C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 5 3 9 3

C O M P A N Y   N A M E

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A		

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	815-9636 to 38	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
394	July 21	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Maria Teresa T. Bautista	mtbautista@hoi.com.ph	815-9636	N/A

CONTACT PERSON's ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION
AMENDED SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE REVISED SECURITIES ACT AND SECTION 141
OF CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2017**

2. SEC Identification Number: **15393** 3. BIR Tax Identification No.: **000-463-069**

4. Exact Name of registrant as specified in its charter **House of Investments, Inc.***

5. **Manila, Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **3rd Flr., Grepalife Bldg, 219 Sen. Gil Puyat Avenue, Makati City** **1200**
Address of principal office Postal Code

8. **(632) 815-9636**
Registrant's telephone number, including area code

9. **Not Applicable**
Former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares Outstanding
Common, P1.5 par value	615,996,114
Preferred, P0.40 par value	634,395,272

Total Debt Outstanding as of December 31, 2017: P21.0 Billion

11. Are any or all of these securities listed on the Philippine Stock Exchange: **Yes/Common**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);
Yes [x] No [ ]

(b) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

13. As of March 31, 2018, within 60 days prior to the filing of SEC17-A, the aggregate market value of the voting stock held by non-affiliates of the Company is equivalent to Two Billion, Two Hundred Four Million, Three Hundred Four Thousand, Seven Hundred Sixteen Pesos and 48 centavos (P2,204,304,716.48) or Three Hundred Eighteen Million, Five Hundred Forty-One Thousand and One Hundred Forty-Four (318,541,144) shares at P 6.92/share.

**** Full Name as it appears in the Company's Charter: House of Investments, Inc. doing business also under the names of Honda Cars Quezon City, Honda Cars Manila, Honda Cars Marikina, Honda Cars Fairview, Honda Cars Tandang Sora, Honda Cars Marcos Highway, Isuzu Manila, Isuzu Commonwealth, Isuzu Greenhills, and Isuzu Leyte.***

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference:

(a) 2017 Audited Consolidated Financial Statements

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PART I – BUSINESS AND GENERAL INFORMATION

Item 1: Description of Business

House of Investments, Inc. ("House of Investments" or "the Company") was incorporated in 1959 as an investment bank, the first of such bank to be organized in the Philippines in 1959. Through the years, the Company has evolved into an investment holding and management company with a diversified portfolio and has become one of the four major flagship corporations of the Yuchengco Group of Companies ("YGC"). The Company is a publicly listed company on the Philippine Stock Exchange (PSE:HI).

Throughout its history, House of Investments has successfully acquired, organized, invested, and divested in various corporate institutions and industries while focusing its corporate goal of contributing to the economic development of the country and providing employment while at the same time fostering a corporate culture of integrity and excellence. As of the end of 2017, it has a total consolidated asset base of PhP37.35 billion. Consolidated revenues for 2017 summed to PhP27.55 billion, with consolidated net income of PhP1.46 billion.

Using funding raised through various sources (internally generated cash, equity, debt, or a combination) House of Investments seeks to buy entire businesses (or take majority control in a friendly transaction) with a view towards increasing the returns from such enterprises. By taking control of high return businesses, management seeks to increase the enterprise value of the company as the earnings stream and cash flows from such investments grow.

These returns are then channelled to stockholders primarily through dividends.

House of Investments does have the alternative of exiting investments via sale of such assets. This is also a tool for leaving low-return businesses with the objective of investing additional capital in higher return businesses.

The Company's core business focus is organized into four segments, namely: Car Dealership, Construction, Education and Property Services. Current portfolio investments are in pharmaceuticals, energy, consumer finance, and afterlife services.

CORE BUSINESS UNITS:

A. <u>CAR DEALERSHIP:</u>
House of Investments operates two car-retailing brands: Honda and Isuzu.

The Company operates six Honda dealerships, namely: Honda Cars Quezon City (HCQC), Honda Cars Manila (HCMA), Honda Cars Marikina (HCMK), Honda Cars Fairview (HCFV), Honda Cars Marcos Highway (HCMH) and one service center in Tandang Sora (HCTS). HI also owns a majority stake in Honda Cars Kalookan, Inc. that operates two dealerships in Kalookan (HCKI) and Greenhills (HCGH).

The Company operates four Isuzu dealerships, namely: Isuzu Manila (IMI), Isuzu Commonwealth (ICW), Isuzu Greenhills (IGH), and Isuzu Leyte (ILY)

B. <u>CONSTRUCTION</u>
House of Investments owns a majority stake in one of the largest Philippine construction and general contracting firms, EEI Corporation ("EEI"). EEI has international operations spanning from the Kingdom of Saudi Arabia to Africa and Asia. It is also a market leader in the domestic construction and contracting sector.

C. <u>EDUCATION</u>
House of Investments owns a majority stake in iPeople, inc. ("iPeople"), the vehicle for investments in education. iPeople (together with House of Investments) wholly owns the Malayan Education System, Inc. (Operating under the name of Mapúa University) ("MES"). Mapúa University is widely considered to be the leading and largest private engineering and I.T. school in the country.

D. <u>PROPERTY SERVICES</u>
House of Investments wholly owns Landev Corporation. Landev is primarily engaged in property management and project management for the YGC. It also provides comprehensive security services to leading installations through its subsidiary Greyhounds Security and Investigation Agency Corporation ("GSIA").

The Company also owns minority stake in RCBC Realty Corporation ("RRC"), which owns the RCBC Plaza. The operations of RCBC Plaza are managed by House of Investments.

The operations of each core business, along with a discussion of risks and 2017 performance, will be discussed in the appropriate section.

PORTFOLIO INVESTMENTS:

A. ENERGY

House of Investments has investments in the energy sector through its stake PetroEnergy Resources Corporation ("PERC") and EEI Power Corporation, a wholly-owned subsidiary of EEI.

PERC has investments in conventional and renewable energy, exploration and development. Its subsidiary PetroGreen Energy, Corporation has investments in a 20-MW Maibarara Geothermal Power Plant in Sto. Tomas, Batangas, 36-MW Nabas Wind Power Project in Aklan, and a 50-MW solar farm in Tarlac.

EEI Power Corporation operates a 15-megawatt Heavy Fuel Oil (HFO) power plant in the City of Tagum, Davao del Norte. It also has investments in renewable energy through its participation in Petro Wind Energy, Inc. and PetroSolar Corporation, both of which are subsidiaries of PERC.

B. PHARMACEUTICALS

House of Investments owns 50% of HI-Eisai Pharmaceuticals, Inc. ("HEPI"), which is a joint venture with the Eisai Co. of Japan. HEPI imports pharmaceuticals from Japan, which it sells in the Philippine market through established drug distributors.

C. AFTERLIFE SERVICES

House of Investments owns material stakes in both Manila Memorial Park Cemetery, Inc. ("MMPCI") and La Funeraria Paz-Sucat, Inc. ("LFPSI"). MMPCI is the recognized market leader in afterlife services. It sells memorial lots and owns, operates, and maintains memorial parks. LFPSI provides mortuary services to the bereaved and their loved ones.

D. CONSUMER FINANCE

House of Investments owns 50% of Zamboanga Industrial Finance Corporation ("ZIFC"). ZIFC provides consumer finance services (personal loans, secured loans, equipment leasing) in Zamboanga City.

THE HOLDING COMPANY

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

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

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

Risks at the Holding Company Level

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

a. Interest Rate Risk
The Company is exposed to interest rate risk because it has borrowings from local banks. It is a company policy to use excess liquidity to pay down borrowings in order to decrease financing costs, and reduce exposure to rising interest rates. It is also a company policy to actively discuss with lending

banks on how to lower financing costs. HI does not speculate on the direction of interest rates. The main objective is to lower financing costs as much as possible.

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

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

d. Credit Risk
The Company's holding of cash and short-term securities exposes the company to the credit risk of the counterparty. Given House of Investments's diverse body of counterparties, it does not have a concentrated credit risk exposure. The Company manages its receivables thru selective granting of credit lines to corporates and banks.

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

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

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

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

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

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

CAR DIVISIONS

House of Investments operates two car-retailing brands: Honda and Isuzu. Honda's vehicle line-up includes passenger cars and commercial vehicle categories, while Isuzu's are purely commercial vehicles.

HONDA

The Company's Honda dealership group is a significant player in the retailing of Honda cars in Metro Manila.

House of Investments owns and operates Honda dealerships in the following Metro Manila locations: Quezon Ave., Manila, Marikina, Fairview, and Marcos Highway and one service center in Tandang Sora. HI also owns a majority stake in Honda Cars Kalookan, Inc. that owns and operates dealerships in Kalookan and Greenhills.

ISUZU

The Company's Isuzu dealerships, on the other hand, are in four locations: Manila, Commonwealth, Greenhills, and Leyte.

New vehicle unit sales are cyclical. Changes in unit sales are driven by factors like manufacturer incentives, interest rates, fuel prices, unemployment, inflation, weather, the level of personal discretionary spending, credit availability, consumer confidence and others. Car retailers have historically been less vulnerable than car manufacturers and car parts suppliers to declines in new vehicle sales. We believe this is due to the more flexible expense structure of retailers (they don't own the factories) and their diversified revenue streams. Car manufacturers may also offer various dealer incentives, which help to decrease earnings volatility for car retailers.

Our dealerships also generate revenue through repair services, the sale of replacement and aftermarket parts, and the sale of third party finance and insurance products. We believe our various income streams help to lower the impact of the cyclicality found in the automotive sector. Revenues from service and parts sales are typically less cyclical than retail vehicle sales.

<u>Risk Factors at the Car Divisions</u>

a. Macro-economic conditions
   The Car Divisions' performance is impacted by general economic conditions overall, and in particular, by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales; availability of consumer credit; changes in consumer demand; consumer confidence levels; fuel prices; personal discretionary spending levels; interest rates; and unemployment rates.

b. Operational Risks
   - Franchise Agreements with Honda and Isuzu. Our dealerships operate under a franchise agreement with Honda Cars Philippines Inc. and with Isuzu Philippines Inc., which authorizes our dealerships to sell new vehicles of the brands we carry or perform manufacturer authorized warranty service. These agreements govern almost every aspect of the operation of our dealerships, and give manufacturers the discretion to terminate or not renew our franchise agreements for a variety of reasons

   - Information Technology and Cyber Security. Our information systems are fully integrated into our operations. If these systems go down, our business could be significantly disrupted. In addition, to the extent our systems are subject to intentional attacks or unintentional events that allow unauthorized access that disrupts our systems, our business could be significantly disrupted.

   - Property loss, business interruption or other liabilities. Our operations can be hampered by property losses due to fire, adverse weather conditions, and militant activities e.g. rallies and strikes, among others. In addition, our business is subject to substantial risk of loss resulting from: the significant concentration of property values, including vehicle and parts inventories, at our operating locations; claims by employees, customers, and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements.
     While we have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance.

c. Market Risk

- Overall success of the automotive industry and in particular on the success of Honda and Isuzu. Significant adverse events that interrupt vehicle or parts supply to our dealerships, would likely have a significant and adverse impact on the industry as a whole, including us, particularly if the events relate to any of the manufacturers whose franchises generate a significant percentage of our revenue.

- Competition. We generally compete with: other franchised automotive dealerships in our markets; private market buyers and sellers of used vehicles; local service and repair shops and parts retailers; and automotive manufacturers (those that own their own dealerships).

  Buying decisions by consumers when shopping for a vehicle are extremely price sensitive. The level of competition in the market can lead to lower selling prices and related profits

d. Availability of financing and interest rate sensitivity

- To the Company. The operations relies heavily on loans to funs its working capital and cash flow. The car divisions access credit through the lines available to the head office, i.e. House of Investments, Inc. while Honda Cars Kalookan, Inc. has its own lines with Banks.

  A sustained or significant decrease in our operating cash flows could lead to an inability to meet our debt service requirements.

  The interest rates we are charged on a substantial portion of our debt are variable, increasing or decreasing based on changes in certain published interest rates. Increases to such interest rates would likely result in significantly higher interest expense for us, which would negatively affect our operating results.

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

e. Regulatory issues

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

- Tax Reform for Acceleration and Inclusion ("TRAIN"). In particular, the implementation of the TRAIN saw an increase in the Excise Taxes on vehicles sold effective January 2018, which may result in a decline in sales of some models. The probability of a second phase of increases is anticipated with the proposed TRAIN 2 that is currently being deliberated by lawmakers. An even more restrictive fiscal policy would further reduce the demand for brand new vehicles leading to lower revenues by the car dealerships.

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

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

f. Environmental regulations

We are subject to a wide range of environmental laws and regulations, including those governing: discharges into the air and water; the operation and removal of storage tanks; and the use, storage and disposal of hazardous substances.

In the normal course of our operations we use, generate and dispose of materials covered by these laws and regulations. We face potentially significant costs relating to claims, penalties and remediation efforts in the event of non-compliance with existing and future laws and regulations.

THE CONSTRUCTION SECTOR

EEI CORPORATION AND SUBSIDIARIES

EEI Corporation, one of the largest construction and general contracting firms in the Philippines, is 54% owned by House of Investments.

EEI, founded in 1931 is a leading provider of construction and engineering services for the erection of large-scale heavy and light industrial facilities, infrastructure, and building and property development projects worldwide. Long years of contracting and collaborating with global contractors, particularly in the Middle East and Asia Pacific countries, have enabled EEI to achieve world-caliber project management expertise and competencies in all fields and disciplines of construction.

EEI has been recognized by contractors worldwide for the quality of its work and for its safety records, and is certified as compliant with ISO 9001:2008, ISO 14001:2004 (Environmental Management System), and OHSAS 18001:2007 (Occupational Safety and Health Management System) standards. The Company stays abreast with the latest developments in technology, materials engineering, and construction methodologies while including its own innovation in the application of its work, making it a preferred provider of construction services to global Engineering, Procurement, and Construction companies.

Principal Activities

A. **Building Construction**
B. **Infrastructure**
C. **Industrial Facilities**
D. **Steel Fabrication**
E. **Manpower Supply**

EEI also owns five major subsidiaries:

- **Equipment Engineers, Inc.** engages in the supply and marketing of a broad range of industrial plant facilities, process equipment, systems, and parts to the industrial, commercial, and property development companies; and, engages also in supply management services;
- **EEI Power Corporation** is a power producer and engages as well in building, rehabilitating, and operating power generating plants.
- **EEI Construction and Marine, Inc.** engages in structural fabrication works and light steel construction works such as storage tanks, pressure vessels, ducts and pipes;
- **GAIC Group** provides manpower services to both local and foreign markets;
- **EEI Realty Corporation** is engaged in the development of land, housing, and other properties.

In 2017, EEI Corporation's consolidated revenue was ₱14.92 billion in 2017. Revenues from construction contracts decreased by 1% due to slow progress of major infrastructure projects, which were facing right-of-way constraints. Meanwhile, non-construction revenues mostly increased with the exception of interest and discounts, a non-core activity. Sales of services grew by 18% with an expansion in the supply of workers by Gulf Asia Manpower Services, Inc. Sale of goods through Equipment Engineers, Inc. (EE) increased by 28%. Lastly, real estate sales through EEI Realty increased significantly by 120% due to the sale of socialized housing units in Royal Parks at Grosvenor Place in Tanza Cavite and some units in Suburbia East, Marikina City.

EEI Corporation recognized a significant Other Income of ₱401.76 million primarily due to a one-time gain from the sale of land located in Lemery, Batangas.

Further, the Company earned a total net equity income of ₱118.18 million primarily from its investments in PetroSolar Corporation and PetroWind Energy Inc.

The Company recognized a net loss of ₱14.5 million for its 49% share of loss in Al Rushaid Construction Company, Ltd. (ARCC), EEI Corporation's Joint Venture firm in the Kingdom of Saudi Arabia. Following a conservative approach to accounting practice, EEI Corporation made an additional loss provision of ₱372 million for possible nonrepayment of ARCC's claims from Saipem. This is notwithstanding the fact that ARCC has declared a full positive net income for 2017.

Since the end of 2017, ARCC and Saipem have been communicating about a possible settlement in connection with problems encountered in the RP2 Naptha and Aromatics Plant Project completed earlier in the year. The resumption of communication between the two parties is a positive development for ARCC.

EEI Corporation ended the year with a consolidated net income of ₱831.8 million, a reversal from a net loss of ₱847.7 million in 2016.

Risk Factors at the Construction Sector

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

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

a. Geopolitical risk and opportunities
   - Expected Philippine Infrastructure Boom. As the government continues to change the political and economic situation in the country including EEI's relationships with other nations, the effects of which to the construction markets where EEI has interests is of particular interest: The "Build, build, build" initiative of the government is expected to provide a sizable opportunity for players in the construction industry but the funding for such and fairness of the government in awarding contracts are important factors; Though it is anticipated that a significant number of Chinese investors will be putting in money in the country, most of which to partner with the government to do new infrastructure projects, the credibility of these potential clients as "good" ones is somewhat suspect at least basing on the rating that the UN gave them; Japan has not only provided funding but also begun investing in infrastructure and other business ventures in the Philippines.
     To mitigate this risk, EEI has made alliances with foreign EPCs in its pursuit for more infrastructure projects. EEI is also establishing working relationships with known local developers that will most likely be awarded government projects. Due diligence on Chinese investors is also being done prior to entering into any partnership. Contracts related to such partnership are being thoroughly reviewed to ensure its fairness.

   - Looming Global Trade War. Donald Trump announced tariffs on up to $60 billion of imports from China, proposed new investment restrictions and promised to sue China at the WTO for its technology-licensing regime. In response, China could impose tariffs on $3 billion of imports from America or a nuclear trade option, sell off its US treasury bills holdings which will dampen the US bond market. Meanwhile, American customs officials started collecting levies of 25% on incoming steel and 10% on aluminum from China.
     Trade war rumblings have Wall Street investors on edge, sent market volatility soaring and may stunt global growth prospects. On the other hand, the US tariff will create a glut in steel products in the ASEAN region, which will ultimately reduce the price of steel.
     To mitigate this risk, EEI is closely monitoring the price of steel and other construction products affected by the US tariffs to capitalize on the expected benefits.

b. Saudi country risk
   A relatively sizable operation of the company is situated in the Kingdom of Saudi Arabia and the uncertainties in that area is of some concern. The prevailing low oil prices, the political instability and regional security threats (Iran, Syria and Yemen) continue to be a factor that affects the operations there. On the other hand, emerging opportunities exist with the new Crown Prince's Vision 2030

initiatives, Saudi Aramco's 3 IPO and alliance with Russia, which will not only stabilize the oil price but also create new economic activities.

EEI continues to focus on sustainable operations and maintenance contracts where margins are higher. EEI will also develop new international markets particularly in the ASEAN region that will fill the void due to slowdown in Saudi Arabia.

c. Business concentration risk

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

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

d. Credit Risk

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

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

e. Interest rate risk

The era of quantitative easing known as QE3, using dollars created out of thin air to buy vast sums of bonds $4.4 trillion, is over in the United States. This will signal an end to easy money in Asia. Interest rates are expected to rise with US Federal Reserve Chairman recent announcement for a faster pace to rate hikes to address inflation caused by a strong economy. Higher interest rates result to higher borrowing costs.

To mitigate this risk, EEI's efforts to expand its facilities from banks to an optimum level have been successful and efforts to reduce debt levels are continuing.

f. Competition risk

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

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

g. Succession planning

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

EEI continues to run extensive management development training programs to prepare the successors of the retiring managers

h. Manpower sourcing
The construction boom in the Philippines has put considerable strain in the supply of human labor as various construction companies vie for their services. Although EEI's pool of workers is sufficient for the present amount of work, the anticipated award of new projects will require additional workers. The capacity of EEI's recruitment group to acquire talents from various parts of the country has been supplemented by increasing their manpower complement.

Efforts are now being done to make the deployment of our workers to various projects more efficient – that is, spot over-supply in certain areas and redistribute them to projects where they can be better utilized. In addition, the use of technology and machines in lieu of human labor is also being explored and training programs for zero-skilled applicants are being intensified to properly equip new recruits to work in our projects.

i. Implementation of PFRS 9 & 15 regulations
Starting January 1, 2018, the Philippine Financial Reporting Standard (PFRS) 9 and 15 will take effect. This means that management's discretion on the provisioning of savings or overruns for projects (which is intended to match revenue and cost recognition) will now be removed. Instead, revenues will be reported as contract obligations are satisfied while cost will be recognized when losses are incurred. In this case, the new standards will result to increased volatility in EEI's financial results. How its stakeholders react to this volatility may impact our stock price and the analysts' view of EEI's performance. Efforts will be taken to discuss such volatility with all relevant stakeholders to provide proper context and expectations and in managing credit and operational risks will help reduce such volatility

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

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

k. Disruptive technology
New technologies in construction – such as robotics, construction design by artificial intelligence – have the potential to disrupt the state of the industry. Players failing to adopt or even adapt to such changes may prove disastrous as they risk obsolescence. Efforts to explore and study the use of these new technologies are being done.

l. Sustainability
EEI is aware that our business' sustainability equally hinges in the state of our people, the society it serves and the environment we live in. Factors such as employee morale, militant ideological beliefs and natural disasters may have severe effects to its business if not properly managed.

To mitigate this risk, initiatives to provide EEI's people with a safe, orderly, fair and, as much as possible, comfortable working environment are continuing. EEI continues to cultivate the community within and outside the workplace. The methods EEI employs in the work adhere to the strictest environmental standards and a testament to this is EEI's ISO 14001 certification. Programs wherein EEI's people perform extracurricular activities that help the environment are continuing (e.g. regular tree planting activity). EEI have invested in a solar energy farm and a wind energy farm.

m. Cyber security
As EEI pushes to use more sophisticated technology in improving the way we do our work; the use of the Internet cannot be avoided. However, using the Internet includes the possibility of being a target of cyberattacks and the increasing global trend of such attacks needs to be considered. Assessments on this threat and equipment to protect against these attacks are already acquired and in-place.

n. Data Privacy

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

o. Opreational risks

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

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

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

  Future construction contracts are being negotiated EEI to contain provisions that either transfers these externalities or at the very least provides a means of spreading or minimizing the risk. Risk mitigation also happens during the tender stage where EEI can decide to pursue or ignore a tender. Creation of rules of thumbs during project execution to contain losses when the risk materializes

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

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

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

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

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

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

THE EDUCATION SECTOR

iPeople, inc. ('iPeople") is the holding company under House of Investments and of YGC that drives investments in the education sector. iPeople is a publicly listed company on the Philippine Stock Exchange (PSE:IPO).

iPeople owns a majority stake (93%) in Malayan Education System, Inc. (Operating under the name of Mapúa University). Mapúa University has two other wholly owned operating subsidiary schools, the Malayan Colleges Laguna (A Mapúa School), Inc. ("MCL") and the Malayan High School of Science, Inc. ("MHSS").

Mapúa University is expanding in Mindanao with the acquisition of a 3-hectare property in Davao through its newly incorporated school, Malayan Colleges Mindanao (A Mapua School), Inc. ("MCM"). The school will open its doors to the first batch of Grade 11 and college freshmen students on July 2, 2018.

MALAYAN EDUCATION SYSTEM, INC. (OPERATING UNDER THE NAME OF MAPUA UNIVERSITY)

Mapúa University is widely considered to be the leading and largest private Engineering and I.T. University in the country. Don Tomas Mapúa, the first registered Filipino architect, founded Mapúa Institute of Technology on January 25, 1925. Mapúa University operates in two (2) major campuses: its main campus in Intramuros and its extension campus in Makati.

Mapúa University's commitment to its Continuous Quality Improvement philosophy has earned for the Institution the reputation as a recognized leader in providing quality education in the country, especially in the field of Engineering. The Philippine Association of Colleges and Universities Commission on Accreditation ("PACUCOA") confirmed Mapúa's Level IV status having programs, which are highly respected as very high academic programs in the Philippines and with prestige and authority comparable to similar programs in excellent foreign universities. PACUCOA is a private accrediting agency, which gives formal recognition to an educational institution by attesting that its academic program maintains excellent standards in its educational operations, in the context of its aims and objectives.

The Commission on Higher Education ("CHED") confirmed Mapúa with the Autonomous Status effective from April 2016 to May 2019. The CHED also recognized eight (8) of University's Engineering programs as Centers of Excellence ("COE") and one (1) as Center of Development ("COD"). Mapúa is the only private higher education institution that has the most number of Engineering programs with COE status in the Philippines.

Mapúa University is also the first school in Southeast Asia that has received the prestigious accreditation from the Accreditation Board of Engineering and Technology ("ABET") in the United States for 11 of its engineering programs and 2 of its computing programs. This means that the graduates from those degree programs are considered to have received education and training comparable to similar degree programs in the US and Europe that have also received the ABET accreditation. Mapúa has the highest number of ABET-accredited programs in any single academic corporate entity in the Philippines.

Mapúa University is the first private educational institution in the country to have programs awarded with full accreditation by the Philippine Technological Council - Accreditation and Certification Board for Engineering and Technology ("PTC-ACBET"). Mapúa University is also accredited by the Philippine Computer Society - Information and Computing Accreditation Board ("PICAB"). A total of eight (8) of its engineering programs are accredited with PTC-ACBET, while three (3) of its computing programs are accredited with PICAB.

In further testament to its strive for excellence, Mapúa has been granted university status by the Commission on Higher Education on May 18, 2017. This milestone in Mapúa University's history recognizes the institution's sustained efforts to raise the standards of technological education and research in the Philippines.

Also in 2017, Mapúa University was awarded an overall rating of three (3) stars by the Quacquarelli Symonds (QS) Stars. The QS Stars is a rating system that gives students and the international community a wider picture of a higher education institution's strengths and qualities. Mapúa received a five-star rating in the categories of employability, facilities, and social responsibility; and four stars in inclusiveness and teaching.

Mapúa University continues to be ranked among the top performing schools in licensure examinations regulated by the Professional Regulation Commission. Its graduates consistently rank among the top ten of the various board examinations. In 2017, the school produced 17 top finishers bringing the total top ten finishers from Mapúa to 344 from the past seventeen years alone.

Mapúa graduates are also the highest paid employees for: (a) 1-4 years experienced employees, (b) supervisor / 5 years and up experienced employees, and (c) assistant manager or manager positions. This is according to Jobstreet's database as published by Entrepreneur.com on July 18, 2017.

MALAYAN COLLEGES LAGUNA (A MAPÚA SCHOOL), INC.

Located in Cabuyao, Laguna, alongside several science and industrial parks, Malayan Colleges Laguna was established to extend the brand of the Mapúa Institute of Technology to the south by offering programs in engineering, computer science, information technology, business, accountancy, and hotel and restaurant management to students who prefer to stay closer to home.

The institution's community started with 854 students in its first year in the academe. Today, there are 5,183 students under both college and Senior High School ("SHS"). MCL, like its parent company Mapúa University, offered SHS. MCL also adopted Mapúa's design for its SHS curricula and imbedded Internet of Things ("IoT"). IoT is an emerging technology that primarily deals with communication between smart / intelligent devices through the internet. This gave MCL a unique advantage in the secondary education sector, ensuring that our students and curricula remain competitive on a global scale as well. MCL SHS was opened in 2016 welcoming 1,012 Grade 11 students. In 2017, MCL took in 1,345 Grade 11 students.

In 2006, the CHED gave the approval for MCL to offer eight programs of study in Engineering, Information Technology, and Business. This was after MCL's satisfactory compliance with the standards of the CHED's Regional Quality Assurance Team. To date, the campus offers 22 bachelor's degree programs and two diploma programs under five colleges and one institute: the Mapúa Institute of Technology at Laguna, the E.T. Yuchengco College of Business, the College of Computer and Information Science, the College of Arts and Science, the Mapúa-PTC College of Maritime Education, and the Institute for Excellence in Continuing Education and Lifelong Learning.

As part of its pledge to provide quality education to its students, MCL has reached yet another milestone in 2017 by having its Chemical Engineering and Computer Engineering programs granted a 2-year accreditation term for Academic Year 2018-2019 to 2019-2020 by the PTC-ACBET. MCL's Electronics Engineering (ECE) and Mechanical Engineering (ME) programs, which were granted their certificates of accreditation last March 2016, were also awarded re-certification for another period of 4 years (AY 2017-2018 to 2020-2021), which is tantamount to eventually getting PTC-ACBET's Full Accreditation certification.

With its excellent facilities, technologically advanced and IT-integrated curricula, MCL was envisioned to be a Center of Excellence for science and technology education in Southern Luzon. Over a decade later, the institution finds itself succeeding, as proven by its graduates' and students' consistent excellent performance in licensure and certification exams, and in local and national competitions and quiz bowls. In 2016, FindUniversity.ph marked it as the number one private school in CALABARZON and the 10th best school in the Philippines.

As a result of its quest to continually improve 21st century education, MCL took home the Blackboard Catalyst Award for Leading Change during the Blackboard Teaching and Learning Conference Asia 2017 in Singapore on October 4. The Catalyst Award for Leading Change is given to institutions that are steering educational innovation by developing and implementing high impact strategies.

MCL, being an institution envisioning to be a global steeple of excellence in professional education and research, had produced its first international research interns. 4th year Chemical Engineering (ChE) students under MCL's Research Director, underwent a short-term research internship at National Chiao Tung University (NCTU) in Hsinchu, Taiwan from October to December 2017. Their thesis, which is about the removal of copper and lead in waste water using capacitive deionization (CDI), is part of a project under the MECO-TECO Program of DOST-GIA.

Driven by passion for knowledge, MCL seeks to meet the challenges of globalization in order to produce graduates who can exercise their skills in the global labor market. Given its excellent location, the MCL campus gives students the opportunity to train and apprentice with technology-driven companies during their academic years. This school year, MCL once again excelled in the different licensure and certification exams, garnering outstanding performances and perfect passing rates (100%) in the Electrical Engineer Licensure Exam, Electronics Technician Licensure Exam, Industrial Engineering Certification Exam, Mechanical Engineer Licensure Exam, the National Institute of Accounting Technicians (NIAT) Certification Exam for Registered Cost Accountants, and even in the PRC-Licensure Exam for Teachers (Secondary Level). In the July 2017 Master Plumber Licensure Examination, MCL ranked as the no. 1 Top Performing School with an 85.71% passing rate.

MALAYAN COLLEGES MINDANAO (A MAPÚA SCHOOL), INC.

Incorporated in 2015, Malayan Colleges Mindanao (A Mapua School), Inc. was established to offer Mapua-education in Davao and Mindanao. It is targeted to start school operations in 2018.

Malayan Colleges Mindanao will be offering 14 programs upon its opening in SY2018-2019. The school will also be offering Senior High School in all 5 strands: Science Technology Engineering and Mathematics (STEM), Accountancy, Business, and Management (ABM), Humanities and Social Science (HUMSS), and General Academic Strand (GAS) under the Academic track and also Information and Communications Technology (ICT) strand under the Technical, Vocational and Livelihood track.

The school will open its doors to the first batch of Grade 11 and college freshmen students in July 2, 2018.

MALAYAN HIGH SCHOOL OF SCIENCE, INC.

MHSS is a science- and math-oriented high school located in Pandacan, Manila. Modeled after similar but publicly funded science high schools, MHSS offers a rigorous academic program geared towards graduating hard-working, mathematical and scientific-trained students that will excel in their university studies and beyond. The school is focused on optimizing student-to-teacher time and currently has 280 students.

MHSS is envisioned to be a global Center of Excellence in secondary education with a special focus on science and technology, thus giving the same quality education that its parent school, Mapúa Institute of Technology, is known for. It has a top-notch faculty, state-of-the-art facilities, and a curriculum that will allow students to "fully express not only their scientific inclinations but also their artistic bent." At its young age, MHSS has already gained recognitions from numerous academic and non-academic events both here and abroad.

<u>Risk Factors related to Education Sector</u>

a. Regulatory, recognition of academic programs, and accreditations from government, and self-regulating private accreditation organizations.

- Accreditations. The schools are governed and regulated by the CHED and by the Department of Education ("DepEd"), depending on the program offerings. In addition, MES and MCL are also accredited by PACUCOA while the initial accreditation of MCM is ongoing by PACUCOA. MES is also accredited by the ABET; MES and MCL are both accredited by PTC-ACBET and PICAB.

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

- Tuition Fee. The Commission on Higher Education and the Department of Education regulates tuition increases at the university level and the secondary level, respectively, and routinely sets maximum limits on percentage increases in tuition fees. MES, MCL, MCM, and MHSS are subject to maximum percentage increase guidelines issued by both the CHEd and the DepEd, as applicable. The inability of our higher education institutions to increase tuition fees to cover higher operating costs may pose a risk to profits and cash flows over time.

- Changes in regulations. The DepEd K+12 program increases the total number of years of education at the pre-university level from 10 years to 12 years. The addition of two extra years of schooling prior to the university level means universities and colleges ended up with two academic years of no entering freshman classes.

  The reduction of the student population because of the K+12 program affected the Company's profits and cash flows in the medium term. MES, MCL and MHSS offered SHS starting 2016 to cushion the effects of the K + 12 Program. However, these measures may not offset the entire impact of a loss of two freshman batches.

b. Competition

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

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

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

  While Mapua is an established brand, it also has its own impressive set of resources. It continues to pursue accreditations from self-regulating private accreditation organizations in addition to the government accreditation bodies.

c. Credit Risk

As the schools increase their enrollment, the level of receivables also increases. Some of the students who cannot afford to make the full payment of tuition and miscellaneous fees during an academic quarter execute a Promissory Note and are expected to settle their accounts prior to the start of the next academic quarter. In certain cases, students who have signed promissory notes cannot pay these notes.

The schools do not aggressively pursue collection of defaulted student debt given that the default rate is small. Regardless, the schools face a risk that a rise in student defaults on promissory notes would impact profits and cash flows negatively.

d. Operational Risk

The following may hamper the operations of the Mapúa schools:

- Transportation Strikes. In the event of a transportation strike, students, faculty, and the admin staff are unable to come to the campuses affected. Classes are normally suspended during these events.

- Natural calamities and disasters. Our schools, like many other enterprises, are subject to adverse occurrences beyond our control, which include (but are not limited to) earthquakes, floods, and similar natural phenomena. We believe we carry enough insurance to hedge against the monetary damages caused by these events. In the event that the damage to our facilities arising from said events are severe and our insurance is not enough to cover it, our operations and ability to return to normal conditions might be severely affected.

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

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

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

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

e. Interest Rate Risk
It is a company policy to use excess liquidity to pay down any borrowings in order to decrease financing costs, and reduce exposure to rising interest rates. It is also a company policy to actively discuss with lending banks on how to lower financing costs. The Company does not have a practice of speculating on the direction of interest rates. The main objective is to lower financing costs as much as possible.
The schools need capital to grow. All of our schools pursue growth opportunities, which may involve any of the following actions: building new teaching and non-teaching facilities at existing campuses; building campuses at new locations; or even buying other schools.

In order to grow, the schools will need to raise funding. This fund raising can arise from the sale of equity, selling debt securities, borrowing from existing debt facilities, or borrowing from new debt facilities. If capital is raised through borrowings, the Mapúa schools will also be subject to interest rate risk. An increase in our negative carry will also adversely impact our profitability.

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

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

The Free College Tuition also poses a risk to our schools. This may reduce the enrollment if current prospective students will opt to enroll in state-run universities and colleges.

