VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes		2020		2019
A S S E T S					
CURRENT ASSETS					
Cash	4	**P**	**859,702**	P	10,007,796
Contract and other receivables	5		**1,521,694,277**		1,389,508,103
Other current assets	6		**86,689,909**		78,963,000
Total Current Assets			**1,609,243,888**		1,478,478,899
NON-CURRENT ASSETS					
Contract and other receivables	5		**-**		11,156,723
Property and equipment - net	7		**6,155,331**		9,205,945
Right-of-use assets - net	8		**3,094,879**		-
Refundable deposits	8, 17		**3,001,652**		3,587,233
Deferred tax assets - net	14		**1,993,820**		-
Total Non-current Assets			**14,245,682**		23,949,901
TOTAL ASSETS		**P**	**1,623,489,570**	P	1,502,428,800
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Trade and other payables	9	**P**	**1,173,105,775**	P	1,075,673,698
Notes payable	10		**163,995,733**		120,586,535
Lease liabilities	8		**1,358,668**		-
Due to related parties	15		**70,807,810**		100,435,384
Total Current Liabilities			**1,409,267,986**		1,296,695,617
NON-CURRENT LIABILITIES					
Post-employment obligation	13		**7,720,026**		-
Deferred tax liability - net	14		**-**		2,643,976
Total Non-current Liabilities			**7,720,026**		2,643,976
Total Liabilities			**1,416,988,012**		1,299,339,593
EQUITY	16				
Capital stock			**8,570,200**		8,570,200
Retained earnings			**197,931,358**		194,519,007
Total Equity			**206,501,558**		203,089,207
TOTAL LIABILITIES AND EQUITY		**P**	**1,623,489,570**	P	1,502,428,800

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CONTRACT REVENUES	5	P 853,366,060	P 1,090,708,881
CONTRACT COSTS	11	759,325,725	952,294,880
GROSS PROFIT		94,040,335	138,414,001
OTHER CHARGES - Net			
Other operating expenses	11	150,528,144	114,848,081
Other operating income	12	(60,543,953)	(1,865,533)
		89,984,191	112,982,548
PROFIT BEFORE TAX		4,056,144	25,431,453
TAX EXPENSE	14	(643,793)	(7,890,349)
NET INCOME		3,412,351	17,541,104
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		P 3,412,351	P 17,541,104

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Note	**2020**	2019
CAPITAL STOCK	16	**P 8,570,200**	P 8,570,200
RETAINED EARNINGS	16		
Appropriated			
Balance at beginning of year		**180,000,000**	140,000,000
Appropriation during the year		**-**	50,000,000
Reversal of appropriation during the year		**-**	(10,000,000)
Balance at the end of year		**180,000,000**	180,000,000
Unappropriated			
Balance at beginning of year		**14,519,007**	36,977,903
Net profit for the year		**3,412,351**	17,541,104
Appropriation during the year		**-**	(50,000,000)
Reversal of appropriation during the year		**-**	10,000,000
Balance at end of year		**17,931,358**	14,519,007
		197,931,358	194,519,007
TOTAL EQUITY		**P 206,501,558**	P 203,089,207

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 4,056,144	P 25,431,453
Adjustments for:			
Interest expense	8, 10	18,823,355	8,125,722
Depreciation and amortization	7, 8	8,254,819	6,903,142
Unrealized foreign currency loss (gain) - net		5,717,698	(12,270,917)
Interest income	4, 12	(54,958)	(33,839)
Operating profit before working capital changes		36,797,058	28,155,561
Increase in contract and other receivables		(140,785,326)	(326,346,796)
Increase in other current assets		(13,706,435)	(1,859,963)
Decrease in refundable deposits		11,615,332	31,012
Increase in trade and other payables		100,322,962	198,593,922
Increase (decrease) in due to related parties		(29,627,574)	18,538,116
Increase in retirement benefit obligation		7,720,026	-
Cash used in operations		(27,663,957)	(82,888,148)
Cash paid for income taxes		(10,992)	(6,768)
Net Cash Used in Operating Activities		(27,674,949)	(82,894,916)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	7	(1,584,424)	(3,643,665)
Interest received	4, 12	54,958	33,839
Net Cash Used in Investing Activities		(1,529,466)	(3,609,826)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	10	163,995,733	83,177,691
Repayment of notes payable	10	(120,586,535)	(12,500,000)
Interest paid	10	(18,493,436)	(8,125,722)
Payment of lease liabilities	8	(4,850,010)	-
Net Cash From Financing Activities		20,065,752	62,551,969
Effect of Foreign Exchange Rate Changes on Cash		(9,431)	9,761
NET DECREASE IN CASH		(9,148,094)	(23,943,012)
CASH AT BEGINNING OF YEAR		10,007,796	33,950,808
CASH AT END OF YEAR		P 859,702	P 10,007,796

Supplemental Information on Non-cash Financing Activity –

1) In fiscal year 2020, the Company recognized right-of-use assets and lease liabilities amounting to P6.7 million and P5.9 million, respectively, of which only P4.9 million involved cash transactions (see Note 8).

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

VA Tech Wabag (Philippines) Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 21, 2011, and started its commercial operations on the same date. The Company is incorporated to provide general, process and civil works and other services relating to water and wastewater treatment plant, pumping stations and piping networks.

The Company is a wholly owned subsidiary of VA Tech Wabag Limited (the parent company), a company incorporated and domiciled in India. The parent company is primarily engaged in the planning, completion and operation of drinking water and wastewater plants for both the municipal and industrial sectors. The parent company's shares of stock are listed in the National Stock Exchange of India Ltd.

The Company's registered office address, which is also its principal place of business, is located at 7th Floor, Peninsula Court Building, 8735 Paseo de Roxas Avenue, Makati City. The registered office address of the parent company is at No. 17, 200 Feet Thoraipakkam – Pallavaram Main Road, Sunnambu Kolathur, Chennai, IN-600 117, India.

1.2 Status of Operations

The Company and other Philippine businesses have been significantly exposed to the risks brought about by the outbreak of the new coronavirus disease (COVID-19). The Company's management has determined such circumstance to adversely affect the health, safety, logistics and productivity of its employees and impede other operational aspects of the Company. Relative to this, in addition to protocols required by the Philippine Government, the Company has implemented measures to mitigate the transmission of COVID-19 such as restricting and limiting international and domestic business travels, respectively, limiting face-to-face meetings, and implementing health protocols for employees. The Company has also activated its business continuity procedures.

