

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
Sep 30, 2019
2. SEC Identification Number
15393
3. BIR Tax Identification No.
000-463-069-000
4. Exact name of issuer as specified in its charter
HOUSE OF INVESTMENTS, INC.
5. Province, country or other jurisdiction of incorporation or organization
Manila, Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
3rd Flr., Grepalife Bldg, 219 Sen. Gil Puyat Avenue, Makati City
Postal Code
1200
8. Issuer's telephone number, including area code
(632) 815-9636
9. Former name or former address, and former fiscal year, if changed since last report
NA
10. Securities registered pursuant to Sections 8 and 12 of the SRC 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 Shares	616,007,349
Preferred Shares	618, 493,253
Amount of Debt Outstanding	26,226,241,371

11. Are any or all of registrant's securities listed on a Stock Exchange?
☒ Yes ☐ 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 SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

☒ Yes ☐ No

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

☒ Yes ☐ No

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



House of Investments, Inc. HI

PSE Disclosure Form 17-2 - Quarterly Report *References: SRC Rule 17 and Sections 17.2 and 17.8 of the Revised Disclosure Rules*

For the period ended	Sep 30, 2019
Currency (indicate units, if applicable)	PHP

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2019	Dec 31, 2018
Current Assets	20,817,578,115	16,091,229,928
Total Assets	49,472,464,846	39,601,083,082
Current Liabilities	20,931,222,510	18,580,502,479
Total Liabilities	26,226,241,371	21,429,293,847
Retained Earnings/(Deficit)	11,501,885,780	9,198,512,458
Stockholders' Equity	23,246,223,475	18,171,789,235
Stockholders' Equity - Parent	14,354,145,148	12,426,253,040
Book Value per Share	37.3	29.06

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
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Gross Revenue	9,202,964,883	8,365,693,996	24,589,004,186	23,361,627,072
Gross Expense	7,669,587,956	7,045,662,581	20,912,622,642	20,306,704,096
Non-Operating Income	210,639,377	133,776,780	621,880,118	681,980,989
Non-Operating Expense	971,378,709	835,487,657	2,768,665,728	2,172,044,959
Income/(Loss) Before Tax	772,637,595	618,320,538	1,529,595,934	1,564,859,006
Income Tax Expense	161,771,230	209,123,397	376,452,047	368,149,090
Net Income/(Loss) After Tax	610,866,365	409,197,141	1,153,143,887	1,196,709,916
Net Income Attributable to Parent Equity Holder	350,403,030	285,991,943	704,124,067	836,604,742
Earnings/(Loss) Per Share (Basic)	0.57	0.46	1.11	1.33
Earnings/(Loss) Per Share (Diluted)	0.45	0.37	0.9	1.07

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	1.13	1.62
Earnings/(Loss) Per Share (Diluted)	0.92	1.31

Other Relevant Information

Please see attached file.

Filed on behalf by:

Name	Ma. Teresa Bautista
Designation	Controller

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

H	O	U	S	E		O	F		I	N	V	E	S	T	M	E	N	T	S	,		I	N	C	.		A	N	D
		S	U	B	S	I	D	I	A	R	I	E	S																

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

3	r	d		F	l	o	o	r	,		G	r	e	p	a	l	i	f	e		B	u	i	l	d	i	n	g	,
2	1	9		S	e	n	.		G	i	l		J	.		P	u	y	a	t		A	v	e	n	u	e	,	
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Form Type

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Department requiring the report

S	E	C	
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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

[N/A](#)

Company's Telephone Number

815-9636 to 38

Mobile Number

N/A

No. of Stockholders

380

Annual Meeting (Month / Day)

July 19

Fiscal Year (Month / Day)

September 30

CONTACT PERSON INFORMATION

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

Name of Contact Person

Maria Teresa T. Bautista

Email Address

mtbautista@hoi.com.ph

Telephone Number/s

815-9636

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila

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

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

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 September 30, 2019
2. SEC Identification Number 15393
3. BIR Tax Identification No. 000-463-069
4. Exact name of registrant as specified in its charter: HOUSE OF INVESTMENTS, INC.
5. Makati City, Philippines
Province, Country or other jurisdiction
of incorporation or organization
6. / / (SEC Use Only)
Industry Classification Code:
7. 3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City 1200
Address of principal office Postal Code
- +63 (2) 8940320; +63 (2) 8134537
Issuer's telephone number, including area code
9. Not Applicable
Former name, or former address, if changed.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Section 4 and 8

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Stock, P1.50 par value	616,007,349 shares of common stock
Preferred Stock, P0.40 par value	618, 493,253 shares of preferred stock

Amount of debt as of September 30, 2019 P26.23 Billion

11. Are any or all of these securities listed on the Stock Exchange.

Yes (X) No ()

Only the common stock is listed in the Philippine Stock Exchange

12. Check whether the registrant:

- (a) has filled all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA 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 that the registrant was required to file such reports):

Yes (X) No ()

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

Yes (X) No ()

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The interim consolidated financial statements of House of Investments, Inc. and Subsidiaries as of September 30, 2019 with comparative figures for the periods ended December 31, 2018 and September 30, 2018 and Schedule of Aging of Accounts Receivable are incorporated by reference as **Exhibit 1**.

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

(i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.

Are there any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.	None
Does the registrant currently has, or anticipates having within the next twelve (12) months, any cash flow or liquidity problems?	No
Is the registrant in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments?	No
Has there been a significant amount of the registrant's trade payables have not been paid within the stated trade terms?	None
Describe internal and external sources of liquidity, and briefly discuss any sources of liquid assets used.	The Group depends on both internal and external sources of funds.

(ii) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;

None

(iii) All 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.

None

(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures should be described;

EEI Corp. continues show an increase in its construction activities from its ongoing domestic projects, a majority of which are from infrastructure projects. Its current project pipeline will require additional investments in new capital equipment in order for EEI to deliver its projects to its customers. This will be finance through a combination of internally generated funds and new borrowings.

iPeople, inc.'s subsidiary Malayan Education System, Inc. (MESI) (Operating under the name of Mapua University) is constructing a new campus on a 0.5-hectare property in Makati. Completion of the construction is expected in time for the Academic Year 2020-2021. The total project is estimated at around P2.5 billion and will be funded partially by debt.

Except for the construction of new campus of MESI and the expansion of EEI's production, there is no material commitment on capital expenditures other than those performed in ordinary course of business.

(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described. If the registrant knows of events that will cause material change in the relationship between costs and revenues (such as known future increases in cost of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.

- For iPeople, inc., the merger by and between iPeople and AC Education took effect last May 02, 2019 enabling accelerated growth and providing a wider suite of academic offering and stronger career prospects for the students of the Group. The merger will also unlock synergies between House of Investments and Ayala Corp. increasing iPeople Group's capacity to deliver quality education, aimed not only at educating the Filipino youth but also at preparing their graduates to become major players in sustainable businesses driven by adaptive technology.

Due to the implementation of the Universal Access to Tertiary Education Act (RA10931 in AY 2018-19, the influx of college freshmen students in our schools was lower than expected. This is because a large portion of the incoming freshman population in the localities that our schools operate in applied with SUC/LUCs to avail of free education under the Act. This resulted in a decline in college freshmen intake not only in our schools but also in other private schools offering tertiary education.

Other than the aforementioned merger and RA10931, there is no known trend, event or uncertainty that have had or that are reasonably expected to have a material impact on the net sales or revenues or income of the Group from continuing operations.

- For EEI, the government's build-build-build program is a material favorable opportunity.

Other than the two listed above, there is no known trend, event or uncertainty that are expected to have a material impact on net sales or revenues or income of the group from continuing operations.

(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations;

None

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item; The term "material" in this section shall refer to changes or items amounting to five percent (5%) of the relevant accounts or such lower amount, which the registrant deems material on the basis of other factors.

Income Statement Variances

For the period ended 30 September 2019, the Group posted a consolidated net income of P1,153.14 million compared to P1,196.71 million last year. Net income attributable to Parent company is P704.12 million.

Total consolidated revenues is 5% higher at P24,589.00 million against P23,361.63 million last year, primarily because of higher revenues generated both by construction and education segments. Revenues from services, which pertain primarily from the construction segment, increased by 6% compared to last year as a result of higher construction activities of on-going domestic projects of EEI. Sales of goods is lower by 7%, from P5,654.12 million last year to P5,240.00 million this year due to lower sales of the automotive segment. Revenues from school operations grew by 57%, from P1,274.99 million to P2,001.36 million. The increase is driven by (a) higher number of enrollees; (b) full 9-month period results of MCM campus compared to 2 months last year; and (c) contributions of newly acquired subsidiaries of iPeople as a result of the merger.

Consolidated general and administrative expenses increased by 16%, from P1,872.57 million to P2,167.22 million, primarily attributable to (a) payment of Capital Gains Tax relative to the sale by the Parent Company of its direct investment in Mapua to iPeople; (b) increase in the number of personnel to support the growing business of the group; (c) depreciation of newly constructed/renovated school campuses; and (e) expenses of newly acquired companies of iPeople group;

Other income primarily dropped due to foreign exchange losses of EEI compared to gain year-on-year.

Equity in net earnings of associates increased from P445.80 million to P467.94 million due to higher intake from ARCC (a foreign affiliate of EEI) and RCBC Realty Corporation.

Interest and finance charges increased, from P299.47 million to P601.44 million primarily due to new loans obtained by the Group to finance its existing projects and developments costs. Also, the adoption of PFRS 16 (Leases) this year contributed P54.0 million in interest cost.

Balance Sheet Variances

Consolidated assets of the Group stood at P49.50 billion as of the period against P39.60 billion for the year ended December 2018.

Total current assets increased from P16.09 billion to P20.82 billion, primarily attributable to improved revenue stream of EEI which resulted to increase in trade and retention receivables attributable to uncollected down payments and progress billing from various infrastructure projects.

Contract assets increased from P4,966.40 million to P6,057.70 million, attributable to higher construction activities mainly from the infrastructure projects.

Receivable from related parties is down to P69.70 million, primarily because of an affiliate's payment.

Inventories went up by 13% due to EEI's construction materials intended for its on-going and newly awarded projects softened by lower inventory held by car dealerships.

Prepaid expense and other current assets increased from P1,464.97 million to P1,956.09 million due to increase in advances to suppliers and contractors, and unutilized input and creditable withholding taxes.

Total noncurrent assets at P28.65 billion, includes assets of the entities acquired by iPeople.

Equity investments increased from P0.97 billion to P1.06 billion due to acquisition of additional interest in La Funeraria Paz-Sucat.

Investments in associates and joint ventures increased from P5.51 billion to P6.0 billion mainly because of acquisition of additional shares of stock of PetroEnergy Resources Corp., and of PetroSolar Inc.

Retirement asset, which has increased from P28.06 million to P57.63 million, represents the net contributions of the Group to its respective retirement fund.

Deferred tax asset went up from P139.50 million to P172.69 million due to the tax effect on unrealized foreign exchange.

Other noncurrent asset increased significantly due to the impact of adoption of PFRS 16, which requires recognition of Right-of-Use asset amounting to P1,136.15 million. This includes also the intangible asset (i.e., student relationship and intellectual property rights amounting to P629.30 million) recognized by iPeople due to the merger.

Consolidated liabilities increased to P26.23 billion from P21.43 billion as of December 2018.

Total current liabilities grew from P18.6 billion to P20.9 billion due to increase in obligations to supplier and subcontractors as result of higher production activities of EEI.

Long term debt (current and non-current) refers to borrowings of the group to finance its on-going projects and development costs.

Contract liabilities pertain to unearned tuition fees of iPeople, which is reduced as the corresponding revenue is recognized during the school term. This is significantly higher due to unamortized tuition fees of Mapua schools and the new subsidiaries.

Total noncurrent liabilities increased from P2.85 billion to P5.30 billion.

Retirement liabilities at P188.59 million compared to 141.01 million last year, includes accrued retirement liabilities of the merged entities.

Deferred tax liabilities increased to P983.65 million from P544.98 million due to the contribution of the acquired companies from the merger.

Other noncurrent liabilities which has increased significantly, includes the recognized liability on the remaining lease term of the group in compliance with PFRS 16. As of the period, the total lease liability recognized is P1,043.58 million.

Total consolidated equity rose from P18.17 billion to P23.25 billion, primarily because of the effect of the merger of AC Education into iPeople.

(viii) Any seasonal aspects that had a material effect on the financial condition or results of operations.

During summer period, the school operations undergo a material change. For the purposes of this discussion, the summer period occurs two months from May to June or June to July of every year depending on each school's academic year. For this year, some schools had 3 months summer vacation

because of the change in school calendar.

During the summer term, student enrollment drops significantly because majority of matriculating students go on break. Therefore there is a seasonal shift in revenues as enrolment drops in the summer term. Despite the lower revenue during the summer term, the schools continue to carry the same periodic fixed costs resulting to lower net profits during the school summer period.

Financial Soundness Indicators

The company's top 11 key performance indicators as of the end of September 30, 2019 compared to September 30, 2018 and to December 31, 2018 are as follows:

Financial ratios		Unaudited 30-Sep-19	Unaudited 30-Sep-18	Audited 31-Dec-18
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.99:1	0.97:1	0.87:1
Indicates the Group's ability to pay short-term obligation				
Solvency Ratio	$\frac{\text{Net Income} + \text{Depreciation}}{\text{Total Liabilities}}$	0.07:1	0.07:1	0.11:1
Shows how likely a company will be to continue meeting its debt obligations				
Debt-to-equity ratio	$\frac{\text{Total Debt}}{\text{Equity}}$	1.13:1	1.41:1	1.18:1
Measures the Group's leverage				
Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Equity}}$	2.13:1	2.41:1	2.18:1
Shows how the company's leverage (debt) was used to finance the firm				
Interest Rate Coverage	$\frac{\text{EBIT}}{\text{Interest Expense}}$	3.54:1	6.23:1	7.73:1
Shows how easily a company can pay interest on outstanding debt				
Return on Average Stockholders' Equity	$\frac{\text{Net Income}}{\text{Average Equity}}$	5.57%	6.92%	8.93%
Reflects how much the Group's has earned on the funds invested by the stockholders				
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$	2.59%	2.94%	3.99%
Measure the ability to utilize the Group's assets to create profits				
Net Profit Margin	$\frac{\text{Net Income}}{\text{Total Revenues}}$	4.69%	5.15%	5.31%
Shows how much profit is made for every peso of revenue				

Asset Turnover	$\frac{\text{Total Revenues}}{\text{Total Assets}}$	0.50	0.53	0.70
Shows efficiency of asset used in Operations				
Return on Equity	$\frac{\text{Net Income/Total Revenues} \times \text{Total Revenues}}{\text{Total Assets} \times \text{Total Assets} / \text{Total Equity}}$	4.96%	6.57%	8.05%
Shows how much the business returns to the stockholders for every peso of equity capital invested				

- Current ratio is at 0.99 as of the period ended September 2019, slightly higher compared with 0.97 as of September 2018 due to higher receivables attributable to project related activities of EEI.
- Solvency ratio is at 0.07, same as last year.
- Debt-to-equity ratio is lower at 1.13 compared to 1.41 last year because of increase in equity as result of the merger.
- Asset to equity ratio dropped from 2.41 to 2.13 due to higher level of loans and obligations compared against same period of last year.
- Interest rate coverage ratio is lower at 3.54 times compared to 6.23 of same period last year due to additional borrowings of the Group, higher average interest rates for the period and impact of PFRS 16, which increased our interest cost by P54.00 million.
- Return on average stockholders' equity is lower at 5.57% compared to 6.92% of same period last year, because of higher operating costs and net effect of adoption of PFRS 16, coupled with increase in stockholders' equity.
- Return on assets (ROA) is at 2.59% compared to 2.94% of the same period last year. This is mainly due to increased value of construction-related assets.
- Net profit margin is at 4.69% against 5.15% in September 2018. This is lower due to lower margins from cars and school business.
- Asset turnover is 0.50 times compared to 0.53 times as of September 2018 due to additional assets contributed by the entities merged into iPeople.
- Return on equity is at 5.57% against 6.92% as of September 2018. This is due to higher operating costs and net effect of adoption of PFRS 16, coupled with increase in stockholders' equity.

The above-mentioned ratios are applicable to the Group (Parent Company and its majority owned subsidiaries) as a whole.

PART II – OTHER INFORMATION

Item 3: 2019 – 3rd QUARTER DEVELOPMENTS

Significant developments during the third quarter of 2019 were briefly discussed in Item II: *Management Discussion and Analysis of Financial Condition and Results of Operations*.

Item 4: OTHER NOTES TO FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

THE HOLDING COMPANY

The executive management takes an active role in the management of the core businesses. In addition, the executive management monitors the business performance of these companies portfolio very closely. Through regular review of actual results compared to budgets and previous year performance, House of Investments is able to determine if the group is able to perform as expected.

In particular, management watches operating metrics very closely and how these impact the financial metrics. By monitoring operating metrics and financial metrics, executive management can always determine whether the capital deployed to various businesses within the portfolio is being used efficiently, and generating returns that meet hurdle rates.

Executive management also engages in a continuous business development program. These business development activities range from identifying growth opportunities in existing businesses; helping develop new products and services that increase organic growth; or buying entire companies or controlling stakes in companies which show high growth potential and the returns of which meet hurdle rates.

Risks at the Holding Company Level

The following covers the risk management policies at the holding company level. *For a discussion of risks faced by each portfolio company, please refer to the appropriate section in this report.*

a. Interest Rate Risk

The Company is exposed to interest rate risk because it has borrowings from local banks. It is a company policy to use excess liquidity to pay down borrowings in order to decrease financing costs, and reduce exposure to rising interest rates. It is also a company policy to actively discuss with lending banks on how to lower financing costs. HI does not speculate on the direction of interest rates. The main objective is to lower financing costs as much as possible.

b. Foreign Exchange Risk

The Company's exposure to foreign exchange risk is minimal. The company has excess funds denominated in U.S. dollars. Where possible and when warranted, it is the company practice to pay dollar liabilities with its excess dollar funds. The company does not speculate on the direction of foreign exchange rates.

c. Liquidity Risk

The Company seeks to manage its liquidity to be able to service maturing debts, finance capital requirements, and pay for existing operations. House of Investments maintains a consistent level of funding to be able to pay for its day-to-day operations. The Company constantly monitors its projected cash flows. Close attention is paid to asset liability management.

d. Credit Risk

The Company's holding of cash and short-term securities exposes the company to the credit risk of the counterparty. Given House of Investments's diverse body of counterparties, it does not have a concentrated credit risk exposure.

e. Price Risk

Available for sale (AFS) financial instruments are held and are subject to price fluctuation. These securities are vulnerable to price risk due to changes in market values because of specific factors related to these securities, or because of factors related to the overall market for financial assets. These prices change depending on how market participants act in the market.

The Company has non-core holdings in its AFS investments. For its non-core holdings, the Company's investment policy is to monitor developments in the market and to monitor these securities very closely. The Company regularly assesses the opportunity cost of holding these securities. When a more appropriate use of the funds is determined, it is the Company's intention to liquefy these investments and put the excess cash to work.

f. Business Continuity Risk

The Company is acutely conscious of the risks posed by natural disasters, acts of God, or other man-made actions that can have an adverse impact on the continuity of regular operations. The Company's Board through its Risk Oversight Committee and the management team ensures that the business continuity plans of each operating subsidiary are in place and is up to date.

g. Competition

The company is subject to competition in the segments in which each of its core business units operates. *Please refer to the related section of each core business unit on the risks each group faces.*

h. Succession Risk

The Company knows that people are an important resource and that its executive management team is a significant contributor to the continuing growth of House of Investments' investment portfolio. In order to preserve the management chain of succession and institutional knowledge that comes with it, the executive management works with the executives of the operating subsidiaries to ensure continuous training and career development are in place.

The Board Risk Oversight Committee of the Board meets regularly and exercises an oversight role on executive management who are accountable for managing the risks that arise out of regular business operations

Risk Factors at the Car Dealerships

a. Macro-economic conditions

The Car Divisions' performance is impacted by general economic conditions overall, and in particular, by the economic environment of the markets in which we operate, i.e., per capita income, purchasing power, interest rates, foreign exchange, availability of consumer credit, fuel prices, etc.

b. Operational Risks

- Franchise Agreements with Honda and Isuzu. Our dealerships operate under a franchise agreement with Honda and with Isuzu, which authorizes our dealerships to sell new vehicles of the brands we carry or perform manufacturer authorized warranty service. These

agreements govern almost every aspect of the operation of our dealerships, and give manufacturers the discretion to terminate or not renew our franchise agreements for a variety of reasons.

- Supply chain.