PROPERTY SERVICES

LANDEV CORPORATION
House of Investments, Inc. wholly owns Landev Corporation. Landev Corporation is primarily engaged in property management and project management for the YGC. Its large contracts include:
- Property management for RCBC Plaza and RCBC Savings Bank Corporate Center
- Facilities management for RCBC and RCBC Savings Bank branches nationwide
- Project management for the construction of the ETY Building in Binondo and the Mapua campus in Davao.

GREYHOUNDS SECURITY AND INVESTIGATION AGENCY
Landev owns a subsidiary named Greyhounds Security and Investigation Agency. GSIA provides comprehensive security services to leading installations like RCBC Plaza, all RCBC branches, RCBC Savings Bank branches and all EEI projects nationwide.

RCBC REALTY CORPORATION
House of Investments owns 10% of RCBC Realty Corporation, which owns the YGC flagship property, RCBC Plaza.

The RCBC Plaza is the biggest and most modern office development in the Philippines today. Inaugurated in 2001, the complex consists of the 46-storey Yuchengco Tower, 41-storey Tower 2, and a three-level podium. Also housed in RCBC Plaza are the 450-seat Carlos P. Romulo Auditorium, the Yuchengco Museum, a 200-seat chapel, a VIP lounge, banking chambers, convenience and service shops, food court, seven-level basement parking, gym and health spa, and open-air courtyard. YGC members such as the RCBC and AY Foundation hold their offices here.

RCBC Plaza is the first IT zone in Makati designated by the Philippine Economic Zone Auhority.

Risk Factors at the Property Services

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

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

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

c. Operational Risk
- Loss Of Key Personnel. Our success depends upon the retention of our senior management, as well as our ability to attract and retain qualified and experienced employees. The departure of any of our key employees or the loss of a significant number of key revenue producers, if we are unable to quickly hire and integrate qualified replacements, could cause our business, financial condition and results of operations to suffer.
  In addition, the growth of our business is largely dependent upon our ability to attract and retain qualified support personnel in all areas of our business. Competition for these personnel is intense and we may not be able to successfully recruit, integrate or retain sufficiently qualified personnel. If we are unable to attract and retain these qualified personnel, our growth may be limited and our business and operating results could suffer.

- Natural calamities and disasters. Our operations can be hampered by property losses (both ours and our clients') due to fire, adverse weather conditions, earthquakes, and militant activities e.g. rallies and strikes, among others. In addition, our business is subject to substantial risk of loss resulting from: claims by employees, customers, and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements.
  While we and our clients have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance.

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

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

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

- Service Contracts. Competitive pressures in the security services sector may prevent us from increasing our billing rates on contract anniversary or renewal dates. Our profitability will be adversely affected if, due to inflation or other causes, including increases in statutory payroll taxes, we are compelled to increase the wages, salaries and related benefits of our employees in amounts that exceed the amount that we can pass on to our customers through increased billing rates charged under our service contracts.

- Recruitment and Retention. Our business involves the labor-intensive delivery of our services. We derive our revenues through the services rendered by our employees. Our future performance depends in large part upon our ability to attract, train, motivate and retain our skilled operational and administrative staff.

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

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

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

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

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

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

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

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

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

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

Item 2: Properties

The office space used by House of Investments belongs to an affiliate. As a holding company, the Company does not use large amounts of office space. The car division uses leased properties to sell and service vehicles. Each dealership site has lease contracts with their respective landlords. The only exception to this is the property used by Honda Cars Quezon Avenue, which is owned by House of Investments.

The following summarizes information on House of Investments and subsidiaries real property ownership as of December 31, 2017.

PROPERTY DESCRIPTION	DATE ACQUIRED	AREA (SQ. M.)	TYPE
HOUSE OF INVESTMENTS, INC.			
Quezon Avenue	2002	4,604	Industrial
Sta. Cruz, Makati City	2007	5,114	Industrial
EEI CORPORATION			
Talayan, Q.C.	2002	2,700	Warehouse
Itogon, Benguet	1985	688	Residential
Majada, Canlubang, Laguna	1998	29,481	Equipment yard
Golden Haven Memorial - Las Pinas	2003	166	Memorial Lot
Minuyan, *Norzagaray*, Bulacan	2005	138216	Agricultural
Minuyan, San Jose del Monte, Bulacan	2005	133,371	Agricultural
San Jose, Sta, Maria, Bulacan	2005	102,633	Industrial
Bauan, Batangas	2012	118,522	Fabrication Shop
EEI CONSTRUCTION AND MARINE, INC.			
San Jose, Sta, Maria, Bulacan	2005	102,633	Industrial
Silang, Cavite	2010	21,197	Fabrication Shop
EEI REALTY CORP.CORPORATION			
Trece Martires, Cavite	1995	594,920	Residential
Calamba, Laguna	1995-96	53,207	Residential
Marikina - Suburbia East	1999	3,135	Residential
Ayala Greenfield	2003	820	Residential
EQUIPMENT ENGINEERS, INC.			
Itogon, Buenguet	2006	367	Residential
Irisan, Benguet	2009	3,201	Residential
GULF ASIA INTERNATIONAL CORPORATION			
General Trias, Cavite	1998	259	Residential
EEI POWER CORPORATION			
Tagum City, Davao Del Norte	2013	7,887	Industrial
MALAYAN EDUCATION SYSTEM, INC.			
Intramuros, Manila	1999	17,997	School campus
Intramuros, Manila	2013	513.5	Vacant lot for expansion
Sen. Gil Puyat Ave., Makati	2001	8,371	School campus
MALAYAN HIGH SCHOOL OF SCIENCE, INC.			
Paco, Manila	2002	3,624	School campus
MALAYAN COLLEGES LAGUNA, INC.			
Cabuyao, Laguna	2010	60,000	School campus
Cabuyao, Laguna	2012	14,640	Vacant lot for expansion
MALAYAN COLLEGES MINDANAO, INC.			
Ma-a, Davao	2015	23,000	Vacant lot for expansion

The following details the properties that House of Investments and subsidiaries have leased:

PROPERTY DESCRIPTION	LOCATION	AREA (IN SQM)	LEASE EXPIRATION
HOUSE OF INVESTMENTS			
2-storey building	Paco, Manila	6,432	2016
2-storey building	Paco, Manila	6,147	2016
2-storey building	Marikina	1,650	2020
2-storey building	Commonwealth, QC	2,754	2020
2-storey building	Commonwealth, QC	1,576	2021
1-storey building	Marcos Highway	2,500	2023
2-storey building	Greenhills	2,573	2028
HONDA CARS KALOOKAN, INC.			
3-storey building	EDSA, Caloocan	4,566	2018
1-storey building	Q.C.	3,198	2022

Certain properties, machinery, equipment, and other fixed assets of the group are used to secure its loans payable and long-term debt from various banks and other financial institutions. These consist mainly of mortgages on various assets of MES and EEI.

For additional details on the Group's loans payable and long-term debt and the corresponding encumbrances on their assets, refer to the notes related to loans payable, and to the notes related to long term-debt in the Consolidated Financial Statements.

The principal assets reflected in the consolidated balance sheets are registered mainly under the Company's main subsidiaries that are engaged in construction and infrastructure, education, and car dealership. As a holding company, House of Investment's indirect ownership on the said properties covers/applies only to the extent of, and is limited by the amount of holdings it has in these subsidiaries.

Item 3 – Legal Proceedings

EEI has substantial claims against various parties in connection with completed projects. The majority of these claims came from EEI's various claims for cost of variation orders, time extension, and loss and expense due to prolongation and disturbance costs. Any recoveries from these claims will be reported as income in the year when the recoverability of the claims is determined to be probable.

There are pending legal cases against EEI that are being contested by EEI and its legal counsel. Management and its legal counsel believe that the final resolutions of these cases will not have a material effect on the financial position and results of operations of EEI.

MES is facing a number of labor lawsuits and disputes. There are other suits and claims filed for or against certain subsidiaries. Management believes that these suits and claims will ultimately be settled in the normal course of operations and will not adversely affect the subsidiaries' financial position and operating results.

Item 4 - Submission of Matters to a Vote of Security Holders

There were no matters during the Annual Stockholders' Meeting held on 21 July 2017 that required the vote of the Company's stockholders owning more than 2/3 of the outstanding number of shares.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5 – Market for Issuer's common equity and related stockholder matters

The common stock (PSE: HI) is traded on the Philippine Stock Exchange.

PERIOD	STOCK PRICE HIGH	LOW
2018 First Quarter	7.82	6.90
2017 Fourth Quarter	8.00	6.25
2017 Third Quarter	8.68	7.40
2017 Second Quarter	8.40	6.12
2017 First Quarter	6.68	5.76
2016 Fourth Quarter	6.00	5.29
2016 Third Quarter	6.88	5.93
2016 Second Quarter	7.50	6.01
2016 First Quarter	6.24	5.18
2015 Fourth Quarter	6.00	5,30
2015 Third Quarter	6.74	5.93
2015 Second Quarter	7.50	6.01
2015 First Quarter	6.49	5.50

The market price of House of Investments' common stock as of April 13, 2018 (latest practicable trading date) is at P6.88 for high and P6.88 for low.

Stockholders

The top 20 owners of common stock as of March 31, 2018 are as follows:

STOCKHOLDER	COMMON SHARES	% OF TOTAL
Pan Malayan Management & Investment Corporation	294,759,570	47.85%
Pcd Nominee Corp	273,531,327	44.40%
A.T. Yuchengco, Inc.	7,036,070	1.14%
Gdsk Development Corporation	5,064,840	0.82%
Go Soc & Sons And Sy Gui Huat, Inc.	4,019,890	0.65%
Y Realty Corporation	3,545,890	0.58%
Malayan Securities Corporation	2,790,000	0.45%
Seafront Resources Corporation	2,484,000	0.40%
Meer, Alberto M.	2,217,030	0.36%
Rcbc Ta#76-299-7	1,791,000	0.29%
Enrique T. Yuchengco, Inc.	1,211,360	0.20%
Yu, John Peter C. Yu &/Or Juan G.	1,080,000	0.18%
Cheng, Berck Y.	850,000	0.14%
Villonco, Vicente S.	803,800	0.13%
RP Land Development Corporation	726,720	0.12%
Lim, Tek Hui	627,000	0.10%
Ebc Securities Corporation	485,320	0.08%
Dee, Helen Y. Itf: Michelle	482,240	0.08%
Bardey, John C.	476,230	0.08%
Wilson, Cathleen Ramona	420,170	0.07%
SUB TOTAL	604,402,457	98.12%
Others	11,593,657	1.88%
TOTAL	**615,996,114**	**100.00%**

HI has a total of 392 common shareholders owning a total of 615,996,114 shares as of March 31, 2018.

Top 20 owners of preferred stock as of March 31, 2018.

STOCKHOLDER	PREFERRED SHARES	% OF TOTAL
Yuchengco, Alfonso T.	346,627,046.00	54.64%
Pan Malayan Mgt. & Invt Corporation	237,974,016.00	37.51%
Alfonso T. Yuchengco, Inc.	16,169,010.00	2.55%
Enrique T. Yuchengco, Inc.	15,270,203.00	2.41%
Gomez, Eriberto H.	8,900,190.00	1.40%
Siguion-Reyna, Leonardo	1,763,437.00	0.28%
Alvendia Jr., Carmelino P.	1,218,851.00	0.19%
Rp Land Development Corporation	1,105,624.00	0.17%
Rosario, Rodolfo P. Del	678,613.00	0.11%
Tantuco, Eloisa G.	507,857.00	0.08%
Wilson, Isabel Caro	504,342.00	0.08%
Jaka Investment Corporation	272,934.00	0.04%
Padilla, Alexander A.	219,728.00	0.03%
Padilla, Felipe A.	207,461.00	0.03%
Padilla, Francisco A.	207,461.00	0.03%
Padilla, Mercedes A.	207,461.00	0.03%
Villonco, Romeo	145,841.00	0.02%
Chan, Frederick	141,094.00	0.02%
Galvez, Maria Rosario P.	138,307.00	0.02%
Padilla Jr., Ambrosio	138,307.00	0.02%
SUB TOTAL	632,397,783	99.69%
Others	1,997,489	0.31%
TOTAL	634,395,272	100.00%

House of Investments has a total of 48 preferred shareholders owning a total of 634,395,272 shares as of March 31, 2018.

Dividends

In accordance with the Corporation Code of the Philippines, House of Investments intends to declare dividends (either in cash or stock or both) in the future. Common and preferred stockholders of the Company are entitled to receive a proportionate share in cash dividends that may be declared by the Board of Directors out of surplus profits derived from House of Investments' operations after satisfying the cumulative interest of preferred shares.

The same right exists with respect to a stock dividend of which the declaration is subject to the approval of stockholders representing at least two-thirds (2/3) of the outstanding shares entitled to vote. The amount will depend on the Company's profits and its capital expenditure and investment requirements at the relevant time.

The company has declared cash dividends as follows:

YEAR	DIVIDEND PER COMMON SHARE	DIVIDEND PER PREFERRED SHARE	TOTAL AMOUNT
Q1 2018	N/A	P0.00465	P2.95 MM
Q4 2017	N/A	P0.00402	P2.62 MM
Q3 2017	N/A	P0.00413	P2.76 MM
Q2 2017	P0.065	P0.02154	P2.88 MM
Q1 2017	N/A	P0.00415	P2.92 MM
Q4 2016	N/A	P0.00311	P2.48 MM
Q3 2016	N/A	P0.00342	P2.53 MM
Q2 2016	P0.065	P0.02059	P55.90 MM
Q1 2016	N/A	P0.00355	P2.76 MM
Q4 2015	N/A	P0.00370	P2.95 MM
Q3 2015	N/A	P0.00386	P3.16 MM
Q2 2015	P0.065	P0.02128	P57.88 MM
Q1 2015	N/A	P0.00347	P2.98 MM

House of Investments has not identified any restriction that limits the ability to pay dividends on common equity or that are likely to do so in the future.

Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

There was no sale of unregistered or exempt securities, nor recent issuance of securities constituting an exempt transaction in 2017.

Description of Registrant's Securities: Common Stock and Preferred Stock

The equity capital structure of the firm as of December 31, 2017 is shown below:

	Common Stock	Preferred Stock
Authorized Capital	1,250,000,000	2,500,000,000
Issued	616,296,114	634,395,272
Paid Up Capital	P924,444,171	P253,758,109
Par Value	P1.50	P0.40
Features	**Common Stock**	**Preferred Stock**
Dividends		
General	Dividends shall be declared only from the surplus profits and shall be payable at such time and in such manner and in such amounts as the Board of Directors shall determine. No dividends shall be declared which will impair the capital of the company.	
Other Features	Not Applicable	Entitled to dividends at the rate of average 91-day T-Bill plus two percent; Fully participating as to distribution of dividends
Voting	All common and preferred shareholders shall have voting rights	
Liquidation Rights	Not Applicable	All preferred shareholders shall have preferences as to assets upon dissolution of the Parent Company over common shareholders.
Conversion	Not Applicable	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 Php1.5 per common share subject to adjustments
Redemption and Sinking Fund Provision	Not Applicable	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 The Company shall provide for a sinking fund
Pre-emption Rights	All stockholders shall have no pre-emptive rights with respect to any shares of any other class or series of the present capital or on future or subsequent increases in capital	

Item 6 – Management Discussion and Analysis of Operations

Plan of Operations within the next twelve months

(a) The management believes that House of Investments can satisfy its cash requirements within the next twelve months without the need to raise additional funds;
(b) There are no product research and development that the Company will perform within the next twelve months;
(c) There are no expected purchase or sale of plant and significant equipment within the next twelve months; and
(d) There are no expected significant changes in the number of employees.

Management Discussion and Analysis

CONSOLIDATED RESULTS

Year 2017 vs. Year 2016

INCOME STATEMENT

The Group posted a net income after tax of P1.46 billion vis-à-vis the P0.22 billion in 2016. The increase is attributable to improved performance in the automotive segment and of one of the associates of the Group, Al-Rushaid Construction Company, Ltd (ARCC).

Total revenues grew by 7%, from P25.74 billion to P27.55 billion, primarily because of higher sales volume of the car dealerships. Revenues from the construction segment are slightly lower due to right of way issues, which slowed down the progress of construction of MRT 7 and Skyway 3. This is the primary reason for the drop in sale of services. Similarly, revenues from schools and related operations are lower this period still because of the effect of the K plus 12 program of Department of Education, which resulted to lower number of Freshmen and Sophomore enrollees. Dividend income has also dropped, from P52.89 million to P1.85 million, mainly because last year includes dividends from RRC, an affiliate of the Group.

Other income increased by 93%, from P476.23 million to P920.94 million, on account of: (a) gain on sale of investment property; (b) increase in dealers' income; (c) increase in commission income; and (d) reversal of long outstanding payables of the Group. Income from investment in other companies showed a significant improvement, hence for this period the Group reported equity in net earnings of P0.29 billion compared to last year's equity in net losses of P1.09 billion.

General and administrative expenses increased by 10% largely due to higher selling and marketing costs of the car dealerships as it intensified the promotion of new model units. The increase is also attributable to: (a) higher personnel cost due to increase in manpower; (b) increase in rent and utilities as a result of new leased office spaces and renewal of existing leases; (c) higher taxes due to documentary stamp tax (DST) on loans; and (d) higher depreciation mainly due to additional machinery and construction equipment acquired by EEI.

BALANCE SHEET

Consolidated total assets stood at P37.35 billion against P33.69 billion last year.

Total current assets increase by P0.40 billion or 2% higher than last year. Cash and cash equivalents are lower this year as the Group continues to pay down its loans and its other obligations. Receivables increased by 16% primarily due to new projects of EEI and increase in sales of the car dealerships. Cost and estimated earnings in excess of billings on uncompleted contracts is lower than last year due to completion of several domestic projects of EEI. Inventories are lower by 29% due to higher sales volume of the dealerships. Receivables from related parties are significantly higher because of advances made by EEI Limited, a foreign subsidiary of EEI Corporation, to ARCC. Prepaid expenses and other current assets are higher by 29% due to increase in unutilized input taxes and advances to contractors and suppliers of EEI.

Investments in associates and joint ventures increased by 30% due to improved financial performance of ARCC, where EEI has a 49% stake, from net loss in 2016 to net income this year. The full redemption of RRC of its preferred shares resulted to reduced available-for-sale securities. Investment properties dropped significantly due to sale of the Group's property in Batangas. Increase in property and equipment pertains mainly to construction of a new school building in Mindanao and acquisition of new machinery, tools and construction equipment. Increase in other noncurrent assets pertains primarily to receivable of the Group relative to the sale of its Batangas property.

Consolidated total liabilities increased from P19.08 billion to P21.00 billion.

Total current liabilities increased from P15.77 billion to P18.10 billion primarily due to additional loans availed by the Group to finance the new projects of EEI and the construction of the new school building in Mindanao. Reduction in accounts payable and accrued expenses pertain primarily to settlement of obligations to its suppliers and contractors. Whereas, reduction in billings in excess of costs and estimated earnings on uncompleted contracts represent recoupment of down payment from EEI's completed projects. Unearned tuition fees are higher due to increase in the number enrollees in SHS. Increase in customers' deposits represents collections from EEI's prospective buyers for its housing project in Cavite.

Total noncurrent liabilities were reduced from P3.32 billion to P2.90 billion as the Group continues to pay down its long-term debt. The increase in deferred tax liabilities represent taxes related to revaluation increment of land, which has significantly increased this year.

Consolidated equity grew from P14.61 billion to P16.35 billion, of which P11.20 billion is attributable to the Parent Company. Reduction in preferred stock represents the regular redemption of the Parent Company. Retained earnings increased from P7.53 billion to P8.41 billion.

Year 2016 vs. Year 2015

INCOME STATEMENT

For the year ending December 2016, the Group posted a net income after tax of P0.22 billion vis-à-vis the P1.37 billion in 2015. The 84% decline is attributable to the losses incurred by ARCC, an associate of EEI Corporation. EEI's 49% share in the net loss amounted to P1.42 billion as compared to last year's P0.67 billion.

Total revenues decreased by 12%, from P29.09 billion to P25.74 billion. Sales of services decline by 20% due to the completion of the following major projects for the year 2016 such as FDC Misamis 3x135MW Coal Power Plant for NEPC Power Construction Corporation in Misamis Oriental; Slag Flotation Plant for Philippine Associated Smelting and Refinery Corporation in Isabel, Leyte; The New CNS Sumitomo ATM Contract Package 1 and 2 for Sumitomo Corporation; Star Trec Project – Bundle 1B for Pilipinas Shell Petroleum Coorporation in Batangas City; Uptown Mall Towers 1, 2, 3 & 4 and BPO Offices for Megaworld Corporation in Taguig City; Segment 9 North Link Road Project Phase 1 for Manila North Tollways Corporation; Rehabilitation Of Condensed Milk Plant and Milk Powdered Plant for Alaska Milk Corporation in San Pedro, Laguna; San Gabriel Unit 70 450MW Combined Cycle Power Plant Project for Siemens Inc. in Santa Rita Batangas; Caticlan Airport Development Design & Build for Interim Runway Extension for Transaire Holdings Corporation in Malay, Aklan. Sale of goods improved by 10% due to an increase in vehicles sold by the car dealerships. Revenues from schools slightly decrease by 2%, from P2.25 billion to P2.20 billion, due to the effects of the K plus 12 program of the Department of Education (DepEd). Interest and discounts dropped by 8% due to lower interest earnings of Zamboanga Industrial Financing Corporation (ZIFC). Income from dividends increased to P0.053 billion from P0.051 billion.

Other Income increase by 21% y-o-y on account of increases in the following: (a) gain from redemption of preferred shares; (b) commission income; and (c) interest income. Equity in net losses of associates increased by P0.63 billion primarily due to provisions for probable losses incurred by ARCC because of project delays in its major project.

General and administrative expenses went up by 17% due to increases in: (a) personnel related expenses of the Group; (b) advertising and promotions related to increase in numbers of vehicle units sold by Car Dealerships; and (c) increase in miscellaneous expenses related to EEI's skills training expenses this year, which was charged to cost of management and techinical services last year. Interest and finance charges were higher in 2016 because of additional short term loans availed by the Group to finance its operating activities. Provision for income tax decreased due to a lower provision by EEI for the year.

BALANCE SHEET

Consolidated total assets stood at P33.69 billion against P34.80 billion last year.

Total current assets decreased by P0.81 billion. Receivables increased from P7.49 billion to P8.0 billion because of substantial increase in retention receivables from EEI. The increase in current and non-current portion of loans receivable is related to ZIFC operations. Costs and estimated earnings in excess of billings on uncompleted contracts went down due to completion of domestic projects of EEI. Increase in Inventories is due to buildup in stock inventory by Honda and Isuzu and in fire and waterproofing materials and petroleum parts by Equipment Engineers. Prepaid expenses and other current assets went up due to reclassification of receivable from a project owner from other noncurrent assets to current assets resulting from the agreement that the receivable will be settled in 2017.

Investments in associates and joint ventures dropped due to impact of EEI share on ARCC's losses. Available for sale securities declined by 17% as RCBC Realty Corporation redeemed its preferred shares. Investment properties decreased due to the sale of land in Baguio by House of Investments and the increase in sale of condominium units and parking slots by EEI. Property and equipment at revalued amount went up due higher appraised value of the Company's Quezon City property and of IPO Group's Mindanao property. Deferred tax assets decreased primarily due to the tax effect of EEI's unrealized foreign currency exchange loss and accrued retirement. Retirement asset increased due to higher contribution made for 2016. Decrease in other noncurrent assets pertains to EEI's reclassification of advances from a customer to current asset.

Consolidated total liabilities decreased from P20.62 billion to P19.08 billion.

Total current liabilities drop by P0.94 billion. Accounts payable and accrued expenses decreased by 8% due to settlement of the Group on its obligations during the year. Billings in excess of costs and estimated earnings on uncompleted contracts went down due to recoupment of down payments from various completed projects. Significant increase in unearned tuition fees is due to effect of Senior High School offering from IPO Group. Income tax payable decreased due to the application of creditable withholding taxes and lower earnings posted by the Group.. Customers' deposits dropped by 12% due to the application by EEI of its deposit on the progress billings for various clients other than construction contracts.

Total noncurrent liabilities decreased by P0.60 billion, from P3.78 billion to P3.18 billion. Long-term debt decreased by 18% as the Group settled its maturing obligations with the banks. Accrued retirement liability declined as the Group increased its contribution to the retirement fund. Deferred tax liabilities increased relative to higher valuation on land.

Total consolidated equity rose from P14.18 billion to P14.61 billion, of which P10.05 billion is attributable to the parent company. Decrease in preferred stock reflects regular redemption of the Parent Company's preferred shares. Revaluation increment significantly increased due to higher valuation of land owned by the Group. Net unrealized gains on available-for-sale securities due to the drop in prices of of quoted available-for-sale securities. Remeasurement losses on net retirement liability decline by 91% due to actual return on plan assets, actuarial changes arising from changes in financial and geographical assumptions, and experience adjustments. Change in cumulative translation adjustment represents exchange differences arising from the translation of financial statements of the foreign subsidiary, EEI BVI, whose functional currency is the United States dollar and foreign associate.

Total consolidated retained earnings increased from P7.19 billion to P7.53 billion.

Year 2015 vs. Year 2014

INCOME STATEMENT

For the year ending December 2015, the Group posted a net income after tax of P1.37 billion vis-à-vis P1.96 billion in 2014. The decline of of 30% is attributable to losses incurred by ARCC, an associate of EEI Group, in two of its projects, the Naptha and Aromatics (Saipem) and the Petro-Rabigh II Mitsubishi Hitachi Power Systems, Ltd. The 49% share of EEI in the net loss amounted to P673.7 million as compared to the reported share in net earnings of P442.1 million in 2014.

Total revenues increased by 18%, from P24.72 billion to P29.10 billion. Sales of services improved by11%. This is due to increase in EEI's on-going domestic projects. Increase in sale of goods significantly increased by 46%. This is primarily attributable to higher number of sales of vehicles against last year. Revenues from schools went up by 8%, from P2.08 billion to P2.25 billion. This is a combined result of increase in number of students with slight increase in tuition fees. Interest and discounts slightly increase by 1%, representing interest earnings of Zamboanga Industrial Financing Corporation (ZIFC). Income from dividends went up from P0.035 billion to P0.051 billion.

Other Income increase by 16% against last year due to increase in dealers income attributed to higher number of vehicle units sold, gain on redemption of preferred shares and insurance renewal income. This year includes reversal of long outstanding payables amounting to P56.14 million. Equity in net earnings of associates significantly decrease by P1.3 billion primarily due to losses incurred by ARCC in two of its projects, the Naptha and Aromatics (Saipem) and the Petro-Rabigh II Mitsubishi Hitachi Power Systems, Ltd.

General and administrative expenses increased by 8% as the Group increase its repairs of office equipment and software maintenance, and increase in depreciation to meet its operational needs of the Group. Interest and finance charges are higher this year because of additional loans availed by the Group to finance its operation and capital expenditures.

BALANCE SHEET

Consolidated total assets stood at P34.80 billion against P28.81 billion last year.

Total current assets increased by 20%. Cash and cash equivalents are higher by 8% or P0.178 billion from last year, from P2.16 billion to P2.34 billion. Receivables are up from P6.83 billion to P7.49 billion because of heavy construction activity from EEI, increase in sales from schools and the car dealerships. Costs and estimated earnings in excess of billings on uncompleted contracts are significantly higher due to cost incurrence of major on-going domestic projects of EEI. Inventories increased in relation to higher volume of vehicle units sold as of year end by the car dealership. Receivable from related parties pertains mainly to advances extended to an affiliate and receivables of EEI for manpower services. Prepaid expenses and other current assets increased primarily due to prepaid taxes from EEI attributable to the increase in progress billings for the period. Financial asset at FVPL pertains to the schools' investment in UITFs.

Investments in associates and joint ventures increased due to additional investments of Parent Company in Petroenergy (PERC) and investments of EEI Power on Petro Wind Energy Inc. and Petro Green Energy Corporation Increase in available for sale securities is mainly attributable to investment of EEIPC for a 10% equity share in PetroGreen Energy Corporation (PGEC) amounting to ₱237.3 million with partial offset of ₱ 14.0 million owing to the decrease in the authorized capital stock of Brightnote Assets Corporation and the redemption of the Parent's investment in preferred shares from RCBC Realty Corporation. Property and equipment went up due to EEI's acquisition of various machinery, tools and construction equipment, transportation and service equipment, furniture and fixtures million, and leasehold improvements as well as the gym renovation and the research and admissions building by iPeople group. Other noncurrent assets went down due to payment of account from EEI Retirement Fund Inc. amounting P117.0 million.

Consolidated total liabilities increased from P16.07 billion to P20.62 billion.

Total current liabilities rose by P3.85 billion. Loans payable increase due to loan availment made by the Group for the year. Accounts payable and accrued expenses increased by 20% primarily because of higher project costs and heightened construction activity in EEI. Billings in excess of costs and estimated earnings on uncompleted contracts also increased due contract deposits from newly awarded projects and unrecouped down payments from various on-going domestic projects. Increase in unearned tuition fees is a timing factor as enrolment for the next academic quarter started in December 2015. Income tax payable decreased because of lower taxable income from EEI's foreign subsidiary. Due to related parties pertains mainly to obligations of the Group to its affiliates. Customers' deposits dropped significantly by 59% due to applications of advance payments to progress billings of EEI.

Total noncurrent liabilities increased by P0.71 billion, from P3.07 billion to P3.78 billion. Long-term debt relatively increased as EEI took out an additional loan to finance its new projects. Lease liability which pertains to EEI's obligation to RCBC Leasing and Finance Corporation relative to purchase of various machinery and construction equipment under financial lease, was fully paid at the end of the year. Accrued retirement liability increased due to unfunded obligation of the Group to its employees' retirement fund, wherein, the liability of the Group exceeds the plan assets of the fund. Deferred tax liabilities increased relative to higher valuation on the value of the land.

Total consolidated equity rose from P12.75 billion to P14.18 billion, of which P9.43 billion is attributable to Parent Company. Decrease in preferred stock reflects regular redemption of the Parent Company's preferred shares. Equity reserve on acquisition of noncontrolling interest represents difference in par value and acquisition cost of additional EEI shares purchased by the Parent Company. Revaluation increment significantly increased due to higher valuation of land accounts. Net unrealized gains on available-for-sale securities decrease due to the decline in fair market value of quoted available-for-sale securities. Decrease in remeasurement losses on net retirement liability pertains to the actual return on plan assets, actuarial changes arising from changes in financial and geographical assumptions, and experience adjustments. Change in cumulative translation adjustment represents exchange differences arising from the translation of financial statements of the foreign subsidiary, EEI BVI, whose functional currency is the United States dollar and foreign associate.

Total consolidated retained earnings increased from P6.23 billion to P7.19 billion.

Financial Ratios

Below are the financial ratios that are relevant to the Group's for the years ended December 31, 2017 and 2016:

Financial ratios		**2017**	2016
Current ratio *Indicates the Group's ability to pay short-term obligation*	Current Assets / Current Liabilities	**0.98:1**	1.10:1
Solvency Ratio *Shows how likely a company will be to continue meeting its debt obligations*	Net Income+Depreciation / Total liabilities	**0.11:1**	0.06:1
Debt-to-equity ratio *Measures the Group's overall leverage*	Total Debt / Total Equity	**1.28:1**	1.31:1
Asset to Equity Ratio *Measures the group's leverage and long-term solvency*	Total Assets / Total Equity	**2.28:1**	2.31:1
Interest Rate Coverage *Shows how easily a company can pay interest on outstanding debt*	EBIT* / Interest Expense	**7.73:1**	2.96:1
Return on Assets *Measure the ability to utilize the Group's assets to create profits*	Net Income / Average Total Assets	**4.12%**	0.64%
Return on Equity *Reflects how much the Group's has earned on the funds invested by the stockholders*	Net Income / Average Total Equity	**9.45%**	1.52%

**Earnings before interest and taxes*

Current ratio decreased from 1:10:1 in 2016 to 0.98:1 in 2017. This is attributable to the increased borrowings of the Group to finance its new projects and capital expenditures.

Solvency ratio increased from 0.06:1 in 2016 to 0.11:1 in 2017 due to improved performance of the construction and car dealerships segments.

Debt-to-Equity ratio measures the Group's leverage. It improved from 1.31 to 1.28 this year due to higher earnings posted by the construction segment.

Asset-to-Equity ratio decreased from 2.31:1 in 2016 to 2.28:1 in 2017 as retained earnings increased due to strong income from construction and car dealerships segments.

Interest Rate Coverage ratio shows how easily a company can pay interest on outstanding debt. It is higher at 7.73 times compared to last year due to increased profitability from the construction and car dealerships segments.

Return on Assets measures the ability to utilize the Group's assets to create profits. The Group's return on assets for the year 2017 increased to 4.12% from 0.64% in 2016 due to higher net income brought by EEI for the year.

Return on Average Stockholders' Equity (ROAE) measures the profitability of the Company in relation to the average stockholders' equity. The ROAE for 2017 improved to 9.45% from 1.52% in 2016 attributable to higher net income from the construction segment.

The above-mentioned ratios are applicable to the Group as a whole.

Other qualitative and quantitative factors

(i) There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way;

   a. House of Investments does not anticipate any cash flow or liquidity problems within the next twelve months;
   b. House of Investments is not in default or breach of any note, loan, lease, or other indebtedness or financing arrangement which will require the Company to make payments;
   c. There is no significant amount of trade payable that have not been paid within the stated terms; and
   d. House of Investments depends on dividends from its subsidiaries as its source of liquidity.

(ii) There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;

(iii) There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period;

(iv) Below are the material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.

iPeople, inc's subsidiary, Malayan Education System, Inc. (Operating under the name of Mapúa University) is constructing of a new campus on a 2.3-hectare property in Davao through its subsidiary, Malayan Colleges Mindanao (A Mapúa School), Inc. Completion is expected in time for the Academic Year 2018-2019. The project is estimated to cost around P2 billion and will be funded partially by debt;

(v) Below are the known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

The K plus 12 program of the DepEd, which calls for the two extra years of basic education started in 2016. There will be two academic years where there will be no students moving on to tertiary studies in starting 2016. This is expected to severely impact the profit and cash flow of both for-profit and non-profit tertiary education institutions during the transition period.

To address the effects during the transition period, Mapúa University and Malayan Colleges Laguna, Inc. offered Senior High School and started to take in Grade 11 students in 2016 who accelerated to Grade 12 in 2017. Also, as a strategic response to the K Plus 12 developments, iPeople is actively seeking opportunities to expand its current education portfolio.

Other than the K plus 12, there is no known trend, event or uncertainty that have had or that are reasonably expected to have a material impact on the net sales or revenues or income of the Group from continuing operations;

(vi) There are no significant elements of income or loss that did not arise from the House of Investments' continuing operations;

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item are discussed above;

(viii) There are no seasonal aspects that had a material effect on the financial condition or results of operations.

Item 7 – Financial Statements

The 2017 audited consolidated financial statements of House of Investments are incorporated herein by reference. The schedules listed in the accompanying index to Supplementary Schedules are filed as part of this Form 17-A.

Item 8 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

The accounting firm of Sycip Gorres Velayo and Co. (SGV & Co.), with office address at 6760 Ayala Avenue, SGV Building, Makati City, Philippines, has been the Company's Independent Auditors since the Company's incorporation, and has been recommended to serve as such for the current year.

Pursuant to Memorandum Circular No. 8, series of 2003 (rotation of external auditors), the Company has engaged Ms. Wenda Lynn M. Loyola, as the engagement partner of SGV & Co. effective 2016. SEC rules mandate the compulsory rotation of audit partners after 5 years.

