iPEOPLE

ANNEX "B"

iPeople, inc. and Subsidiaries
Consolidated Financial Statements
December 31, 2018 and 2017
and
Report of Independent Auditors

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
iPeople, inc.
3rd Floor, Grepalife Building
219 Sen. Gil J. Puyat Avenue
Makati City

Opinion

We have audited the consolidated financial statements of iPeople, inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Valuation of Land

The Group accounts for its land, where the school buildings and other facilities are located, using the revaluation model. As at December 31, 2018, the carrying value of the Group's land amounted to ₱5,521.01 million, representing 55% of the Group's total assets. In addition, the Group recognized a revaluation gain of ₱350.45 million in other comprehensive income for the year ended December 31, 2018. The valuation of the land requires the assistance of an external appraiser whose calculations involve certain assumptions, such as sales price of similar properties and adjustments to sales price based on internal and external factors. This matter is significant to our audit because it involves significant judgment and estimates.

Refer to Note 5 to the consolidated financial statements for the relevant significant estimate, and Note 10 for the disclosure about the Group's land.

Audit response

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

Recoverability of Goodwill

Under PFRSs, the Group is required to annually test the amount of goodwill for impairment. As at December 31, 2018, the Group's goodwill attributable to the acquisition of Malayan Education System, Inc. amounted to ₱137.85 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process involves judgments and is based on assumptions such as revenue from number of forecasted students and related tuition and other matriculation fees, profit margins, long-term growth rate and discount rate in estimating discounted cash flow projections.

Refer to Note 5 to the consolidated financial statements for the relevant significant estimate, and Note 11 for the disclosure about goodwill.

Audit response

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

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, Revenue from Contracts with Customers, under the full retrospective approach. The adoption of PFRS 15 resulted in changes in the Group’s revenue recognition policies, process and procedures.

The adoption of PFRS 15 is significant to our audit because this involves application of significant management judgment and estimation in: determining whether the criteria for the recognition of revenue from tuition fees and other matriculation fees is met, particularly for students with school-granted scholarships; and determining the timing of satisfaction of performance obligation.

The disclosures related to the adoption of PFRS 15 are included in Notes 3, 5, and 17 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group’s process in implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management which includes analysis of contracts.

We obtained the contracts which is the certificate of matriculation and assessment and reviewed whether the accounting policies appropriately considered the five-step model and cost requirements of PFRS 15.

We reviewed sample contracts and checked whether the performance obligations within the contracts have been identified. We reviewed sample contracts and checked whether the Group’s timing of revenue recognition is based on when the performance occurs and control of the related services is transferred to the student.

We reviewed the application of the accounting policy in relation to the adoption of the new standard. We also reviewed the disclosures related to the transition based on the requirements of PFRS 15.

Assessment of Contingent Liabilities and Estimation of Provisions from Claims

The Group is involved in certain legal proceedings. The inherent uncertainty over the outcome of these claims is brought about by the difference in the interpretations and implementation of the relevant regulations. The assessment of whether the provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management.

The disclosures on management judgment on assessment of contingent liabilities and estimation of provisions and amounts recognized are included in Notes 13 and 29 to the consolidated financial statements.

Audit Response

We inquired of the Group's legal counsel and management about the status of the claims and obtained legal opinion from the legal counsels, and representation from the Group management. We also inspected relevant correspondences with the regulatory bodies and other relevant parties. We involved our internal specialist in the evaluation of management's assessment on whether provision should be recognized and the estimation of such amount.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ana Lea C. Bergado.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332529, January 3, 2019, Makati City

March 29, 2019

SGVFS033935

iPeople, Inc.
A YGC Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **iPeople, Inc. & Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

SUBSCRIBED AND SWORN TO BEFORE ME THIS APR 12 2019 AT PASAY CITY

RENATO C. VALENCIA
Chairman

DR. REYNALDO B. VEA
President & CEO

GEMA O. CHENG
EVP-Chief Financial Officer & Treasurer

ATTY. JOVINO R. ANGEL
NOTARY PUBLIC
UNTIL DEC. 31, 2020
PTR NO. 6397931 PASAY CITY
IBP NO. 058411 PASAY CITY
ISSUED ON 1/3/2019
ROLL NO. 28761 PASAY CITY
MCLE COMPLIANCE NO. V-0024151/10/2[illegible]

