ANNEX “D”

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

AND

REPORT OF INDEPENDENT AUDITOR

HI

HOUSE OF INVESTMENTS, INC.

A YGC Member

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of House of Investments, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

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

HELEN Y. DEE
Chairman of the Board

LORENZO V. TAN
President and Chief Executive Officer

GEMA O. CHENG
EVP - COO/Chief Financial Officer & Treasurer

SUBSCRIBED AND SWORN TO BEFORE ME THIS DAY OF JUN 26 2020 AT CITY OF MAKATI AFFIANT EXHIBITED HIS/HER COMMUNITY TAX CERTIFICATE NO. ______ ISSUED ON ______ ISSUED AT ______

JOSHUA P. LAPUZ
Notary Public for Makati City
Appointment No. M-66 / Until 12-31-2021
Roll No. 45790 / IBP Lifetime No. 04897 / 7-3-03
PTR O.R. No. 8116016 / 1-2-20 / Makati City
MCLE No. VI-0016565 / 1-14-19
G/F, Fedman Suites, 199 Salcedo St.
Legazpi Village, 1229 Makati City

Signed this 22nd day of May, 2020

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SERIES OF 2020

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of House of Investments, Inc. (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recognition of revenue from construction contracts

More than 60% of the Group's revenue are derived from construction projects on electro-mechanical works, industrial, buildings and infrastructure. The Group assessed that there is only one performance obligation for each construction agreement that it has entered and that revenue arising from such agreements qualify for recognition over time. The Group also recognized as part of its construction revenue, the effects of variable considerations arising from various change orders and claims, to the extent that they reflect the amounts the Group expects to be entitled to and to be received from the customers, provided that it is highly probable that a significant reversal of the revenue recognized in connection with these variable considerations will not occur in the future. The Group elected to use the input method to measure the progress of the fulfilment of its performance obligation, which is based on the actual costs incurred to date relative to the total estimated cost to complete the construction projects.

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

The Group's disclosures about construction revenue are included in Notes 4 and 23 to the consolidated financial statements.

Audit response

We inspected sample contracts and supplemental agreements and reviewed management's assessment on the identification of performance obligation within the contract and the timing of revenue recognition. Where construction revenue includes significant effects of the variable considerations, we obtained an understanding of the management's process to estimate the amount of consideration expected to be received from the customers. For change orders and claims of sample contracts, we compared the amounts approved by the customers against the amounts estimated by management to be received from those customers.

For the measurement of progress of the construction projects, we tested actual costs incurred by examining invoices and other supporting third party correspondence on a sampling basis. We also considered the competence, capabilities and objectivity of the Group's cost engineers by referring to their qualifications, experience and reporting responsibilities. We conducted ocular inspections on selected sample projects and discussed the status of the projects under construction with the Group's engineers.

We inspected the related project documentation and inquired about the significant deviations from the targeted completion.

Accounting for investment in Al-Rushaid Construction Company Ltd.

The Group owns 49% equity interest in Al-Rushaid Construction Company Ltd. (ARCC), associate accounted for under the equity method. As of December 31, 2019, ARCC recognized deferred tax asset on net operating loss carryover of ₱347.29 million. We consider the accounting for the results and investment in ARCC as a key audit matter because the Group's share in ARCC's net earnings and the carrying value of the investment represents 13% of Group's consolidated net income and 2% of the Group's total consolidated assets, respectively. In addition, management's assessment process on the recoverability of the tax loss is based on assumptions, which are affected by expected future market or economic conditions.

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

Audit response

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

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

The Group has unquoted equity investments classified as equity investments at fair value through other comprehensive income (FVOCI) amounting to ₱1.0 billion, comprising 2% of total consolidated assets as at December 31, 2019. The valuation of these investments is significant to our audit because it is inherently subjective as it involves the use of valuation inputs that are not market observable. Management also applied judgment in selecting the valuation technique and the assumptions to be used.

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

Audit response

We evaluated the competence, capabilities and qualifications of the external valuers by considering their qualifications, experience and reporting responsibilities. For the unquoted equity instrument valued using the market approach, we inquired from the external appraiser the basis of the adjustments made to the sales price. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of unquoted equity investment valued using earnings-based approach. The key assumption used is the discount rate. We tested the parameters used in the determination of the discount rate against market data. We compared the fair value of the investment in against a range of values determined using earnings-based approach. We also reviewed the Group's disclosures about those assumptions to which the outcome of the valuation is most sensitive; specifically, those that have the most significant effect on the determination of the fair value of the unquoted equity investments.

Accounting for the merger of iPeople, inc. (IPO) and Ayala Education, Inc. and assessment of the nature of the control exercise over IPO with regard to PFRS 10, Consolidated Financial Staements

On April 24, 2019, the Securities and Exchange Commission (SEC) approved the merger between IPO and AC Education Inc. (AEI), with IPO as the surviving entity, and to take effect five business working days thereafter or May 2, 2019. On the said date, IPO issued 295,329,976 common shares from its unissued capital stock for a total fair value of ₱3,591.2 million to Ayala Corporation (AC), the parent company of AEI. After the merger, IPO became 48.18% owned by the Parent Company and 33.5% owned by AC. Based on the Parent Company's assessment, it has met the qualifications sufficient to give it de facto control over IPO even though it holds less than 50% of the voting rights.

This was accounted for as a business combination under PFRS 3, *Business Combinations*, which required the identification of the acquired assets and liabilities of AEI and the determination of their fair values. The Group used the fair values of the identified net assets totaling ₱3,577.7 million and recognized goodwill for the residual amount of ₱13.5 million. The identification of the acquired assets and liabilities and the determination of their fair values involved the use of judgement and estimates. Further, the valuation of the acquired intangible assets required the use of assumptions such as revenue from number of forecasted students and related tuition and other matriculation fees, long-term growth rate, royalty rates and discount rate.

We also consider the assessment of whether there is de facto control within the meaning of PFRS 10, as a key audit matter, due to the significant impact of IPO's accounts in the consolidated financial position and results of operations as at and for the year ended December 31, 2019.

Refer to Notes 5 and 15 to the consolidated financial statements for the detailed disclosures.

Audit response

We reviewed the Merger Agreement between IPO and AEI, and the management's identification of AEI's assets and liabilities. We reviewed the purchase price allocation prepared by the Group's external specialist. We considered management's use of external specialist in relation to the determination of the fair value of property and equipment and intangible assets acquired. We evaluated the external specialists' competence, capabilities and objectivity. With the involvement of our internal specialist, we reviewed the methodology and assumptions used in the determination of fair values of AEI's property and equipment and intangible assets. For property and equipment, we compared the relevant information supporting the sales price of similar properties and the adjusments made to the sales price against real estate industry data and made inquiries to the external appraisers as to the basis. For the intangible assets, we evaluated the relevant information supporting the forecasted revenue from number of forecasted students and related tuition and other matriculation fees, long-term growth rate, royalty rates and discount rate. We also tested the parameters used in the determination of the discount rate against market data. We likewise reviewed the disclosures in the notes to the consolidated financial statements.

We obtained the documentation prepared by the Parent Company and analyses performed by management. We reviewed management's basis and application of PFRS 10. We analyzed the arguments of management as well as the de facto elements observed, in particular the following elements taken as a whole: the shareholder structure of IPO, the methods of governance, the percentage of votes cast at shareholders' meeting and the nature of the relationships established between the Parent Company and IPO.

Valuation of Land classified as Property and Equipment

The Group accounts for its land, where the school buildings and other facilities are located, using the revaluation model. As of December 31, 2019, the carrying value of the Group's land amounted to ₱9,185.92 million, representing 18% of the Group's total consolidated assets. In addition, the Group recognized a revaluation gain of ₱124.41 million in other comprehensive income for the year ended December 31, 2019.

The valuation of the land requires the assistance of an external appraiser whose calculations involve certain assumptions, such as sales price of similar properties and adjustments to sales price based on internal and external factors. This matter is significant to our audit because it involves significant judgment and estimates.

Refer to Note 4 to the consolidated financial statements for the relevant accounting policy and Note 13 for the disclosure about the Group's land.

Audit response

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

Recoverability of Nonfinancial Assets

Under PFRSs, the Group is required to annually test for impairment the nonfinancial assets such as the the goodwill attributable to the acquisition of Malayan Education System, Inc. amounting to ₱137.85 million and intellectual proprrty rights with infinite life amounting to ₱523.10 million. As of December 31, 2019, the aggregate amount of these assets of ₱660.95 million is considered significant to the consolidated financial statements. In addition, management's assessment process involves judgments and is based on assumptions such as forecasted revenue, profit margins, long-term growth rate and discount rate in estimating discounted cash flow projections.

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

We obtained an understanding of the Group's impairment model and the assumptions on the key business drivers of the cash flow forecasts such as the revenue from number of forecasted students and related tuition and other matriculation fees. We checked if the Group has considered the impact of the K to 12 Basic Education Program implementation on these key assumptions and also compared them against historical performance. We involved our internal specialist to assist us in evaluating the methodology and assumptions used. We compared the long-term growth rates and royalty rates against relevant publish market information. We tested the parameters used in the determination of discount rates against market data. In addition, we reviewed the Group's disclosures about those assumptions to which the outcome of the impairment tests are most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of these assets.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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Building a better working world

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wenda Lynn M. Loyola.

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola
Partner
CPA Certificate No. 109952
SEC Accreditation No. 1540-AR-1 (Group A),
January 10, 2019, valid until January 9, 2022
Tax Identification No. 242-019-387
BIR Accreditation No. 08-001998-117-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125250, January 7, 2020, Makati City

May 22, 2020

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

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱2,686,669,074**	₱2,039,664,825
Receivables (Note 7)	**6,246,486,725**	4,780,021,190
Contract assets (Note 8)	**9,483,493,604**	4,966,434,784
Inventories (Note 9)	**2,362,277,465**	2,694,172,298
Receivables from related parties (Note 22)	**71,235,301**	145,966,212
Prepaid expenses and other current assets (Note 10)	**1,982,854,200**	1,464,970,619
Total Current Assets	**22,833,016,369**	16,091,229,928
Noncurrent Assets		
Equity investments at fair value through other comprehensive income (FVOCI) (Note 11)	**1,147,773,806**	974,709,294
Investments in associates and joint ventures (Note 12)	**6,193,051,356**	5,505,955,000
Property and equipment (Note 13)		
At revalued amount	**9,185,924,384**	7,023,425,494
At cost	**8,808,917,553**	7,531,418,455
Right-of-use assets (Note 14)	**1,605,726,653**	–
Investment properties (Note 16)	**17,689,018**	18,157,018
Goodwill (Note 15)	**484,829,719**	471,357,459
Retirement assets (Note 32)	**18,289,597**	28,059,472
Deferred tax assets - net (Note 33)	**195,020,389**	139,503,935
Other noncurrent assets - net (Note 17)	**1,505,524,395**	1,817,267,027
Total Noncurrent Assets	**29,162,746,870**	23,509,853,154
Total Assets	**₱51,995,763,239**	₱39,601,083,082
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 18)	**₱8,421,912,038**	₱6,794,791,483
Loans payable (Note 19)	**8,393,800,000**	10,519,000,000
Current portion of long-term debt (Note 20)	**1,385,714,285**	774,603,175
Due to related parties (Note 22)	**126,417,175**	134,849,411
Current portion of contract liabilities (Note 8)	**1,684,537,514**	314,947,490
Current portion of lease liabilities (Note 14)	**215,416,367**	–
Income tax payable (Note 33)	**74,755,176**	42,310,920
Total Current Liabilities	**20,302,552,555**	18,580,502,479
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 20)	**3,305,974,841**	2,020,634,921
Contract liabilities - net of current portion (Note 8)	**1,820,243,384**	–
Lease liabilities - net of current portion (Note 14)	**1,323,247,962**	–
Retirement liabilities (Note 32)	**457,836,487**	141,017,371
Deferred tax liabilities - net (Note 33)	**1,023,530,274**	544,975,039
Other noncurrent liabilities	**268,665,644**	142,164,037
Total Noncurrent Liabilities	**8,199,498,592**	2,848,791,368
Total Liabilities	**28,502,051,147**	21,429,293,847

(Forward)

	December 31	
	2019	2018
Equity		
Attributable to equity holders of the Parent Company		
Preferred stock (Note 39)	**₱6,710,402**	₱247,414,156
Common stock (Note 39)	**1,162,540,326**	921,836,572
Additional paid-in capital	**154,578,328**	154,578,328
Equity reserve on acquisition of non-controlling interest (Note 36)	**1,641,756,492**	(179,954,180)
Revaluation increment on land - net (Note 13)	**1,298,881,074**	1,602,230,727
Cumulative translation adjustments	**245,958,913**	249,703,345
Fair value reserve of equity investments at FVOCI (Note 11)	**311,094,152**	259,855,707
Remeasurement loss on retirement (Note 32)	**(188,329,963)**	(27,924,073)
Retained earnings (Note 40)	**10,111,285,659**	9,198,512,458
	14,744,475,383	12,426,253,040
Non-controlling interests (Note 36)	**8,749,236,709**	5,745,536,195
Total Equity	**23,493,712,092**	18,171,789,235
	₱51,995,763,239	₱39,601,083,082

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2019	2018	2017
REVENUE (Note 23)	**₱34,129,841,303**	₱32,346,342,322	₱27,548,143,708
COSTS OF SALES AND SERVICES (Note 25)	**29,374,547,818**	28,052,537,041	24,303,452,648
GROSS PROFIT	**4,755,293,485**	4,293,805,281	3,244,691,060
GENERAL AND ADMINISTRATIVE EXPENSES (Note 29)	**(2,818,964,302)**	(2,651,245,784)	(2,319,954,488)
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 12)	**727,820,626**	255,783,370	289,372,254
INTEREST AND FINANCE CHARGES (Notes 19, 20, 22, 24 and 31)	**(780,610,257)**	(455,751,589)	(276,067,989)
OTHER INCOME - Net (Note 24)	**225,287,334**	219,968,414	920,939,339
INCOME BEFORE INCOME TAX	**2,108,826,886**	1,662,559,692	1,858,980,176
PROVISION FOR INCOME TAX (Note 33)			
Current	**429,672,494**	485,226,256	388,854,133
Deferred	**29,704,330**	13,050,924	7,057,293
	459,376,824	498,277,180	395,911,426
NET INCOME	**₱1,649,450,062**	₱1,164,282,512	₱1,463,068,750
Net income attributable to:			
Equity holders of the Parent Company	**₱974,033,430**	₱848,267,992	₱941,441,126
Non-controlling interests	**675,416,632**	316,014,520	521,627,624
	₱1,649,450,062	₱1,164,282,512	₱1,463,068,750
EARNINGS PER SHARE (Note 34)			
BASIC	**₱1.2244**	₱1.3369	₱1.4909
DILUTED	**₱1.2244**	₱1.0862	₱1.1990

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱1,649,450,062**	₱1,164,282,512	₱1,463,068,750
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to profit or loss in subsequent periods:			
Share in other comprehensive income (loss) of an associate (Note 12)	**(8,684,333)**	7,750,939	67,023,747
Cumulative translation adjustments	**(95,749,469)**	229,125,040	(4,640,619)
Net unrealized gain on available-for-sale (AFS) financial assets (Note 11)	**–**	–	10,704,379
Items not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments carried at FVOCI (Note 11)	**110,696,848**	(7,435,251)	–
Revaluation increment on land (Note 13)	**124,414,373**	470,581,594	405,825,900
Share in other comprehensive income of the associates (Note 12)	**–**	–	(3,377,562)
Remeasurement gain (loss) on net retirement (Note 32)	**(317,906,260)**	48,180,540	(2,400,238)
Income tax effect relating to items that will not be reclassified	**34,004,702**	(124,153,319)	(60,324,543)
	(153,224,139)	624,049,543	412,811,064
TOTAL COMPREHENSIVE INCOME	**₱1,496,225,923**	₱1,788,332,055	₱1,875,879,814
Total comprehensive income attributable to:			
Equity holders of the Parent Company	**₱861,192,841**	₱1,128,371,055	₱1,234,329,122
Non-controlling interests	**635,033,082**	659,961,000	641,550,692
	₱1,496,225,923	₱1,788,332,055	₱1,875,879,814

See accompanying Notes to Consolidated Financial Statements.

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Attributable to Equity Holders of the Parent Company													
	Capital stock (Note 39)									Retained earnings				
	Preferred stock	Common stock	Additional paid-in capital	Equity reserve on acquisition of non-controlling interest	Revaluation increment on land - net (Note 13)	Cumulative translation adjustments (Notes 11 and 41)	Net unrealized gain on AFS financial assets (Note 11)	Fair Value reserve of equity investments at FVOCI (Note 11)	Remeasurement loss on retirement (Note 32)	Unappropriated (Note 40)	Appropriated (Note 40)	Subtotal	Non-controlling interests (Note 36)	Total
BALANCES AT JANUARY 1, 2017	**₱280,802,820**	**₱921,836,572**	**₱154,578,328**	**(₱179,954,180)**	**₱1,106,401,670**	**₱159,864,897**	**₱79,859,050**	**–**	**(₱2,832,302)**	**₱7,529,255,996**	**₱200,000**	**₱10,050,012,851**	**₱4,555,875,042**	**₱14,605,887,893**
Net income	–	–	–	–	–	–	–	–	–	941,441,126	–	941,441,126	521,627,624	1,463,068,750
Other comprehensive income	–	–	–	–	223,328,578	64,501,105	7,326,409	–	(2,268,096)	–	–	292,887,996	119,923,068	412,811,064
Total comprehensive income	–	–	–	–	223,328,578	64,501,105	7,326,409	–	(2,268,096)	941,441,126	–	1,234,329,122	641,550,692	1,875,879,814
Redemption of preferred stock	(27,044,711)	–	–	–	–	–	–	–	–	–	–	(27,044,711)	–	(27,044,711)
Changes of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	20,000,000	20,000,000
Appropriation of retained earnings	–	–	–	–	–	–	–	–	–	(400,000)	400,000	–	–	–
Dividend declaration	–	–	–	–	–	–	–	–	–	(63,068,621)	–	(63,068,621)	(60,230,793)	(123,299,414)
BALANCES AT DECEMBER 31, 2017	**₱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)**	**₱8,407,228,501**	**₱600,000**	**₱11,194,228,641**	**₱5,157,194,941**	**₱16,351,423,582**
Impact of adoption of PFRS 9 and 15	–	–	–	–	–	–	(87,185,459)	254,766,791	–	7,188,651	–	174,769,983	–	174,769,983
BALANCES AT JANUARY 1, 2018	**₱253,758,109**	**₱921,836,572**	**₱154,578,328**	**(₱179,954,180)**	**₱1,329,730,248**	**₱224,366,002**	**–**	**₱254,766,791**	**(₱5,100,398)**	₱8,414,417,152	**₱600,000**	₱11,368,998,624	**₱5,157,194,941**	**₱16,526,193,565**
Net income	–	–	–	–	–	–	–	–	–	848,267,992	–	848,267,992	316,014,520	1,164,282,512
Other comprehensive income	–	–	–	–	272,500,479	25,337,343	–	5,088,916	(22,823,675)	–	–	280,103,063	343,946,480	624,049,543
Total comprehensive income	–	–	–	–	272,500,479	25,337,343	–	5,088,916	(22,823,675)	848,267,992	–	1,128,371,055	659,961,000	1,788,332,055
Redemption of preferred stock	(6,343,953)	–	–	–	–	–	–	–	–	–	–	(6,343,953)	–	(6,343,953)
Reversal of appropriated retained earnings	–	–	–	–	–	–	–	–	–	600,000	(600,000)	–	–	–
Appropriation of retained earnings	–	–	–	–	–	–	–	–	–	(6,105,300,000)	6,105,300,000	–	–	–
Dividend declaration	–	–	–	–	–	–	–	–	–	(64,772,686)	–	(64,772,686)	(71,619,746)	(136,392,432)
BALANCES AT DECEMBER 31, 2018	**₱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)**	**₱3,093,212,458**	**₱6,105,300,000**	**₱12,426,253,040**	**₱5,745,536,195**	**₱18,171,789,235**
Net income	–	–	–	–	–	–	–	–	–	974,033,430	–	974,033,430	675,416,632	1,649,450,062
Other comprehensive income	–	–	–	–	(4,360,837)	(4,702,267)	–	49,199,478	(152,976,963)	–	–	(112,840,589)	(40,383,550)	(153,224,139)
Total comprehensive income	–	–	–	–	(4,360,837)	(4,702,267)	–	49,199,478	(152,976,963)	974,033,430	–	861,192,841	635,033,082	1,496,225,923
Conversion of preferred to common stock	(240,703,754)	240,703,754	–	–	–	–	–	–	–	–	–	–	–	–
Reversal of appropriated retained earnings	–	–	–	–	–	–	–	–	–	5,300,000	(5,300,000)	–	–	–
Appropriation of retained earnings	–	–	–	–	–	–	–	–	–	(405,355,000)	405,355,000	–	–	–
Acquisition and disposal of subsidiary	–	–	–	–	–	–	–	–	(355,202)	2,081,876	–	1,726,673	(12,108,346)	(10,381,672)
Changes in non-controlling interest	–	–	–	1,821,710,672	(298,988,816)	957,835	–	2,038,967	(7,035,725)	–	–	1,518,644,933	2,505,603,852	4,024,248,785
Dividend declaration	–	–	–	–	–	–	–	–	–	(63,342,105)	–	(63,342,105)	(124,828,074)	(188,170,179)
BALANCES AT DECEMBER 31, 2019	**₱6,710,402**	**₱1,162,540,326**	**₱154,578,328**	**₱1,641,756,492**	**₱1,298,881,074**	**₱245,958,913**	**₱–**	**₱311,094,152**	**(₱188,329,963)**	**₱3,605,930,659**	**₱6,505,355,000**	**₱14,744,475,383**	**₱8,749,236,709**	**₱23,493,712,092**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,108,826,886**	₱1,662,559,692	₱1,858,980,176
Adjustments for:			
Depreciation and amortization (Notes 13, 14, 16 and 30)	**1,366,140,404**	990,169,507	923,058,850
Interest and finance charges (Notes 19, 20, 22, and 31)	**780,610,257**	455,751,589	276,067,989
Movements in net retirement liabilities	**326,588,991**	(39,709,903)	(5,790,386)
Unrealized foreign exchange loss (gain)	**38,607,477**	(44,861,160)	(932,596)
Provision for (gain on reversal) of impairment loss on investment properties	**–**	1,800,309	(14,182,841)
Loss on write-off of an investment	**–**	58,218	–
Market gain on financial asset at fair value through profit or loss (FVPL)	**(650,289)**	(237,925)	(122,177)
Dividend income (Notes 4 and 24)	**(54,808,659)**	(954,613)	(1,851,934)
Interest income (Note 24)	**(60,989,962)**	(50,382,962)	(71,659,747)
Gain on sale of:			
Investment properties (Note 16 and 24)	**(409,952)**	(5,534,890)	(279,071,868)
Property and equipment (Notes 13 and 24)	**(101,530,669)**	(16,966,241)	(8,813,780)
AFS financial assets (Notes 11 and 24)	**–**	–	(58,680,807)
Equity in net earnings of associates and joint venture (Note 12)	**(727,820,626)**	(255,783,370)	(289,372,254)
Operating income working capital changes	**3,674,563,858**	2,695,908,251	2,327,628,625
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**1,115,872,772**	4,416,078,195	(1,205,505,232)
Contract assets	**(4,517,058,820)**	(5,691,810,971)	–
Costs and estimated earnings in excess of billings on uncompleted contracts	**–**	–	446,832,915
Inventories	**331,894,833**	(1,568,407,114)	449,199,649
Receivables from related parties	**74,730,911**	3,963,793	(100,660,804)
Prepaid expenses and other current assets	**(329,011,292)**	881,044	(342,671,078)
Increase (decrease) in:			
Accounts payable and other current liabilities	**1,617,078,355**	1,273,162,720	(721,706,117)
Due to related parties	**(8,432,236)**	(36,669,306)	2,172,337
Contract liabilities	**3,189,833,408**	209,301,128	–
Billings in excess of costs and estimated earnings on uncompleted contracts	**–**	–	(537,153,534)
Customers' deposits	**–**	–	1,572,572
Unearned tuition fees	**–**	–	36,118,312
Other noncurrent liabilities	**351,354,972**	–	–
Other noncurrent assets	**313,316,724**	(922,345,269)	–
Net cash generated from operations	**5,814,143,485**	380,062,471	355,827,645
Interest received	**60,989,962**	50,112,827	71,659,747
Interest and finance charges paid	**(765,077,674)**	(412,440,353)	(275,231,879)
Income tax paid	**(397,585,443)**	(566,863,820)	(405,705,362)
Net cash flows provided by (used in) operating activities	**4,712,470,330**	(549,128,875)	(253,449,849)

(Forward)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment (Note 13)	**(₱4,969,429,584)**	(₱1,775,895,109)	(₱2,688,689,420)
Investments in associates and joint ventures (Note 12)	**(261,944,096)**	(508,135,581)	–
Equity investments at FVOCI (Note 11)	**(79,849,592)**	(22,877,652)	–
Computer software (Note 17)	**(8,195,665)**	(7,670,451)	–
Investment property (Note 16)	**–**	(3,250,000)	–
AFS financial assets (Note 11)	**–**	–	(20,865,766)
Proceeds from sale of:			
Property and equipment (Note 13)	**642,741,320**	13,695,944	31,379,487
Equity investments at FVOCI (Note 11)	**17,481,928**	–	–
Investment properties (Note 16)	**450,500**	154,877,235	137,684,592
AFS financial assets (Note 11)	**–**	–	162,750,000
Dividends received	**25,141,851**	49,006,541	41,259,930
Deposit for future stock subscription (Note 17)	**–**	(80,999,919)	–
Advances extended to an associate	**–**	–	(794,208,366)
Net cash flows used in investing activities	**(4,633,603,338)**	(2,181,248,992)	(3,130,689,543)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loans payable (Note 19)	**15,760,000,000**	17,624,000,000	13,127,000,000
Long-term debt (Note 20)	**2,862,403,404**	1,815,476,193	–
Changes in non-controlling interests (Note 36)	**1,291,500,000**	–	20,000,000
Payments of:			
Loans payable (Note 19)	**(17,885,200,000)**	(14,790,000,000)	(9,542,000,000)
Long-term debt (Note 20)	**(965,952,374)**	(1,703,608,061)	(494,446,885)
Lease liabilities (Note 14)	**(420,761,700)**	–	–
Cash dividends paid (Note 39)	**(67,705,370)**	(142,094,297)	(121,558,238)
Redemption of preferred shares (Note 39)	**–**	(6,343,953)	(127,044,711)
Net cash flows provided by financing activities	**574,283,960**	2,797,429,882	2,961,950,166
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(6,146,703)**	5,114,385	(3,513,570)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**647,004,249**	72,166,400	(425,702,796)
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 YEAR (Note 6)	**₱2,686,669,074**	₱2,039,664,825	₱1,967,498,425

See accompanying 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.