The engagement of the external auditors was favorably endorsed by the Audit Committee to the Board of Directors. The engagement is ultimately submitted for approval of the stockholders.

Disagreement with Accountants on Accounting and Financial Disclosure
There was no event for the last 5 years where SGV & Co. had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Attendance of Accountants at the Meeting
Representatives of SGV & Co. are expected to be present at the annual stockholders meeting with the opportunity to make any statement, if they so desire, and will be available to respond to appropriate questions on the Company's financial statements.

External Audit Fees and Services
The Company has engaged SGV & Co. as the external auditor, and is tasked to conduct the financial audit of the Company. For this service, SGV & Co. has billed the company the following amounts:

YEAR	AUDIT FEE BILLING
2017	P3,021,500
2016	P2,961,500
2015	P 2,897,190

The Company has not engaged SGV & Co. for any other services aside from its annual audit for the last seven (7) years.

Tax Fees

The Company has not engaged the services of the external auditor for tax accounting, compliance, advice, planning and any other form of tax services.

All Other Fees

There are no other fees billed in each of the last two years for the products and services provided by the external auditor, other than the services reported under the items mentioned above.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9 – Directors and Executive Officers of the Issuer

House of Investments' Board of Directors has eleven (11) members elected by and from among the stockholders. The Board is accountable for providing overall management and direction of the firm. Board meetings are held on a regular basis or as often as required to discuss the Company's operations, business strategy, policies, and other corporate matters. The information below includes positions currently held by the directors and executive officers, as well as positions held during the past five years.

DIRECTORS		
Name	**Position**	**Length of Service**
Ms. Helen Y. Dee	Chairperson	15 Years
Mr. Medel T. Nera	President & CEO	6 Years
Atty. Wilfrido E. Sanchez	Director	17 Years
Dr. Reynaldo B. Vea	Director	7 Years
Mr. Lorenzo V. Tan	Director	8 Months
Ms. Yvonne S Yuchengco	Director	16 Years

INDEPENDENT DIRECTORS		
Name	**Position**	**Length of Service**
Dr. Roberto F. de Ocampo	Director	17 Years
Mr. John Mark Frondoso	Director	1 Year and 4 Months
Mr. Ermilando D. Napa	Director	2 Years
Mr. Francisco H. Licuanan III	Director	10 Years
Mr. Juan B. Santos	Director	3 Years

EXECUTIVE OFFICERS			
Name	**Position**	**Age**	**Citizenship**
Ms. Helen Y. Dee	Chairperson	72	Filipino
Mr. Medel T. Nera	President & CEO	62	Filipino
Ms. Gema O. Cheng	EVP – COO, CFO & Treasurer	53	Filipino
Mr. Porfirio S. de Guzman, Jr.	SVP – Internal Audit	79	Filipino
Mr. Alexander Anthony G. Galang	SVP – Internal Audit	57	Filipino
Mr. Joselito D. Estrella	SVP – Chief Information Officer	53	Filipino
Ms. Ma. Esperanza F. Joven	VP – Finance	47	Filipino
Ms. Ma. Elisa E. Delara	VP – Internal Audit	48	Filipino
Ms. Maria Teresa T. Bautista	AVP – Corporate Controller	43	Filipino
Mr. Jose A. Tanjangco III	AVP – Chief Risk Officer	56	Filipino
Ms. Sonia P. Villegas	AVP – Human Resources Head	49	Filipino
Atty. Lalaine P. Monsarate	AVP – Legal & Compliance Officer	53	Filipino
Atty. Samuel V. Torres	Corporate Secretary	53	Filipino
Atty. Ma. Elvira Bernadette G. Gonzalez	Asst. Corporate Secretary	41	Filipino

POSITION AND BACKGROUND WITHIN THE LAST 5 YEARS

HELEN Y. DEE, 73 years old, Filipino, has been **Chairperson of the Board** since 2001 to present. She was also President and CEO of the company from 2001-2011. She is the **Chairperson** of EEI Corporation, PetroEnergy Resources Corporation, Rizal Commercial Banking Corporation, all of which are PSE-listed companies. She is the Chairperson, Vice Chairperson or a director of several companies engaged in banking, insurance, and real property businesses. ***Educational Background:*** Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

MEDEL T. NERA, 62, Filipino, is a **Director** and the **President & CEO** from 2011 to present. He is also the **Chairman of the Board** of Greyhounds Security & Investigation Agency Corporation, and Zamboanga Industrial Finance Corporation (ZIFC); **Director and President** of Honda Cars Kalookan, Inc. and RCBC Realty Corporation; **Director** of EEI Corporation, EEI Realty Corporation, iPeople, inc., HI-Eisai Pharmaceuticals, Inc., Investment Managers, Inc., Landev Corporation, Malayan Colleges Laguna, Inc. Manila Memorial Cemetery Park, Inc., and YGC Corporate Services, Inc.; **Director and Treasurer** of Seafront Resources Corporation; **Independent Director** of National Reinsurance Corporation of the Philippines; ***His past experiences include:*** **Director and Chairman of Risk Committee** of Rizal Commercial Banking Corporation; **Director and Treasurer** of CRIBS Foundation, Inc., and **Senior Partner** at Sycip Gorres Velayo & Co. ***Educational Background:*** Master in Business Administration from Stern School of Business, New York University, USA and Bachelor of Science in Commerce from Far Eastern University, Philippines, International Management Program from Manchester Business School, UK, Pacific Rim Program from University of Washington, USA..

ATTY. WILFRIDO E. SANCHEZ, 81, Filipino, is a **Director** from 2000 to present. He is also a **Director** in Adventure International Tours, Inc., Amon Trading Corporation, Asia Brewery, Inc., Center for Leadership & Change, Inc., EEI Corporation, EMCOR, Inc., Eton Properties Philippines, Inc., J-DEL Investments and Management Corporation, JRV Foundation, Inc., K-Servico,Inc., Kawasaki Motor Corporation, LT Group, Inc., Rizal Commercial Banking Corporation, Magellan Capital Holdings, Corporation, PETNET, Inc.,Tanduay Distillers, Inc., Transnational Diversified Corporation, Transnational Financial Services, Inc., Transnational Plans, Inc. and Universal Robina Corporation; **Tax Counsel** of Quiazon Makalintal Barot Torres Ibarra Sison and Damaso Law Firm; and **Trustees** of Asian Institute of Management (AIM). ***His Past experiences include***: **Chairman, Taxes & Tariff of the Philippine Committee** of American Chamber of Commerce; **Co-Chairman**, Tax Committee of Philippine Chamber of Commerce; **Managing Director & Head, Tax Division** of Sycip Gores Velayo & Co.; **Vice Chairman** of Center for Leadership and Change, Inc.; **Vice President** of JVR Foundation, Inc.; **Director** of NYK-TDG Maritime Academy, Wodel, Inc., Grepalife Asset Management Corporation, Grepalife Fixed Income Fund Corporation, Omico Corporation, APEX (Phils.) Equities Corporation, Grepalife Bond Fund Corporation, Jubilee Shiping Corporation, PET Plans, Inc., Philippine Pacific Ocean Lines, Inc., and Wodel Manpower Services, Inc. ***Educational Background:*** Masters of Law from Yale Law School, USA; Bachelor of Laws and Bachelor of Arts from Ateneo de Manila University, Philippines.

REYNALDO B. VEA, PhD, 66, Filipino, is a **Director** from 2010 to present. He is also the **President & CEO** of Malayan Education System, Inc. operating under the name Mapúa University; **Director and President** of iPeople, inc., Malayan Colleges Laguna, Inc., Malayan Colleges Mindanao (A Mapúa School), Inc., Malayan High School of Science, Inc., Mapúa Techserv; **Trustee** of AY Foundation, Yuchengco Center of De La Salle University, and Yuchengco Museum, **Director** of Maibarara Geothermal, Inc., and Petrogreen, Inc. ; **Chairman** of the Engineering Science and Technology Division of the National Academy of Science and Technology and the Philippine Science High School Foundation, Inc. ***His past experiences include:*** **Director** of Grepalife Dollar Bond Fund, Grepalife Fixed Income Fund, National Research Council of the Philippines, PetroWind, Inc., Rizal Commercial Banking Corporation,; **Member** of Philippine Fulbright Commission and UNESCO National Commission, **Trustee** of Philippine Association Colleges and University; **Chairman** of Committee on Science and Technology in UNESCO National Commission; **Dean** of UP College of Engineering. ***Educational Background:*** Ph.D. in Engineering from University of California, Berkley, USA; Master in Naval Architecture and Marine Engineering from Massachusetts Institute of Technology, USA; and Bachelor of Science in Mechanical Engineering (magna cum laude) from University of the Philippines.

YVONNE S. YUCHENGCO, 64, Filipino, is a **Director** from 1999-2006, 2008 to present. She is also the **Chairperson** of First Nationwide Assurance Corporation, and RCBC Capital Corporation; **Chairperson and President** of Royal Commons, Inc., Y Tower II Office Condominium Corporation and Yuchengco Tower Office Condominium Corporation; **Chairperson and Trustee** of The Malayan Plaza Condominium Owners Association Inc.,; **Director, Chairman, President** of Philippine Integrated Advertising Agency, Inc.; **Director and Chairman** of Y Realty Corporation, and Yuchengco Museum, Inc.;**Director and President** of Alto Pacific Corporation Malayan Insurance Co., Inc., MICO Equities, Inc., RCBC Land, Inc.; **Director** of Annabelle Y. Holdings and Management Corporation, Asia-Pac Reinsurance Co., Ltd., A.T. Yuchengco, Inc., AY Holdings, Inc., DS Realty, Inc., Enrique T. Yuchengco, Inc., First Nationwide Assurance Corporation, GPL Holdings, Inc., HYDee Management & Resource Corporation, iPeople, inc., La Funenaria Paz Sucat, Inc., Luisita Industrial Park Corporation, Malayan Education Systems, Inc. operating under the name of Mapua University, Malayan Colleges Laguna, Inc., Malayan Colleges Mindanao, Inc., Malayan Insurance Co. (H.K.) Ltd., Malayan International Insurance Corporation, Manila Memorial Park Cemetery, Inc., National Reinsurance Corporation of the Phils., Pan Malayan Realty Corporation, Pan Malayan Express, Inc., RCBC Capital

Corporation, Seafront Resources Corporation, Shayamala Corporation, YGC Corporate Services, Inc., and Yuchengco Center, Inc.; **Director and Vice President** of A.Y. Holdings, Inc.; **Director, Vice President and Treasurer** of Pan Managers, Inc**.; Director and Corporate Secretary** of MPC Investment Corporation, **Director and Treasurer** of Honda Cars Kalookan, Inc., Malayan High School of Science, Inc., Mona Lisa Development Corporation, Petro Energy Resources Corporation, Water Dragon, Inc., and XZY Assets Corporation; **Director, Treasurer and CFO** of Pan Malayan Managament & Investment Corporation; **Trustee** of AY Foundation, Inc., Malayan Education System, Inc. (Operating under the name of Mapúa University), and Phil-Asia Assitance Foundation, Inc.,; **Member, Advisory Board** of Rizal Commercial Banking Corporation ***Educational Background:*** Bachelor of Arts in Interdisciplinary Studies from Ateneo De Manila University, Philippines.

ROBERTO F. DE OCAMPO, 72, Filipino, is an **Independent Director** from 2000 to present. He is also the **Chairman** of the British Alumni Association and Philippine Veterans Bank. **Chairman and/or Board member** of ABS-CBN Broadcasting Corporation, AES Corporation (Philippines), Alaska Milk Corporation, Centennial Asia Advisors Pte. Ltd. (Singapore), Centennial Group (Washington, D.C.), EEI Corporation, Investment & Capital Corporation of the Philippines (ICCP) Group of Companies, Meralco, Globe Telecom Inc., Metrobank, Philam Asset Management Inc., Philippine Airlines, Phinma Corporation, Rizal Commercial Banking Corporation, Robinson's Land Corporation, Seaboard Eastern Insurance Co., United Overseas Bank; **Chairman of the Board of Advisers** of the RFO Center for Public Finance & Regional Economic Cooperation, which is an ADB Regional Knowledge Hub; **Co-Vice Chairman** of the Makati Business Club; **Founding Partner** of a Global Advisory Group (Centennial Group), Washington, D.C.; **Founding Director** of Global Economic Forum: The Emerging Markets Forum; **Emeritus Member** of the Financial Executives of the Philippines (FINEX). ***His past experiences:*** **Chairman and CEO** of Development Bank of the Philippines; **President** of Asian Institute of Management and Management Association of the Philippines (MAP); **Member** of the AIM Board of Trustees; **Board of Advisers** of the Conference Board, New York. ***Educational Background:*** Doctorate of Humane Letters (Honoris Causa) from San Beda College, Philippines; Doctorate in Philosophy in Business Administration (Honoris Causa) from De La Salle University; Philippines, Doctorate in Laws (Honoris Causa) from Philippine Women's University, Philippines; Doctorate in Pubic Administration (Honoris Causa) from University of Angeles City, Philippines; Fellow in Development Administration (DDA) from London School of Economics, UK; Master in Business Administration from University of Michigan, USA; and Bachelor of Arts Major in Economics from Ateneo De Manila University, Philippines.

JOHN MARK S. FRONDOSO, 43, Filipino, was elected as an **Independent Director** in December, 2016. He is also the **President** of Star Two Holdings, Inc.; **Trustee and Chairman of the Investment Committee** of the Philippine Public School Teachers Association; **Director** of HC Consumer Finance Philippines, Inc. (Home Credit),; **Chairman & President** of FSG Capital, Inc. ***His Past experiences include:*** **Philippine Chief Representative & Executive Director** of Morgan Stanley (Singapore) Holdings Pte Ltd. Investment Banking, Manila; **Associate Director** of Barclays Capital (Investment Banking Division of Barclays Bank PLC). ***Educational Background:*** Bachelor of Science in Industrial Management (University Honors) from Carnegie Mellon University, USA.

FRANCISCO H. LICUANAN III, 74, Filipino, is an **Independent Director** since 2006 to present. He is also **Chairman & CEO** of Battery Park Investment, Inc., Geo EState Development Corporation and New Pacific Resources Management Inc.; **President & CEO** of Innovative Property Solutions, Inc.; **President** of Stonebridge Corporation ***Educational Background:*** Master of Business Administration from Harvard Business School, USA; Bachelor of Arts in Economics (cum laude) from Ateneo De Manila University, Philippines.

ERMILANDO D. NAPA, 68, Filipino, was elected as an **Independent Director** in 2016. He is also the **Chairman & CEO** of Manila Consulting & Management Co., Inc.; **Chairman** of E & F Holdings, Inc., Catanauan Resources & Development Corporation; **Director** of Trade and Investment Development Corporation (Philexim); **Chairman of the Audit Committee** of National Reinsurance Corporation of the Philippines; and **Chairman of the Interim Governance Board** of National Life Insurance Co. of the Philippines; **Member** of Philippine Institute of Certified Public Accountants and Rotary Club of Makati Legaspi. ***His past experiences include:*** **Conservator** of National Life Insurance Co**.**; **Partner** in SyCip Gorres Velayo & Co.; **Principal & Manager** of Kassim Chan & Co.; **President** of Rotary Club of Makati Legaspi. ***Educational Background:*** Master in Management from Asian Institute of Management, Philippines and Bachelor of Science in Business Administration from Aquinas, Philippines.

JUAN B. SANTOS, 79, Filipino, was elected as an **Independent Director** in 2014. He is also a **Director** of Allamanda Management Corporation, Alaska Milk Corporation, East-West Seed ROH Limited (Bangkok, Thailand), Golden Spring Group (Singapore), Philippine Investment Management, Rizal Commercial Banking Corporation, Sunlife Grepa Financial, Inc.; **Chairman, Board of Trustee** of Dualtech Training Center Foundation, Inc.; **Trustee** of St. Luke's Medical Center; **Member of the Board of Advisors** of Coca-Cola FEMSA Philippines, East-West Seeds Co., Mitsubishi Motor Phil. Corporation; **Consultant** of Marsman-Drysdale Group of Companies. ***His past experiences include:*** **Chairman** of Social Security System; C**hairman and CEO** of Nestle Philippines., Singapore and Thailand; Director of Equitable Savings Bank, Inc., PCI Leasing and Finance Inc., Philex Mining Corporation, Philippine Long Distance Telephone Company (PLDT), San Miguel Corporation; **Secretary** of Trade Industry; ***Educational Background:*** Advanced Management from International Institute of Management Development (IMD), Lausanne, Switzerland; Post-graduate studies on Foreign Trade from Thunderbird School of Global Management, Arizona, USA; and Bachelor of Science in Business Administration from Ateneo De Manila University, Philippines.

LORENZO V. TAN, 56, Filipino, was elected as a **Director in 2017**. He is also the **President** of Megalink, Inc.; **Vice Chairman** of TOYM Foundation; **Director** of EEI Corporation, iPeople, inc., Malayan Insurance Company, Inc., Smart Communications, Inc. and Voyager Innovation, Inc., member of SMART Audit Committee, member of PLDT and SMART Communications Inc. Risk Committee, Director of SunLife Grepa Insurance Company, Philippine Realty Corporation (PHILREALTY); **Board of Advisors**, FICO Group of Companies, Bangkok, Thailand and **Managing Partner** of Primeiro Partners, Inc. ***His past experiences include:*** **President, Chief Executive Officer and Director** of Rizal Commercial Banking Corporation; **Chairman** of Asian Bankers Association; **President** of Bankers Association of the Philippines (BAP). ***Educational Background:*** Bachelor of Science in Commerce from De La Salle University, Master of Management from J.L. Kellog Graduate School of Management of Northwestern University in Evanston, Illinois, USA. He is a Certified Public Accountant in the United States and in the Philippines. Mr. Tan is Certified Public Accountant in Pennsylvania, USA and in the Philippines. He was also a recipient of the Ten Outstanding Young Men of the Philippines Award for Banking in 1999, the International Association of Business Communicators CEO Excel Award for Insurance in 2006, the Lifetime Achievement Awardee (2011) in Finance from De La Salle University, and one of the 2014 People of the Year Awardee from People Asia.

EXECUTIVE OFFICERS:

GEMA O. CHENG, 53, Filipino, is the **Executive Vice President – Chief Operating Officer, Chief Finance Officer, and Treasurer**. She joined the company in February, 2016 and holds the following positions within the group: **Senior Vice President for Finance and Treasurer** in iPeople inc.; **Director, Chief Financial Officer and Treasurer** in Investment Managers, Inc.; **Director, Vice President for Finance and Treasurer** in Landev Corporation; **Director** in Malayan Colleges Laguna, Inc., and Manila Memorial Park Cemetery, Inc., **Treasurer** in Xamdu Motors, Inc. ***Her past positions were as:*** **Senior Vice President** of SM Investments Corporation; **Treasury Head** for SM Prime and its various business segments (Malls, Hotels & Conventions, Residences, Leisure and Commercial Properties Group); **Group Chief Finance Officer** for SM Land Inc., SM Development Corporation, Costa del Hamilo Inc., Prime Metroestate Inc., Summerhills Homes and Development Corporation and Pico de Loro Beach and Country Club with oversight of other SMIC-owned property companies; **Operations Support Group Head** of Malayan Insurance Co., Inc. (MICO); **Chief Finance Officer and Treasurer** of the Malayan Group of Insurance Companies. ***Educational Background:*** Bachelor of Arts in Economics (Magna Cum Laude) from the University of the Philippines-Diliman, Philippines; Certificate of Special Studies in Administration and Management from Harvard University, USA.

PORFIRIO S. DE GUZMAN, JR., 79, Filipino, has been a **Senior Vice President for Internal Audit** for more than ten (10) years. He is also a **Director** of Landev Corporation, Grepaland, Inc. and Philippine Integrated Advertising Agency; **Vice President & Deputy Chief Finance Officer** of Pan Malayan Management & Investment Corporation,and **Vice President & Chief Financial Officer** ofEnrique T. Yuchengco, Inc., and Y Realty Corporation. ***His past experiences include:*** **Partner** at Sycip Gorres Velayo & Co. ***Educational Background:*** Master in Business Administration courses from Ateneo de Manila University, Philippines; Bachelor of Science in Business Administration Major in Accounting from University of the East, Philippines

ALEXANDER ANTHONY G. GALANG, 57, Filipino, is the **Senior Vice President for Internal Audit** since 2009. He was **Vice President** of the company from 2004 to 2009. ***His past experiences include:*** **Vice President for Audit & Special Projects** of Anglo Asian Strategic Management Inc.; **President** of Avrion Systems Inc.; **Deputy Managing Director** of Cala Paniman, Inc.; **Treasury Head** of Anglo Asian Holdings Corporation; **Regional Auditor** for Asia and Pacific of Triumph International, Inc.; **Finance Head** of Triumph International Vietnam, Inc.; **Senior International Corporate Auditor** of International Semi-Tech

Microelectronics, Inc., then parent company of Singer Sewing Machine Co. USA.; **Internal Audit Manager** of Honda Philippines, Inc., **Finance Comptroller** of Midas Touch Foods Corp, et. al.; **Senior Auditor** at SGV and Co. CPAs.; **Member, Board of Trustees** of the Association of Certified Fraud Examiners - Philippine Chapter. He is a Certified Public Accountant (CPA) having placed 12th in the 1981 licensure exams. He has a Global Certification as a Certified Fraud Examiner (CFE) and a Certification in Risk Management Assurance (CRMA). ***Educational Background:*** Bachelor of Schience in Business Administration Major in Accounting from University of Sto. Tomas, Philippines.

RAUL VICTOR B. TAN, 58, Filipino, is the **Senior Vice President-Group Treasury Head**. He was appointed to the position in July 2017. He is also the Treasurer of Malayan Education Systems, Inc. and Dean of the ETY School of Business Management of Mapua University. Prior to his appointment, he was a consultant of the Company. ***His previous affiliations include:*** Executive Vice President and Treasurer of Rizal Commercial Banking Corporation (RCBC); Director of RCBC Services Bankard Corporation and Merchants Savings and Loan Association; Inc. (Rizal Microbank- A Thrift Bank); Head of Treasury and Chief Dealer, United Coconut Planters Bank. ***Educational Background:*** Bachelor of Science in Business Management and Masters in Business Administration from Fordham University, N.Y., U.S.A.

JOSELITO D. ESTRELLA, 53, Filipino, is the **Senior Vice President and Chief Information Officer** .. ***His past experiences include:*** **Vice President for Sales & Marketing** of AGD Infotech Inc.; **Sales Manager, Business Development Manager and Product and Services Head** of Pan Pacific Computer Center Inc. ***Educational Background:*** Bachelor of Science in Commerce Major in Management from San Beda College; Master of Science in Information Technology from De La Salle University.

MA. ESPERANZA F. JOVEN, 47, Filipino, is the **Vice President for Finance**. She also holds the following positions within the group: **Vice President for Finance** in iPeople, inc.; **Vice President for Finance & Treasurer** in HI-Eisai Pharmaceuticals, Inc.; and **Director** in Zamboanga Industrial Finance Corporation ***Her past experiences include:*** **Assistant Professional Lecturer** at De La Salle University; **Assistant Vice President for Financial Reporting** at J.P.Morgan Chase Bank N.A; **MSCF Program Coordinator** at De La Salle University. She also held the Series 7, 63, and 24 licences with the Financial Industry Regulatory Authority (FINRA), The Nasdaq Stock Market, and 52 states and territories of the USA. ***Educational Background:*** Master of Science in Computational Finance and Bachelor of Science in Applied Mathematics from De La Salle University-Manila.

MARIA ELISA E. DE LARA, 48, Filipino, is the **Vice President** for Internal Audit since 2013. She joined the company in October 2010 and was appointed as **Assistant Vice President** for Group Internal Audit effective January 2011. She is a Certified Public Accountant and holds a Global Certification in Risk Management Assurance (CRMA). ***Educational Background:*** Bachelor of Science in Business Administraton Major in Accounting from the Philippine Women's University.

MARIA TERESA T. BAUTISTA, 45, Filipino, is the **Vice President - Controller** since July, 2017. She is also the **Controller** of iPeople, inc. ***Her past experiences include:*** **Group Finance Manager** of Prime Orion Philippines, Inc. She is a Certified Public Accountant, holds a global certification for Internal Auditors (CIA) and has completed the Six Sigma Green Belt Program. ***Educational Background:*** Bachelor of Science in Accountancy from St. Paul College, Philippines.

JOSE A. TANJANGCO III, 56, Filipino, is an **Assistant Vice President and Chief Risk Officer** from December 2010 to present. He also holds the following positions within the group: **Chief Risk Officer** of iPeople, inc.; **Director** of Manila Memorial Park Cemetery, Inc. and Zamboanga Industrial Finance Corporation ***Educational Background:*** Master in Business Administration from IESE, Barcelona, Spain; Bachelor of Arts in Economics from Ateneo de Manila University, Philippines.

SONIA P. VILLEGAS, 49, Filipino, is an **Assistant Vice President for Human Resources** since 2013. She is also a **Director** of Greyhounds Security & Investigation Agency Corporation Prior to her current position, she was the **Administrative Executive Assistant** of the SVP for Finance & Treasurer, Chief Information Officer, Chief Compliance Officer from 2000 to 2013 and **Research Assistant** at the Business Development Department from 1990 to 1993. ***Educational Background:*** Bachelor of Arts in Economics from the University of the East, Philippines.

LALAINE P. MONSERATE, 53, Filipino, joined the Company in November, 2016 as **Assistant Vice President – Legal and Compiance Officer**. She was appointed **Data Privacy Officer** for the Company on June 2017. ***Her past experiences include:*** **Assistant Director** of the Investigation and Prosecution Division, Enforcement and Investor Protection Department of the Securities and Exchange Commission (SEC). She spent 12 years at the SEC, rising from the ranks, i.e. from Securities Investigator, Securities Counsel, Chief Counsel, Division Head and Assistant Director. ***Educational Background***: Bachelor of Laws and Bachelor of Arts in Political Science from University of Nueva Caseres. She passed the Bar Examinations in 1999.

SAMUEL V. TORRES, 53, Filipino, is the **Corporate Secretary.** His other present positions include: **General Counsel & Corporate Secretary** of Pan Malayan Management & Investment Corporation, and **Corporate Secretary** of A.Y. Holdings, Inc., Mijo Holdings, Inc., Luisita Industrial Park Corporation, RCBC Bankard Services, Inc., Sun Life Grepa Financial, Inc., PetroEnergy Resources Corporation, Seafront Resources Corporation, GPL Cebu Tower Office Condominium Corporation, iPeople, inc., RCBC Land, Inc., RCBC Forex Brokers Corporation, RCBC Realty Corporation, RCBC Securities, Inc., RCBC Capital Corporation, Malayan High School of Science, Inc., Malayan Education System, Inc.,Malayan Colleges Mindanao (A Mapua School), Inc., GPL Holdings, Pan Pacific Computer Center, Inc., Honda Cars Kalookan, Inc., Hi-Eisai Pharmaceutical, Inc., People eServe Corporation, La Funeraria Paz Sucat, Inc., Landev Corporation, Pan Malayan Realty Corporation, First Nationwide Assurance Corporation, Malayan Insurance Co., Inc., MICO Equities, Inc., and Tokio Marine Malayan Insurance Corporation ***His past experiences include:*** **International Counsel** of South Pacific for Federal Express Corporation ***Educational Background:*** Bachelor of Laws from Ateneo De Manila University School of Law, Philippines; Bachelor of Science in Business Economics from the University of the Philippines.

MA. ELVIRA BERNADETTE C. GARCIA-GONZALEZ, 41, Filipino, is the **Assistant Corporate Secretary**. She is also the **Corporate Secretary** of Blackhounds Security and Investigation Agency, Inc. and the **Assistant Corporate Secretary** of House of Investments, Inc., Malayan Colleges Mindanao (A Mapua School), Inc., Yuchengco Tower Office Condominium Corporation, Y Tower II Office Condominium Corporation, and GPL Holdings, Inc. ***Her past experiences include:*** **Legal Counsel and Assistant Corporate Secretary** of Coca-Cola Bottlers Philippines, Inc.; **Assistant Corporate Secretary o**f Philippine Bottlers, Inc. and Luzviminda Land Holdings, Inc. ***Educational Background:*** Juris Doctor from Ateneo De Manila University School of Law; Bachelor of Arts in Political Science from Ateneo De Manila University, Philippines.

RESIGNATION OF DIRECTORS
To date, no director has resigned or declined to stand for re-election for the Board of Directors due to any disagreement with the Corporation relative to the Corporation's operations, policies and practices.

ELECTION OF DIRECTORS
The Directors of House of Investments are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting or until their respective successors have been elected and qualified.

APPOINTMENT AND RESIGNATION OF OFFICERS
Officers are appointed or elected annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified.

SIGNIFICANT EMPLOYEE
There is no person who is not an executive officer that is expected by the issuer to make a significant contribution to the business.

FAMILY RELATIONS
Mrs. Helen Y. Dee and Ms. Yvonne S. Yuchengco are siblings.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS
The Company is not aware of the following events during the past 5 years up to March 31, 2018:

(a) any bankruptcy petition filed by or against any business of which any of its director or executive officers was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time.

(b) any conviction by final judgment of any director or senior executive in a criminal proceeding domestic or foreign or being subject to a pending criminal proceeding domestic or foreign, of any director, executive officer or person nominated to be a director

(c) any director or senior executive being subject to any order, judgment or decree not subsequently reversed suspended or vacated of any court of competent jurisdiction, domestic or foreign permanently or temporarily enjoining barring, suspending or otherwise limiting such directors' or executive officer's involvement in any type of business securities, commodities or banking activities

(d) any executive officer or director found by a domestic or foreign court of competent jurisdiction, the Commission or other foreign body or a domestic or foreign Exchange or other organized trading market or self-regulatory organization to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

Item 10 – EXECUTIVE COMPENSATION

Information as to the aggregate compensation paid or accrued during the last two fiscal years and to be paid in the ensuing fiscal year to the Company's Chief Executive Officer and other officers follows:

NAME AND POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION
The top 5 executives of the Company are as follows: 1. Medel T. Nera, President & CEO 2. Gema O. Cheng, EVP – Chief Operating Officer, Chief Financial Officer & Treasurer 3. Alexander Anthony G. Galang, SVP – Internal Audit 4. Raul Victor B. Tan, SVP & Group Treasury Head 5. Joselito D. Estrella, SVP – Chief Information Officer	2018	P 31.6M (est)	P0	P0
	2017	P 29.3M	P0	P0
	2016	P25.4M	P0	P0
All other officers and directors as group unnamed.	2018	P 28.6M (est)	P0	P1.2M (est)
	2017	P 27.3M	P0	P0.7M
	2016	P 23.2M	P0	P0.8M
TOTALS	2018	P 60.2M(est)	P0	P1.2M (est)
	2017	P 56.6M	P0	P0.7M
	2016	P 48.6M	P0	P0.8M

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, other than those stated on the above table during the Company's last completed fiscal year, and the ensuing year, for any service provided as an executive officer or member of the Board of Directors.

Directors are paid a per diem of P25,000 for attendance in a Board meeting. Board meetings are scheduled every quarter in a year. A director is also paid a per diem of P10,000 for participation in Audit and Risk committee meetings and P5,000 in other committee meetings.

There is no director, executive officers, nominee for director, beneficial holder and family members involved in any business transaction of the Company.

Item 11 – Security Ownership of Certain Beneficial Owners and Management

Owners of more than 5% of voting securities as of March 31, 2018.
The following table shows the beneficial owners directly or indirectly owning more than 5% of the Company's capital stock as of March 31, 2018:

COMMON STOCK

SHARE CLASS	NAME AND ADDRESS OF RECORD OWNER	NAME OF BENEFICIAL OWNER & RELATIONSHIP WITH RECORD OWNER	CITIZENSHIP	NUMBER OF SHARES BENEFICIALLY OWNED	% OF TOTAL
Common	**PAN MALAYAN MANAGEMENT & INVESTMENT CORPORATION** 48/F, Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City *Principal Stockholder*	**Ms. Helen Y. Dee** *Chairperson* is authorized to direct voting of the shares held by Pan Malayan Management & Investment Corporation	Filipino	294,759,570	47.85%
Common	**RCBC SECURITIES, INC.** *7/F Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City*	**Mr. Raul M. Leopando** *Nominee* **Mr. Raul Ruiz** *VP - Research* are authorized to direct voting of the shares held by RCBC Securities	Filipino	89,272,605	14.49%
Common	**BPI SECURITIES CORPORATION** *8/F BPI Head Office Bldg., Ayala Ave.,cor.Paseo de Roxas Makati City*	**Mr. Michaelangelo R. Oyson** *President & CEO* is authorized to direct voting of the shares held by BPI Securities Corporation	Filipino	45,850,147	7.44%

PREFERRED STOCK

SHARE CLASS	NAME AND ADDRESS OF RECORD OWNER	NAME OF BENEFICIAL OWNER & RELATIONSHIP WITH RECORD OWNER	CITIZENSHIP	NUMBER OF SHARES BENEFICIALLY OWNED	% OF TOTAL
Preferred	**YUCHENGCO, ALFONSO T.** 48/F, Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City *Principal Stockholder*	**Ms. Helen Y. Dee** is authorized to direct voting of the shares held by Amb. Alfonso T. Yuchengco. Pending settlement of estate proceedings.	Filipino	346,627,046	54.64%
Preferred	**PAN MALAYAN MANAGEMENT & INVESTMENT CORPORATION** 48/F, Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City	**Ms. Helen Y. Dee** *Chairperson* is authorized to direct voting of the shares held by Pan Malayan Management & Investment Corporation	Filipino	237,974,016	37.51%

There are no arrangements that may result in change in control.

SECURITY OWNERSHIP OF MANAGEMENT
Securities beneficially owned by the directors, nominees, officers, other than qualifying shares, as of March 31, 2018 according to the records of its stock and transfer agent, Rizal Commercial Banking Corporation (RCBC):

COMMON STOCK

NAME OF BENEFICIAL OWNER	CITIZENSHIP	NATURE OF OWNERSHIP	SHARES OWNED	% OF CLASS
Ms. Helen Y. Dee	Filipino	Direct Indirect	1,125,345 770,780	0.1827% 0.1251%
Mr. John Mark S. Frondoso	Filipino	Direct	5	0.0000%
Mr. Francisco H. Licuanan III	Filipino	Direct	500	0.0001%
Mr. Emilando Napa	Filipino	Direct	5	0.0000%
Mr. Medel T. Nera	Filipino	Direct	5	0.0000%
Dr. Roberto F. de Ocampo	Filipino	Direct	5	0.0000%
Atty. Wilfrido E. Sanchez	Filipino	Direct	5	0.0000%
Mr. Juan B. Santos	Filipino	Direct	5	0.0000%
Mr. Lorenzo V. Tan	Filipino	Direct	5	0.0000%
Dr. Reynaldo B. Vea Ms. Yvonne S Yuchengco	Filipino Filipino	Direct Direct Indirect	5 45 90,210	0.0000% 0.0000% 0.0146%
Sub-Total			**1,986,920**	**0.3226%**
Total Common Shares			**615,996,114**	**100%**

PREFERRED STOCK

NAME OF BENEFICIAL OWNER	CITIZENSHIP	NATURE OF OWNERSHIP	SHARES OWNED	% OF CLASS
Amb. Alfonso T. Yuchengco	Filipino	Direct	346,627,046	54.64%
Sub-Total			346,627,046	54.64%
Total Preferred Shares			**634,395,272**	**100%**

Item 12 – Certain Relationships and Related Transactions

There is no director, executive officer, nominee for director, beneficial holder, or any family member involved in any business transaction with HI and subsidiaries.

