINMA Saytanar in Yangon, Myanmar to provide training in vocational courses in caregiving, particularly in the care of children, the elderly, persons with disabilities, and other cases requiring specialized care. Through the joint venture, the parties aim to provide various technical vocational education and training (TVET) programs and upon the issuance and clarification of rules and regulations in Myanmar, open a higher educational institution or college that will offer various undergraduate courses including courses in Business, Information Technology, Hospitality, Nursing, Healthcare and other disciplines.

PHINMA Saytanar have an initial capital stock of US\$50,000, consisting of 100 shares at US\$500 per share. Fifty percent shall be owned by PEHI, while the remaining fifty percent shall be owned by TKAH.

(b) IPM

On February 11, 2019, PEHI signed a Joint Venture Agreement with Tripersada Global Manajemen to form IPM for a 66.00% ownership of PEHI and 34.00% owned by Tripersada. In February 2019, PEHI invested US\$2.6 million (equivalent to ₹133.2 million) into the joint venture. IPM has commenced its operations in June 2019.

14. Financial Assets at FVPL

This account consists of:

	2021	2020
Investment in preferred shares	₹2,105,243	₹—

On September 18, 2019, the Parent Company executed a Term Sheet with Song Lam Cement Joint Stock Company (Song Lam), Vissai Ninh Binh Joint Stock Company (Vissai) and Hoang Manh Truong (Sponsor) for the investment of US\$50.0 million via preferred shares in Song Lam. Song Lam Joint Stock Company manufactures, markets, distributes and exports clinker, cement and cement products and is a supplier of Philcement, a 60%-owned subsidiary of PHN. Vissai is the parent company of Song Lam which owns and manages five cement plants in Vietnam.



In January 2020, the Parent Company, Song Lam, Vissai and Hoang Minh Truong entered into share subscription agreement related to the Parent Company's subscription of the new preferred shares of Song Lam. An advance payment of 10% equivalent to US\$5.0 million was made on November 26, 2019 and the 90% balance or US\$45.0 million was paid on May 18, 2021. The total US\$50.0 million investment has an equivalent peso amount of ₱2.39 billion on May 18, 2021.

The preferred shares are entitled to receive an annual fixed cumulative dividends of 7.5%, independent of Song Lam's business outcome and regardless of operating business results of Song Lam and the existence of retained earnings. The preferred shares shall be convertible to common shares after two (2) years from issuance thereof. The Parent Company may convert the preferred shares between the last day of the second (2nd) year after issuance thereof until the end of the seventh (7th) year following said issuance.

The Parent Company has the option to sell the preferred shares or converted shares to Vissai, the Sponsor or Song Lam at a price equivalent to seventy-five million US Dollars (US\$75,000,000.00), less the amount of preferred dividends received by the Parent Company. The put option may be exercised by the Parent Company after five (5) years from closing and until the end of the seventh (7th) year from said closing.

The Parent Company performs valuation of embedded derivatives and financial assets at FVPL at every reporting date using Cox-Ross-Rubenstein Binomial Lattice Model (Binomial Model). This requires an estimation of the expected future cash flows from the investee and applying a discount rate to calculate the present value of these cash flows. The discount rate uses the weighted average cost of capital (WACC) which incorporates the median debt-to-equity ratios and median beta of comparable companies as well as applying an alpha based on small-risk premium. The cash flow projections cover a five-year period.

The significant assumptions used in the fair value computation are as follows:

- a. The pre-tax discount rate applied to cash flow projection is 17.20%.
- b. The explicit forecast period used in discounting cash flows is 5 years.
- c. The terminal value in the discounted cash flow uses 5.5% long-term growth rate based on expected Vietnam Gross Domestic Product (GDP) growth rate.
- d. The binomial model uses 28.94% average volatility of comparable companies' quarterly historical prices and used interquartile range to consider outliers.
- e. The option-adjusted spread computed at inception from the binomial model is 9.93%.
- f. The risk-free rate used in the binomial model is 1.27%.

The unrealized gain on change in fair value of financial assets at FVPL amounted to ₱172.4 million in 2021.

The derivative asset arising from the put option amounted to ₱510.5 million as at December 31, 2021. The unrealized gain on change in fair value of the derivative asset amounted to ₱53.1 million in 2021.

15. Financial Assets at FVOCI

This account consists of:

	2021	2020
Investment in club shares	₱32,350	₱31,830
Non-listed equity securities	76,310	78,275
	₱108,660	₱110,105