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

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

The registered office address and principal place of business of the Parent Company is at 3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila. On March 30, 2020, the Board of Directors (BOD) approved its amended Articles of Incorporation to change its registered office address to its current address from 3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila to 9th Floor, Grepalife Building, 221 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila. As of the auditor's report date, the stockholders have not yet approved the amended Articles of Incorporation.

Authorization of the Issuance of the Consolidated Financial Statements
The accompanying consolidated financial statements were authorized for issue in accordance with a resolution of the BOD on May 22, 2020.

2. **Basis of Preparation and Statement of Compliance**

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

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

Basis of Consolidation

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

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership			
				2019		2018	
				Direct	**Indirect**	Direct	Indirect
Investment Managers, Inc. (IMI)	Philippines	Insurance agent, financing, trading and real estate	Philippine Peso	**100.00**	**–**	100.00	–
Landev Corporation	Philippines	Property management	Philippine Peso	**100.00**	**–**	100.00	–
Xamdu Motors, Inc. (XMI)	Philippines	Car dealership	Philippine Peso	**100.00**	**–**	100.00	–
Zamboanga Carriers, Inc. (ZCI)	Philippines	Transportation	Philippine Peso	**100.00**	**–**	100.00	–
Zambowood Realty and Development Corporation (ZRDC)	Philippines	Real estate	Philippine Peso	**100.00**	**–**	100.00	–
Greyhounds Security and Investigation Agency Corp.	Philippines	Security agency	Philippine Peso	**–**	**100.00**	–	100.00
Hexagon Lounge, Inc.	Philippines	Restaurant	Philippine Peso	**–**	**100.00**	–	100.00
Secon Professional Security Training Academy Inc.	Philippines	Training service provider	Philippine Peso	**–**	**100.00**	–	100.00
Honda Cars Kalookan, Inc. (HCKI)	Philippines	Car dealership	Philippine Peso	**55.00**	**–**	55.00	–
La Funeraria Paz Sucat, Inc. (LFPSI)[a]	Philippines	Memorial services	Philippine Peso	**50.00**	**13.00**	–	–
Zamboanga Industrial Finance Corporation (ZIFC)[b]	Philippines	Consumer finance	Philippine Peso	**–**	**–**	50.00	–
EEI Corporation (EEI)[c]	Philippines	Construction	Philippine Peso	**54.65**	**–**	54.36	–
Bagumbayan Equipment & Industrial Products, Inc.	Philippines	Consultancy services	Philippine Peso	**–**	**100.00**	–	100.00
Clear Jewel Investments, Ltd.	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
EEI Limited	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
EEI (PNG), Ltd	Papua New Guinea	Holding company	US Dollar	**–**	**100.00**	–	100.00
EEI Corporation (Guam), Inc.	United States of America	Construction	US Dollar	**–**	**100.00**	–	100.00
EEI Construction and Marine, Inc.	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
EEI Realty Corporation (EEI Realty)	Philippines	Real estate	Philippine Peso	**–**	**100.00**	–	100.00
EEI Subic Corporation	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
Equipment Engineers, Inc. (EE)	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
EEI Power Corporation (EPC)	Philippines	Power generation	Philippine Peso	**–**	**100.00**	–	100.00
Gulf Asia International Corporation (GAIC)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
GAIC Professional Services, Inc. (GAPSI)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
GAIC Manpower Services, Inc. (GAMSI)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
Nimaridge Investments, Limited	British Virgin Islands	Holding company	US Dollar	**–**	**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
JP Systems Asia Inc. (JPSAI)	Philippines	Rental of scaffolding and formworks	Philippine Peso	**–**	**60.00**	–	60.00
BiotechJP Corporation[d]	Philippines	Manufacturing food and therapeutic food	Philippine Peso	**–**	**60.00**	–	–
Learn JP Corp[e]	Philippines	Service for improvement in language proficiency	Philippine Peso	**–** **-**	**60.00**	**–**	**–**
Shinbayanihan Heavy Equipment Corp.[f]	Philippines	Rental of construction equipment	Philippine Peso	**–**	**40.00**	–	–
iPeople, inc. (IPO)[g]	Philippines	Education and Information Technology	Philippine Peso	**48.18**	**–**	67.34	–
Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.)[h]	Philippines	Education and Information Technology	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
San Lorenzo Ruiz Investment Holdings and Services Inc. (formerly 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
Malayan Colleges Laguna, Inc. (MCLI)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Malayan Colleges Mindanao, Inc. (MCMI)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Mapua Techpower, Inc.	Philippines	Consultancy	Philippine Peso	**–**	**75.00**	–	75.00

(Forward)

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership 2019 Direct	Indirect	2018 Direct	Indirect
Affordable Private Education Center, Inc (APEC) (i)	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	–
AC College of Enterprise and Technology, Inc(i)	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	–
LINC Institite, Inc(i)	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	–
People eServe Corporation	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	–
Pan Pacific Computer Center, Incorporated (PPCCI)(j)	Philippines	Education and Information Technology	Philippine Peso	–	**100.00**	–	–
National Teachers College(i)	Philippines	Education and Information Technology	Philippine Peso	–	**99.79**	–	–
University of Nueva Caceres(i)	Philippines	Education and Information Technology	Philippine Peso	–	**83.62**	–	–

(a) Consolidated starting March 2019
(b) Sold in July 2019
(c) Purchased additional shares in November 2019
(d) Consolidated starting September 2019
(e) Consolidated starting December 2019
(f) Consolidated starting July 2019
(g) Effective last May 2019 due to merger of IPO and Ayala Education Inc. (AEI) (Note 5)
(h) Sold to IPO in May 2019
(i) Acquired in May 2019 through business combination
(j) Ceased operation in July 2017

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

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

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

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

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

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

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

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

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

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. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position. 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 PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

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

The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at January 1, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application.

Under the modified retrospective approach, a lessee will apply PFRS 16 with cumulative effect of initial application recognized in retained earnings or other component of equity, as appropriate, at date of initial application, and will not restate any comparative information. Under this approach, the Group recognizes a lease liability at date of initial application at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at date of initial application. At the same time, the Group recognizes a right-of-use (ROU) asset at date of initial application, measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases') and lease contracts for which the underlying asset is of low value ('low-value leases').

The effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

Assets	Increase
Right-of-use assets (Note 14)	₱1,378,023,041
Total Assets	₱1,378,023,041
Liabilities	
Current portion of lease liabilities (Note 14)	₱245,915,345
Lease liabilities - net of current portion (Note 14)	1,190,214,802
Total Liabilities	₱1,436,130,147

Lease previously accounted for as an operating lease
The Group recognized right-of-use assets and lease liabilities for its lease previously classified as an operating lease. The right-of-use assets for its lease was recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application

Operating lease commitments as at December 31, 2018	₱1,443,987,002
Weighted average incremental borrowing rate as at January 1, 2019	7.24%
Discounted operating lease commitments as at January 1, 2019	790,969,939
Less: Commitments relating to short-term leases and low-value	(25,919,076)
Add: Lease payments relating to renewal periods not included in operating lease commitments as at December 31, 2018	671,079,284
Lease liabilities as at January 1, 2019	₱1,436,130,147

Due to the adoption of PFRS 16, the Group's operating profit in 2019 improved, while its interest expense increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 did not have an impact on equity in 2019, since the Group elected to measure the right-of-use assets at an amount equal to the lease liability , adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. The Group's weighted average incremental borrowing rate applied to the lease liabilities recognized at the date of application. Any difference between the result of discounting the operating lease commitments reported under PAS 17 at the end of the annual reporting preceding the date of application and lease liabilities recognized on the statement of financial position immediately after posting the cumulative catch-up adjustment on the date of initial application.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The adoption of Philippine Interpretation IFRIC-23 did not have material impact on the financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

- o Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
- o Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Standards Issued But Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

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

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

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

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

The core of PFRS 17 is the general model, supplemented by:

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

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

Deferred effectivity

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

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

4. Summary of Significant Accounting Policies

Leases - *Group as a lessee*, Effective starting January 1, 2019

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

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

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date ease incentives received.

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

	Years
Land	5 to 66
Building	2 to 10

Right-of-use assets are subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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

Leases - *Company as a lessee*, Prior to January 1, 2019

Operating Leases
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease receipts (payments) under operating lease agreements are recognized as income (expense) on a straight-line basis over the term of the lease.

Revenue Recognition Effective starting January 1, 2018

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. The Group excludes the effect of any costs incurred that do not contribute to the Group's performance in transferring control of goods or services to the customer (such as unexpected amounts of wasted materials, labor or other resources) and adjusts the input method for any costs incurred that are not proportionate to the Group's progress in satisfying the performance obligation (such as uninstalled materials).

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

Revenue from 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.

Revenue Recognition Prior to January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Revenue from construction contracts
Revenue from construction contracts are recognized using the percentage-of-completion method of accounting. Under this method, revenue is generally measured on the basis of estimated completion of the physical proportion of the contract work.

Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements that may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined. Profit incentives are recognized as revenue when their realization is reasonably assured.

The asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents total costs incurred and estimated earnings recognized in excess of amounts billed. The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of total costs incurred and estimated earnings recognized. Contract retentions are presented as part of "Trade receivables" under the "Receivables" account in the consolidated statement of financial position.

Revenue from sale of goods
Revenue from sale of merchandise is recognized immediately upon the buyer's acceptance of delivery when the installation process is simple in nature, as applicable, otherwise, revenue is recognized when the buyer accepts delivery and when installation and inspection are complete.

*Revenue from s*chool and related operations:
Revenues from school operations are recognized as income over the corresponding school term. Unearned revenues are shown as unearned tuition fees in the consolidated statement of financial position and will be recognized as revenues when the educational service has been fulfilled in the applicable school term.

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.

Revenue from power generation
Revenue derived from the generation and/or supply of electricity is recognized based on the actual delivery of electricity as agreed upon between parties.

<u>Interest Income</u>
Interest income is recognized as it accrues taking into account the effective yield on the asset.

<u>Rent Income</u>
Rent income is recognized as revenue on a straight-line basis over the lease term.

<u>Dividend Income</u>
Dividend income is recognized when the Group's right to receive the payment is established.

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

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

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

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

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

All other assets are classified as non-current.

A liability is current when:

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

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

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

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement Effective January 1, 2018

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 (FVPL).

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

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

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

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

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

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

Financial assets at amortized cost (debt instruments)
The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Group's financial assets at amortized cost includes Cash and cash equivalents, Receivables, and Receivables 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 does not have any debt financial assets at fair value through OCI and financial assets at fair value through profit or loss as of December 31, 2019 and 2018.

Impairment of financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to

receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

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

The Group generally considers a financial asset in default when contractual payments are 90 days past due. For a financial asset that arises from long-term construction contracts, the Group considers the asset to be in default if contractual payments are not settled within 30 days from the completion of the construction project. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Issued financial liabilities or their components, which are not designated as financial liabilities at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018

<u>Financial Instruments</u>
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery of financial instruments within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities include transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or loans and receivables. The Group classifies its financial liabilities as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The Group do not have any HTM investments and financial liabilities at FVPL as of December 31, 2017.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

Financial assets at FVPL
This includes financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at FVPL are recorded in the consolidated statement of financial position at fair value with unrealized mark-to-market gains and losses reported as part of the current year operations in the consolidated statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded when the right to receive payment has been established. Derivatives, including separated embedded derivatives are also classified as FVPL unless they are designated as effective hedging instruments or a financial guarantee contract.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial asset at FVPL consist of peso-denominated investment in unit investment trust fund (UITF) in Rizal Commercial Banking Corporation (RCBC).

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as available-for-sale or

as financial assets at FVPL. After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes the Group's cash and cash equivalents, accounts receivable, loans receivable, receivables from related parties, receivable from a customer, miscellaneous deposits (included in the prepaid expenses and other current assets) and receivable from EEI Retirement Fund, Inc.

AFS financial assets
AFS financial assets are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include government securities, equity investments and other debt instruments.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of available-for-sale financial assets are excluded from reported earnings and are reported in other comprehensive income. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in "Other income (loss)" account in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding available-for-sale debt investments are reported as interest income using the EIR. Dividends earned on holding available-for-sale equity investments are recognized in the consolidated statement of income as "Other income" account when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as "Provisions on impairment losses" under operating expenses in the consolidated statement of income.

If the fair market value of the unquoted equity instruments under available-for-sale cannot be reliably measured, the financial asset is carried at cost less allowance for impairment loss, if any.

Available-for-sale financial assets are classified as current assets when it is expected to be sold or realized within twelve (12) months after the reporting date or within the normal operating cycle, whichever is longer.

The Group's available-for-sale financial assets include investments in quoted and unquoted golf club and equity shares (Note 11).

Derivative financial instruments
Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the statement of income.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL.

The Group has no derivative financial instruments as at December 31, 2017.

Impairment of Financial Assets

The Group assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred).

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as year-level of students for information technology and education segment, customer profile and mode of payment for car dealership segment.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

AFS financial assets carried at cost
If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets carried at fair value
In case of equity instruments classified as available-for-sale, impairment would include a significant or prolonged decline in the fair value of investments below its cost. If an available-for-sale security is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of income but in other comprehensive income. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed to operations if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

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 December 31 follows:

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership	
				2019	2018
Associates:					
Hi-Eisai Pharmaceutical, Inc. (HEPI)	Philippines	Pharmaceutical	Philippine peso	**50.00**	50.00
Petroenergy Resources Corporation (PERC)	Philippines	Renewable energy	Philippine peso	**29.10**	28.36
T'boli Agro-Industrial Development, Inc.	Philippines	Agriculture	Philippine peso	**28.47**	28.47
Manila Memorial Park Cemetery, Inc. (MMPC)	Philippines	Funeral service	Philippine peso	**25.98**	25.98
Sojitz G Auto Philippines Corporation (SGAPC)	Philippines	Automotive distributor	Philippine peso	**20.00**	–
RCBC Realty Corporation (RRC)	Philippines	Realty	Philippine peso	**10.00**	10.00
La Funeraria Paz Sucat, Inc. (LFPSI)	Philippines	Funeral service	Philippine peso	–	37.50
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:					
Shinbayanihan Heavy Equipment Corporation (SHEC)	Philippines	Equipment rental	Philippine peso	**40.00**	–
PetroWind Energy, Inc. (PWEI)	Philippines	Renewable energy	Philippine peso	**20.00**	20.00

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

In July 2019, the Group acquired 40.00% stake in SHEC and was accounted for as joint venture (Note 12).

On April 16 and 30, 2019, the Group purchased additional 2,913,090 and 1,240,561 PERC shares, respectively, resulting to an increase in ownership interest from 28.36% to 29.10%.

On March 1, 2019, the Group purchased additional 90,000 shares of LFPSI for ₱25.00 million resulting to an increase in direct ownership from 37.50% to 50.00%. The Group's total effective interest in LFPSI as of December 31, 2019 is 63.00%, including its 13.00% indirect ownership. Accordinly, LPFSI became a subsidiary effective March 1, 2019.

On February 2, 2018, the Group purchased additional 69.3 million PERC shares from stock rights offering for ₱332.6 million resulting to an increase in ownership interest from 22.41% to 28.36%.

Property and Equipment

Property and equipment, except for land, are stated at cost, less accumulated depreciation, amortization and impairment loss, if any.

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

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

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

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

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

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

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

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

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

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

The appraisal increment (net of deferred tax) resulting from the revaluation is credited to OCI and accumulated in equity under “revaluation increment on land - net” account. To the extent that a revaluation increase of an asset reverses a revaluation decrease of the same asset that was previously recognized as an expense in profit or loss, such increase should be credited to income in profit or loss.

Decreases in valuation should be charged to profit or loss, except to the extent that they reverse the existing accumulated revaluation increment on the same asset and therefore such decrease is recognized in OCI. The decrease recognized in OCI reduces the amount accumulated in equity under revaluation increment on land - net account.

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

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

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, Right-of-use asset, 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 assets' recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

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

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

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 an 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 benfits available in the form or refunds from the plan or reduction in the future contributions to the plan.

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

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

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

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

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

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

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

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.

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 37.

Capital Stock
The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity (Note 39).

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

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

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

5. **Significant Accounting Judgments and Estimates**

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

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

Judgment

Determining control over an entity in which Parent Company holds less than majority of voting rights
The Parent Company has determined that it is still the largest stockholder of IPO with 48.18% equity interest and continues to have control over IPO by virtue of the its power to nominate majority of the members of the BOD of IPO thereby exercising control and supervision on IPO's operations as well as financing activities. Accordingly, the Parent Company assessed that IPO continues to be a subsidiary even though it owns less than 50% equity interest over IPO after the merger (Note 15).

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

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

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

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

The Group included the renewal period as part of the lease term for leases with shorter non-cancellable period (i.e., three to ten years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of land and office spaces with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised (Note 14).

Recognition of revenue from construction contracts
Under PFRS 15, the Group assessed that there is only one performance obligation for each construction agreement that it has entered and that revenue arising from such agreements qualify for recognition over time. The Group elected to use the input method to measure the progress of the fulfilment of its performance obligation, which is based on the actual costs incurred to date relative to the total estimated cost to complete the construction projects. The Group believes that this method faithfully depicts the Group's performance towards satisfaction of its performance obligation because there is a direct relationship between the Group's effort (i.e., costs incurred) and the transfer of service to the customer (Notes 4 and 23).

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

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

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

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

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

<u>Estimates</u>
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.

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

The Group's lease liabilities amounted to ₱1.54 billion as of December 31, 2019 (Note 14).

Estimating variable considerations arising from change orders and claims (applicable beginning January 1, 2018)
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 ₱15.73 billion and ₱9.75 billion as of December 31, 2019 and 2018, respectively (Notes 7, 8 and 17).

Fair value measurement of unquoted equity investments at FVOCI (applicable beginning January 1, 2018)
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 ₱1.04 billion and ₱0.91 billion as of December 31, 2019 and 2018, respectively (Note 11).

Provision for expected credit losses of trade receivables and contract assets (applicable beginning January 1, 2018)
The Group uses the simplified approach in calculating the ECL of its trade receivables and contract assets wherein the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The model is based on the Group's historical observed default rates and adjusted to include forward looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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

As of December 31, 2019 and 2018, the aggregate carrying values of receivables and contract assets are disclosed in Notes 7, 8, 17 and 22 to the consolidated financial statements.

Estimation of allowance for doubtful accounts (applicable prior to January 1, 2018)
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 are disclosed in Notes 7 and 22 to the consolidated financial statements.

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

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

Valuation of land under revaluation basis
The Group's parcel 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 ₱9.19 billion and ₱7.02 billion as of December 31, 2019 and 2018, respectively. The key assumptions used to determine the fair value of the parcels of land are disclosed in Note 13.

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

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

Impairment of goodwill, student relationship and intellectual property rights are assessed at least on an annual basis. In assessing the impairment, the Group determines the recoverable amount using value in use with detailed disclosures made in Note 15. There is no impairment loss recognized on these assets in 2019, 2018 and 2017. As at December 31, 2019 and 2018, the carrying value of goodwill amounted to ₱484.83 million and ₱471.36 million, respectively (Note 15).

As to the Group's property and equipment, student relationship and noncurrent assets, impairment loss amounting to ₱21.00 million was recognized for the year ended December 31, 2019. No impairment loss was recognized in 2018 and 2017 (Notes 13 and 17).

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

Retirement assets amounted to ₱18.29 million and ₱28.06 million as of December 31, 2019 and 2018, respectively whereas retirement liabilities amounted to ₱457.84 million and ₱141.02 million as of December 31, 2019 and 2018, respectively (Note 32).

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

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

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

6. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand and in banks	**₱1,676,600,484**	₱1,465,704,010
Short-term investments	**1,010,068,590**	573,960,815
	₱2,686,669,074	₱2,039,664,825

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earns annual interest at the respective short-term investment rates.

Interest income from cash in banks and short-term investments amounted to ₱37.19 million, ₱17.53 million and ₱17.31 million for the years ended December 31, 2019, 2018 and 2017, respectively (Note 24).