We are dependent on the availability and supply of vehicle models from our distributors. Because of the ordering lag time, we face the risk where our inventory will not match the customer's preferences.

- Technology.

Cars are equipped with computer technology connectivities. These make Cars vulnerable to "malfunctioning errors" or technology related issues. The dealership business is also reliant on technology for operating efficiency and customer service.

c. Market Risk

- General market demand for vehicles, in particular for Honda and Isuzu vehicles. Factors include car design and introduction of new models, consumers' increasing preference for ride sharing.

- Competition

We generally compete with: other franchised automotive dealerships, other car brands, private market buyers and sellers of used vehicles, local service and repair shops and parts retailers, and automotive manufacturers (those that own their own dealerships).

Consumers are extremely price sensitive. The level of competition in the market can lead to lower selling prices and related profits.

d. Availability of financing and interest rate sensitivity

- To the Company

The operations rely heavily on loans to fund its working capital and cash flow. The car divisions access credit through the lines available to the Group. The interest rates we are charged on a substantial portion of our debt are variable, increasing or decreasing based on changes in certain published interest rates. Increases to such interest rates would likely result in significantly higher interest expense for us, which would negatively affect our operating results.

- To our clients

A significant portion of vehicle sales in the Philippines is funded through bank financing. Availability of credit to vehicle buyers and increased interest rates may also decrease vehicle sales, which would negatively affect our operating results.

e. Regulatory issues

We are subject to a wide variety of regulatory activities, including: government regulations, claims and legal proceedings. Government regulations affect almost every aspect of our business, including taxation, among others.

- Legislative approval of the planned CITIRA will benefit the dealerships' business positively.
- Data Privacy Act. The Data Privacy Law requires that personal and sensitive information of our stakeholders that are held by the company be taken care of with utmost privacy. A breach of this requirement would mean stiff penalty and also possibly result to costly lawsuits that may tarnish our reputation. A committee has already been formed to spearhead the awareness for this requirement and implementation of necessary policies that protect personal data.

- Environmental regulations. We are subject to a wide range of environmental laws and regulations, including those governing: discharges into the air and water; the operation and removal of storage tanks; and the use, storage and disposal of hazardous substances, CO₂ emissions and Euro-4 regulations. In the normal course of our operations we use, generate and dispose of materials covered by these laws and regulations. We face potentially significant costs relating to claims, penalties and remediation efforts in the event of non-compliance with existing and future laws and regulations.

In the event of regulation restricting our ability to generate revenue from arranging financing for our customers, we could be adversely affected. We could also be susceptible to claims or related actions if we fail to operate our business in accordance with applicable laws. Claims arising out of actual or alleged violations of law which may be asserted against our dealers by individuals, through class actions, or by governmental entities in civil or criminal investigations and proceedings, may expose us to substantial monetary damages which may adversely affect us.

Risk Factors at the Construction Sector

The risk management function is an important aspect of corporate governance. EEI has a Risk Management Program which has been in place since 2009. A Risk Management Council composed of the President and CEO, the Chief Risk Officer and key department heads meet regularly to discuss the new and emerging risks brought about by the peculiarities of new projects, changes in the market place, economic shifts, political upheavals, disasters, unusual events and probable impending events which had been identified in the various areas of company's business activities. The Risk Management Council is responsible for providing timely, relevant and comprehensive risk information to the Board through the Board Risk Oversight Committee, which is composed, of five directors.

The company is expecting the following major risks and opportunities (in no particular order) to factor into its business and is doing the corresponding actions to properly address them:

- a. Geopolitical risk and opportunities
 - Philippine Infrastructure Boom. As the government continues to change the political and economic situation in the country including EEI's relationships with other nations, the effects of which to the construction markets where EEI has interests is of particular interest:
 - The "Build, build, build" initiative of the government is expected to provide a sizable opportunity for players in the construction industry but the funding for such and fairness of the government in awarding contracts are important factors
 - The government has signed 29 bilateral agreements during the Chinese President's visit in November 2018 highlighting the growing relationship between the two countries. These agreements follow the signing of 13 cooperation agreements and securing financial assistance and investment pledges worth USD 24 billion during President Duterte's visit to China in October 2016. There are concerns about onerous contracts from other countries which were granted ODA by China.
 - Japan remains the top ODA provider with almost USD 6 billion or 40% of the total ODA received by the Philippines

To mitigate this risk, EEI has made alliances with foreign EPCs in its pursuit for more infrastructure projects. EEI is also establishing working relationships with known local developers that will most likely be awarded government projects. Due diligence on Chinese investors is also being done prior to entering into any partnership. Contracts related to such partnership are being thoroughly reviewed to ensure its fairness.

- Global Economic Slowdown and Global Trade War. The global growth forecast for 2019 and 2020 had already been revised downward in the last World Economic Outlook of the

IMF, partly because of the negative effects of tariff increases enacted in the United States and China.

Risks to global growth tilt to the downside. Financial conditions have already tightened. A range of triggers beyond escalating trade tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a “no-deal” withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China. To mitigate this risk, EEI monitors steel prices for opportunistic medium-term supply contract. EEI also initiates capital increase before liquidity squeeze.

Effects of charter change. A shift to federalism may face a protracted process, weak government absorption, and ineffective consolidation of federal regions. Weak federal regions may transfer costs to Filipino public, impose financial burdens on businesses, and face grim prospects of financial bailouts. With increase cost of bureaucracy, funds initially intended for the infrastructure projects can be diverted. To mitigate this risk, EEI is focusing on ODA financed projects to assure funding to project completion.

Boom and Bust of Cycle of the Construction Business. The current main source of revenue of the company is in the construction business in the Philippines (mainly in infrastructure) and in Saudi Arabia (mainly electro mechanical projects in the oil and gas industry). The company’s financial performance can easily be affected by the changes in the business climate in these countries. To mitigate this risk, EEI is looking to diversify, not only in non-construction business but also geographically, which will generate recurring revenue stream for the company

b. Saudi country risk

A relatively sizable operation of the Company is situated in the Kingdom of Saudi Arabia and the uncertainties in that area is of some concern. The prevailing low oil prices, the political instability and regional security threats (Iran, Syria and Yemen) continue to be a factor that affects the operations there. The Khashoggi incident will isolate the Kingdom from international investors (mainly US and Europe) and may be subject to BDS (Boycott, Divestment and Sanction) similar to Israel due to human rights violation. FDI to finance the Neom project of the Saudi Crown Prince is at risk.

On the other hand, emerging opportunities exist with the new Crown Prince’s Vision 2030 initiatives, Saudi Aramco’s IPO and alliance with Russia and China, which will not only stabilize the oil price but also create new economic activities. To mitigate this risk, EEI continues to focus on sustainable operations and maintenance and manpower supply contracts where margins are higher and risks are limited. EEI is also diversifying into infrastructure business.

c. Business concentration risk

As much as EEI values its current roster of regular clients, it is always better to create a wider client base. Doing this will not only expand the opportunities open to the company but also make the company more resilient to any fluctuations in the business of our clients.

EEI was able to establish new clients but at the same time recognize that expanding the client base has its limits. It is the reality of the Philippine business environment that investors are not that many. So EEI will expand its client base as much as possible but will give equal emphasis on the “quality” of the clients that EEI caters to – clients that have a track record of being fair and with sound financial standing are preferred. EEI also identified ways to expand our contracting capacity to be able to increase its government contracts portfolio when there are favorable opportunities to do so and also possibly serve as a balancing force to EEI’s non-government contracts portfolio.

d. Credit risk

It is typical in the industry, here and abroad, that executing a construction project involves a certain amount of credit between us (the contractor) and the client. Though the client's down payment is meant to provide working capital for the contractor, usually this is insufficient considering the fast-paced work, change orders, and timing difference between billing and collection. Thus, most of the time, a certain amount of work is being "financed" by the contractor and the probability of successfully collecting such is the risk. As EEI has undergone a significant increase in the number and size of projects that it are doing, the level of credit risk has also proportionately risen and should be given ample attention.

EEI performs close monitoring of project cash flow and prompt billing is being done, ensures that all change orders are only executed with proper approval documents from the client to ensure collectability of the work, initiate due diligence of new clients during tender stage as part of KYC, and negotiate for higher down-payment from the client.

e. Funding risk

With the infrastructure boom, EEI is expected to double or triple its existing backlog in the next three years. Fresh capital infusion may have to be injected for it to expand banking facilities and satisfy project funding requirements.

EEI will enhance net contracting capacity through efficient collection of receivables and claim recoveries. EEI is also looking at entering into joint ventures with foreign RPCs who will contribute ODA funding assistance. Another option is to initiate capital infusion through stock rights issue and reinstatement of the employee stock option plan.

f. Interest rate risk

The era of quantitative easing known as QE3, using dollars created out of thin air to buy vast sums of bonds \$4.4 trillion, is over in the United States. This will signal an end to easy money in Asia. Interest rates are expected to rise with US Federal Reserve Chairman recent announcement for a faster pace to rate hikes to address inflation caused by a strong economy. Higher interest rates result to higher borrowing costs. To mitigate this risk, EEI's efforts to expand its facilities from banks to an optimum level have been successful and efforts to reduce debt levels are continuing.

g. Competition risk

Influx of new foreign competitors is expected with the loosening of the local laws for foreign contractor entry into the local construction market. EEI's local competitors tie up with specialty foreign contractors has also contributed to the intense competition in the market.

EEI continues to focus on its core business where it has competitive advantage and has cemented its business relationship with its main customer base and is continuing with its initiative to enter into foreign markets with the help of its current and future foreign partners.

h. Succession planning

The retirement of EEI's senior executive officers at the Construction Division including a few officers who either retired or left the subsidiary companies factors into its succession planning. Ensuring that proper control of operations and strategic direction remains intact and effective during the transition will be important. To mitigate this risk, vacant positions were promptly filled up with capable people. EEI continues to run extensive management development training programs to prepare the successors of the retiring managers.

i. Manpower Sourcing

The construction boom in the Philippines has put considerable strain in the supply of human labor as various construction companies vie for their services. Although EEI's pool of workers is sufficient for the present amount of work, the anticipated award of new projects will require additional workers.

The capacity of EEI's recruitment group to acquire talents from various parts of the country has been supplemented by increasing their manpower complement. Efforts are now being done to make the deployment of our workers to various projects more efficient – that is, spot over-supply in certain areas and redistribute them to projects where they can be better utilized. In addition, training programs for zero-skilled applicants are being intensified to properly equip new recruits to work in our projects.

The use of technology and machines in lieu of human labor is also being explored.

j. Effects of TRAIN Law

The TRAIN Law is expected to induce price increase in the resources used in EEI's projects. These price movements may result to additional costs without compensating increase in revenue if not properly identified and managed.

To mitigate this risk, escalation clauses are included in contract provisions with our clients and medium term supply contracts have been arranged with major suppliers except for steel products where prices are expected to decline due to supply glut that may arise from the trade war between US and China.

k. Disruptive Technology

Just like the steam engine ushered in the first industrial revolution... Then electrical power delivered the second...And the internet brought us the third...5G heralds the advent of the fourth industrial revolution.

The fourth Industrial Revolution is shaped by advanced technologies from the physical, digital and biological worlds that combine to create innovations at a speed and scale unparalleled in human history. Collectively, these transformations are changing how individuals, governments and companies relate to each other and the world at large. Players failing to adopt or even adapt to such changes may prove disastrous as they risk obsolescence. Efforts to explore and study the use of these technologies in the construction industry are being done by EEI

l. Sustainability

The WEF 2014 report defines sustainability as "long-term economic development compatible with available natural resources and the preservation of natural environment." According to a GRI 2012 report, there are ten global social and environmental sustainability mega forces that are expected to drive and shape business operations until 2030. These are climate change, energy and fuel, material resource scarcity, water scarcity, population growth, wealth, urbanization, food security, ecosystem decline, and deforestation.

According to GRI-KPMG report, there are six types of risks companies face from social and environmental megaforges:

- Physical risk refers to damage to assets and supply chains from physical impacts such as storms, floods, water shortages and sea-level rise.
- Regulatory risk refers to complex and rapid changes to the regulatory landscape.
- Reputational risk refer to damage to corporate reputation from being seen to do the wrong thing.
- Competitive risk refers to impacts of fast-changing market dynamics, and uncertainty of supply and price volatility of key inputs.

- Social risks refer to conflicts, social unrest, community and worker protests, labor shortages, migration, etc.
- Legal or litigation risks refer to exposure to potential legal action, for example, over nondisclosure of environmental, social and governance information.

Since these megaforces are interrelated in a complex system, the company has started its Sustainability initiative to integrate a systems approach to our sustainability strategy, manage risks to reduce long term costs, and capitalize on opportunities starting with corporate social responsibility and sustainability reports. Using GRI as framework, we will be better able to predict and manage risks emanating from sustainability-related dimensions of business and allow the company, among other benefits, to:

- Anticipate and prepare for issues in communities of operation
- Increase agility in process improvement
- Anticipate and prepare for future materials scarcity

m. Cybersecurity

With the onset of digital innovation and the technological backbone of the Fourth Industrial Revolution, new threats, vulnerabilities and attack vectors evolved e.g. malicious URL, web attacks, formjacking attacks, cryptojacking, enterprise and mobile ransom ware, supply chain attacks, malicious email, powershell, etc. With our Oracle Fusion ERP migration to cloud environment, security challenges emerge on multiple fronts. From simple misconfiguration issues to vulnerabilities in hardware chips we saw a wide range of security challenges that the cloud presents. Assessments on these threats and equipment to protect against these attacks are continuously being monitored collaboratively with the Central SOC of YGC non-financial sector IT Security Group.

n. Data Privacy

The recently passed Data Privacy Law requires that personal and sensitive information of EEI's stakeholders held by the company be taken care of with utmost privacy. A breach of this requirement would mean stiff penalty and also possibly result to costly lawsuits that may tarnish our reputation. A committee has already been formed to spearhead the awareness for this requirement and implementation of necessary policies that protect personal data.

o. Operational Risk

- General. The company's construction projects can generally be divided into 3 types: buildings, infrastructure and electromechanical. Whatever the type of project, the operational risks that the company encounters can be categorized under the following types of risks: Estimation errors; Issues with manpower; Issues with equipment or tools; Issues with materials; Inefficiencies in EEI's performance during project execution; Inefficiencies in client's and their nominated subcontractors' performance during project execution; Site conditions that may affect the work; Actions by third parties (i.e. the public at large or government) that may affect the work; and Government approvals and right of way issues.

The operational risks that the company encounters from year to year changes only in its mix mainly depending on the mix of projects that are being executed. This is because then nature of the work in each type of project results to a different mix of operational risks.

To mitigate this risk, increased awareness of project risk owners of the identification of risk and its impact on the project and performance of probabilistic forecasting to enable improved management of these external factors were implemented. Efforts to enhance the monitoring of project performance including the possible effects of all type of risk exposures are continuing in its development and is expected to further improve the company's anticipation of risks and response were done.

Future construction contracts are being negotiated EEI to contain provisions that either transfers these externalities or at the very least provides a means of spreading or minimizing

the risk. Risk mitigation also happens during the tender stage where EEI can decide to pursue or ignore a tender. Creation of rules of thumbs during project execution to contain losses when the risk materializes.

- Accidents. Possibility of accidents is a high risk for any of our projects and this has always been well managed. However, the company's portfolio of infrastructure projects (e.g. railways and elevated roads to name a few) has significantly increased recently. Such projects cannot be isolated from the general public as these are usually located within urbanized areas; there is heightened exposure of the public at-large to accidents due to EEI's construction activities.

A more stringent safety plan is being implemented in all of the projects particularly those involving infrastructure executed in public areas. Proper insurance policies, properly designed to sufficiently cover any damage to 3rd parties, are procured to protect the welfare of the general public and also the financial performance of the projects.

- Right of way and obstruction issues. Another standard risk of infrastructure projects are Right of Way (ROW) and obstruction issues that impede the execution resulting to delays and, possibly, costs overruns. Considering that our big-ticket infrastructure projects are mostly located in developed cities, the occurrence of such issues cannot be prevented.

Whenever possible, EEI taps the capabilities of our design team to explore and suggests redesign of the structure to the client in order circumvent any ROW or obstruction issues. EEI also anticipates effects of possible ROW or obstruction issues and adjust the plan of the schedule so as to minimize its financial impact without necessarily compromising the project duration.

- Contractual issues. The construction contract is critical in any project's success and the proper understanding and implementation of its provision is key to having a harmonious relationship with the client. However, there is the risk that certain provisions may be vague or even onerous which are contained in the contract that can put the contractor at a significant disadvantage during disputes thus result to unrecoverable costs. These issues should be identified and properly resolved with the other party to prevent any problems later on.

EEI has made changes in our contracts management team and appointed a new Contracts Administrator so as to make the coordination between our legal department and project management team more effective in handling such issues. Lessons learned from the past experiences with contractual issues enabled us to come up with a checklist of provisions that we should carefully look at so as to make sure that it is stated in such a way that it is fair and protect our interests. This checklist is part of the considerations made during contract review of prospective construction projects.

Risk Factors at the Education Sector

- a. Regulatory, recognition of academic programs, and accreditations from government, and self-regulating private accreditation organizations.
 - Accreditations. The schools are governed and regulated by the CHED and by the Department of Education ("DepEd"), depending on the program offerings. In addition, MES and MCL are also accredited by PCUOA. MES is also accredited by the ABET; MES and MCL are both accredited by PTC-ACBET and PICAB. APEC relies on the yearly DepEd renewal once its five year MOA expires depending on the revised DepEd manual.

The failure of any of our schools to pass government standards, or to meet accreditation renewal standards, may negatively impact the perception of the quality of our academic programs and facilities. If this happens we might expect our enrolment to materially decrease, which would have an adverse impact to our profits and cash flow.

- **Tuition Fee.** The Commission on Higher Education and the Department of Education regulates tuition increases at the university level and the secondary level, respectively, and routinely sets maximum limits on percentage increases in tuition fees. The IPO schools are subject to maximum percentage increase guidelines issued by both the CHED and the DepEd, as applicable. The inability of non-autonomous higher education institutions to increase tuition fees to cover higher operating costs may pose a risk to profits and cash flows over time.
- **Changes in regulations.** The Universal Access to Tertiary Education Act (RA10931) had its implementation in AY 2018-19. This resulted to notable decline in college freshman intake in private schools as large portion of the incoming freshman applied SUCs/LUCs to avail of free education under the Act.

The Free College Education Act poses a risk to our schools. This may adversely impact enrollment numbers if current prospective students will opt to enroll in state-run universities and colleges.

b. Competition

- **Faculty.** The schools depend on high quality faculty to teach the educational programs. To the extent that they can, the schools at both the tertiary and secondary level recruit faculty with excellent academic credentials and teaching skills. The schools might not be able to recruit the desired faculty due to any number of factors, including mismatches between the desired compensation and offer; competing recruitment from other educational institutions; or candidates seeking opportunities abroad.

The schools also work to retain key faculty in certain academic disciplines in order to maintain continuity and reduce turnover. If recruitment and retention efforts suffer, the quality of teaching and the quality of academic programs might suffer.

- **Students.** Competition among schools for greater student enrolment is fierce. The schools compete against an impressive array of non-profit and for-profit schools. The competitors in the elite school level bring a formidable set of resources to the battle: money, facilities, history, tradition, an active alumni base, a spirited student body, established brands, and large marketing budgets.

While Mapua, NTC, APEC and UNC are established brands, IPO Schools also has its own impressive set of resources. IPO Schools continue to pursue accreditations from self-regulating private accreditation organizations in addition to the government accreditation bodies.

c. Credit Risk

As the schools increase their enrollment, the level of receivables also increases. Some of the students who cannot afford to make the full payment of tuition and miscellaneous fees during an academic quarter execute a Promissory Note and are expected to settle their accounts prior to the start of the next academic term. Majority of the senior high school students of APEC avail of the Senior High School Voucher Program (SHSVP) of the DepEd which results to a longer collection period for the school.

The schools do not aggressively pursue collection of defaulted student debt given that the default rate is small.

d. Operational Risk

The following may hamper the operations of the IPO schools:

- **Natural calamities and disasters.** Our schools, like many other enterprises, are subject to adverse occurrences beyond our control, which include (but are not limited to) earthquakes, floods, and similar natural phenomena. We believe we carry enough insurance to hedge against the monetary damages caused by these events. In the event that the damage to our

facilities arising from said events are severe and our insurance is not enough to cover it, our operations and ability to return to normal conditions might be severely affected.

- Labor unrest. Mapúa University has two unions, Faculty Association of MIT (FAMIT) and MIT Labor Union (MITLU). A strike by any of the two unions would obstruct operations.