The management anticipates that the prolonged suspension of businesses could negatively impact the Company's financial condition and operations. The management is yet to assess possible financial impact but will make the assessment moving forward in consideration of circumstances at present and in the foreseeable future. Despite this, management projects that the Company will remain sufficiently liquid to cope with the current situation. Accordingly, the Company is not and does not expect to be in default of its financial obligations as at March 31, 2020 and as at the date of the issuance of the financial statements.

1.3 Approval of Financial Statements

The financial statements of the Company as of and for the fiscal year ended March 31, 2020 (including the comparative financial statements as of and for the fiscal year ended March 31, 2019) were authorized for issue by the Company's Board of Directors (BOD) on June 29, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income, expenses and other comprehensive income, if any, in a single statement of comprehensive income.

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in Fiscal Year 2020 that are Relevant to the Company

In fiscal year 2020, the Company adopted for the first time the following new standards, interpretations, amendments and annual improvements to existing standards which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization

Following are the relevant information about these pronouncements.

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan.

The application of these amendments had no impact on the Company's financial statements as there were no plan amendments, curtailment, or settlement made in 2020.

(ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Company's financial statements since the Company had no such financial assets as at March 31, 2020.

(iii) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives*, and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Company has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at April 1, 2019. However, the adoption did not result in any adjustment to the opening balance of Retained Earnings for the current period since the right-of-use assets recognized were measured at an amount equal to the lease liabilities adjusted by prepayments relating to the leases at the date of initial application. Accordingly, comparative information was not restated.

The new accounting policies of the Company as a lessee are disclosed in Note 2.11(a).

Discussed as follows are the relevant information arising from the Company's adoption of PFRS 16 and how the related accounts are measured and presented on the Company's financial statements as at April 1, 2019.

a. For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of April 1, 2019. The Company's incremental borrowing rate applied to the lease liabilities on April 1, 2019 was 9.7%.

c. The Company has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Company also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments and estimated cost to restore the leased asset that existed as at April 1, 2019.

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at April 1, 2019. Prepayments relating to the applicable leases were adjusted to the right-of-use assets at the date of initial application.

	Note	Carrying Amount (PAS 17) March 31, 2019	Reclassification	Remeasurement	Carrying Amount (PFRS 16) April 1, 2019
Assets:					
Other current assets		P 708,929	(P 708,929)	P -	P -
Other non-current assets		941,196	(126,972)	-	814,224
Right-of-use assets – net	8.1	-	835,901	5,878,759	6,714,660
Liabilities –					
Lease liabilities	8.2	-	-	(5,878,759)	(5,878,759)
Impact on net assets			P -	P -	

A reconciliation of the opening lease liabilities recognized at April 1, 2019 and the total operating lease commitments determined under PAS 17 at March 31, 2019 is shown below.

	Notes		
Operating lease commitments, March 31, 2019 (PAS 17)	17.1	P	6,287,010
Discount using incremental borrowing rate	2.2(a)(iii)(b)	(	408,251)
Operating lease liabilities, April 1, 2019 (PFRS 16)		P	5,878,759

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments.* The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation had no significant impact on the Company's financial statements as the Company has no tax items with vague interpretations as to taxability.

(v) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements.

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends.* The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

(b) Effective in Fiscal Year 2020 that is not Relevant to the Company

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Company's financial statements:

PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
Annual Improvements to PFRS (2015-2017 Cycle) PFRS 3 and PFRS 11 (Amendments)	:	Business Combination and Joint Arrangements – Remeasurements of Previously Held Interests in a Joint Operation

(c) Effective Subsequent to Fiscal Year 2020 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2019 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency.

(ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

2.3 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation.* All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Company commits to purchase or sell the asset).

(a) *Classification and Measurement of Financial Assets*

The classification and measurement of financial assets are driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, all of the Company's financial assets are classified as financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash, Contract and Other Receivables (excluding advances to suppliers), and Refundable Deposits (the current portion of which is presented as part of Other Current Assets account).

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

For purposes of cash flows reporting and presentation, cash includes cash on hand and demand deposits readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of comprehensive income as part of Other Operating Income.

(b) *Impairment of Financial Assets*

The Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. The Company considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

For financial assets with no significant financing component, the Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for financial assets at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Company recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

(c) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Other Assets

Other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably. These are subsequently charged to profit or loss as utilized or reclassified to another asset account, if capitalizable.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.5 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expenses as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The depreciation and period for property and equipment are as follows:

Transportation equipment	5 years
Office furniture and equipment	3 years

Amortization of leasehold improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter.

If there is an indication that there has been a significant change in the useful life or residual value of an asset, the depreciation or amortization of that asset is revised prospectively to reflect the new expectations.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

An item of property and equipment, including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

2.6 Financial Liabilities

Financial liabilities, which include trade and other payables (except tax-related payables and advances from customers), notes payable, lease liabilities, and due to related parties, are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss and presented as part of Other Operating Expenses account in the statement of comprehensive income.

Notes payable were availed of for working capital requirements. Finance charges are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables, lease liabilities, and due to related parties are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method for those with maturities beyond one year, less settlement payments. Lease liabilities are recognized as described in Note 2.11(a).

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.8 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, these are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.9 Revenue and Expense Recognition

Revenue arises mainly from rendering of construction services.

To determine whether to recognize revenue, the Company follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing, or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The Company often enters into transactions involving construction services and other contracts containing performance obligations, such as engineering services, with counterparties.

Revenue from construction services is recognized over time as the service is provided. The Company uses the percentage-of-completion method to determine the appropriate amount to recognize as contract revenue in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. Revenue from other contracts containing performance obligations, such as engineering services, are also recognized as the performance obligations are fulfilled over time.

The Company presents a contract asset when it transfers control of goods or performs services before the customer pays consideration or before payment is due. A contract asset is the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer.

The Company presents a contract liability when a customer pays the consideration, or the Company has the right to an amount of consideration that is unconditional (i.e., a receivable), before the Company transfers goods or performs services to the customer. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

Contract liability also includes cash received from customers which are applied to subsequent progress billings for construction contracts and are presented as Advances from customers under Trade and Other Payables account in the statement of financial position (see Note 9).

The Company incurs incremental costs in obtaining customer contracts (i.e., biddings costs on construction contracts). These costs are expensed when incurred as these are incurred regardless whether the contract is obtained and is presented as part of under Other Operating Expenses account in the statement of comprehensive income.