There are no material transactions which were negotiated by the Company with parties whose relationship with the Company fall outside the definition of "related parties" under Philippine Accounting Standards 24, Related Party Disclosures, but with whom the Company has relationship that enables such parties to negotiate terms that may not be available from other, more clearly independent parties on an arm's length basis.

In December 2017, MES paid a reservation deposit to House of Investments to secure a space for the building project of the Company located along P. Ocampo Ext., Makati City. The reservation deposit will be applied against the lease payments, any fit-out payments advanced by House of Investments on behalf of MES, and security deposit payment. The lease contract will commence in upon the execution of a Lease Agreement between the Parties.

Please refer to Note 22 to the consolidated financial statements for the details of related party transactions. As discussed in the notes, in the normal conduct of business, other transactions with certain affiliates include sharing in general and administrative expenses and cash advances.

PART IV – CORPORATE GOVERNANCE

Item 13 – Corporate Governance

(a) Evaluation System to Measure Compliance with Manual on Corporate Governance

The Company has monitored its compliance with SEC Memorandum Circular No. 6 dated June 22, 2009 as well as all relevant Philippine Stock Exchange Circulars on Corporate Governance. The Company likewise submitted its revised corporate governance manual and complied with the leading practices and principles on good corporate governance. The Company also complied with the appropriate self-rating assessment and performance evaluation to determine and measure the compliance with the Manual.

In compliance with SEC Memorandum Circular No. 19 dated November 22, 2016, the Company will submit a New Manual on Corporate Governance on or before May 30, 2017.

In compliance with SEC Memorandum No. 20 dated December 8, 2016, the Company will submit the Annual Corporate Governance Report on or before May 30, 2017.

In compliance with SEC Memorandum No. 4 dated March 9, 2017, all Independent Directors are within the maximum cumulative terms limit of nine (9) years from the reckoning year of 2012.

(b) Measures Undertaken to Fully Comply with Leading Practices on Corporate Governance

The Company has exerted best efforts to comply with the provisions in its Manual on Corporate Governance. To ensure that leading practices on corporate governance are fully observed, the following steps have been undertaken:

1) Attendance of each Director on all the Board of Directors' Meeting are monitored and recorded.
2) All financial reports were reviewed by the Audit Committee before being finalized and thereafter endorsed to the Board of Directors for approval and submission to pertinent offices.
3) Other systems and measures have been undertaken such as observance of the Code of Ethics, Financial and Manpower Audit, providing seminars and conferences to comply with all relevant laws, regulations and codes of business practices. The Company maintains its system of check and balance.

(c) Deviation from the Manual on Corporate Governance

There is no known deviation from the Manual on Corporate Governance.

(d) Plans to Improve Corporate Governance

In order to improve Company's adherence to the leading practices in good corporate governance, the Company's Directors and Top Management attends the annual seminar on Corporate Governance conducted by an entity accredited with the Securities and Exchange Commission. Further, the Company continuously monitors all relevant PSE and SEC Circulars on Corporate Governance that maybe used to improve its Manual on Corporate Governance.

PART V – EXHIBITS AND SCHEDULES

Item 14 - Exhibits and Reports on SEC Form 17-C

SUMMARY OF SEC FORM 17-C

July 21, 2017

- First quarter consolidation report (SEC 17Q) of House of Investments, Inc. Declaration of PhP 2,878,825.62 cash dividends to the preferred stockholders covering the second quarter of 2017, i.e. April to June. The equivalent dividend per preferred share is PhP0.004206. The record date is August 18, 2017 and the payment date is September 12, 2017.
- Declaration of PhP 51,901,385.07 in cash dividends to the stockholders of record as of August 18, 2017, representing 615,996,114 common shares and 684,456,876 participating preferred shares. The equivalent to dividend per common stock is PhP0.065 and the equivalent dividend per preferred stock is PhP0.01733. This is equivalent to 0.88% dividend yield. The payment date is September 12, 2017.
- Redemption of two and a half percent (2 1/2%) of 684,456,876 preferred shares, representing 17,111,421 preferred shares at PhP0.40 per preferred share amounting to PhP6,844,568.40. The record date is August 18, 2017 and the payment date is September 13, 2017.
- Elections of members of the board of directors for the year 2017-2018
- Re-appointment of SGV & Co., as external auditors for the fiscal year ending 2017
- Election of officers of House of Investments, Inc. and the appointment of Chairmen/members of the various committees.
- Notice of Media Analysts Briefing

September 29, 2017

- Second Quarter Consolidation Report (SEC 17Q) of House of Investments, Inc.
- Declaration of PhP 2,756,804.07 (PHILIPPINE PESOS: TWO MILLION SEVEN HUNDRED FIFTY SIX THOUSAND EIGHT HUNDRED FOUR PESOS AND SEVEN CENTAVOS) cash dividends to the HI preferred stockholders of record as of October 27, 2017 covering the 3rd quarter of 2017 (July 2017 to September 2017). The equivalent dividend per preferred share is PhP 0.004131. The payment date is November 23, 2017.
- Redemption of 2 ½% (two and one half percent) of 667,345,453 shares of preferred stock of House of Investments, representing 16,683,636 (SIXTEEN MILLION SIX HUNDRED EIGHTY THREE THOUSAND SIX HUNDRED THIRTY SIX) preferred shares at PhP 0.40 per share, amounting to PhP 6,673,454.40 (PHILIPPINE PESOS: SIX MILLION SIX HUNDRED SEVENTY THREE THOUSAND FOUR HUNDRED FIFTY FOUR PESOS AND FORTY CENTAVOS). The record date is October 27, 2017 and the payment date is November 24, 2017.

December 8, 2017

- Third Quarter Consolidation Report (SEC 17Q) of House of Investments, Inc.
- Redemption of 2 ½% (two and one half percent) of 650,661,819 (SIX HUNDRED FIFTY MILLION SIX HUNDRED SIXTY ONE THOUSAND EIGHT HUNDRED NINETEEN) shares of preferred stock of House of Investments, representing 16,266,545 (SIXTEEN MILLION TWO HUNDRED SIXTY SIX THOUSAND FIVE HUNDRED FORTY FIVE) preferred shares at PhP 0.40 per share, amounting to PhP 6,506,618.00 (PHILIPPINE PESOS: SIX MILLION FIVE HUNDRED SIX THOUSAND SIX HUNDRED EIGHTEEN). The record date is January 4, 2018 and the payment date is January 30, 2018.
- Maria Teresa T. Bautista, promotion from Assistant Vice President to Vice President, retroactive July 1, 2017.

December 12, 2017

- Declaration of PhP 2,616,311.17 (PHILIPPINE PESOS: TWO MILLION SIX HUNDRED SIXTEEN THOUSAND THREE HUNDRED ELEVEN AND SEVENTEEN CENTAVOS) cash dividends to the HI preferred stockholders of record as of January 4, 2018, covering the fourth quarter of 2017 (October 2017 to December 2017). The equivalent dividend per preferred share is PhP 0.004021. Payment Date is on January 29, 2018.

January 5, 2018

- Ratification of the Non-Binding term sheet for the merger of iPeople,inc. with AC Education, Inc.

April 6, 2018

- Approval of the 2017 Audited Financial Statements of House of Investments, Inc. and its subsidiaries.
- Declaration of PhP 2,949,049.86 (PHILIPPINE PESOS: TWO MILLION NINE HUNDRED FORTY NINE THOUSAND FORTY NINE PESOS AND EIGHTY SIX CENTAVOS) cash dividends to the preferred stockholders of HI covering the 1st quarter of 2018 (January 2018 to March 2018). The equivalent dividend per preferred share is PhP 0.00465. The record date is May 3, 2018 and the payment date is May 29, 2018.
- Redemption of 2 ½% (two and one half percent) of 634,395,272 (SIX HUNDRED THIRTY FOUR MILLION THREE HUNDRED NINETY FIVE THOUSAND TWO HUNDRED SEVENTY TWO) shares of preferred stock of House of Investments, representing 15,859,882 (FIFTEEN MILLION EIGHT HUNDRED FIFTY NINE THOUSAND EIGHT HUNDRED EIGHTY TWO) preferred shares at PhP 0.40 per share, amounting to PhP 6,343,952.80 (PHILIPPINE PESOS: SIX MILLION THREE HUNDRED FORTY THREE THOUSAND NINE HUNDRED FIFTY TWO PESOS AND EIGHTY CENTAVOS). The record date is May 3, 2018 and the payment date is May 30, 2018.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereto duly authorized, in the City of Makati on April 16, 2018.

IN WITNESS WHEREOF, we have hereunto affixed our signatures and the seal of the Corporation this 16th day of April, 2018 at Makati City.

By:

Medel T. Nera
President & CEO

Gema O. Cheng
EVP-Finance, COO, CFO & Treasurer

Maria Teresa T. Bautista
VP – Controller

Atty. Samuel V. Torres
Corporate Secretary

16 APR 2018

SUBSCRIBED AND SWORN to before me this ____ day of _____ 2018, at MAKATI CITY
Affiant exhibited to me their Residence Certificate Numbers indicated below each name.

Names	Document No.	Date & Place of Issue/Expiration
Medel T. Nera	P1271862A	12-19-2016 Manila / 12-18-2021
Gema O. Cheng	DL#N06-84-036923	12-14-2017 Mandaluyong / 12-08-2022
Maria Teresa T. Bautista	DL#6-92-094899	11-23-2017 Makati / 11-23-2022
Atty. Samuel V. Torres	DL#13-83-001463	11-08-2017 QC / 11-10-2022

Doc. No. 318;
Page No. 65;
Book No. 57;
Series of 2018.

ATTY. RAYMOND A. RAMOS
COMMISSION NO. M-277
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
NO. 15 J.P. RIZAL EXTN. COR. TANGUILE ST
COMEMBO, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 022957/01-04-2018/Pasig City
PTR NO MKT-6614636, 01-03-2018/MAKATI CITY
MCLE Compliance No. V-0004514/10-31-2014

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTARY SCHEDULES

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, 2017, 2016 and 2015, 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

MEDEL T. NERA
President and Chief Executive Officer

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

SUBSCRIBED AND SWORN TO BEFORE ME THIS DAY OF 6 APR 2018 IN THE CITY OF MAKATI AFFIANT EXHIBITED HIS/HER COMMUNITY TAX CERT NO. ______ ISSUED ON ______ ISSUED AT ______

ATTY. RAYMOND A. RAMOS
COMMISSION NO. M-277
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2018
NO. 15 J.P. RIZAL EXTN. COR. TANGUILE ST
COMEMBO, MAKATI CITY
SC Roll No. 62179/04-26-2013
IBP NO. 022957/01-04-2018/Pasig City
PTR NO MKT-6614630, 01-03-2018/MAKATI CITY
MCLE Compliance No. V-0004514/10-31-2014

Signed this 6th day of April, 2018

DOC NO. 316
PAGE NO. 65
BOOK NO. 57
SERIES OF 2018

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of House of Investments, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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.

Estimation of cost to complete construction contracts

The Group is mainly in the business of construction and regularly engages in projects on electro-mechanical works, production facilities, buildings and infrastructure. This requires the Group to estimate cost to complete the construction contracts that will serve as the basis for recognizing cost of construction contracts. We consider the estimation process as a key audit matter because it is complex and requires the technical expertise of the Group's cost engineers, particularly with respect to the determination of the quantity of the inputs such as materials, labor and equipment needed to complete the construction.

The Group's disclosures about construction cost are included in Notes 5 and 26 to the consolidated financial statements.

Audit response

We 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. For selected completed projects, we compared actual cost incurred against the estimated cost to complete the construction contracts.

Accounting for investment in Al-Rushaid Construction Company Ltd.

The Group owns 49% equity interest in Al-Rushaid Construction Company Ltd. (ARCC), a company incorporated in the Kingdom of Saudi Arabia and an associate engaged in the construction business. The investment in this associate is accounted for under the equity method. As of December 31, 2017, ARCC recognized deferred tax asset on net operating loss carryover of ₱443.3 million. We consider the accounting for the results of and investment in ARCC as a key audit matter due to the Group's share in ARCC's net earnings and the carrying value of the investment. 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 investment in ARCC are included in Note 13 to the consolidated financial statements.

Audit response

We sent instructions to ARCC's statutory auditors to perform an audit on the relevant financial information of ARCC for the purpose of the consolidated financial statements of the Group, detailing their scope of work and reporting requirements. We obtained an understanding of the statutory auditor's key audit areas and their planned audit procedures. We also reviewed their working papers and obtained relevant conclusion statements related to their audit procedures. We obtained the Group's legal study on the claims made by ARCC to recover from the contractor of a certain project in which significant losses were recorded and examined the signed contracts, demand letters and other documentations in support of the claims. Furthermore, we also evaluated management's assumptions and inquired with the Group's management on the basis of the projections. We compared key assumptions such as revenue growth rate and gross margin rate against historical performance.

Valuation of Land

The Group accounts for its land, where the school buildings and other facilities are located, using the revaluation model. As of December 31, 2017, the carrying value of the Group's land amounted to ₱6,312.5 million, representing 17% of the Group's total assets. In addition, the Group recognized a revaluation gain of ₱347.5 million in other comprehensive income for the year ended December 31, 2017. 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.

The Group's disclosures about land are included in Notes 5 and 14 to the consolidated financial statements.

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

Under PFRSs, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2017, the Group's goodwill attributable to the acquisition of Malayan Education System, Inc. (formerly Malayan Colleges, Inc.) amounted to ₱137.9 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process involves judgments and is based on assumptions such as revenue from number of forecasted students and related tuition and other matriculation fees, profit margins, long-term growth rate and discount rate in estimating discounted cash flow projections.

The Group's disclosures about goodwill are included in Notes 5 and 15 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's impairment model and the assumptions on the key business drivers of the cash flow forecasts, specifically on the revenue from number of forecasted students, related tuition and other matriculation fees and the profit margins. 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 rate against relevant publish market information. We tested the parameters used in the determination of discount rate against market date. 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 the goodwill.

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, 2017, 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, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Building a better
working world

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

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

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

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

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola
Partner
CPA Certificate No. 109952
SEC Accreditation No. 1540-A (Group A),
March 8, 2016, valid until March 8, 2019
Tax Identification No. 242-019-387
BIR Accreditation No. 08-001998-117-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621276, January 9, 2018, Makati City

April 6, 2018

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

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱1,967,498,425**	₱2,393,201,221
Financial asset at fair value through profit or loss	**8,461,820**	8,339,643
Accounts receivable (Note 8)	**9,300,540,566**	7,999,202,956
Current portion of loans receivable (Note 7)	**10,159,319**	11,449,015
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 9)	**3,753,207,563**	4,200,040,478
Receivables from related parties (Note 22)	**155,102,232**	54,371,552
Inventories (Note 10)	**1,117,527,767**	1,566,727,416
Prepaid expenses and other current assets (Note 11)	**1,418,625,854**	1,102,189,658
Total Current Assets	**17,731,123,546**	17,335,521,939
Noncurrent Assets		
Available-for-sale (AFS) financial assets (Note 12)	**449,585,193**	524,064,241
Loans receivable - net of current portion (Note 7)	**3,507,320**	3,875,640
Investments in associates and joint ventures (Note 13)	**4,821,213,966**	3,722,070,350
Investment properties (Note 16)	**18,715,503**	206,434,597
Property and equipment (Note 14)		
At revalued amount	**6,312,509,812**	4,955,173,600
At cost	**6,585,840,280**	5,774,235,008
Goodwill (Note 15)	**471,357,459**	471,357,459
Retirement assets (Note 31)	**46,490,063**	39,949,093
Deferred tax assets - net (Note 32)	**103,817,692**	120,800,051
Other noncurrent assets - net (Note 17)	**808,546,988**	535,231,676
Total Noncurrent Assets	**19,621,584,276**	16,353,191,717
Total Assets	**₱37,352,707,822**	₱33,688,713,656

LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 19)	**₱7,685,000,000**	₱4,100,000,000
Accounts payable and other current liabilities (Note 18)	**5,586,176,162**	6,333,879,171
Current portion of long-term debt (Note 20)	**491,865,198**	491,748,610
Income tax payable (Note 32)	**21,834,468**	19,790,007
Due to related parties (Note 22)	**124,038,237**	127,809,141
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 9)	**4,085,077,913**	4,622,231,447
Unearned tuition fees	**89,159,755**	53,041,443
Customers' deposits	**18,213,875**	16,641,303
Total Current Liabilities	**18,101,365,608**	15,765,141,122
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 20)	**2,180,081,616**	2,671,946,840
Retirement liabilities (Note 31)	**148,565,857**	147,815,273
Deferred tax liabilities - net (Note 32)	**412,856,405**	358,892,950
Other noncurrent liabilities (Note 18)	**158,414,754**	139,029,578
Total Noncurrent Liabilities	**2,899,918,632**	3,317,684,641
Total Liabilities	**₱21,001,284,240**	₱19,082,825,763

(Forward)

	December 31	
	2017	2016
Equity		
Attributable to equity holders of the Parent Company		
Preferred stock (Note 38)	**₱253,758,109**	₱280,802,820
Common stock (Note 38)	**921,836,572**	921,836,572
Additional paid-in capital	**154,578,328**	154,578,328
Equity reserve on acquisition of non-controlling interest	**(179,954,180)**	(179,954,180)
Revaluation increment on land - net (Note 14)	**1,329,730,248**	1,106,401,670
Cumulative translation adjustments	**224,366,002**	159,864,897
Net unrealized gain on AFS financial assets (Note 12)	**87,185,459**	79,859,050
Remeasurement loss on defined benefit plans (Note 31)	**(5,100,398)**	(2,832,302)
Retained earnings (Note 39)	**8,407,828,501**	7,529,455,996
	11,194,228,641	10,050,012,851
Non-controlling interests (Note 35)	**5,157,194,941**	4,555,875,042
Total Equity	**16,351,423,582**	14,605,887,893
	₱37,352,707,822	₱33,688,713,656

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2017	2016	2015
REVENUE (Note 36)			
Sales of services	**₱14,866,251,011**	₱15,670,330,884	₱19,700,654,455
Sales of goods	**10,735,909,672**	7,803,941,763	7,074,703,794
School and related operations	**1,933,856,492**	2,203,794,405	2,252,281,825
Interest and discounts	**10,274,599**	10,786,917	11,737,198
Dividends (Notes 12 and 13)	**1,851,934**	52,890,208	51,448,085
	27,548,143,708	25,741,744,177	29,090,825,357
COSTS OF SALES AND SERVICES			
Cost of services (Notes 24 and 26)	**12,908,040,314**	13,493,607,664	17,190,247,076
Cost of goods sold (Notes 24 and 25)	**10,108,753,991**	7,339,307,717	6,629,847,421
Cost of tuition and other fees (Notes 24 and 27)	**1,286,658,343**	1,300,042,918	1,213,004,494
	24,303,452,648	22,132,958,299	25,033,098,991
GROSS PROFIT	**3,244,691,060**	3,608,785,878	4,057,726,366
OTHER INCOME - Net (Note 23)	**920,939,339**	476,225,101	393,296,091
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES (Note 13)	**289,372,254**	(1,094,246,390)	(464,411,056)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 28)	**(2,319,954,488)**	(2,100,882,227)	(1,790,729,099)
INTEREST AND FINANCE CHARGES (Notes 19, 20, 22 and 30)	**(276,067,989)**	(300,802,231)	(279,516,588)
INCOME BEFORE INCOME TAX	**1,858,980,176**	589,080,131	1,916,365,714
PROVISION FOR INCOME TAX (Note 32)			
Current	**388,854,133**	345,800,248	569,996,377
Deferred	**7,057,293**	23,920,309	(20,123,597)
	395,911,426	369,720,557	549,872,780
NET INCOME	**₱1,463,068,750**	₱219,359,574	₱1,366,492,934
Net income (loss) attributable to:			
Equity holders of the Parent Company	**941,441,126**	₱402,669,546	₱1,022,731,322
Non-controlling interests	**521,627,624**	(183,309,972)	343,761,612
	₱1,463,068,750	₱219,359,574	₱1,366,492,934
EARNINGS PER SHARE (Note 33)			
BASIC	**₱1.4909**	₱0.6153	₱1.6166
DILUTED	**₱1.1990**	₱0.5013	₱1.2425

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱1,463,068,750**	₱219,359,574	₱1,366,492,934
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustments	**(4,640,619)**	110,020,860	161,578,737
Net unrealized gain (loss) on AFS (Note 12)	**10,704,379**	(6,887,653)	(23,276,461)
Share in other comprehensive income of an associate (Note 13)	**67,023,747**	–	–
Items not to be reclassified to profit or loss in subsequent periods:			
Revaluation increment on land (Note 14)	**405,825,900**	374,754,842	819,570,401
Remeasurement gains (losses) on net retirement liability (Note 31)	**(2,400,238)**	49,658,724	(108,280,558)
Share in other comprehensive income of an associate (Note 13)	**(3,377,562)**	–	–
Income tax effect relating to items that will not be reclassified	**(60,324,543)**	(67,375,039)	(146,541,075)
	412,811,064	460,171,734	703,051,044
TOTAL COMPREHENSIVE INCOME	**₱1,875,879,814**	₱679,531,308	₱2,069,543,978
Total comprehensive income attributable to:			
Equity holders of the Parent Company	**₱1,234,329,122**	₱714,412,479	₱1,487,399,345
Non-controlling interests	**641,550,692**	(34,881,171)	582,144,633
	₱1,875,879,814	₱679,531,308	₱2,069,543,978

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, 2017, 2016 AND 2015

	Attributable to Equity Holders of the Parent Company												
	Capital stock (Note 38)												
	Preferred Stock	Common Stock	Additional Paid-in Capital	Equity Reserve on Acquisition of Non-controlling Interest (Note 2)	Revaluation Increment on Land - Net (Note 14)	Cumulative Translation Adjustments (Notes 13 and 41)	Net Unrealized Gain on AFS Financial Assets (Note 12)	Remeasurement losses on Defined Benefit Plans (Note 31)	Retained Earnings (Note 39)	Subtotal	Non-controlling Interests (Note 35)	Total
BALANCES AT DECEMBER 31, 2014	**₱344,007,243**	**₱921,687,536**	**₱154,578,328**	**(₱9,700,617)**	**₱420,309,754**	**₱11,902,110**	**₱105,648,267**	**₱31,298,374**	**₱6,234,678,662**	**₱8,214,409,657**	**₱4,533,289,560**	**₱12,747,699,217**
Net income	–	–	–	–	–	–	–	–	1,022,731,322	1,022,731,322	343,761,612	1,366,492,934
Other comprehensive income	–	–	–	–	455,803,633	87,451,578	(19,509,921)	(59,077,267)	–	464,668,023	238,383,021	703,051,044
Total comprehensive income	–	–	–	–	455,803,633	87,451,578	(19,509,921)	(59,077,267)	1,022,731,322	1,487,399,345	582,144,633	2,069,543,978
Redemption of preferred stock	(33,128,338)	–	–	–	–	–	–	–	–	(33,128,338)	–	(33,128,338)
Conversion to common stock	(149,036)	149,036	–	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	(170,253,563)	–	703,870	378,626	(3,358,642)	–	(172,529,709)	(209,075,726)	(381,605,435)
Dividend declaration	–	–	–	–	–	–	–	–	(66,964,038)	(66,964,038)	(160,464,872)	(227,428,910)
BALANCES AT DECEMBER 31, 2015	**₱310,729,869**	**₱921,836,572**	**₱154,578,328**	**(₱179,954,180)**	**₱876,113,387**	**₱100,057,558**	**₱86,516,972**	**(₱31,137,535)**	**₱7,190,445,946**	**₱9,429,186,917**	**₱4,745,893,595**	**₱14,175,080,512**
Net income	–	–	–	–	–	–	–	–	402,669,546	402,669,546	(183,309,972)	219,359,574
Other comprehensive income	–	–	–	–	230,288,283	59,807,339	(6,657,922)	28,305,233	–	311,742,933	148,428,801	460,171,734
Total comprehensive income	–	–	–	–	230,288,283	59,807,339	(6,657,922)	28,305,233	402,669,546	714,412,479	(34,881,171)	679,531,308
Redemption of preferred stock	(29,927,049)	–	–	–	–	–	–	–	–	(29,927,049)	–	(29,927,049)
Dividend declaration	–	–	–	–	–	–	–	–	(63,659,496)	(63,659,496)	(155,137,382)	(218,796,878)
BALANCES AT DECEMBER 31, 2016	**₱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)**	**₱7,529,455,996**	**₱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 in of non-controlling interests					–	–	–	–	–	–	20,000,000	20,000,000
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)**	**₱8,407,828,501**	**₱11,194,228,641**	**₱5,157,194,941**	**₱16,351,423,582**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,858,980,176**	₱589,080,131	₱1,916,365,714
Adjustments for:			
Depreciation and amortization (Notes 14, 16 and 17)	**923,058,850**	901,670,818	756,372,773
Interest and finance charges (Notes 19, 20, and 22)	**276,067,989**	300,802,231	279,516,588
Loss on liquidation of subsidiaries (Note 23)	**–**	26,174,418	–
Impairment loss other assets	**–**	–	5,388,517
Market gain on financial asset at fair value through profit or loss	**(122,177)**	(133,870)	(184,143)
Unrealized foreign exchange loss (gain)	**(932,596)**	1,381,743	39,326,725
Dividend income (Notes 4 and 22)	**(1,851,934)**	(52,890,208)	(51,448,085)
Gain on reversal of impairment loss on investment properties	**(14,182,841)**	–	–
Interest income (Note 23)	**(71,659,747)**	(77,124,698)	(42,741,377)
Equity in net losses (earnings) of associates and joint venture (Note 13)	**(289,372,254)**	1,094,246,390	464,411,056
Gain on sale of:			
Property and equipment (Notes 14 and 23)	**(8,813,780)**	(4,179,887)	(4,115,025)
Available-for-sale financial assets (Notes 12 and 23)	**(58,680,807)**	(63,041,964)	(34,587,158)
Investment properties (Note 16)	**(279,071,868)**	(24,746,631)	(5,390,206)
Movements in net retirement liabilities	**(5,790,386)**	(92,732,309)	93,451,396
Operating income working capital changes	**2,327,628,625**	2,598,506,164	3,416,366,775
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	**(1,207,163,248)**	(570,509,390)	(644,452,197)
Loans receivable	**1,658,016**	(1,662,055)	2,936,925
Costs and estimated earnings in excess of billings on uncompleted contracts	**446,832,915**	1,666,872,418	(1,826,727,942)
Receivables from related parties	**(100,660,804)**	21,972,285	(20,796,302)
Inventories	**449,199,649**	(260,477,779)	(256,727,465)
Prepaid expenses and other current assets	**(342,671,078)**	(262,176,260)	(56,376,076)
Increase (decrease) in:			
Due to related parties	**2,172,337**	5,134,239	(13,199,980)
Billings in excess of costs and estimated earnings on uncompleted contracts	**(537,153,534)**	(361,086,918)	1,942,619,768
Accounts payable and other current liabilities	**(721,706,117)**	(532,888,330)	737,898,627
Customers' deposits	**1,572,572**	(2,262,171)	(26,693,749)
Unearned tuition fees	**36,118,312**	40,587,600	2,296,355
Net cash generated from operations	**355,827,645**	2,342,009,803	3,257,144,739
Interest received	**71,659,747**	77,124,698	42,741,377
Interest and finance charges paid	**(275,231,879)**	(300,212,692)	(272,377,724)
Income tax paid	**(405,705,362)**	(360,445,037)	(549,801,266)
Net cash flows provided by (used in) operating activities	**(253,449,849)**	1,758,476,772	2,477,707,126

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investments in associates and joint ventures (Note 13)	**₱–**	(₱296,369,355)	(₱1,035,640,156)
Property and equipment (Note 14)	**(2,688,689,420)**	(998,056,194)	(1,687,672,452)
Available-for-sale securities (Note 12)	**(20,865,766)**	–	(243,837,196)
Proceeds from sale of:			
Available-for-sale securities (Note 12)	**162,750,000**	166,686,113	90,705,769
Property and equipment (Note 14)	**31,379,487**	11,353,056	13,627,373
Investment properties (Note 16)	**137,684,592**	54,118,895	26,134,425
Return of capital (Note 12)	**–**	53,000	–
Proceeds from return of investments in an associate	**–**	4,191,782	–
Dividends received	**41,259,930**	94,334,408	81,211,645
Increase (decrease) in other noncurrent assets	**–**	152,127,823	(135,087,293)
Advances extended to an associate (Note 13)	**(794,208,366)**	–	–
Net cash flows used in investing activities	**(3,130,689,543)**	(811,560,472)	(2,890,557,885)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loans payable (Note 19)	**13,127,000,000**	12,470,000,000	13,245,000,000
Long-term debt (Note 20)	**–**	–	2,006,967,904
Changes in non-controlling interests (Note 43)	**20,000,000**	–	–
Payments of:			
Loans payable (Note 19)	**(9,542,000,000)**	(12,530,000,000)	(12,605,400,000)
Long-term debt (Note 20)	**(494,446,885)**	(601,397,435)	(1,413,094,389)
Redemption of preferred shares (Note 39)	**(27,044,711)**	(29,927,049)	(33,128,338)
Acquisition of non-controlling interests	**–**	–	(381,605,435)
Decrease in lease liability	**–**	–	(281,259)
Cash dividends paid (Note 38)	**(121,558,238)**	(219,240,811)	(246,781,916)
Net cash flows provided by (used in) financing activities	**2,961,950,166**	(910,565,295)	571,676,567
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(3,513,570)**	17,636,450	19,280,145
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(425,702,796)**	53,987,455	178,105,953
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,393,201,221**	2,339,213,766	2,161,107,813
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,967,498,425**	₱2,393,201,221	₱2,339,213,766

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. On July 20, 2007, the Parent Company's corporate life was extended for another fifty (50) years starting May 21, 2009.

The Parent Company and its subsidiaries (collectively known as the Group) are primarily engaged in car dealership, construction, education and information technology, 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 (IPO). The Parent Company's shares of stock are currently traded at the PSE. The ultimate parent company of the Group is Pan Malayan Management and Investment Corporation (PMMIC).

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

2. Basis of Preparation

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

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

Basis of Consolidation

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

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect
Landev Corporation	Philippines	Property management	Philippine Peso	**100.00**	**–**	100.00	–
Hexagon Lounge, Inc.	Philippines	Restaurant	Philippine Peso	**–**	**100.00**	–	100.00
Greyhounds Security and Investigation Agency Corp.	Philippines	Security agency	Philippine Peso	**–**	**100.00**	–	100.00
Secon Professional Security Training Academy Inc.[(a)]	Philippines	Training service provider	Philippine Peso	**–**	**100.00**	–	100.00
Xamdu Motors, Inc. (XMI)	Philippines	Car dealership	Philippine Peso	**100.00**	**–**	100.00	–
Investment Managers, Inc. (IMI)	Philippines	Insurance agent, financing, trading and real estate	Philippine Peso	**100.00**	**–**	100.00	–
Zambowood Realty and Development Corporation (ZRDC)	Philippines	Real estate	Philippine Peso	**100.00**	**–**	100.00	–
Zamboanga Carriers, Inc. (ZCI)	Philippines	Transportation	Philippine Peso	**100.00**	**–**	100.00	–
Honda Cars Kalookan, Inc. (HCKI)	Philippines	Car dealership	Philippine Peso	**55.00**	**–**	55.00	–
Zamboanga Industrial Finance Corporation (ZIFC)	Philippines	Consumer Finance	Philippine Peso	**50.00**	**–**	50.00	–
EEI Corporation (EEI)	Philippines	Construction	Philippine Peso	**54.36**	**–**	54.36	–
EEI Limited	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
Clear Jewel Investments, Ltd.	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
Nimaridge Investments, Limited	British Virgin Islands	Holding company	US Dollar	**–**	**100.00**	–	100.00
EEI (PNG), Ltd	Papua New Guinea	Holding company	US Dollar	**–**	**100.00**	–	100.00
EEI Corporation (Guam), Inc.	United States of America	Construction	US Dollar	**–**	**100.00**	–	100.00
EEI Construction and Marine, Inc.	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
EEI Realty Corporation (EEI Realty)	Philippines	Real estate	Philippine Peso	**–**	**100.00**	–	100.00
EEI Subic Corporation	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
Equipment Engineers, Inc. (EE)	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
JP Systems Asia Inc. (JPSAI)[(b)]	Philippines	Rental of scaffolding and formworks	Philippine Peso	**–**	**60.00**	–	60.00
EEI Power Corporation (EPC)	Philippines	Power generation	Philippine Peso	**–**	**100.00**	–	100.00
Gulf Asia International Corporation (GAIC)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
GAIC Professional Services, Inc. (GAPSI)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
GAIC Manpower Services, Inc. (GAMSI)	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
Bagumbayan Equipment & Industrial Products, Inc.	Philippines	Consultancy services	Philippine Peso	**–**	**100.00**	–	100.00
Philmark, Inc.	Philippines	Construction	Philippine Peso	**–**	**100.00**	–	100.00
Philrock Construction and Services, Inc.	Philippines	Manpower services	Philippine Peso	**–**	**100.00**	–	100.00
iPeople, Inc. (IPO)	Philippines	Education and Information Technology	Philippine Peso	**67.34**	**–**	67.34	–
Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.)	Philippines	Education and Information Technology	Philippine Peso	**7.00**	**93.00**	7.00	93.00
Mapua Information Technology Center, Inc. (MITC)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Mapua Techserv, Inc. (MTI)	Philippines	Consultancy	Philippine Peso	**–**	**100.00**	–	100.00
Mapua Techpower, Inc.	Philippines	Consultancy	Philippine Peso	**–**	**75.00**	–	75.00
San Lorenzo Ruiz Institute of Health Sciences, Inc. (SLRHSI)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
Malayan High School of Science, Inc. (MHSSI)	Philippines	Education and Information Technology	Philippine Peso	**–**	**100.00**	–	100.00
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
People eServe Corporation (People eServe)	Philippines	Technology	Philippine Peso	**–**	**100.00**	–	100.00
Pan Pacific Computer Center, Inc. (PPCCI)	Philippines	Technology	Philippine Peso	**–**	**100.00**	–	100.00

(a) Acquired in 2016
(b) Incorporated in December 2016

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

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

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

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

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

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

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

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the 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;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Group's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The Group has provided the required information in Notes 18, 19 and 20 to the Group financial statements. As allowed under the transition provisions of the standard, the Group Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

Pronouncements 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 consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group is currently assessing the impact of PFRS 15.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required,

but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28*, Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

Deferred effectivity

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

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4. **Summary of Significant Accounting Policies**

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.

Financial Instruments
Date of recognition
The Group's 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 and 2016.

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.

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

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

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

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

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

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

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

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

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

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

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 12).

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 and 2016.

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

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve (12) months from the financial reporting date or the Group does not have an unconditional right to defer settlement for at least 12 months from financial reporting date. Otherwise, these are classified as noncurrent liabilities. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized.

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

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- 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: (a) has transferred substantially all the risks and rewards of the asset; or (b) 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 liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

Offsetting 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.

This accounting policy relates to the net payable to Philippine Transmarine Carriers, Inc. (PTC) amounting ₱1.3 million and ₱13.1 million as of December 31, 2017 and 2016, respectively, and included under “Accounts payable and other current liabilities” in the consolidated statements of financial position (Note 18).