Mapúa University is bound by the collective bargaining agreement (CBA) signed between the institution and the two unions. Mapúa University negotiates with each union separately. The FAMIT represents the faculty members. The MITLU represents the non-teaching staff. To the extent that unions negotiate CBA's with higher increases over time, this would negatively impact the cost structure of Mapúa University and lower the expected value of its profit and cash flows over time.

In the event that a CBA is not negotiated successfully or there is an issue that results in labor unrest, it could have a material adverse impact on the operations of Mapúa University.

In the event of calamities, strikes, and the like that could hamper the operations of the schools, Mapúa has tested and instituted the use of Blackboard, its learning management system that is capable of conducting real-time online classes across all campuses.

To mitigate this risk, some of our schools are capable of conducting real-time online classes or what we call #DigitalDay. This will allow us proceed with the school terms without unnecessary interruptions and within the planned schedules. We are working on instituting this for all the schools under iPeople.

- Connectivity

Real-time online classes are not limited to cases when classes may be suspended due to, for example, the transportation strikes and other sudden suspension of classes by the national and the local governments. We also offer online classes during Rush Hours giving students the option to take classes in their homes during rush hours and schedule their commute for their other classes at a more convenient time. Moreover, on-line programs are also offered in our Graduate Studies allowing those who wish to pursue higher education without necessarily coming to Manila or to the Philippines to be able to earn their degrees.

This requires reliable and un-interruptive online connectivity for both the faculty and the students. Our ability to conduct classes real-time online through our learning management system may be hampered by internet and system downtimes. In such events, we will not be able to conduct real-time online classes.

e. Interest Rate Risk

It is a company policy to use excess liquidity to pay down any borrowings in order to decrease financing costs, and reduce exposure to rising interest rates. It is also a company policy to actively discuss with lending banks on how to lower financing costs. The Company does not have a practice of speculating on the direction of interest rates. The main objective is to lower financing costs as much as possible.

The schools need capital to grow. All of our schools pursue growth opportunities, which may involve any of the following actions: building new teaching and non-teaching facilities at existing campuses; building campuses at new locations.

In order to grow, the schools will need to raise funding. This fund raising can arise from the sale of equity, selling debt securities, borrowing from existing debt facilities, or borrowing from new debt facilities. If capital is raised through borrowings, the IPO schools will also be subject to interest rate risk.

f. Market Risk and Political Risk

In the event that adverse macro-economic or micro-economic factors hit the country that may force a subset of students to temporarily drop out and continue their education at a later time, permanently stop school, or they decide to transfer to another school, our enrolment may be negatively impacted and this will have a negative effect on our profitability.

A certain portion of the student population depends on family members who are Overseas Filipino Workers to pay for their tuition and miscellaneous fees. International relations of the Philippines with the employer countries are key elements to avoid any serious disruption in the size and frequency of inward-bound overseas remittances.

Risk Factors at the Property Services

a. General Economic Conditions

The success of our business is significantly related to general economic conditions and accordingly, our business could be harmed by an economic slowdown and downturn in commercial real estate asset values, property sales and leasing activities. Periods of economic weakness or recession, significantly rising interest rates, declining employment levels, declining demand for commercial real estate, falling real estate values, or the public perception that any of these events may occur, may negatively affect the performance of some or all of our business lines.

These economic conditions can result in a general decline in disposition and leasing activity, as well as a general decline in the value of commercial real estate and in rents, which in turn reduces revenue from property management fees and commissions derived from property sales and leasing.

b. Credit Risk

Our business efficiency is highly dependent on our ability to manage our working capital well. If we experience delays in collections of accounts receivable, there will be a major impact on the availability of funding for our day-to-day operations. Any default by one or more of our significant customers due to bankruptcy or otherwise could have a material adverse impact on our liquidity, results of operations and financial condition.

c. Operational Risk

- **Loss of Key Personnel.** Our success depends upon the retention of our senior management, as well as our ability to attract and retain qualified and experienced employees. The departure of any of our key employees or the loss of a significant number of key revenue producers, if we are unable to quickly hire and integrate qualified replacements, could cause our business, financial condition and results of operations to suffer.

In addition, the growth of our business is largely dependent upon our ability to attract and retain qualified support personnel in all areas of our business. Competition for these personnel is intense and we may not be able to successfully recruit, integrate or retain sufficiently qualified personnel. If we are unable to attract and retain these qualified personnel, our growth may be limited and our business and operating results could suffer.

- **Natural calamities and disasters.** Our operations can be hampered by property losses (both ours and our clients') due to fire, adverse weather conditions, earthquakes, and militant activities e.g. rallies and strikes, among others. In addition, our business is subject to substantial risk of loss resulting from: claims by employees, customers, and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements.

While we and our clients have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance.

d. Litigation Risk

We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.

In our property and facilities management business, we hire and supervise third-party contractors to provide construction services for our managed properties. While our role is limited to that of an agent for the owner, we may be subject to claims for construction defects or other similar actions.

e. Competition

We compete across a variety of business disciplines within the commercial real estate services industry, including commercial property and corporate facilities management, occupier and property/agency leasing, and property sales. We face competition from other commercial real estate and security service providers, including outsourcing companies that traditionally competed in limited portions of our facilities management business and have recently expanded their offerings, in-house corporate real estate departments, and developers.

- **Service Contracts.** Competitive pressures in the security services sector may prevent us from increasing our billing rates on contract anniversary or renewal dates. Our profitability will be adversely affected if, due to inflation or other causes, including increases in statutory payroll taxes, we are compelled to increase the wages, salaries and related benefits of our employees in amounts that exceed the amount that we can pass on to our customers through increased billing rates charged under our service contracts.
- **Recruitment and Retention.** Our business involves the labor-intensive delivery of our services. We derive our revenues through the services rendered by our employees. Our future performance depends in large part upon our ability to attract, train, motivate and retain our skilled operational and administrative staff.

The loss of the services of, or the failure to recruit, the required complement of operational and administrative staff would have a material adverse effect on our business, financial condition and results of operations, including our ability to secure and complete security service contracts.

Additionally, if we do not successfully manage our existing operational and administrative staff, we may not be able to achieve the anticipated gross margins, service quality, overtime levels and other performance measures that are important to our business, financial condition and results of operations.

f. Regulatory Risk

If we fail to comply with laws and regulations applicable to us in our role as a property/facility manager, we may incur significant financial penalties.

We are subject to a large number national and local laws and regulations that apply to security agencies and their guards. Any liability we may have from our failure to comply with these regulations may materially and adversely affect our business by restricting our operations and subjecting us to potential penalties.

g. Environmental Liability

We may be subject to environmental liability as a result of our role as a property or facility manager or developer of real estate. Various laws and regulations impose liability on real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at a property.

In our role as a property or facility manager, we could be held liable as an operator for such costs. This liability may be imposed without regard to the legality of the original actions and

without regard to whether we knew of, or were responsible for, the presence of the hazardous or toxic substances.

If we fail to disclose environmental issues, we could also be liable to a buyer or lessee of a property. If we incur any such liability, our business could suffer significantly as it could be difficult for us to sell such properties. Additionally, liabilities incurred to comply with more stringent future environmental requirements could adversely affect any or all of our lines of business.

h. Liability

In many cases, our property services contracts require us to indemnify our customers or may otherwise subject us to additional liability for events occurring on customer premises. We maintain insurance programs that we believe provide appropriate coverage for certain liability risks, including personal injury, death and property damage.

Insurance may not be adequate to cover all potential claims or damages. If a plaintiff brings a successful claim against us for punitive damages in excess of our insurance coverage, then we could incur substantial liabilities that would have a material adverse effect on our business, financial condition and results of operations.

i. Changes in Technology

Technological change that provides alternatives to property services or that decrease the number of personnel to effectively perform their services may decrease our customers' demand for our services. A decrease in the demand for our property services or our inability to effectively utilize such technologies may adversely affect our business, financial condition and results of operations.

EXHIBIT 1

**HOUSE OF INVESTMENTS, INC. and
SUBSIDIARIES**

**Interim Condensed
Unaudited Consolidated Financial Statements**

**September 30, 2019 and 2018 (Unaudited)
and
December 31, 2018 (Audited)**

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

	Unaudited September 30, 2019	Audited December 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱2,739,778,913	₱2,039,664,825
Receivables (Note 7)	6,941,545,678	4,780,021,190
Contract assets (Note 8)	6,057,696,164	4,966,434,784
Receivables from related parties	69,696,935	145,966,212
Inventories (Note 9)	3,052,767,736	2,694,172,298
Prepaid expenses and other current assets (Note 10)	1,956,092,689	1,464,970,619
Total Current Assets	20,817,578,115	16,091,229,928
Noncurrent Assets		
Equity investments at fair value through other comprehensive income (FVOCI) (Note 11)	₱1,057,257,789	974,709,294
Investments in associates and joint ventures (Note 12)	6,003,716,061	5,505,955,000
Investment properties (Note 15)	17,955,893	18,157,018
Property and equipment (Note 13)		
At revalued amount	9,064,307,784	7,023,425,494
At cost	8,661,211,832	7,531,418,455
Goodwill (Note 14)	478,055,924	471,357,459
Retirement assets	57,633,737	28,059,472
Deferred tax assets - net	172,694,706	139,503,935
Other noncurrent assets - net (Note 16)	3,142,053,005	1,817,267,027
Total Noncurrent Assets	28,654,886,731	23,509,853,154
Total Assets	₱49,472,464,846	₱39,601,083,082
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 18)	₱10,202,000,000	₱10,519,000,000
Accounts payable and other current liabilities (Note 17)	8,551,276,680	6,794,791,483
Current portion of long-term debt (Note 19)	1,099,930,952	774,603,175
Income tax payable	67,107,481	42,310,920
Due to related parties	137,781,119	134,849,411
Contract liabilities (Note 8)	873,126,278	314,947,490
Total Current Liabilities	20,931,222,510	18,580,502,479
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 19)	2,868,025,086	2,020,634,921
Retirement liabilities	188,588,738	141,017,371
Deferred tax liabilities - net	983,651,180	544,975,039
Other noncurrent liabilities (Note 17)	1,254,753,857	142,164,037
Total Noncurrent Liabilities	5,295,018,861	2,848,791,368
Total Liabilities	26,226,241,371	21,429,293,847

(Forward)

	Unaudited September 30, 2019	Audited December 31, 2018
Equity		
Attributable to equity holders of the Parent		
Company		
Preferred stock (Note 21)	₱247,397,303	₱247,414,156
Common stock (Note 21)	921,853,425	921,836,572
Additional paid-in capital	154,578,328	154,578,328
Equity reserve on acquisition of non-controlling interest	(179,954,180)	(179,954,180)
Revaluation increment on land - net (Note 13)	1,233,821,319	1,602,230,727
Cumulative translation adjustments	249,940,632	249,703,345
Fair value reserve of equity investments at FVOCI (Note 11)	262,901,378	259,855,707
Remeasurement loss on defined benefit plans	(38,278,837)	(27,924,073)
Retained earnings (Note 20)	11,501,885,780	9,198,512,458
	14,354,145,148	12,426,253,040
Non-controlling interests (Note 34)	8,892,078,327	5,745,536,195
Total Equity	23,246,223,475	18,171,789,235
	₱49,472,464,846	₱39,601,083,082

See accompanying Notes to Consolidated Financial Statements.

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

	July 1 to September 30		
	2019	2018	2017
REVENUE (Note 24)	₱9,202,964,883	₱8,365,693,996	₱ 6,571,115,802
COSTS OF SALES AND SERVICES (Note 26)	7,669,587,956	7,045,662,581	5,841,921,984
GROSS PROFIT	1,533,376,927	1,320,031,415	729,193,818
OTHER INCOME - Net (Note 25)	61,120,536	62,961,558	94,324,278
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES (Note 12)	149,518,841	70,815,222	92,440,006
GENERAL AND ADMINISTRATIVE EXPENSES (Note 30)	(730,883,799)	(721,282,962)	(488,629,021)
INTEREST AND FINANCE CHARGES (Notes 18, 19 and 32)	(240,494,910)	(114,204,695)	(68,380,918)
INCOME BEFORE INCOME TAX	772,637,595	618,320,538	358,948,163
PROVISION FOR INCOME TAX	(161,771,230)	(209,123,397)	(74,880,076)
NET INCOME	610,866,365	₱409,197,141	₱284,068,087
Net income (loss) attributable to:			
Equity holders of the Parent Company	₱350,403,030	₱285,991,943	₱189,851,747
Non-controlling interests	260,463,335	123,205,198	94,216,340
	610,866,365	₱409,197,141	₱284,068,087
EARNINGS PER SHARE (Note 23)			
BASIC	₱0.5688	₱0.4590	₱0.3037
DILUTED	₱0.4487	₱0.3662	₱0.2405

See accompanying Notes to Consolidated Financial Statements.

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

	July 1 to September 30		
	2019	2018	2017
NET INCOME	₱610,866,365	₱409,197,142	₱284,068,087
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Cumulative translation adjustments	2,722,977	20,928,800	10,630,119
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods</i>			
Changes in fair value of equity investments carried at FVOCI (Note 11)	2,512,039	(917,509)	(2,499,615)
Remeasurement gains (losses) on net retirement liability	(1,851,620)	—	—
Total other comprehensive income (loss)	3,383,396	20,011,291	8,130,505
TOTAL COMPREHENSIVE INCOME	614,249,761	₱429,208,433	₱292,198,592
Total comprehensive income attributable to:			
Equity holders of the Parent Company	₱352,714,156	₱296,147,624	₱193,787,698
Noncontrolling interest in consolidated subsidiaries	261,535,605	133,060,809	98,410,894
	614,249,761	₱429,208,433	₱292,198,592

See accompanying Notes to Consolidated Financial Statements.

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

	January to September 30		
	2019	2018	2017
REVENUE (Note 24)	₱24,589,004,186	₱23,361,627,072	₱18,997,429,600
COSTS OF SALES AND SERVICES (Note 26)	20,912,622,642	20,306,704,096	16,666,190,442
GROSS PROFIT	3,676,381,544	3,054,922,976	2,331,239,158
OTHER INCOME - Net (Note 25)	153,940,318	236,185,117	418,229,133
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES (Note 12)	467,939,800	445,795,872	427,643,457
GENERAL AND ADMINISTRATIVE EXPENSES (Note 30)	(2,167,221,199)	(1,872,574,323)	(1,579,764,774)
INTEREST AND FINANCE CHARGES (Notes 18, 19 and 32)	(601,444,529)	(299,470,636)	(199,943,828)
INCOME BEFORE INCOME TAX	1,529,595,934	1,564,859,006	1,397,403,146
PROVISION FOR INCOME TAX	(376,452,047)	(368,149,090)	(296,781,880)
NET INCOME	₱1,153,143,887	₱1,196,709,916	₱1,100,621,266
Net income (loss) attributable to:			
Equity holders of the Parent Company	₱704,124,067	₱836,604,742	₱757,266,804
Non-controlling interests	449,019,820	360,105,174	343,354,462
	₱1,153,143,887	₱1,196,709,916	₱1,100,621,266
EARNINGS PER SHARE (Note 23)			
BASIC	₱1.1108	₱1.3252	₱1.1962
DILUTED	₱0.9016	₱1.0713	₱0.9592

See accompanying Notes to Consolidated Financial Statements.

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

	January 1 to September 30		
	2019	2018	2017
NET INCOME	₱1,153,143,887	₱1,196,709,916	₱1,100,621,266
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Cumulative translation adjustments	436,511	78,719,854	21,438,372
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods</i>			
Changes in fair value of equity investments carried at FVOCI (Note 11)	4,391,922	571,759,026	15,052,446
Remeasurement gains (losses) on net retirement liability	(4,457,479)	(49,233)	–
Total other comprehensive income (loss)	370,954	650,429,647	36,490,818
TOTAL COMPREHENSIVE INCOME	₱1,153,514,841	₱1,847,139,563	₱1,137,112,084
Total comprehensive income attributable to:			
Equity holders of the Parent Company	₱704,621,627	₱1,188,077,515	₱779,320,033
Noncontrolling interest in consolidated subsidiaries	448,893,214	659,062,048	357,792,051
	₱1,153,514,841	₱1,847,139,563	₱1,137,112,084

See accompanying Notes to Consolidated Financial Statements.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the Group										Attributable to Noncontrolling Interest	Total
	Changes in fair value of equity investments carried at FVOCI							Remeasurement losses on Net Retirement Liability	Retained Earnings	Total		
	Preferred Stock (Note 20)	Common Stock (Note 20)	Additional Paid-in Capital	Premium on Acquisition of Noncontrolling Interest	Revaluation Increment on Land -Net	Cumulative Translation Adjustment	Investments carried at FVOCI					
For the Period Ended September 30, 2019												
Balances as at January 1, 2019	₱247,414,156	₱ 921,836,572	₱154,578,328	(₱179,954,180)	₱1,602,230,727	₱249,703,345	₱259,855,707	(₱27,924,073)	₱9,198,512,458	₱12,426,253,040	₱5,745,536,195	₱18,171,789,235
Impact of PFRS 16 adoption	-	-	-	-	-	-	-	-	-	(30,638,587)	-	(30,638,587)
Conversion of Preferred Stock	(16,853)	16,853	-	-	-	-	-	-	-	-	-	-
Acquisition and Disposal of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in ownership interest in subsidiary	-	-	-	-	(368,409,408)	-	754,605	(7,968,770)	1,737,852,523	1,362,228,950	2,831,760,336	4,193,989,287
Net income	247,397,303	921,853,425	154,578,328	(179,954,180)	1,233,821,319	249,703,345	260,610,312	(36,248,044)	10,857,668,816	13,709,430,624	8,565,188,185	22,274,618,809
Other comprehensive income	-	-	-	-	-	237,287	2,291,066	(2,030,793)	704,124,067	704,124,067	449,019,820	1,153,143,887
Total comprehensive income	-	-	-	-	-	₱237,287	₱2,291,066	(2,030,793)	704,124,067	704,621,627	448,893,214	1,153,514,841
Dividends declared by Parent Company	-	-	-	-	-	-	-	-	(59,907,103)	(59,907,103)	-	(59,907,103)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	-	-	(122,003,073)	(122,003,073)
Total dividends declared	-	-	-	-	-	-	-	-	(59,907,103)	(59,907,103)	(122,003,073)	(122,003,073)
Balances as at September 30, 2019	₱247,397,303	₱921,853,425	₱154,578,328	(179,954,180)	₱1,233,821,319	₱249,940,632	₱262,901,378	₱(38,278,837)	₱11,501,885,780	₱14,354,145,148	₱8,892,078,327	₱23,246,223,475
For the Period Ended September 30, 2018												
Balances as at January 1, 2018	₱253,758,109	₱ 921,836,572	₱154,578,328	(₱179,954,180)	₱ 1,329,730,248	₱ 224,366,002	₱ 87,185,459	(₱5,100,398)	₱8,407,828,501	₱11,194,228,641	₱ 5,157,194,941	₱16,351,423,582
Changes in adoption of PRSF 9 & 15	-	-	-	-	-	-	-	-	122,838,849	122,838,849	-	122,838,849
Redemption of preferred shares	(6,343,953)	-	-	-	-	-	-	-	-	(6,343,953)	-	(6,343,953)
Net income	247,414,156	921,836,572	154,578,328	(179,954,180)	1,329,730,248	224,366,002	87,185,459	(5,100,398)	8,530,667,350	11,310,723,537	5,157,194,941	16,467,918,478
Other comprehensive income	-	-	-	-	-	42,792,107	308,713,409	(32,743)	836,604,742	836,604,742	360,105,174	1,196,709,916
Total comprehensive income	-	-	-	-	-	42,792,107	308,713,409	(32,743)	836,604,742	1,188,077,515	659,062,048	1,847,139,563
Dividends declared by Parent Company	-	-	-	-	-	-	-	-	-	-	-	(60,323,562)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(60,323,562)	(60,323,562)	-	(60,323,562)
Total dividends declared	-	-	-	-	-	-	-	-	-	-	(42,050,121)	(42,050,121)
Balances as at September 30, 2018	₱247,414,156	₱921,836,572	₱154,578,328	(₱179,954,180)	₱1,329,730,248	₱267,158,109	₱395,898,868	₱(5,133,141)	₱9,306,948,530	₱12,438,477,490	₱5,774,206,868	₱18,212,684,358