The Company also incurs costs in fulfilling contracts with customers. These costs are divided into: (i) costs that give rise to an asset; and, (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Company first considers any other applicable standards. If other standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Company applies the following criteria, which, if met, result in capitalization:

(i) the costs directly relate to a contract or to a specifically identifiable anticipated contract;
(ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and,
(iii) the costs are expected to be recovered.

2.10 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos, its functional currency. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.11 Leases – Company as a Lessee

(a) Accounting for Leases in Accordance with PFRS 16 (2020)

For any new contracts entered into on or after April 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.13).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from property and equipment and other liabilities, respectively.

(b) Accounting for Leases in Accordance with PAS 17 (2019)

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific or identified asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration.

2.12 Employee Benefits

The Company's employee benefits are recognized and measured as follows:

(a) Post-employment Benefit Plan

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. In fiscal year 2020, the Company, however, is already covered by Republic Act (R.A.) No. 7641, *The Retirement Pay Law*, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. No. 7641.

Accordingly, the Company accounts for its retirement obligation under the higher of the obligation arising from the defined contribution plan and the defined benefit plan relating to the minimum guarantee.

The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation, computed based on the minimum requirements provided by R.A. No. 7641, at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg through its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

The Company's retirement benefit obligation accounted for as defined contribution plan is recorded as Post-employment Defined Obligation in the 2020 statement of financial position.

(b) Compensated Absences

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

2.13 Impairment of Non-financial Assets

The Company's property and equipment, right-of-use assets, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.14 Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or current tax liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.16 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; and, (b) individuals owning directly or indirectly, an interest in the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Retained earnings, the appropriated portion of which is not available for distribution, represent all current and prior period results of operations as reported in the profit or loss section of the statements of comprehensive income, reduced by the amount of dividends declared, if any.

2.18 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of ECL on Contract and Other Receivables

The Company uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due (age buckets). The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's contract and other receivables are disclosed in Note 18.2.

(b) Determination of Timing of Satisfaction of Performance Obligations

The Company determines that its revenue from construction services shall be recognized over time. In making its judgment, the Company uses the percentage-of-completion method to determine the appropriate amount to recognize as contract revenue in a given period. The Company provides the construction services without the need of reperformance of other companies. This demonstrates that the customers simultaneously receive and consume the benefits of the Company's rendering of construction services as it performs.

In determining the best method of measuring the progress of the Company's rendering of construction services, management considers the input method under PFRS 15 because of the direct relationship between the Company's effort, in terms of incurred contract costs, and the transfer of service to the customer.

(c) Determination of Transaction Price and Amounts Allocated to Performance Obligations

The transaction price for a contract is allocated amongst the material right and other performance obligations identified in the contract based on their stand-alone selling prices, which are all observable. The transaction price for a contract excludes any amounts collected on behalf of third parties [e.g., value-added taxes (VAT)].

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and disclosures on relevant provisions and contingencies are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

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

(a) Revenue Recognition Using the Percentage-of-Completion Method

The Company uses the percentage-of-completion method in accounting for its construction contract revenues and costs. Relative to the adoption of PFRS 15 in 2019, the use of the percentage-of-completion method requires the Company to estimate the stage of completion based on its efforts or inputs (i.e., actual costs incurred) to the satisfaction of a performance obligation relative to the total expected construction costs to be incurred on a per project basis.

Review of the benchmarks set by management necessary for the determination of percentage-of-completion is done regularly. Actual data is being compared to the related benchmarks and critical judgment is exercised to assess the reliability of the percentage-of-completion procedures which are currently in place and make the necessary revisions in the light of current progress. If the proportion of the percentage-of-completion projects or the total estimated costs per project differs from management's estimates, the amount of profit or loss would have changed.

(b) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2020)

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(c) Estimation of Allowance for ECL

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

The Company uses credit loss rate approach to calculate ECL for trade and other receivables. The provision rates are based on historical credit loss with forward-looking information (i.e., forecast of economic condition). The details on how the credit loss rate approach is applied is detailed in Note 18.2(b).

(d) *Estimation of Useful Lives of Property and Equipment and Right-of-use Assets*

The Company estimates the useful lives of property and equipment and right-of-use assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. For the right-of-use assets, the Company bases the useful lives on the lease terms agreed upon in each lease contract.

The carrying amounts of property and equipment and right-of-use assets are analyzed in Notes 7 and 8, respectively. Based on management's assessment as at March 31, 2020 and 2019, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

The Company reviews its deferred tax assets at the end of the reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets as at March 31, 2020 and 2019 is fully recoverable within the next two to three years based on management's analysis and estimate (see Note 14).

(f) *Evaluation of Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Certain non-financial assets were deemed to be impaired by management, as described in Note 6.

(g) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the higher of the obligation arising from the fixed payments in the defined contribution plan and the defined benefit plan relating to the minimum guarantee. The minimum guarantee is equivalent to a percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provision of R.A. No. 7641.

The liability recognized in the statement of financial position is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds using BVAL, with reference to the remaining years in service of qualified employees.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit are presented in Note 13.2.

4. CASH

This account is composed of the following:

	2020	2019
Cash in banks	**P 290,509**	P 9,692,002
Cash on hand	**569,193**	315,794
	P 859,702	P 10,007,796

Cash in banks generally earn interest based on daily bank deposit rates. Interest income earned for the years ended March 31, 2020 and 2019 amounted to P54,958 and P33,839, respectively, and is recorded as part of Other Operating Income in the statements of comprehensive income (see Note 12).

5. CONTRACT AND OTHER RECEIVABLES

This account is composed of the following:

	Note	**2020**	2019
Current:			
Construction contract receivables:	15.1		
Unbilled		**P1,012,849,807**	P 1,291,406,205
Billed		**456,691,184**	87,941,209
		1,469,540,991	1,379,347,414
Advances to suppliers		**37,631,496**	3,965,905
Retention receivables		**11,067,287**	-
Others		**3,454,503**	6,194,784
		1,521,694,277	1,389,508,103
Non-current –			
Retention receivables		**-**	11,156,723
		P1,521,694,277	P 1,400,664,826

Construction contract receivables pertain to receivables from customers for contract revenue recognized over the period of the contract based on the percentage-of-completion. Portion of this remain unbilled due to pending required documentations as set out in the agreements. These documents include signed contract and approved unit cost estimate for variation order, testing certificates and manuals.