7. Receivables

This account consists of:

	2019	2018
Trade		
Construction and infrastructure	**₱4,132,893,711**	₱3,157,748,969
Education	**901,585,558**	302,795,237
Car dealership	**708,660,520**	813,294,034
Other services	**114,165,831**	97,597,545
Other receivables		
Advances to officers and employees	**103,349,773**	54,704,876
Receivables from plant	**56,369,572**	52,527,813
Receivable from EEI RFI (Notes 17 and 32)	**55,000,000**	55,000,000
Receivable from customers	**35,174,526**	65,201,427
Dividends receivable (Note 22)	**29,666,808**	13,972,047
Receivable from sale of investment properties	**22,790,885**	125,789,113
Rent receivable	**626,549**	721,798
Current portion of loans receivable	**–**	10,105,165
Others	**372,246,516**	263,418,337
	6,532,530,249	5,012,876,361
Less allowance for impairment	**286,043,524**	232,855,171
	₱6,246,486,725	₱4,780,021,190

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

	2019					
	Construction and Infrastructure	**Car Dealership**	**Education and Information Technology**	**Other Services**	**Other Receivables**	**Total**
Balances at beginning of year	**₱52,855,392**	**₱39,310,600**	**₱61,347,299**	**₱7,835,959**	**₱71,505,921**	**₱232,855,171**
Provisions - net of recoveries (Notes 29)	**(1,665,750)**	**–**	**69,816,902**	**14,141**	**(14,836,591)**	**53,328,702**
Write-offs	**–**	**–**	**–**	**(140,349)**	**–**	**(140,349)**
Balances at end of year	**₱51,189,642**	**₱39,310,600**	**₱131,164,201**	**₱7,709,751**	**₱56,669,330**	**₱286,043,524**

	2018					
	Construction and Infrastructure	Car Dealership	Education and Information Technology	Other Services	Other Receivables	Total
Balances at beginning of year	₱20,771,357	₱37,680,707	₱65,536,139	₱5,972,188	₱71,213,389	₱201,173,780
Impact of PFRS 9	38,782,324	–	–	–	–	38,782,324
Provisions - net of recoveries (Notes 29)	(6,698,289)	1,629,893	1,899,577	1,863,771	292,532	(1,012,516)
Write-offs	–	–	(6,088,417)	–	–	(6,088,417)
Balances at end of year	₱52,855,392	₱39,310,600	₱61,347,299	₱7,835,959	₱71,505,921	₱232,855,171

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.

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

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

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

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

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.

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, the Group and the Fund agreed to extend the term of the payment until April 30, 2021 (Note 22). As of December 31, 2019 and 2018, the current portion of receivable amounted to ₱55.0 million while the noncurrent portion of receivable as of December 31, 2019 and 2018 amounted to ₱23.0 million and ₱78.0 million (Note 17), respectively.

Receivable from customers
In 2017, certain trade receivables were reclassified as interest-bearing trade receivables after the Group and the customers agreed to extend the credit terms. These receivables bear interest of 5% per annum and will be repaid in five (5) years' time. As of December 31, 2019 and 2018, the current portion of receivable amounted to ₱35.2 million and ₱65.2 million, respectively, while the noncurrent portion of receivable as of December 31, 2019 and 2018 amounted to ₱51.5 million and ₱88.3 million (Note 17), respectively.

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%. As of December 31, 2019 and 2018, the current portion of receivable amounted to ₱22.8 million and ₱125.8 million, respectively, while the noncurrent portion of receivable as of December 31, 2019 and 2018 amounted to nil and ₱155.2 million (Note 17), respectively.

Loans receivable is composed of receivables of ZIFC which was deconsolidated in July 2019.

Receivables classified as "Others" consist of interest, 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 ₱10.0 billion and ₱6.1 billion as of December 31, 2019 and December 31, 2018, respectively. The increase in this account is largely caused by construction works already performed by the Group.

Details of the Group's contract assets as of December 31, 2019 and 2018 are shown below (Note 17).

		2019	
	Current	**Noncurrent** (Note 17)	**Total**
Contract assets	**₱9,492,566,375**	**₱494,075,106**	**₱9,986,641,481**
Less: Allowance for expected credit losses	**9,072,771**	**226,907**	**9,299,678**
	₱9,483,493,604	**₱493,848,199**	**₱9,977,341,803**

		2018	
	Current	Noncurrent (Note 17)	Total
Contract assets	₱4,979,692,385	₱1,152,108,370	₱6,131,800,755
Less: Allowance for expected credit losses	13,257,601	1,624,975	14,882,576
	₱4,966,434,784	₱1,150,483,395	₱6,116,918,179

Movement in the allowance for expected credit losses for the years ended December 31, 2019 and 2018 follows:

		2019	
	Current	**Noncurrent**	**Total**
Balance as at January 1	**₱13,257,601**	**₱1,624,975**	**₱14,882,576**
Reclassification to current portion	**1,398,068**	**(1,398,068)**	**–**
Recovery	**(5,582,898)**	**–**	**(5,582,898)**
Balance as at December 31	**₱9,072,771**	**₱226,907**	**₱9,299,678**

		2018	
	Current	Noncurrent	Total
Balance as at January 1	₱28,779,586	₱757,661	₱29,537,247
Provision (Recovery)	(15,521,985)	867,314	(14,654,671)
Balance as at December 31	₱13,257,601	₱1,624,975	₱14,882,576

Contract Liabilities
Contract liabilities mainly 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.

Details of the Group's contract liabilities as of December 31, 2019 are shown below.

	Construction and Infrastructure	Education	Total
Current	₱903,831,183	₱780,706,331	₱1,684,537,514
Non-current	1,820,243,384	–	1,820,243,384
	₱2,724,074,567	₱780,706,331	₱3,504,780,898

The increase in the contract liabilities from construction and infrastructure is largely caused by the deposits and payments from new projects where the related performance obligation has not yet been performed. The increase in contract liabilities from education and information is due mainly from the unearned tuition fees from new subsidiaries acquired due to the merger of IPO and AEI in 2019.

9. Inventories

This account consists of:

	2019	2018
Construction materials	**₱1,309,202,556**	₱1,171,975,517
Merchandise	**812,826,521**	1,198,173,669
Real estate:		
Land and land development	**152,110,988**	152,725,721
Subdivision lots and contracted units for sale	**44,305,060**	76,793,014
Raw lands	**43,121,391**	45,229,389
	239,537,439	274,748,124
Spare parts and supplies	**108,306,374**	145,717,335
	2,469,872,890	2,790,614,645
Less: Allowance for inventory obsolescence	**107,595,425**	96,442,347
	₱2,362,277,465	₱2,694,172,298

Merchandise includes automotive units, parts and accessories, food and beverages, among others.

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 ₱6,604.4 million, ₱7,281.9 million and ₱10,108.8 million in 2019, 2018 and 2017 respectively (Notes 25 and 26).

The rollforward of allowance for inventory obsolescence is as follows:

	2019	2018
Balance at beginning of year	**₱96,442,347**	₱70,874,400
Provisions (Note 29)	**21,533,760**	31,074,321
Reversals (Note 29)	–	(5,506,374)
Write-off	**(10,380,682)**	–
Balances at end of year	**₱107,595,425**	₱96,442,347

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

	2019	2018
Balances at beginning of year	**₱274,748,124**	₱354,152,670
Construction/development costs incurred	**25,703,794**	16,671,157
Cost of real estate sales	**(60,914,479)**	(38,321,997)
Transfer to property and equipment (Note 13)	–	(57,753,706)
Balances at end of year	**₱239,537,439**	₱274,748,124

In 2018, a parcel of land with lot size of 183,316 sqm located in Tanza, Cavite previously classified as real estate inventory was transferred to property and equipment as this is being used by the Group to store its construction materials.

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

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2019	2018
Advances to suppliers and contractors	**₱925,755,733**	₱712,412,784
Creditable withholding taxes	**561,513,235**	367,387,252
Prepaid expenses	**143,786,446**	75,702,134
Miscellaneous deposits	**108,700,012**	87,958,456
Advances to officers and employees	**51,264,303**	30,739,604
Input value added tax (VAT)	**29,585,878**	74,084,987
Restricted cash investment	**27,006,721**	38,601,563
Restricted funds	**21,029,868**	21,356,004
Prepaid taxes	**10,012,749**	9,759,208
Unused office supplies	**7,602,766**	3,620,204
Others	**101,506,527**	47,156,881
	1,987,764,238	1,468,779,077
Less allowance for impairment	**4,910,038**	3,808,458
	₱1,982,854,200	₱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.

Creditable withholding taxes pertain to the tax withheld at source by the Group's customer and is creditable against the income tax liability.

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.

Others include financial assets at FVPL, other assets, among others.

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

This account consists of:

	2019	2018
Quoted equity investments	**₱107,292,675**	₱63,140,918
Unquoted equity investments	**1,040,481,131**	911,568,376
	₱1,147,773,806	₱974,709,294

Rollforward analysis of the account follow:

	2019	2018
Balance at beginning of year	**₱974,709,294**	₱959,304,395
Additions	**79,849,592**	22,840,150
Disposals	**(17,481,928)**	–
Fair value changes recognized in other comprehensive income	**110,696,848**	(7,435,251)
Balance at end of year	**₱1,147,773,806**	₱974,709,294

In 2019 and 2018, the Group invested additional ₱79.8 million and ₱22.4 million, respectively, in various quoted and unquoted equity instruments.

In May 2019, IPO sold it shares in PetroEnergy Resources Corporation for ₱17.5 million and the loss on disposal was recorded at ₱1.3 million.

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

	2019	2018
Attributable to equity holders of the parent:		
Balance at beginning of year	**₱259,855,707**	₱92,353,352
Income recognized in OCI	**51,238,445**	167,502,355
Balance at end of year	**311,094,152**	259,855,707
Non-controlling interests:		
Balance at beginning of year	**202,090,420**	8,331,187
Income recognized in OCI	**38,854,987**	193,759,233
Balance at end of year	**240,945,407**	202,090,420
	₱552,039,559	₱461,946,127

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.

The fair value of the Group's unquoted equity investments is either determined using the adjusted net asset approach wherein the assets are adjusted from cost to their fair value or using the discounted cash flow model. The valuation was performed by an independent SEC-accredited appraiser/third party professional services firm as of December 31, 2019 .

Dividends earned from equity investments at FVOCI amounted to ₱53.4 million and ₱0.6 million in 2019 and 2018, respectively. Dividends earned from AFS financial assets amounted to ₱1.0 million in 2017.

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

12. Investments in Associates and Joint Venture

The rollforward analysis of this account follows:

	2019	2018
Acquisition cost:		
Balances at beginning of year	**₱4,622,763,779**	₱4,114,397,589
Additions	**261,944,096**	508,366,190
Reclassification	**(43,071,161)**	–
Balance at end of year	**4,841,636,714**	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
Equity in net earnings	**727,820,626**	255,783,370
Reclassification	**(14,936,749)**	–
Dividends received	**(192,099,881)**	(155,940,634)
Balance at end of year	**1,262,916,499**	742,132,503
Subtotal	**6,030,016,604**	5,290,359,673
Share in other comprehensive income of an associate	**55,887,540**	64,571,875
Cumulative translation adjustment	**107,147,212**	151,023,452
	₱6,193,051,356	₱5,505,955,000

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

(Amounts in millions)

	2019						
	RRC	**PERC**	**MMPC**	**ARCC**	**PSOC**	**PWEI**	**SHEC**
Acquisition cost:							
Balance, January 1	**₱959**	**₱871**	**₱120**	**₱1,626**	**₱542**	**₱257**	**₱–**
Additions	–	**18**	–	–	**148**	–	**21**
Balance, December 31	**959**	**889**	**120**	**1,626**	**690**	**257**	**21**
Accumulated equity in net earnings (losses):							
Balance, January 1	**419**	**307**	**337**	**(685)**	**212**	**114**	–
Equity in net earnings (losses)	**151**	**81**	**116**	**213**	**88**	**46**	**(1)**
Dividends declared	**(90)**	–	**(22)**	–	**(33)**	**(30)**	–
Balance, December 31	**480**	**388**	**431**	**(472)**	**267**	**130**	**(1)**
Subtotal	**1439**	**1,277**	**551**	**1,154**	**957**	**387**	**20**
Accumulated share in other comprehensive income:							
Balance, January 1	**603**	**72**	–	**1**	–	–	–
Share in cumulative translation adjustments	–	–	–	**(9)**	–	–	–
Balance, December 31	**603**	**72**	–	**(8)**	–	–	–
Equity in cumulative translation adjustments	–	–	–	**144**	–	–	
	₱2,042	**₱1,349**	**₱551**	**₱1,290**	**₱957**	**₱387**	**₱20**

	2018					
	RRC	PERC	MMPC	ARCC	PSOC	PWEI
Acquisition cost:						
Balance, January 1	₱959	₱538	₱120	₱1,626	₱366	₱257
Additions	–	333	–	–	176	–
Balance, December 31	959	871	120	1,626	542	257
Accumulated equity in net earnings (losses):						
Balance, January 1	356	196	250	(396)	159	53
Equity in net earnings (losses)	123	119	136	(289)	102	60
Dividends declared	(60)	(8)	(22)	–	(48)	–
Balance, December 31	419	307	364	(685)	213	113
Subtotal	1378	1178	484	941	755	370
Accumulated share in other comprehensive income:						
Balance, January 1	–	64	–	–	–	–
Share in remeasurement loss on retirement liability	–	1	–	1	–	–
Share in cumulative translation adjustments	–	7	–	–	–	–
Balance, December 31	–	72	–	1	–	–
Equity in cumulative translation adjustments	–	–	–	187	–	–
	₱1378	₱1250	₱484	₱1,129	₱755	₱370

PERC
The shares of capital stock of PERC are listed with Philippine Stock Exchange.

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

On February 2, 2018, the Parent Company purchased additional 69,285,418 shares amounting for ₱332.6 million on ₱4.8 per share resulting to an increase in ownership interest from 22.41% to 28.36%.

Its share price amounted to ₱4.1 per share and ₱3.5 per share as of December 29, 2019 and 2018, respectively.

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

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

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

PSOC
In 2019 and 2018, the Group, through EEI made an additional investment of ₱148.3 million and ₱175.8 million respectively, in PSOC. These transactions did not result to a change in the 44% ownership of the Group over PSOC.

PWEI
In 2013, the Group, through 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.

SHEC
SHEC was incorporated on July 26, 2019 primarily to engage in the business of managing the operation of used and new construction equipment rental and used and new construction equipment wholesale business in the Philippines and import and export of used and new construction equipment without engaging in retail trading.

As of December 31, 2019 and 2018, no investments in asssociates were pledged as security to obligations.

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

	2019						
	RRC	**PERC**	**MMPC**	**ARCC**	**PSOC**	**PWEI**	**SHEC**
Net assets*	**₱14,460**	**₱4,388**	**₱2,120**	**₱2,633**	**₱2,176**	**₱1,935**	**₱50**
Proportionate ownership in the associate	**10.00%**	**29.10%**	**25.98%**	**49.00%**	**44.00%**	**20.00%**	**40.00%**
Share in net identifiable assets	**1,446**	**1,277**	**551**	**1,290**	**957**	**387**	**20**
Premium	**603**	**72**	**–**	**–**	**–**	**–**	**–**
Carrying value	**₱2,049**	**₱1,349**	**₱551**	**₱1,290**	**₱957**	**₱387**	**₱20**

**Excluding treasury shares and non-controlling interest*

	2018					
	RRC	PERC	MMPC	ARCC	PSOC	PWEI
Net assets*	₱7,753	₱4,320	₱1,566	₱2,305	₱1,313	₱1,853
Proportionate ownership in the associate	10.00%	28.36%	25.98%	49.00%	44.00%	20.00%
Share in net identifiable assets	775	1,225	407	1,129	578	370
Share in deposits for future stock subscription	–	–	–	–	176	–
Transaction costs	–	–	–	–	1	–
Premium	603	25	77	–	–	–
Carrying value	₱1,378	₱1,250	₱484	₱1,129	₱755	₱370

**Excluding treasury shares and non-controlling interest*

Summarized financial information of the Group's significant associates and joint venture are as follows:

	2019						
	RRC	**PERC**	**MMPC**	**ARCC**	**PSOC**	**PWEI**	**SHEC**
Current assets	**₱1,318**	**₱2,150**	**₱1,730**	**₱4,638**	**₱504**	**₱790**	**₱43**
Noncurrent assets	**6,170**	**11,204**	**1,384**	**1,398**	**3,707**	**3,629**	**26**
Total assets	**₱7,488**	**₱13,354**	**₱3,114**	**₱6,036**	**₱4,211**	**₱4,419**	**₱69**
Current liabilities	**2,012**	**1,573**	**831**	**2,165**	**278**	**466**	**2**
Noncurrent liabilities	**3,322**	**4,518**	**438**	**1,239**	**1,757**	**2,018**	**–**
Total liabilities	**₱5,334**	**₱6,091**	**₱1,269**	**₱3,404**	**₱2,035**	**₱2,484**	**₱2**
Revenues	**₱2,851**	**₱2,122**	**₱1,135**	**₱8,752**	**₱642**	**₱796**	**₱–**
Cost	**(804)**	**(1,106)**	**(419)**	**(7,778)**	**(115)**	**(154)**	**–**
Gross margin	**2,047**	**1,016**	**716**	**974**	**527**	**642**	**–**
Selling and administrative, and other expenses	**(121)**	**(471)**	**(143)**	**(430)**	**(316)**	**(410)**	**(2)**
Pre-tax income (loss)	**₱1,926**	**₱545**	**₱573**	**₱544**	**₱211**	**₱232**	**(₱2)**
Proportionate ownership in the associate	**10.00%**	**29.10%**	**25.98%**	**49.00%**	**44.00%**	**20.00%**	**20.00%**
Share in pre-tax income (loss)	**193**	**159**	**149**	**266**	**93**	**46**	**(1)**
Income tax	**(42)**	**(5)**	**(33)**	**(53)**	**(5)**	**–**	**–**
Non-controlling interest	**–**	**(235)**	**–**	**–**	**–**	**–**	**–**
Equity in net earnings (losses)	**₱151**	**₱81**	**₱116**	**₱213**	**₱88**	**₱46**	**(₱1)**
Dividends received	**₱90**	**₱–**	**₱22**	**₱–**	**₱33**	**₱30**	**₱–**

	2018					
	RRC	PERC	MMPC	ARCC	PSOC	PWEI
Current assets	₱1,275	₱2,323	₱1,930	₱6,848	₱864	₱829
Noncurrent assets	12,460	8,287	716	821	2,792	3,757
Total assets	₱13,735	₱10,610	₱2,646	₱7,669	₱3,656	₱4,586
Current liabilities	1,903	1,253	763	2,765	663	466
Noncurrent liabilities	4,079	5,037	317	2,599	1,680	2,267
Total liabilities	₱5,982	₱6,290	₱1,080	₱5,364	₱2,343	₱2,733
Revenues	₱2,534	₱2,139	₱1,332	₱7,680	₱615	₱848
Cost	(765)	(1,045)	(369)	(7,491)	(214)	(349)
Gross margin	1,769	1,094	963	189	401	499
Selling and administrative, and other expenses	(215)	(381)	(416)	(592)	(157)	(196)
Pre-tax income (loss)	₱1,554	₱713	₱547	(₱403)	₱244	₱303
Proportionate ownership in the associate	10.00%	28.36%	25.98%	49.00%	44.00%	20.00%
Share in pre-tax income (loss)	155	71	142	(197)	107	60
Income tax	(32)	(5)	(6)	(92)	(5)	–
Non-controlling interest	–	(185)	–	–	–	–
Equity in net earnings (losses)	₱123	₱119	₱136	(₱289)	₱102	₱60
Dividends received	₱60	₱8	₱22	₱–	₱48	₱–

13. **Property and Equipment**

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

	2019	2018
Balance at beginning of year	**₱7,023,425,494**	₱6,312,509,812
Additions:		
Acquisition	**2,038,084,517**	240,334,088
Appraisal increase	**124,414,373**	470,581,594
Balance at end of year	**₱9,185,924,384**	₱7,023,425,494

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

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

On October 26, 2017, HI acquired a parcel of 5,114 sqm land located in Sta. Cruz, Makati City for ₱951.5 million where a new office building will be erected and will be used for administrative purposes. In 2018, the Parent Company sold to MESI the said property.

As of December 31, 2019 and 2018, the appraised values of the parcels of land were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, shape and terrain and location among others. The significant unobservable valuation input is price per square meter (level 3 - Significant unobservable inputs). The parcels of land were valued in terms of their highest and best use. The valuation was performed by an independent SEC-accredited appraiser as of December 31, 2019.

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

Location	**Valuation Techniques**	**Unobservable Inputs Used**	**Range (Weighted Average)** 2019	2018
Quezon and Panay Avenue, Quezon City	Market Approach	Price per square meter	**₱120,000 to ₱250,000 (₱94,800)**	₱100,000 to ₱154,500 (₱89,000)
Barangay Tuding, Itogon, Benguet	Market Approach	Price per square meter	**₱6,864 to ₱7,220 (₱7,000)**	₱6,864 to ₱7,220 (₱7,000)
Barangay Sta. Maria, Itogon and Bolo Bauan, Batangas	Market Approach	Price per square meter	**₱4,275 to ₱6,413 (₱5,400)**	₱5,526 to ₱4,005 (₱7,000)
Barangay Biga I, Silang, Province of Cavite	Market Approach	Price per square meter	**₱7,600 to ₱8,479 (₱8,000)**	₱8,000 to ₱5,000 (₱5,200)
Barangay Majada Labas, Calamba, Laguna	Market Approach	Price per square meter	**₱3,325 to ₱6,688 (₱4,600)**	₱2,520 to ₱5,670 (₱4,300)
Makati and Intramuros, Manila	Market Approach	Price per square meter	**₱40,500 to ₱273,125**	₱42,025 to ₱227,500
Cabuyao, Laguna	Market Approach	Price per square meter	**₱8,016 to ₱14,963**	₱8,289 to ₱31,350
Davao City, Davao Del Sur	Market Approach	Price per square meter	**₱12,339 to 39,738**	₱13,968 to ₱40,000
Pandacan, Metro Manila	Market Approach	Price per square meter	**₱51,300 to ₱76,950**	₱56,525 to ₱68,400
San Jose Del Monte City, Bulacan	Market Approach	Price per square meter	**₱47,025 to 58,500**	n/a
Naga City, Camarines Sur	Market Approach	Price per square meter	**₱2,748 to ₱6,804**	n/a
Quiapo, Manila	Market Approach	Price per square meter	**₱72,896 to 113,797**	n/a

Net adjustment factors arising from external and internal factors (i.e. market conditions, competitiveness, size/shape/terrain, and development) affecting the subject properties as compared to the market listing of comparable properties ranges from -30% to +35% in 2019 and from -20% to +20% in 2018.

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

In 2019, 2018 and 2017, the Group revalued its land based on the appraisals made by SEC accredited appraisers. Movements in revaluation increment on land, net of deferred tax effect, for the years ended December 31 follow:

	2019	2018	2017
Beginning of year	**₱2,244,706,485**	₱1,837,421,370	₱1,489,905,172
Revaluation increment	**87,442,464**	407,285,115	347,516,198
End of year	**₱2,332,148,949**	₱2,244,706,485	₱1,837,421,370

As of December 31, 2019 and 2018, the cost of the parcels of land carried at revalued amounts amounted to ₱5,757 million and ₱3,719 million, respectively.