	For the Period Ended September 30, 2017											
Balances as at January 1, 2017	₱280,802,820	₱921,836,572	₱154,578,328	(₱179,954,180)	₱1,106,401,670	₱59,864,897	₱79,859,050	(₱2,832,302)	₱7,529,455,996	₱10,050,012,851	₱4,555,875,042	₱14,605,887,893
Redemption of preferred shares	(20,538,093)	—	—	—	—	—	—	—	—	(20,538,093)	—	(20,538,093)
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	—	—	—	20,000,000	20,000,000
	260,264,727	921,836,572	154,578,328	(179,954,180)	1,106,401,670	159,864,897	79,859,050	(2,832,302)	7,529,455,996	10,029,474,758	4,575,875,042	14,605,349,800
Net income	—	—	—	—	—	—	—	—	757,266,804	757,266,804	343,354,462	1,100,621,266
Other comprehensive income	—	—	—	—	—	11,653,899	10,399,331	—	—	22,053,230	14,437,589	36,490,819
Total comprehensive income	—	—	—	—	—	11,653,899	10,399,331	—	757,266,804	779,320,034	357,792,051	1,137,112,085
Dividends declared by Parent Company	—	—	—	—	—	—	—	—	(60,452,310)	(60,452,310)	—	(60,452,310)
Dividends declared by subsidiaries	—	—	—	—	—	—	—	—	—	—	(45,480,725)	(45,480,725)
Total dividends declared	—	—	—	—	—	—	—	—	(60,452,310)	(60,452,310)	(45,480,725)	(105,933,035)
Balances as at September 30, 2017	₱260,264,727	₱921,836,572	₱154,578,328	(179,954,180)	₱1,106,401,670	₱171,518,796	₱90,258,381	₱(2,832,302)	₱8,226,270,490	₱10,748,342,482	₱4,888,186,368	₱15,636,528,850

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

	Periods Ended September 30		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱1,529,595,934	₱1,564,859,006	₱1,397,403,145
Adjustments for:			
Depreciation and amortization	603,493,201	557,833,085	528,351,008
Interest and finance charges	601,444,529	299,470,636	199,943,827
Changes in ownership of non-controlling interest	1,737,852,523	-	-
Dividend income	(29,015,498)	(931,917)	(1,508,180)
Interest income	(51,279,129)	(33,166,391)	(60,729,873)
Impact of PFRS 16 adoption	(30,638,587)	-	-
Prior period adjustments	-	122,838,849	-
Equity earnings in associates	(467,939,800)	(445,795,872)	(427,643,457)
Operating income working capital changes	3,893,513,173	2,065,107,396	1,635,816,470
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(2,161,524,488)	1,176,806,134	(711,176,390)
Loans receivable	4,184,658	491,662	(1,247,213)
Contract assets	-	-	-
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,091,261,380)	(4,211,198,555)	80,361,277
Inventories	(358,595,438)	(515,441,565)	272,675,914
Prepaid expenses and other current assets	(481,846,780)	(259,177,572)	(141,837,394)
Financial asset at FVPL	(9,275,289)	(158,422)	(92,025)
Increase (decrease) in:			
Accounts payable and accrued expenses	1,756,364,327	1,025,243,658	(908,848,877)
Customers' deposits	89,993	8,557,023	518,660
Billings in excess of costs and estimated earnings on uncompleted contracts	-	1,535,762,904	1,309,060,414
Contract liabilities	-	-	101,735,285
Unearned tuition fees	558,088,795	280,441,415	
Accrued retirement liability	37,216,603	(22,978,607)	(2,963,366)
Net cash generated from (used for) operations	2,146,954,174	1,083,455,471	987,086,819
Interest received	51,279,129	33,166,391	45,304,388
Interest and finance charges paid	(601,444,529)	(299,470,636)	(131,562,909)
Income tax paid	53,829,885	(234,348,108)	(197,583,159)
Net cash flows provided by (used in) operating activities	1,650,618,659	582,803,118	703,245,139
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments received from (advances to) related parties	79,200,984	9,056,669	(369,064,789)
Investments in associates and joint ventures	(77,641,551)	(307,848,144)	10,326,232
Increase (decrease) in other noncurrent assets	2,697,522,312	44,786,389	(207,344,343)
Proceeds from disposals (acquisitions) of equity investments at FVOCI	(79,502,824)	(365,519,976)	52,629,344
Property, plant and equipment, net	(4,142,578,278)	(1,633,483,938)	(716,703,620)
Dividends received	29,015,498	697,894	1,498,467
Net Addition (deduction) to minority interest	(1,365,042,238)	247,051,143	(487,623)
Net cash flows used in investing activities	(2,859,026,097)	(2,005,259,963)	(1,229,146,332)

	Periods Ended September 30		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds (payments) from:			
Loans payable	(317,000,000)	(89,676,164)	319,000,000
Long-term debt	1,172,717,942	1,781,309,945	(245,851,425)
Other noncurrent liability	1,112,710,688	(41,387,830)	–
Redemption of preferred shares	–	(6,343,953)	(7,020,070)
Cash dividends paid	(59,907,104)	(2,949,050)	(2,915,295)
Net cash flows provided by (used in) financing activities	1,908,521,526	1,640,952,948	63,213,210
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	700,114,088	(8,220,523)	(462,687,983)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,039,664,825	1,967,498,425	2,393,201,221
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱2,739,778,913	₱1,959,277,902	₱1,930,513,238

See accompanying Notes to Consolidated Financial Statements

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

House of Investments, Inc. (the Parent Company) is a stock corporation incorporated under the laws of the Republic of the Philippines on May 21, 1959. On July 20, 2007, the Parent Company's corporate life was extended for another fifty (50) years starting May 21, 2009.

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

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

The registered office address and principal place of business of the Parent Company is at 3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila.

2. Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for land, which is carried at revalued amount and financial asset at FVPL and available-for-sale financial assets which are measured at fair value. The accompanying consolidated financial statements are presented in Philippine Peso (Php, ₱), which is also the Parent Company's functional currency. Except as indicated, all amounts are rounded off to the nearest peso.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of September 30, 2019 and December 31, 2018, and for each of the three years in the period ended September 30, 2019.

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

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership			
				September 30, 2019		December 2018	
				Direct	Indirect	Direct	Indirect
Landev Corporation	Philippines	Property management	Philippine peso	100.00	–	100.00	–
Hexagon Lounge, Inc.	Philippines	Restaurant	Philippine peso	–	100.00	–	100.00
Greyhounds Security and Investigation Agency Corp.	Philippines	Security agency	Philippine peso	–	100.00	–	100.00
Secon Professional Security Training Academy Inc. ^(a)	Philippines	Training service provider	Philippine peso	–	100.00	–	100.00
Xamdu Motors, Inc. (XMI)	Philippines	Car dealership	Philippine peso	100.00	–	100.00	–
		Insurance agent, financing, trading and real estate					
Investment Managers, Inc. (IMI)	Philippines		Philippine peso	100.00	–	100.00	–
Zambowood Realty and Development Corporation (ZRDC)	Philippines	Real estate	Philippine peso	100.00	–	100.00	–
Zamboanga Carriers, Inc. (ZCI)	Philippines	Transportation	Philippine peso	100.00	–	100.00	–
Honda Cars Kalookan, Inc. (HCKI)	Philippines	Car dealership	Philippine peso	55.00	–	55.00	–
Zamboanga Industrial Finance Corporation (ZIFC) ^(g)	Philippines	Consumer Finance	Philippine peso	–	–	50.00	–
La Funeraria Paz Sucat, Inc. ^(b)	Philippines	Memorial Services	Philippine peso	50.00	13.00	–	–
EEl Corporation (EEl)	Philippines	Construction	Philippine peso	54.36	–	54.36	–
EEl Limited	British Virgin Islands	Holding company	US Dollar	–	100.00	–	100.00
Clear Jewel Investments, Ltd.	British Virgin Islands	Holding company	US Dollar	–	100.00	–	100.00
EEl Corporation (Singapore) Pte. Ltd. ^(c)	Singapore	Construction	Singapore Dollar	–	–	–	100.00
EEl Nouvelle-Caledonie SARL ^(c)	New Caledonia	Construction	French Franc	–	–	–	100.00
Nimaridge Investments, Limited	British Virgin Islands	Holding company	US Dollar	–	100.00	–	100.00
EEl (PNG), Ltd	Papua New Guinea	Holding company	US Dollar	–	100.00	–	100.00
EEl Corporation (Guam), Inc.	United States of America	Construction	US Dollar	–	100.00	–	100.00
EEl Construction and Marine, Inc.	Philippines	Construction	Philippine peso	–	100.00	–	100.00
EEl Realty Corporation (EEl Realty)	Philippines	Real estate	Philippine peso	–	100.00	–	100.00
EEl Subic Corporation	Philippines	Construction	Philippine peso	–	100.00	–	100.00
Equipment Engineers, Inc. (EE)	Philippines	Construction	Philippine Peso	–	100.00	–	100.00
		Rental of scaffolding and formworks					
JP Systems Asia Inc. (JPSAI) ^(d)	Philippines		Philippine Peso	–	60.00	–	–
Biotech JP Corp ^(h)	Philippines	Manufacturing food and therapeutic food	Philippine Peso	–	60.00	–	–
EEl Power Corporation (EPC)	Philippines	Power generation	Philippine Peso	–	100.00	–	100.00
Gulf Asia International Corporation (GAIC)	Philippines	Manpower services	Philippine peso	–	100.00	–	100.00
GAIC Professional Services, Inc. (GAPSI)	Philippines	Manpower services	Philippine peso	–	100.00	–	100.00
GAIC Manpower Services, Inc. (GAMSI)	Philippines	Manpower services	Philippine peso	–	100.00	–	100.00
Bagumbayan Equipment & Industrial Products, Inc.	Philippines	Consultancy services	Philippine peso	–	100.00	–	100.00
Philmark, Inc.	Philippines	Construction	Philippine peso	–	100.00	–	100.00
Philrock Construction and Services, Inc.	Philippines	Manpower services	Philippine peso	–	100.00	–	100.00
		Education and Information Technology					
iPeople, Inc. (IPO) ^(e)	Philippines		Philippine peso	48.18	–	67.34	–
		Education and Information Technology					
Malayan Colleges, Inc. (MCI) ^(f)	Philippines		Philippine peso	–	100.00	7.00	93.00
Mapua Information Technology Center, Inc. (MITC)	Philippines	Education and Information Technology	Philippine peso	–	100.00	–	100.00
Mapua Techserv, Inc. (MTI)	Philippines	Consultancy	Philippine peso	–	100.00	–	100.00
Mapua Techpower, Inc.	Philippines	Consultancy	Philippine peso	–	75.00	–	75.00
San Lorenzo Ruiz Institute of Health Sciences, Inc. (SLRHSI)	Philippines	Education and Information Technology	Philippine peso	–	100.00	–	100.00
Malayan High School of Science, Inc. (MHSSI)	Philippines	Education and Information Technology	Philippine peso	–	100.00	–	100.00
		Education and Information Technology					
Malayan Colleges Laguna, Inc. (MCLI)	Philippines		Philippine peso	–	100.00	–	100.00
Malayan Colleges Mindanao, Inc. (MCMi)	Philippines	Education and Information Technology	Philippine peso	–	100.00	–	100.00
People eServe Corporation (People eServe)	Philippines	Technology	Philippine peso	–	100.00	–	100.00
Pan Pacific Computer Center, Inc. (PPCCI)	Philippines	Technology	Philippine peso	–	100.00	–	100.00
Affordable Private Education Center, Inc. doing business under the name of APEC Schools ^(e)	Philippines	Education and Information Technology	Philippine peso	–	100.00	–	–
National Teachers College doing business under the name/s and style/s of The National Teachers College ^(e)	Philippines	Education and Information Technology	Philippine peso	–	99.79	–	–
University of Nueva Caceres ^(e)	Philippines	Education and Information Technology	Philippine peso	–	58.63	–	–

Forward

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership			
				September 30, 2019		December 2018	
				Direct	Indirect	Direct	Indirect
AC College of Enterprise and Technology, Inc. ^(a)	Philippines	Education and Information Technology	Philippine peso	–	100	–	–
LINC Institute, Inc. Doing Business under the Name and Style of LINC Academy	Philippines	Education and Information Technology	Philippine peso	–	100	–	–

(a) Acquired in 2016

(b) Acquired in March 2019

(c) Liquidated in 2016

(d) Incorporated in December 2016

(e) Effective May 2019 due to merger

(f) Sold to IPO in May 2019

(g) Sold last July 2019

(h) Consolidated in September 2019

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

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

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

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

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

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

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

Noncontrolling interest represents the portion of profit or loss and net assets not held by the Group. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the noncontrolling interests having a deficit balance.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and

- Reclassifies the Group's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019.

- PFRS 16, Leases

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

On January 1, 2019, the Company adopted PFRS 16 using the modified retrospective approach. Under this method, the company is not required to restate comparative information. Instead the cumulative effect of initial application is recognized as an adjustment to retained earnings. The effect of adopting PFRS 16 as at January 1, 2019 was, as follows:

	As at December 31, 2018	Increase (Decrease) due to PFRS 16 Adjustments	As at January 1, 2019
Assets			
Other Noncurrent Asset (Right-of-Use Asset)	₱-	₱1,169,432,644	₱1,169,432,644
Liabilities			
Accounts Payable and Accrued Expenses	₱549,108,573	(₱37,482,706)	₱511,625,867
Other Noncurrent Liability (Lease Liability)	-	1,243,547,580	1,243,547,580
	₱549,108,573	₱ 1,206,064,874	₱1,108,664,808
Equity			
Retained Earnings	₱412,779,986	(₱30,638,587)	₱382,141,399

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

4. Summary of Significant Accounting Policies

Revenue Recognition

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

Revenue from construction contracts

The Group assessed that there is only one performance obligation for each construction agreement that it has entered and that revenue arising from such agreements qualify for recognition over time because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced by applying par. 35(b) of PFRS 15. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The customer, having the ability to specify the design (or any changes thereof) of the asset, controls the asset as it is being constructed. Furthermore, the Group builds the asset on the customer's land (or property controlled by the customer), hence, the customer generally controls any work in progress arising from the Group's performance. The Group also recognized as part of its construction revenue, the effects of variable considerations arising from various change orders and claims, to the extent that they reflect the amounts the Group expects to be entitled to and to be received from the customers, provided that it is highly probable that a significant reversal of the revenue recognized in connection with these variable considerations will not occur in the future. For unpriced change orders and claims, the Group uses the "most likely amount" method to predict the amounts the Group expects to be entitled to and to be received from the customers.

The Group elected to use the input method to measure the progress of the fulfilment of its performance obligation, which is based on the actual costs incurred to date relative to the total estimated cost to complete the construction projects because there is a direct relationship between the Group's effort (i.e., costs incurred) and the transfer of service to the customer.

Revenue from sale of goods

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

Revenue from tuition and other related fees

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

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

Revenue from power generation

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

Revenue from manpower services

Under the Group's service agreements with its customers, the Group is required to provide manpower services (including but not limited to janitorial, messengerial and other allied services). As provision of these services constitutes a series of distinct good or services that are substantially the same and have the same pattern of transfer to the customer (i.e., the good or service would be recognized over time using the same measure of progress), this was treated by the Group as a single performance obligation. Because the services are simultaneously provided and consumed by the customer, the Group's performance obligation to render such services qualifies for revenue recognition over time by applying par. 35(a) of PFRS 15. The Group recognizes revenue from manpower supply services by applying the "right to invoice" practical expedient since the Group's right to payment is for an amount that corresponds directly with the value to the customer of the Group's performance to date.

*Contract balances arising from revenue with customer contracts**Receivables*

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

Contract assets

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

Contract liabilities

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

Financial Assets

Initial recognition and measurement

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

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

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

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

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

'Day 1' profit or loss

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

The Group's financial assets at amortized cost include cash and cash equivalents, receivables, and due from related parties.

Financial assets designated at fair value through OCI (equity instruments)

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

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

The Group elected to classify irrevocably all its equity investments under this category.

The Group does not have any debt financial assets at fair value through OCI and financial assets at fair value through profit or loss as of September 30, 2019.

Impairment of financial assets

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The loss allowance was adjusted for forward-looking factors specific to the debtors and the economic environment.

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

The Group generally considers a financial asset in default when contractual payments are 90 days past due. For a financial asset that arises from long-term construction contracts, the Group considers the asset to be in default if contractual payments are not settled within 30 days from the completion of the construction project. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held

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

September

Financial Liabilities

The accounting for the Group's financial liabilities remains the same as it was under PAS 39. The Group initially measures a financial liability at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs. The Group has no financial liabilities at FVPL.

Subsequent to initial recognition, the Group's financial liabilities are carried at amortized cost. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of income. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

This category generally applies to the Group's accounts payable and other current liabilities, bank loans, long-term debt and due to related parties

Derecognition of Financial Instruments

Financial assets

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

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

Financial liabilities

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

Other financial liabilities

Other financial liabilities are nonderivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These liabilities are carried at amortized cost in the consolidated statement of financial position. Amortization is determined using the effective interest method. Gains and losses are recognized in the consolidated statement of comprehensive income, when the liabilities are derecognized as well as through the amortization process.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve (12) months from the financial reporting date or the Group does not have an unconditional

right to defer settlement for at least 12 months from financial reporting date. Otherwise, these are classified as noncurrent liabilities. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized.

The Group's other financial liabilities consist of loans payable, accounts payable and other current liabilities, due to related parties and long-term debt.

Offsetting Financial Instruments

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

Jointly Controlled Operations

A jointly controlled operation involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations.

Inventories

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

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

The cost of real estate inventories includes (a) land cost; (b) freehold and leasehold rights for land; (c) amounts paid to contractors for construction; (d) borrowing costs, planning and design cost, cost of site preparation, professional fees, property taxes, construction overheads and other related costs.

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

Value-Added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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

Prepaid Expenses

Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments of insurance premiums, rents and others. It is included as part of other current assets in the consolidated statement of financial position.

Other Current Assets

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

Investments in Associates and Joint Venture

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

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

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

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

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

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

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

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

The Group's associates and joint venture accounted for using the equity method as of September 30 follows:

	Place of		Functional	Percentage of Ownership	
	Incorporation	Nature of Business	Currency	September 2019	December 2018
Associates:					
Hi-Eisai Pharmaceutical, Inc. (HEPI)	Philippines	Pharmaceutical	Philippine peso	50.00	50.00
La Funeraria Paz Sucat, Inc. (LFPSI)	Philippines	Funeral Service	Philippine peso	-	37.50
T'boli Agro-Industrial Development, Inc.	Philippines	Agriculture	Philippine peso	28.47	28.47
Manila Memorial Park Cemetery, Inc. (MMPCI)	Philippines	Funeral Service	Philippine peso	25.98	25.98
Petroenergy Resources Corporation (PERC)	Philippines	Renewable energy	Philippine peso	29.10	28.36
RCBC Realty Corporation (RRC)	Philippines	Realty	Philippine peso	10.00	10.00
Al-Rushaid Construction Company Limited (ARCC)	Saudi Arabia	Construction	Saudi riyal	49.00	49.00
PetroSolar Corporation (PSOC)	Philippines	Renewable energy	Philippine peso	44.00	44.00
Joint venture:					
PetroWind Energy, Inc. (PWEI)	Philippines	Renewable energy	Philippine peso	20.00	20.00

On March 1, 2019, the Parent Company purchased additional 90,000 shares of LFPSI, for ₱25.0 million resulting to an increase in direct ownership from 37.50% to 50.0%. Including the indirect ownership of the Parent Company, its effective interest in LFPSI is 63%.

Last April 16 and 30, 2019, the Parent Company purchased 2,913,090 and 1,240,561 PERC shares, respectively, resulting to an increase in ownership interest to 29.10%.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, amortization and impairment loss, if any, except for land which is carried at revalued amount based on the latest appraisal conducted by independent appraisers. The appraisal increment resulting from the revaluation is treated as a separate component in the Group's equity.

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

Depreciation is computed using the straight-line method over the following average estimated useful lives (EUL):

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

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

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

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

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial year-end.

Investment Properties

Investment properties are measured at cost less accumulated depreciation and impairment loss, if any, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Investment properties are depreciated on a straight-line basis over its estimated useful life of fifteen (15) to twenty years (20). Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment in value.

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

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

Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Software Costs

Software costs are stated at cost less accumulated amortization and any impairment in value. Costs related to software purchased by the Group for use in the operations are amortized on a straight-line basis over a period of three (3) years.

Costs associated with developing and maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and provision for impairment losses, if any.

Impairment of Nonfinancial Assets

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

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

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

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset including property and equipment while the qualifying asset is under construction are capitalized as part of the cost of that asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Capitalization of borrowing cost should commence when: (i) expenditures for the asset and borrowing costs are being incurred; and (ii) activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalization ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalization is suspended. When construction occurs piecemeal and use of each part is possible as construction continues, capitalization of each part ceases upon substantial completion of that part. For borrowing of funds associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowing is used. All other borrowing costs are expensed as incurred. However, if the carrying amount of the asset after capitalization of borrowing costs exceeds its recoverable amount, an impairment loss is recognized.