The contract revenues were presented in the statements of comprehensive income as Contract Revenues amounting to P853.4 million and P1,090.7 million for the fiscal years ended March 31, 2020 and 2019, respectively. Contract costs incurred and recognized related to contracts in progress for the fiscal years ended March 31, 2020 and 2019 amounted to P759.3 million and P952.3 million, respectively, and is presented as Contract Costs in the statements of comprehensive income (see Note 11.2).

As of March 31, 2020 and 2019, retention receivables amounted to P11.1 million and P11.2 million, respectively. Retention receivables pertain to payments for receivables withheld by the customer until the completion of the project. In 2020, the projects to which the retention receivables relate to are expected to be completed within 12 months; hence, all retention receivables are classified as current as of March 31, 2020.

Advances to suppliers pertain to advances made for construction materials and other items used in operations. These include international and domestic suppliers.

Other receivables include salary loans provided by the Company to its employees.

The Company's contract and other receivables were assessed for any ECL using the provisional matrix determined by the management. Based on the matrix, none of the receivables are deemed to be impaired as of March 31, 2020 and 2019 [see Note 18.2(b)].

6. OTHER CURRENT ASSETS

The composition of this account is shown below.

	Notes	**2020**	2019
Creditable withholding tax		**P 38,007,371**	P 19,161,680
Input VAT	20(b)	**24,635,707**	6,399,350
Advances for liquidation		**15,684,733**	11,553,406
Prepaid taxes		**4,973,622**	20,023,169
Prepaid insurance		**2,715,946**	8,478,440
Refundable deposits	8, 17.1	**2,892,750**	1,389,509
Deferred VAT receivable		**-**	9,925,834
Prepaid rent		**-**	2,031,612
		88,910,129	78,963,000
Allowance for impairment	11.1	**(2,220,220)**	-
		P 86,689,909	P 78,963,000

Advances for liquidation pertain to advances to employees for the daily expenditures of the Company.

Prepaid insurance pertains to insurance policies covering the Company's performance bonds related to its ongoing projects. In 2020, certain insurance policies expired which were renewed by the Company in the same period but were also fully amortized during the fiscal year.

Prepaid taxes include custom duties paid in advance by the Company. In 2020, unsupported creditable withholding taxes amounting to P2.2 million were assessed to be impaired; hence, a loss on impairment was recognized under Other Operating Expenses in the 2020 statement of comprehensive income (see Note 11.1).

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2020 and 2019 are as follows:

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
Cost	P 11,704,688	P 13,552,910	P 11,493,402	P 36,751,000
Accumulated depreciation and amortization	(7,859,285)	(11,310,902)	(11,425,482)	(30,595,669)
Balance at March 31, 2020, net of accumulated depreciation and amortization	**P 3,845,403**	**P 2,242,008**	**P 67,920**	**P 6,155,331**
Cost	P 10,791,327	P 12,881,847	P 11,493,402	P 35,166,576
Accumulated depreciation and amortization	(5,979,233)	(9,710,250)	(10,271,148)	(25,960,631)
Balance at March 31, 2019, net of accumulated depreciation and amortization	P 4,812,094	P 3,171,597	P 1,222,254	P 9,205,945
Cost	P 10,270,791	P 9,846,718	P 11,405,402	P 31,522,911
Accumulated depreciation and amortization	(4,357,947)	(8,035,000)	(6,664,542)	(19,057,489)
Balance at April 1, 2018, net of accumulated depreciation and amortization	P 5,912,844	P 1,811,718	P 4,740,860	P 12,465,422

A reconciliation of the carrying amounts of property and equipment at the beginning and end of fiscal years 2020 and 2019 is shown below.

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
Balance at April 1, 2019 net of accumulated depreciation and amortization	P 4,812,094	P 3,171,597	P 1,222,254	P 9,205,945
Additions	913,361	671,063	-	1,584,424
Depreciation and amortization charges for the year	(1,880,052)	(1,600,652)	(1,154,334)	(4,635,038)
Balance at March 31, 2020, net of accumulated depreciation and amortization	**P 3,845,403**	**P 2,242,008**	**P 67,920**	**P 6,155,331**
Balance at April 1, 2018 net of accumulated depreciation and amortization	P 5,912,844	P 1,811,718	P 4,740,860	P 12,465,422
Additions	520,536	3,035,129	88,000	3,643,665
Depreciation and amortization charges for the year	(1,621,286)	(1,675,250)	(3,606,606)	(6,903,142)
Balance at March 31, 2019, net of accumulated depreciation and amortization	P 4,812,094	P 3,171,597	P 1,222,254	P 9,205,945

Depreciation and amortization is presented under Other Operating Expenses account in the statements of comprehensive income (see Note 11.1). Cost of fully depreciated assets still in use as of 2020 and 2019 amount to P22.2 million and P13.0 million, respectively.

8. LEASES

The Company is a lessee under non-cancellable operating leases covering office spaces, each with terms of one year with renewal options. Each lease is reflected in the statement of financial position as a right-of-use asset and as lease liability. The Company classifies its right-of-use assets and lease liabilities as separate line items in the 2020 statement of financial position.

The original lease agreements, which ran from October 1, 2018 to September 30, 2019, were renewed from October 1, 2019 to September 30, 2020; thus, right-of-use assets and lease liabilities were recognized as the leases cover a total of 18 months from the date of the original adoption of PFRS 16 on April 1, 2019.

The required security deposits for the lease agreements as of March 31, 2020 amounting to P0.8 million are presented as Refundable Deposits (presented as part of Other Current Assets account) in the 2020 statement of financial position (see Note 6).

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantial termination fee.

The Company is prohibited from selling or pledging the underlying leased assets as security. Further, the Company is to incur maintenance fees on such items in accordance with the lease contracts.

8.1 Right-of-use Assets

The carrying amounts of the Company's right-of-use assets as at March 31, 2020 and the movements during the period are shown below.

Balance at the beginning of year	P 6,714,660
Amortization	(3,619,781)
Balance at end of year	**P 3,094,879**

The right-of-use assets are measured at an amount equal to the lease liabilities, as seen in Note 8.2, and adjusted by prepayments relating to those leases at the date of initial application.

Amortization is presented as part of Depreciation and amortization under Other Operating Expenses in the 2020 statement of comprehensive income (see Note 11.1).