Property and equipment at cost
The rollforward analysis of this account follows:

	2019					
	Buildings and Improvements	**Machinery, Tools and Construction Equipment**	**Transportation and Service Equipment**	**Furniture, Fixtures, and Office Equipment**	**Construction in Progress**	**Total**
Cost						
At beginning of year	**₱4,290,357,917**	**₱6,204,616,227**	**₱1,389,379,772**	**₱2,658,177,122**	**₱89,872,543**	**₱14,632,403,581**
Acquisitions/additions from business combination	**1,641,996,921**	**193,959,362**	**92,836,246**	**707,343,091**	**860,976,223**	**3,497,111,843**
Disposals	**(42,306,460)**	**(615,422,065)**	**(43,467,297)**	**(5,047,256)**	**–**	**(706,243,078)**
Reclassifications	**70,473,940**	**469,099,109**	**–**	**(466,483,807)**	**(73,089,242)**	**–**
At end of year	**5,960,522,318**	**6,252,252,633**	**1,438,748,721**	**2,893,989,150**	**877,759,524**	**17,423,272,346**
Accumulated Depreciation and Amortization						
At beginning of year	**1,745,169,128**	**2,560,444,812**	**760,429,142**	**2,034,942,044**	**–**	**7,100,985,126**
Depreciation and amortization (Note 30)	**204,356,049**	**520,587,890**	**139,710,197**	**247,981,182**	**–**	**1,112,635,318**
Disposals/retirements	**89,566,980**	**(132,371,472)**	**(62,348,393)**	**(59,879,542)**	**–**	**(165,032,427)**
Additions from business combination	**183,761,466**	**–**	**7,655,339**	**374,349,971**	**–**	**565,766,776**
Reclassifications	**–**	**405,112,230**	**–**	**(405,112,230)**	**–**	**–**
At end of year	**2,222,853,623**	**3,353,773,460**	**845,446,285**	**2,192,281,425**	**–**	**8,614,354,793**
Net Book Value at Cost	**₱3,737,668,695**	**₱2,898,479,173**	**₱593,302,436**	**₱701,707,725**	**₱877,759,524**	**₱8,808,917,553**

	2018					
	Buildings and Improvements	Machinery, Tools and Construction Equipment	Transportation and Service Equipment	Furniture, Fixtures, and Office Equipment	Construction in Progress	Total
Cost						
At beginning of year	₱3,117,422,633	₱4,901,377,474	₱1,388,034,898	₱2,324,244,550	₱1,016,737,644	₱12,747,817,199
Additions	–	776,255,794	14,356,481	259,503,067	264,137,149	1,314,252,491
Disposals/retirements	–	(9,985,585)	(30,599,745)	(3,381,323)	–	(43,966,653)
Reclassifications	1,122,181,578	–	1,322,880	67,473,103	(1,191,002,250)	(24,689)
Transfer in (Note 9)	57,753,706	536,968,544	16,265,258	10,337,725	–	621,325,233
Transfer out	(7,000,000)	–	–	–	–	(7,000,000)
At end of year	4,290,357,917	6,204,616,227	1,389,379,772	2,658,177,122	89,872,543	14,632,403,581
Accumulated Depreciation and Amortization						
At beginning of year	1,593,075,002	2,110,460,155	656,955,889	1,801,485,873	–	6,161,976,919
Depreciation and amortization (Note 30)	152,790,278	469,868,075	133,693,797	226,622,710	–	982,974,860
Disposals/retirements	–	(9,985,585)	(30,599,745)	(3,381,323)	–	(43,966,653)
Reclassifications	(696,152)	(9,897,833)	379,201	10,214,784	–	–
At end of year	1,745,169,128	2,560,444,812	760,429,142	2,034,942,044	–	7,100,985,126
Net Book Value at Cost	₱2,545,188,789	₱3,644,171,415	₱628,950,630	₱623,235,078	₱89,872,543	₱7,531,418,455

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

	2019	2018	2017
Cost of sales and services			
Construction contracts (Note 27)	**₱505,054,894**	₱533,700,871	₱471,687,826
Tuition and other fees (Note 28)	**273,365,949**	187,605,487	194,769,392
Manpower and other services (Note 27)	**85,027,698**	48,899,277	58,781,486
Capitalized as part of cost of inventories	–	554,093	493,326
	863,448,541	770,759,728	725,732,030
General and administrative expenses (Note 29)	**249,186,777**	212,215,132	177,276,099
	₱1,112,635,318	₱982,974,860	₱903,008,129

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

14. **Leases**

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

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

	2019	2018
Within one year	**₱790,614**	₱1,750,332
More than one year but not more than five years	**4,036,164**	4,005,587
Later than five years	**1,273,292**	1,369,753
	₱6,100,070	₱7,125,672

Group as a lessee
The Group has lease contracts for various items of land, improvements, office spaces, warehouses, school sites and annexes and other equipment used in its operations, among others. Leases of land, improvements and school sites generally have lease terms between 4 and 66 years, while other equipment generally have lease terms between 1 and 3 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

a. On January 18, 2019, the Parent Company entered into a lease agreement with Grepa Realty Holdings Corporation for lease of an office space for a period of one (1) year, commencing on January 1, 2019 and until December 31, 2019. The contract may be renewed upon such terms and conditions as may be mutually agreed upon by the parties. The Parent Company availed short-term exemption for the lease agreement and incurred rent expenses amounting to ₱1.7 million and ₱1.1 million in 2019 and 2018, respectively.

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

c. EEI Group leases a staff house which it occupies for its operations for a period of two years, both parties has the option to renew as per agreement. EEI Group entered into a lease contract covering the period of July 2, 2019 to July 2, 2020.

d. EEI Group leases a lot and offices which it occupies for its operations during the period of the projects of the Group with option to renew as per agreement. The Group entered into a lease contract covering the period of October 16, 2011 to October 15, 2014. The contract has a rate of ₱450 per square meter for the first two years and ₱460 per square meter for the third year.

e. In May 2016, EEI Group entered into a lease agreement for a period of five (5) years commencing on July 7, 2016 and expired on July 6, 2021. The leased premises has an escalation of 10% on the rent starting the second year. In April 2016, the EEI Group renewed the lease for a period of three (3) years commencing on April 16, 2014 to April 15, 2019. The lease contract has a rate of ₱630 per square meter for the first year and 5% yearly increase thereafter.

f. IPO Group leases staffhouses for a period of one (1) year that are renewable annually upon mutual agreement of IPO Group and its lessors. Monthly lease payments range from ₱14,000 to ₱65,000.

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

Lessor	**Commencement date**	**Term**	**Monthly Rental**
Grepa Realty Holdings Corporation	January 1, 2019	1 year	₱399,168
Rizal Commercial Banking Corporation	October 5, 2018	1 year	2,602
Rizal Commercial Banking Corporation	July 25, 2017	3 years	93,756*
RCBC Savings Bank	January 1, 2015	5 years	6,300*

**subject to 5% annual escalation rate*

Rent expense recognized in 2019 and 2018 amounted ₱6.45 million and ₱6.15 million, respectively.

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

	2019	2018
Within one year	**₱728,554**	₱1,332,896
After one year but not more than five years	**–**	687,150
	₱728,554	₱2,020,046

h. The Greyhounds Security and Investigation Agency Corporation entered into an agreement with Grepa Realty Holdings Corporation for the lease of office space. The lease is renewable annually upon mutual agreement by both parties. Rent expense recognized in 2019 and 2018 amounted to ₱0.64 million and ₱0.59 million, respectively.

i. In 2011, IMI entered into lease agreements with Mapua Information Technology Centers, Inc., Malayan Colleges, Inc. and Malayan High School of Science for canteen spaces. In 2016, the Company started to lease a canteen space from Malayan Colleges Laguna, Inc. These lease agreements cover a period of one year with monthly lease payments ranging from ₱4,464 to ₱165,934.

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

The carrying amount of right-of-use assets and the movement during the period are as follows:

Balance at beginning of the year	₱–
Effect of adoption of PFRS 16 (Note 3)	1,378,023,041
Balance at beginning of the year, as restated	1,378,023,041
Additions during the year	474,569,625
Amortization of right-of-use asset	(246,866,013)
Balance at end of the year	₱1,605,726,653

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

Cost of sales and services	
Construction contracts	₱43,008,349
Tuition and other fees	63,477,198
	106,485,547
General and administrative expenses	140,380,466
	₱246,866,013

The carrying amount of lease liability and the movement during the period are as follows:

	Current	Noncurrent
Balance at beginning of the year	₱–	₱–
Effect of adoption of PFRS 16 (Note 3)	245,915,345	1,190,214,802
Balance at beginning of the year, as restated	245,915,345	1,190,214,802
Additions during the year	310,803,183	133,033,160
Interest expense	79,459,539	–
Payments	(420,761,700)	–
	₱215,416,367	₱1,323,247,962

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

	2019
Amortization of right-of-use assets	₱246,866,013
Interest expense on lease liabilities	79,459,539
Expenses relating to short-term leases and low-value assets	25,919,076
	₱352,244,628

15. **Goodwill**

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

	2019	2018
EEI Corporation and Subsidiaries	**₱300,859,305**	₱300,859,305
IPO	**32,644,808**	32,644,808
Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.)	**137,853,346**	137,853,346
Business combination of IPO and AEI	**13,472,260**	–
	₱484,829,719	₱471,357,459

Goodwill of EEI and IPO
Management determined that the recoverable amount of the goodwill balances of EEI and IPO were fair values less costs of disposal wherein the fair values are the quoted prices of the shares of stocks of EEI and IPO in the Philippine Stock Exchange as of December 31, 2019 and 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.

Goodwill of Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.)
The goodwill recognized in the consolidated statement of financial position amounting ₱151.33 million and ₱137.85 million as at December 31, 2019 and 2018 pertains to the excess of the acquisition cost over the fair values of the net assets of MESI acquired by the Group through IPO in 1999 amounting to ₱137.85 million.

For purposes of impairment testing of this asset, MESI was considered as the CGU.

Goodwill arising from Business Combination
On October 1, 2018, the BOD of IPO executed a MOA for a proposed Plan of Merger between IPO and AEI with IPO as the surviving entity with HI and AC owning 48.18% and 33.5%, respectively. The merger would bring together the educational groups of HI and AC.

On April 24, 2019, the SEC approved the merger between IPO and AEI, with IPO as the surviving entity, and to take effect five business working days thereafter or May 2, 2019. On said date, IPO issued 295,329,976 common shares from its unissued capital stock to AC, the parent company of AEI. IPO being the surviving corporation is deemed to have acquired all the assets and to have assumed all the liabilities of AEI in a business combination accounted for under the acquisition method. In exchange for the transfer of the net assets of AEI to IPO, the latter issued to AC an aggregate of 295,329,976 shares with par value of ₱1.0 per share for a total fair value of ₱3.6 billion based on IPO's quoted closing rate per share as of May 2, 2019. The excess of the fair value of shares issued over the par value was recognized as additional paid-in capital by IPO.

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 fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱1,291,500
Trade and other receivables	231,421
Other current assets	188,222
Land (Note 11)	2,038,085
Property, plant and equipment (Note 10)	725,681
Right-of-use assets (Note 31)	363,029
Intellectual property rights	523,103
Student relationship	116,009
Other noncurrent assets	102,717
	5,579,767
Liabilities	
Accounts and other payables	₱319,124
Loans payable	260,000
Deferred tax liabilities	432,946
Leased liabilities (Note 31)	374,622
Other liabilities	77,815
	1,464,507
Total identifiable net assets at fair value	4,115,260
Non-controlling interest	(537,520)
Goodwill	13,472
Cost of acquisition	₱3,591,213

The goodwill arising from the merger between IPO and AEI on May 2, 2019 amounted to ₱13.47 million.

In 2019 and 2018, management assessed that no impairment loss should be recognized.

Key assumptions used in the value in use (VIU) calculation
As at December 31, 2019 and 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 K to 12 Basic Education Program on MESI's financial performance effective 2016.
- Long-term growth rates (3.73% for 2019 and 3.67% for 2018): The Long-term growth rate is the expected growth rate in the education industry sector.
- Discount rate (8.3% for 2019 and 10.10% 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.

16. **Investment Properties**

The rollforward analysis of this account follows:

	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**
Disposals	**(188,000)**	**(350,000)**	**(538,000)**
Balances at end of year	**17,211,238**	**4,392,917**	**21,604,155**
Accumulated Depreciation			
Balances at beginning of year	**–**	**3,985,137**	**3,985,137**
Depreciation (Note 29)	**–**	**17,500**	**17,500**
Disposals	**–**	**(87,500)**	**(87,500)**
Balances at end of year	**–**	**3,915,137**	**3,915,137**
Net Book Value	**₱17,211,238**	**₱477,780**	**₱17,689,018**

	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

Land classified as investment properties include parcels of land located in Benguet, Cavite, Nueva Ecija, Bulacan, memorial lots in Las Piñas and memorial lots in Taguig with carrying values of ₱6.6 million, ₱0.5 million, ₱0.2 million, ₱7.0 million, ₱0.9 million and ₱2.0 million, respectively, as of December 31, 2019. Carrying values of parcels of land located in Benguet, Cavite, Nueva Ecija, Bulacan, memorial lots in Las Piñas and memorial lots in Taguig were ₱6.6 million, ₱0.5 million, ₱0.2 million, ₱7.0 million, ₱1.1 million and ₱2.0 million, respectively, as of December 31, 2018.

As of December 28, 2018, the fair value of the land, including residential building, in Benguet amounted to ₱16.6 million, which was determined based on valuation performed by an independent SEC accredited appraiser whose report was dated February 11, 2019. The fair value of the land was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, and shape (Level 3 - Significant unobservable inputs).

In 2019, the Group has determined that the fair value of the properties has not significantly changed.

The fair values of the aforementioned investment property were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, location, frontage/visibility, view and utilization (Level 3 - Significant unobservable inputs).

Rental income derived from the investment properties amounted to ₱0.3 million, ₱6.8 million, and ₱6.9 million in 2019, 2018 and 2017, respectively. Total direct operating expenses incurred in relation to these investment properties amounted to ₱0.1 million in 2019, ₱0.4 million in 2018 and ₱0.6 million in 2017.

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

17. Other Noncurrent Assets

This account consists of:

	2019	2018
Contract asset- net of current portion (Note 8)	**₱493,848,199**	₱1,150,483,395
Intellectual property rights (Note 15)	**523,103,000**	–
Deferred input VAT	**181,103,198**	215,311,643
Student relationship (Note 15)	**101,135,343**	–
Interest-bearing trade receivables- net of current portion (Note 7)	**51,479,840**	88,307,263
Miscellaneous deposit	**27,489,054**	455,304
Receivable from EEI-RFI - net of current portion (Notes 7)	**23,000,000**	78,000,000
Computer software	**15,872,318**	14,298,226
Deposit for future subscription of shares of stock	**450,000**	80,999,919
Receivable from sale of investment property - net of current portion (Note 7)	**–**	155,245,566
Others	**88,043,443**	34,145,711
	₱1,505,524,395	₱1,817,247,027

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

Miscellaneous deposits include rental and security deposits.

Rollforward of computer software follows:

	2019	2018
Cost		
Balance at the beginning of the year	**₱131,540,217**	₱123,869,766
Additions	**8,195,665**	7,670,451
Balance at the end of the year	**139,735,882**	131,540,217
Accumulated Amortization		
Balance at the beginning of the year	**117,241,991**	110,393,578
Amortization (Note 30)	**6,621,573**	6,848,413
Balance at the end of the year	**123,863,564**	117,241,991
Net Book Value	**₱15,872,318**	₱14,298,226

As of December 31, 2019, the average remaining useful of the software is one (1) year.

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. Management is in the position that the Group has not obtained control over BiotechJP in 2018 because the Group can only exercise its right as a stockholder owning 60% equity interest in BiotechJP upon receipt of the shares of capital stock of the investee.

In August 2019 (acquisition date), the Group reclassified the deposit to investment in subsidiary upon receipt of stock certificate of BiotechJP. The Group accounted for the investment as investment in subsidiary with its 60% interest.At date of acquisition, the Group recognized net assets acquired at fair value of ₱35.53 million. Non-controlling interet in BiotechJP was also recognized at the proportionate share of its interest in the BiotechJP's identifiable net assets. The net assets recognized were based on provisional assessment of their fair value while the Group sought an independent valuation of net assets of BiotechJP. Also, the Group attributes the excess of the acquisition cost over the fair value of the net assets acquired amounting to ₱45.47 million to goodwill and was recorded at net recoverable amount as at December 31, 2019.

In 2019, BiotechJP deposited ₱0.45 million with BEO Distribution and Marketing Corporation (BEO DMC) in exchange for 30% ownership in the latter. BEO DMC is in the business of distributing and marketing of goods. The deposit was recorded as "Deposit for Future Stock Subscription" pending receipt of the shares of capital stock of the investee.

Others include books and periodicals purchased by MCMI in its initial year of school operation which are amortized over five (5) years and escrow fund/fund project and National Labor Relations Commission (NLRC) bonds, among others.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2019	2018
Accounts payable	**₱7,215,918,280**	₱5,414,465,593
Deferred output taxes	**470,071,993**	744,845,437
Accrued expenses	**334,851,087**	176,520,142
Provisions (Note 35)	**154,307,388**	153,558,082
Withholding taxes and others	**82,850,499**	99,678,224
Output tax payable	**69,703,441**	87,109,634
Subscriptions payable	**13,125,000**	27,482,213
Chattel mortgage payable	**12,906,807**	13,654,776
SSS and other contributions	**10,937,385**	5,984,466
Payable to Land Transportation Office	**4,427,438**	5,390,644
Deferred income	**2,348,003**	3,873,163
Dividends payable	**378,640**	23,071,231
Others	**50,086,077**	39,157,878
	₱8,421,912,038	₱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.

Accrued expenses consist of:

	2019	2018
Accrued salaries and wages	**₱99,784,432**	₱57,446,450
Accrued insurance	**24,387,237**	28,100,852
Accrued interest	**25,193,482**	24,370,643
Accrued professional fees	**15,210,248**	4,026,484
Accrued security services	**10,673,278**	17,440,334
Accrued utilities	**8,453,023**	4,063,613
Others	**151,149,387**	41,071,766
	₱334,851,087	₱176,520,142

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

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

19. **Loans Payable**

This account consists of:

	2019	2018
Unsecured bank loans	**₱8,085,000,000**	₱8,979,000,000
Secured bank loans	**308,800,000**	1,540,000,000
	₱8,393,800,000	₱10,519,000,000

<u>Unsecured</u>
Unsecured bank loans are obtained from local banks and related party financial institutions with annual interest rates ranging from 3.40% to 6.25% and 3.00% to 6.13% in 2019 and 2018, respectively.

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

The Group, through MCMI, also obtained short-term loans from Land Bank of the Philippines (LBP) in 2019 and 2018 amounting to ₱15 million and ₱110 million, respectively with annual interests ranging from 4.70% to 6.25%. The loans are secured by the land owned by MCMI (Note 13).

Outstanding balance of short-term loans obtained by MCMI amounted to ₱308.80 million and ₱1,540 million as at December 31, 2019 and 2018, respectively.

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

	2019	2018
Beginning balance	**₱10,519,000,000**	₱7,685,000,000
Availment	**15,760,000,000**	17,624,000,000
Payments	**(17,885,200,000)**	(14,790,000,000)
Ending balance	**₱8,393,800,000**	₱10,519,000,000

20. **Long-term Debt**

	2019	2018
Parent Company		
Peso-denominated five (5) year term loan, payable in twenty (20) equal quarterly installments starting March 2016 with interest of 5.11% per annum	**₱100,000,000**	₱200,000,000
EEI		
Fixed-rate corporate promissory notes with interest rate of 4.80% per annum	**2,446,428,571**	2,327,380,953
EEI Power		
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.	**196,428,571**	267,857,143
Biotech JP		
Yen-denominated five (5) year term loan, with interest rate of 0.05% per annum.	**23,380,577**	–
Yen-denominated four and half (4.5) term loan, with interest rate of 0.30% per annum.	**9,258,000**	–
Yen-denominated 6-month term loan, with interest rate of 2.45% per annum.	**46,290,000**	–
IPO		
Ten (10) year unsecured term loan, payable in 28 quarterly payments starting May 2022, with interest rate of 5.5% per annum subjectto annual repricing	**380,000,000**	–
Ten (10) year secured term loan, payable in 20 equal quarterly installments to start at the end of 21st quarter from the initial drawdown, with interest rate of at least 4% per annum subject to quarterly repricing	**1,489,903,407**	–
	4,691,689,126	2,795,238,096
Less current portion of long-term debt	**1,385,714,285**	774,603,175
	₱3,305,974,841	₱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. As of December 31, 2019, the Parent Company has complied with its covenant obligation, including maintaining the required debt-to-equity ratio of 2.5:1.

On September 17, 2013, the Parent Company obtained interest-bearing loans from various local commercial banks (Eastwest Bank, Robinsons Bank and Philippine Bank of Communications) which were executed through individual loan agreements with chattel mortgage. Each interest-bearing loan has a term of ten years. Fifty percent (50%) of the total loan will be paid on the 10th year, while the remaining 50% of the loan, inclusive of a three (3) year grace period on principal payment, will be paid in 28 quarterly installments commencing on the 13th quarter.

The proceeds of the loan were used for the acquisition of the 10% ownership in RRC. A portion of each loan bears a fixed annual effective interest rate of 5.50%, subject to repricing on the fifth (5) year while the remaining portion bears a floating effective interest rate of 5%, subject to quarterly repricing.

The loan was fully paid in 2018

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

On June 15, 2015, the Group 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 4.80%. The promissory note matures within seven (7) years from the date of issuance.

On May 23, 2018, the Group 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 4.80%. The promissory note matures within five (5) years from the date of issuance.

On November 11, 2019, the Group received ₱909 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 3.90%. The promissory note matures within three (3) years from the date of issuance. The proceeds from the promissory notes were used for general corporate and project financing requirements.

Interest expense incurred on these corporate notes amounted to ₱52.6 million, ₱62.9 million and ₱37.4 million in 2019, 2018 and 2017, respectively.

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

Biotech JP
On August 12, 2016, Biotech JP obtained an unsecured five-year long-term loan from Biotech Japan Corporation that bears an annual interest rate of .05%. The loan is payable at maturity date, including accrued interest.

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

In 2019, Biotech JP obtained an unsecured ₱47.60 million long-term loan from Biotech Japan Corporation that bears an annual interest of 2.45%.

Interest expense incurred on these corporate notes amounted to ₱12.34 million, ₱15.70 million and ₱18.60 million in 2019, 2018 and 2017, respectively.

<u>IPO</u>
On February 7, 2019, IPO Group, through NTC, entered into a 10-year unsecured term loan facility with a local bank for ₱650.00 million to finance its building refurbishment and/or expansion. The principal payments of which will be made in 28 quarterly payments starting May 2022. As of December 31, 2019, total drawdown from the long-term loan facility amounted to ₱380 million, which are subject to annual repricing based on higher of 5.50% or the prevailing one year benchmark rate or done rate of a liquid/active security, as agreed by the parties, with the same tenor if benchmark rate is not reflective of market rate, plus interest spread.

The loan is subject to certain covenants including maintaining a maximum debt-to-equity structure ratio of 3:1. As of December 31, 2019, NTC has complied with its covenant obligations, including maintaining the required debt-to-equity ratio. The Group incurred interest expense amounting to ₱8.46 million for the year ended December 31, 2019. Interest expense in 2019 amounting to ₱7.11 million was capitalized as part of building and improvements.

On August 23, 2018, IPO, through MCMI, entered into a ten-year secured long-term loan agreement with LBP for ₱1,500.00 million to refinance the construction of MCMI's school buildings and facilities that were initially funded by short-term loans. MCMI made partial drawdowns against this agreement amounting to ₱680.00 million, ₱350.00 million and ₱470.00 million in January, June and July 2019, respectively. The loans were subject to prevailing borrower's rate, plus a minimum spread of 0.50% per annum, but in no case lower than 4% per annum, subject to quarterly repricing. MCMI shall repay the loan in 20 equal quarterly installments to start at the end of 21st quarter from the initial drawdown date. The loans were secured by the land and related improvements owned by MCMI and suretyship of MESI. The loans were subject to certain positive and negative covenants such as the requirement for MESI to maintain its debt service cover ratio of at least 1.0 at all times and its debt-to-equity ratio of at least 75:25 starting on the third year of the loan reckoned from initial drawdown date (January 2019).

MCMI incurred debt issue cost amounting to ₱11.25 million which was being amortized over the loan term of 10 years using the effective interest method. The amortized debt issue cost amounting to ₱1.15 million was recorded as part of interest expense.

Interest expense, including amortization of debt issue cost, amounted to ₱58.33 million.

Movements in the account follow:

	2019	2018
Balance at beginning of year	**₱2,795,238,096**	₱2,671,946,814
Availments	**2,862,403,404**	1,815,476,190
Payments	**(965,952,374)**	(1,703,608,058)
Amortization of transaction costs	–	11,423,150
Balance at end of year	**4,691,689,126**	2,795,238,096
Less current portion	**(1,385,714,285)**	(774,603,175)
	₱3,305,974,841	₱2,020,634,921

The aforementioned loans require the Group to maintain certain financial ratios such as debt to equity ratio, current ratio and debt service coverage ratio. As of December 31, 2019, and 2018, the Group was in compliance with the loan covenants.

21. EEI's Stock Option Plan

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

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

A summary of the plan availments is shown below:

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

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

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

22. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or the party is an associate or a joint venture. Related parties may be individuals or corporate entities.