Business Combination and Goodwill

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

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

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. Before recognizing a gain on a bargain purchase, the Group assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and recognize any additional assets or liabilities that are identified in that review.

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

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

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*

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

General and Administrative Expenses

The Group's general and administrative expenses constitute costs of administering the business. General and administrative expenses are recognized as incurred.

Foreign Currency-denominated Transaction and Translation

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

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

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

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

Retirement Cost

Defined benefit plan

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

Defined benefit costs on the Group's defined benefit retirement plan are actuarially computed using the projected unit credit (PUC) valuation method. Under this method, the current service cost is the

present value of retirement benefits payable in the future with respect to the services rendered in the current period.

Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

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

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

Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

Leases

Group as a lessee

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Group as a lessor

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Basic and Diluted Earnings Per Share (EPS)

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

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

Provisions

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

discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingencies

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

Stock Option Plan

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

Segment Reporting

The Group's operating business are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 36.

Capital Stock

The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity (Note 21).

Retained Earnings

Retained earnings represent accumulated earnings of the Group and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retroactively less dividends declared. The individual accumulated retained earnings of the subsidiaries are available for dividends when they are declared by the subsidiaries as approved by their respective BOD. Retained earnings are further restricted for the payment of dividends to the extent of the cost of treasury shares (Note 20).

Events After the Financial Reporting Date

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

5. Significant Accounting Judgments and Estimates

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

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

Judgment

Recognition of revenue from construction contracts

Under the new revenue standard, PFRS 15, *Revenue from Contracts with Customers*, which the Group adopted starting January 1, 2018, the Group assessed that there is only one performance obligation for each construction agreement that it has entered and that revenue arising from such agreements qualify for recognition over time. The Group elected to use the input method to measure the progress of the fulfilment of its performance obligation, which is based on the actual costs incurred to date relative to the total estimated cost to complete the construction projects. The Group believes that this method faithfully depicts the Group's performance towards satisfaction of its performance obligation because there is a direct relationship between the Group's effort (i.e., costs incurred) and the transfer of service to the customer (Notes 3, 4 and 24).

Determination of significant influence on investment in an associate if ownership is less than 20%

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

As of September 30, 2019 and December 31, 2018, the Group holds 10% of interest in RRC. The Group exercises significant influence in RRC since the Parent Company's President is the concurrent president of RRC. The president is also a member of the Board of Directors. As such, the president of the Parent Company effectively has a participation in the policy-making process of RRC. Hence, the Parent Company is able to exercise significant influence even if ownership is less than 20%.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of 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 below.

Estimating variable considerations arising from change orders and claims

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

The aggregate carrying values of receivables and contract assets arising from construction contracts amounted to ₱13.0 billion and ₱9.7 billion as of September 30, 2019 and December 31, 2018, respectively

Fair value measurement of unquoted equity investments at FVOCI

The Group uses valuation techniques such as discounted cash flow approach and adjusted net asset method with significant unobservable inputs to calculate the fair value of its unquoted equity investments at FVOCI. These inputs include revenue growth assumptions, discount rates, appraised

value of real properties, among others. Changes in assumptions relating to these factors could affect the reported fair value of these unquoted equity financial instruments.

The fair value of unquoted equity investments amounted to ₱1.06 billion and ₱0.97 billion as of September 30, 2019 and December 31, 2018, respectively (Note 11).

Provision for expected credit losses of trade receivables and contract assets

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

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

As of September 30, 2019 and December 31, 2018, the aggregate carrying values of receivables and contract assets are disclosed in Notes 7, 8 and 16 to the consolidated financial statements.

Estimation of allowance for impairment of receivables

The Group maintains an allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. For education segment, the evaluation factors will include the number of days the receivables is outstanding, year level of students and historical experience. For other segments the evaluation of collectability considers the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis or those with existing allowances needing reversals.

The carrying value of receivables is disclosed in Notes 7 and 16 to the consolidated financial statements.

Valuation of land under revaluation basis

The Group's parcels of land are carried at revalued amounts. The valuations of these parcels of land were performed by SEC accredited independent appraisers and were determined using the market approach. Significant adjustments to inputs used in determining the fair value of land such as location and utility could affect the appraised value of the assets.

Land carried under revaluation basis amounted to ₱9,064.31 and ₱7,023.42 million as of September 30, 2019 and December 31, 2018, respectively. The key assumptions used to determine the fair value of the parcels of land are disclosed in Note 13.

Provisions and contingencies

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

operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Notes 17).

Impairment of goodwill of Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.)

The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the recoverable amount, which is the higher of fair value less costs of disposal and value in use of the CGU to which the goodwill is attributed.

Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. This estimate is based on the Group's past results and future expectations on cash flow from the CGU. However, there is no assurance that the Group will generate sufficient cash flow to associate that the goodwill will not be impaired in the future.

Management determined that the goodwill of Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.) amounting to ₱478.1 million as of September 30, 2019 and December 31, 2018 is not impaired (Note 14).

Estimation of retirement benefits

The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates were disclosed in Note 31. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

Retirement assets amounted to ₱57.63 million and ₱28.06 million as of September 30, 2019 and December 31, 2018, respectively whereas retirement liabilities amounted to ₱188.59 million and ₱141.02 million as of September 30, 2019 and December 31, 2018, respectively.

Deferred tax assets

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

6. Cash and Cash Equivalents

This account consists of:

	Unaudited September 2019	Audited December 2018
Cash on hand and in banks	₱1,647,184,893	₱1,465,704,010
Short-term investments	1,092,594,020	573,960,815
	₱2,739,778,913	₱2,039,664,825

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

Interest income from cash in banks and short-term investments amounted to ₱29.3 million, ₱11.0 million and ₱13.5 million for the periods ended September 30, 2019, 2018 and 2017, respectively (Note 25).

7. Receivables

This account consists of:

	Unaudited September 2019	Audited December 2018
Trade		
Construction and infrastructure	₱5,087,380,562	₱3,157,748,969
Education and information technology	880,289,321	302,795,237
Car dealership	593,396,328	813,294,034
Other services	122,705,537	97,597,545
Other receivables		
Receivable from sale of investment properties	22,712,064	125,789,113
Receivable from customers	56,574,919	65,201,427
Receivable from EEI RFI (Note 16)	55,000,000	55,000,000
Receivables from plant	50,893,630	52,527,813
Advances to officers and employees	24,360,026	54,704,876
Loans receivable - current	-	10,105,165
Rent receivable	709,347	721,798
Others	348,733,639	277,390,384
	7,242,755,373	5,012,876,361
Less allowance for impairment	301,209,696	232,855,171
	₱6,941,545,678	₱4,780,021,190

Trade receivables

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

Receivable from construction and infrastructure

Receivables from construction and infrastructure mainly represent amounts arising from domestic construction contracts which are generally on a 30-day credit term. Prior to January 1, 2018, this account includes retention receivables which are recouped upon the lapse of defect and liability period and the receipt of customer certification that there are no defects on the constructed asset. After January 1, 2018, retention receivables to which the Group's right for consideration is conditioned on the lapse of the defect and liability period and the receipt of customer certification that there are no defects on the constructed asset are presented as part of the contract asset.

Receivables from car dealership

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

Receivables from education and information technology

Receivables from education and information technology represent amounts arising from tuition and other fees generally collectible within 90 days and from computer and service sales collectible within 30 days.

Receivables from other services

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

No trade receivables were used as collaterals to secure obligations as of September 30, 2019 and December 31, 2018.

Receivable from sale of investment properties

On December 11, 2017, the Group sold a parcel of land located in Batangas for ₱466.7 million. Both parties agreed the selling price will be settled in eight (8) semi-annual installments and shall bear annual interest rate of 2%.

Receivable from EEI RFI pertains to the Group's sale of land to EEI RFI, a trustee of the Group's employee retirement fund in previous years. Both parties agreed the selling price will be repaid in installments and bear annual interest rate of 5%. In 2016, EEI and the Fund agreed to extend the term of the payment until July 30, 2021.

Receivable from customers

In 2017, trade receivables with gross value of ₱290.8 million (provided with allowance of ₱11.2 million) were reclassified to receivables from customers after the Group and the customers agreed to extend the credit terms. These receivables bear interest of 5% per annum and will be repaid in five (5) years' time.

Details of the abovementioned receivables follow:

	Unaudited September 2019	Audited December 2018
Receivable from sale of investment properties		
Current portion	₱22,712,064	₱125,789,113
Noncurrent portion (Note 16)	-	155,245,566
Receivable from EEI RFI		
Current portion	55,000,000	55,000,000
Noncurrent portion (Note 16)	78,000,000	78,000,000
Interest-bearing trade receivables		
Current portion	56,574,919	65,201,427
Noncurrent portion (Note 16)	47,384,151	88,307,263

Receivables from plant pertain to noninterest-bearing receivables from Honda Cars Philippines, Inc. and Isuzu Philippines Corporation, for promotional subsidy and fleet discounts. Receivables from plant are collectible within a year in the normal course of Group's business.

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

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

8. Contract Assets and Liabilities

Contract Assets

The Group presents contract receivable and retentions withheld by customer as contract assets as the Group's right for consideration is conditioned on the lapse of the defect and liability period and the receipt of customer certification that there are no defects on the constructed asset. These are reclassified as receivables upon the lapse of the defect and liability period and final customer acceptance.

The Group's contract assets amounted to ₱7.02 billion and ₱6.12 billion as of September 30, 2019 and December 31, 2018, respectively. The increase in this account is largely caused by construction works already performed by EEI.

Details of the Group's contract assets as of September 30, 2019 are shown below (Note 16).

	Unaudited September 2019	Audited December 2018
Current	₱6,057,696,164	₱4,966,434,784
Noncurrent (Note 16)	963,050,982	1,150,463,395
	₱7,020,747,146	₱6,116,898,179

Contract Liabilities

Contract liabilities consist of down payments received in relation to construction contracts, unearned tuition fees and accounts payable to students that will be recognized as revenue in the future as the Group satisfies its performance obligations. Payables to students are advance collections from students to be applied to the next school year or school term December 31, 2018.

As at September 30, 2019 and December 31, 2018, contract liabilities amounted to ₱873.13 million and ₱314.95 million, respectively.

9. Inventories

This account consists of:

	Unaudited September 2019	Audited December 2018
Construction materials	₱1,935,871,614	₱1,163,219,906
Real estate:		
Land and land development	152,343,589	152,725,721
Subdivision lots and contracted units for sale	68,856,741	76,793,014
Raw lands	45,229,389	45,229,389
Merchandise	744,888,972	1,110,486,934
Spare parts and supplies	105,577,431	145,717,334
	₱3,052,767,736	₱2,694,172,298

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

The total cost of goods sold recognized in the Group's statements of comprehensive income amounted to ₱4,885.30 million, ₱5,307.14 million and ₱6,583.33 million in 2019, 2018 and 2017, respectively (Notes 26).

The rollforward of allowance for inventory obsolescence is as follows:

	Unaudited September 2019	Audited December 2018
Balances at beginning of year	₱96,442,347	₱70,874,400
Provisions (Note 28)	—	31,074,321
Reversals	—	(5,506,374)
Balances at end of year	₱96,442,347	₱96,442,347

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

	Unaudited September 2019	Audited December 2018
Balances at beginning of year	₱274,748,124	354,152,670
Construction/development costs incurred	-	16,671,157
Cost of real estate sales	(8,318,405)	(38,321,997)
Transfer to property and equipment (Note 13)	-	(57,753,706)
Balances at end of year	₱266,429,719	₱274,748,124

No inventories were pledged as security to obligations as of September 30, 2019 and December 31, 2018.

10. Prepaid Expenses and Other Current Assets

This account consists of:

	Unaudited September 2019	Audited December 2018
Advances to suppliers and contractors	₱1,017,789,961	₱712,412,784
Creditable withholding taxes	387,064,937	367,387,252
Prepaid expenses	113,830,828	75,702,134
Miscellaneous deposits	96,821,329	86,958,456
Input value added tax (VAT)	90,822,388	74,084,987
Advances to officers and employees	51,698,580	30,739,604
Prepaid taxes	47,694,893	9,759,208
Restricted cash investment	27,084,521	38,601,563
Restricted funds	21,356,004	21,356,004
Unused office supplies	18,952,753	3,620,204
Patronage shares (Monte Maria)	15,000,000	15,000,000
FVPL	9,275,289	8,699,745
Others	62,509,664	24,457,136
	1,959,901,147	1,468,779,077
Less allowance for impairment	3,808,458	3,808,458
	₱1,956,092,689	₱1,464,970,619

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

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

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

Input VAT represents taxes imposed to the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. This will be used against future output VAT liabilities or will be claimed as tax credits. Management has estimated that all input VAT is recoverable at its full amount.

Restricted funds significantly pertain to funds invested in money market placements exclusively for use in CWTS, NSTP, for financing of scholars of certain private entities and for the purpose of undertaking socio-economic studies and development projects.

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

This account consists of:

	Unaudited September 2019	Audited December 2018
Quoted equity investments	₱125,365,214	₱63,140,918
Unquoted equity investments	931,892,575	911,568,376
	₱1,057,257,789	₱974,709,294

Rollforward analysis of the account follow:

	Unaudited September 2019	Audited December 2018
Balance at beginning of year	₱974,709,294	₱449,585,193
Impact of adoption of PFRS 9	–	509,719,202
Additions from a new subsidiary	94,526,366	22,877,650
Disposal	(11,993,856)	–
Reclassification/Write-off	–	(37,500)
Fair value changes recognized in other comprehensive income	15,985	(7,435,251)
	₱1,057,257,789	₱974,709,294

In 2018, the Group invested additional ₱22.4 million in PetroGreen Energy Corporation (PGEC). This transaction did not result to a change in the Group's 10% equity interest in PGEC.

Movements in the fair value reserve recognized in other comprehensive income are as follows:

	Unaudited September 2019	Audited December 2018
Attributable to equity holders of the parent:		
Balance at beginning of year	₱259,855,707	₱87,185,459
Income recognized in OCI	3,045,671	167,502,355
Impact of adoption of PFRS 9	–	5,167,893
Balance at end of year	262,901,378	259,855,707
Non-controlling interests:		
Balance at beginning of year	202,090,420	6,063,829
Income recognized in OCI	1,346,251	193,759,233
Impact of adoption of PFRS 9	–	2,267,358
Balance at end of year	203,436,671	202,090,420
	₱466,338,049	₱461,946,127

The unquoted equity investments consist of shares of the following nonlisted companies:

	Unaudited September 2019	Audited December 2018
PetroGreen Energy Corporation	₱502,794,444	₱483,916,588
Hermosa Ecozone Development Corporation	405,966,766	404,918,702
Brightnote Assets Corporation	11,076,011	10,677,732
Sta. Elena Properties	7,680,033	7,680,033
Others	4,375,321	4,375,321
	₱931,892,575	₱911,568,376

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

PetroGreen Energy Corporation (PGEC)

The fair value of the Group's investment in PGEC is determined by an independent third party professional services firm using the discounted cash flow model. The valuation requires certain assumptions to be made, such as forecast cash flows, the discount rate, among others (Note 37).

Hermosa Ecozone Development Corporation (HEDC)

The fair value of the Group's investment in HEDC is determined using the adjusted net asset approach wherein the assets of HEDC consisting mainly of parcels of land are adjusted from cost to their fair value. The valuation was performed by an independent SEC-accredited appraiser as of December 31, 2018.

Dividends earned from equity investments at FVOCI amounted to ₱0.6 million in 2018.

In 2017, the Group invested an additional ₱20.87 million in PGEC. This transaction did not result to a change in the Group's 10% equity interest in PGEC as the other PGEC investors were also required by the investee to make additional investments proportionate to their ownership interest.

No equity investments at fair value through other comprehensive income (FVOCI) were pledged as security to obligations as of September 30, 2019 and December 31, 2018.

12. Investments in Associates and Joint Venture

The rollforward analysis of this account follows:

	Unaudited September 2019	Audited December 2018
Acquisition cost		
Balances at beginning	₱4,622,763,779	₱4,114,397,589
Additions	157,566,188	508,366,190
Reclassification	(56,832,660)	–
Balance at end of year	4,723,497,307	4,622,763,779
Accumulated impairment loss	74,536,609	74,536,609
Accumulated equity in net earnings		
Balance at beginning of year	742,132,503	642,289,767
Prior year adjustments	(6,593,922)	–
Equity in net earnings	474,533,721	255,783,370
Dividends received	(99,299,931)	(155,940,634)
Balance at end of year	1,110,772,372	742,132,503
Subtotal	5,759,733,070	5,290,359,673
Share in other comprehensive income of an associate	64,571,875	64,571,875
Cumulative translation adjustment	179,411,116	151,023,452
	₱6,003,716,061	₱5,505,955,000

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

PSC

In 2015, EEI purchased 3.7 million shares from PSOC amounting to ₱366.43 million which resulted to 44% ownership. PSOC has a 50 megawatt solar farm in Tarlac City.

In 2018, EEI made an additional investment of ₱175.8 million in PSC. This transaction did not result to a change in the 44% ownership of EEI over PSOC.

PWEI

In 2013, EEI Power acquired 20% stake in PWEI for ₱118.75 million. PWEI has a wind energy project in Nabas, Aklan.

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

The Parent Company's effective interest in PSC and PWEI is 41.26% and 23.26%, respectively.

PERC

The shares of capital stock of PERC are listed with Philippine Stock Exchange. On February 2, 2018, the Parent Company purchased additional 69,285,418 shares amounting for ₱332.6 million on 4.8 per share resulting to an increase in ownership interest from 22.41% to 28.36%. Last April 16

and 30, 2019, the Parent Company purchased 2,913,090 and 1,240,561 shares, respectively, resulting to an increase in ownership interest to 29.10%.

LFPSI

On March 1, 2019, the Parent Company purchased additional 90,000 shares of LFPSI, for ₱25.0 million resulting to an increase in direct ownership from 37.50% to 50.0%. Including the indirect ownership of the Parent Company, its effective interest in LFPSI is 63%.

As of September 30, 2019 and December 31, 2018, no investments in associates were pledged as security to obligations (Notes 18 and 19).

13. Property and Equipment

Property and equipment at revalued amount

Movements in the revalued land are as follows:

	Unaudited September 2019	Audited December 2018
Balance at beginning of year	₱7,023,425,494	₱6,312,509,812
Additions:		
Acquisition	–	240,334,088
Additions through business combination	2,038,084,517	–
Capitalizable costs	2,797,773	470,581,594
Balance at end of year	₱9,064,307,784	₱7,023,425,494

The Parent Company owns a parcel of 7,304 sqm land located in Quezon Avenue, Quezon City wherein the first Honda car dealership showroom was erected.

Capitalizable costs include taxes paid for purchase of land.

Property and equipment at cost

The rollforward analysis of this account follows:

	Unaudited September 2019	Audited December 2018
At Cost		
Land, Buildings and Improvements	₱5,882,983,877	₱4,290,357,917
Machinery, Tools and Construction Equipment	6,398,376,263	6,204,616,227
Furniture, Fixtures and Office Equipment	1,323,728,578	2,658,177,122
Transportation and Service Equipment	2,917,227,368	1,389,379,772
	16,522,316,086	14,542,531,038
Less: Accumulated Depreciation	(8,491,931,329)	(7,100,985,126)
	8,030,384,758	7,441,545,912
Construction in Progress	630,827,074	89,872,543
Net book value at Cost	₱8,661,211,832	₱7,531,418,455

Construction in progress mainly includes the general cost of construction of MESI's school building in the newly acquired land in Makati City from HI and other direct costs (Note 10).

Interest expense on short-term loans obtained to finance the construction, which was included as part of the construction in progress amounted to ₱27.98 million and ₱23.77 million as of September 2019 and December 2018, respectively (Note 18).

14. Goodwill

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

	Unaudited September 2019	Audited December 2018
EEI Corporation and Subsidiaries	₱300,859,305	₱300,859,305
Malayan Colleges, Inc.	137,853,346	137,853,346
iPeople, Inc.	39,343,273	32,644,808
	₱478,055,924	₱471,357,459

Goodwill of EEI Corporation and Subsidiaries and iPeople, Inc. (iPeople)

Management determined that the recoverable amount of the goodwill balances of EEI Corporation and Subsidiaries and iPeople were fair values less costs of disposal wherein the fair values are the quoted prices of the shares of stocks of EEI Corporation and Subsidiaries and iPeople in the Philippine Stock Exchange as of December 31, 2018 and incorporated control premium in the said fair values (Level 3 – Significant unobservable inputs). Management assessed that the costs of disposal, which mainly consist of the stock transaction tax, brokers' commission and transaction fee with the stock exchange to be insignificant.