The memorandum of agreement of the joint operation has a provision to settle the amounts due from and due to on a net basis.

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.

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)
The input value-added tax pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the local sale of goods or services by the Group. If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Accounts payables and other current liabilities" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under "Prepaid expenses and other current assets" account.

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 Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investment in the investee company is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investee company, less any impairment in value. The profit or loss reflects the share of the results of the operations of the investee company reflected as "Equity in net earnings (losses) of associates and joint venture" in the consolidated statement of comprehensive income. Goodwill relating to associate is included in the carrying amount of the investment and is not amortized. The Group's share in the investee's post acquisition movements in the investee's equity reserves is recognized directly in equity. Profit and losses resulting from transactions between the Group and the investee company are eliminated to the extent of the interest in the investee company and for unrealized losses to the extent that there is no evidence of impairment of the assets transferred. Dividends received are treated as a reduction of the carrying value of the investment.

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 ventures accounted for using the equity method as of December 31 follows:

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership 2017	2016
Associates:					
Hi-Eisai Pharmaceutical, Inc. (HEPI)	Philippines	Pharmaceutical	Philippine peso	**50.00**	50.00
La Funeraria Paz Sucat, Inc. (LFPSI)	Philippines	Funeral Service	Philippine peso	**37.50**	37.50
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
Lo-oc Limestone Development Corporation (LLDC)	Philippines	Mining	Philippine peso	**25.00**	25.00
Petroenergy Resources Corporation (PERC)	Philippines	Renewable energy	Philippine peso	**22.41**	22.41
RCBC Realty Corporation (RRC)	Philippines	Realty	Philippine peso	**10.00**	10.00
Al-Rushaid Construction Company Limited (ARCC)	Saudi Arabia	Construction	Saudi riyal	**49.00**	49.00
PetroSolar Corporation (PSOC)	Philippines	Renewable energy	Philippine peso	**44.00**	44.00
Joint venture:					
PetroWind Energy, Inc. (PWEI)	Philippines	Renewable energy	Philippine peso	**20.00**	20.00

Property and Equipment

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

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

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

	Years
Buildings and improvements	10-20
Machinery, tools and construction equipment	5-10
Transportation and service equipment	4-5
Furniture, fixtures and office equipment	2-10

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

Software Costs

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

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

Impairment of Nonfinancial Assets

For investments in associate and joint venture, property and equipment, investment properties and computer software costs, the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An 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.

<u>Revenue and Cost Recognition</u>
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. When the Group is acting as a principal in an arrangement, revenue is recorded at gross. When the Group is acting as an agent, the revenue recorded is only the commission.
Except for Greyhounds, People eServe and certain arrangements of Equipment Engineers, Inc. (EE), the Group has concluded that it is acting as principal in all of its arrangements.

The following specific recognition criteria must also be met before revenue and cost are recognized:

Sale of services:

Construction contracts

Revenue from construction contracts are recognized using the percentage of completion method of accounting. Under this method, revenues are generally measured on the basis of estimated completion of the physical proportion of the contract work. Revenue from labor supply contracts with project management and supervision are recognized on the basis of man-hours spent.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. 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 contract 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 contract costs incurred and estimated earnings recognized. Retention receivables are included in the trade receivable account, which is shown as part of the accounts receivables account in the consolidated statement of financial position.

Management and consultancy fees, and commission income are recognized as the related services are rendered.

Equipment rental arises from the Group equipment’s that are being held for rentals. Revenue is measured on straight-line basis over the term of the lease agreement.

Cost of services includes all expenses associated with sale of services. Cost of services include all materials and supplies used, direct labor, depreciation of production equipment, power and water and other expenses related to services rendered. Such costs are recognized when the related services have been rendered.

Sale of goods:

Merchandise sales

Revenue from merchandise sales is normally recognized when the buyer accepts delivery and when installation and inspection are complete. However, revenue is recognized immediately upon the buyer’s acceptance of delivery when the installation process is simple in nature.

Cost of goods sold

Cost of goods sold includes all expenses associated with the specific sale of goods. Cost of goods sold include all materials and supplies used, direct labor, depreciation of production equipment, royalty, power and water and other expenses related to production. Such costs are recognized when the related sales have been recognized.

Real estate

Revenue on sale of raw parcels of land with no future obligation to develop the property is recognized using the full accrual method.

Sale of developed lots and residential units is accounted for using the full accrual method of accounting. Under this method, the revenue is recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the buyers have actually confirmed their acceptance of the related loan applications after the same have been delivered to and approved by either the banks or other financing institutions for externally financed accounts; and (b) the down payment comprising a substantial portion of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

If any of the criteria under the full accrual method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is recognized as deposit from customers presented under the “Customers' deposits” account in the liabilities section of the consolidated statement of financial position.

Cost of real estate
Cost of real estate sales is recognized consistent with the revenue recognition method applied. The cost of real estate sales recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property and an allocation of any non-specific cost based on the relative size of the property sold.

School 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.

Cost of tuition and other fees constitute expenses directly related to the Group's school and related operations which include expenses for salaries and wages of teaching and academic support personnel, student welfare activities, advertising, and all other student-related costs and expenses. Cost of school and related operations are recognized as expense when school and related services have been provided to the students.

Others:
Interest income is recognized as it accrues taking into account the effective yield on the asset.

Rent income is recognized as revenue on a straight-line basis over the lease term.

Dividend income is recognized when the Group's right to receive the payment is established.

Other cost of sales and services arise in the ordinary activities of the Group and are recognized as incurred.

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.

Leases

Group as a lessee

Operating lease of the Group represents those under which substantially all the risks and benefits of ownership of the assets remain with the lessor. Operating lease payments are recognized as an expense in the consolidated statement of income 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 benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the leased term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Basic and Diluted Earnings Per Share (EPS)

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

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

Provisions

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

Contingencies

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

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

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

Capital Stock
The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity (Note 38).

Retained Earnings
Retained earnings represent accumulated earnings of the Group and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retroactively less dividends declared. The individual accumulated retained earnings of the subsidiaries are available for dividends when they are declared by the subsidiaries as approved by their respective BOD. Retained earnings are further restricted for the payment of dividends to the extent of the cost of treasury shares (Note 39).

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

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, 2017 and 2016, the Group holds 10% of interest in RRC. The Group exercises significant influence in RRC since the Parent Company's President is the concurrent president of RRC. The president is also a member of the Board of Directors. As such, the president of the Parent Company effectively has a participation in the policy-making process of RRC. Hence, the Parent Company is able to exercise significant influence even if ownership is less than 20%.

Estimates

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

Recognition of revenue and cost from construction contracts
Revenue and cost from construction projects are determined using the percentage of completion based on the physical progress of the construction projects. Apart from involving significant estimates, this process is complex, particularly with respect to the calculation of estimated costs to completion because it requires the technical expertise of the Group's engineers on the determination of the quantity of the inputs such as materials, labor and equipment needed to complete the construction, stage of completion and contract price variations.

As of December 31, 2017 and 2016, the costs and estimated earnings in excess of billings on uncompleted contracts amounted to ₱3,753.2 million and ₱4,200.0 million, respectively. Billings in excess of costs and estimated earnings on uncompleted contracts amounted to ₱4,085.1 million and ₱4,622.2 million as of December 31, 2017 and 2016, respectively (Note 9).

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

The carrying value of receivables are disclosed in Notes 7, 8, 17 and 22 to the consolidated financial statements.

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 ₱6,312.5 million and ₱4,955.2 as of December 31, 2017 and 2016, respectively. The key assumptions used to determine the fair value of the parcels of land are disclosed in Note 14.

Provisions and contingencies
The Group is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Management does not believe that these proceedings will have a material adverse effect on the Group's financial statement because management and its legal counsels believe that the Group has substantial legal and factual bases for its position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Notes 18 and 34).

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

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

Management determined that the goodwill of Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.) amounting to ₱137.9 million as of December 31, 2017 and 2016 is not impaired (Note 15).

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

Retirement assets amounted to ₱46.5 million and ₱39.9 million as of December 31, 2017 and 2016, respectively whereas retirement liabilities amounted to ₱148.6 million and ₱147.8 million as of December 31, 2017 and 2016, respectively (Note 31).

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 32 to the consolidated financial statements.

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	**₱1,250,528,876**	₱1,478,830,024
Short-term investments	**716,969,549**	914,371,197
	₱1,967,498,425	₱2,393,201,221

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 ₱17.3 million and ₱27.3 million and ₱15.8 million for the years ended December 31, 2017, 2016 and 2015, respectively (Note 23).

7. Loans Receivable

This account consists of:

	2017	2016
Gross receivables	**₱17,536,598**	₱19,378,197
Less allowance for impairment	**3,869,959**	4,053,542
	13,666,639	15,324,655
Less noncurrent portion	**3,507,320**	3,875,640
Current portion	**₱10,159,319**	₱11,449,015

Loans receivable is composed of receivables of ZIFC with the following details:

	2017	2016
Time loan principals	**₱25,207,600**	₱25,723,287
Unearned discount and interest	**(7,671,002)**	(6,345,090)
	17,536,598	19,378,197
Less allowance for impairment	**3,869,959**	4,053,542
	₱13,666,639	₱15,324,655

Time loan principals are collectible in full at maturity date while interest is due monthly or at maturity. Annual interest rates range from 12% to 31% in 2017 and 2016. The term of the loan ranges from one (1) to five (5) years.

Details of receivables follow:

a) As to secured and unsecured and type of security for secured loans

	2017	2016
Secured loans		
Chattel mortgage	**₱6,928,996**	₱6,099,210
Real estate mortgage	**16,629,114**	17,974,587
	23,558,110	24,073,797
Unsecured loans	**1,649,490**	1,649,490
	₱25,207,600	₱25,723,287

b) As to maturity

	2017	2016
Maturing within one year	**₱21,326,805**	₱19,775,990
Maturing one year to five years	**3,880,795**	5,947,297
	₱25,207,600	₱25,723,287

The changes in individually assessed allowance for impairment as at December 31 follow:

	2017	2016
Balance at beginning of year	**₱4,053,542**	₱3,819,369
Provision for impairment losses (Note 28)	**380,000**	542,324
Written-off	**(563,583)**	(308,151)
Balance at end of year	**₱3,869,959**	₱4,053,542

8. **Accounts Receivable**

This account consists of:

	2017	2016
Trade		
Construction and infrastructure (including retention receivable of ₱2.7 billion and ₱3.3 billion as of December 31, 2017 and 2016, respectively)	**₱6,751,234,748**	₱5,807,835,913
Car dealership	**1,552,261,016**	926,152,028
Education and information technology	**159,320,973**	171,394,833
Other services	**75,631,683**	19,706,600
Other receivables		
Consultancy fee	**306,621,841**	305,946,232
Receivable from customers	**61,400,000**	380,296,804
Receivable from sale of investment properties	**121,760,316**	30,113,683
Receivable from EEI RFI (Notes 17 and 22)	**45,000,000**	45,266,388
Receivables from plant	**27,877,545**	81,254,888
Advances to officers and employees	**20,048,873**	19,803,200
Rent receivable	**399,328**	669,873
Others	**380,158,023**	426,000,506
	9,501,714,346	8,214,440,948
Less allowance for impairment	**201,173,780**	215,237,992
	₱9,300,540,566	₱7,999,202,956

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

	2017					
	Construction and Infrastructure	**Car Dealership**	**Education and Information Technology**	**Other Services**	**Other Receivables**	**Total**
Balances at beginning of year	**₱35,347,628**	**₱38,035,317**	**₱61,125,773**	**₱6,208,855**	**₱74,520,419**	**₱215,237,992**
Provisions - net of recoveries (Notes 27 and 28)	**(4,880,582)**	**(283,090)**	**5,831,619**	**493,993**	**7,723,478**	**8,885,418**
Transfers	**(9,695,689)**	**–**	**–**	**–**	**(4,589,853)**	**(14,285,542)**
Write-offs	**–**	**(71,520)**	**(1,421,253)**	**(730,660)**	**(6,440,655)**	**(8,664,088)**
Balances at end of year	**₱20,771,357**	**₱37,680,707**	**₱65,536,139**	**₱5,972,188**	**₱71,213,389**	**₱201,173,780**
Individually impaired	**₱20,771,357**	**₱37,680,707**	**9,614,596**	**₱5,972,188**	**₱71,213,389**	**₱145,252,237**
Collectively impaired	**–**	**–**	**55,921,543**	**–**	**–**	**₱55,921,543**
Total	**₱20,771,357**	**₱37,680,707**	**₱65,536,139**	**₱5,972,188**	**₱71,213,389**	**₱201,173,780**

	2016					
	Construction and Infrastructure	Car Dealership	Education and Information Technology	Other Services	Other Receivables	Total
Balances at beginning of year	₱67,921,840	₱32,259,687	₱61,335,683	₱7,733,529	₱100,434,231	₱269,684,970
Provisions - net of recoveries (Notes 27 and 28)	1,047,078	8,744,920	5,916,388	316,668	(783,355)	15,241,699
Transfers					(24,407,183)	(24,407,183)
Reversals	–	(2,969,290)	–	–	(664,444)	(3,633,734)
Write-offs	(33,621,290)	–	(6,126,298)	(1,841,342)	(58,830)	(41,647,760)
Balances at end of year	₱35,347,628	₱38,035,317	₱61,125,773	₱6,208,855	₱74,520,419	₱215,237,992
Individually impaired	₱ 35,347,628	₱38,035,317	₱8,967,565	₱6,208,855	₱ 74,520,419	₱163,079,784
Collectively impaired	–	–	52,158,208	–	–	52,158,208
Total	₱35,347,628	₱38,035,317	₱61,125,773	₱6,208,855	₱ 74,520,419	₱215,237,992

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 represent amounts arising from domestic and foreign construction contracts. These receivables are based on the monthly progress billings provided to customers over the period of the construction and collectible over a period of thirty (30) to ninety (90)-day period. Retention receivables are recouped upon completion of the construction contract.

Receivables from car dealership

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

Receivables from education and information technology

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

Receivables from other services

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

No trade receivables were used as collaterals to secure obligations in 2017 and 2016.

Other receivables

Consultancy fees pertain to receivables arising from contract negotiations, administration of commercial issues and claims, sales leads and application of computerization programs.

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 be settled in eight (8) semi-annual installments and shall bear annual interest rate of 2%.

Receivable from EEI RFI pertains to the Group's sale of land to EEI RFI, a trustee of the Group's employee retirement fund in previous years. Both parties agreed the selling price be repaid in installments and bear annual interest rate of 5%. In 2016, the Parent Company and the Fund agreed to extend the term of the payment until April 30, 2021 (Note 22).

Receivable from customers
In 2016, receivable from customers bear interest of 7.25% per annum and will mature in 2017. In 2017, trade receivables with gross value of ₱290.8 million (provided with allowance of ₱11.2 million) were reclassified to receivables from customers after the Group and the customers agreed to extend the credit terms. These receivables bear interest of 5% per annum and will be repaid in five (5) years' time.

Details of the abovementioned receivables follow:

	2017	2016
Receivable from sale of investment properties		
Current portion	**₱121,760,316**	₱30,113,683
Noncurrent portion (Note 17)	**252,642,633**	–
Receivable from EEI RFI		
Current portion	**45,000,000**	45,266,388
Noncurrent portion (Note 17)	**133,000,000**	178,000,000
Receivable from customers		
Current portion	**61,400,000**	380,296,804
Noncurrent portion (Note 17)	**150,807,263**	–

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

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

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

9. Costs, Estimated Earnings and Billings on Uncompleted Contracts

The Group's revenue from construction contracts amounted to ₱12,886.1 million, ₱13,826.1 million and ₱17,951.6 million for the years ended 2017, 2016 and 2015, respectively.

The details of the costs, estimated earnings and billings on uncompleted contracts follow:

	2017	2016
Total costs incurred	**₱57,929,041,179**	₱57,567,800,315
Add estimated earnings	**6,758,211,585**	6,255,395,156
	64,687,252,764	63,823,195,471
Less total billings	**65,019,123,114**	64,245,386,440
	(₱331,870,350)	(₱422,190,969)

The foregoing balances are reflected in the consolidated statements of financial position under the following accounts:

	2017	2016
Costs and estimated earnings in excess of billings on uncompleted contracts	**₱3,753,207,563**	₱4,200,040,478
Billings in excess of costs and estimated earnings on uncompleted contracts	**(4,085,077,913)**	(4,622,231,447)
	(₱331,870,350)	(₱422,190,969)

As of December 31, 2017 and 2016, the Group received advances from customers amounting to ₱6,188.0 million and ₱5,952.2 million, respectively.

10. Inventories

This account consists of:

	2017	2016
At cost		
Land and land development	**₱217,303,784**	₱219,021,006
Subdivision lots and contracted units for sale	**91,619,497**	98,455,666
Raw lands	**45,229,389**	45,229,389
	354,152,670	362,706,061
At NRV		
Merchandise	**651,266,483**	1,066,795,911
Construction materials	**74,421,644**	81,538,956
Spare parts and supplies	**37,686,970**	55,686,488
	763,375,097	1,204,021,355
	₱1,117,527,767	₱1,566,727,416

The related costs of inventories recorded at NRV follow:

	2017	2016
Merchandise	**₱679,423,637**	₱1,077,687,229
Construction materials	**74,421,644**	90,023,201
Spare parts and supplies	**55,938,544**	81,538,956
	₱809,783,825	₱1,249,249,386

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 ₱10,108.8 million, ₱7,339.3 million and ₱6,629.8 million in 2017, 2016 and 2015, respectively (Notes 24 and 25).

The rollforward of allowance for inventory obsolescence is as follows:

	2017	2016
Balances at beginning of year	**₱45,228,031**	₱42,218,031
Provisions (Note 28)	**34,451,669**	3,010,000
Reversals	**(8,805,300)**	–
Balances at end of year	**₱70,874,400**	₱45,228,031

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

	2017	2016
Balance at beginning of year	**₱362,706,061**	₱350,047,882
Repossessed inventories	**–**	3,324,291
Construction/development costs incurred	**18,587,513**	23,269,593
Disposals (recognized as cost of real estate sales)	**(27,140,904)**	(13,935,705)
Balances at end of year	**₱354,152,670**	₱362,706,061

No inventories were pledged as security to obligations as of December 31, 2017 and 2016.

11. Prepaid Expenses and Other Current Assets

This account consists of:

	2017	2016
Advances to suppliers and contractors	**₱651,696,569**	₱568,640,550
Creditable withholding taxes	**317,959,744**	299,064,054
Input value added tax (VAT)	**138,938,652**	29,733,004
Prepaid expenses	**89,608,794**	64,668,674
Miscellaneous deposits	**78,266,698**	49,314,686
Restricted funds	**40,770,732**	35,672,208
Restricted cash investment	**22,026,782**	17,265,970
Advances to officers and employees	**21,729,986**	14,109,982
Prepaid taxes	**19,957,723**	9,807,372
Unused office supplies	**4,583,204**	2,642,107
Others	**36,849,397**	15,033,478
	1,422,388,281	1,105,952,085
Less allowance for impairment	**3,762,427**	3,762,427
	₱1,418,625,854	₱1,102,189,658

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.

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

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

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

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

12. Available-for-Sale Financial Assets

This account consists of:

	2017	2016
Quoted shares - at fair value	**₱70,037,553**	₱59,332,410
Unquoted shares - at cost	**379,547,640**	464,731,831
	₱449,585,193	₱524,064,241

Rollforward analysis of the account follow:

	2017	2016
Balance at beginning of year	**₱524,064,241**	₱634,649,043
Additions	**20,865,766**	–
Disposals and redemption	**(104,069,193)**	(103,644,149)
Return of capital	**–**	(53,000)
Reclassification	**(1,980,000)**	–
Net unrealized gain (loss) recognized in other comprehensive income	**10,704,379**	(6,887,653)
	₱449,585,193	₱524,064,241

Movements in the net accumulated unrealized gain on available-for-sale financial assets are as follows:

	2017	2016
Attributable to equity holders of the parent:		
Balance at beginning of year	**₱79,859,050**	₱86,516,972
Loss recognized in OCI	**7,326,409**	(6,657,922)
Balance at end of year	**87,185,459**	79,859,050
Non-controlling interest:		
Balance at beginning of year	**2,685,859**	2,915,590
Loss recognized in OCI	**3,377,970**	(229,731)
Balance at end of year	**6,063,829**	2,685,859
	₱93,249,288	₱82,544,909

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

	2017	2016
PetroGreen Energy Corporation	**₱258,079,889**	₱237,279,889
Hermosa Ecozone Development Corporation	**100,000,000**	100,000,000
Brightnote Assets Corporation	**11,000,000**	11,000,000
Sta. Elena Properties	**7,680,033**	7,680,033
Subic Power Corporation	**37,500**	37,500
RCBC Realty Corporation (RRC)	**–**	104,112,432
Heritage Park	**–**	1,980,000
Others	**2,750,218**	2,641,977
	₱379,547,640	₱464,731,831

Fair value for these unquoted financial assets cannot be determined reliably because these equity instruments represent equity shares in private companies that are not quoted on any market and do not have any comparable industry peer that is listed.

The Group's investments in RRC, classified as AFS securities, are non-voting preference shares. Investments in RRC financial assets amounting to ₱104.1 million and ₱102.5 million were redeemed in 2017 and 2016, respectively, which resulted to gains amounting to ₱58.6 million and ₱57.8 million, respectively (Note 23).

In 2016, the Parent Company sold a portion of its investment in Heritage Park, an unquoted security, amounting to ₱1.1 million. The sale of such security resulted to a gain of ₱5.3 million (Note 23).

In 2015, the Group purchased 143.4 million shares amounting to ₱237.3 million for a 10% equity interest in PetroGreen Energy Corporation (PGEC) and acquired additional shares of YGC Corporate Services, Inc. amounting ₱0.4 million.

In 2015, the Group wrote-off its investment in Brightnote Asset Corporation and its related subscription payable amounting to ₱14.0 million because the investee issued a certificate of decrease in capital stock with the same amount.

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

As of December 31, 2017 and 2016, available-for-sale investments pledged as security to long-term debt amounted to nil and ₱104.1 million, respectively (Note 20).

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

The rollforward analysis of this account follows:

	2017	2016
Acquisition cost		
Balances at beginning	**₱3,320,189,223**	₱2,509,185,650
Additions	–	296,369,355
Reclassification	**794,208,366**	518,826,000
Return of investments	–	(4,191,782)
Balance at end of year	**4,114,397,589**	3,320,189,223
Accumulated impairment loss	**74,536,609**	74,536,609
Accumulated equity in net earnings		
Balance at beginning of year	**394,177,443**	1,521,558,753
Equity in net earnings (losses)	**289,372,254**	(1,094,246,390)
Dividends received	**(41,259,930)**	(33,134,920)
Balance at end of year	**642,289,767**	394,177,443
Subtotal	**4,682,150,747**	3,639,830,057
Share in other comprehensive income of an associate	**63,646,185**	–
Equity in cumulative translation adjustment	**75,417,034**	82,240,293
	₱4,821,213,966	₱3,722,070,350

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

(Amounts in millions)

				2017		
	PERC	**RRC**	**MMPC**	**ARCC**	**PSOC**	**PWEI**
Acquisition cost:						
Balance, January 1	**₱538**	**₱959**	**₱120**	**₱832**	**₱366**	**₱257**
Reclassification	**–**	**–**	**–**	**–**	**–**	**–**
Additions	**–**	**–**	**–**	**–**	**–**	**–**
Balance, December 31	**538**	**959**	**120**	**832**	**366**	**257**
Accumulated equity in net earnings (losses):						
Balance, January 1	**152**	**240**	**194**	**(382)**	**65**	**14**
Equity in net earnings (losses)	**44**	**126**	**80**	**(14)**	**94**	**39**
Dividends declared	**–**	**(10)**	**(24)**	**–**	**–**	**–**
Balance, December 31	**196**	**356**	**250**	**(396)**	**159**	**53**
Subtotal	**734**	**1,315**	**370**	**436**	**525**	**310**
Accumulated share in other comprehensive income:						
Balance, January 1	**–**	**–**	**–**	**–**	**–**	**–**
Share in remeasurement loss on retirement liability	**(3)**	**–**	**–**	**–**	**–**	**–**
Share in cumulative translation adjustments	**67**	**–**	**–**	**–**	**–**	**–**
Balance, December 31	**64**	**–**	**–**	**–**	**–**	**–**
Equity in cumulative translation adjustments	**–**	**–**	**–**	**112**	**–**	**–**
	₱798	**₱1,315**	**₱370**	**₱548**	**₱525**	**₱310**

	2016					
	PERC	RRC	MMPC	ARCC	PSOC	PWEI
Acquisition cost:						
Balance, January 1	₱538	₱959	₱120	₱18	₱366	₱257
Reclassification	–	–	–	519	–	–
Additions	–	–	–	295	–	–
Balance, December 31	538	959	120	832	366	257
Accumulated equity in net earnings (losses):						
Balance, January 1	133	178	150	1,034	(8)	(13)
Equity in net earnings (losses)	19	62	68	(1,416)	73	27
Dividends declared	–	–	(24)	–	–	–
Balance, December 31	152	240	194	(382)	65	14
Subtotal	690	1,199	314	450	431	271
Equity in cumulative translation adjustments	7	–	–	117	–	–
	₱697	₱1,199	₱314	₱567	₱431	₱271

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 statement is as follows:

	2017					
	PERC	RRC	MMPC	ARCC	PSOC	PWEI
Net assets *	**₱3,451**	**P7,115**	**P1,128**	**P1,118**	**P1,190**	**P1,551**
Proportionate ownership in the associate	**22.41%**	**10.00%**	**25.98%**	**49.00%**	**44.00%**	**20.00%**
Share in net identifiable assets	**773**	**712**	**293**	**548**	**524**	**310**
Transaction costs	**–**	**–**	**–**	**–**	**1**	**–**
Premium	**25**	**603**	**77**	**–**	**–**	**–**
Carrying value	**₱798**	**₱1,315**	**₱370**	**₱548**	**₱525**	**₱310**

**Excluding treasury shares and non-controlling interest*

	2016					
	PERC	RRC	MMPC	ARCC	PSOC	PWEI
Net assets *	₱2,999	5,955	₱911	₱1,158	₱978	₱1,354
Proportionate ownership in the associate	22.41%	10.00%	25.98%	49.00%	44.00%	20.00%
Share in net identifiable assets	672	596	237	567	430	271
Transaction costs	–	–	–	–	1	–
Premium	25	603	77	–	–	–
Carrying value	₱697	₱1,199	₱314	₱567	₱431	₱271

**Excluding treasury shares and non-controlling interest*

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

	2017					
	PERC	RRC	MMPC	ARCC	PSOC	PWEI
Current assets	**₱1,704**	**₱1,251**	**₱1,349**	**₱7,716**	**₱497**	**₱787**
Noncurrent assets	**10,294**	**12,501**	**1,069**	**1,472**	**2,849**	**3,899**
Total assets	**₱11,998**	**₱13,752**	**₱2,418**	**₱9,188**	**₱3,346**	**₱4,686**
Current liabilities	**1,396**	**1,684**	**934**	**5,579**	**261**	**633**
Noncurrent liabilities	**5,511**	**4,953**	**356**	**2,491**	**1,895**	**2,502**
Total liabilities	**₱6,907**	**₱6,637**	**₱1,290**	**₱8,070**	**₱2,156**	**₱3,135**
Revenues	**₱2,310**	**₱2,717**	**₱2,176**	**₱9,318**	**₱622**	**₱726**
Cost	**(906)**	**(931)**	**(932)**	**(8,875)**	**(221)**	**(329)**
Gross margin	**₱1,404**	**₱1,786**	**₱1,244**	**₱443**	**₱401**	**₱397**
Selling and administrative, and other expenses	**(146)**	**(165)**	**(828)**	**(294)**	**(178)**	**(201)**
Pre-tax income (loss)	**₱1,258**	**₱1,621**	**₱416**	**₱149**	**₱223**	**₱196**
Proportionate ownership in the associate	**22.41%**	**10.00%**	**25.98%**	**49.00%**	**44.00%**	**20.00%**
Share in pre-tax income (loss)	**282**	**162**	**108**	**73**	**98**	**39**
Income tax	**(3)**	**(36)**	**(28)**	**(87)**	**(5)**	**–**
Non-controlling interest	**(235)**	**–**	**–**	**–**	**–**	**–**
Equity in net earnings (losses)	**₱44**	**₱126**	**₱80**	**(₱14)**	**₱93**	**₱39**
Dividends received	**₱–**	**₱10**	**₱24**	**₱–**	**₱–**	**₱–**

	2016					
	PERC	RRC	MMPC	ARCC	PSOC	PWEI
Current assets	₱1,432	₱1,062	₱1,007	₱4,967	₱455	₱1,043
Noncurrent assets	7,782	10,932	1,093	2,448	2,958	4,047
Total assets	₱9,214	₱11,994	₱2,100	₱7,415	₱3,413	₱5,090
Current liabilities	₱1,110	₱1,438	₱877	₱5,372	₱327	₱1,000
Noncurrent liabilities	5,105	4,601	338	885	2,108	2,736
Total liabilities	₱6,215	₱6,039	₱1,215	₱6,257	₱2,435	₱3,736
Revenues	₱1,597	₱2,122	₱701	₱6,837	₱559	₱770
Cost	(1,052)	(982)	(79)	(9,703)	(199)	(568)
Gross margin	545	1,140	622	(2,866)	360	202
Selling and administrative, and other expenses	(256)	(180)	(268)	(650)	(183)	(68)
Pre-tax income (loss)	₱289	₱960	₱354	(₱3,516)	₱177	₱134
Proportionate ownership in the associate	22.41%	10.00%	25.98%	49.00%	44.00%	20.00%
Share in pre-tax income (loss)	65	96	92	(1,723)	78	27
Income tax	(2)	(34)	(24)	307	(5)	–
Non-controlling interest	(44)	–	–	–	–	–
Equity in net earnings (losses)	₱19	₱62	₱68	(₱1,416)	₱73	₱27
Dividends received	₱–	₱–	₱24	₱–	₱–	₱–

Other relevant financial information of PWEI are as follow:

	2017	2016
Cash and cash equivalents	**₱227,987,466**	₱367,327,481
Current financial liabilities *	**337,000,000**	417,200,000
Noncurrent financial liabilities *	**2,486,988,420**	2,721,750,463

** excluding trade and other payables and provisions*

	2017	2016
Depreciation and amortization charged to:		
Cost of revenue	**₱189,137,646**	₱178,179,333
Operating expenses	**259,704**	152,884
Interest income	**3,567,098**	1,152,338
Interest expense	**205,270,100**	230,947,628

PERC

The shares of capital stock of PERC are listed with Philippine Stock Exchange. Its share price amounted to ₱6.1 per share and ₱4.2 per share as of December 29, 2017 and 2016, respectively.

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 SAR121.75 million loan as non-refundable Shareholders' funding in the statement of equity of ARCC. Consequently, the ₱794.2 million (SAR59.66 million) advances extended by the Company to ARCC was reclassified as additional investment in ARCC.

EEI Limited extended advances to ARCC amounting to ₱518.8 million in 2015. These advances were converted into additional investment in ARCC in 2016 and were presented as part of additions to the investment in ARCC. EEI Limited made additional investment of ₱294.9 million to ARCC in 2016.

PSOC

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

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

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

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

In 2015 and 2014, EEI Power invested additional ₱16.02 million and ₱122.25 million, respectively, in PWEI. These transactions did not result to a change in the 20% ownership of the EEI Power over the joint venture.

As of December 31, 2017, investments in RRC and MMPCI amounting to ₱958.7 million and ₱14.4 million, respectively, were released by the bank creditors. (Notes 19 and 20).

14. **Property and Equipment**

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

	2017	2016
Balance at beginning of year	**₱4,955,173,600**	₱4,578,358,058
Additions:		
Acquisition	**934,327,800**	–
Appraisal increase	**405,825,900**	374,754,842
Capitalized transaction costs	**17,182,512**	2,060,700
Balance at end of year	**₱6,312,509,812**	₱4,955,173,600

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, the Prarent Company acquired a parcel of 5,114 sqm land located in Sta. Cruz, Makati City for ₱951.5 million where a neew office building will be erected and will be used for administrative purposes.

Capitalizable costs include taxes paid for purchase of land and borrowing costs. Borrowing costs capitalized as part of the cost of the land acquired in 2017 amounted to ₱6.2 million based on capitalization rate of 3.13% which is the interest rate of the specific borrowing (nil in 2016) (Note 19).

As of December 31, 2017 and 2016, 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.

Management believes that the carrying amount of the land in Sta. Cruz, Makati City approximate its fair value because it was acquired recently and there were no significant improvements made to the said land since October 6, 2017.

Description of the valuation techniques used and key inputs to valuation of land follow:

Location	Valuation Techniques	Unobservable Inputs Used	Range (Weighted Average) 2017	2016
Sen. Gil Puyat Avenue corners Nicanor Garcia and Jupiter Streets, Bel-Air, Makati City	Market Approach	Price per square meter	**₱300,000 to ₱400,000 (₱355,000)**	₱300,000 to ₱400,000 (₱355,000)
Muralla Street, Intramuros, Manila	Market Approach	Price per square meter	**₱45,000 to ₱65,000 (₱56,667)**	₱45,000 to ₱55,000 (₱48,750)
Paz Mendoza Guazon, Pandacan, Manila	Market Approach	Price per square meter	**₱75,000 to ₱91,806 (₱83,380)**	₱37,000 to ₱55,000 (₱45,250)
Barangay Pulo, City of Cabuyao, Laguna	Market Approach	Price per square meter	**₱25,000 to ₱28,840 (₱26,280)**	₱10,000 to ₱12,000 (₱10,333)
MacArthur Highway (Davao-Cotabato National Road), Brgy. Ma-a, Davao City	Market Approach	Price per square meter	**₱30,000 to ₱40,000 (₱36,667)**	₱8,972 to ₱35,000 (₱24,329)
Quezon and Panay Avenue, Quezon City	Market Approach	Price per square meter	**₱100,000 to ₱150,000 (₱86,000)**	₱76,000 to ₱140,471 (₱81,000)
Barangay Tuding, Itogon, Benguet	Market Approach	Price per square meter	**₱6,500 to ₱8,000 (₱7,591)**	₱7,500 to ₱4,000 (₱6,045)
Barangay Biga I, Silang, Province of Cavite	Market Approach	Price per square meter	**₱8,000 to ₱5,000 (₱5,362)**	₱3,000 to ₱1,368 (₱2,184)
Barangay Majada Labas, Calamba, Laguna	Sales Comparison Approach	Price per square meter	**₱6,000 to ₱4,500 (₱5,026)**	₱2,200 to ₱2,000 (₱2,037)

In 2017, 2016 and 2015, 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:

	2017	2016	2015
Beginning of year	**₱1,489,905,172**	₱1,170,506,366	₱524,792,904
Revaluation increment	**347,516,198**	319,398,806	645,713,462
End of year	**₱1,837,421,370**	₱1,489,905,172	₱1,170,506,366

As of December 31, 2017 and 2016, the cost of the parcels of land carried at revalued amounts amounted to ₱3,414.3 million and ₱2,462.8 million, respectively.