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

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

	2019			
Category	**Amount/ Volume**	**Outstanding Balance Receivable (Payable)**	**Terms**	**Conditions**
Parent Company – PMMIC				
a. Accounts payable	**₱989**	**(₱357)**	**Noninterest-bearing**	**Unsecured**
Miscellaneous expenses incurred	**989**	**–**		
b. Dividends payable	**–**	**–**	**Noninterest-bearing**	**Unsecured**
Dividends declared	**27,868**	**–**		
Associates				
c. Dividends receivable		**30,000**	**Noninterest-bearing**	**Unsecured, no impairment**
Dividends earned	**129,100**	**–**		
d. Receivables from related parties	**–**	**305**	**Noninterest-bearing**	**Unsecured**
Rendering management and audit services	**1,755**	**2,999**		
Rendering of services	**–**	**23,952**		
Extension of advances	**797,451**	**3,402**		
e. Due to related parties	**(126,417)**	**(126,417)**	**Noninterest-bearing**	**Unsecured**
f. Subscriptions payable	**–**	**(9,375)**	**Noninterest-bearing**	**Unsecured**
Other affiliates				
g. Rendering of construction services	**7,058**	**76,112**	**Interest-bearing, 5% per annum**	**Unsecured**
Sale of property	**5,678**	**78,000**	**Interest-bearing, 5% per annum**	**Unsecured**
Lease of property	**(67,541)**	**–**	**Non-interest bearing**	**Unsecured**
Extension of advances	**–**	**68**		
Entities under common control				
h. Cash and cash equivalents	**–**	**2,073,885**	**Interest-bearing at prevailing bank deposit rates**	**Unrestricted**
Interest earned	**32,582**	**–**		
Accounts receivable	**–**	**108,582**	**Noninterest-bearing**	**Unsecured, no impairment**
Sale of vehicles	**161,898**	**–**		
Agency fee income earned	**55,584**	**–**		
Dividends receivable	**–**	**–**	**Noninterest-bearing**	**Unsecured, no impairment**
Dividends earned	**29**	**–**		
Commission receivable	**–**	**392**	**Noninterest-bearing**	**Unsecured, no impairment**
Commission earned	**133**	**–**		
Receivables from related parties	**–**	**70,930**	**Noninterest-bearing**	**Unsecured, no impairment**
Rendering janitorial service	**392,037**	**–**		
Other income earned	**416**	**–**		
Rental income earned	**–**	**–**		
Audit fee income earned	**2,858**	**–**		
Management fee receivable	**–**	**55,985**	**Noninterest-bearing**	**Unsecured, no impairment**
Rendering management services	**131,559**	**–**		

(Forward)

	2019			
Category	**Amount/ Volume**	**Outstanding Balance Receivable (Payable)**	**Terms**	**Conditions**
Accounts payable and accrued expenses	**₱–**	**₱96**	**Noninterest-bearing**	**Unsecured**
Rental of office space	**7,312**	–		
Due to related parties	–	–	**Noninterest-bearing**	**Unsecured**
Insurance expense	**12,577**	–		

	2018			
Category	Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
Parent Company - PMMIC				
a. Accounts payable	₱558	(₱248)	Noninterest-bearing	Unsecured
Miscellaneous expenses incurred	506	–		
b. Dividends payable	688	(1,669)	Noninterest-bearing	Unsecured
Dividends declared	25,542	–		
Associates				
c. Dividends receivable	–	10,000	Noninterest-bearing	Unsecured, no impairment
Dividends earned	107,541	–		
d. Receivables from related parties	–	123,176	Noninterest-bearing	Unsecured
Rendering management and audit services	7,451	–		
Extension of advances	3,528	–		
Rendering of services	117,670	–		
e. Due to related parties	(7,495)	(131,069)	Noninterest-bearing	Unsecured
f. Subscriptions payable	–	(9,735)	Noninterest-bearing	Unsecured
Other affiliates				
g. Interest income on receivables	8,795	141,112	Interest-bearing, 5% per annum	Secured, no impairment
Sale of property	7,671	133,000	Interest-bearing, 5% per annum	Secured, no impairment
Lease of property	57,433	–		
Entities under common control				
h. Cash and cash equivalents	–	1,764,680	Interest-bearing at prevailing bank deposit rates	Unrestricted
Interest earned	17,702	–		
i. Accounts receivable	–	85,749	Noninterest-bearing	Unsecured, no impairment
Sale of vehicles	85,359	–		
Agency fee income earned	49,221	–		
j. Dividends receivable	(300)	–	Noninterest-bearing	Unsecured, no impairment
Dividends earned	30	–		
k. Commission receivable	–	382	Noninterest-bearing	Unsecured, no impairment
Commission earned	97	–		
l. Receivables from related parties	–	22,790	Noninterest-bearing	Unsecured, no impairment
Rendering janitorial service	429,199	–		
Other income earned	916	–		
Rental income earned	–	–		
Audit fee income earned	3,383	–		

(Forward)

Category		Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
		2018			
m.	Management fee receivable	₱–	₱42,756	Noninterest-bearing	Unsecured, no impairment
	Rendering management services	133,257	–		
n.	Accounts payable and accrued expenses	179	–	Noninterest-bearing	Unsecured
	Rental of office space	6,736	–		
o.	Due to related parties	–	(3,781)	Noninterest-bearing	Unsecured
	Insurance expense	8,759	–		

Parent Company - PMMIC

a. Accounts payable to PMMIC pertains to unpaid expenses on shared costs such as legal expenses which are included under "Miscellaneous expense". Accounts payable to PMMIC as at December 31, 2019 and 2018 amounted to ₱0.4 million and P0.2 million, respectively.

b. Dividends declared in 2019 and 2018 by the Parent Company amounted to ₱63.3 million and ₱64.8 million, respectively (Note 40). Out of the total declared dividends, dividends payable to PMMIC as at December 31, 2019 and 2018 amounted to nil and ₱1.7 million, respectively.

Associates

c. In 2019 and 2018, dividend income earned from associates amounted to ₱129.1 million and ₱107.5 million, respectively. Outstanding dividends receivable from associates as at December 31, 2019 and 2018 amounted to ₱30.0 million and ₱10.0 million, respectively.

d. Receivable from related parties arises from services rendered by the Parent Company and EEI to its associates. These services include management consultancy, internal audit fees and extension of advances. As at December 31, 2019 and 2018, the Group has an outstanding receivable from its associates amounting ₱123.2 million and ₱106.3 million, respectively. Management fee income charged to associates is fixed per month while audit fee income depends on the audit engagement letter agreed by both parties.

e. Due to related parties pertains to advances extended by EEI Limited to ARCC. As at December 31, 2019 and 2018, the Group has an outstanding payable to its associates amounting ₱126.4 million and ₱131.1 million, respectively.

f. Outstanding subscription payable to an associate amounted to ₱9.7 million as at December 31, 2019 and 2018.

Other affiliates

g. In 2013, EEI was contracted by PWEI for the construction of 18 units WTG foundations, roadways and temporary landing pad intended for the 36MW Nabas Wind Power Project (NWPP) in Nabas, Aklan for ₱1,100.0 million. The project was completed on April 30, 2015. The outstanding receivables amounted to ₱76.1 million and ₱141.1 million as of December 31, 2019 and 2018, respectively.

   In 2006, EEI sold parcels of land to EEI Retirement Fund, Inc. (EEI-RFI), a trustee of the EEI employees retirement fund. EEI-RFI is managed by RCBC Trust and Investment Division. The parcels of land sold are located in Manggahan, Quezon City and Bauan, Batangas (Note 13). Interest income recognized from the receivables from EEI-RFI is disclosed in Note 24. The receivables bear interest of 5% per annum in 2019, 2018 and 2017.

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

In 2013, the receivable from the EEI-RFI amounting to ₱390.0 million was restructured and reclassified to other noncurrent assets with fixed 5% interest rate per annum. In 2016, the Parent Company and the Fund agreed to extend the term of the payment until April 30, 2021. Outstanding receivables amounted to ₱78.0 million and ₱133.0 million as of December 31, 2019 and 2018 respectively (Notes 7 and 17). Interest income earned from receivable from EEI-RFI amounted to ₱6.3 million and ₱7.67 million for the year ended December 31, 2019 and 2018, respectively.

<u>Entities under common control of PMMIC</u>

h. The Group maintains cash and cash equivalents with RCBC, an entity under common control. As at December 31, 2019 and 2018, cash and cash equivalents with RCBC amounted to ₱2,073.9 million and ₱1,764.7 million, respectively. The related deposits earn interest at the prevailing bank deposit rates. Interest income earned from cash and cash equivalents amounted to ₱32.6 million, ₱17.7 million and ₱19.6 million in 2019, 2018 and 2017, respectively.

i. The Group generates income by providing security services at a 20% mark-up to entities under common control. In 2019, 2018 and 2017, the Group's agency fee income is attributable to security services provided to majority of RCBC branches in the country. As at December 31, 2019 and 2018, the Group's accounts receivable from RCBC amounted to ₱50.8 million and ₱47.7 million, respectively. Agency fees amounted to ₱55.6 million, ₱49.2 million and ₱45.8 million in 2019, 2018 and 2017, respectively.

   The Group sold vehicle units to various entities under common control of PMMIC with terms ranging from 30-60 days. The outstanding receivable from the sale amounted to ₱57.8 million and ₱38.0 million as at December 31, 2019 and 2018, respectively. Revenues from motor vehicle sales amounted to ₱161.9 million, ₱85.4 million and ₱125.7 million in 2019, 2018 and 2017, respectively.

j. Dividend income earned in 2019, 2018 and 2017 from entities under common control of PMMIC amounted to ₱0.03 million, ₱0.03 million and ₱0.7 million, respectively. Dividends were all collected in 2019 and 2018.

k. The Group earns commission income from insurance referrals to all insurance affiliate. As at December 31, 2019 and 2018, commission receivables amounted to ₱0.39 million and ₱0.38 million, respectively. Commission income amounted to ₱0.1 million, ₱0.1 million and ₱1.3 million in 2019, 2018, and 2017, respectively.

l. Receivable from related parties arises mainly from janitorial services rendered by EEI (GAMSI) to the Group's affiliates. The service revenue earned from janitorial serviced rendered in 2019, 2018 and 2017 amounted to ₱392.0 million, ₱429.2 million and ₱329.5 million, respectively.

m. One of the subsidiaries entered into various agreements with entities under common control to perform property and project management services. Receivable from this transaction is accounted under "Management fee receivable". The Group's outstanding receivable from property and project management fees amounted to ₱55.9 million and ₱42.8 million as at December 31, 2019 and 2018, respectively. Services fees amounted to ₱131.6 million, ₱133.3 million and ₱142.4 million in 2019, 2018 and 2017, respectively.

n. Payable to an entity under common control pertains to rental of office space and share in the utilities expense of the Group amounting to ₱0.1 million and nil as at December 31, 2019 and 2018, respectively.

o. IPO and EEI obtains property and personnel insurance from its affiliated insurance company, Malayan Insurance Company, Inc. (MICO). Insurance contract coverage pertains to Group's fire, accident, group and other insurance policies. As at December 31, 2019 and 2018, total outstanding payable amounted to nil and ₱3.8 million, respectively.

The Group maintains its retirement fund with RCBC trust division. As at December 31, 2019 and 2018, the fair values of the plan assets of the retirement fund amounted to ₱1,548.9 million and ₱1,286.9 million, respectively (Note 32). Trust fees amounting to ₱5.1 million, ₱5.0 million and ₱5.2 million were recognized by the retirement plan arising from its transactions with RCBC for the years ended December 31, 2019, 2018 and 2017, respectively.

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

	2019	2018	2017
Compensation and short-term benefits	**₱283,922,072**	₱295,874,351	₱262,665,060
Post-employment benefits	**51,351,462**	13,748,867	14,038,849
	₱335,273,534	₱309,623,218	₱276,703,909

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. These mainly consist of advances and reimbursement of expenses. The Group has not recognized any impairment on amounts due from related parties for the years ended December 31, 2019 and 2018. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

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

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

23. **Revenue from Contracts with Customers**

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

	2019	2018
Revenue from construction contracts	**₱21,360,242,366**	₱20,262,488,228
Sales of goods	**7,040,475,333**	7,884,084,729
Schools and related operations	**2,996,772,925**	1,807,593,037
Manpower	**669,811,598**	625,826,773
Power generation	**348,840,955**	411,113,436
Others	**1,713,698,126**	1,355,236,119
	₱34,129,841,303	₱32,346,342,322

Disaggregation of Revenues from construction contracts:

	2019	2018
Infrastructure	**₱11,344,227,918**	₱10,657,941,730
Building	**6,479,980,648**	5,843,255,741
Electro-mechanical	**2,685,576,381**	2,412,682,797
Industrial	**850,457,419**	1,348,607,960
	₱21,360,242,366	₱20,262,488,228

Disaggregation of Revenues from sale of goods:

	2019	2018
Merchandise sales	**₱6,951,914,939**	₱7,820,392,682
Real estate sales	**87,899,956**	63,237,940
Rent income	**660,438**	454,107
	₱7,040,475,333	₱7,884,084,729

Disaggregation of Revenue from schools and related operations:

	2019	2018
Tuition and other matriculation fees	**₱2,829,934,217**	₱1,671,496,122
Other student-related income:		
Bookstore sales	**50,654,978**	39,828,321
Seminar fee income	**16,572,886**	14,335,836
Others	**99,610,844**	81,932,758
	₱2,996,772,925	₱1,807,593,037

24. **Other Income -** Net

This account consists of:

	2019	2018	2017
Gain on sale of assets	**₱101,940,621**	₱24,981,758	₱346,566,455
Interest income	**60,989,962**	59,012,581	71,659,747
Dividend income	**54,808,659**	954,613	1,851,934
Rental income	**25,194,574**	42,195,891	20,760,534
Tax refund/discount	**4,804,879**	392,721	2,826,869
Foreign exchange gain (loss)	**(38,607,477)**	56,505,871	(11,827,606)
Income from reversal of payables	**–**	40,702	78,506,494
Finance income	**–**	–	227,814,636
Commission income	**–**	–	109,930,063
Insurance income	**–**	–	23,772,634
Recoveries from previously written-off receivables	**–**	–	4,241,071
Miscellaneous	**16,156,116**	35,884,277	44,836,508
	₱225,287,334	₱219,968,414	₱920,939,339

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

	2019	2018	2017
Property and equipment (Note 13)	**₱101,530,669**	₱17,058,635	₱8,813,780
Investment properties (Note 16)	**409,952**	7,923,123	279,071,868
Available-for-sale securities (Note 11)	**–**	–	58,680,807
	₱101,940,621	₱24,981,758	₱346,566,455

Interest income consists of income from:

	2019	2018	2017
Installment contract receivable	**₱10,647,486**	₱19,396,680	₱40,532,658
Savings deposit and short-term investments (Note 6)	**37,191,409**	17,532,694	17,310,166
Receivable from EEI-RFI (Notes 7, 17 and 22)	**5,677,703**	7,671,131	9,749,504
Others	**7,473,364**	14,412,076	4,067,419
	₱60,989,962	₱59,012,581	₱71,659,747

Commission income pertains to the administrative fee 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 2019 and 2018, administrative fees were recognized under revenue from contracts with customers.

In 2019, 2018 and 2017, certain payables that were long-outstanding amounting to nil, ₱0.04 million and ₱78.51 million, respectively, were written-off and recognized as other income. Based on management's assessment, the settlement of these payables are remote.

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

25. **Costs of Sales and Services**

This account consists of:

	2019	2018	2017
Cost of services (Note 27)			
Cost of construction contracts	**₱18,825,368,263**	₱17,774,856,638	₱11,364,201,342
Cost of manpower and other services	**1,905,955,718**	1,716,344,334	1,543,838,972
	20,731,323,981	19,491,200,972	12,908,040,314
Cost of goods sold			
Cost of merchandise sold (Note 26)	**6,543,465,005**	7,243,611,097	10,081,613,087
Cost of real estate sold (Note 9)	**60,914,479**	38,321,997	27,140,904
	6,604,379,484	7,281,933,094	10,108,753,991
Cost of tuition and other fees (Note 28)	**2,038,844,353**	1,279,402,975	1,286,658,343
	₱29,374,547,818	₱28,052,537,041	₱24,303,452,648

26. **Cost of Merchandise Sold**

This account consists of (Notes 9 and 25):

	2019	2018	2017
Inventory, beginning	**₱2,465,032,904**	₱809,783,825	₱1,249,249,386
Purchases	**6,185,829,667**	8,890,747,762	9,628,244,033
Total goods available for sale	**8,650,862,571**	9,700,531,587	10,877,493,419
Less inventory end	**2,122,740,026**	2,465,032,904	809,783,825
Cost of inventories sold	**6,528,122,545**	7,235,498,683	10,067,709,594
Personnel expenses	**7,547,944**	5,171,961	8,952,762
Others	**7,794,516**	2,940,453	4,950,731
	₱6,543,465,005	₱7,243,611,097	₱10,081,613,087

27. **Cost of Services**

	2019	2018	2017
Cost of construction contracts (Note 25)			
Materials	**₱6,909,445,920**	₱2,669,585,470	₱2,301,357,788
Labor	**5,918,411,505**	6,725,263,743	4,216,532,653
Equipment costs and others	**5,449,447,595**	7,846,306,554	4,374,623,075
Depreciation and amortization (Notes 13, 14 and 29)	**548,063,243**	533,700,871	471,687,826
	18,825,368,263	17,774,856,638	11,364,201,342
Cost of manpower and other services (Note 25)			
Personnel expenses	**808,871,227**	779,402,074	666,803,169
Materials	**460,667,622**	432,461,177	293,155,154
Parts and accessories	**319,374,007**	277,309,550	218,368,775
Depreciation and amortization (Notes 13, 14 and 29)	**85,027,698**	48,899,227	58,781,486
Others	**232,015,164**	178,272,306	306,730,388
	1,905,955,718	1,716,344,334	1,543,838,972
	₱20,731,323,981	₱19,491,200,972	₱12,908,040,314

28. Cost of Tuition and Other Fees

This amount consists of (Note 25):

	2019	2018	2017
Personnel expenses	**₱927,213,682**	₱608,761,306	₱575,949,479
Depreciation and amortization (Notes 13, 14, 16 and 17)	**336,843,147**	187,605,487	194,769,392
Student-related expenses	**216,292,493**	110,314,055	144,837,519
Management and other professional fees	**166,467,504**	113,974,424	113,628,794
Utilities	**128,761,390**	84,042,240	81,734,815
IT expense - software license	**45,668,629**	36,622,759	27,321,190
Periodicals	**40,197,909**	21,693,225	19,665,658
Tools and library books (Note 13)	**33,969,025**	26,333,830	30,198,284
Repairs and maintenance	**34,663,605**	15,720,212	12,251,634
Advertising	**19,696,101**	19,901,017	16,659,662
Seminar	**16,769,308**	12,667,874	18,995,992
Research and development fund	**16,210,975**	8,806,118	17,303,387
Office supplies	**16,083,800**	7,405,855	6,944,143
Accreditation cost	**11,121,935**	8,951,062	7,242,083
Insurance	**10,100,644**	7,350,745	6,619,921
Laboratory supplies	**7,955,109**	3,810,433	6,565,801
Taxes and licenses	**2,880,056**	1,527,092	1,800,770
Transportation and travel	**2,162,552**	1,844,524	1,144,372
Entertainment, amusement and recreation	**1,375,485**	510,375	387,474
Rent	**430,020**	205,301	624,492
Miscellaneous	**3,980,984**	1,355,041	2,013,481
	₱2,038,844,353	₱1,279,402,975	₱1,286,658,343

29. General and Administrative Expenses

This account consists of:

	2019	2018	2017
Personnel expenses	**₱1,118,817,633**	₱929,513,234	₱922,969,345
Depreciation and amortization (Notes 13, 14, 16, 17 and 30)	**396,206,316**	219,409,779	197,326,820
Taxes and licenses	**315,799,454**	203,665,580	151,900,821
Rent, light and water	**132,347,524**	256,172,009	205,458,195
Transportation and travel	**100,003,901**	92,599,351	79,323,189
Repairs and maintenance	**96,939,658**	44,588,159	28,407,620
Professional fees	**73,134,515**	77,936,754	66,784,730
Management and other fees	**67,963,961**	47,631,687	25,277,692
Securities and utilities	**56,933,309**	51,715,038	66,642,740
Entertainment, amusement and recreation	**57,880,809**	56,707,083	87,252,976
Provision for impairment	**45,474,203**	2,301,307	1,000,000
Advertising and promotions	**41,208,673**	59,361,741	163,180,208

(Forward)

	2019	2018	2017
Insurance	**₱29,347,397**	₱24,814,252	₱19,094,768
Office expenses	**25,505,879**	21,738,960	21,157,909
Commissions	**22,199,733**	22,686,652	29,856,401
Provision for inventory obsolescence (Note 9)	**21,533,760**	25,567,947	25,646,369
Seminars	**14,838,297**	3,176,366	1,100,338
Donations and contributions	**13,182,360**	12,200,117	12,232,541
Direct expenses	**6,327,424**	18,647,870	60,587,733
Accreditation cost	**60,313**	89,679	–
Provision for probable losses on loans and accounts receivables (Notes 7 and 22)	**53,328,702**	331,816,497	9,265,418
Miscellaneous	**129,930,481**	148,905,722	145,488,675
	₱2,818,964,302	₱2,651,245,784	₱2,319,954,488

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

Below are the details of net provision for probable losses on loans receivable and accounts receivable (Notes 7):

	2019	2018	2017
Provision			
Loans receivable	**₱–**	₱468,422	₱380,000
Write-off of consultancy fee receivable	**–**	330,335,559	–
Accounts receivable	**53,328,702**	1,012,516	8,885,418
	₱53,328,702	₱331,816,497	₱9,265,418

30. **Depreciation and Amortization**

This account consists of depreciation and amortization included in (Notes 13, 16 and 17):

	2019	2018	2017
Cost of sales and services			
Construction contracts (Note 27)	**₱548,063,243**	₱533,700,871	₱471,687,826
Tuition and other fees (Note 28)	**336,843,147**	187,605,487	194,769,392
Manpower and other services (Note 27)	**85,027,698**	48,899,277	58,781,486
Capitalized as part of cost of inventories	**–**	554,093	622,472
	969,934,088	770,759,728	725,861,176
General and administrative expenses (Note 29)	**396,206,316**	219,409,779	197,326,820
	₱1,366,140,404	₱990,169,507	₱923,187,996

31. **Interest and Finance Charges**

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

	2019	2018	2017
Long-term debt (Note 20)	**₱124,062,908**	₱92,904,155	₱140,746,490
Loans payable (short-term) (Note 19)	**561,555,227**	358,786,552	129,504,172
Lease liabilities (Note 14)	**79,459,539**	–	–
Advances to affiliates and other finance charges (Note 22)	**15,532,583**	4,060,882	5,817,327
	₱780,610,257	₱455,751,589	₱276,067,989

32. **Retirement Plan**

The Group has funded, noncontributory retirement plans (the Plans) for all of its regular employees, in compliance with Republic Act No. 7641, The New Retirement Pay Law. The Plans provide for normal, early retirement, death and disability benefits. The most recent actuarial valuation was made for the Group's retirement plans as of December 31, 2019.