The additional goodwill amounting ₱300.69 million is a result of the acquisition cost over the fair values of the net assets of the new subsidiaries acquired in May 2, 2019 by iPeople.

Goodwill of Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.)

Key assumptions used in the value in use (VIU) calculation

As at December 31, 2018, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU are most sensitive to the following:

- Future revenues, profit margins and revenue growth rates: Cash flow projections based on financial budgets approved by management covering a five-year period (2019-2023) and considers the impact of the Enhanced K+12 Basic Education Program on MESI's financial performance effective 2016.
- Long-term growth rates (3.74% for 2018): The long-term growth rate is expected growth rate in the education industry sector.
- Discount rate (10.98% for 2018): The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to Parent Company's capital structure.

Sensitivity to changes in assumptions

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

15. Investment Properties

The rollforward analysis of this account follows:

	Unaudited September 30, 2019		
	Land Held for Capital Appreciation	Condominium Units and Parking Slots	Total
Cost			
Balances at beginning of year	₱17,399,238	₱ 4,742,917	₱ 22,142,155
Additions	–	–	–
Disposals	(188,000)	–	(188,000)
Balances at end of year	17,211,238	4,742,917	21,954,155
Accumulated Depreciation			
Balances at beginning of year	–	3,985,137	3,985,137
Additions	–	13,125	13,125
Disposals	–	–	–
Balances at end of year	–	3,998,262	3,998,262
Net Book Value	₱17,211,238	₱744,655	₱17,955,893

	As at December 31, 2018		
	Land Held for Capital Appreciation	Condominium Units and Parking Slots	Total
Cost			
Balances at beginning of year	₱13,680,421	₱11,759,375	₱25,439,796
Additions	–	3,250,000	3,250,000
Impairment loss	(1,800,309)	–	(1,800,309)
Reclassification	7,000,000	–	7,000,000
Disposals	(1,480,874)	(10,266,458)	(11,747,332)
Balances at end of year	17,399,238	4,742,917	22,142,155
Accumulated Depreciation			
Balances at beginning of year	–	6,724,293	6,724,293
Depreciation (Note 29)	–	346,234	346,234
Disposals	–	(3,085,390)	(3,085,390)
Balances at end of year	–	3,985,137	3,985,137
Net Book Value	₱17,399,238	₱757,780	₱18,157,018

Investment properties represent various parcels of land, condominium units and parking slots held for capital appreciation and rental, respectively.

The fair value of the land and condominium units and parking slots was arrived at using the Market Data Approach. In this approach, the value of the land and condominium units and parking slots are based on sales and listings of comparable properties registered within the vicinity.

The land was valued in terms of their highest and best use which is categorized under Level 3 of the fair value hierarchy. There was no transfer between levels of fair value measurement in 2019 and 2018.

None of the investment properties were pledged as a security to obligations as of September 30, 2019 and December 31, 2018.

16. Other Noncurrent Assets

This account consists of:

	Unaudited September 2019	Audited December 2018
Right-of-Use asset (PFRS 16)	₱1,136,146,616	₱–
Contract asset- net of current portion (Note 8)	963,050,982	1,150,463,395
Intellectual property rights	523,103,000	–
Deferred input VAT	164,910,591	215,311,643
Student Relationship	106,197,157	–
Receivable from EEI-RFI - net of current portion (Notes 7)	78,000,000	78,000,000
Receivable from customers - net of current portion (Note 7)	47,384,151	88,307,263
Computer software	16,943,685	14,298,226
Prepaid taxes	8,652,193	9,759,208
Receivable from sale of investment property - net of current portion (Note 7)	-	155,245,566
Deposit for future subscription of shares of stock of BiotechJP Corp.	-	80,999,919
Others	97,664,630	24,881,807
	₱3,142,053,005	₱1,817,267,027

Deposit for Future Subscription of Shares of Stock of BiotechJP Corp.

In November 2018, EEI Corporation deposited ₱81.0 million with BiotechJP Corp. in exchange for 60% ownership in the latter. BiotechJP Corp. is in the business of manufacturing food and therapeutic food.

Rollforward of computer software follows:

	Unaudited September 2019	Audited December 2018
Cost		
Balance at the beginning of the year	₱131,540,217	₱123,869,766
Additions	7,473,204	7,670,451
Balance at the end of the year	139,013,421	131,540,217
Accumulated Amortization		
Balance at the beginning of the year	117,241,991	110,393,578
Amortization (Note 29)	4,827,745	6,848,413
Balance at the end of the year	122,069,736	117,241,991
Net Book Value	₱16,943,685	₱14,298,226

17. Accounts Payable and Accrued Expenses

This account consists of:

	Unaudited September 2019	Audited December 2018
Accounts payable	₱7,348,085,737	₱5,414,465,593
Deferred output taxes	583,985,412	744,845,437
Accrued expenses	290,470,519	176,520,142
Provisions	151,596,679	153,558,082
Withholding taxes and others	81,762,288	99,678,224
SSS and other contributions	14,138,320	5,984,466
Subscriptions payable	13,125,000	27,482,213
Chattel mortgage payable	10,372,779	13,654,776
Dividends payable	5,344,240	23,071,231
Payable to Land Transportation Office	4,374,411	5,390,644
Output tax payable	4,202,300	87,109,634
Deferred income	2,989,067	3,873,163
Lease Liability	120,870	-
Others	40,709,058	39,157,878
	₱8,551,276,680	₱6,794,791,483

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

Subscriptions payable represents unpaid subscriptions on equity securities.

Accrued expenses consist of:

	Unaudited September 2019	Audited December 2018
Accrued salaries and wages	₱158,689,926	₱57,446,450
Accrued insurance	37,445,138	28,100,852
Accrued security services	16,570,277	17,440,334
Accrued interest	14,644,423	24,370,643
Accrued professional fees	12,184,028	4,026,484
Accrued utilities	5,679,657	4,063,613
Others	45,257,069	41,071,766
	₱290,470,519	₱176,520,142

Other noncurrent liabilities consist of:

	Unaudited September 2019	Audited December 2018
Lease liability (PFRS 16 Adoption)	₱1,043,577,618	₱-
Deferred output vat - net of current portion	142,164,038	142,164,037
Others	69,012,201	-
	₱1,254,753,857	₱142,164,037

18. Loans Payable

This account consists of:

	Unaudited September 2019	Audited December 2018
Loans payable (Note 21)		
Unsecured bank loans	₱10,040,000,000	₱8,979,000,000
Secured bank loans	162,000,000	1,540,000,000
	₱10,202,000,000	₱10,519,000,000

Unsecured

Unsecured bank loans are obtained from local banks and related party financial institutions with annual interest rates ranging from 3.00% to 6.50% and 3.00% to 6.13% in 2019 and 2018, respectively.

Secured

In 2017, the Group, through MCMI, obtained a short-term loan (STL) facility with BPI, which was earmarked from the long-term loan facility of the Group from same bank, to finance the construction of MCMI's school building. Each STL facility may be re-availed/renewed/extended within a period of one year provided that the sum of the terms of re-availements/renewal/ extension will not exceed 360 days. The STL facility may be converted into a 10-year term loan facility which shall be partially secured by the real estate mortgage on the real property of MCMI. The STL facility is secured by the Continuing Suretyship Agreement of MESI.

In November and December 2018, the Group, through MCMI, obtained short-term loans from Land Bank of the Philippines amounting to ₱110.00 million, with annual interests ranging from of 5.60% to 6.25%. For and in consideration of MCMI loans from LBP, MCMI constituted a mortgage in favor of LBP over MCMI land and all buildings and improvements now existing or which may be constructed on the said land

Movements in loans payable during the quarter ended September 30 follow:

	Unaudited September 2019	Audited December 2018
Beginning balance	₱10,519,000,000	₱7,685,000,000
Availment	11,482,000,000	17,624,000,000
Payments	(11,799,000,000)	(14,790,000,000)
Ending balance	₱10,202,000,000	₱10,519,000,000

19. Long-term Debt

This pertains to the long-term debt of the following companies:

	Unaudited September 2019	Audited December 2018
<i>Parent Company</i>		
Peso-denominated five (5) year term loan, payable in twenty (20) equal quarterly installments starting March 2016 with interest of 5.11% per annum	125,000,000	200,000,000
<i>MCM</i>		
Peso-denominated term loan, payable within January 11, 2019 to January 11, 2029 subject to floating rate equivalent to 5-year Philippine Dealing System Treasury Reference Rates (PDST-R2) plus a per annum spread of 0.50%.	1,500,000,000	—
<i>NTC</i>		
Peso-denominated seven (10) year term loan, payable in 28 quarterly payments starting May 2022 which are subject to variable interest rates.	380,000,000	—
<i>EEI</i>		
Fixed-rate corporate promissory notes with interest rate of 4.80% per annum	1,666,666,667	2,327,380,953
<i>EEI Power</i>		
Peso-denominated seven (7) year term loan, payable in equal quarterly installments and will mature on August 27, 2022 with interest of 4.80% per annum.	214,285,714	267,857,143
<i>BIOTECH JP</i>		
Yen-denominated five (5) year, 2.5 year term and 6 month term loan, with interest rate of 0.05% per annum, 0.30% per annum and 2.45% per annum, respectively	82,003,657	—
	3,967,956,038	2,795,238,096
Less current portion of long-term debt	1,099,930,952	774,603,175
	₱2,868,025,086	₱2,020,634,921

Parent Company

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

EEI

In 2014, EEI received ₱500.0 million proceeds from the issuance of unsecured fixed-rate corporate promissory notes to a local bank that bear annual interest of 5.2%. Subsequently, the bank reduced the interest rate to 4.8% starting May 26, 2015 until maturity. The promissory notes mature within seven (7) years from the date of issuance.

On September 15, 2015, EEI received ₱1,000 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 4.8%. The promissory note matures within seven (7) years from the date of issuance.

On May 23, 2018, the Parent Company received ₱2,000 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 4.8%. The promissory note matures within five (5) years from the date of issuance.

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

EEI Power Corporation

On August 28, 2015, EEI Power availed a ₱500.0 million long-term loan from a local bank that bears an annual interest of 4.8%. The loan is payable in equal quarterly installments and will mature on August 27, 2022.

MCM

MCM obtained a loan from Land bank of the Philippines amounting to P1.50 billion, payable within Jan 11, 2019 to Jan 11, 2029. This loan is backed up by Malayan Colleges Mindanao campus located at Gen Douglas Mc Arthur Highway, Davao City. The unpaid principal amount is subject to floating rate equivalent to 5-year Philippine Dealing System Treasury Reference Rates (PDST-R2) plus a per annum spread of 0.50%.

NTC

On February 7, 2019, NTC availed of a ten (10)-year unsecured term loan from a local bank for the financing of its building refurbishment and/or expansion. Pursuant to the loan agreement, the local bank agreed to provide loans to the School for up to 650.00 million, the principal payments of which will be made in 28 quarterly payments starting May 2022. The first and second drawdowns from the loan were made in February and March 2019 amounting to 30.00 million and 70.00 million, respectively, which are subject to variable interest rates.

Movements in the account follow:

	Unaudited September 2019	Audited December 2018
Balance at beginning of year	₱2,795,238,096	₱2,671,946,814
Availments	2,007,003,658	1,815,476,190
Payments	(834,285,715)	(1,703,608,058)
Amortization of transaction costs	–	11,423,150
Balance at end of year	3,967,956,038	2,795,238,096
Less current portion	(1,099,930,952)	(774,603,175)
	₱2,868,025,086	₱2,020,634,921

The aforementioned loans require the Group to maintain certain financial ratios. As of September 30, 2019 and December 31, 2018, the Group was in compliance with the loan covenants.

20. Retained Earnings

On December 7, 2018, the Board approved the appropriation of ₱2.1 billion from the Company's retained earnings for property development projects up to 2021.

Retained earnings include ₱2,881.7 million and ₱2,632.1 million as of September 30, 2019 and December 31, 2018, respectively, representing treasury shares, appropriated retained earnings and deferred tax assets that are not available for dividend declaration. After reconciling items, the retained earnings of the Parent Company that are available for dividend declaration amounted to

₱1,601.7 million and ₱812.4 million as of September 30, 2019 and December 31, 2018, respectively. Dividend distribution is approved by the BOD.

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

Restrictions

The Group's retained earnings include accumulated earnings of subsidiaries, associate and joint venture amounting to ₱7,800.2 million and ₱6,286.1 million as of September 30, 2019 and December 31, 2018, respectively, not declared as dividends to the Group. Accordingly, these are not available for dividend declaration.

As of September 30, 2019, Group's retained earnings is restricted to payment of dividends to the extent of the cost of shares held in treasury amounting to ₱2.6 million.

21. Capital Stock

The authorized preferred stock is 2,500,000,000 shares at ₱0.40 par value. A reconciliation of the number of preferred shares outstanding as at September 30, 2019, December 31, 2018 and 2017 follows:

	2019		2018		2017	
	Amount	Shares	Amount	Shares	Amount	Shares
Beginning of the year	₱247,414,156	618,535,387	₱253,758,109	634,395,272	₱280,802,820	702,007,052
Redemption of preferred stock	—	—	(6,343,953)	(15,859,885)	(27,044,711)	(67,611,780)
Conversion of preferred stock to common stock	(16,853)	(42,134)	—	—	—	—
	₱247,397,303	618,493,253	₱247,414,156	618,535,387	₱253,758,109	634,395,272

The authorized common stock is 1,250,000,000 shares at ₱1.50 par value. A reconciliation of the number of common shares outstanding as at September 30, 2019 and December 31, 2018 and 2017 follows:

	2019		2018		2017	
	Amount	Shares	Amount	Shares	Amount	Shares
Beginning of the year	₱924,444,172	616,296,114	₱924,444,172	616,296,114	₱924,444,172	616,296,114
Conversion of preferred stock to common stock	16,853	11,235	—	—	—	—
	924,461,025	616,307,349	924,444,172	616,296,114	924,444,172	616,296,114
Treasury stock	(2,607,600)	(300,000)	(2,607,600)	(300,000)	(2,607,600)	(300,000)
	₱921,853,425	616,007,349	₱921,836,572	615,996,114	₱921,836,572	615,996,114

Details of the capital redemption and conversion follow:

Date of Redemption	Amount		Record Date	Payment Date
July 6, 2018	₱6,343,953	₱0.40	May 3, 2018	May 30, 2018
March 31, 2017	₱7,020,070	₱0.40	July 28, 2017	May 21, 2017
July 21, 2017	6,844,569	0.40	August 18, 2017	September 12, 2017
September 29, 2017	6,673,454	0.40	October 27, 2017	November 24, 2017
December 8, 2017	6,506,618	0.40	January 4, 2018	January 30, 2018
	₱27,044,711			

The Parent Company's preferred shares have the following features:

- a) Entitled to dividends at the rate of average 91-day T-Bill plus two percent;

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

Below is the summary of the outstanding number of shares and holders of security as at September 30, 2019:

Year	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities
Preferred shares:				
January 1, 2017	702,007,052			48
Movement:	(17,550,176)	0.40	March 31, 2017	
	(17,111,422)	0.40	July 21, 2017	
	(16,683,636)	0.40	September 29, 2017	
	(16,266,546)	0.40	December 8, 2017	
December 31, 2017	634,395,272			48
Movement	(15,859,885)	0.40	July 6, 2018	
December 31, 2018	618,535,387			
Conversion	(42,134)	0.40	August 16, 2019	(1)
September 30, 2019	618,493,253			47
Common Shares:				
January 1, 2018	615,996,114			402
Conversion	—	—		
December 31, 2018	615,996,114			386
Conversion	11,235	—		
September 30, 2019	616,007,349			380

SEC approved the registration of the Parent Company's authorized capital stock before its listing date with the PSE, which was on July 2, 1962. The actual number of shares initially listed were 584,085 at an offer price of ₱10.0 per share. Total number of preferred and common shareholders was 48 and 380, respectively, as of September 30, 2019 and 48 and 386, respectively, as of December 31, 2018.

22. Cash Dividends

Cash Dividends

The BOD declared cash dividends as follows:

Date of BOD Approval	Amount	Amount per share		Record Date	Payment Date
		Preferred Shares	Common Shares		
July 5, 2019	₱4,688,498	₱0.008	₱—	May 2, 2019	May 29, 2019
July 19, 2019	4,459,640	0.007	—	August 15, 2019	September 10, 2019
July 19, 2019	50,758,966	0.173	0.065	August 15, 2019	September 10, 2019
	₱59,907,104				
July 6, 2018	₱2,949,050	₱0.005	₱—	May 3, 2018	May 29, 2018
July 20, 2018	3,342,256	0.005	—	August 16, 2018	September 11, 2018
July 20, 2018	50,758,966	0.017	0.065	August 16, 2018	September 11, 2018
September 28, 2018	3,273,289	0.005	—	October 25, 2018	November 21, 2018
December 18, 2018	4,449,125	0.007	—	January 11, 2019	February 6, 2019
	₱64,772,686				

Date of BOD Approval	Amount	Amount per share		Record Date	Payment Date
		Preferred Shares	Common Shares		
March 31, 2017	₱2,915,295	₱0.004	₱–	July 28, 2017	May 21, 2017
July 21, 2017	51,901,385	0.017	0.065	August 18, 2017	September 12, 2017
July 21, 2017	2,878,826	0.004	–	August 18, 2017	September 12, 2017
September 29, 2017	2,756,804	0.004	–	October 27, 2017	November 24, 2017
December 12, 2017	2,616,311	0.004	–	January 4, 2018	January 29, 2018
	₱63,068,621				

23. Earnings Per Share

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

Unaudited basic earnings per share

	January to September 30		
	2019	2018	2017
Net income attributable to equity holders of parent company	₱704,124,067	₱836,604,742	₱757,266,804
Less dividends attributable to preferred shares (Note 21)	19,867,357	20,283,813	20,412,562
Net income applicable to common shares	684,256,710	816,320,929	736,854,242
Divided by the weighted average number of common shares	615,996,114	615,996,114	615,996,114
Basic earnings per share	₱1.1108	₱1.3252	₱1.1962

Unaudited diluted earnings per share

	January to September 30		
	2019	2018	2017
Net income applicable to common shares	₱684,256,710	₱816,320,929	₱736,854,242
Add dividends attributable to preferred shares	19,867,357	20,283,813	20,412,562
Net income applicable to common shares for diluted earnings per share	704,124,067	836,604,742	757,266,804
Weighted average number of common shares	616,007,349	615,996,114	615,996,114
Dilutive shares arising from convertible preference shares	164,931,534	164,942,770	173,509,818
Weighted average number of common shares for diluted earnings per share	780,938,883	780,938,884	789,505,932
Diluted earnings per share	₱0.9016	₱1.0713	₱0.9592

24. Revenue from Contracts with Customers

Set out below is the disaggregation of the Group's revenue from contracts with customers for the quarter ended September 30, 2019, 2018 and 2017:

	January to September 30		
	2019	2018	2017
Revenue from construction contracts	₱15,642,523,976	₱14,814,076,188	₱9,661,945,400
Sales of goods	5,239,996,089	5,654,122,220	6,974,531,318
Sales of services	1,705,121,806	1,618,441,374	910,218,395
Schools and related operations	2,001,362,315	1,274,987,290	1,450,734,487
	₱24,589,004,186	₱23,361,627,072	₱18,997,429,600

25. Other Income

This account consists of:

	January to September 30		
	2019	2018	2017
Interest income	₱51,279,129	₱40,312,102	₱60,729,873
Dividend income	29,015,498	726,350	—
Rental income	11,554,793	5,771,785	3,077,588
Insurance income	12,090,772	15,417,516	9,911,122
Gain on sale from property and equipment	3,281,385	15,252,612	2,600,512
Space and car rental	11,258,884	9,086,966	10,389,363
Tax refund/discount	762,369	202,138	2,401,143
Gain on sale from investment property	49,500	4,669,128	5,016,577
Reversal of allowance for inventory obsolescence	—	4,706,374	—
Commission income	—	1,711,761	636,724
Reversal of provision	—	1,310,915	—
Income from sale of pre-owned cars	—	153,681	330,333
Income from reversal of payables	—	40,702	62,634,385
Finance income	—	—	77,487,589
Gain on redemption of preferred stock	—	—	42,565,500
Income from defaults	—	—	5,712,468
Administrative fee	—	—	82,420,594
Recoveries of previously written-off receivables	—	—	4,241,071
Foreign exchange gain (loss)	(13,574,385)	81,523,509	10,416,781
Miscellaneous	48,222,373	55,299,578	37,657,510
	₱153,940,318	₱236,185,117	₱418,229,133

Administrative fee pertains to fees received by the Parent Company as compensation for the services they performed as a third party for the processing of bills of PLDT, SMART and regular purchases of its affiliates in the Yuchengco Group of Companies (YGC). In 2017, administrative fees were recognized as other income. Whereas effective 2018, these fees are recognized under sale of services.