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

	2017					
	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	**₱3,040,969,843**	**₱4,595,069,640**	**₱1,311,587,441**	**₱2,176,124,841**	**₱55,586,824**	**₱11,179,338,589**
Additions	**60,818,339**	**366,613,258**	**142,729,579**	**163,263,895**	**1,003,754,037**	**1,737,179,108**
Disposals/retirements	**–**	**(60,305,424)**	**(66,282,122)**	**(42,112,952)**	**–**	**(168,700,498)**
Reclassifications	**15,634,451**	**–**	**–**	**26,968,766**	**(42,603,217)**	**–**
At end 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**
Accumulated Depreciation and Amortization						
At beginning of year	**1,459,628,216**	**1,736,060,857**	**580,404,743**	**1,629,009,765**	**–**	**5,405,103,581**
Depreciation and amortization (Note 29)	**133,446,786**	**423,328,186**	**131,913,349**	**214,319,808**	**–**	**903,008,129**
Disposals/retirements	**–**	**(48,928,888)**	**(55,362,203)**	**(41,843,700)**	**–**	**(146,134,791)**
At end of year	**1,593,075,002**	**2,110,460,155**	**656,955,889**	**1,801,485,873**	**–**	**6,161,976,919**
Net Book Value at Cost	**₱1,524,347,631**	**₱2,790,917,319**	**₱731,079,009**	**₱522,758,677**	**₱1,016,737,644**	**₱6,585,840,280**

	2016					
	Land, 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	₱3,033,642,462	₱4,169,393,532	₱1,032,484,749	₱1,981,537,398	₱21,131,339	₱10,238,189,480
Additions	46,476,852	399,721,070	316,973,890	192,706,659	42,177,723	998,056,194
Disposals/retirements	–	(11,489,918)	(24,664,691)	(38,556,272)	–	(74,710,881)
Reclassifications	(39,149,471)	19,699,117	(13,206,507)	40,379,099	(7,722,238)	–
Transfers	–	17,745,839	–	57,957	–	17,803,796
At end of year	3,040,969,843	4,595,069,640	1,311,587,441	2,176,124,841	55,586,824	11,179,338,589
Accumulated Depreciation and Amortization						
At beginning of year	1,322,814,269	1,349,108,519	457,336,306	1,454,137,734	–	4,583,396,828
Depreciation and amortization (Note 29)	138,304,347	394,953,567	142,919,897	213,066,654	–	889,244,465
Disposals/retirements	–	(10,327,117)	(18,986,281)	(38,224,314)	–	(67,537,712)
Reclassifications	(1,490,400)	2,325,888	(865,179)	29,691	–	–
At end of year	1,459,628,216	1,736,060,857	580,404,743	1,629,009,765	–	5,405,103,581
Net Book Value at Cost	₱1,581,341,627	₱2,859,008,783	₱731,182,698	₱547,115,076	₱55,586,824	₱5,774,235,008

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

	2017	2016	2015
Cost of sales and services			
Construction contracts (Note 26)	**₱471,687,826**	₱483,036,014	₱373,765,749
Tuition and other fees (Note 27)	**194,640,246**	190,097,703	160,594,643
Manpower and other services (Note 26)	**58,781,486**	46,535,401	44,587,611
Capitalized as part of cost of inventories	**622,472**	165,063	–
	725,732,030	719,834,181	578,948,003
General and administrative expenses (Note 28)	**177,276,099**	169,410,284	154,573,711
	₱903,008,129	₱889,244,465	₱733,521,714

Construction in progress mainly includes the general cost of construction of MCMI's school building in Davao City and other direct cost. Borrowing costs capitalized as part of the construction cost in 2017 amounted to ₱9.7 million based on interest rates ranging from 3.00 to 5.00%, which are the interest rates of specific borrowings (Note 19). MCMI will be in full school operations starting July 2018.

In 2016, the Group reclassified construction equipments from Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts to Property and Equipment amounting to ₱17.8 million (nil in 2017)

15. **Goodwill**

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

	2017	2016
EEI Corporation and Subsidiaries	**₱300,859,305**	₱300,859,305
Malayan Education System, Inc. (MESI) (formerly Malayan Colleges, Inc.)	**137,853,346**	137,853,346
iPeople,inc.	**32,644,808**	32,644,808
	₱471,357,459	₱471,357,459

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

Management determined that the recoverable amount of the goodwill balances of EEI Corporation and Subsidiaries and iPeople were fair values less costs of disposal wherein the fair values are the quoted prices of the shares of stocks of EEI Corporation and Subsidiaries and iPeople in the Philippine Stock Exchange as of December 29, 2017 (Level 1 - Quoted prices in active market). 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.)

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

As of December 31, 2017 and 2016, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU are most sensitive to the following:

- Future revenues and profit margins: Cash flow projections based on financial budgets approved by management covering a five-year period and considers the impact of the K to 12 Basic Education Program on MESI's financial performance effective 2016. Future revenues are estimated based on number of forecasted students and related tuition and other matriculation fees.
- Long-term growth rates (*5.25% for 2017 and 2016*): The long-term growth rate is the expected growth rate in the education industry sector.
- Discount rate (*9.06% for 2017 and 8.40% for 2016*): The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to comparable entities.

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:

		2017	
	Land Held for Capital Appreciation	**Condominium Units and Parking Slots**	**Total**
Cost			
Balances at beginning of year	**₱194,030,421**	**₱24,507,418**	**₱218,537,839**
Reversal of impairment	**14,182,841**	–	**14,182,841**
Reclassification	**1,980,000**	–	**1,980,000**
Disposals	**(196,512,841)**	**(12,748,043)**	**(209,260,884)**
Balances at end of year	**13,680,421**	**11,759,375**	**25,439,796**
Accumulated Depreciation			
Balances at beginning of year	–	**12,103,242**	**12,103,242**
Depreciation (Note 29)	–	**979,946**	**979,946**
Disposals	–	**(6,358,895)**	**(6,358,895)**
Balances at end of year	–	**6,724,293**	**6,724,293**
Net Book Value	**₱13,680,421**	**₱5,035,082**	**₱18,715,503**

	2016		
	Land Held for Capital Appreciation	Condominium Units and Parking Slots	Total
Cost			
Balances at beginning of year	₱204,422,291	₱52,391,054	₱256,813,345
Disposals	(10,391,870)	(27,883,636)	(38,275,506)
Balances at end of year	194,030,421	24,507,418	218,537,839
Accumulated Depreciation			
Balances at beginning of year	–	19,669,845	19,669,845
Depreciation (Note 29)	–	1,336,639	1,336,639
Disposals	–	(8,903,242)	(8,903,242)
Balances at end of year	–	12,103,242	12,103,242
Net Book Value	₱194,030,421	₱12,404,176	₱206,434,597

On December 11, 2017, the Group sold a parcel of land located in Batangas for ₱466.7 million. The Group recognized ₱272.4 million gain in relation to the sale (see Note 23).

Land classified as investment properties include parcels of land located in Benguet, Zamboanga, Cavite, Nueva Ecija, Bulacan and memorial lots in Las Piñas with carrying values of ₱6.3 million, ₱1.8 million, ₱0.5 million, ₱0.2 million, ₱2 thousand and ₱2.0 million, respectively, as of December 31, 2017. Carrying values of parcels of land located in Batangas, Benguet, Zamboanga, Cavite, Nueva Ecija, Bulacan and memorial lots in Las Piñas are ₱180.1 million, ₱6.3 million, ₱1.8 million, ₱0.5 million, ₱0.2 million, ₱2 thousand and ₱4.5 million, respectively, as of December 31, 2016.

Parcels of land in Benguet, Cavite, Nueva Ecija, Bulacan and memorial lots in Las Piñas has a fair value amounting to ₱13.9 million, ₱0.8 million, ₱5.1 million, ₱2.9 million and ₱3.0 million, respectively as of December 31, 2017, based on market transactions involving identical or comparable assets and adjusted to reflect any differences in the characteristics of the properties (Level 3 - Significant unobservable inputs).

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/visability, view and utilization (Level 3 - Significant unobservable inputs).

The aggregate carrying values of the condominium units located in Taguig, Manila and Makati amounted to ₱4.0 million and ₱11.4 million as of December 31, 2017 and 2016, respectively. Parking slots located in Taguig and Pasig have carrying values amounting to ₱0.9 million and ₱1.0 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the fair values of the condominium units and the parking slots amounted to ₱12.5 million and ₱18.7 million, respectively, based on market transactions involving identical or comparable assets and adjusted to reflect any differences in the characteristics of the properties (Level 3 - Significant unobservable inputs).

Rental income derived from the investment properties amounted to ₱6.9 million, ₱7.9 million, and ₱5.1 million in 2017, 2016 and 2015, respectively. Direct operating expenses incurred in relation to these investment properties amounted to ₱0.6 million, ₱0.3 million and ₱0.2 million in 2017, 2016 and 2015, respectively.

Proceeds from the disposal of investment properties amounted to ₱137.7 million, ₱54.1 million and ₱26.1 million in 2017, 2016 and 2015, respectively. Gain on sale of investment properties amounted to ₱279.1 million, ₱24.7 million and ₱5.4 million in 2017, 2016 and 2015, respectively (see Note 23).

None of the investment properties were pledged as a security to obligations as of December 31, 2017 and 2016.

17. Other Noncurrent Assets

This account consists of:

	2017	2016
Receivable from sale of investment property - net of current portion (Note 8)	**₱252,642,633**	₱–
Deferred input VAT	**226,209,383**	280,831,818
Receivable from customers - net of current portion (Note 8)	**150,807,263**	–
Receivable from EEI-RFI - net of current portion (Notes 8)	**133,000,000**	178,000,000
Computer software	**13,476,188**	13,772,672
Others	**32,411,521**	62,627,186
	₱808,546,988	₱535,231,676

Rollforward of computer software follows:

	2017	2016
Cost		
Balance at the beginning of the year	**₱105,095,475**	₱96,024,917
Additions	**18,774,291**	9,070,558
Balance at the end of the year	**123,869,766**	105,095,475
Accumulated Amortization		
Balance at the beginning of the year	**91,322,803**	80,233,089
Amortization (Note 29)	**19,070,775**	11,089,714
Balance at the end of the year	**110,393,578**	91,322,803
Net Book Value	**₱13,476,188**	₱13,772,672

As of December 31, 2017, the remaining amortization period of the software range from 4 months to 2 years.

18. **Accounts Payable and Other Current Liabilities**

This account consists of:

	2017	2016
Accounts payable	**₱4,241,886,166**	₱5,042,381,584
Deferred output taxes	**573,701,211**	465,390,153
Accrued expenses	**335,267,975**	293,063,159
Provisions	**142,976,418**	142,976,418
Withholding taxes and others	**87,450,053**	57,660,445
Output tax payable	**17,855,181**	138,489,300
Subscriptions payable	**31,988,718**	31,988,718
SSS and other contributions	**28,716,373**	26,677,549
Dividends payable	**25,113,996**	23,372,820
Chattel mortgage payable	**12,156,245**	15,531,566
Payable to Land Transportation Office	**7,210,062**	7,590,214
Deferred income	**6,041,506**	3,679,534
Payable to PTC	**1,340,016**	13,052,018
Others	**74,472,242**	72,025,693
	₱5,586,176,162	₱6,333,879,171

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

Subscriptions payable represents unpaid subscriptions on equity securities.

Accrued expenses consist of:

	2017	2016
Accrued salaries and wages	**₱125,239,867**	₱25,481,445
Accrued insurance	**35,616,733**	31,941,963
Accrued professional fees	**14,271,684**	10,204,807
Accrued interest	**11,002,531**	12,864,670
Accrued security services	**10,447,373**	12,479,188
Accrued rent	**9,814,754**	38,459,033
Accrued utilities	**3,613,796**	3,608,160
Others	**125,261,237**	158,023,894
	₱335,267,975	₱293,063,159

Provisions include the Groups'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, 2008, MCLI entered into a memorandum of agreement with PTC (MOA with PTC) to jointly establish the Mapua-PTC CMET. It shall be housed and be a part of MCLI and shall be composed of at least five departments enumerated as follows:
1) Department of Marine Engineering;
2) Department of Maritime Transportation;
3) Department of Naval Architecture and Marine Engineering;
4) Department of Ship Management; and
5) Department of Shipping Policy Studies.

The parties agree that the operation and management of Mapua-PTC CMET shall be under the auspices of MCLI and that the parties shall execute both an Operations and Management Agreement to operate the educational activities and general administrative functions of the Mapua-PTC CMET.

MCLI shall be responsible for establishing academic, faculty, student and academic services policies and the enforcement thereof, as well as provide overall administrative control and supervision of all school personnel, faculty and engaged service providers.

All properties acquired under the project shall be equally owned by the PTC and MCLI unless otherwise borrowed or leased by MCLI for the Mapua-PTC CMET or donated with preconditions imposed by third parties on Mapua-PTC CMET.

All net income or losses which results from the operation of the Mapua-PTC CMET shall be shared and distributed equally on a 50%-50% basis between MCLI and PTC.

In 2015, the parties agreed that the above agreement shall continue for the next five (5) years unless earlier terminated by either party evidenced by the Memorandum of Agreement executed on September 16, 2015. As of December 31, 2015, the agreement was accounted for as jointly controlled operations.

The movements in dividends payable for the years ended December 31 follow:

	2017	2016
Beginning of year	**₱23,372,820**	₱23,816,753
Dividend declared	**123,299,414**	218,796,878
Dividend paid	**(121,558,238)**	(219,240,811)
End of year	**₱25,113,996**	₱23,372,820

Service Agreement
On January 12, 2016, MCLI amended the MOA with PTC to terminate the jointly-controlled operations effective December 31, 2015. On the same date, a service agreement was executed between MCLI and PTC to support the services to be rendered by PTC related to Mapua-PTC CMET such as the provision of adequate facilities for the conduct of training requirements of the students, support in scholarship programs and ship-board trainings, and support in obtaining grants and donations from international shipping companies.

In consideration for the above services, PTC will bill MCLI a service fee commensurate to the services. PTC charged service fee amounting to ₱1.11 million and ₱1.89 million in 2017 and 2016, respectively.

Other noncurrent liability pertains to the noncurrent portion of the deferred output tax that are expected to be collected amounting to ₱158.4 million and ₱139.0 million as of December 31, 2017 and 2016, respectively, beyond 1 year from the end of reporting period.

19. **Loans Payable**

This account consists of:

	2017	2016
Loans payable (Note 22)		
Unsecured bank loans	**₱7,685,000000**	₱3,600,000,000
Secured bank loans	**–**	500,000,000
	₱7,685,000,000	₱4,100,000,000

Unsecured

Unsecured bank loans are obtained from local banks and related party financial institutions with annual interest rates ranging from 2.50% to 4.00% and 2.50% to 3.27% in 2017 and 2016, respectively. The Group availed loans amounting to ₱892.0 million specifically for the acquisition of a parcel of land in Makati City and loans amounting to ₱940 million specifically for the construction of MCMI school building in Davao (Note 14).

Secured

The secured loans from local banks bear annual interest rates ranging from 3.00% to 3.25% in 2016. The carrying value of the investments in subsidiary (at cost) held as collaterals amounted to ₱33.7 million as of December 31, 2016.

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

	2017	2016
Beginning balance	**₱4,100,000,000**	₱4,160,000,000
Availment	**13,127,000,000**	12,470,000,000
Payments	**(9,542,000,000)**	(12,530,000,000)
Ending balance	**₱7,685,000,000**	₱4,100,000,000

20. **Long-term Debt**

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

	2017	2016
Parent Company		
Peso-denominated syndicated bank loan payable within ten (10) years which shall commence after three (3) years from the date of issue with a floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of two percent (2.0%) per annum or (ii) the BSP overnight rate plus a spread of 1.5%	**₱578,830,550**	₱631,847,726
Peso-denominated syndicated bank loan payable within 10 years which shall commence after three (3) years from the date of issue with a fixed rate per annum based on the highest of (i) five (5)-year PDST-F, plus a spread of 2.0% per annum or (ii) floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of 2.0% per annum or (ii) the BSP overnight rate plus a spread of 1.5% or (iii) 5.5% per annum	**578,830,550**	631,847,725
Peso-denominated five (5) year term loan, payable in twenty (20) equal quarterly installments starting March 2016 with interest of 5.11% per annum	**300,000,000**	400,000,000
EEI		
Fixed-rate corporate promissory notes with interest rate of 4.80% per annum	**875,000,000**	1,089,285,714
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.	**339,285,714**	410,714,285
	2,671,946,814	3,163,695,450
Less current portion of long-term debt	**491,865,198**	491,748,610
	₱2,180,081,616	₱2,671,946,840

Parent Company

On September 17, 2013, the Parent Company obtained interest-bearing loans from various local commercial banks 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 instalments 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 5.5%, subject to repricing on the fifth (5) year while the remaining portion bears a floating effective interest rate of 5%, subject to quarterly repricing.

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

In 2017, the Parent Company's creditors released all of the former's deed of collateral on its long-term debt (Note 13).

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

On June 15, 2015, the Parent Company received ₱1,000.0 million proceeds from the issuance of an unsecured fixed-rate corporate promissory note to a local bank that bears annual interest of 4.8%. The promissory note matures within seven (7) 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 ₱37.4 million, ₱47.9 million and ₱40.1 million in 2017, 2016 and 2015, respectively.

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

Interest expense incurred on these corporate notes amounted to ₱18.6 million, ₱23.0 million and ₱26.6 million in 2017, 2016 and 2015, respectively. (see Note 30).

Movements in the account follow:

	2017	2016
Balance at beginning of year	**₱3,163,695,450**	₱3,762,359,243
Payments	**(494,446,885)**	(601,397,435)
Amortization of transaction costs	**2,698,249**	2,733,642
Balance at end of year	**2,671,946,814**	3,163,695,450
Less current portion	**(491,865,198)**	(491,748,610)
	₱2,180,081,616	₱2,671,946,840

The aforementioned loans require the Group to maintain certain financial ratios. As of December 31, 2017 and 2016, 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

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. The stock option plan is exempt from PFRS 2.

22. **Related Party Transactions**

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

		2017			
Category		**Amount/ Volume**	**Outstanding Balance Receivable (Payable)**	**Terms**	**Conditions**
Parent Company - PMMIC					
a.	Accounts payable	**₱1,701**	**₱–**	**Noninterest-bearing**	**Unsecured**
	Miscellaneous expenses incurred	**1,489**	**–**	**–**	**–**
b.	Dividends payable	**–**	**(981)**	**Noninterest-bearing**	**Unsecured**
	Dividends declared	**27,798**	**–**		
Associates					
c.	Dividends receivable	**–**	**10,000**	**Noninterest-bearing**	**Unsecured, no impairment**
	Dividends earned	**41,260**	**–**		
d.	Receivables from related parties	**–**	**3,001**	**Noninterest-bearing**	**Unsecured**
	Rendering management and audit services	**7,186**	**–**	**–**	**–**
e.	Subscriptions payable	**–**	**(9,735)**	**Noninterest-bearing**	**Unsecured**
Other affiliates					
f.	Receivable from EEI Retirement Fund, Inc.	**–**	**178,000**	**Interest-bearing, 5% per annum**	**Secured, no impairment**
	Lease of property	**54,698**	**–**	**–**	**–**
	Interest earned	**9,750**	**–**	**–**	**–**
Entities under common control					
g.	Cash and cash equivalents	**1,791,036**	**1,791,036**	**Interest-bearing at prevailing bank deposit rates**	**Unrestricted**
	Interest earned	**19,550**	**–**	**–**	**–**
h.	Accounts receivable	**–**	**133,177**	**Noninterest-bearing**	**Unsecured, no impairment**
	Sale of vehicles	**125,729**	**–**	**–**	**–**
	Agency fee income earned	**45,816**	**–**	**–**	**–**
i.	Dividends receivable	**–**	**300**	**Noninterest-bearing**	**Unsecured, no impairment**
	Dividends earned	**743**	**–**	**–**	**–**
j.	Commission receivable	**–**	**382**	**Noninterest-bearing**	**Unsecured, no impairment**
	Commission earned	**1,303**	**–**	**–**	**–**
k.	Receivables from related parties	**–**	**152,101**	**Noninterest-bearing**	**Unsecured, no impairment**
	Rendering janitorial service	**364,966**	**–**	**–**	**–**
	Other income earned	**3,411**	**–**	**–**	**–**
	Rental income earned	**257**	**–**	**–**	**–**
	Audit fee income earned	**3,611**	**–**	**–**	**–**
l.	Management fee receivable	**–**	**32,035**	**Noninterest-bearing**	**Unsecured, no impairment**
	Rendering management services	**142,427**	**–**	**–**	**–**

Category	Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
	2017			
m. Accounts payable and accrued expenses	**–**	**(179)**	**Noninterest-bearing**	**Unsecured**
Rental of office space	**6,620**	**–**	**–**	**–**
n. Due to related parties	**–**	**(124,038)**	**Noninterest-bearing**	**Unsecured**
Insurance expense	**7,745**	**–**	**–**	**–**

Category	Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
	2016			
Parent Company - PMMIC				
a. Accounts payable	₱1,627	(₱223)	Noninterest-bearing	Unsecured
Miscellaneous expenses incurred	1,484	–	–	–
b. Dividends payable	–	(929)	Noninterest-bearing	Unsecured
Dividends declared	28,019	–	–	–
Associates				
c. Dividends receivable	–	–	Noninterest-bearing	Unsecured, no impairment
Dividends earned	33,135	–	–	–
d. Receivables from related parties	–	4,109	Noninterest-bearing	Unsecured
Rendering management and audit services	8,590	–	–	–
e. Subscriptions payable	–	(9,735)	Noninterest-bearing	Unsecured
Other affiliates				
f. Receivable from EEI Retirement Fund, Inc.	–	223,266	Interest-bearing, 5% per annum	Secured, no impairment
Lease of property	52,093	–	–	–
Interest earned	11,928	–	–	–
Entities under common control				
g. Cash and cash equivalents	2,137,076	2,137,076	Interest-bearing at prevailing bank deposit rates	Unrestricted
Interest earned	20,856	–	–	–
h. Accounts receivable	–	46,275	Noninterest-bearing	Unsecured, no impairment
Sale of vehicles	39,940	–	–	–
Agency fee income earned	40,588	–	–	–
i. Dividends receivable	–	30,116	Noninterest-bearing	Unsecured, no impairment
Dividends earned	52,770	–	–	–
j. Commission receivable	–	–	Noninterest-bearing	Unsecured, no impairment
k. Receivables from related parties	–	50,263	Noninterest-bearing	Unsecured, no impairment
Rendering janitorial service	329,457	–	–	–
Other income earned	2,239	–	–	–
Rental income earned	10,975	–	–	–
Audit fee income earned	3,433	–	–	–

		2016			
Category		Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
l.	Management fee receivable	₱–	₱12,580	Noninterest-bearing	Unsecured, no impairment
	Rendering management services	119,945	–	–	–
m.	Accounts payable and accrued expenses	–	(5,092)	Noninterest-bearing	Unsecured
	Rental of office space	6,048	–	–	–
n.	Due to related parties	–	(127,809)	Noninterest-bearing	Unsecured
	Insurance expense	6,372	–	–	–
o.	Loans payable	600,000	–	Interest-bearing; 5.5% to 6.5% per annum	Secured
	Interest expense	1,558	–	–	–
p.	Long-term debt (including current portion of long-term debt)	188,500	–	Interest-bearing, 6.00% per annum (EEI); 10-year, interest at 3-mo. PDST-F plus spread per quarter (iPeople)	Secured
	Interest expense	4,516	–	–	–

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, 2017 and 2016 amounted to nil and ₱0.2 million, respectively.

b. Dividends declared in 2017 and 2016 by the Parent Company amounted to ₱63.1 million and ₱63.7 million, respectively (see Note 39). Out of the total declared dividends, dividends payable to PMMIC as at December 31, 2017 and 2016 amounted to ₱1.0 million and ₱0.9 million, respectively.

Associates

c. Outstanding dividends receivable from associates as at December 31, 2017 and 2016 amounted to ₱10.0 million and nil, respectively.

d. Due from related parties arises from services rendered by the Parent Company to its associates. These services include management consultancy and internal audit fees. As at December 31, 2017 and 2016, the Group has an outstanding receivable from its associates amounting ₱3.0 million and ₱4.2 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. Outstanding subscription payable to an associate amounted to ₱9.7 million as at December 31, 2017 and 2016, respectively.

Other affiliates

f. In 2006, the 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 (see Note 16). Interest income recognized from the receivables from EEI-RFI is disclosed in Note 23. The receivables bear interest of 5% per annum in 2017, 2016 and 2015.

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 at the option of EEI provided that for each and every renewal, the monthly rentals shall be increased upon mutual agreement of both parties. Rental expense for the property located in Manggahan, Quezon City amounted to ₱54.7 million, ₱52.1 million and ₱49.6 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 28).

On December 12, 2012, EEI acquired certain parcels of land including land improvements located in Bauan, Batangas from EEI-RFI amounting to ₱581.8 million, inclusive of 12% VAT. The operating lease agreement of the said properties between EEI and EEI-RFI was terminated on the same date.

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, EEI and the Fund agreed to extend the term of the payment until April 30, 2021.

Entities under common control of PMMIC

g. The Group maintains cash and cash equivalents with RCBC, an entity under common control. As at December 31, 2017 and 2016, cash and cash equivalents with RCBC amounted to ₱1,791.0 million and ₱2,137.1 million, respectively. The related deposits earn interest at the prevailing bank deposit rates. Interest income earned from cash and cash equivalents amounted to ₱19.6 million, ₱20.9 million and ₱15.6 million in 2017, 2016 and 2015, respectively.

h. The Group generates income by providing security services at a 20% mark-up to entities under common control. In 2017, 2016 and 2015, the Group's agency fee income is attributable to security services provided to majority of RCBC branches in the country. As at December 31, 2017 and 2016, the Group's accounts receivable from RCBC amounted to ₱43.6 million and ₱40.7 million, respectively. Agency fees amounted to ₱45.8 million, ₱40.6 million and ₱32.1 million in 2017, 2016 and 2015, 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 ₱89.5 million and ₱5.6 million as at December 31, 2017 and 2016, respectively. Revenues from motor vehicle sales amounted to ₱125.7 million, ₱39.9 million and ₱26.0 million in 2017, 2016 and 2015, respectively.

i. Dividend income earned in 2017, 2016 and 2015 from entities under common control of PMMIC amounted to ₱0.7 million, ₱52.8 million and ₱43.2 million, respectively. Unpaid dividends amounted to ₱0.30 million and ₱30.1 million as at December 31, 2017 and 2016, respectively.

j. The Group earns commission income from insurance referrals to all insurance affiliate. As at December 31, 2017 and 2016, commission receivables amounted to ₱0.38 million and nil. Commission income amounted to ₱1.3 million, nil and ₱0.4 million in 2017, 2016, and 2015, respectively.

k. Due from entities under common control of PMMIC arises from RCBC's rental of the Group's office spaces in its Makati and Intramuros properties. The term of the lease is for three years and future minimum rental payments receivable under the aforementioned lease agreement follows (see Note 34):

	2017	2016
Within one (1) year	**₱1,967,496**	₱1,814,043
More than 1 year but not more than 5 years	**3,763,169**	9,126,110
	₱5,730,665	₱10,940,153

In 2015, RCBC preterminated a portion of lease on the Group's office space and parking spaces effective December 31, 2015.

Rental income earned amounted to ₱0.3 million, ₱11.0 million and ₱25.4 million in 2017, 2016 and 2015, respectively.

Also receivable from related parties arises from janitorial services rendered by EEI (GAMSI) to the Group's affiliates. The service revenue earned from janitorial serviced rendered in 2017, 2016 and 2015 amounted to ₱365.0 million, ₱329.5 million and ₱175.3 million, respectively.

l. 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 ₱32.0 million and ₱12.6 million as at December 31, 2017 and 2016, respectively. Services fees amounted to ₱142.4 million, ₱119.9 million and ₱111.4 million in 2017, 2016 and 2015, respectively.

m. Payable to an entity under common control pertains to rental of office space and share in the utilities expense of the Group amounting ₱0.1 million and ₱5.1 million as at December 31, 2017 and 2016, respectively.

n. iPeople 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.

o. In 2016 the Group entered into various loan agreements with entities under common control of PMMIC. The loan agreement bears an annual interest ranging 2.50%-3.00%. There is no outstanding loan balance as at December 31, 2017 and 2016.

The Group maintains its retirement fund with RCBC trust division. As at December 31, 2017 and 2016, the fair values of the plan assets of the retirement fund amounted to ₱1,266.4 million and ₱1,202.1 million, respectively (see Note 31). Trust fees amounting to ₱5.2 million, ₱5.0 million and ₱4.8 million were recognized by the retirement plan arising from its transactions with RCBC for the years ended December 31, 2017, 2016 and 2015, respectively.

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

	2017	2016	2015
Compensation and short-term benefits	**₱262,665,060**	₱263,788,022	₱225,869,767
Post-employment benefits	**14,038,849**	45,790,605	41,643,895
	₱276,703,909	₱309,578,627	₱267,513,662

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, 2017 and 2016. 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.

23. Other Income - Net

This account consists of:

	2017	2016	2015
Gain on sale of assets	**₱346,566,455**	₱91,968,482	₱44,092,390
Finance income	**227,814,636**	122,007,715	117,797,953
Commission income	**109,930,063**	98,840,187	65,556,704
Income from reversal of payables	**78,506,494**	10,781,594	56,139,471
Interest income	**71,659,747**	77,124,698	42,741,377
Insurance income	**23,772,634**	15,127,483	14,400,737
Rental income	**12,791,720**	13,434,051	5,141,355
Space and car rentals	**7,968,814**	6,900,920	15,252,284
Recoveries from previously written-off receivables	**4,241,071**	787,826	535,714
Tax refund/discount	**2,826,869**	14,791,234	5,701,647
Income from defaults	**–**	7,558,561	6,900,718
Loss on liquidation of subsidiaries	**–**	(26,174,418)	–
Foreign exchange loss	**(11,827,606)**	(65,119)	(28,480,960)
Miscellaneous	**46,688,442**	43,141,887	47,516,701
	₱920,939,339	₱476,225,101	₱393,296,091

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

	2017	2016	2015
Available-for-sale securities (Note 12)	**₱58,680,807**	₱63,041,964	₱34,587,159
Property and equipment (Note 14)	**8,813,780**	4,179,887	4,115,025
Investment properties (Note 16)	**279,071,868**	24,746,631	5,390,206
	₱346,566,455	₱91,968,482	₱44,092,390

Commission income pertains to the commission 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).

Interest income consists of income from:

	2017	2016	2015
Installment contract receivable	**₱40,532,658**	₱35,754,791	₱5,826,784
Savings deposit and short-term investments (Note 6)	**17,310,166**	27,272,071	15,821,488
Receivable from EEI-RFI (Notes 8, 17 and 22)	**9,749,504**	11,928,075	16,269,348
Others	**4,067,419**	2,169,761	4,823,757
	₱71,659,747	₱77,124,698	₱42,741,377

In 2017, 2016 and 2015, certain payables that were long-outstanding amounting to ₱78.5 million and ₱10.8 million and ₱65.6 million, respectively, were written-off and recognized as other income. Based on management's assessment, the settlement of these payables are remote.

In 2016, the Group wrote-off dormant and closed subsidiaries and recognized a loss of ₱26.2 million. The loss mainly pertains to the reclassification of cumulative translation adjustment relating to EEI Corporation (Singapore) Pte. Ltd. previously taken up in other comprehensive income to profit or loss.

Miscellaneous include income from sale of sludge and used oil, rebate from purchase of fuel, and share in savings from utility companies.

24. Costs of Sales and Services

This account consists of:

	2017	2016	2015
Cost of services (Note 26)			
Cost of construction contracts	**₱11,364,201,342**	₱12,126,749,307	₱15,815,224,731
Cost of manpower and other services	**1,543,838,972**	1,366,858,357	1,375,022,345
	12,908,040,314	13,493,607,664	17,190,247,076
Cost of goods sold			
Cost of merchandise sold (Note 25)	**10,081,613,087**	7,325,372,012	₱6,624,241,728
Cost of real estate sold (Note 10)	**27,140,904**	13,935,705	5,605,693
	10,108,753,991	7,339,307,717	6,629,847,421
Cost of tuition and other fees (Note 27)	**1,286,658,343**	1,300,042,918	1,213,004,494
	₱24,303,452,648	₱22,132,958,299	₱25,033,098,991

25. Cost of Merchandise Sold

This account consists of (Notes 10 and 24):

	2017	2016	2015
Inventory, beginning	**₱1,249,249,386**	₱998,419,786	₱700,949,453
Purchases	**9,628,244,033**	7,569,405,400	6,913,278,378
Total goods available for sale	**10,877,493,419**	8,567,825,186	7,614,227,831
Less inventory end	**809,783,825**	1,249,249,386	998,419,786
Cost of inventories sold	**10,067,709,594**	7,318,575,800	6,615,808,045
Personnel expenses	**8,952,762**	4,291,512	5,140,442
Others	**4,950,731**	2,504,700	3,293,241
	₱10,081,613,087	₱7,325,372,012	₱6,624,241,728

26. **Cost of Services**

	2017	2016	2015
Cost of construction contracts (Note 24)			
Labor	**₱4,216,532,653**	₱5,119,261,703	₱5,174,228,370
Equipment costs and others	**4,374,623,075**	3,960,863,198	5,337,771,601
Materials	**2,301,357,788**	2,563,588,392	4,929,459,011
Depreciation and amortization (Notes 14 and 29)	**471,687,826**	483,036,014	373,765,749
	11,364,201,342	12,126,749,307	15,815,224,731
Cost of manpower and other services (Note 24)			
Personnel expenses	**666,803,169**	583,300,152	543,733,370
Materials	**293,155,154**	400,031,702	334,482,758
Parts and accessories	**218,368,775**	162,178,505	261,413,532
Depreciation and amortization (Notes 14 and 29)	**58,781,486**	46,535,401	44,587,611
Others	**306,730,388**	174,812,597	190,805,074
	1,543,838,972	1,366,858,357	1,375,022,345
	₱12,908,040,314	₱13,493,607,664	₱17,190,247,076

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

This amount consists of (Note 24):

	2017	2016	2015
Personnel expenses	**₱575,949,480**	₱602,806,069	₱567,465,887
Depreciation and amortization (Notes 14, 17 and 29)	**194,640,246**	190,097,703	160,594,643
Student-related expenses	**144,837,520**	146,784,618	135,548,101
Management and other professional fees	**113,628,794**	106,690,199	96,336,053
Utilities	**81,734,815**	85,398,299	86,155,036
Tools and library books	**30,198,284**	26,008,973	26,466,324
Periodicals	**19,665,658**	15,625,679	14,270,775
Seminar	**18,995,992**	14,250,241	13,096,019
Research and development fund	**17,303,387**	16,303,676	5,752,585
Advertising	**16,659,662**	24,338,283	34,865,972
Repairs and maintenance	**12,251,634**	13,688,679	12,435,522
Accreditation cost	**7,242,083**	9,483,202	18,055,589
Office supplies	**6,944,143**	5,779,015	6,392,718
Insurance	**6,619,921**	5,149,653	4,693,815
Laboratory supplies	**6,565,801**	7,865,267	8,607,529
Taxes and licenses	**1,800,770**	2,003,163	1,841,180
Transportation and travel	**1,144,372**	876,604	1,189,466
Rent	**624,492**	945,095	1,932,042
Entertainment, amusement and recreation	**387,474**	327,857	356,927
Miscellaneous	**29,463,815**	25,620,643	16,948,311
	₱1,286,658,343	₱1,300,042,918	₱1,213,004,494

28. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Personnel expenses (Note 31)	**₱922,969,345**	₱853,867,893	₱701,851,720
Rent, light and water	**205,458,195**	193,916,894	181,344,130
Depreciation and amortization (Notes 14, 16 and 29)	**197,326,820**	181,836,637	177,424,770
Advertising and promotions	**163,180,208**	76,698,091	60,863,485
Taxes and licenses	**151,900,821**	122,719,124	108,894,289
Entertainment, amusement and recreation	**87,252,976**	92,620,687	80,419,727
Transportation and travel	**79,323,189**	73,794,310	69,158,000
Professional fees	**66,784,730**	72,946,736	59,459,483
Securities and utilities	**66,642,740**	60,806,777	31,461,266
Direct expenses	**60,587,733**	40,434,457	31,854,778
Commissions	**29,856,401**	25,820,748	28,224,142
Repairs and maintenance	**28,407,620**	29,727,429	40,931,647
Management and other fees	**25,277,692**	78,322,882	71,927,563
Provision for inventory obsolescence (Note 10)	**25,646,369**	3,010,000	–
Office expenses	**21,157,909**	25,625,855	19,108,467
Insurance	**19,094,768**	22,542,484	12,775,130
Provision for probable losses on loans and accounts receivables (Notes 8 and 22)	**9,265,418**	12,150,289	36,500,018
Donations and contributions	**12,232,541**	18,762,449	15,570,380
Seminars	**1,100,338**	3,782,758	2,419,576
Provision for impairment (Notes 7, 8 and 22)	**1,000,000**	2,542,324	5,638,517
Accreditation cost	**–**	–	1,069,499
Miscellaneous	**145,488,675**	108,623,277	53,832,512
	₱2,319,954,488	₱2,100,882,227	₱1,790,729,099

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 (recovery of) probable losses on loans receivable and accounts receivable (Notes 7 and 8):

	2017	2016	2015
Provision			
Loans receivable	**₱380,000**	₱542,324	₱250,000
Accounts receivable	**8,885,418**	15,241,699	28,598,257
	₱9,265,418	15,784,023	28,848,257
Reversals	**–**	(3,633,734)	(6,000,000)
Direct write-off	**–**	–	13,651,761
	₱9,265,418	₱12,150,289	₱36,500,018

29. Depreciation and Amortization

This account consists of depreciation and amortization included in (Notes 14, 16 and 17):

	2017	2016	2015
Cost of sales and services			
Construction contracts (Note 26)	**₱471,687,826**	₱483,036,014	₱373,765,749
Tuition and other fees (Note 27)	**194,640,246**	190,097,703	160,594,643
Manpower and other services (Note 26)	**58,781,486**	46,535,401	44,587,611
Capitalized as part of cost of inventories	**622,472**	165,063	–
	725,732,030	719,834,181	578,948,003
General and administrative expenses (Note 28)	**197,326,820**	181,836,637	177,424,770
	₱923,058,850	₱901,670,818	₱756,372,773

30. Interest and Finance Charges

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

	2017	2016	2015
Long-term debt (Note 20)	**₱140,746,490**	₱172,484,833	₱174,147,888
Loans payable (short-term) (Note 19)	**129,504,172**	125,251,727	104,649,568
Advances to affiliates and other finance charges (Note 22)	**5,817,327**	3,065,671	719,132
	₱276,067,989	₱300,802,231	₱279,516,588

31. 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, 2017.