8.2 Lease Liabilities

Lease liabilities amounting to P1.4 million are presented in the statement of financial position as at March 31, 2020.

The movements in the lease liabilities recognized in the 2020 statement of financial position are as follows:

	Notes	
Balance at the beginning of year		P -
Effect of adoption of PFRS 16	2.2(a)(iii)	5,878,759
As restated		5,878,759
Payment of lease liabilities		(4,850,010)
Accretion of interest	11.1	329,919
Balance at end of year		**P 1,358,668**

8.3 Lease Payments Not Recognized as Liabilities

The Company has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. The Company has no lease commitments in relation to these lease agreements.

The expenses relating to such lease agreements amounted to P7.8 million and is presented as Rentals under Other Operating Expenses in the 2020 statement of comprehensive income (see Note 11 and 17.1).

8.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P12.6 million in fiscal year 2020. Interest expense in relation to lease liabilities amounted to P0.3 million and is presented as part of Interest expense under Other Operating Expenses in the 2020 statement of comprehensive income (see Note 11.1).

9. TRADE AND OTHER PAYABLES

This account consists of:

	Note	**2020**	2019
Trade payables	15.2	**P 447,580,622**	P 542,932,977
Accrued expenses		**484,417,337**	524,922,082
Advances from customers		**229,827,220**	945,603
Withholding tax payable		**2,773,284**	4,348,489
Others		**8,507,312**	2,524,547
		P 1,173,105,775	P 1,075,673,698

Advances from customers include advance payments for ongoing projects, which are subsequently applied to the billings made by the Company. It also includes accommodation of expenses by customers on behalf of the Company, subject to liquidation and reimbursement.

Other payables include other statutory and government dues.

10. NOTES PAYABLE

The reconciliation of the carrying amounts of the Company's notes payable as of March 31, is shown below:

	2020	2019
Balance at the beginning of the year	**P 120,586,535**	P 49,908,844
Availments during the year	**163,995,733**	83,177,691
Settlements made during the year	**(120,586,535)**	(12,500,000)
	P 163,995,733	P 120,586,535

For the current and prior years, the Company obtained unsecured, short-term interest-bearing loans from local banks for working capital requirements. These loans were subject to annual interest rates ranging from 5.00% to 9.75% and 8.00% to 9.70% for the periods ended March 31, 2020 and 2019, respectively.

Interest expense incurred on these loans for the fiscal years ended March 31, 2020 and 2019 amounted to P18.5 million and P8.1 million, respectively, and is presented as Interest expense under Other Operating Expenses account in the statements of comprehensive income (see Note 11.1). There was no unpaid interest as of March 31, 2020 and 2019.

11. OPERATING EXPENSES BY NATURE

11.1 Operating Expense by Nature

The details of operating expenses by nature are shown below.

	Notes	2020	2019
Material cost	15.1, 15.2	**P 434,341,813**	P 579,402,012
Outside services	15.1, 15.2	**145,687,802**	297,915,526
Salaries and wages	13, 15.3	**96,163,682**	72,095,327
Freight charges		**95,380,864**	9,250,767
Transportation, travel and representation		**20,121,118**	19,656,244
Interest expense	8.4, 10	**18,823,355**	8,125,722
Processing fees		**18,312,331**	3,371,259
Bank charges		**12,721,324**	3,420,870
Taxes and licenses	20(f)	**10,487,033**	5,200,778
Insurance		**8,792,952**	16,879,080
Depreciation and amortization	7, 8.1	**8,254,819**	6,903,142
Rentals	8, 17.1	**7,799,625**	16,793,602
Commissions		**6,247,925**	1,626,912
Utilities		**5,869,146**	5,304,717
Professional fees		**4,609,958**	2,967,677
Loss on impairment	6	**2,220,220**	-
Repairs and maintenance		**1,486,646**	2,512,946
Advertising		**731,292**	1,105,879
Miscellaneous		**11,801,964**	14,610,501
		P 909,853,869	P 1,067,142,961

The operating expenses are classified in the statements of comprehensive income as follows:

	Note	2020	2019
Contract costs	11.2	**P 759,325,725**	P 952,294,880
Other operating expenses		**150,528,144**	114,848,081
		P 909,853,869	P 1,067,142,961

11.2 Contract Costs

The details of contract costs are shown as follows:

	Notes	2020	2019
Material cost	15.1, 15.2	**P 434,341,813**	P 579,402,012
Outside services	15.1	**131,128,919**	272,720,752
Freight charges		**95,380,864**	9,250,767
Salaries and wages	13	**38,506,564**	39,673,941
Processing fees	20(c)	**18,312,331**	3,371,259
Transportation, travel and representation		**14,568,681**	9,695,398
Insurance		**8,623,577**	16,480,748
Commissions		**6,247,925**	1,626,912
Rentals		**4,429,523**	9,163,768
Bank charges		**3,081,906**	2,214,797
Utilities		**1,830,507**	1,665,848
Repairs and maintenance		**700,551**	825,894
Miscellaneous		**2,172,564**	6,202,784
	5, 11.1	**P 759,325,725**	P 952,294,880

Freight charges, processing fees, and bank charges are expenses directly related to the Company's importations.

Transportation, travel and representation expense include expenses incurred by the Company's consultants during the design phase of the project.

Commissions pertain to payments made by the Company to consultants that act as intermediary between the Company and its customers computed as percentage of collections.

12. OTHER OPERATING INCOME

The details of other operating income are shown below.

	Notes	2020	2019
Income from other services	15.1	**P 54,502,596**	P -
Foreign currency gains – net		**4,044,861**	1,544,703
Interest income	4	**54,958**	33,839
Others		**1,941,538**	286,991
		P 60,543,953	P 1,865,533

Income from other services in 2020 pertains to the engineering services rendered to the parent company for its project in Thailand (see Note 15.1).

13. EMPLOYEE BENEFITS

13.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below (see Note 11.1).

		2020		2019
Salaries and wages	**P**	**88,443,656**	P	72,095,327
Post-employment benefits		**7,720,026**		-
	P	**96,163,682**	P	72,095,327

The amount of salaries and employee benefits is allocated as follows:

	Note		**2020**		2019
Other operating expenses		**P**	**57,657,118**	P	32,421,386
Contract costs	11.2		**38,506,564**		39,673,941
	11.1	**P**	**96,163,682**	P	72,095,327

13.2 Post-employee Benefits

(a) Characteristics of the Defined Benefit Plan

The Company maintains a non-contributory defined benefit retirement plan covering all regular full-time employees and is computed using the projected unit credit method.