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

	2019	2018
Retirement liabilities	**₱457,836,487**	₱141,017,371
Retirement assets	**18,289,597**	28,059,472
Net retirement liabilities	**439,546,890**	112,957,899
Net retirement expenses	**124,715,271**	132,337,485

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

	2019	2018	2017
Current service cost	**₱117,938,111**	₱128,964,699	₱118,273,222
Net interest cost	**6,777,160**	5,152,317	5,398,656
Past service cost	**–**	(1,779,531)	3,471,235
	₱124,715,271	₱132,337,485	₱127,143,113

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

Net retirement liabilities	**2019**	2018
Present value of defined benefit obligation	**₱1,948,334,688**	₱1,225,093,077
Fair value of plan assets	**(1,490,498,201)**	(1,084,075,706)
	₱457,836,487	₱141,017,371

Net retirement assets	**2019**	2018
Present value of defined benefit obligation	**₱37,445,007**	₱174,297,947
Fair value of plan assets	**(57,957,371)**	(202,357,419)
Effect of asset ceiling	**2,222,767**	–
	(₱18,289,597)	(₱28,059,472)

The movements in the net retirement liability follow:

	2019	2018
At beginning of year	**₱112,957,899**	₱102,075,794
Contributions paid	**(147,248,479)**	(169,124,407)
Net retirement expense	**135,946,303**	132,337,485
Remeasurement loss	**329,248,656**	48,180,540
Withdrawal of plan asset	**(3,293,864)**	728,168
Adjustment to defined benefit obligation	**11,936,375**	(1,239,681)
At end of the year	**₱439,546,890**	₱112,957,899

Movement of cumulative remeasurement effect recognized in OCI:

	2019	2018
Balance at beginning of year	**(₱21,637,177)**	(₱69,817,717)
Remeasurement gain (loss)	**(317,906,260)**	48,180,540
Total amounts recognized in OCI	**(₱339,543,437)**	(₱21,637,177)

The movements in the present value of defined obligation follow:

	2019	2018
Balance at beginning of year	**₱1,399,830,973**	₱1,368,433,374
New subsidiaries	**171,778,160**	–
Current service cost	**119,094,029**	128,964,699
Interest cost on obligation	**104,910,736**	76,484,226
Transfer from affiliates	**3,508,838**	–
Past service cost	**–**	(1,779,531)
Reversal	**–**	(1,239,682)
Remeasurement loss (gain)	**323,703,290**	(91,341,457)
Benefits paid	**(137,046,331)**	(79,690,656)
Balance at end of year	**₱1,988,485,244**	₱1,399,830,973

The movements in the fair value of plan assets follow:

	2019	2018
Balance at beginning of year	**₱1,286,873,075**	₱1,266,357,580
New subsidiaries	**139,088,080**	–
Contributions	**142,695,168**	169,124,407
Remeasurement gain (loss)	**5,797,030**	(139,521,997)
Asset return in net interest cost	**99,112,880**	71,331,909
Transfer from affiliates	**3,508,838**	–
Benefits paid	**(127,654,322)**	(79,690,656)
Adjustments to plan assets	**117,605**	–
Withdrawal of plan assets	**(600,000)**	(728,168)
Balance at end of year	**₱1,548,938,354**	₱1,286,873,075

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

	2019	2018
Cash	**₱312,759,829**	₱207,543,792
Investment in government securities	**785,172,322**	833,841,877
Investments in shares of stock	**311,852,866**	191,034,360
Investments in other securities and debt instruments	**134,693,827**	52,131,165
Interest receivables and other receivables	**13,268,786**	10,319,741
Accrued trust fees and other payables	**(8,809,276)**	(7,997,860)
	₱1,548,938,354	₱1,286,873,075

The Group expects to contribute ₱196.05 million to its defined benefit retirement plans in 2020.

The Retirement fund (Fund) of the Group is being maintained and managed, in trust, by RCBC Trust and Investment Group (TIG), an affiliate financial institution.

Trust fees paid in 2019, 2018 and 2017 amounted to ₱5.1million, ₱5.0 million and ₱5.2 million, respectively.

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

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

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

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

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

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

In 2019, the Fund has investment in equity securities of related parties with fair values and accumulated gain of ₱99.0 million and ₱60.1 million, respectively.

In 2018, the Fund has investment in equity securities of related parties with fair values and accumulated gain of ₱120.2 million and ₱60.5 million, respectively.

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

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

	2019	2018
Discount rate		
Beginning	**7.26%-7.38%**	4.70%-5.74%
End	**4.79%-5.54%**	7.04%-7.38%
Future salary increases		
Beginning	**3.00%-6.50%**	3.00%-6.00%
End	**3.00%-6.61%**	3.00%-6.50%

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

	2019		2018	
	Increase (decrease)	**Effect on defined benefit obligation**	Increase (decrease)	Effect on defined benefit obligation
Discount rates	**+50bps to +100bps**	**(₱329,123,394)**	+50bps to +100bps	(₱238,783,151)
	-50bps to -100bps	**388,635,316**	-50bps to -100bps	269,600,023
Salary increase rates	**+50bps to +100bps**	**474,793,299**	+50bps to +100bps	318,788,477
	-50bps to -100bps	**(386,285,183)**	-50bps to -100bps	(282,992,024)

33. Income Taxes

The reconciliation of the income tax computed at the statutory tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2019	2018	2017
Income before income tax	**30.00%**	30.00%	30.00%
Add (deduct) reconciling items:			
Equity in net earnings of associates and joint venture	**(0.66)**	4.62	(12.57)
Movement of deferred income tax assets not recognized	**(1.59)**	–	–
Income subject to lower tax rate and others	**(5.96)**	(4.62)	3.87
	21.78%	30.00%	21.30%

All companies in the Group are subject to the RCIT rate of 30%, except for MESI, MHSSI MCLI, MCMI, UNC, NTC and APEC which are subject to a lower tax rate of 10%.

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

	2019	2018
Net deferred income tax assets on a per subsidiary level:		
Accrued retirement expense	**₱–**	₱3,141,396
Capitalized borrowing cost	**(309,587)**	(1,000,175)
Retirement asset	**7,644,588**	14,793,384
Retirement liability	**(36,487,464)**	(38,427,451)
Unamortized past service cost	**32,081,269**	34,402,202
Remeasurement loss on defined benefit plans	**129,563,769**	49,660,958
Allowance for doubtful accounts, inventory, obsolescence and other expenses	**36,120,706**	26,283,573
Accrued rent	**–**	2,801,334
NOLCO	**9,550,041**	5,562,655
MCIT	**14,028,990**	6,101,630
Unrealized foreign exchange loss	**9,192,817**	(10,682,874)
Unrealized gain on rendering of construction services	**–**	33,996,375
Excess of right-of-use-assets over lease	**(43,623,303)**	–
Others	**37,258,563**	12,870,928
	₱195,020,389	₱139,503,935
Net deferred income tax liabilities on a per subsidiary level:		
Revaluation increment on land	**₱795,578,682**	₱490,030,788
Retirement liability	**–**	88,010,757
Accrued retirement expense	**(18,883,312)**	(9,486,029)
Allowance for doubtful accounts, inventory obsolescence and other expenses	**999,452**	(5,050,115)
Accrued expenses	**89,474,043**	(15,355,808)
Others	**156,361,409**	(3,174,554)
	₱1,023,530,274	₱544,975,039

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

	2019	2018
Balance at beginning of the year	**₱405,471,104**	₱309,038,713
Tax expense (income) recognized in:		
Other comprehensive income	**452,743,111**	48,375,351
Profit and loss	**(29,704,330)**	(13,050,924)
Retained earnings	**–**	61,107,964
	₱828,509,885	₱405,471,104

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

	2019	2018
NOLCO	**₱85,601,553**	₱64,986,290
Allowance for doubtful accounts, inventory obsolescence and other expenses	**119,304,699**	143,106,961
MCIT	**6,239,920**	9,141,020
Accrued retirement expense	**6,466,559**	6,405,774
Others	**794,385**	1,076,172

As of December 31, 2019, the amount of NOLCO still available for offset against future tax payable over a period of three (3) years from the year of inception are as follows:

Taxable Period	Amount	Applied/Expired	Balance	Expiry Year
2019	₱30,586,211	₱–	₱30,586,211	2022
2018	46,936,501	–	46,936,501	2021
2017	36,474,136	–	36,474,136	2020
2016	11,590,002	11,590,002	–	2019
	₱125,586,850	₱11,590,002	₱113,996,848	

As of December 31, 2019, the amounts of MCIT still allowable as tax credit consist of:

Taxable Period	Amount	Applied/Expired	Balance	Expiry Year
2019	₱14,679,534	₱–	₱14,679,534	2022
2018	7,689,822	–	7,689,822	2021
2017	113,214	–	113,214	2020
2016	473,963	473,963	–	2019
	₱22,956,533	₱473,963	₱22,482,570	

34. Earnings Per Share

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

Basic earnings per share

	2019	2018	2017
Net income	**₱974,033,430**	₱848,267,992	₱941,441,126
Less dividends attributable to preferred shares	**23,302,357**	24,732,938	23,028,873
Net income applicable to common shares	**950,731,073**	823,535,054	918,412,253
Divided by the weighted average number of common shares	**776,465,281**	615,996,114	615,996,114
Basic earnings per share	**₱1.2244**	₱1.3369	₱1.4909

Diluted earnings per share

	2019	2018	2017
Net income applicable common share for basic earnings per share	**₱950,731,073**	₱823,535,054	₱918,412,253
Add dividends attributable to preferred stock	–	24,732,938	23,028,873
Net income applicable to common stockholders for diluted earnings per share	**950,731,073**	848,267,992	941,441,126
Weighted average number of shares of common stock	**776,465,281**	615,996,114	615,996,114
Dilutive shares arising from convertible preferred stock	–	164,942,770	169,172,072
Weighted average number of shares of common stock for diluted earnings per share	**776,465,281**	780,938,884	785,168,186
Diluted earnings per share	**₱1.2244**	₱1.0862	₱1.1990

In 2019, the preferred stock conversion to common share has significantly reduced the number of potential common stock outstanding as of December 31, 2019 making the options anti-dilutive, hence, no diluted earnings per share calculated.

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

	2019	2018	2017
Number of shares of common stock issued	**776,765,281**	616,296,114	616,296,114
Less treasury shares	**300,000**	300,000	300,000
	776,465,281	615,996,114	615,996,114

35. **Contingencies and Commitments**

Provisions and Contingencies

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

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

b. Prior to 2018, the Group's provisions include the Group's recognized payable associated with the Faculty Associations of Mapua Institute of Technology (FAMIT) reranking case. This case involves the faculty ranking and evaluation instrument that was part of the 2001 Collective Bargaining Agreement negotiations with the FAMIT. The Supreme Court reversed an earlier Court of Appeals decision in favor of management. An entry of judgment dated March 13, 2008 was made in the Supreme Court Book of Entries of Judgments, making the decision final and executory. A Memorandum of Agreement was entered into by management with FAMIT before the Voluntary Arbitrators wherein the parties agreed to continue the process of faculty ranking. The evaluation process was completed in December 2008.

   On January 22, 2009, MESI and FAMIT entered into a Compromise Agreement regarding the payment of the amounts due to the permanent faculty members of MESI in relation to the faculty reranking case.

   As at December 31, 2018, total accumulated payments to faculty members amounted to ₱230.78 million. Management assessed that the liability already prescribed after applying the 10-year prescription period which ended in March 2018 (Note 18).

36. Non-controlling Interests

The summarized financial information attributable to non-controlling interests for significant subsidiaries as of and for the years ended December 31, 2019, 2018 and 2017 are as shown below:

	Honda Cars Kalookan, Inc. (HCKI)[(a)]			iPeople, inc. (IPO) and Subsidiaries[(b)]			EEI Corporation (EEI) and Subsidiaries[(c)]			La Funeraria Paz Sucat, Inc. [(d)]
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**
Assets										
Current assets	**₱671**	₱777	₱1,020	**₱2,316**	₱1,007	₱914	**₱18,223**	₱12,536	₱13,578	**₱29**
Noncurrent assets	**235**	95	107	**13,957**	8,965	6,982	**9,824**	9,919	7,814	**127**
	906	872	1,127	**16,273**	9,972	7,896	**28,047**	22,455	21,392	**156**
Liabilities and Equity										
Current liabilities	**₱665**	₱739	₱984	**₱3,464**	₱3,310	₱1,628	**₱15,023**	₱12,514	₱13,555	**₱29**
Noncurrent liabilities	**135**	11	7	**3,076**	248	244	**4,419**	2,229	1,162	**37**
	800	750	991	**6,540**	3,558	1,872	**19,442**	14,743	14,717	**66**
Revenue	**₱2,717**	₱2,966	₱3,633	**₱2,997**	₱1,809	₱1,884	**₱23,581**	₱22,148	₱14,921	**₱141**
Net income (loss)	**(₱6)**	₱11	₱24	**274**	237	413	**₱1,155**	₱529	₱836	**₱14**
Total comprehensive income	**(₱8)**	₱9	₱24	**232**	581	714	**₱1,070**	₱1,081	₱811	**₱15**
Share of NCI in net assets	**₱48**	₱55	₱61	**₱5,044**	₱2,095	₱1,908	**₱3,902**	₱3,520	₱3,046	**₱35**
Share of NCI in net income (loss)	**(₱3)**	₱5	₱11	**₱142**	₱77	₱125	**₱524**	₱241	₱382	**₱8**
Dividends paid	**₱3**	₱11	₱–	**₱23**	₱59	₱59	**₱94**	₱–	₱–	**₱5**
Operating	**₱142**	₱109	(₱84)	**₱988**	₱556	₱586	**₱991**	(₱1,538)	(₱1,020)	**₱31**
Investing	**(10)**	4	(10)	**(1,073)**	(1,819)	(1,345)	**(235)**	(677)	(1,156)	**(15)**
Financing	**(210)**	(112)	144	**651**	1,218	518	**(633)**	2,581	1,824	**(14)**

(a) Proportion of ownership owned by non-controlling interests as of December 31, 2019 and 2018: 45.00%
(b) Proportion of ownership owned by non-controlling interests as of December 31, 2019 and 2018: 51.82% and 32.66%, respectively
(c) Proportion of ownership owned by non-controlling interests as of December 31, 2019 and 2018: 45.35% and 45.64%, respectively
(d) Proportion of ownership owned by non-controlling interests as of December 31, 2019: 37.00%

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

In November 2019, the Parent Company purchased additional 3,000,000 EEI shares for ₱40.0 million or 10.32 per share resulting to an increase in ownership interest from 54.36% to 54.65%. The non-controlling interest decreased from 45.64% to 45.35% or a decrease of ₱40.38 million.

In March 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 50.00%. The Parent Company's effective interest including its indirect ownership through MMPC is 63.00% in 2019. As a result, Parent Company has obtained control over LFPSI and started accounted for the investee as a subsidiary using consolidation method under PFRS 10. The non-controlling interest in 2019 is 27.00% or ₱38.45 million.

In July 2019, the Parent Company sold its 50% shares in ZIFC to various individuals amounting to ₱6.8 million resulting to a loss of ownership interest from 50% to 0%. The non-controlling interest disposed in 2019 is ₱12.10 million.

The Group recognized equity reserve from the changes in ownership without loss of control amounting to ₱1,821.7 million. This was included in "Equity reserve" representing the excess consideration paid for the carrying amount of the non-controlling interest.

37. **Operating Segment Information**

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

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

The Group derives its revenue from the following reportable segments:

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

<u>Property management</u> - represents property and project management services of the Group.

<u>Education</u> - primarily consists of revenues from IPO and subsidiaries 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.

In 2019, revenues from two (2) customers from the construction and infrastructure segment each represents 10% or more of the Group's revenue. Following are the revenue contributed by each of these customers: ₱4,557 million and ₱3,144 million.

In 2018, revenues from two (2) customers from the construction and infrastructure segment each represents 10% or more of the Group's revenue. Following are the revenue contributed by each of these customers: ₱10,193 million and ₱2,667 million.

In 2017, each of the three customers from the domestic segment contributed revenue that exceeded 10% of the Group's revenue. Following are the revenue contributed by each of these customers: ₱3,293.2 million, ₱2,253.1 million and ₱1,508.6 million.

(Amounts in Millions)

	Construction and Infrastructure			Education			Car Dealerships			Property Management			Other Services			Elimination			Consolidation		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Revenue	**₱23,582**	₱22,148	₱14,921	**₱2,997**	₱1,809	₱1,983	**₱7,542**	₱8,445	₱11,256	**₱266**	₱233	₱209	**₱373**	₱539	₱361	**(₱629)**	(₱866)	(₱1,182)	**₱34,130**	₱32,309	₱27,548
Net Income attributable to share of parent	**₱1,156**	₱533	₱836	**₱255**	₱211	382	**(₱64)**	₱41	₱124	**₱89**	₱90	₱64	**₱1,033**	₱319	₱259	**(₱1,495)**	(₱346)	(₱723)	**₱974**	₱848	₱941
Other Information																					
Segment assets	**₱28,047**	₱22,454	₱21,392	**₱16,273**	₱9,972	₱7,897	**₱3,145**	₱3,227	₱3,800	**₱202**	₱186	₱167	**₱5,289**	₱4,819	₱5,555	**(₱959)**	(₱1,058)	(₱1,459)	**₱51,996**	₱39,601	₱37,353
Deferred tax assets	**(117)**	(70)	(79)	**(20)**	(5)	(6)	**(19)**	(18)	(16)	**(2)**	(2)	(2)	**(4)**	(78)	(1)	**(33)**	34	–	**(195)**	(140)	(104)
Net segment assets	**₱27,930**	₱22,384	₱21,313	**₱16,253**	₱9,967	₱7,891	**₱3,126**	₱3,209	₱3,784	**₱200**	₱184	165	**₱5,285**	₱4,741	₱5,554	**(₱992)**	(₱1,024)	(₱1,459)	**₱51,801**	₱39,461	₱37,249
Segment liabilities	**₱19,442**	₱14,743	₱14,717	**₱6,540**	₱3,559	₱1,872	**₱1,579**	₱1,176	₱1,496	**₱152**	₱133	₱122	**₱1,092**	₱2,055	3,303	**(₱303)**	(₱236)	(₱508)	**₱28,502**	₱21,429	₱21,001
Income tax payable	**(43)**	(28)	(13)	**(21)**	(11)	(7)	**(4)**	–	–	**(4)**	(3)	(2)	**(3)**	(1)	(1)	–	–	–	**(75)**	(42)	(22)
Deferred tax liabilities	**(93)**	(76)	–	**(658)**	(209)	(177)	**(156)**	(147)	(137)	–	–	–	**18**	(2)	(6)	**(134)**	(110)	(92)	**(1,023)**	(545)	(413)
Net segment liabilities	**₱19,306**	₱14,639	₱14,704	**₱5,861**	₱3,339	₱1,688	**₱1,419**	₱1,029	₱1,359	**₱148**	₱130	₱120	**₱1,107**	₱2,052	₱3,296	**(₱437)**	(₱346)	(₱600)	**₱27,404**	₱20,842	₱20,566
Investments in associates and joint ventures	**₱2,655**	₱2,255	₱2,177	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱6**	₱6	₱6	**₱4,403**	₱4,369	₱4,228	**(₱871)**	(₱1,124)	(₱1,589)	**₱6,193**	₱5,506	₱4,821
Equity in net earnings (losses) of associates	**₱346**	(₱127)	₱118	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱382**	₱382	₱171	**₱728**	₱256	₱289
Cash flows arising from:																					
Operating activities	**₱991**	(₱1,604)	(₱1,020)	**₱1,477**	₱557	₱586	**(₱170)**	(₱6)	₱185	**₱77**	₱87	₱44	**(₱790)**	₱4	(₱116)	**₱644**	₱413	₱68	**₱2,229**	(₱549)	(₱253)
Investing activities	**(235)**	(649)	(1,156)	**(1,561)**	(1,820)	(1,345)	**327**	(9)	(69)	**(6)**	(2)	(5)	**(186)**	1	(550)	**6,962**	298	(6)	**(5,301)**	(2,181)	(3,131)
Financing activities	**(633)**	2,581	1,824	**649**	1,218	518	**(270)**	(137)	(16)	**(74)**	(90)	(57)	**99**	1,069	536	**3,361**	(1,844)	157	**3,590**	2,797	2,962
Capital expenditures	**(512)**	(803)	(569)	**(1,997)**	(2,107)	(1,047)	–	(40)	38	**(6)**	(2)	(5)	**449**	35	956	**5,595**	599	(1,751)	**7,661**	(2,318)	(2,378)
Interest income	**26**	35	56	**23**	11	13	**1**	–	–	**1**	–	1	**10**	10	12	–	(106)	(10)	**61**	(50)	72
Interest expense	**564**	300	162	**107**	36	4	**90**	62	53	–	–	–	**20**	–	57	–	57	–	**781**	456	276
Provision for income tax	**343**	435	255	**68**	28	48	**4**	5	13	**26**	27	20	**18**	12	53	–	(9)	7	**459**	498	396
Earnings before income tax	**1,499**	964	1,087	**342**	265	461	**(60)**	45	150	**115**	117	84	**1,051**	332	416	**(838)**	(60)	(351)	**2,109**	1,663	1,859
Earnings before income tax and depreciation and amortization	**2,865**	1,672	1,728	**509**	484	670	**165**	103	201	**87**	120	87	**1,123**	339	420	**(846)**	(65)	(336)	**3,902**	2,653	2,770
Noncash items:																					
Additional revaluation increment on land	**₱–**	₱–	₱–	**₱2**	₱389	₱315	**₱42**	₱22	₱37	**₱–**	₱–	₱–	**₱80**	₱–	₱–	**(₱82)**	(₱3)	₱54	**₱124**	₱408	₱406
Depreciation and amortization	**809**	708	641	**902**	219	209	**135**	58	51	**3**	3	3	**9**	7	4	**(492)**	(5)	15	**1,366**	990	923

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

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

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

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

The tables below summarize the maturity profile of the Group's financial assets and financial liabilities as at December 31 based on undiscounted contractual cash flows.

	2019				
	On demand	**< 1 year**	**1 to < 2 years**	**> 2 years**	**Total**
Financial Liabilities					
Accounts payable and accrued expenses*(Note 18)	**₱7,215,918,280**	**₱503,148,490**	**₱204,393,465**	**₱498,451,803**	**₱8,421,912,038**
Bank loans					
Peso loan (Note 19)	**45,000,000**	**8,348,800,000**	–	–	**8,393,800,000**
Interest	–	**27,271,246**	–	–	**27,271,246**
Long-term debt (Note 20)					
Peso loan	–	–	–	**3,305,974,841**	**3,305,974,841**
Interest	–	**106,453,849**	**62,701,214**	**15,200,650**	**184,355,713**
Due to related parties	**126,417,175**	–	–	–	**126,417,175**
	7,387,335,455	**8,985,673,585**	**267,094,679**	**1,023,910,482**	**19,690,542,091**
Financial Assets					
Cash (Note 6)					
Cash on hand and in banks	**1,676,600,484**	–	–	–	**1,676,600,484**
Short-term investments	**1,010,068,590**	–	–	–	**1,010,068,590**
Accounts receivables (Note 7)					
Trade receivables	**4,132,893,711**	**1,724,411,909**	–	–	**5,857,305,620**
Receivables from plant	**56,369,572**	–	–	–	**56,369,572**
Others	**532,894,905**	–	**13,809,313**	–	**546,704,218**
Loan receivables	–	–	–	–	–
Receivable from related parties	**71,235,301**	–	–	–	**71,235,301**
	7,480,062,563	**1,724,411,909**	**13,809,313**	–	**9,218,283,785**
Liquidity gap (position)	**(₱92,727,108)**	**₱7,261,261,676**	**₱253,285,366**	**₱1,013,140,445**	**₱10,472,258,306**

**Excluding statutory liabilities*

	2018				
	On demand	< 1 year	1 to < 2 years	> 2 years	Total
Financial Liabilities					
Accounts payable and accrued expenses*	₱4,415,207,346	₱826,520,126	₱225,779,705	₱389,666,533	₱5,857,173,710
Bank loans					
Peso loan (Note 19)	–	10,519,000,000	–	–	10,519,000,000
Interest	–	199,925,161	–	–	199,925,161
Long-term debt (Note 20)					
Peso loan	–	1,052,383,112	1,123,811,684	619,043,299	2,795,238,095
Interest	–	106,453,849	62,701,214	15,200,650	184,355,713
Due to related parties	134,849,412	–	–	–	134,849,412
	4,550,056,758	12,704,282,248	1,412,292,603	1,023,910,482	19,690,542,091
Financial Assets					
Cash (Note 6)					
Cash on hand and in banks	1,465,702,110	–	–	–	1,465,702,110
Short-term investments	573,962,714	–	–	–	573,962,714
Accounts receivables (Note 7)					
Trade receivables	1,599,710,357	2,758,426,119	7,477,655	5,821,653	4,371,435,784
Receivables from plant	52,527,813	–	–	–	52,527,813
Others	517,571,507	–	1,582,831	4,948,384	524,102,722
Loan receivables	–	10,105,165	4,184,658	–	14,289,823
Receivable from related parties	145,966,212	–	–	–	145,966,212
	4,355,440,713	2,768,531,284	13,245,144	10,770,037	7,147,987,178
Liquidity gap (position)	₱194,616,045	₱9,935,750,964	₱1,399,047,459	₱1,013,140,445	₱12,542,554,913

**Excluding statutory liabilites*

b. *Market risk*

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

c. *Equity price risk*

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

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

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

	2019		2018	
Market Index	**Change in variable**	**Effect on equity**	Change in variable	Effect on equity
PSE	**7.94%**	**₱1,340,776**	15.04%	₱2,996,406
	(7.94%)	**(1,340,776)**	(15.04%)	(2,996,406)
Others	**14.40%**	**863,858**	17.57%	1,010,337
	(14.40%)	**(863,858)**	(17.57%)	(1,010,337)

The percentage of increase and decrease in market price is based on the movement in the Philippine Stock Exchange Index (PSEI) and other market index pertaining to golf and country club shares from beginning to end of the year. The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index and other quoted equity securities will be most likely be limited to an upward or downward fluctuation of 5% and 26% in 2019, respectively, and 5% and 26% in 2018, respectively.