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.

	2017	2016
Retirement liabilities	**₱148,565,857**	₱147,815,273
Retirement assets	**46,490,063**	39,949,093
Net retirement liabilities	**102,075,794**	107,866,180
Net retirement expenses	**127,143,113**	135,278,067

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

	2017	2016	2015
Current service cost	**₱118,273,222**	₱120,966,325	₱111,163,939
Net interest cost	**5,398,656**	9,779,168	5,119,705
Past service cost	**3,471,235**	4,532,574	–
	₱127,143,113	₱135,278,067	₱116,283,644

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

Net retirement liabilities	2017	2016
Present value of defined benefit obligation	**₱1,224,062,916**	₱1,185,448,720
Fair value of plan assets	**(1,075,497,059)**	(1,037,633,447)
	₱148,565,857	₱147,815,273

Net retirement assets	2017	2016
Present value of defined benefit obligation	**₱144,370,458**	₱124,555,815
Fair value of plan assets	**(190,860,521)**	(164,504,908)
	(₱46,490,063)	(₱39,949,093)

The movements in the net retirement liability follow:

	2017	2016
At beginning of year	**₱107,866,180**	₱200,598,488
Contributions paid	**(142,687,290)**	(178,351,651)
Net retirement expense	**127,143,113**	135,278,067
Transfer from affiliate	**8,296,383**	–
Remeasurement loss (gain)	**2,400,238**	(49,658,724)
Withdrawal of plan asset	**952,187**	–
Adjustment to defined benefit obligation	**(1,895,017)**	–
At end of the year	**₱102,075,794**	₱107,866,180

In 2017, plan assets of PEC and PPCCI amounting to ₱0.73 million and ₱0.22 million, respectively, were withdrawn. It was determined that there were no employees qualified to receive benefits due under the retirement plan.

Movement of cumulative remeasurement effect recognized in OCI:

	2017	2016
Balance at beginning of year	**(₱67,417,479)**	(₱117,076,203)
Remeasurement gain (loss)	**(2,400,238)**	49,658,724
Total amounts recognized in OCI	**(₱69,817,717)**	(₱67,417,479)

The movements in the present value of defined obligation follow:

	2017	2016
Balance at beginning of year	**₱1,310,004,535**	₱1,282,411,658
Current service cost	**118,273,222**	120,966,325
Interest cost on obligation	**68,413,090**	64,999,233
Transfers from affiliates	**8,296,381**	–
Past service cost	**3,471,235**	4,532,574
Reversal	**(1,733,630)**	–
Remeasurement loss (gain)	**(8,630,231)**	(46,548,478)
Benefits paid	**(129,661,228)**	(116,356,777)
Balance at end of year	**₱1,368,433,374**	₱1,310,004,535

The movements in the fair value of plan assets follow:

	2017	2016
Balance at beginning of year	**₱1,202,138,355**	₱1,081,813,169
Contributions	**142,687,290**	178,351,651
Remeasurement gain (loss)	**(11,030,471)**	3,110,247
Asset return in net interest cost	**63,014,434**	55,220,065
Benefits paid	**(129,661,228)**	(116,356,777)
Adjustments to plan assets	**161,387**	–
Withdrawal of plan assets	**(952,187)**	–
Balance at end of year	**₱1,266,357,580**	₱1,202,138,355

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

	2017	2016
Cash	**₱108,883,832**	₱129,567,801
Investment in government securities	**806,978,215**	785,176,635
Investments in shares of stock	**316,087,132**	242,929,940
Investments in other securities and debt instruments	**26,259,164**	32,762,151
Interest receivables and other receivables	**10,268,579**	13,060,606
Accrued trust fees and other payables	**(2,119,342)**	(1,358,778)
	₱1,266,357,580	₱1,202,138,355

The Group expects to contribute ₱153.1 million to its defined benefit pension plans in 2018.

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 2017, 2016 and 2015 amounted to ₱5.2 million, ₱5.0 million and ₱4.8 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 2017, the Fund has investment in equity securities of related parties with fair values and accumulated gain of ₱114.7 million and ₱84.8 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:

	2017	2016
Discount rate		
Beginning	**5.15%-5.67%**	4.74%-5.94%
End	**4.70%-5.74%**	5.00%-5.67%
Future salary increases		
Beginning	**3.00%-6.00%**	3.75%-6.00%
End	**3.00%-6.00%**	3.00%-6.00%

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.

	2017		2016	
	Increase (decrease)	**Effect on defined benefit obligation**	Increase (decrease)	Effect on defined benefit obligation
Discount rates	+50bps to +100bps	(₱252,519,470)	+50bps to +100bps	(₱64,059,246)
	-50bps to -100bps	293,610,468	-50bps to -100bps	68,001,668
Salary increase rates	+50bps to +100bps	350,575,254	+50bps to +100bps	124,130,572
	-50bps to -100bps	(304,513,412)	-50bps to -100bps	(121,461,227)

32. 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:

	2017	2016	2015
Income before income tax	**30.00%**	30.00%	30.00%
Add (deduct) reconciling items:			
Movement of deferred income tax assets not recognized	–	(30.10)	(1.30)
Equity in net earnings of associates and joint venture	**(12.57)**	71.55	9.44
Income subject to lower tax rate and others	**3.87**	(8.69)	(9.45)
	21.30%	62.76%	28.69%

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

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

	2017	2016
Net deferred income tax assets on a per subsidiary level:		
Accrued retirement expense	**₱57,461,046**	₱53,732,226
Capitalized borrowing cost	**(1,299,070)**	–
Allowance for doubtful accounts, inventory, obsolescence and other expenses	**29,667,448**	32,594,548
Accrued rent	**6,008,209**	8,737,263
NOLCO	**9,603,201**	8,003,631
MCIT	**2,673,630**	15,336,854
Unrealized foreign exchange loss	**(38,284)**	(231,385)
Others	**(258,488)**	2,626,914
	₱103,817,692	₱120,800,051
Net deferred income tax liabilities on a per subsidiary level:		
Revaluation increment on land	**₱436,393,387**	₱384,222,756
Retirement liability	**17,494,839**	(8,587,961)
Accrued retirement expense	**(12,998,480)**	–
NOLCO	**(1,363,083)**	–
Allowance for doubtful accounts, inventory obsolescence and other expenses	**(5,050,115)**	(7,361,169)
Accrued expenses	**(8,525,245)**	(6,628,740)
Others	**(13,094,898)**	(2,751,936)
	₱412,856,405	₱358,892,950

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

	2017	2016
Beginning	**₱238,092,899**	₱138,366,836
Provisions during the year	**7,057,293**	23,920,309
Tax effects of:		
Revaluation increment on land (Note 14)	**58,309,702**	56,466,324
Remeasurement gains (losses) on defined benefit plans (Note 31)	**5,578,819**	19,339,430
	₱309,038,713	₱238,092,899

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.

	2017	2016
NOLCO	**₱33,529,277**	₱27,437,312
Impairment loss	**22,971,836**	52,031,090
Allowance for doubtful accounts, inventory obsolescence and other expenses	**4,999,395**	14,182,326
MCIT	**2,383**	753
Accrued retirement expense	**8,394,229**	–
Others	**515,820**	166,423

The Group did not recognize deferred tax liabilities on undistributed earnings and cumulative translation adjustments of foreign subsidiaries in 2017 and 2016 since the Group determined that the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings of the Group's foreign subsidiaries amounted to ₱424.0 million and ₱448.0 million as at December 31, 2017 and 2016, respectively.

As of December 31, 2017, 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
2017	₱40,189,238	₱–	₱40,189,238	2020
2016	16,952,892	42,600	16,910,292	2019
2015	10,035,927	–	10,035,927	2018
2014	22,785,802	22,785,802	–	2017
	₱89,963,859	₱22,828,402	₱67,135,457	

As of December 31, 2017, the amounts of MCIT still allowable as tax credit consist of:

Taxable Period	Amount	Applied/Expired	Balance	Expiry Year
2017	₱861,146	₱143,975	₱717,171	2020
2016	4,785,876	3,110,297	1,675,579	2019
2015	5,376,472	4,682,265	694,207	2018
2014	15,392,311	15,392,311	–	2017
	₱26,415,805	₱23,328,848	₱3,086,957	

The details of NOLCO and MCIT as at December 31, 2017 are as follows:

Taxable Year Incurred	NOLCO	MCIT	Expiry Year
2017	₱40,189,238	₱717,171	2020
2016	16,910,292	1,675,579	2019
2015	10,035,927	694,207	2018
	₱67,135,457	₱3,086,957	

33. 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

	2017	2016	2015
Net income	**₱941,441,126**	₱402,669,546	₱1,022,731,322
Less dividends attributable to preferred shares	**23,028,873**	23,619,749	26,930,749
Net income applicable to common shares	**918,412,253**	379,049,797	995,800,573
Divided by the weighted average number of common shares	**615,996,114**	615,996,114	615,996,114
Basic earnings per share	**₱1.4909**	₱0.6153	₱1.6166

Diluted earnings per share

	2017	2016	2015
Net income applicable common share for basic earnings per share	**₱918,412,253**	₱379,049,797	₱995,800,573
Add dividends attributable to preferred stock	**23,028,873**	23,619,749	26,930,749
Net income applicable to common stockholders for diluted earnings per share	**941,441,126**	402,669,546	1,022,731,322
Weighted average number of shares of common stock	**615,996,114**	615,996,114	615,996,114
Dilutive shares arising from convertible preference stock	**169,172,072**	187,201,880	207,153,246
Weighted average number of shares of common stock for diluted earnings per share	**785,168,186**	803,197,994	823,149,360
Diluted earnings per share	**₱1.1990**	₱0.5013	₱1.2425

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

	2017	2016	2015
Number of shares of common stock issued	**616,296,114**	616,296,114	616,296,114
Less treasury shares	**300,000**	300,000	300,000
	615,996,114	615,996,114	615,996,114

34. Contingencies and Commitments

Contingencies

a. Surety Arrangement and Guarantees

The Group is contingently liable for guarantees arising in the ordinary course of business, including performance, surety and warranty bonds for various construction projects amounting to ₱4.9 billion and ₱5.3 billion as at December 31, 2017 and 2016, respectively.

b. Standby Letters of Credit

The Group has outstanding irrevocable domestic standby letters of credit amounting to ₱10.5 billion and ₱8.9 billion in 2017 and 2016, respectively, from local banks which are used for bidding and as a guarantee for the down payments received from its ongoing construction projects. The Group also has outstanding irrevocable foreign standby letters of credit amounting to USD 146.7 thousand and JPY 6.7 million in 2017 and USD 429 thousand and JPY 13.4 million in 2016, respectively.

c. Provisions and Contingencies

Provisions include the Groups'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 on 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, 2017 and 2016, total accumulated payments to faculty members amounted to ₱230.78 million. Related accruals as at December 31, 2017 and 2016 amounted to ₱64.09 million.

There are pending legal cases against the Group that are being contested by the Group and its legal counsels. The information required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed until final settlement, on the ground that it might prejudice the Group's position. Management and its legal counsels believe that the final resolutions of these cases will not have a material effect on the consolidated financial position and operating results of the Group.

Lease Commitments

The Group leases parcels of land where their respective sales office, administrative and warehouse buildings were constructed and are currently located. The lease terms cover lease periods between 10 to 20 years with escalation rates ranging from 5.0% to 12.5%.

Future minimum rental payments under the aforementioned lease agreements follow:

	2017	2016
Within one year	**₱88,443,671**	₱66,858,875
After one year but not more than five years	**239,925,503**	183,487,720
More than five years	**168,655,244**	82,226,337
	₱497,024,418	₱332,572,932

The Group's Intramuros and Makati campuses lease spaces to RCBC, Digitel 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%.

Future minimum rental receivable under the aforementioned lease agreement follows:

	2017	2016
Within one (1) year	**₱1,967,496**	₱1,814,043
More than 1 year but not more than five (5) years	**3,763,169**	6,607,588
Later than five years	**3,395,445**	2,518,522
	₱9,126,110	₱10,940,153

35. Non-controlling Interests

Dividends paid to non-controlling interests amounted to ₱60.2 million, ₱155.1 million and ₱160.5 million in 2017, 2016 and 2015, respectively.

The summarized financial information attributable to non-controlling interests for significant subsidiaries as of and for the years ended December 31, 2017, 2016 and 2015 are as shown below:

	Honda Cars Kalookan, Inc. (HCKI)[a]			iPeople, inc. (iPeople) and Subsidiaries[b]			EEI Corporation (EEI) and Subsidiaries[c]		
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Assets									
Current assets	**₱1,005**	₱748	₱578	**₱914**	₱1,120	₱857	**₱13,578**	₱13,287	₱14,687
Noncurrent assets	**108**	123	134	**6,982**	5,410	5,040	**7,814**	6,916	7,664
	1,113	871	712	**7,897**	6,530	5,897	**21,392**	20,203	22,351
Liabilities and Equity									
Current liabilities	**₱969**	₱758	₱603	**₱1,628**	₱792	₱786	**₱13,555**	₱12,934	₱13,946
Noncurrent liabilities	**7**	1	2	**244**	222	312	**1,162**	1,425	1,624
	976	759	605	**1,872**	1,014	1,098	**14,717**	14,359	15,570
Revenue	**₱3,633**	₱2,308	₱1,978	**₱1,983**	₱2,360	₱2,434	**₱14,921**	₱14,836	₱18,979
Net income	**₱25**	₱4	₱3	**382**	₱643	₱799	**₱836**	(₱848)	₱203
Total comprehensive income	**₱25**	₱3	₱3	**714**	₱916	₱1,086	**₱811**	(₱730)	₱329
Share of NCI in net assets	**₱62**	₱50	₱48	**₱1,968**	₱1,802	₱1,567	**₱3,046**	₱2,657	₱3,095
Share of NCI in net income (loss)	**₱11**	₱2	₱1	**₱125**	₱210	₱261	**₱382**	(₱387)	₱93
Dividends paid	**₱–**	₱–	₱–	**₱65**	₱65	₱85	**₱–**	₱94	₱94
Operating	**(₱82)**	(₱119)	(₱93)	**₱586**	₱796	₱967	**(₱1,020)**	₱1,652	₱1,781
Investing	**(12)**	(12)	(12)	**(1,345)**	(235)	(932)	**(1,156)**	(1,026)	(2,213)
Financing	**144**	157	120	**518**	(289)	(594)	**1,824**	(873)	1,119

(a) Proportion of ownership owned by non-controlling interests as of December 31, 2017 and 2016: 45.00%
*(b) Proportion of ownership owned by non-controlling interests as of December 31, 2017 and 2016: 32.66%^*
(c) Proportion of ownership owned by non-controlling interests as of December 31, 2017 and 2016: 45.36%

36. **Operating Segment Information**

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

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

The Group derives its revenue from the following reportable segments:

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

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

Education and Information Technology - primarily consists of revenues from iPeople and subsidiaries (including MESI) 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 2017, each of the three customers from the domestic segment contributed revenue that exceeded 10% of the Group's revenue. Following are the revenues contributed by each of these customers: ₱3,293.2 million, ₱2,253.1 million and ₱1,508.6 million.

In 2016, each of the two customers from the construction and infrastructure segment contributed revenue that exceeded 10% of the Group's revenue. Following are the revenues contributed by each of these customers: ₱2,745.4 million and ₱1,766.9 million.

In 2015, a major customer from the domestic segment contributed revenue amounting to ₱4,960.3 million, which exceeded 10% of the Group's revenue.

(Amounts in Millions)

	Construction and Infrastructure			Education and Information Technology			Car Dealerships			Property Management			Other Services			Elimination			Consolidation		
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Revenue																					
Domestic	**₱14,921**	₱14,836	₱18,979	**₱1,983**	₱2,360	₱2,434	**₱11,256**	₱8,286	₱7,873	**₱209**	₱180	₱157	**₱361**	₱509	₱478	**(₱1,182)**	(₱429)	(₱830)	**₱27,548**	₱25,742	₱29,091
Foreign	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Intersegment sales	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2	–	–	(2)	–	–	–
	₱14,921	₱14,836	₱18,979	**₱1,983**	₱2,360	₱2,434	**₱11,256**	₱8,286	₱7,873	**209**	₱180	₱157	**₱361**	₱509	₱480	**(₱1,182)**	(₱429)	(₱832)	**₱27,548**	₱25,742	₱29,091
Net Income attributable to share of parent	**836**	(₱848)	₱203	**382**	₱596	₱741	**₱124**	₱73	₱82	**64**	₱484	(₱64)	**₱116**	₱289	₱395	**(₱581)**	(₱191)	(₱334)	**₱941**	₱403	₱1,023
Other Information																					
Segment assets	**₱21,392**	₱20,203	₱22,351	**₱7,897**	₱6,530	₱5,897	**₱3,800**	₱3,577	₱2,993	**166**	₱161	₱139	**₱5,557**	₱4,528	₱4,671	**(₱1,459)**	(₱1,310)	(₱1,368)	**₱37,353**	₱33,689	₱34,683
Deferred tax assets	**(79)**	(84)	(110)	**(6)**	(6)	(12)	**(16)**	(27)	(33)	**(2)**	(2)	(3)	**(4)**	(2)	(1)	**3**	–	–	**(104)**	(121)	(159)
Net segment assets	**₱21,313**	₱20,119	₱22,241	**₱7,891**	₱6,524	₱5,885	**₱3,784**	₱3,550	₱2,960	**164**	₱159	₱136	**₱5,553**	4,526	₱4,670	**(₱1,456)**	(₱1,310)	(₱1,368)	**₱37,249**	₱33,568	₱34,524
Segment liabilities	**₱14,717**	₱14,359	₱15,570	**₱1,872**	₱1,014	₱1,098	**₱1,652**	₱3,852	₱1261	**120**	₱117	₱96	**3,148**	₱1,890	₱2,626	**(₱508)**	(₱2,149)	(₱142)	**₱21,001**	₱19,083	₱20,509
Income tax payable	**(13)**	(4)	(13)	**(7)**	(8)	(26)	**–**	(5)	–	**(2)**	(2)	(1)	**(1)**	(2)	1	**1**	1	–	**(22)**	(20)	(39)
Deferred tax liabilities	**–**	(72)	–	**(177)**	(147)	(121)	**(137)**	(136)	(93)	–	–	–	**(6)**	–	(8)	**(93)**	(4)	(76)	**(413)**	(359)	(298)
Net segment liabilities	**₱14,704**	₱14,283	₱15,557	**₱1,688**	₱859	₱951	**₱1,515**	₱3,711	₱1,168	**₱118**	₱115	₱95	**₱3,141**	₱1,888	₱2,619	**(₱600)**	(₱2,152)	(₱218)	**₱20,566**	₱18,704	₱20,172
Investments in associates and joint ventures	**₱2,177**	₱1,300	₱2,098	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱6**	₱5	₱3	**₱4,037**	₱4,037	₱4,041	**(₱1,399)**	(₱1,620)	(₱1,778)	**₱4,821**	₱3,722	₱4,364
Equity in net earnings (losses) of associates	**₱118**	(₱1,316)	₱845	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱171**	₱222	(₱212)	**289**	(₱1,094)	₱633
Cash flows arising from:																					
Operating activities	**(₱1,020)**	₱1,652	₱1,781	**₱586**	₱796	₱967	**₱185**	(₱451)	(₱1)	**₱44**	₱57	₱35	**(₱116)**	(₱46)	(₱7)	**₱38**	(₱250)	(₱297)	**(₱283)**	₱1,758	₱2,478
Investing activities	**(1,126)**	(1,026)	(2,213)	**(1,345)**	(235)	(932)	**(69)**	(53)	(46)	**(5)**	(4)	(4)	**(550)**	(4)	245	**(6)**	510	59	**(3,101)**	(812)	(2,891)
Financing activities	**1,824**	(873)	1,119	**518**	(289)	(594)	**(16)**	525	146	**(56)**	(33)	(52)	**536**	(332)	51	**156**	91	(98)	**2,962**	(911)	572
Capital expenditures	**-569**	(1,030)	1,209	**(1,162)**	(232)	(933)	**38**	55	52	**(3)**	(1)	(3)	**956**	24	6	**(1,970)**	(110)	(3,298)	**(2,710)**	(1,294)	(2,967)
Interest income	**56**	(61)	29	**13**	12	11	–	–	–	–	–	–	**12**	15	4	**(9)**	111	(1)	**72**	77	43
Interest expense	**162**	163	136	**4**	9	19	**53**	57	51	–	–	–	**57**	73	75	**0**	(1)	(1)	**276**	301	280
Provision for income tax	**255**	226	265	**48**	79	89	**13**	10	10	**20**	15	13	**53**	40	3	**7**	0	169	**396**	370	549
Earnings before income tax	**1,087**	(622)	468	**461**	707	830	**150**	83	(54)	**84**	67	50	**416**	525	449	**(339)**	(171)	173	**1,859**	589	1,916
Earnings before income tax and depreciation and amortization	**1,731**	12	989	**670**	864	1,006	**205**	132	(2)	**87**	70	53	**457**	568	491	**(368)**	(155)	(377)	**2,782**	1,491	2,160
Noncash items:							**37**	66	203							**54**	29	617			
Additional revaluation increment on land	**₱–**	₱–	₱–	**₱315**	₱280	₱–	**₱55**	₱49	₱52	**₱–**	₱–	₱–	**₱–**	₱–	₱–	**₱8**	₱47	(₱3)	**₱406**	₱375	₱820
Depreciation and amortization	**644**	634	521	**209**	157	176	**150**	83	(54)	**3**	3	3	**4**	12	7	**(339)**	(171)	173	**923**	902	756

37. **Financial Instruments and Finanicial 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.

	2017				
	On demand	**< 1 year**	**1 to < 2 years**	**> 2 years**	**Total**
Financial Liabilities					
Accounts payable and accrued expenses*	**₱3,432,037,613**	**₱690,296,051**	**₱179,663,955**	**₱406,731,477**	**₱4,708,729,096**
Bank loans					
Peso loan	**70,000,000**	**7,615,000,000**	–	–	**7,685,000,000**
Interest	–	**15,348,641**	–	–	**15,348,641**
Long-term debt					
Peso loan	–	**491,865,198**	**1,608,657,364**	**571,424,252**	**2,671,946,814**
Interest	–	**267,053,764**	**211,335,661**	**37,198,117**	**515,587,542**
Due to related parties	**124,038,237**	–	–	–	**124,038,237**
	3,626,075,850	**9,079,563,654**	**1,999,656,980**	**1,015,353,846**	**15,720,650,330**
Financial Assets					
Cash					
Cash on hand and in banks	**1,250,528,876**	–	–	–	**1,250,528,876**
Short-term investments	**716,969,549**	–	–	–	**716,969,549**
Accounts receivables					
Trade receivables	**4,519,012,457**	**3,658,155,658**	**4,023,209**	**5,920,859**	**8,587,263,128**
Consultancy fees	–	**306,621,841**	–	–	**306,621,841**
Receivables from plant	**27,877,545**	–	–	–	**11,302,104**
Others	**371,866,101**	–	**667,439**	**1,129,235**	**360,096,775**
Loan receivables	–	**10,159,319**	**3,507,320**	–	**13,666,639**
Receivable from related parties	**155,083,681**	**18,551**	–	–	**155,102,232**
	7,041,338,209	**3,974,955,369**	**8,197,968**	**7,050,094**	**11,401,551,144**
Liquidity gap (position)	**₱1,692,125,746**	**₱166,096,789**	**₱1,991,459,012**	**₱1,008,303,752**	**₱4,487,975,795**

**Excluding statutory liabilites*

	2016				
	On demand	**< 1 year**	**1 to < 2 years**	**> 2 years**	**Total**
Financial Liabilities					
Accounts payable and accrued expenses*	₱3,981,249,260	₱752,172,021	₱685,752,213	₱1,348,960	₱5,420,522,454
Bank loans					
Peso loan	–	4,100,000,000	–	–	4,100,000,000
Interest	–	72,815,461	–	–	72,815,461
Long-term debt					
Peso loan	–	491,748,610	491,748,610	2,180,198,230	3,163,695,450
Interest	–	176,168,146	149,111,836	571,680,398	896,960,380
Due to related parties	127,809,141	–	–	–	127,809,141
	4,109,058,401	5,592,904,238	1,326,612,659	2,753,227,588	13,781,802,886
Financial Assets					
Cash					
Cash on hand and in banks	1,478,830,024	–	–	–	1,478,830,024
Short-term investments	914,371,197	–	–	–	914,371,197
Accounts receivables					
Trade receivables	2,258,931,599	4,447,830,831	8,466,967	7,355,335	6,722,584,732
Consultancy fees	305,946,232	–	–	–	305,946,232
Receivables from plant	42,377,871	25,253,540	–	–	67,631,411
Others	197,662,181	166,826,478	874,352	859,352	366,222,363
Loan receivables	–	11,449,015	3,875,640	–	15,324,655
Receivable from related parties	54,371,552	–	–	–	54,371,552
	5,252,490,656	4,651,359,864	13,216,959	8,214,687	9,925,282,166
Liquidity gap (position)	(₱1,143,432,255)	₱941,544,374	₱1,313,395,700	₱2,745,012,901	₱3,856,520,720

**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.

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.

	2017		2016	
Market Index	**Change in variable**	**Effect on Equity**	Change in variable	Effect on Equity
PSE	**4.93%**	**149,376**	4.93%	₱3,134,308
	-4.93%	**(149,376)**	-4.93%	(3,134,308)
Others	**25.53%**	**3,373,146**	8.71%	1,162,773
	-25.53%	**(3,373,146)**	-8.71%	(1,162,773)

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 2017, respectively, and 5% and 9% in 2016, 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).

	2017		2016	
	Percentage increase/ decrease in foreign currency	**Effect on profit before tax**	Percentage increase/ decrease in foreign currency	Effect on profit before tax
USD	5.00%	2,277,233	+1.78%	₱2,560,201
SGD	1.80%	126,755	+4.10%	495,498
EUR	1.20%	96,221	+1.90%	15,917
JPY	0.40%	1,168	+3.90%	948
GBP	0.80%	104	+1.80%	(214)
USD	-5.00%	(2,277,233)	-1.78%	(₱2,560,201)
SGD	-1.80%	(126,755)	-4.10%	(495,498)
EUR	-1.20%	(96,221)	-1.90%	(15,917)
JPY	-0.40%	(1,168)	-3.90%	(948)
GBP	-0.80%	(104)	-1.80%	214

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:

	2017					
	USD[1]	**SGD[2]**	**EUR[3]**	**JPY[4]**	**GBP[4]**	**Equivalents in PHP**
Financial assets						
Cash and cash equivalents	**US$1,918,252**	**S$187,184**	**€5,361**	**¥1,149,351**	**£–** –	**₱ 103,569,704**
Receivables	**200,998**			**1,662,820**		**10,765,461**
	2,119,250	**187,184**	**5,361**	**2,812,171**	–	**114,335,165**
Financial liabilities						
Accounts payable and accrued expenses	**380,873**	**–**	**144,228**	**3,520,030**	**200**	**29,175,802**
	US$1,738,377	**S$187,184**	**(€138,867)**	**(¥707,859)**	**(£200)**	**₱85,159,363**

[1] Exchange rate used - ₱49.92 to US$1
[2] Exchange rate used - ₱37.32 to S$1
[3] Exchange rate used - ₱59.6 to €1
[4] Exchange rate used - ₱0.44 to ¥1
[5] Exchange rate used - ₱67.1 to £1

	2016					
	USD[1]	**SGD[2]**	**EUR[3]**	**JPY[4]**	**GBP[4]**	**Equivalents in PHP**
Financial assets						
Cash and cash equivalents	US$1,623,838	S$353,997	€16,740	¥57,919	£–	₱93,789,150
Receivables	196,780	–	–	–	–	9,783,902
	1,820,618	353,997	16,740	57,919	–	103,573,052
Financial liabilities						
Accounts payable and accrued expenses	156,078	–	–	–	200	7,772,372
	US$1,664,540	S$353,997	€16,740	¥57,919	(£200)	₱95,800,680

[1] Exchange rate used - ₱49.72 to US$1
[2] Exchange rate used - ₱34.35 to S$1
[3] Exchange rate used - ₱51.84 to €1
[4] Exchange rate used - ₱0.42 to ¥1
[5] Exchange rate used - ₱60.87 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.

The following table sets out the carrying amount, by maturity, of the Group's financial liabilities that are exposed to interest rate risk:

	2017						
	Below 1 Year	**1-2 Years**	**2-3 Years**	**3-4 Years**	**4-5 Years**	**Over 5 Years**	**TOTAL In Php**
Long-term debt							
Peso floating							
Philippine Peso	**₱54,366,300**	**₱54,366,300**	**₱54,366,300**	**₱54,366,300**	**₱54,366,300**	**₱304,782,206**	**₱576,613,706**
Floating rate							
Peso fixed							
Philippine Peso	**54,366,300**	**54,366,300**	**54,366,300**	**54,366,300**	**54,366,300**	**304,782,206**	**576,613,706**
Interest rate							

	2016						
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	TOTAL In Php
Long-term debt							
Peso floating							
Philippine Peso	₱54,366,300	₱54,366,300	₱54,366,300	₱54,366,300	₱54,366,300	₱359,148,506	₱630,980,006
Floating rate	BSP Overnight plus 1.50% spread						
Peso fixed							
Philippine Peso	54,366,300	54,366,300	54,366,300	54,366,300	54,366,300	359,148,506	630,980,006
Interest rate	Floating rate plus 0.50% spread						

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):

	2017		2016	
	Increase/decrease in basis points	**Effect on profit before tax**	Increase/decrease in basis points	Effect on profit before tax
Peso floating rate borrowing	**+67**	**₱4,384,331**	+19	(₱1,895,266)
	-67	**(₱4,384,331)**	-19	1,895,266

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.

c. *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.

There can be some credit exposures on project commitments and contingencies as at December 31, 2016 and 2015 represented by work accomplishments on backlog of projects which are not yet invoiced. These exposures are, however, limited to a few months work accomplishment as work are frozen as soon as the Group is able to determine that the risk of non-collection materializes. This risk is, however, mitigated by the Group's contractor's lien on the project. A contractor's lien is the legal right of a contractor to takeover the project in-progress and has priority in the settlement of contractor's receivables and claims on the project in the event of insolvency of the project owner. The Group assesses that the value of projects in-progress is usually higher than receivables from and future commitments with the project owners (see Note 8).

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.

Except for ZIFC which is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. It is the ZIFC's policy that all prospective debtors are subject to screening procedures. In addition, receivable balances are monitored on an ongoing. An analysis of concentrations of credit risk all pertains to ZIFC, as of December 31 is shown below:

	2017	2016
Loans receivable at gross	**₱24,913,877**	₱25,493,324
Less: Allowance for probable loss	**3,869,959**	3,974,852
Unearned discount and interest	**7,671,002**	6,345,090
	₱13,372,916	₱15,173,382

The Group's maximum credit risk exposure for its secured loans receivables is equal to its carrying value amounting ₱24.9 million and ₱25.5 million in 2017 and 2016, 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 ₱2.1 billion in 2017 and 2016. This resulted to a nil net exposure as at December 31, 2017 and 2016.