Interest income consists of income from:

	January to September 30		
	2019	2018	2017
Cash in banks and short-term investments	₱29,345,390	₱10,991,597	₱ 13,502,555
Installment contract receivable	9,200,942	12,480,758	37,972,378
Interest on loans receivable	-	7,145,711	-
Receivable from related parties	275,793	158,421	236,835
Receivable from EEI-RFI	4,502,604	6,022,321	7,549,479
Others	7,954,400	3,513,294	1,468,626
	₱51,279,129	₱40,312,102	₱60,729,873

26. Costs of Sales and Services

This account consists of:

	January to September 30		
	2019	2018	2017
Cost of services (Note 28)			
Cost of construction contracts	₱13,284,526,417	₱12,799,529,865	₱ 8,035,361,469
Cost of manpower and other services	1,363,231,035	1,258,353,578	1,103,662,430
	14,647,757,452	14,057,883,443	9,139,023,899
Cost of goods sold			
Cost of merchandise sold (Note 27)	4,859,603,755	5,278,701,987	6,566,291,348
Cost of real estate sold	25,697,265	28,437,470	17,037,937
	4,885,301,020	5,307,139,457	6,583,329,285
Cost of tuition and other fees (Note 29)	1,379,564,170	941,681,196	943,837,258
	₱20,912,622,642	₱20,306,704,096	₱16,666,190,442

27. Costs of Merchandise Sold

This account consists of:

	January to September 30		
	2019	2018	2017
Inventory, beginning	₱2,419,424,674	₱763,375,097	₱1,204,021,355
Purchases	5,226,517,098	5,811,153,266	6,299,340,771
Total goods available for sale	7,645,941,772	6,574,528,363	7,503,362,126
Less inventory end	2,786,338,017	1,295,826,376	937,070,778
	₱4,859,603,755	₱5,278,701,987	₱6,566,291,348

28. Costs of Services

This account consists of:

	January to September 30		
	2019	2018	2017
Cost of construction contracts			
Labor	₱6,268,364,307	₱4,885,584,406	₱2,739,086,125
Materials	3,710,549,471	1,876,549,541	3,055,090,657
Equipment costs and others	2,998,408,418	5,645,931,912	1,855,382,516
Depreciation and amortization	307,204,221	391,464,006	385,802,171
	13,284,526,417	12,799,529,865	8,035,361,469
Cost of manpower and other services			
Personnel expenses	605,155,817	571,120,901	468,772,279
Materials	345,477,945	325,637,203	175,815,525
Parts and accessories	257,231,972	228,603,202	321,391,057
Depreciation and amortization	392,123	684,356	541,568
Others	154,973,178	132,307,916	137,142,001
	1,363,231,035	1,258,353,578	1,103,662,430
	₱14,647,757,452	₱14,057,883,443	₱9,139,023,899

29. Cost of Tuition and other fees

This amount consists of:

	January to September 30		
	2019	2018	2017
Personnel expenses	₱634,119,719	₱445,069,722	₱431,605,281
Depreciation and amortization	183,893,926	146,993,265	142,598,423
Student-related expenses	139,492,827	79,522,236	106,959,454
Management and other professional fees	94,888,370	84,884,530	82,700,206
Utilities	91,424,565	62,124,515	63,814,519
IT Expense - Software License	32,284,348	25,333,168	18,679,954
Tools and library books	29,979,118	20,377,798	18,152,703
Rent	32,314,688	369,175	541,117
Periodicals	24,094,883	15,717,102	13,929,327
Repairs and maintenance	20,935,795	11,622,838	8,697,890
Research and development	10,541,304	8,267,622	10,059,642
Seminar	13,320,907	11,585,750	14,186,323
Advertising	11,166,594	6,041,224	4,884,000
Accreditation cost	11,310,641	6,741,739	6,604,848
Office supplies	10,950,554	5,888,716	4,693,310
Insurance	7,954,555	4,286,767	5,126,713
Laboratory supplies	5,018,804	3,126,133	6,537,009
Taxes and licenses	1,874,743	1,254,282	1,281,502
Entertainment, amusement and recreation	1,438,361	107,890	287,154
Transportation and travel	1,332,871	1,044,158	933,345
Miscellaneous	21,226,597	1,322,566	1,564,538
	₱1,379,564,170	₱941,681,196	₱943,837,258

30. General and Administrative Expenses

This account consists of:

	January to September 30		
	2019	2018	2017
Personnel expenses	₱807,546,352	₱691,794,739	₱618,374,418
Taxes and licenses	269,931,708	137,104,830	89,138,981
Rent, light and water	95,460,146	193,653,623	177,568,605
Depreciation and amortization	295,896,857	165,684,722	142,007,269
Transportation and travel	69,204,090	65,759,205	55,297,967
Professional fees	59,133,857	61,505,046	44,901,830
Securities and utilities	48,353,934	39,524,948	40,759,336
Repairs and maintenance	59,516,980	32,932,071	21,590,689
Management and other fees	56,032,525	32,922,778	24,335,128
Entertainment, amusement and recreation	39,943,307	36,573,232	50,466,252
Direct expenses	25,603,554	21,529,493	11,082,431
Insurance	22,450,485	17,766,513	19,119,794
Donations and contributions	13,103,360	4,301,760	12,484,756
Commissions	15,953,260	17,675,268	19,761,458
Office expenses	20,357,324	16,686,015	20,107,827
Seminars	12,057,653	2,159,865	1,221,051
Accreditation cost	114,027	35,000	-
Provision (recovery) for inventory obsolescence	-	(800,000)	(1,390,000)
Provision for probable losses	(20,972,349)	142,621,753	1,874,646
Miscellaneous	165,516,231	136,152,203	134,738,876
	₱2,167,221,199	₱1,872,574,323	₱1,579,764,774

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

31. Depreciation and amortization

This account consists of:

	January to September 30		
	2019	2018	2017
Cost of construction contracts (Note 28)	₱307,204,221	₱391,464,007	₱385,802,172
General and administrative expenses (Note 30)	165,516,232	136,152,204	134,738,876
Cost of school and related operations (Note 29)	183,893,926	146,993,265	142,598,423
Cost of manpower and other services (Note 28)	392,122	684,355	541,567
	₱657,006,501	₱675,293,831	₱663,681,038

32. Interest and Finance Charges

This account consists of:

	January to September 30		
	2019	2018	2017
Loans payable	₱486,546,910	₱207,085,668	₱89,481,328
Long-term debt	54,274,077	89,524,239	107,983,167
Interest on Lease liabilities	54,001,892	-	-
Advances to affiliates and other finance charges	6,621,650	2,860,729	2,479,333
	₱601,444,529	₱299,470,636	₱199,943,828

33. Contingencies and commitments

Contingencies

Provisions and Contingencies

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

The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of pending litigations.

Lease Commitments

Operating lease - Group as a lessor

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

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

	2019	2018
Within one year	₱1,750,332	₱1,750,332
More than one year but not more than five years	4,005,587	4,005,587
Later than five years	1,369,753	1,369,753
	₱7,125,672	₱7,125,672

34. Noncontrolling Interest

Noncontrolling interest in consolidated subsidiaries represents shareholdings in subsidiaries not held by the Group.

Dividends paid to noncontrolling interest in consolidated subsidiaries amounted to ₱122.0 million, ₱42.05 million and ₱48.48 million as at September 30, 2019, 2018 and 2017, respectively.

35. Business Combination and Transactions with Non-Controlling Interests

On October 1, 2018, the Board of Directors (BOD) of the iPeople, inc., executed a memorandum of agreement (MOA) for a proposed Plan of Merger between the Parent Company and AC Education, Inc. (AEI), the wholly owned education arm of Ayala Corporation (AC), with iPeople as the surviving entity. The merger would bring together the educational arms of HI and AC.

On May 02, 2019, the merger by and between the Company and of AC Education became effective. iPeople, being the surviving corporation is deemed to have acquired all the assets and to have assumed all the liabilities of AC Education, Inc. In exchange for the transfer of the net assets of AEI to iPeople, iPeople issued to the shareholders of AEI an aggregate of 295,329,976 shares with a total par value of P295.33 million.

Assets acquired from AEI includes investments in the following subsidiaries:

Subsidiaries	Ownership Interest
Affordable Private Education Center, Inc. doing business under the name of APEC Schools ("APEC")	100.00%
National Teachers College doing business under the name/s and style/s of The National Teachers College ("NTC")	99.79%
University of Nueva Caceres ("UNC")	58.63%
AC College of Enterprise and Technology, Inc. ("ACCET")	100.00%
LINC Institute, Inc. Doing Business under the Name and Style of LINC Academy ("LINC")	100.00%

The purchase price allocation has been finalized. The values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (in thousands):

Assets	
Cash	₱1,291,390
Trade and other receivables	231,218
Other current assets	191,513
Property, plant and equipment	2,786,273
Intellectual property (Note 16)	523,103
Student relationship (Note 16)	116,009
Other noncurrent assets	80,210
	<u>5,219,919</u>
Liabilities	
Accounts and other payables	319,124
Loans payable	260,000
Deferred tax liabilities	432,946
Other liabilities	85,924
	<u>1,097,885</u>
Net Assets	<u>4,122,034</u>
Non-controlling interest (11.8%)	(537,519)
Goodwill (Note 14)	6,698
Cost of acquisition	<u>₱3,591,213</u>

The fair value of the receivables approximates their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

36. Operating Segment Information

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

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

The Group derives its revenues from the following reportable segments:

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

Property Services - represents property and project management services of the Group.

Education - primarily consists of revenues from iPeople and subsidiaries (including MCI) in education, consulting, development, installation and maintenance of information technology systems.

Car Dealership - represents automotive dealerships of the Group.

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

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

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

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

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

House of Investments, Inc. and Subsidiaries
Unaudited Operating Segment
For the Quarters Ended September 30, 2019 and 2018 and December 31, 2018

	Construction and Infrastructure		Car Dealership		Education		Property Services		Others		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenues	16,837,049,737	15,851,993,776	5,671,188,298	6,166,286,034	2,001,362,315	1,274,987,290	210,331,098	187,899,262	578,777,687	386,295,549	(709,704,949)	(505,834,839)	24,589,004,186	23,361,627,072
Net Income (Loss)	800,418,084	686,957,559	(38,091,266)	36,484,539	147,226,120	132,310,887	67,652,015	60,883,299	1,232,567,345	511,229,219	(1,056,628,411)	(220,798,770)	1,153,143,887	1,196,709,916
Other Information														
Segment Assets	26,578,855,645	22,454,498,466	3,091,735,404	3,473,018,137	15,615,110,355	9,972,490,290	212,024,900	189,591,553	5,348,401,014	4,569,298,154	(868,204,472)	(1,057,813,518)	49,472,464,846	39,601,083,082
Segment Liabilities	18,288,846,054	14,742,554,377	1,853,470,525	2,159,023,404	5,762,711,820	3,558,929,982	153,285,528	137,504,196	385,727,517	1,067,700,330	(217,800,074)	(236,418,443)	26,226,241,371	21,429,293,847
Investments in Associates	2,543,165,932	2,254,714,490	-	-	-	-	5,750,000	5,750,000	4,322,359,515	4,369,132,576	(867,559,386)	(1,123,642,066)	6,003,716,061	5,505,955,000

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON
SRC RULE 68 AS AMENDED
September 30, 2019

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68, as Amended (2011), that are relevant to the Group. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Schedule A. Financial Assets in Equity Securities

The Group is not required to disclose the financial assets in equity securities as the equity investments at fair value through other comprehensive income (FVOCI) amounting ₱1,057.26 million do not constitute 5% or more of the total current assets of the Group as at September 30, 2019.

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

Below is the schedule of advances to employees of the Group with balances above ₱100,000 as of September 30, 2019:

Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of period
<i>EEI Group</i>				
Macapagal, Norman K.	₱1,532,054	₱ -	₱ -	₱1,532,054
Realin, Marco, Dindo H.	668,405	-	-	668,405
Narzoles, Laila L.	695,610	-	(65,483)	630,127
Esguerra, Christopher F.	-	650,000	(30,000)	620,000
Marcos, Danilo A.	-	560,000	-	560,000
Nacpil, Almario R.	348,384	-	-	348,384
Torres, Joel R.	324,000	-	(9,513)	314,487
Martirez, Lucio F.	-	300,000	-	300,000
Puyat, Gil S.	280,002	-	-	280,002
Bukas, Alex P.	-	275,065	-	275,065
Dolaoco, Regner Jose M.	-	271,983	-	271,983
Bancosta, Edsil B.	-	250,000	-	250,000
Alcaraz, Jimmy S.	-	242,350	-	242,350
Tutor, Ritchel R.	271,971	-	(40,255)	231,716
Delos Santos, Benjamin R.	-	227,296	-	227,296
Poblete, Daisy J.	-	225,328	-	225,328
De Castro, Ma. Lourdes H.	-	217,968	-	217,968
Demetillo, Allan G.	-	212,662	-	212,662
De Guzman, Alvin R.	212,055	-	-	212,055
Castillo, Noemi P.	-	201,164	-	201,164
Ander Jr., Herminio R.	200,000	-	-	200,000
Forcadas, Eleanor A.	-	200,000	-	200,000
Meñez, Jefferson DG.	-	200,000	-	200,000
Herrera, Gaudencio M.	191,209	-	-	191,209
Beltran, Millard D.	-	178,377	-	178,377
Aquino, Perpetua Rita Karel	-	175,719	-	175,719
Madarang, Lito O.	173,929	-	-	173,929
Domingo, Remy R.	168,183	-	-	168,183
Jimenez, Marivic J.	-	164,157	-	164,157

Forward

Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of period
Francia, Melito M.	163,504	-	-	163,504
Destacamento, Noel M.	162,119	-	-	162,119
Villanueva, Cirilo D.	159,228	-	-	159,228
Mapalad, Virgilio S.	157,459	-	-	157,459
Sumastre, Elizabeth M.	237,740	-	(80,545)	157,195
Villania, Junard I.	151,492	-	-	151,492
Buensalida, Wilfredo N.	-	151,029	-	151,029
Orillo, Raymundo P.	-	147,688	-	147,688
Almajeda, Rodrigo J.	-	144,944	-	144,944
Pagara, Mario A.	-	142,755	-	142,755
Rana, Ricardo H.	-	133,063	-	133,063
Rempillo, Jose R.	-	130,590	-	130,590
Ramas, Hermesio G.	-	126,730	-	126,730
Frane, Pio F.	-	126,264	-	126,264
Tamos Jr., Eduardo C.	157,500	-	(35,000)	122,500
Sevilla, Exequiel E.	122,416	-	-	122,416
Bayeta, Eddie S.	118,324	-	-	118,324
Bognalos, Celso B.	-	117,284	-	117,284
Gapasin, Jorge Timothy T.	151,268	-	(41,000)	110,268
Izar, Juan D.	-	109,660	-	109,660
Burgos, Manuel B.	108,150	-	-	108,150
Montecalvo, Dennis S.	108,115	-	-	108,115
Espiritu, Jaime S.	107,784	-	-	107,784
Satur, Salustiano O.	106,947	-	-	106,947
Chan, Eric J.	106,597	-	-	106,597
Villanueva, Jose P.	103,915	-	-	103,915
Cuaresma, Jovito O.	-	102,886	-	102,886
Penas, Abrilleno F.	126,120	-	(24,000)	102,120
Bundalian, Rolando S.	101,760	-	-	101,760
Macabenta, Danilo P.	-	100,730	-	100,730
Agtoto, Jerry O.	100,000	-	-	100,000
Padrique, Danilo N.	100,000	-	-	100,000
	₱7,716,240	₱6,085,692	(₱325,796)	₱13,476,136

iPeople Group

Arenillo, Denise Jordan	₱389,198	₱ -	(₱60,973)	₱328,225
Macayan, Jonathan	380,867	-	(59,100)	321,767
Uy, Francis Aldrine	366,762	-	(59,475)	307,287
Teodoro, Gloria	331,500	-	(58,500)	273,000
Tiongco, Danilo R.	324,411	-	(69,517)	254,894
Caparanga, Alvin	318,500	-	(58,500)	260,000
Camacho, Margarita	311,659	-	(64,556)	247,103
Robielos, Rex Aurelius	299,600	-	(56,175)	243,425
Hofilena, Joy	298,854	-	(56,625)	242,229
Kikuchi, Khristian	298,854	-	(56,625)	242,229
Medrano, Anthony H.	295,708	-	(56,625)	239,083
Salayo, John Vincent	295,708	-	(44,042)	251,666
Austria, Maria Rhodora	287,117	-	(56,175)	230,942
Costales, Aloysius Nathaniel	259,751	-	(97,437)	162,314
Lanuza, Dionisia	238,500	-	(47,700)	190,800
Sabino, Lilibeth	234,967	-	(55,650)	179,317
Agbulos, Erlin C.	223,453	-	(67,026)	156,427
Gochioco, Geraldine	220,851	-	(60,640)	160,211
Salvacion, Jonathan	212,461	-	(55,425)	157,036
Songsong, Maribel	198,400	-	(55,800)	142,600
Tablante, Dennis H.	138,233	-	(28,275)	109,958
Doma, Bonifacio T. Jr.	137,569	-	(28,463)	109,106
Manuel, Mark Christian	-	394,000	(45,967)	348,033

Forward

Name	Balance at beginning of year	Additions	Collections/Liquidations	Balance at end of period
Quisaot, Concordio	-	394,000	(39,400)	354,600
Lopez, Jonathan	-	398,720	(28,861)	369,859
Agapito, Benigno Jr.	-	381,500	-	381,500
Manuel, Mark Christian	-	394,000	-	394,000
Quisaot, Concordio	-	394,000	-	394,000
Yap, Maria Elizabeth	-	537,600	-	537,600
	₱6,062,923	₱2,893,820	(₱1,367,532)	₱7,589,211
<i>HI-Parent</i>				
Monserate, Lalaine Pena	₱421,310	₱40,335	(₱132,736)	₱328,910
Liwliwa, Grace Del Rosario				
Valencia	-	470,196	(9,045)	461,151
Medina, Maricar M.	395,989	39,252	(77,331)	357,910
Estrella, Joselito D.	331,554	34,820	(76,427)	289,946
Fabi, Sharon O.	297,423	12,201	(61,942)	247,681
Rafael, Victor.	280,808	31,849	(63,767)	248,890
Bautista, Maria Teresa	250,044	46,944	(102,802)	194,187
Panelo, Danilo P	263,173	19,235	(88,621)	193,787
Cacho, Chona B.	234,110	16,059	(74,328)	175,842
Nuguid, Marissa P.	230,614	9,396	(60,589)	179,421
De Lara, Ma. Elisa	221,617	10,436	(86,890)	145,163
	₱2,926,642	₱730,723	(₱834,478)	₱2,822,888
Total	₱16,705,805	₱9,710,235	(₱2,527,806)	₱23,888,235

iPeople and HI-Parent's advances mainly pertain to the officers and employees car plan agreement between the Company and its officers. Such advances are interest-bearing and are liquidated on a monthly basis.

There were no amounts written off during the year. All receivables are expected to be collected within the next twelve months.

Schedule C. Amounts Receivable from/Payable to Related Parties which are eliminated during the Consolidation of Financial Statements

Below is the schedule of receivables (payables) with subsidiaries, which are eliminated in the consolidated financial statements as at September 30, 2019:

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Balance at end of period
<i>Landev Corporation</i>					
Due from affiliates	₱217,396	₱2,063,385	(₱1,579,180)	₱-	701,601
Dividends receivable	23,000,097	45,000,000	(30,499,953)	-	37,500,144
	23,217,493	47,063,385	(32,079,133)	-	38,201,745
<i>Greyhounds Security and Investigation Agency Corporation</i>					
Due from affiliates	48,459	3,192,648	(2,656,923)	-	584,184
<i>Investment Managers, Inc.</i>					
Due from affiliates	831,974	4,735,334	(5,041,009)	-	526,299
Dividends receivable	-	-	-	-	-
	831,974	4,735,334	(5,041,009)	-	526,299
<i>iPeople, inc. and subsidiaries</i>					
Due from affiliates	9,072,771	59,333,097	(56,841,059)	-	11,564,809
Dividends receivable	42,366,445	37,163,366	(79,529,811)	-	-
	51,647,992	96,496,463	(136,370,870)	-	11,564,809
<i>EEl Corporation and subsidiaries</i>					
Due from affiliates	2,561,012	2,018,040	(4,177,974)	-	250,701
Dividends receivable	-	112,688,669	(112,688,669)	-	-
	112,939,370	114,706,709	(116,866,643)	-	250,701

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Balance at end of period
<i>La Funeraria Paz Sucat, Inc.</i>					
Due from affiliates	612,893	4,090,095	(4,702,907)	–	81
<i>Zambowood Realty and Development Corp</i>					
Due from affiliates	532	1,210	–	–	1,742
<i>Zamboanga Carrier Inc</i>					
Due from affiliates	1,803	740	–	–	2,543
<i>Xamdu Motors, Inc.</i>					
Due from affiliates	100	290	–	–	390
	₱78,100,590	₱266,196,780	(₱293,014,579)	–	₱51,282,791

These receivables are non-interest bearing and are expected to be settled within the next twelve months.