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

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

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

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

	2019		2018	
	Percentage increase/ decrease in foreign currency	**Effect on profit before tax**	Percentage increase/ decrease in foreign currency	Effect on profit before tax
USD	**2.70%**	**2,383,953**	0.10%	100,100
SGD	**2.00%**	**13,564**	0.20%	1,938
EUR	**1.50%**	**73,079**	3.20%	506,330
JPY	**2.10%**	**1,658,631**	2.00%	13,697
GBP	**0.10%**	**–**	1.70%	–
USD	**-2.70%**	**(2,383,953)**	-0.10%	(100,100)
SGD	**-2.00%**	**(13,564)**	-0.20%	(1,938)
EUR	**-1.50%**	**(73,079)**	-3.20%	(506,330)
JPY	**-2.10%**	**(1,658,631)**	-2.00%	(13,697)
GBP	**-0.10%**	**–**	-1.70%	–

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

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

	2019					
	SD[1]	**SGD[2]**	**EUR[3]**	**JPY[4]**	**GBP[4]**	**Equivalents in PHP**
Financial assets						
Cash and cash equivalents	**US$844,322**	**S$18,222**	**€19,803**	**¥291,383**	**£–**	**₱15,430,509**
Receivables	**1,321,728**	**-**	**530**	**1,439,193**	**–**	**67,765,856**
	2,166,050	**18,222**	**20,333**	**1,730,576**	**–**	**83,196,365**
Financial liabilities						
Accounts payable and accrued expenses	**419,565**	**–**	**106,431**	**170,508,916**	**–**	**106,216,482**
	US$1,746,485	**S$18,222**	**(€86,098)**	**¥168,778,340**	**(£–)**	**₱(23,020,117)**

[1] *Exchange rate used - ₱50.74 to US$1*
[2] *Exchange rate used - ₱37.49 to S$1*
[3] *Exchange rate used - ₱56.35 to €1*
[4] *Exchange rate used - ₱0.46 to ¥1*
[5] *Exchange rate used - ₱65.99 to £1*

	2018					
	USD[1]	SGD[2]	EUR[3]	JPY[4]	GBP[4]	Equivalents in PHP
Financial assets						
Cash and cash equivalents	US$2,879,943	S$28,026	€10,900	¥208,852	£–	₱153,537,379
Receivables	1,694,556			1,229,193	–	89,927,765
	4,574,499	28,026	10,900	1,438,045	–	243,465,144
Financial liabilities						
Accounts payable and accrued expenses	268,711	–	275,454	–	–	30,780,451
	US$4,305,788	S$28,026	(€264,554)	¥1,438,045	£–	₱212,684,693

[1] *Exchange rate used - ₱52.72 to US$1*
[2] *Exchange rate used - ₱38.47 to S$1*
[3] *Exchange rate used - ₱60.31 to €1*
[4] *Exchange rate used - ₱0.48 to ¥1*
[5] *Exchange rate used - ₱66.7 to £1*

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

Interest rate risk

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

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

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

	2019		2018	
	Increase/decrease in basis points	**Effect on profit before tax**	Increase/decrease in basis points	Effect on profit before tax
Peso floating rate borrowing	**+405**	**(₱16,905,088)**	+184	(₱9,523,400)
	-405	**16,905,088**	-184	9,523,400

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

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

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

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

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

The Group's maximum credit risk exposure for its secured loans receivables is equal to its carrying value amounting nil and ₱24.9 million in 2019 and 2018, respectively. The Group holds collateral against these loans receivables in the form of mortgage interests over property. The fair values of the collateral amounts to nil and ₱2.1 billion in 2019 and 2018. This resulted to a nil net exposure as at December 31, 2018 and 2017.

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

As at December 31, the analysis of financial assets that were past due but not impaired follows:

	2019						
	Neither past due nor impaired	**Past due but not impaired**				**Impaired Assets**	**Total**
		< 30 days	**30 - 60 days**	**60 - 90 days**	**> 90 days**		
Cash in bank and cash equivalents (Note 6)	**₱2,686,669,074**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,686,669,074**
Loans receivable	–	–	–	–	–	–	**14,289,823**
Receivables from:							
Construction and infrastructure	**1,785,815,920**	**870,870,584**	**327,501,827**	**359,077,073**	**745,111,512**	**20,364,075**	**4,108,740,991**
Car dealership	**579,405,679**	**114,017,406**	**45,531,488**	**16,583,070**	**18,445,791**	**39,310,600**	**708,660,520**
Education	**225,366,564**	**10,615,569**	**2,047,423**	**3,418,382**	–	**61,347,299**	**901,585,558**
Other services	**38,337,095**	**40,363,272**	**4,800,174**	**2,180,059**	**4,080,986**	**7,835,959**	**114,165,831**
Other receivables:							
Receivables from plant	**47,222,895**					**5,304,918**	**56,369,572**
Others	**351,175,500**	**21,430,714**	**3,812,160**	**10,475,684**	**80,703,350**	**56,505,314**	**524,102,722**
Miscellaneous deposits	**4,876,749**	**6,650,647**	**476,098**	**4,132,224**	**89,229,103**	**3,335,193**	**108,700,014**
Due from related parties	**71,235,301**	–	–	–	–	–	**71,235,301**
Receivable from a customer	**35,174,526**	–	–	–	–	–	**35,174,526**
Receivable from EEI Retirement Fund, Inc. (Notes 7 and 17)	**78,000,000**	–	–	–	–	–	**78,000,000**
	₱4,424,384,481	**₱236,723,814**	**₱468,889,691**	**₱259,742,941**	**₱1,894,931,081**	**₱236,427,322**	**₱7,521,099,330**

	2018						
	Neither past due nor impaired	Past due but not impaired				Impaired Assets	Total
		< 30 days	30 - 60 days	60 - 90 days	> 90 days		
Cash in bank and cash equivalents (Note 6)	₱2,039,309,828	₱–	₱–	₱–	₱–	₱–	₱2,039,309,828
Loans receivable	14,289,823	–	–	–	–	–	14,289,823
Receivables from:							
Construction and infrastructure	705,246,761	47,033,807	411,702,482	225,313,386	1,715,597,141	52,855,392	3,157,748,969
Car dealership	579,405,679	114,017,406	45,531,488	16,583,070	18,445,791	39,310,600	813,294,034
Education	225,366,564	10,615,569	2,047,423	3,418,382	–	61,347,299	302,795,237
Other services	38,337,095	40,363,272	4,800,174	2,180,059	4,080,986	7,835,959	97,597,545
Other receivables:							
Consultancy fee	–	–	–	–	–	–	–
Receivables from plant	47,222,895					5,304,918	52,527,813
Others	351,175,500	21,430,714	3,812,160	10,475,684	80,703,350	56,505,314	524,102,722
Miscellaneous deposits	1,251,122	3,263,046	995,964	1,772,360	76,103,813	3,572,151	86,958,456
Due from related parties	145,966,212	–	–	–	–	–	145,966,212
Receivable from a customer	143,813,001	–	–	–	–	9,695,689	153,508,690
Receivable from EEI Retirement Fund, Inc. (Notes 7 and 17)	133,000,000	–	–	–	–	–	133,000,000
	₱4,424,384,480	₱236,723,814	₱468,889,691	₱259,742,941	₱1,894,931,081	₱236,427,322	₱7,521,099,329

There are no past due financial assets other than those stated above.

The following table provides information regarding the credit quality by class of financial assets (amounts gross of allowance for credit losses) based on the Group's credit rating system.

	2019			
	Neither past due nor impaired		**Past due or Individually**	
	High Grade	**Standard**	**Impaired**	**Total**
Cash in banks and cash equivalents	**₱2,686,669,074**	**₱–**	**₱–**	**₱2,686,669,074**
Loans receivable	–	–	–	-
Receivables from:				
Construction and infrastructure	**2,504,001,799**	**600,891,778**	**52,855,392**	**3,157,748,969**
Car dealership	**773,983,434**	–	**39,310,600**	**813,294,034**
Education	**206,288,341**	**35,159,597**	**61,347,299**	**302,795,237**
Other services	**47,599,315**	**42,162,271**	**7,835,959**	**97,597,545**
Other receivables:				
Rent receivable	**202,463**	**88,818**	**430,517**	**721,798**
Others	**537,478,609**	**29,825,901**	**71,075,404**	**638,379,914**
Receivable from sale of investment properties	**22,790,885**	**–**	**–**	**22,790,885**
Due from related parties	**126,417,175**	–	–	**126,417,175**
Receivable from a customers	**35,174,525**	–	–	**35,174,525**
Receivables from EEI Retirement Fund, Inc.	**78,000,000**	–	–	**78,000,000**
Miscellaneous deposits	**83,051,923**	**571,340**	**3,572,151**	**87,195,414**
	₱6,877,808,585	**₱708,699,705**	**₱236,427,322**	**₱7,822,935,612**

	2018			
	Neither past due nor impaired		Past due or Individually	
	High Grade	Standard	Impaired	Total
Cash in banks and cash equivalents	₱2,007,098,986	₱–	₱–	₱2,007,098,986
Loans receivable	14,289,823	–	–	14,289,823
Receivables from:				
Construction and infrastructure	2,504,001,799	600,891,778	52,855,392	3,157,748,969
Car dealership	773,983,434	–	39,310,600	813,294,034
Education	206,288,341	35,159,597	61,347,299	302,795,237
Other services	47,599,315	42,162,271	7,835,959	97,597,545
Other receivables:				
Consultancy fee	–	–	–	–
Rent receivable	202,463	88,818	430,517	721,798
Others	537,478,609	29,825,901	71,075,404	638,379,914
Receivable from sale of investment properties	281,034,679	–	–	281,034,679
Due from related parties	145,966,212	–	–	145,966,212
Receivable from a customers	143,813,001	–	–	143,813,001
Receivables from EEI Retirement Fund, Inc.	133,000,000	–	–	133,000,000
Miscellaenous deposits	83,051,923	571,340	3,572,151	87,195,414
	₱6,877,808,585	₱708,699,705	₱236,427,322	₱7,822,935,612

Neither past due nor impaired accounts receivables, other receivables are classified into 'high grade' and 'standard grade'. Neither past due nor impaired cash and cash equivalents, loans receivable, due from related parties, receivable from a customer and receivables from EEI-RFI are normally 'high grade' in nature. The Group sets financial assets as 'high grade' based on the Group's positive collection experience. On the other hand, 'standard grade' are those which have credit history of default in payments.

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

- Cash and cash equivalents;
- Receivables;
- Contract assets
- Advances to officers and employees

The ending loss allowances as of December 31, 2019 and 2018 reconcile to the opening loss allowances as follows:

	2019	2018
Balances as of January 1	**₱232,855,171**	₱237,931,072
Provisions	**53,328,702**	1,012,516
Write off (Note 7)	**(140,349)**	(6,088,417)
Balances as of December 31	**₱286,043,524**	₱232,855,171

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

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

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

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

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

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

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

A summary of Group exposure to credit risk under general and simplified approach as of December 31, 2019 and 2018 follows:

2019

	General Approach			Simplified
	Stage 1	Stage 2	Stage 3	Approach
Amortized cost				
Cash and cash equivalents	₱2,686,669,074	₱–	₱–	₱–
Trade receivables	–	–	–	5,857,305,620
Nontrade receivables	675,224,629	–	–	–
Contract asset	–	–	–	9,492,566,375
FVOCI	1,147,773,806	–	–	–
Total gross carrying amounts	14,002,233,884	–	–	15,349,871,995
Less allowance	–	–	–	295,116,295
	₱14,002,233,884	₱–	₱–	₱15,054,755,700

2018

	General Approach			Simplified
	Stage 1	Stage 2	Stage 3	Approach
Amortized cost				
Cash and cash equivalents	₱2,686,669,074	₱–	₱–	₱–
Trade receivables	–	–	–	4,371,435,785
Nontrade receivables	641,440,576	–	–	–
Contract asset	–	–	–	13,257,601
FVOCI	974,709,294	–	–	–
Total gross carrying amounts	4,302,818,944	–	–	4,384,693,386
Less allowance	–	–	–	246,112,772
	₱4,302,818,944	₱–	₱–	₱4,138,580,614

In 2019 and 2018, there were no movements between stage 1, 2 and 3.

Capital Management

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

The Group which is composed of diversified operations (i.e. construction and infrastructure operations, education and finance and leasing activities) manages its capital on a per entity basis. Each entity manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

As at December 31, 2019 and 2018, the Group is subject to externally imposed capital requirements from its debt covenants including maintaining a maximum debt-to-equity structure ratio of 3:1 on NTC's unsecured bank loan and debt-to-equity structure ratio of 2.5:1 on the Parent Company's unsecured bank loan (Note 20). As of December 31, 2019 and 2018, the Group has complied with the provisions of the debt covenants. The Group considers total equity as its capital.

Parent Company, EEI and IPO

The Parent Company, EEI (construction and infrastructure operations) and IPO (education) monitor capital using gearing ratio. The Parent Company, EEI and IPO's policies are to keep the gearing ratio up to a maximum of 2:1, 3:1 and 2:1, respectively.

	2019	2018
Current liabilities	**₱15,026,914,112**	₱18,043,467,838
Noncurrent liabilities	**4,421,638,989**	2,727,341,438
Total liabilities (a)	**19,448,553,101**	20,770,809,276
Equity (b)	**8,614,509,528**	18,755,365,291
Debt to Equity Ratio (a/b)	**0:78:1**	0:90:1

Fair Value Information

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

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

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

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

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

- *Receivable from EEI RFI* (Note 7 and 17)
  The fair values of the receivable amounting to ₱78 million and ₱133 million as of December 31, 2019 and 2018, respectively, were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rates used in 2019 and 2018 were 3.74% and 7.02%, respectively.

- *Interest-bearing trade receivables* (Notes 7 and 17)
  The fair value of interest-bearing trade receivables amounting to ₱86.7 million and ₱153.5 million as of December 31, 2019 and 2018, respectively, was estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rate used in 2019 and 2018 was 3.74% and 7.02%, respectively.

- *Receivable from sale of investment properties* (Notes 7 and 17)
  The fair value of the receivable from sale of investment property amounting to ₱22.8 million and ₱281.0 million as of December 31, 2019 and 2018, respectively, was estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rate used in 2019 and 2018 was 3.74% and 7.02%, respectively.

- *Financial assets at FVPL*
  The fair values are based on net assets value per unit. Fair values of financial assets at FVPL amounting to ₱8.7 million as of December 31, 2019 and 2018, were determined based on quoted prices of equity and debt instruments listed with exchanges.

- *Equity investments at FVOCI* (Note 11)
  Quoted investments
  Fair value of investments in equity shares listed with Philippine Stock Exchange amounting to ₱107.3 million and ₱63.1 million as of December 31, 2019 and 2018, respectively, were determined by reference to the quoted price in the stock exchange at the end of the reporting period (Level 1 - quoted prices in active market).

  Fair values of investments in club/golf shares amounting to ₱18.5 million and ₱17.5 million as of December 31, 2019 and 2018, respectively, were determined by reference to the price of the most recent transaction at the end of the reporting period (Level 2 - significant observable inputs).

<u>Unquoted investments</u>
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. PGEC is a holding company and has investments in the following subsidiaries, namely, Maibarara Geothermal, Inc. and PetroSolar Corporation and PetroWind Energy, a joint venture, Inc. as of December 31, 2019. All investees are engaged in the business of generating power through renewable sources of energy.

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

- Discount rate: 7.56% - 10.10% (1% decrease in the discount rates could increase the fair value of the Group's investment in PGEC by ₱82.6 million.)
- Zero growth rate was used as assumption since the operating life of subsidiaries is limited to 25-year projection
- Electricity prices used in calculating revenue:
  - Maibarara Geothermal, Inc.: Electricity price based on electricity supply agreement with a customer
  - PetroSolar Corporation: Feed-in tariff rate of ₱8.69 per kWH
  - PetroWind Energy, Inc: Feed-in tariff rates of ₱6.75 to ₱7.40 per kWH

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, 2019.

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

The fair values of the land were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (20%), location (20%) and facilities and utilities (5%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Depending on the status of the development, the value of the land per sqm ranges from ₱530 to ₱4,300.

A 5% increase (decrease) in the appraised value of the land per sqm could increase (decrease) the Group's investment by ₱24.5 million.

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

  The fair values of the interest-bearing long-term debt amounting to ₱4,691.7 million and ₱2,795.2 million as of December 31, 2019 and 2018, respectively, were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 -significant observable inputs). Discount rates used in 2019 and 2018 were and 5.11% to 7.02%, respectively.

- *Lease liability* (Note 14)
  The fair values of the lease liability amounting to ₱1,538.66 million and nil as of December 31, 2019 and 2018, respectively, were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of liability (Level 2 - significant observable inputs). Discount rates used in 2019 and 2018 were 5.54% and 9.19%, respectively.

- *Retention payable*
  The fair values of the retention payable which is included in other noncurrent liabilities amounting to ₱210.3 million as of December 31, 2019 were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rates used in 2019 and 2018 were 3.74% and 7.02%, respectively.

As at December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements. There are no financial assets and financial liabilities recognized at fair value based on Level 3 and there are no transfers in and out of Level 3 categories in 2019 and 2018. No financial instrument fall within Level 3.

There were no transfers between levels of fair value measurements in 2019 and 2018. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period.

39. 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 December 31, 2019, 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	**(240,703,754)**	**(601,759,386)**	–	–	–	–
	₱6,710,402	**16,776,001**	₱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 December 31, 2019, 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
Treasury stock	**(2,607,600)**	**(300,000)**	(2,607,600)	(300,000)	(2,607,600)	(300,000)
Conversion of preferred stock	**240,703,754**	**160,469,167**	–	–	–	–
	₱1,162,540,326	**776,465,281**	₱921,836,572	615,996,114	₱921,836,572	615,996,114

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

Details of the capital redemption and conversion follow:

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

In 2019, the Parent Company issued 160,169,167 common shares at 1.50 per share for the conversion of 601,759,386 preferred shares at 0.40 per share or ₱240,703,754. There was no capital redemption made during 2019.

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 December 31, 2019:

Year	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities
Preferred shares:				
January 1, 2016	776,824,673			48
Movement:	(19,420,617)	0.40	March 31, 2016	
	(18,935,100)	0.40	July 15, 2016	
	(18,461,723)	0.40	September 30, 2016	
	(18,000,181)	0.40	December 2, 2016	
December 31, 2016	702,007,052			48
Conversion	–			
December 31, 2016	702,007,052			
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	April 6, 2018	
December 31, 2018	618,535,387			48
Movement	(601,759,386)			
December 31, 2019	**16,776,001**			**42**

(Forward)

Year	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities
Common Shares:				
January 1, 2017	615,996,114			402
Conversion	–	–		
December 31, 2017	615,996,114			394
No Movement	–	–		
December 31, 2018	615,996,114			386
Movement	160,469,167			
December 31, 2019	**776,465,281**			**384**

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 42 and 384, respectively, as of December 31, 2019 and 48 and 386, respectively, as of December 31, 2018.

40. Retained Earnings

Cash Dividends

The BOD declared cash dividends in 2019, 2018 and 2017 as follows:

		Amount per share			
Date of BOD Approval	**Amount**	**Preferred Shares**	**Common Shares**	**Record Date**	**Payment Date**
April 5, 2019	**₱4,688,498**	₱0.00758	**₱–**	May 2, 2019	May 28, 2019
July 19, 2019	**4,459,640**	0.00721	–	August 15, 2019	September 10, 2019
July 19, 2019	**50,758,965**	0.01733	**0.065**	August 15, 2019	September 10, 2019
October 4, 2019	**3,349,141**	0.005415	–	October 31,2019	November 20, 2019
December 6, 2019	**85,860**	0.005118	–	January 2, 2020	January 28, 2020
	₱63,342,105				
April 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				
March 31, 2017	₱2,915,295	₱0.004	₱–	April 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				

On December 31, 2019 and 2018, the Company's BOD approved additional appropriation of retained earnings amounting to ₱400 million and ₱2,100 million, respectively, for planned investments and business expansion that the Parent Company intends to carry out for 2-3 years.

Retained earnings include ₱2,524.4 million and ₱2,116.1 million as of December 31, 2019 and 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 ₱1,305.4 million and ₱812.4 million as of December 31, 2019 and 2018, respectively.

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

Restrictions
The Group's retained earnings include accumulated earnings of subsidiaries, associate and joint venture amounting to ₱6,305.9 million and ₱6,286.5 million as of December 31, 2019 and 2018, respectively, not declared as dividends to the Group. Accordingly, these are not available for dividend declaration.

As of December 31, 2019 and 2018, Group's retained earnings is restricted to payment of dividends to the extent of the cost of shares held in treasury and deferred tax asset amounting to ₱24.4 million and ₱16.1 million, respectively.

41. Events After the Financial Reporting Date and Other Matters

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

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

c. In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 31, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

   Risks and Impacts of COVID-19
   The Group, in cooperation with the Yuchengco Group of Companies Business Continuity Management - Disaster Recovery Management ("YGC BCM-DRM) Council have taken the necessary precautionary measures to mitigate the risks that may cause disruptions to its various businesses.

   1. Risk to the health and safety of employees, clients, suppliers, and communities. House of Investments and its subsidiaries have adopted the Department of Health guidelines and regularly give advisories on COVID-19 precautionary measures to ensure compliance with the Inter-Agency directives on Community Quarantine. The Group has also adopted its own protocols, including, but not limited to regular and frequent disinfection of buildings and office premises, temperature checks at all entry points and restricting entry of visitors to office premises. To further minimize the risk of person-to-person transmission, the Group has limited the assembly of people by conducting meetings via video- and/or tele-conferencing. The Group also implemented a combination of Four-day Work Week and Work-from-Home arrangements while ensuring that service interruptions to its clients are minimized.

2. Disrupted business operations. The Group is compliant with national and local ordinances. To ensure minimal service interruptions and that its operations are not hampered, its various businesses have identified and designated essential and non-essential employees and wherever appropriate, have setup skeletal workforce.

   Despite the suspension of classes, disruptions on the academic outcomes of students were minimized as the Group's schools utilized alternative means to continue course work, e.g. on-line classes, coursework online, and independent projectized learning, among others. All these blended learning initiatives using multiple e-learning and course monitoring platforms allowed the students to fulfill their course requirements to comply with CHED or DepEd academic requirements amid the prolonged suspension of classes.

   The Group's Property Management team enhanced their services being at the forefront of the crisis management operations. The team is working hand-in-hand with the YGC BCM-BRM Council on the Group's group-wide risk mitigation initiatives.

3. Disrupted supply chain management. The Group, its construction business in particular, is conducting assessments on all resources expected to come in and those expected to be ordered, particularly on the supply of resources coming from infected areas while taking into consideration the community quarantine declared in Metro Manila. In coordination with their respective planning groups, each business unit is working on making adjustments to minimize the impact of such disruption. This includes focusing on activities that have no issues with the supply of resources and looking for alternative suppliers from "virus-free" areas.