The Company determines its obligation under a defined benefit plan based on the minimum requirement under R.A. No. 7641.

(b) Explanation of Amounts Presented in the Financial Statements

The amounts presented in the 2020 financial statements are based the discounted estimated future cash outflows for expected benefit payments, made with reference to certain information as further discussed in the succeeding paragraph.

The average remaining working lives of an individual retiring at the age of 60 is 16 years. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment benefit obligation. For 2020, the discount rate was determined to be 5%. Other assumptions are based on economic information and management's historical experience.

(c) Funding Arrangements and Maturity Profile

The Company does not have a formal retirement plan, and as such may be liable for P7.7 million as of March 31, 2020. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 16 years' time when a significant number of employees is expected to retire.

14. TAXES

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

	2020	2019
Current tax expense:		
Regular corporate income tax rate (RCIT) at 30%	P 5,270,597	P -
Final tax at 20%	10,992	6,768
Minimum corporate income tax (MCIT) at 2%	-	2,774,020
	5,281,589	2,780,788
Deferred tax expense (income) relating to origination and reversal of temporary difference	(4,637,796)	5,109,561
	P 643,793	P 7,890,349

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of comprehensive income is as follows:

	2020	2019
Tax on pretax profit at 30%	P 1,216,843	P 7,629,436
Adjustments for:		
Non-taxable income	(572,995)	-
Non-deductible expense	5,441	264,297
Income subjected to lower tax rates	(5,496)	(3,384)
Tax expense	P 643,793	P 7,890,349

The net deferred tax assets (liabilities) relate to the following as of March 31:

	Statements of Financial Position		Statements of Comprehensive Income	
	2020	2019	2020	2019
Deferred tax assets:				
MCIT	P 1,037,299	P 1,037,299	P -	(P 1,037,299)
Unrealized foreign exchange loss	1,715,309	-	1,715,309	-
Creditable withholding tax	666,066	-	666,066	-
Retirement benefit obligation	2,316,008	-	2,316,008	-
	5,734,682	1,037,299	4,697,383	(1,037,299)
Deferred tax liabilities:				
Effect of adoption of PFRS 16	(520,863)	-	(520,863)	-
Unrealized foreign exchange gain	(3,219,999)	(3,681,275)	461,276	6,146,860
	(3,740,862)	(3,681,275)	(59,587)	6,146,860
Deferred tax assets (liabilities) – net	P 1,993,820	(P 2,643,976)		
Deferred tax expense (income) – net			P 4,637,796	P 5,109,561

The Company is subject to MCIT, which is computed at 2% of gross income net of allowable deductions, as defined under the tax regulations, or RCIT, whichever is higher. Consequently, the Company is subject to RCIT in 2020, and to MCIT in 2019. For the fiscal years ended March 31, 2020 and 2019, the Company opted to claim itemized deductions for tax purposes.

15. RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, entities under common ownership and key management personnel. The summary of the Company's outstanding balances and significant transactions with its related parties as of and for the fiscal years ended March 31, 2020 and 2019 are as follows:

		2020		2019	
	Note	**Amount of Transactions**	**Outstanding Balance**	Amount of Transactions	Outstanding Balance
Parent Company:					
Services rendered	15.1	**P 54,502,596**	**P 54,502,596**	P -	P -
Technical and consultancy services	15.1	**14,198,733**	**(45,218,794)**	22,668,316	(31,020,061)
Purchases of construction materials	15.1	**9,923,658**	**(15,714,676)**	17,254,431	(60,595,718)
Reimbursements	15.1	**-**	**(4,662,416)**	3,901,378	(5,789,754)
Under Common Ownership:					
Research and development	15.2	**516,798**	**(3,546,649)**	2,685,701	(3,029,851)
Purchases of construction materials	15.2	**1,665,275**	**(1,665,275)**	-	-
Key Management Personnel –					
Key management compensation	15.3	**45,480,066**	**-**	37,744,233	-

The outstanding payables (net of overpayments) from these transactions, shown as Due to Related Parties in the statements of financial position, amounted to P70.8 million and P100.4 million as of March 31, 2020 and 2019, respectively. The outstanding liabilities to related parties are unsecured, noninterest-bearing and generally payable in cash upon demand.

15.1 Transactions with Parent Company

In 2020, the Company provided engineering services to the parent company on one of their projects in Thailand. Revenues earned from this transaction amounting to P54.5 million is presented as part of Other Operating Income in the 2020 statement of comprehensive income (see Note 12). The total amount of the transaction related to these services is still outstanding as at March 31, 2020, and is presented as part of Construction contract receivables under Contract and Other Receivables in the 2020 statement of financial position (see Note 5). There was no similar transaction in 2019.

The parent company also renders technical and consultancy services to the Company. The costs recognized from this transaction for the fiscal years ended March 31, 2020 and 2019 amounted to P14.2 million and P22.7 million, respectively. These are presented as part of Outside services under Contract Costs in the statements of comprehensive income (see Note 11.2). The outstanding payable in relation to these services amounted to P45.2 million and P31.0 million as at March 31, 2020 and 2019 respectively, and is presented as part of Due to Related Parties in the statements of financial position.

The Company purchases construction materials from its parent company for the fiscal years ended March 31, 2020 and 2019 amounting to P9.9 million and P17.3 million, respectively. These are presented as part of Material cost under Contract Costs in the statements of comprehensive income (see Note 11.1 and 11.2). The outstanding payable in relation to these purchases amounted to P16.0 million and P60.6 million as at March 31, 2020 and 2019 respectively, and is presented as part of Due to Related Parties in the statements of financial position.

In 2019, the Company incurred information technology expenses amounting to P3.9 million which was initially paid by the parent company on behalf of the Company. The related expenses are presented as part of Outside services under Other Operating Expenses in the 2019 statement of comprehensive income (see Note 11.1). The outstanding payable in relation to these services amounted to P4.7 million and P5.8 million as at March 31, 2020 and 2019, respectively, and is presented as part of Due to Related Parties in the statements of financial position. There was no similar transaction in 2020.