Schedule D. Intangible Asset - Other Noncurrent Assets

As at September 30, 2019, the Group's intangible assets consist of goodwill and computer software. Goodwill in the Group's consolidated statements of financial position arose from the acquisition of EEI, iPeople, and Honda Cars Group. Details of the Group's intangible assets are as follows:

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	₱471,357,459	₱ 6,698,465	₱–	₱–	₱–	₱ 478,055,924
Computer Software	14,298,226	7,473,204	(4,827,745)	–	–	16,943,685
	₱485,655,685	₱14,171,669	(4,827,745)	₱–	₱–	₱494,999,609

Schedule E. Long-term Debt

Below is the schedule of long-term debt of the Group:

Type of Obligation	Amount	Current	Noncurrent
Parent Company			
Peso-denominated five (5) year term loan, payable quarterly starting March 2016 with interest of 5.11% per annum	125,000,000	100,000,000	25,000,000
MCM			
Peso-denominated term loan, payable within January 11, 2019 to January 11, 2029 subject to floating rate equivalent to 5-year Philippine Dealing System Treasury Reference Rates (PDST-R2) plus a per annum spread of 0.50%.	1,500,000,000	–	1,500,000,000
NTC			
Peso-denominated seven (10) year term loan, payable in 28 quarterly payments starting May 2022 which are subject to variable interest rates.	380,000,000	–	380,000,000
EEI			
Fixed-rate corporate promissory notes with effective interest of 5.1875% on first draw down, 5.1667% on second draw down and 4.8% on subsequent draw downs as of May 2015 per annum for seven (7) years.	1,666,666,667	880,952,381	785,714,286

BIOTECH JP

Yen-denominated five (5) year, 2.5 year term and 6 month term loan, with interest rate of 0.05% per annum, 0.30% per annum and 2.45% per annum, respectively	82,003,657	47,550,000	34,453,657
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EEI Power

Peso-denominated seven (7) year term loan, payable quarterly starting September 2014 with interest of 6.50% per annum inclusive of two (2) year grace period on principal amortization	214,285,714	71,428,571	142,857,143
	₱3,967,956,038	₱1,099,930,952	₱2,868,025,086

Schedule F. Indebtedness to Related Parties (Long-term Loans from Related Companies)

As at September 30, 2019, the Group has no long-term loans from its related parties.

Schedule G. Guarantees of Securities of Other Issuers

There are no guarantees of securities of other issuing entities by the Group as at September 30, 2019.

Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related statement of financial position caption	Number of shares held by related parties	Directors, Officers and Employees	Others
Common shares	1,250,000,000	616,007,349	294,759,570	2,286,920	318,960,859
Preferred shares	2,500,000,000	618,493,253	232,024,666	—	386,468,587

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND
DECLARATION
FOR THE QUARTER ENDED SEPTEMBER 30, 2019**

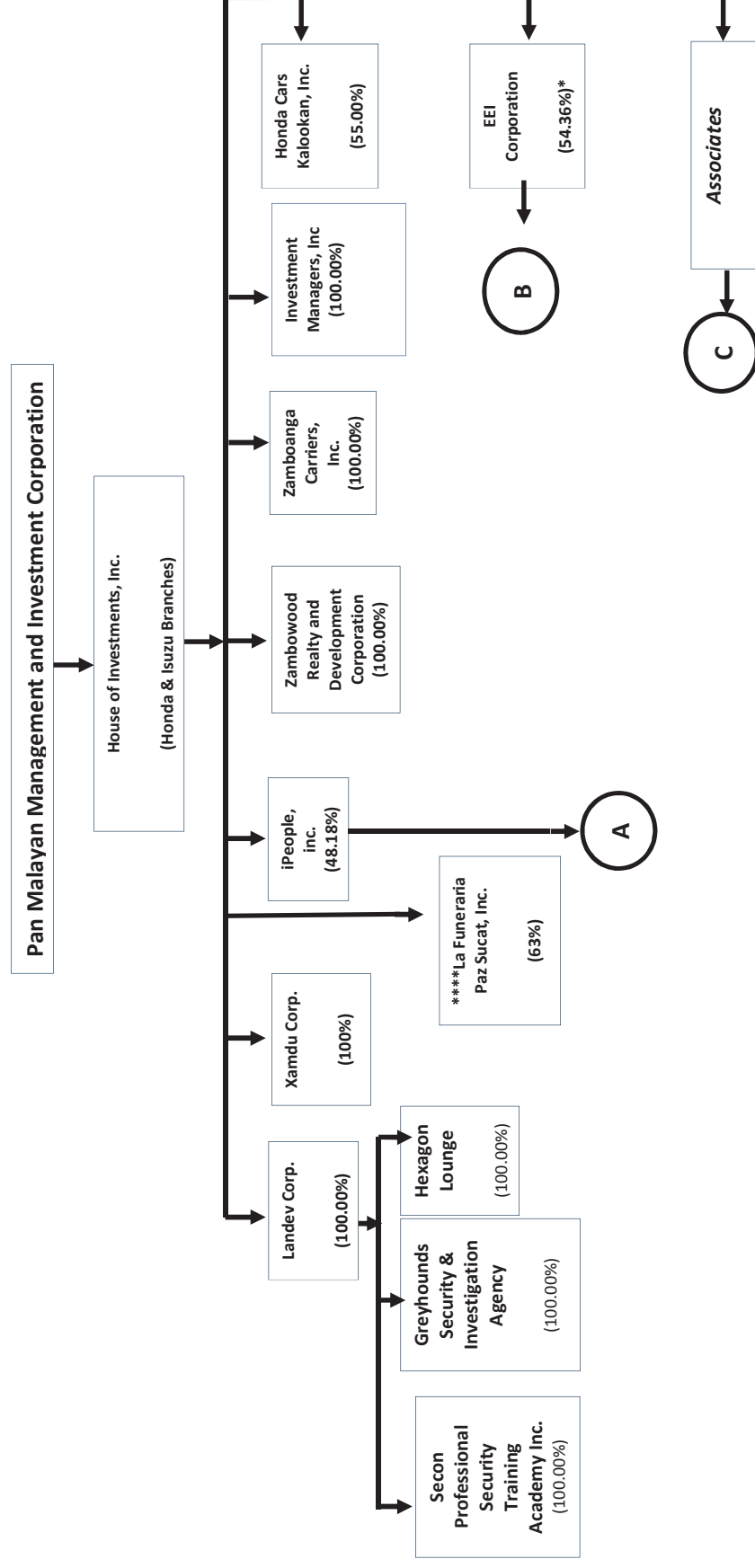
Unappropriated retained earnings, beginning	₱2,914,976,850
Less: Deferred tax asset	-
Treasury shares	(2,607,600)
Add: Impact of PFRS 16 adoption	(30,638,587)
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning	2,881,730,663
Appropriation	(2,100,000,000)
Net income during the year closed to retained earnings	879,906,079
Less movement in deferred tax asset that increased net income	-
Net income actually earned during the period	879,906,079
Dividend declared	(59,907,103)
UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, ENDING	₱1,601,729,639

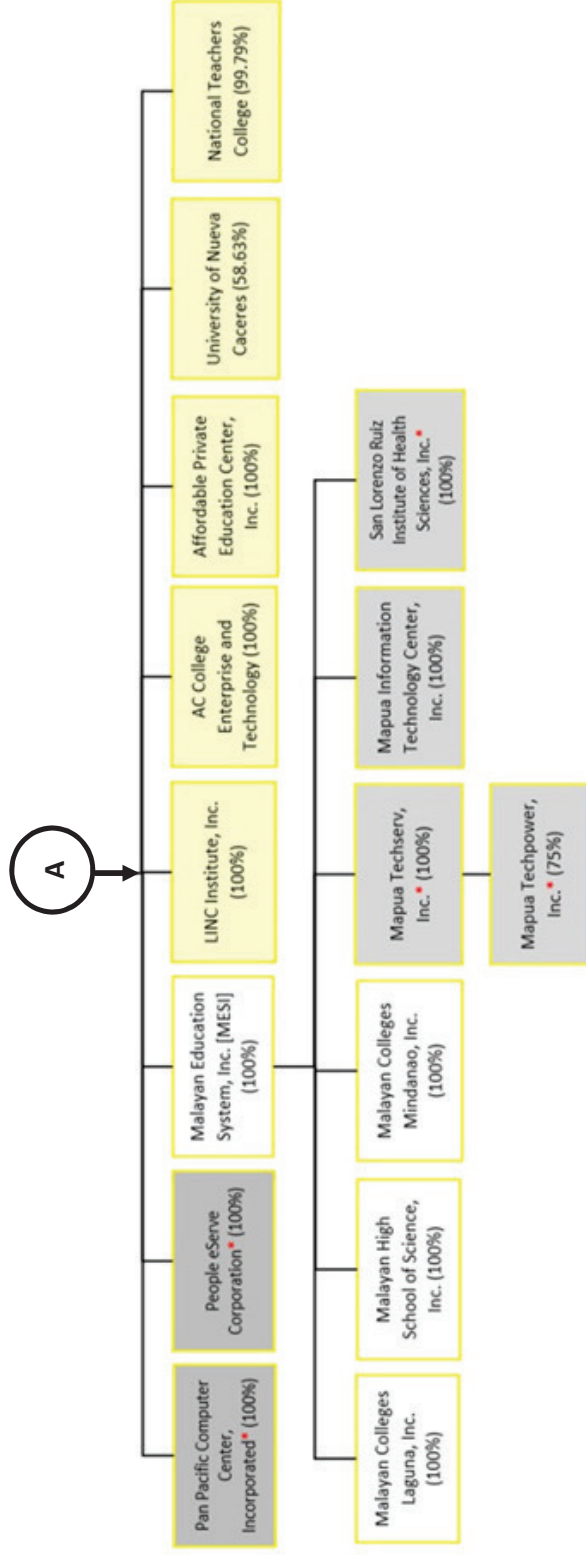
HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

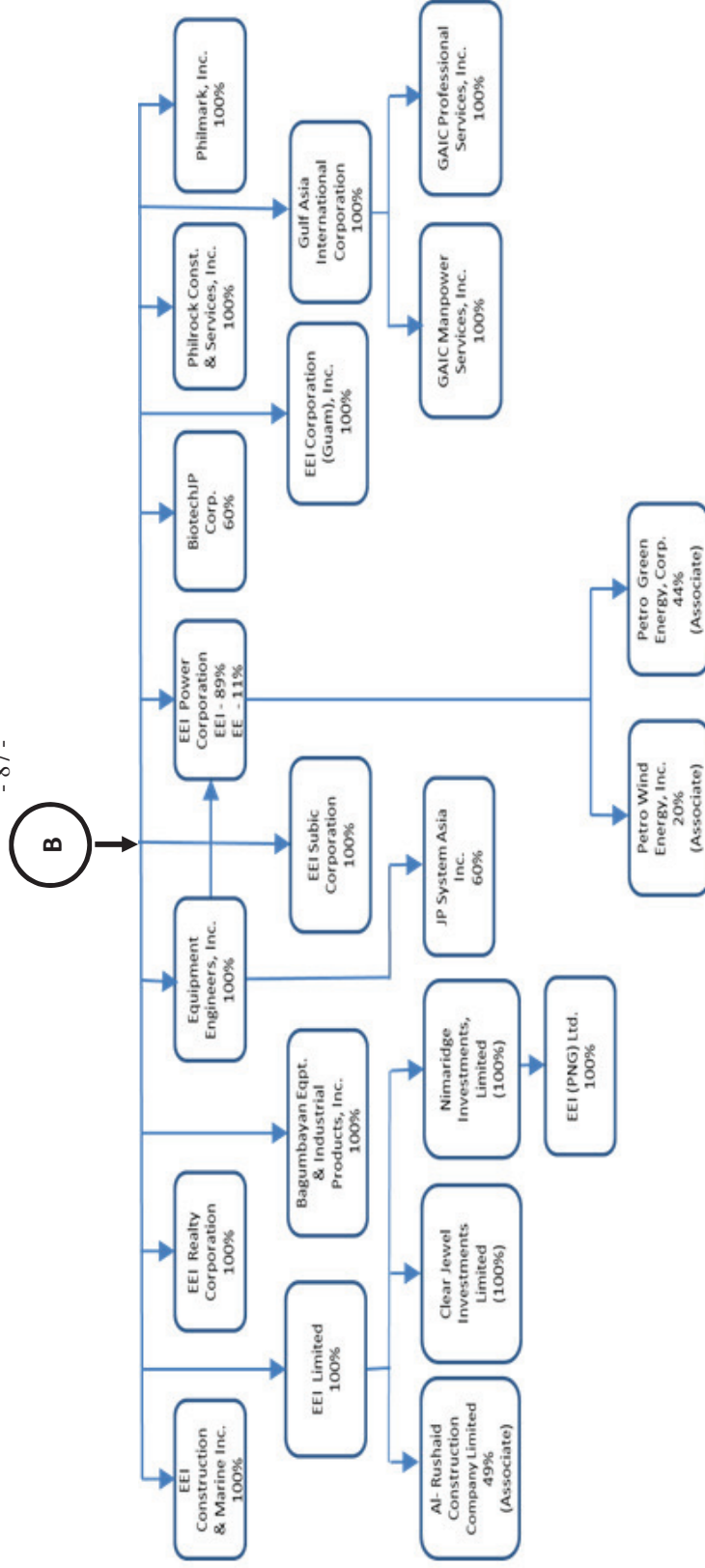
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

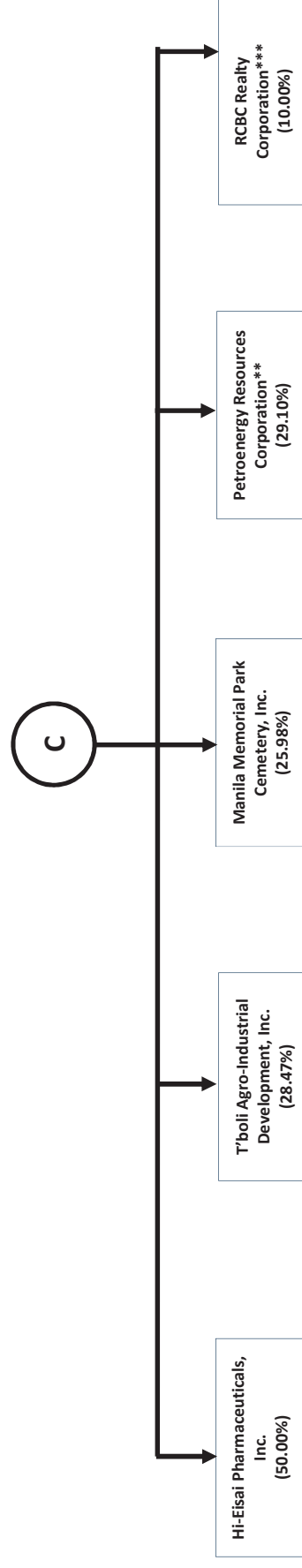
Group Structure

Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as of September 30, 2019:









* In 2015, the Group purchased additional 41.9 million shares resulting to an increased ownership interest from 50.32% to 54.36%.

** On February 21, 2013, significant influence was obtained through piecemeal acquisition. In 2014, the Group purchased additional 6.6 million shares of PERC increased ownership interest from 20.00% to 22.41%. In February 2, 2018, the Parent Company purchased additional 69,285,418 shares amounting to P332.6M from stock rights offering, which increased ownership to 28.36%. In April 2019, the Parent Company purchased 4,153,651 shares which increased ownership to 29.10%.

*** On September 17, 2013, the Group acquired 10.00% ownership in RRC. The Group was able to exercise significant influence since it has the capacity to participate in the financial and operating decisions of RRC through common key management and representation to the Board of Directors.

**** On March 1, 2019, the Parent Company purchased additional 90,000 LFPSI for P25.0 million resulting to an increase in ownership interest from 37.50% to 50.0%. Effective ownership resulting from this transaction increased to 63%.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PFRS AS OF SEPTEMBER 30, 2018

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of September 30, 2019:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
	Estimates and Errors			
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			✓
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine	Introduction of the Euro			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
Interpretation SIC-7				
Philippine Interpretation SIC-10	Government Assistance-No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases-Incentives	✓		
Philippine Interpretation SIC-25	Income Taxes-Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets-Web Site Costs			✓

Standards tagged as “Not applicable” have been adopted by the Group but have no significant covered transactions.

Standards tagged as “Not adopted” are standards issued but not yet effective as of September 30, 2019. The Group will adopt the Standards and Interpretations when these become effective.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**AGING OF ACCOUNTS RECEIVABLE****FOR THE QUARTER ENDED SEPTEMBER 30, 2019**

	TOTAL	No. of days due		
		0-30	31-60	Over 61 days
Construction	₱5,087,380,562	₱1,594,884,000	₱2,636,191,000	₱856,305,562
Car Dealership	593,396,328	412,648,217	93,430,923	87,317,188
Education and Information				
Technology	880,289,321	504,706,402	119,046,767	256,536,153
Parent and Others	681,689,163	401,206,963	138,178,752	142,303,447
Total	7,242,755,374	2,913,445,582	2,986,847,442	1,342,462,350
Less: Allowance for doubtful accounts	(301,209,696)	–	–	(301,209,696)
	₱6,941,545,678	₱2,913,445,582	₱2,986,847,442	₱1,041,252,654

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and the Revised Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereto duly authorized, in the City of Makati on November 14, 2019.

IN WITNESS WHEREOF, we have hereunto affixed our signatures and the seal of the Corporation this 14th day of November, 2019 at Makati City.

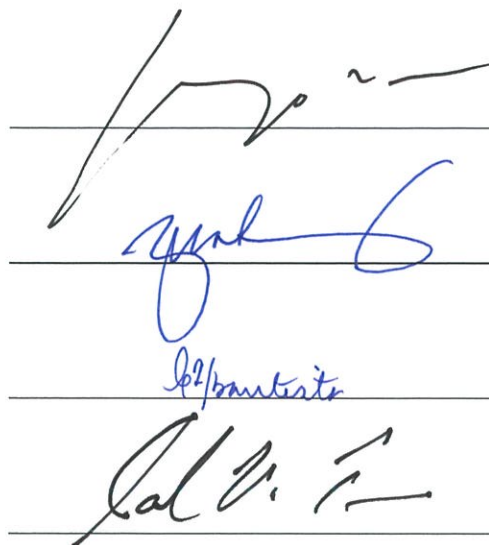
By:

Lorenzo V. Tan
President & CEO

Gema O. Cheng
EVP- COO, CFO & Treasurer

Maria Teresa T. Bautista
VP –Controller

Atty. Samuel V. Torres
Corporate Secretary



NOV 14 2019

SUBSCRIBED AND SWORN to before me this ____ day of November, 2019, at
MAKATI CITY. Affiant exhibited to me their Residence Certificate Numbers indicated below
each name.

Names	Document No.	Date & Place of Issue/Expiration
Lorenzo V. Tan	P4549834A	09-29-2017 Manila / 09-28-2022
Gema O. Cheng	DL#N06-84-036923	12-14-2017 Mandaluyong / 12-08-2022
Maria Teresa T. Bautista	DL#6-92-094899	11-23-2017 Makati / 11-23-2022
Atty. Samuel V. Torres	DL#13-83-001463	11-08-2017 QC / 11-10-2022

Doc. No. 46 ;
Page No. 10 ;
Book No. 288 ;
Series of 2019

ATTY. JOSHUA P. LAPUZ
Notary Public Makati City
Until Dec. 31, 2019
Appointment No. M-82-(2018-2019)
PTR No. 7333076 / Jan. 3, 2019/Makati
IsP Lifetime No. 04897 /7-3-2003 /Roll No. 45790
MCLE Compliance No. VI-0016565 /1-14-19
101 Urban Ave. Campos Rueda Bldg.
Drgy. Pio Del Pilar, Makati City