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42. **Approval of Consolidated Financial Statements**

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on May 22, 2020.

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

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and the Stockholders
House of Investments, Inc.
3rd Floor, Grepalife Building
219 Sen. Gil J. Puyat Avenue
Makati City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of House of Investments, Inc. and its Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated May 22, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola
Partner
CPA Certificate No. 109952
SEC Accreditation No. 1540-AR-1 (Group A),
January 10, 2019, valid until January 9, 2022
Tax Identification No. 242-019-387
BIR Accreditation No. 08-001998-117-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125250, January 7, 2020, Makati City

May 22, 2020

SGV
Building a better working world

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and the Stockholders
House of Investments, Inc.
3rd Floor, Grepalife Building
219 Sen. Gil J. Puyat Avenue
Makati City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of House of Investments, Inc. and its Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated May 22, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola
Partner
CPA Certificate No. 109952
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PTR No. 8125250, January 7, 2020, Makati City

May 22, 2020

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON REVISED SRC RULE 68

DECEMBER 31, 2019

Philippine Securities and Exchange Commission (SEC) issued the Revised Securities Regulation Code (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 Revised SRC Rule 68 that are relevant to the Group. This information is presented for the purpose of filing with the SEC and is not required part of the basic financial statements.

Schedule A. Financial Assets in Equity Securities
The following is the detailed schedule of equity in investments at FVOCI as at December 31, 2019.

Name of Issuing Entities	Number of shares	Amount Shown in the Statement of Financial Position
Quoted:		
Sta Elena Golf Club Inc	3	₱18,500,000
Seafront Resources Corp - A	4,697,614	10,381,727
Philippine Long Distance Telephone Co.	38,867	4,937,405
Benguet Corporation - A	2,848,637	3,218,960
Manila Southwood Golf & Country Club	2	2,600,000
The Orchard Golf and Country Club	3	1,700,000
Rizal Commercial Banking Corp	64,986	1,494,678
Valle Verde Country Club	2	700,000
Solid Group, Inc.	340,000	414,800
Holcim Phils., Inc.	30,000	408,000
BDO Unibank, Inc.	2,550	402,900
Sherwoods Hills Golf Club	1	250,000
Fairways & Blue Water Resort Golf	1	250,000
Roxas Holdings Inc.	129,792	233,626
Club Filipino	1	180,000
Forest Hill golf share	1	180,000
Royale North Woods	1	121,856
Cebu Holdings, Inc.	15,625	106,250
Canyon Woods	1	70,000
Royale Tagaytay Country Club	1	60,000
Eagle Ridge Golf & Country Club	1	60,000
Lorenzo Shipping Corp	62,500	53,125
Filinvest Land, Inc.	24,687	37,031
BDO Leasing and Finance, Inc.	15,000	28,050
Roxas and Company Inc.	11,476	24,903
Empire East Land Holdings Inc.	32,430	13,945
Vitarich Corp	10,000	12,000
Lopez Holdings Corp.	154	571
Lepanto Consolidated Mining Co	28,982	2,968

(Forward)

Name of Issuing Entities	Number of shares	Amount Shown in the Statement of Financial Position
Unquoted:		
Hermosa Ecozone Development Corporation	1,000,000	₱552,641,702
Petrogreen Energy Corporation	258,144,888	464,163,306
Brightnote Assets Corporation	11,000,000	11,620,769
Sta. Elena Properties	1	7,680,033
YGC Corporate Services Inc	14,026	3,479,870
Tower Club (Philam Properties Corp)	1	500,000
Phil. Long Distance Tel-Pref. (Series V)	527	77,000
Integrated Properties	700	68,137
Menzi Industries	1,066	45,478
Architectural Center Club, Inc (ACCI)	1	32,000
Alsons Cement Corp.	37	18,750
Phillipne Contractors Association	10,000	10,000
RCBC Realty Corporation	169,999	8,232
Philippine Exporters Traiding Corp.	5,000	5,000
Menzi & Co., Inc.	106	4,522
Zamboanga Industrial Group		3,800
Pilipino Telephone Company	150	675
Others (LFPSI)		
Government Securities		7,515,069
Other Securities and Debt Instruments		44,654,444
Equity Securities	98,671	8,802,225
TOTAL	**278,798,491**	**₱1,147,773,806**

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

As at December 31, 2019, the Group has no receivable above P1 million or 1% of the total assets, whichever is lower from directors, officers, employees, and principal stockholders (other than related parties).

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

Below is the schedule of receivables with subsidiaries, which are eliminated in the consolidated financial statements as at December 31, 2019:

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Balance at end of period
Landev Corporation					
Due from affiliates	₱217,396	₱3,462,693	(₱2,960,024)	₱–	₱720,065
Dividends receivable	23,000,097	65,000,000	(52,999,952)	–	35,000,145
	23,217,493	68,462,693	(55,959,976)	–	35,720,210
Greyhounds Security and Investigation Agency Corporation					
Due from affiliates	48,459	4,649,022	(4,151,997)	–	545,484
Investment Managers, Inc.					
Due from affiliates	831,974	7,601,647	(7,991,647)	–	441,974
Dividends receivable	–	–	–	–	–
	831,974	7,601,647	(7,991,647)	–	441,974
iPeople, inc. and subsidiaries					
Due from affiliates	9,072,771	82,124,585	(83,855,539)	–	7,341,817
Dividends receivable	30,116,071	37,163,366	(67,279,437)	–	–
	39,188,842	119,287,951	(151,134,976)	–	7,341,817

(Forward)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Balance at end of period
EEI Corporation and subsidiaries					
Due from affiliates	2,561,012	2,904,652	(5,065,623)	–	400,041
Dividends receivable	–	112,688,669	(112,688,669)	–	–
	2,561,012	115,593,321	(117,754,292)	–	400,041
La Funeraria Paz Sucat, Inc					
Due from affiliates	₱612,893	₱7,364,268	(₱5,593,497)	₱–	₱2,383,664
Dividends receivable	–	5,000,000	(5,000,000)	–	–
	612,893	12,364,268	(10,593,497)	–	2,383,664
Zambowood Realty and Development Corp					
Due from affiliates	532	1,210	–	–	1,742
Zamboanga Carrier Inc					
Due from affiliates	1,803	740	–	–	2,543
Xamdu Motors, Inc.					
Due from affiliates	100	290	–	–	390
	₱66,463,108	₱327,961,142	(₱347,586,385)	–	₱46,837,865

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 December 31, 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 MESI. 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	₱13,472,260	₱–	₱–	₱–	₱484,829,719
Computer Software	14,298,226	8,195,665	(6,621,573)	–	–	15,872,318
	₱485,655,685	₱21,667,925	(₱6,621,573)	₱–	₱–	₱500,702,037

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	₱100,000,000	₱100,000,000	₱–
EEI			
Fixed-rate corporate promissory notes with effective interest of 4.8% per annum for seven (7) years	2,446,428,571	1,214,285,714	1,232,142,857
EEI Power			
Peso-denominated seven (7) year term loan, with interest of 5.0526% per annum inclusive of two-year grace period on principal amortization	196,428,571	71,428,571	125,000,000
Biotech JP			
Yen-denominated five (5) year, four and half (4.5) year term and six (6) month term loan, with interest rate of 0.05% p.a., 0.30% p.a. and 2.45% p.a., respectively	78,928,577	–	78,928,577

(Forward)

Type of Obligation	Amount	Current	Noncurrent
MCM Peso-denominated ten (10) year term loan, payable in 20 equal quarterly payments which will to start at the end of 21st quarter from the initial drawdown date. Interest is subject to quarterly repricing	1,489,903,407	–	1,489,903,407
NTC Peso-denominated ten (10) year term loan, payable in 28 quarterly payments starting May 2022 with interest subject to annual repricing based on higher of 5.5% or prevailing 1-year rate plus interest spread	₱380,000000	₱–	₱380,000,000
	₱4,691,689,126	₱1,385,714,285	₱3,305,974,841

Schedule F. Indebtedness to Related Parties (Long-term Loans from Related Companies)
As at December 31, 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 December 31, 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	776,465,281	393,166,274	2,695,400	380,603,607
Preferred shares	2,500,000,000	16,776,001	–	–	16,776,001

HOUSE OF INVESTMENTS, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

Unappropriated retained earnings, January 1, 2019	₱828,084,713
Less: Deferred tax asset	13,452,845
Less: Treasury stock	2,607,600
Unappropriated retained earnings, January 1, 2019, as adjusted	**812,024,268**
Add: Net income during the period closed to Retained Earnings	965,044,196
Movement in deferred tax asset	(8,346,558)
Net income actually earned during the period	**956,697,638**
Less: Dividend declarations during the period	(63,342,105)
Appropriations of retained earnings during the year	(400,000,000)
	(463,342,105)
Unappropriated retained earnings available for dividend distribution, December 31, 2019	**₱1,305,379,801**

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS AS OF DECEMBER 31, 2019 AND 2018

Financial Soundness Indicator

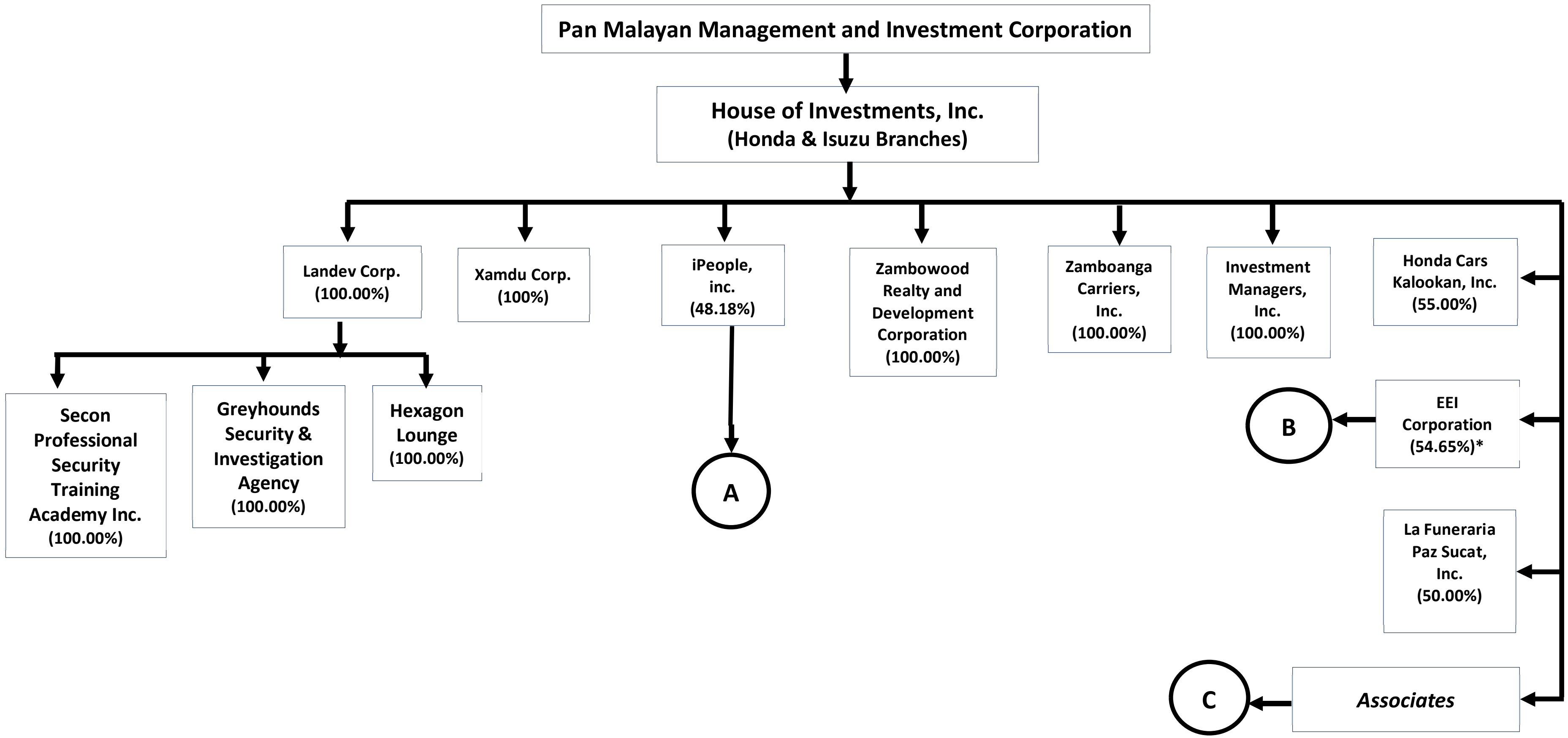
Below are the financial ratios that are relevant to the Group for the years ended December 31, 2019 and 2018:

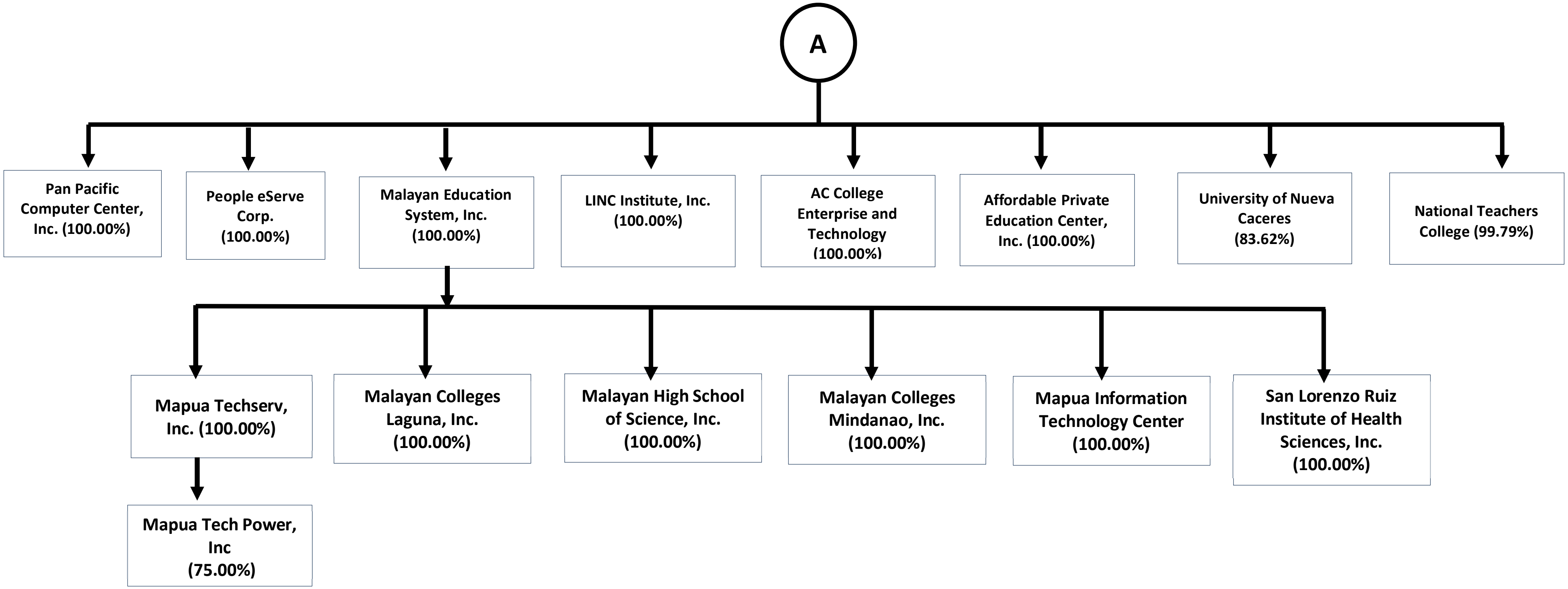
Financial ratios		**2019**	2018
Current ratio	Current assets / Current liabilities	**1.12:1**	0.87:1
Solvency ratio	Net income plus depreciation / Total liabilities	**0.11:1**	0.10:1
Debt to equity ratio	Total liabilities / Total equity	**1.21:1**	1.18:1
Asset-to-equity ratio	Total assets / Total equity	**2.21:1**	2.18:1
Interest rate coverage	EBIT* / Interest expense	**3.70:1**	4.65:1
Return on assets	Net income / Average total assets	**3.60%**	3.03%
Return on equity	Net income / Average total equity	**7.92%**	6.74%

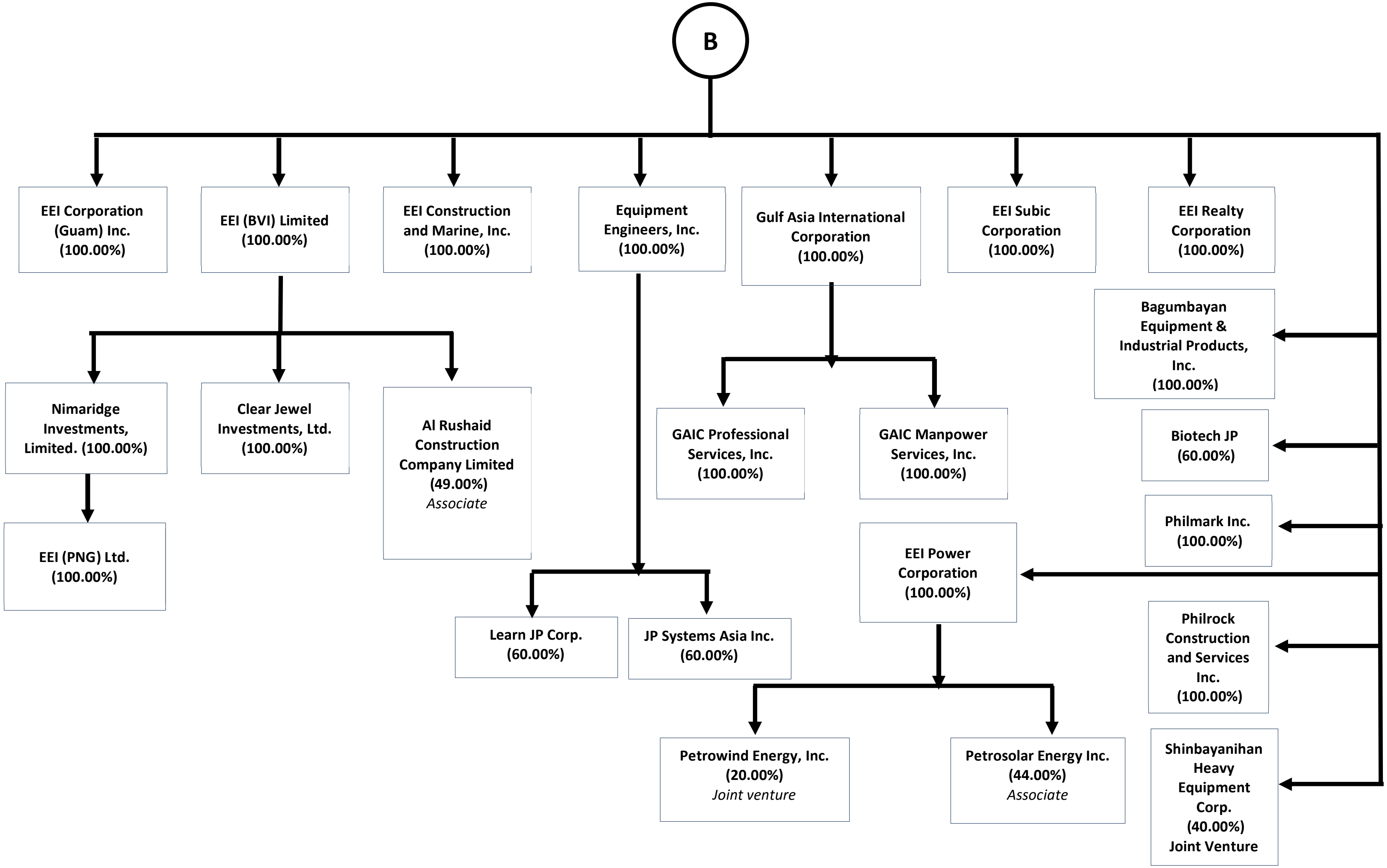
**Earnings before interest and taxes (EBIT)*

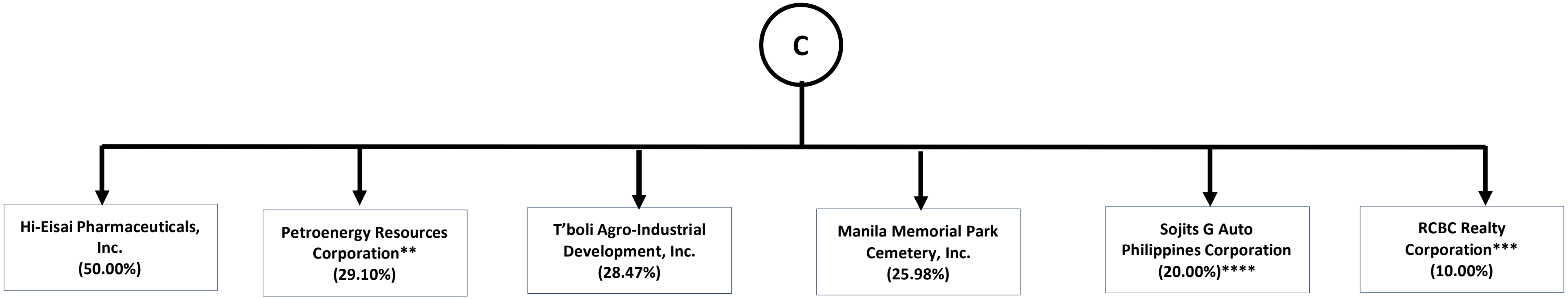
HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

Group Structure
Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as of December 31, 2019:




A
Pan Pacific Computer Center, Inc. (100.00%)
People eServe Corp. (100.00%)
Malayan Education System, Inc. (100.00%)
LINC Institute, Inc. (100.00%)
AC College Enterprise and Technology (100.00%)
Affordable Private Education Center, Inc. (100.00%)
University of Nueva Caceres (83.62%)
National Teachers College (99.79%)
Mapua Techserv, Inc. (100.00%)
Malayan Colleges Laguna, Inc. (100.00%)
Malayan High School of Science, Inc. (100.00%)
Malayan Colleges Mindanao, Inc. (100.00%)
Mapua Information Technology Center (100.00%)
San Lorenzo Ruiz Institute of Health Sciences, Inc. (100.00%)
Mapua Tech Power, Inc (75.00%)


B
EEI Corporation (Guam) Inc. (100.00%)
EEI (BVI) Limited (100.00%)
EEI Construction and Marine, Inc. (100.00%)
Equipment Engineers, Inc. (100.00%)
Gulf Asia International Corporation (100.00%)
EEI Subic Corporation (100.00%)
EEI Realty Corporation (100.00%)
Bagumbayan Equipment & Industrial Products, Inc. (100.00%)
Nimaridge Investments, Limited. (100.00%)
Clear Jewel Investments, Ltd. (100.00%)
Al Rushaid Construction Company Limited (49.00%) Associate
GAIC Professional Services, Inc. (100.00%)
GAIC Manpower Services, Inc. (100.00%)
Biotech JP (60.00%)
Philmark Inc. (100.00%)
EEI (PNG) Ltd. (100.00%)
EEI Power Corporation (100.00%)
Learn JP Corp. (60.00%)
JP Systems Asia Inc. (60.00%)
Philrock Construction and Services Inc. (100.00%)
Petrowind Energy, Inc. (20.00%) Joint venture
Petrosolar Energy Inc. (44.00%) Associate
Shinbayanihan Heavy Equipment Corp. (40.00%) Joint Venture



** In November 2019, Parent purchased additional 3 million shares resulting to an increased ownership interest from 54.36 to 54.65%.*

*** 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 2018, the Parent purchased additional 69,285,418 shares amounting to P332.6M from stock rights offering, which increased ownership to 28.36%. In 2019, Parent purchased additional 4.2 million shares resulting to an 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 November 8, 2019, the Parent purchased 2,500,000 shares of Sojitz G Auto Philippines Corporation from Sojitz Corporation amounting to P50,000,000 equivalent to 20% ownership equity.*