15.2 Transactions with Related Parties Under Common Ownership

VA Tech Wabag GMBH, Austria, a related party under common ownership, incurred research and development costs on behalf of the Company amounting to P0.5 million and P2.7 million for the fiscal years ended March 31, 2020 and 2019, respectively. These are presented as part of Outside services under Other Operating Expenses in the statements of comprehensive income (see Note 11.1). The outstanding payables in relation to these costs amounted to P3.6 million and P3.0 million as at March 31, 2020 and 2019, respectively, and is presented as part of Trade payables under Trade and Other Payables in the statements of financial position (see Note 9).

In 2020, the Company also purchased construction materials from VA Tech Wabag Austria amounting to P1.7 million. These purchases are included as part of Material cost under Contract Costs in the 2020 statement of comprehensive income (see Note 11.2). The outstanding payable in relation to these purchases amounted to P1.7 million as at March 31, 2020, and is presented as part of Trade payables under Trade and Other Payables in the statements of financial position (see Note 9). There was no similar transaction in 2019.

15.3 Key Management Personnel Compensation

The total remuneration (including salaries and benefits) of the Company's managers and other members of key management amounted to P45.5 million and P37.7 million for the fiscal years 2020 and 2019, respectively. These are presented as part of Salaries and wages under Other Operating Expenses in the statements of comprehensive income (see Note 11.1).

	2020	2019
Short-term benefits	**P 38,772,939**	P 37,744,233
Post-employment benefits	**6,707,127**	-
	P 45,480,066	P 37,744,233

16. EQUITY

16.1 Capital Stock

The Company has 15,000,000 shares of authorized capital stock, of which 8,570,200 shares are issued and outstanding, with a par value of P1 per share, as of March 31, 2020 and 2019.

As of March 31, 2020 and 2019, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

16.2 Retained Earnings

A portion of the retained earnings is appropriated for the rehabilitation, retrofitting and process improvement of La Mesa Water Treatment Plant 2 which is expected to be completed in fiscal year 2021. As of March 31, 2020 and 2019, the total appropriated retained earnings of the Company amounted to P180.0 million.

As of March 31, 2020, the Company's unrestricted retained earnings exceeded its paid-in capital. The Company plans to appropriate its excess unrestricted retained earnings for working capital purposes and projects to be started in the next fiscal year.

16.3 Capital Management Objectives, Policies and Procedures

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

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized below.

	2020	2019
Total liabilities	**P1,416,988,012**	P1,299,339,593
Total equity	**206,501,558**	203,089,207
Debt-to-equity ratio	**6.86 : 1.00**	6.40 : 1.00

17. COMMITMENTS AND CONTINGENCIES

17.1 Operating Lease – Company as Lessee (2019)

The Company is a lessee under various operating leases covering its office space and rooms for its officers and employees. In October 2015, the Company entered into an operating lease agreement with a term of four years for its office space, with renewal options and 5% annual escalation rate. In fiscal year 2019, the Company also entered into various leases of guest houses and parking spaces with terms of one year each.

The total rentals from these operating leases for the fiscal year ended March 31, 2019 amounted to P16.8 million, and is presented as Rentals under Other Operating Expenses account in the 2019 statement of comprehensive income (see Note 11.1). In addition, the required security deposits as of March 31, 2019 amounting to P5.0 million are presented as Refundable Deposits (presented under Non-Current Assets section and as part of Other Current Assets account) in the 2019 statement of financial position (see Note 6). The future minimum lease payments under this operating lease, to be paid within the following year, is P6.3 million as of March 31, 2019 [see Note 2.2(a)(iii)].

17.2 Unused Line of Credit

The Company has unused lines of credit amounting to P44.9 million as of March 31, 2020 and P27.7 million and US$1.0 million as of March 31, 2019 with various commercial banks.

17.3 Others

There are other commitments and contingencies arising from the Company's operations. As of March 31, 2020, management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Company's financial statements.

18. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with its parent company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial risks.

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

18.1 Market Risk

The Company is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from both its operating and investing activities.

(d) Foreign Currency Risk

Exposures to currency exchange rates arise from trade and other payables and due to related parties which are primarily denominated in U.S. dollar, and Euro. The Company also holds U.S. dollar-denominated cash.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are regularly monitored. Foreign currency denominated financial assets and financial liabilities in U.S. dollars and Euro translated into Philippine pesos at the respective closing rates are as follows:

	U.S. Dollar	Euro
March 31, 2020		
Financial assets	P 29,206,506	P -
Financial liabilities	(21,808,727)	(19,739,978)
Net exposure	**P 7,397,779**	**(P 19,739,978)**
March 31, 2019		
Financial assets	P 52,343,352	P -
Financial liabilities	(45,713,293)	(21,555,690)
Net exposure	P 6,630,059	(P 21,555,690)

The sensitivity of the net results in regards to the Company's financial assets and financial liabilities and peso exchange rate assumes a +/-12.97% and +/-11.19% change for U.S. dollar – Philippine peso while +/- 22.05% and +/- 23.07% for Euro – Philippine peso in 2020 and 2019, respectively.

The following table illustrates the sensitivity of the profit or loss before tax and equity with respect to changes in the value of Philippine peso against foreign currencies. The percentage changes have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	2020			2019		
	Reasonably possible change in rate	**Effect in profit before tax**	**Effect in equity**	Reasonably possible change in rate	Effect in profit before tax	Effect in equity
USD-Php	**12.97%**	**P 959,492**	**P 671,644**	11.19%	P 741,904	P 519,333
Euro-Php	**22.05%**	**4,352,665**	**3,046,866**	23.07%	4,972,898	3,481,029

The effect would be the reverse if the Philippine peso would appreciate against the other currencies.

Exposures to foreign currency exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis is considered to be representative of the Company's currency risk.

(e) Interest Rate Risk

The Company has limited exposure to changes in market interest rates through its cash in banks, which are mostly short-term and are subject to variable interest rates. These financial instruments have historically shown small or measured changes in interest rates. All other financial assets and financial liabilities have fixed rates.

18.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from granting credits to customers and placing deposits with banks.

The Company continuously monitors defaults of counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

Where available at a reasonable cost, external credit ratings and/or reports on counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the statements of financial position (or in the detailed analysis provided in the notes to financial statements), summarized as follows:

	Notes	**2020**	2019
Cash	4	**P 859,702**	P 10,007,796
Contract and other receivables	5	**1,484,062,781**	1,396,698,921
Refundable deposits	6	**5,894,402**	4,976,742
		P1,490,816,885	P 1,411,683,459

None of the financial assets are secured by collateral or other credit enhancements, except for cash in banks described as follows:

(a) Cash in Banks

The credit risk for cash in banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) Contract and Other Receivables and Refundable Deposits

The Company applies the simplified approach in measuring ECL which uses a lifetime expected loss allowance for all contract and other receivables and refundable deposits.