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:

	2017						
	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	₱1,967,498,425	₱–	₱–	₱–	₱–	₱–	₱1,967,498,425
Loans receivable	13,666,639	–	–	–	–	–	13,666,638
Receivables from:							
Construction and infrastructure	3,308,636,465	979,016,374	712,992,155	141,100,633	1,585,725,672	23,763,449	6,751,234,748
Car dealership	1,052,813,105	250,725,566	99,729,382	22,357,158	95,744,905	30,078,900	1,552,261,016
Education and information technology	77,570,144	7,488,152	4,418,343	13,212,700	–	56,631,634	159,320,973
Other services	28,433,800	34,640,436	734,854	948,874	4,388,807	6,484,912	75,631,683
Other receivables:							
Consultancy fee	–	–	–	–	306,621,841	–	306,621,841
Receivables from plant	10,539,782					17,337,763	27,877,545
Others	181,337,381	49,226,159	27,776,039	3,976,115	29,802,340	81,544,741	373,662,774
Miscellaneous deposits	78,266,698	–	–	–	–	–	78,266,698
Due from related parties	155,102,232	–	–	–	–	–	155,102,232
Receivable from a customer	211,513,105	–	–	–	–	11,095,689	222,608,794
Receivable from EEI Retirement Fund, Inc.	178,000,000	–	–	–	–	–	178,000,000
	₱7,263,377,776	₱1,321,096,687	₱845,650,773	₱181,595,480	₱2,022,283,565	₱226,937,088	₱11,861,753,367

	2016						
	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	₱2,390,207,142	₱–	₱–	₱–	₱–	₱–	₱2,390,207,142
Loans receivable	15,324,655	–	–	–	–	4,053,542	19,378,197
Receivables from:							
Construction and infrastructure	3,762,011,140	614,642,795	264,430,835	93,344,304	976,272,142	35,347,628	5,746,048,844
Car dealership	622,925,015	–	154,043,752	68,086,594	43,061,350	38,035,317	926,152,028
Education and information technology	76,419,090	15,358,579	409,747	10,900	18,070,744	61,125,773	171,394,833
Other services	2,297,888	9,200,174	581,062	531,787	886,834	6,208,855	19,706,600
Other receivables:							
Consultancy fee	–	–	–	–	305,946,232	–	305,946,232
Receivables from plant	27,967,072	–	11,591,416	4,020,959	25,642,596	12,032,845	81,254,888
Others	341,875,213	7,987,554	6,864,559	16,506,248	20,286,466	49,859,639	443,379,679
Due from related parties	54,371,552	–	–	–	–	–	54,371,552
Receivable from a customer	380,296,805	–	–	–	–	–	380,296,805
Receivable from EEI Retirement Fund, Inc.	223,000,000	–	–	–	266,388	–	223,266,388
	₱7,896,695,572	₱647,189,102	₱437,921,371	₱182,500,792	₱1,390,432,752	₱206,663,599	₱10,761,403,188

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.

	2017			
	Neither past due nor impaired		Past due or Individually	
	High Grade	**Standard**	**Impaired**	**Total**
Cash in banks and cash equivalents	**₱2,361,251,782**	**₱–**	**₱–**	**₱2,361,251,782**
Loans receivable	**15,324,655**	–	–	**15,324,655**
Receivables from:				
Construction and infrastructure	**5,339,609,046**	**1,411,625,702**	–	**6,751,234,748**
Car dealership	**1,045,098,799**	**67,161,240**	**440,000,978**	**1,552,261,017**
Education and information technology	**79,806,032**	**3,565,774**	**75,949,167**	**159,320,973**
Other services	**65,397,572**	**1,576,813**	**8,657,298**	**75,631,683**
Other receivables:				
Consultancy fee	**306,621,841**	–	–	**306,621,841**
Rent receivable	**594,566**	–	**75,307**	**669,873**
Others	**251,849,641**	**20,929,582**	**128,761,095**	**401,540,318**
Receivable from sale of investment properties	**374,402,949**	–	–	**374,402,949**
Due from related parties	**155,102,232**	–	–	**155,102,232**
Receivable from a customers	**222,608,794**	–	–	**222,608,794**
Receivables from EEI Retirement Fund, Inc.	**178,000,000**	–	–	**178,000,000**
Miscellaenous deposits	**78,266,698**	–	–	**78,266,698**
	₱10,473,934,607	**₱1,504,859,111**	**₱653,443,845**	**₱12,632,237,563**

	2016			
	Neither past due nor impaired		Past due or Individually	
	High Grade	Standard	Impaired	Total
Cash in banks and cash equivalents	₱2,390,207,142	₱–	₱–	₱2,390,207,142
Loans receivable	15,324,655	–	4,053,542	19,378,197
Receivables from:				
Construction and infrastructure	1,082,113,409	2,679,897,731	1,984,037,704	5,746,048,844
Car dealership	622,925,015	–	303,227,013	926,152,028
Education and information technology	72,853,316	3,565,774	94,975,743	171,394,833
Other services	2,297,888	–	17,408,712	19,706,600
Other receivables:				
Consultancy fee	–	–	305,946,232	305,946,232
Receivable from plant	27,967,072	–	53,287,816	81,254,888
Others	341,875,213	–	101,504,466	443,379,679
Due from related parties	54,371,552	–	–	54,371,552
Receivable from a customer	380,296,805	–	–	380,296,805
Receivables from EEI Retirement Fund, Inc.	223,000,000	–	266,388	223,266,388
	₱5,213,232,067	₱2,683,463,505	₱2,864,707,616	₱10,761,403,188

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.

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 information technology 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, 2017 and 2016.

As at December 31, 2017 and 2016, the Group is not subject to externally imposed capital requirements. The Group considers total equity as its capital.

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

	2017	2016
Current liabilities	**₱18,101,365,608**	₱ 15,765,141,122
Noncurrent liabilities	**2,899,918,632**	3,317,684,641
Total liabilities (a)	**21,001,284,240**	19,082,825,763
Equity (b)	**16,351,423,582**	14,605,887,893
Debt to Equity Ratio (a/b)	**1:28:1**	1.31:1

Fair Value Information
The carrying amounts of the investments approximate the fair value due to their short-term maturities and demand features except for the following:

Receivable from EEI-RFI
The fair values of the receivable amounting to ₱166.8 million and ₱225.3 million as of December 31, 2017 and 2016, 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 2017 and 2016 were 5.71% and 4.73%, respectively.

Long-term debt
The fair values of the interest-bearing long-term loans amounting to ₱2,671.9 million and ₱3 163.7 million as of December 31, 2017 and 2016, 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 2017 and 2016 were 5.71% and 4.73%, respectively.

Quoted AFS financial assets
Fair value of investments in equity shares listed with Philippine Stock Exchange amounting to ₱54.4 million and ₱41.8 million as of December 31, 2017 and 2016, 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 ₱13.2 million and ₱17.5 million as of December 31, 2017 and 2016, 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).

Financial assets at FVPL
Fair values of financial assets at FVPL amounting to ₱8.5 million and ₱8.3 million as of December 31, 2017 and 2016, were determined based on quoted prices of equity and debt instruments listed with exchanges.

There were no transfers between levels of fair value measurements in 2017 and 2016. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period.

38. **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, 2017, 2016 and 2015 follows:

	2017		2016		2015	
	Amount	**Shares**	Amount	Shares	Amount	Shares
Beginning of the year	**₱280,802,820**	**702,007,052**	₱310,729,869	776,824,673	₱344,007,243	860,018,109
Redemption of preferred stock	**(27,044,711)**	**(67,611,780)**	(29,927,049)	(74,817,621)	(33,128,338)	(82,820,845)
Conversion of preferred stock to common stock	**–**	**–**	–	–	(149,036)	(372,591)
	₱253,758,109	**634,395,272**	₱280,802,820	702,007,052	₱310,729,869	776,824,673

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, 2017, 2016 and 2015 follows:

	2017		2016		2015	
	Amount	**Shares**	Amount	Shares	Amount	Shares
Beginning of the year	**₱924,444,172**	**616,296,114**	₱924,444,172	616,296,114	₱924,295,136	616,196,757
Conversion of preferred stock to common stock	**–**	**–**	–	–	149,036	99,357
	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)
	₱921,836,572	**₱615,996,114**	₱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**
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			
March 20, 2015	₱8,600,181	₱0.40	April 17, 2015	May 13, 2015
July 17, 2015	8,385,177	0.40	August 14, 2015	September 11, 2015
September 24, 2015	8,175,547	0.40	October 23, 2015	November 17, 2015
December 3, 2015	7,967,433	0.40	December 29, 2015	January 26, 2015
	33,128,338			

On November 26, 2015, 372,591 shares of preferred stock were converted into 99,357 of common stock with cost amounting to ₱0.1 million. There is no capital conversion in 2017 and 2016.

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;
c) 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;
d) 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
e) 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, 2017:

Year	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities as of year end
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
Common Shares:				
January 1, 2016	615,996,114			402
Movement		–		
December 31, 2016	615,996,114			402
Movement	–	–		
December 31, 2017	615,996,114			394

SEC approved the registration of the Parent Company's authorized capital stock before its listing date with the PSE, which was on July 2, 1962. The actual number of shares initially listed were 584,085 at an offer price of ₱10.0 per share. Total number of preferred and common shareholders was 48 and 394, respectively, as of December 31, 2017 and 48 and 402, respectively, as of December 31, 2016.

39. **Retained Earnings**

Cash Dividends

The BOD declared cash dividends as follows:

		Amount per share			
Date of BOD Approval	Amount	Preferred Shares	Common Shares	Record Date	Payment Date
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	2,878,825	0.004	–	August 18, 2017	September 12, 2017
September 29, 2017	2,756,804	0.004	–	October 27, 2017	November 23, 2017
December 12, 2017	2,616,312	0.004	–	January 4, 2018	January 29, 2018
	₱63,068,621				
March 31, 2016	₱2,761,612	₱0.004	₱–	April 28, 2016	May 20, 2016
July 15, 2016	53,165,560	0.017	0.065	August 12, 2016	September 6, 2016
July 15, 2016	2,729,936	0.004	–	August 12, 2016	September 2, 2016
September 30, 2016	2,525,564	0.003	–	October 28, 2016	November 22, 2016
December 8, 2016	2,476,824	0.003	–	December 29, 2016	January 23, 2017
	₱63,659,496				
March 20, 2015	₱2,983,403	₱0.004	₱–	April 17, 2015	May 12, 2015
July 17, 2015	54,564,800	0.017	0.065	August 14, 2015	September 9, 2015
July 17, 2015	3,311,306	0.003	–	August 14, 2015	May 12, 2015
September 24, 2015	3,156,579	0.003	–	October 23, 2015	November 13, 2015
December 8, 2015	2,947,950	0.003	–	December 29, 2015	January 22, 2016
	₱66,964,038				

After reconciling items, the retained earnings of the Parent Company that are available for dividend declaration amounted to ₱2,576.3 million and ₱2,290.2 million as of December 31, 2017 and 2016, respectively. Dividend distribution is approved by the BOD.

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

Restrictions

The Group's retained earnings include accumulated earnings of subsidiaries, associate and joint venture amounting to ₱6,472.2 million and ₱5,726.3 million as of December 31, 2017 and 2016, respectively, not declared as dividends to the Group. Accordingly, these are not available for dividend declaration.

As of December 31, 2017, 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 ₱2.6 million and ₱103.8 million, respectively.

40. **Cumulative translation adjustments**

Cumulative translation adjustments represents exchange differences arising from the translation of financial statements of foreign subsidiary, EEI BVI, whose functional currency is the United States Dollar. It also includes share in cumulative translation adjustments of the Group's investment in an associate, PERC, whose functional currency is the United States Dollar.

41. Other Matters

a. The Board of Directors of iPeople ratified on January 5, 2018 the execution of a Non-Binding term sheet for its proposed merger with AC Education, Inc. (AEI), the wholly owned education arm of Ayala Corporation. With the execution of such Non-Binding term sheet, the parties have agreed to an exclusivity period to complete due diligence, and to finalize the terms and conditions of the proposed merger within the second quarter of 2018. All terms and conditions of the proposed merger, including the involvement of House of Investments, Inc. and Ayala Corporation in the management of the surviving entity, iPeople, shall be presented for approval by the parties' respective boards of directors and the merging parties' stockholders, and the transaction will be subject to the requisite regulatory approvals as well. The potential merger would bring together the educational arms of House of Investments, Inc. and Ayala Corporation (iPeople and AEI, respectively).

b. In a letter to MESI dated December 20, 2017, Parent Company expressed its decision to exercise its option to convert the 281,642 Preferred Shares in MESI to common shares of the latter. The said conversion was approved by the BOD of Parent Company on December 8, 2017. As of April 6, 2018, MESI is processing the requirements to effect the conversion of preferred shares to common shares.

c. Since 2016, ARCC has submitted various claims to Snamprogetti, the main contractor of the RP2 Naphtha and Aromatics Package Project, to recover losses due to the delays, disruptions and work variations relating to the said project. As of April 6, 2018, ARCC and Snamprogetti have not agreed on the final settlement amount.

d. The non-controlling stockholders of JPSAI infused capital of ₱20.0 million in 2017.

e. On April 6, 2018, the BOD approved the declaration of cash dividends of ₱0.0046 per share with a total amount of ₱2.9 million to the stockholders of the Parent Company's preferred shares on record as of May 3, 2018, payable on May 29, 2018.

f. On April 6, 2018, the BOD approved the redemption of 15,859,882 preferred shares at ₱0.40 per share amounting to ₱6.3 million from the stockholders of the Parent Company's preferred shares on record as of May 3, 2018, payable on or before May 30, 2018.

42. Approval of Consolidated Financial Statements

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 6, 2018.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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

The Board of Directors and 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 (PSAs) the consolidated financial statements of House of Investments, Inc. and its subsidiaries (the Group) as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017 included in this Form 17-A, and have issued our report thereon dated April 6, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules I, II, III and V listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule No. 68, As Amended (2011), 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-A (Group A),
March 8, 2016, valid until March 8, 2019
Tax Identification No. 242-019-387
BIR Accreditation No. 08-001998-117-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621276, January 9, 2018, Makati City

April 6, 2018

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON SRC RULE 68 AS AMENDED

DECEMBER 31, 2017

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

Below are the additional information and schedules required by SRC Rule 68, As Amended (2011), that are relevant to the Group. This information is presented for 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 Group is not required to disclose the financial assets in equity securities as the total available-for-sale securities amounting ₱449.6 million do not constitute 5% or more of the total current assets of the Group as at December 31, 2017.

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

Below is the schedule of advances to employees of the Group with balances above ₱100,000 as of December 31, 2017:

Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of year
		(In Thousands)		
EEI				
Macapagal, Norman K.	₱1,532	₱163	₱163	₱1,532
Alonzo, Antonina J.	121	–	–	121
Burgos, Manuel B.	108	11	11	108
Albarda, John Christian	167	–	44	123
Largosta, Christopher M.	150	–	42	108
Bernal, Edgardo A.	126	150	–	276
Alcaraz, Jimmy S.	173	–	30	143
Bundalian, Rolando S.	102	1	1	102
Tampos Jr. Eduardo C.	113	190	62	241
Puyat, Gil S.	168	700	588	280
Agtoto, Jerry O.	–	100	–	100
Menchero, Fortunato S.	–	250	71	179
Nicol, Franklyn N.	–	185	60	125
Padrique, Danilo N.	–	118	18	100
Penas, Abrilleno F.	–	209	41	168
Saludadez, Juanito T.	–	120	–	120
Satur, Salustiano O.	–	120	8	112
Lachica, Ryan H.	–	199	82	117
Abrenica, Frances Estrella S.	–	1,189	832	357
Espiritu, Jaime S.	–	108	–	108
Montecalvo, Dennis S.	–	108	–	108
Villanueva, Jose P.	–	104	–	104
Bayeta, Eddie S.	–	118	–	118
Muyco, Roberto P.	–	171	–	171
Nacpil, Almario R.	–	348	–	348
Zulueta, Reynaldo S.	–	105	1	104
Marco, Dindo H. Realin	668	–	–	668
	₱3,428	₱4,767	₱2054	₱6,141

Forward

Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of year
		(In Thousands)		
iPeople				
Robielos, Rex Aurelius	₱–	₱621	₱–	₱621
Tiongco, Danilo R.	–	463	46	417
Mercado, Julius Ceasar P.	–	398	–	398
Costales, Aloysius Nathaniel	520	–	130	390
Camacho, Margarita		399	15	384
Hofilena, Joy	122	253	–	375
Kikuchi, Khristian	106	268	–	374
Medrano, Anthony	–	371	–	371
Salayo, John Vincent	–	371	–	371
Austria, Maria Rhodora	–	367	–	367
Agbulos, Erlin C.	402	–	89	313
Sabino, Lilibeth	–	366	57	309
Lanusa, Dionisa	–	318	16	302
Gochioco, Geraldine	370	–	72	298
Salvacion, Jonathan	483	–	197	286
Songsong, Maribel	347	–	74	273
Francisco, Ruth C.	310	–	78	232
Adanza, Carina Victoria T.	297	–	75	222
Sauquillo, Dante	288	–	76	212
Tablante, Dennis H.	4	388	215	177
Doma, Bonifacio T. Jr.	–	190	14	176
Papas, Aileen Kate A.	244	–	89	155
Ballado, Alejandro Jr.	220	–	73	147
Balan, Ariel Kelly	217	–	73	144
Geguiento, Edgardo P.	240	–	110	130
Camus, Rosette Eira	198	–	73	125
	₱4,368	₱4,773	₱1,572	₱7,569
HI-Parent				
Panelo, Danilo P	₱425	₱21	₱104	₱342
De Lara, Ma. Elisa	405	29	113	322
Nuguid, Marissa P.	–	532	233	298
Cacho, Chona B.	–	551	253	298
Villegas, Sonia P	315	22	129	208
Bassig, Clarissa	304	16	84	237
Cajes, Cieolo M..	297	129	289	137
Joven, Ma. Esperenza F	289	23	114	198
Galang, Alexander G.	282	35	92	226
Tanjangco, Joey A.	273	20	116	177
Monserate, Lalaine Pena	–	934	458	476
Apsay, Christopher	–	223	46	177
Bautista, Maria Teresa	–	546	215	331
	₱2,590	₱3,081	₱2,246	₱3,427
Total	₱10,386	₱12,621	₱5,872	₱17,137

iPeople and HI-Parent's advances mainly pertain to the officers and employees car plan agreements. Such advances are interest-bearing and shall be liquidated on a monthly basis.

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

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

Below is the schedule of receivables (payables) with subsidiaries, which are eliminated in the consolidated financial statements as at December 31, 2017:

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	₱1,342,914	₱4,040,896	(₱4,504,385)	₱–	₱879,425
Dividends receivable	23,500,000	43,000,000	(38,500,000)	–	28,000,000
	24,842,914	47,040,896	(43,004,385)	–	28,879,425
Greyhounds Security and Investigation Agency Corporation					
Due from affiliates	1,021,952	2,588,686	(2,820,591)	–	790,047
Investment Managers, Inc.					
Due from affiliates	544,887	6,416,705	(6,562,943)	–	398,649
Dividends receivable	1,300,000	750,000	(1,300,000)	–	750,000
	1,844,887	7,166,705	(7,862,943)	–	1,148,649
iPeople, inc. and subsidiaries					
Due from affiliates	9,940,613	60,903,460	(61,980,078)	–	8,863,995
Dividends receivable	14,062,201	175,125,779	(130,323,302)	–	58,864,678
	24,002,814	236,029,239	(192,303,380)	–	67,728,673
EEI Corporation and subsidiaries					
Due from affiliates	1,726,385	4,933,351	(6,047,916)	–	611,820
Zamboanga Industrial Finance Corporation					
Dividends receivable	–	1,300,000	(1,300,000)	–	–
Hexagon Lounge, Inc.					
Due from affiliates	–	63,079	(63,079)	–	–
Xamdu Motors, Inc.					
Due from affiliates	–	250	–	–	–
	₱53,438,952	₱299,122,206	(₱253,402,294)	–	₱99,158,614

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, 2017, the Group's intangible assets consist of goodwill and computer software. Goodwill in the Group's consolidated statements of financial position arose from the acquisition of EEI, iPeople, and Honda Cars Group. Details of the Group's intangible assets are as follows:

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	₱471,357,459	₱–	₱–	₱–	₱–	₱471,357,459
Computer Software	13,772,672	18,774,291	(19,070,775)	–	–	13,476,188
	₱485,130,131	₱18,774,291	(₱19,070,775)	₱–	₱–	₱484,833,647

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 syndicated bank loan payable within ten (10) years which shall commence after three (3) years from the date of issue with a floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of two percent (2.0%) per annum or (ii) the BSP overnight rate plus a spread of 1.5%.	₱578,830,549	₱53,075,456	₱525,755,093
Peso-denominated syndicated bank loan payable within ten (10) years which shall commence after three (3) years from the date of issue with a fixed rate per annum based on the highest of (i) five (5) - year PDST-F, plus a spread of two percent (2.0%) per annum or (ii) floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of two percent (2.0%) per annum or (ii) the BSP overnight rate plus a spread of 1.5% or (iii) 5.5% per annum.	578,830,550	53,075,456	525,755,094
Peso-denominated five (5) year term loan, payable quarterly starting March 2016 with interest of 5.11% per annum	300,000,000	100,000,000	200,000,000
EEI			
Fixed-rate corporate promissory notes with effective interest of 5.1667% and 5.1875% per annum for seven (7) years	875,000,002	214,285,715	660,714,287
EEI Power			
Peso-denominated seven (7) year term loan, payable quarterly starting June 2014 with interest of 6.0% per annum inclusive of two-year grace period on principal amortization	339,285,713	71,428,571	267,857,142
	₱2,671,946,814	₱491,865,198	₱2,180,081,616

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

As at December 31, 2017, 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, 2017.

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	615,996,114	294,759,570	2,695,400	318,541,144
Preferred shares	2,500,000,000	634,395,272	237,974,016	−	396,421,256

HOUSE OF INVESTMENTS, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

Unappropriated retained earnings, beginning	₱2,302,203,340
Less: Deferred tax asset	(9,386,176)
Treasury shares	(2,607,600)
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning	2,290,209,564
Net income during the year closed to retained earnings	349,138,212
Less movement in deferred tax asset that increased net income	–
Net income actually earned during the period	349,138,212
Dividend declared	63,068,621
UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, ENDING	**₱2,576,279,155**

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS
[which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2017:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions		✓*	
PFRS 3 (Revised)	Business Combinations			✓

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓*	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Amendments to PFRS 7: Hedge Accounting			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments		✓*	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		✓*	

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓**	
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities – Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓*	
	Amendments to PFRS 15, Clarifications to PFRS 15		✓*	
PFRS 16	Leases		✓*	

**Not early adopted*
***Effectivity was deferred by the Financial Reporting Standards Council*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1, Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16: Agriculture -Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 28 (Amended)	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓**	
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		✓*	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		

**Not early adopted*
***Effectivity was deferred by the Financial Reporting Standards Council*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Transfers of Investment Property		✓*	
PAS 41	Agriculture			✓
	Amendments to PAS 41: Agriculture – Bearer Plants			✓
Annual Improvements to PFRSs				
Improvements to PFRSs (2008)		✓		
Improvements to PFRSs (2009)		✓		
Improvements to PFRSs (2010)		✓		
Annual Improvements to PFRSs (2009-2011 Cycle)		✓		
Annual Improvements to PFRSs (2010-2012 Cycle)		✓		
Annual Improvements to PFRSs (2011-2013 Cycle)		✓		
Annual Improvements to PFRSs (2012-2014 Cycle)		✓		
Annual Improvements to PFRSs (2014-2016 Cycle)			✓**	

**Not early adopted*
***Only amendment to PFRS 12, Clarification of the Scope of the Standard, was adopted in 2017. The amendment to PAS 28, Measuring an Associate or Joint Venture at Fair Value will be adopted in 2018.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓*	
IFRIC 23	Uncertainty over Income Tax Treatments		✓*	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**Not early adopted*

HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS AS OF
DECEMBER 31, 2017 AND 2016

Financial Soundness Indicator

Below are the financial ratios that are relevant to the Group for the year ended December 31, 2017 and 2016:

Financial ratios		2017	2016
Current ratio	Current assets / Current liabilities	**0.98:1**	1.10:1
Solvency ratio	Net income plus depreciation / Total liabilities	**0.11:1**	0.06:1
Debt to equity ratio	Total liabilities / Total equity	**1.28:1**	1.31:1
Asset-to-equity ratio	Total assets / Total equity	**2.28:1**	2.31:1
Interest rate coverage	EBIT* / Interest expense	**7.73:1**	2.96:1
Return on assets	Net income / Average total assets	**4.12%**	0.64%
Return on equity	Net income / Average total equity	**9.45%**	1.52%

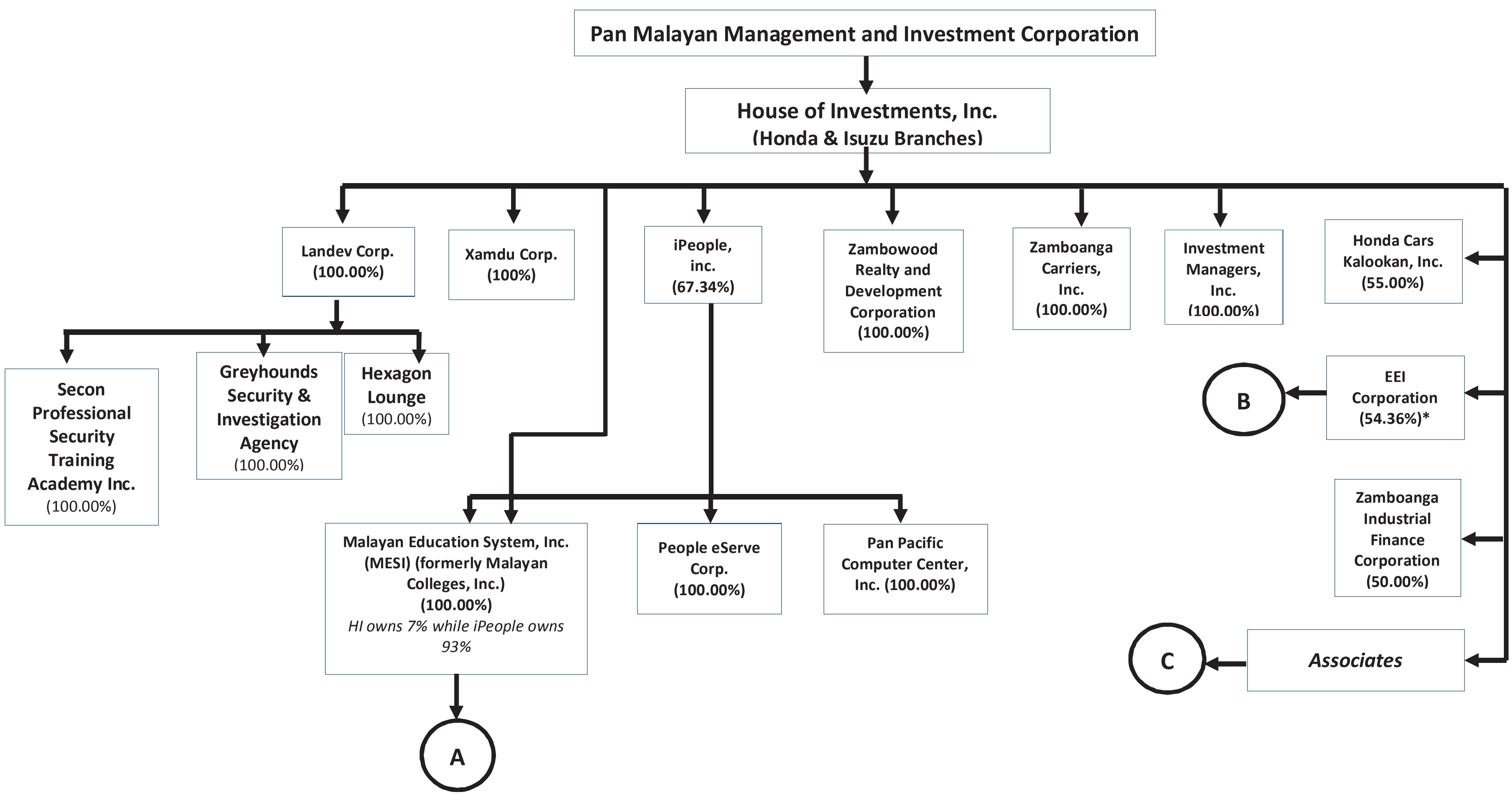
**Earnings before interest and taxes (EBIT)*

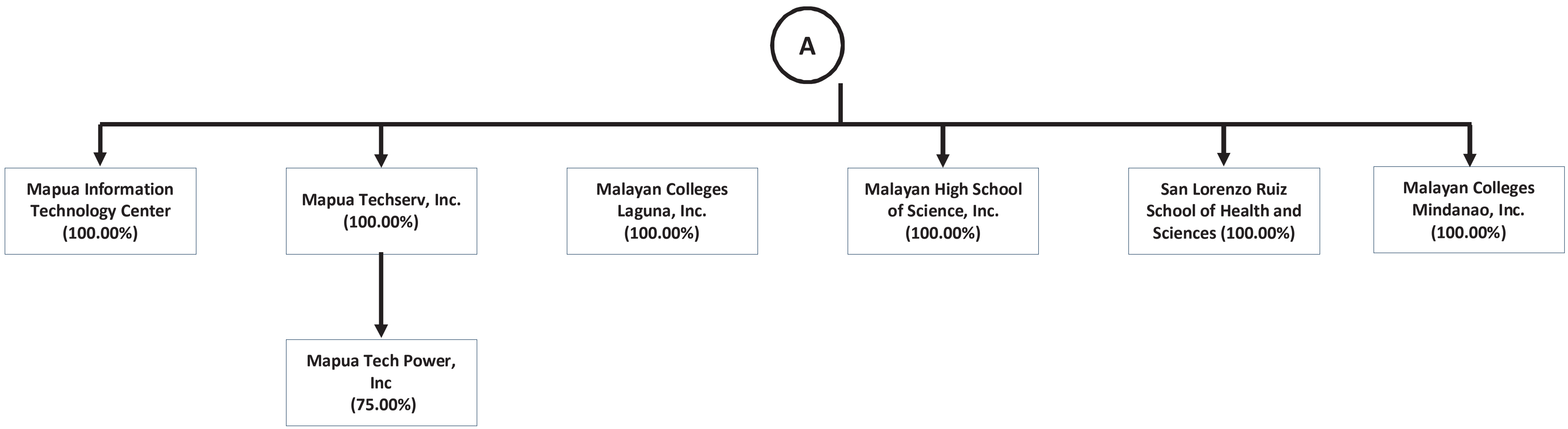
HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

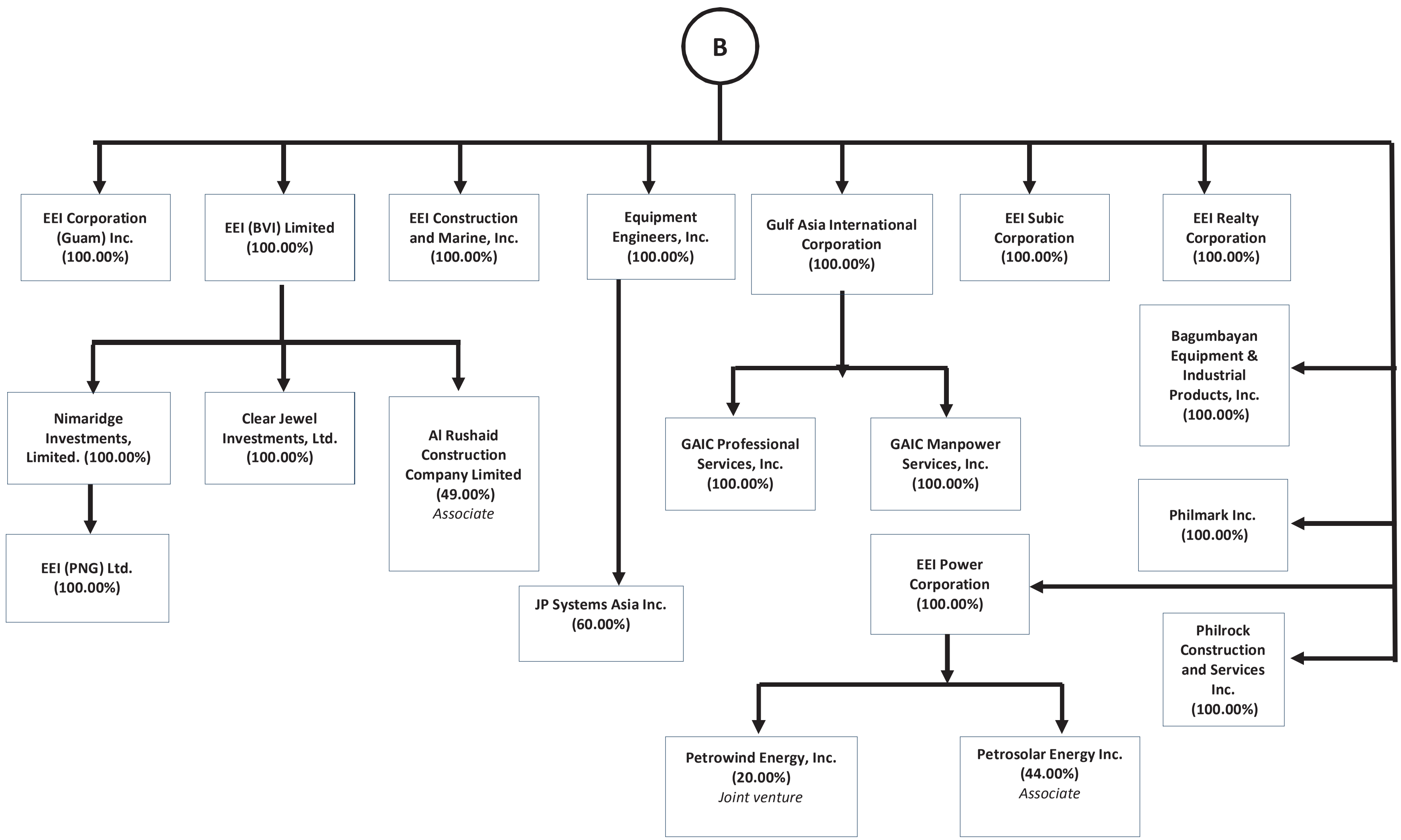
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

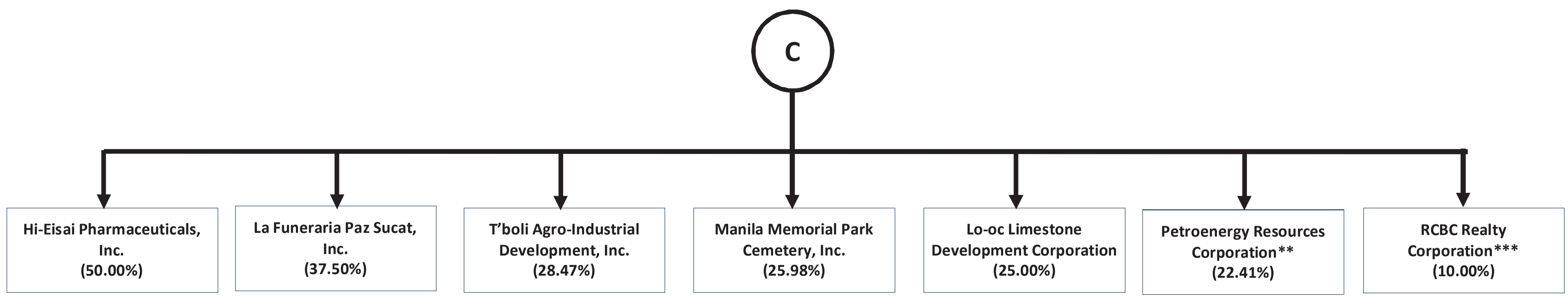
Group Structure

Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as of December 31, 2017:




A
Mapua Information Technology Center (100.00%)
Mapua Techserv, Inc. (100.00%)
Mapua Tech Power, Inc (75.00%)
Malayan Colleges Laguna, Inc. (100.00%)
Malayan High School of Science, Inc. (100.00%)
San Lorenzo Ruiz School of Health and Sciences (100.00%)
Malayan Colleges Mindanao, Inc. (100.00%)


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%)
Philmark Inc. (100.00%)
EEI (PNG) Ltd. (100.00%)
EEI Power Corporation (100.00%)
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*



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

*** On February 21, 2013, significant influence was obtained through piecemeal acquisition. In 2014, the Group purchased additional 6.6 million shares of PERC increased ownership interest from 20.00% to 22.41%.*

**** 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*