To measure the ECL, these financial assets have been grouped based on shared credit risk characteristics. The other receivables and refundable deposits have substantially the same risk characteristics as the trade receivables. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Company has identified the inflation rate in the Philippines to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor. However, the application of ECL methodology did not result in any significant adjustment on the Company's financial statements as of April 1, 2019 and for the current year.

All of the contract and other receivables and refundable deposits are not impaired as at the end of the reporting period and are of good credit quality. Contract receivables that are past due but not impaired are as follows:

91 to 180 days past due	P 226,293,414
Over 180 days past due	164,713,512
	P 391,006,926

18.3 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities, as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day period. Funding for long-term liquidity needs is additionally secured from related parties.

As at March 31, 2020 and 2019, the Company's financial liabilities have contractual maturities within 12 months as shown below.

	Notes	**2020**	2019
Trade and other payables	9	**P 931,997,959**	P 1,067,855,059
Notes payable	10	**175,992,895**	130,400,741
Due to related parties	15	**70,807,810**	100,435,384
Lease liabilities	8.2	**1,358,668**	-
		P 1,180,157,332	P 1,298,691,184

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

19. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

19.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities

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

		2020		2019	
	Notes	**Carrying Values**	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
At amortized cost:					
Cash	4	**P 859,702**	**P 859,702**	P 10,007,796	P 10,007,796
Contract and other receivables	5	**1,484,062,781**	**1,484,062,781**	1,396,698,921	1,396,698,921
Refundable deposits	6	**5,894,402**	**5,894,402**	4,976,742	4,976,742
		P 1,490,816,885	**P 1,490,816,885**	P 1,411,683,459	P 1,411,683,459
Financial Liabilities					
At amortized cost:					
Trade and other payables	9	**P 931,997,959**	**P 931,997,959**	P 1,067,855,059	P 1,067,855,059
Notes payable	10	**163,995,733**	**163,995,733**	120,586,535	120,586,535
Lease liabilities	8.2	**1,358,000**	**1,358,000**	-	-
Due to related parties	15	**70,807,810**	**70,807,810**	100,435,384	100,435,384
		P 1,168,159,502	**P 1,168,159,502**	P 1,288,876,978	P 1,288,876,978

The Company's financial assets and financial liabilities as of March 31, 2020 and 2019 that are carried at amortized cost has been determined by management to have carrying amounts approximate or equal their fair values due to their short-term nature. See Note 2.3 and 2.6 for a description of the accounting policies for each category of financial instrument, including the determination of fair values. A description of the Company's risk management objectives and policies for financial instrument is provided in Note 18.

19.2 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

The Company has no financial assets and financial liabilities measured at fair value or that are not carried at fair value but are required to be disclosed as at March 31, 2020 and 2019. Nevertheless, if its financial instruments are presented in the fair value hierarchy, only cash can be considered Level 1; all the rest are considered Level 3.

19.3 Offsetting of Financial Assets and Financial Liabilities

The following financial assets and financial liabilities with net amounts presented in the statements of financial position are subject to offsetting and similar agreements:

	Gross Amount Recognized	Amount Set-off	Net Amount Presented
2020:			
Financial assets –			
Contract and other receivables	**P 1,487,253,243**	**P 3,190,462**	**P 1,484,062,781**
Financial liabilities –			
Trade and other payables	**P 935,188,421**	**P 3,190,462**	**P 931,997,959**
2019:			
Financial assets –			
Contract and other receivables	P 1,398,010,665	P 1,311,744	P 1,396,698,921
Financial liabilities –			
Trade and other payables	P 1,069,166,803	P 1,311,744	P 1,067,855,059

For financial assets and financial liabilities on the foregoing subject similar arrangements, each agreement between the Company and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party and upon the instruction of the parent company. There are no other potential financial assets and financial liabilities which can be set off as of March 31, 2020 and 2019.

20. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the Bureau of Internal Revenue under its existing Revenue Regulation No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) Output VAT

In fiscal year 2020, the Company declared output VAT amounting to P66,928,660 arising from rendering of services. The tax base amounting to P557,738,830 is included as part of Contract Revenues in the 2020 statement of comprehensive income. The tax base for contract revenues is based on the Company's gross receipts for fiscal year 2020; hence, this may not be the same as the amount recognized in the 2020 statement of comprehensive income.

There is no outstanding output VAT payable as of March 31, 2020.

(b) Input VAT

The movements in input VAT in 2020 are summarized below.

Balance at beginning of period	P	6,399,350
Services lodged under cost of services		35,335,152
Importation of goods other than capital goods		39,210,849
Domestic purchases of goods other than capital goods		10,559,082
Capital goods		655,369
Applied against output VAT	(	67,524,095)
Balance at end of period	**P**	**24,635,707**

The balance of Input VAT as of March 31, 2020 is presented as part of Other Current Assets account in the 2020 statement of financial position (see Note 6).

(c) Taxes on Importation

In fiscal year 2020, the total landed cost of the Company's importations for use in business amounted to P370,106,208. This includes customs duties and tariff fees totaling P18,312,331 presented as Processing fees under Contract Costs in the 2020 statement of comprehensive income (see Note 11.2).

(d) Excise Tax

The Company did not have any transactions in fiscal year 2020, which are subject to excise tax.

(e) Documentary Stamp Tax (DST)

The Company paid DST amounting to P760,751, which pertains to contract of lease entered during the fiscal year 2018 [see Note 20(f)].

(f) Taxes and Licenses

The details of taxes and licenses in fiscal year 2020 are as follows:

	Notes		
Business permits		P	7,475,406
DST	20(e)		760,751
Annual registration fee			500
Others			2,250,376
	11.1	**P**	**10,487,033**

(g) Withholding Taxes

The details of total withholding taxes for the fiscal year 2020 are shown below.

Expanded	P	2,701,063
Compensation and employee benefits		2,731,804
	P	**5,432,867**

The outstanding withholding taxes payable are presented as part of Withholding tax payable under Trade and Other Payables in the 2020 statement of financial position (see Note 9). The Company does not have any income payments subject to final withholding tax for the fiscal year 2020.

(h) Deficiency Tax Assessments and Tax Cases

As at March 31, 2020, the Company does not have any deficiency tax assessment with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.