Signed this 29th day of March, 2019

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SERIES OF

iPEOPLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017 (As restated, Note 3)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 14 and 28)	**₱587,838,922**	₱632,811,619
Receivables (Notes 7 and 28)	**327,765,719**	156,402,797
Receivables from related parties (Notes 14 and 28)	**844,735**	1,035,882
Prepaid expenses and other current assets (Notes 3 and 8)	**82,316,258**	111,385,708
Financial assets at fair value through profit or loss (Note 28)	**8,699,745**	8,461,820
Total Current Assets	**1,007,465,379**	910,097,826
Noncurrent Assets		
Property and equipment at cost (Note 9)	**3,246,597,467**	2,550,592,602
Land at revalued amounts (Notes 9 and 10)	**5,521,007,994**	3,939,773,600
Goodwill (Note 11)	**137,853,345**	137,853,345
Equity instruments at fair value through other comprehensive income (FVOCI) (Notes 3 and 28)	**14,389,673**	–
Available-for-sale (AFS) financial assets (Notes 3 and 28)	–	25,079,144
Net pension asset (Note 23)	**6,276,581**	1,881,243
Deferred tax assets - net (Note 21)	**5,129,252**	5,987,596
Other noncurrent assets (Note 12)	**33,770,600**	321,200,114
Total Noncurrent Assets	**8,965,024,912**	6,982,367,644
	₱9,972,490,291	₱7,892,465,470
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 3, 13 and 28)	**₱674,290,435**	₱629,970,393
Payables to related parties (Notes 14 and 28)	**13,014,439**	20,957,655
Income tax payable	**11,077,149**	6,746,071
Dividends payable (Notes 16 and 28)	**57,018,083**	69,343,445
Short-term loans (Notes 15 and 28)	**2,240,000,000**	810,000,000
Unearned income (Notes 3 and 13)	**314,947,490**	86,786,878
Total Current Liabilities	**3,310,347,596**	1,623,804,442
Noncurrent Liabilities		
Net pension liability (Note 23)	**40,008,432**	66,299,937
Deferred tax liabilities - net (Note 21)	**208,573,950**	177,270,677
Total Noncurrent Liabilities	**248,582,382**	243,570,614
Total Liabilities	**₱3,558,929,978**	₱1,867,375,056

(Forward)

	December 31	
	2018	2017 (As restated, Note 3)
Equity		
Common stock (Note 16)	**₱748,933,221**	₱748,933,221
Additional paid-in capital	**1,438,827**	1,438,827
Other comprehensive income (loss):		
Fair value reserve of equity instruments at FVOCI (Notes 3 and 28)	**(3,972,571)**	–
Unrealized gain on AFS financial assets (Notes 3 and 28)	**–**	6,716,900
Revaluation increment on land - net (Note 10)	**1,574,007,954**	1,248,233,353
Remeasurement gains on defined benefit plans (Note 23)	**35,093,161**	31,676,374
Retained earnings (Note 16)	**3,643,131,374**	3,611,840,138
	5,998,631,966	5,648,838,813
Less: Treasury stock (Note 16)	**209**	209
	5,998,631,757	5,648,838,604
Non-controlling interest in consolidated subsidiaries (Note 25)	**414,928,556**	376,251,810
Total Equity	**6,413,560,313**	6,025,090,414
	₱9,972,490,291	₱7,892,465,470

See accompanying Notes to Consolidated Financial Statements.

iPEOPLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017 (As restated, Note 3)	2016 (As restated, Note 3)
REVENUE FROM CONTRACTS WITH CUSTOMERS (Notes 3 and 17)			
Revenue from schools and related operations	**₱1,807,558,124**	₱1,884,198,632	₱2,156,434,587
Sale of services	**937,820**	2,721,362	19,179,504
Sale of goods	**37,062**	40,569,289	120,253,219
	1,808,533,006	1,927,489,283	2,295,867,310
COSTS AND EXPENSES			
Cost of schools and related operations (Notes 3 and 18)	**1,279,402,975**	1,237,000,483	1,252,683,100
Cost of services	**3,277,670**	4,103,788	19,830,350
Cost of goods sold (Note 18)	**30,280**	36,780,189	106,451,833
	1,282,710,925	1,277,884,460	1,378,965,283
GROSS PROFIT	**525,822,081**	649,604,823	916,902,027
GENERAL AND ADMINISTRATIVE EXPENSES (Note 19)	**(247,762,350)**	(206,330,030)	(223,404,409)
INTEREST AND OTHER FINANCE CHARGES (Note 20)	**(36,026,365)**	(4,233,169)	(9,089,294)
INTEREST INCOME (Note 20)	**11,346,401**	12,954,820	12,080,968
OTHER INCOME	**11,590,281**	8,937,832	25,630,670
INCOME BEFORE INCOME TAX	**264,970,048**	460,934,276	722,119,962
PROVISION FOR INCOME TAX (Note 21)	**27,874,800**	47,575,350	78,850,196
NET INCOME	**237,095,248**	413,358,926	643,269,766
OTHER COMPREHENSIVE INCOME			
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Revaluation increment on land - net of tax (Note 10)	**350,450,995**	283,187,880	251,820,578
Fair value reserve of equity instruments at FVOCI (Notes 3 and 28)	**(10,689,471)**	–	–
Remeasurement gains (losses) on defined benefit plans - net of tax (Note 23)	**3,679,402**	9,310,800	17,912,044
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (Notes 3 and 28)			
Unrealized gains on AFS financial assets	–	8,017,103	2,672,368
	343,440,926	300,515,783	272,404,990
TOTAL COMPREHENSIVE INCOME	**₱580,536,174**	₱713,874,709	₱915,674,756
Net income attributable to:			
Equity holders of the parent (Note 24)	**₱211,035,192**	₱381,584,442	₱595,715,580
Non-controlling interest in consolidated subsidiaries (Note 25)	**26,060,056**	31,774,484	47,554,186
	₱237,095,248	₱413,358,926	₱643,269,766
Total comprehensive income attributable to:			
Equity holders of the parent	**₱529,537,109**	₱661,507,979	₱848,614,721
Non-controlling interest in consolidated subsidiaries (Note 25)	**50,999,065**	52,366,730	67,060,035
	₱580,536,174	₱713,874,709	₱915,674,756
Basic/Diluted Earnings Per Share (Note 24)	**₱0.2818**	₱0.5095	₱0.7954

See accompanying Notes to Consolidated Financial Statements.

iPEOPLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company										
	Common Stock (Note 16)	Additional Paid-in Capital	Unrealized Gain on AFS Financial Assets (Note 3 and 28)	Fair Value Reserve of Equity instruments at FVOCI (Note 3 and 28)	Revaluation Increment on Land - net of tax (Note 10)	Remeasurement Gains (Losses) on Net Defined Benefit Plans (Note 23)	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total	Non - controlling Interest (Note 25)	Total
	For the year ended December 31, 2018										
Balances as at January 1, 2018	**₱748,933,221**	**₱1,438,827**	**₱6,716,900**	**₱–**	**₱1,248,233,353**	**₱31,676,374**	**₱3,611,840,138**	**(₱209)**	**₱5,648,838,604**	**₱376,251,810**	**₱6,025,090,414**
Net income	–	–	–	–	–	–	**211,035,192**	–	**211,035,192**	**26,060,056**	**237,095,248**
Other comprehensive income	–	–	–	**(10,689,471)**	**325,774,601**	**3,416,787**	–	–	**318,501,917**	**24,939,009**	**343,440,926**
Total comprehensive income	–	–	–	**(10,689,471)**	**325,774,601**	**3,416,787**	**211,035,192**	–	**529,537,109**	**50,999,065**	**580,536,174**
Transfer of unrealized gain on AFS financial assets to fair value reserve of equity instruments at FVOCI (Note 3)	–	–	(6,716,900)	6,716,900	–	–	–	–	–	–	–
Dividends declared	–	–	–	–	–	–	**(179,743,956)**	–	**(179,743,956)**	**(12,322,319)**	**(192,066,275)**
Balances as at December 31, 2018	**₱748,933,221**	**₱1,438,827**	**₱–**	**(₱3,972,571)**	**₱1,574,007,954**	**₱35,093,161**	**₱3,643,131,374**	**(₱209)**	**₱5,998,631,757**	**₱414,928,556**	**₱6,413,560,313**
	For the year ended December 31, 2017										
Balances as at January 1, 2017	₱748,933,221	₱1,438,827	(₱1,300,203)	₱–	₱984,985,652	₱23,017,641	₱3,409,999,669	(₱209)	₱5,167,074,598	₱348,529,717	₱5,515,604,315
Net income	–	–	–	–	–	–	381,584,442	–	381,584,442	31,774,484	413,358,926
Other comprehensive income	–	–	8,017,103	–	263,247,701	8,658,733	–	–	279,923,537	20,592,246	300,515,783
Total comprehensive income	–	–	8,017,103	–	263,247,701	8,658,733	381,584,442	–	661,507,979	52,366,730	713,874,709
Dividends declared	–	–	–	–	–	–	(179,743,973)	–	(179,743,973)	(24,644,637)	(204,388,610)
Balances as at December 31, 2017	₱748,933,221	₱1,438,827	₱6,716,900	₱–	₱1,248,233,353	₱31,676,374	₱3,611,840,138	(₱209)	₱5,648,838,604	₱376,251,810	₱6,025,090,414
	For the year ended December 31, 2016										
Balances as at January 1, 2016	₱748,933,221	₱1,438,827	(₱3,972,571)	₱–	₱751,444,924	₱6,331,596	₱2,994,028,061	(₱209)	₱4,498,203,849	₱301,185,392	₱4,799,389,241
Net income	–	–	–	–	–	–	595,715,580	–	595,715,580	47,554,186	643,269,766
Other comprehensive income	–	–	2,672,368	–	233,540,728	16,686,045	–	–	252,899,141	19,505,849	272,404,990
Total comprehensive income	–	–	2,672,368	–	233,540,728	16,686,045	595,715,580	–	848,614,721	67,060,035	915,674,756
Dividends declared	–	–	–	–	–	–	(179,743,972)	–	(179,743,972)	(19,715,710)	(199,459,682)
Balances as at December 31, 2016	₱748,933,221	₱1,438,827	(₱1,300,203)	₱–	₱984,985,652	₱23,017,641	₱3,409,999,669	(₱209)	₱5,167,074,598	₱348,529,717	₱5,515,604,315

See accompanying Notes to Consolidated Financial Statements.

iPEOPLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱264,970,048**	₱460,934,276	₱722,119,962
Adjustments for:			
Depreciation and amortization (Notes 9, 12, 18 and 19)	**218,310,245**	209,283,243	206,736,094
Interest expense and other finance charges (Note 20)	**36,026,365**	4,233,169	9,089,294
Interest income (Note 20)	**(11,346,401)**	(12,954,820)	(12,080,968)
Provision for doubtful accounts (Notes 7 and 19)	**1,899,577**	10,000,476	6,323,039
Unrealized market gain on financial assets at FVPL	**(237,925)**	(122,177)	(133,870)
Unrealized foreign exchange gain	**(677,468)**	(25,376)	(1,049,899)
Loss (gain) on disposal of property and equipment	**8,453**	(19,137)	–
Operating income before working capital changes	**508,952,894**	671,329,654	931,003,652
Decrease (increase) in:			
Receivables	**(172,749,272)**	(21,771,528)	(2,933,793)
Prepaid expenses and other current assets	**27,935,513**	(28,239,427)	7,534,054
Increase (decrease) in:			
Accounts payable and accrued expenses	**46,409,141**	(34,029,811)	(97,235,370)
Unearned tuition fees	**228,160,611**	36,118,312	40,587,600
Net pension asset and liability	**(26,613,814)**	1,462,496	1,028,143
Net cash generated from operations	**612,095,073**	624,869,696	879,984,286
Interest paid	**(37,245,011)**	(3,040,458)	(10,071,961)
Income taxes paid	**(29,580,795)**	(48,500,025)	(86,114,100)
Interest received	**10,833,173**	13,076,957	12,635,733
Net cash flows from operating activities	**556,102,440**	586,406,170	796,433,958
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisitions of:			
Land (Notes 10 and 27)	**(1,191,844,400)**	–	(2,060,700)
Property and equipment (Notes 9 and 27)	**(914,664,384)**	(1,046,952,364)	(224,702,428)
Computer software (Note 12)	–	(2,030,619)	(4,985,281)
Proceeds from disposal of:			
Property and equipment	–	1,294,817	98,770
Decrease (increase) in:			
Receivables from related parties	**191,147**	2,679,123	(2,232,573)
Other noncurrent assets	**286,899,884**	(300,180,754)	(650,726)
Net cash flows used in investing activities	**(1,819,417,753)**	(1,345,189,797)	(234,532,938)

(Forward)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from short-term loans (Notes 15 and 27)	**₱2,860,000,000**	₱940,000,000	₱100,000,000
Payments of short-term loans (Notes 15 and 27)	**(1,430,000,000)**	(230,000,000)	–
Payments of long-term debt	**–**	–	(188,500,000)
Dividends paid to stockholders (Note 27)	**(204,391,637)**	(199,457,230)	(199,461,850)
Increase (decrease) in payables to related parties (Note 27)	**(7,943,215)**	7,669,169	(697,612)
Net cash flows from (used in) financing activities	**1,217,665,148**	518,211,939	(288,659,462)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**677,468**	25,376	1,049,899
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(44,972,697)**	(240,546,312)	274,291,457
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**632,811,619**	873,357,931	599,066,474
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 6 and 28)	**₱587,838,922**	₱632,811,619	₱873,357,931

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

iPeople, inc. (the Parent Company) is a publicly-listed stock corporation registered and incorporated on July 27, 1989 under the laws of the Philippines and has two wholly-owned subsidiaries, namely: Pan Pacific Computer Center, Incorporated (PPCCI) and People eServe Corporation (PEC). Parent Company has also 93% ownership in Malayan Education System, Inc. (MESI), Malayan Colleges Laguna, Inc. (MCLI), Malayan Colleges Mindanao, Inc. (MCMI), Malayan High School of Science, Inc. (MHSSI), Mapua Information Technology Center, Inc. (MITC), Mapua Techserv, Inc. (MTI), and San Lorenzo Ruiz Institute of Health Science, Inc. (SLRIHSI). Mapua Techpower, Inc. is 75% owned by the Parent Company through MTI.

The Parent Company, a subsidiary of House of Investments, Inc. (HI), is a holding and management company with principal office at 3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City. iPeople, inc. and its subsidiaries (collectively referred to as "the Group") are involved in education, consulting development and in installation and maintenance of information technology systems.

The Group is a member of the Yuchengco Group of Companies (YGC). The Group's ultimate parent is Pan Malayan Management and Investment Corporation (PMMIC).

Plan of Merger

On October 1, 2018, the Board of Directors (BOD) of the Parent Company executed a memorandum of agreement (MOA) for a proposed Plan of Merger between the Parent Company and AC Education, Inc. (AEI), the wholly owned education arm of Ayala Corporation (AC), with the Parent Company as the surviving entity with HI and AC owning 48.18% and 33.5%, respectively. The proposed merger was subsequently approved by the Parent Company's Stockholders on December 12, 2018 and was approved by the Philippine Competition Commission (PCC) on December 12, 2018. The merger would bring together the educational arms of HI and AC. In line with the proposed merger, the BOD also authorized the Parent Company on the same date to purchase the 281,642 common shares owned by HI in MESI, which represents 7% ownership in MESI. The purchase will happen after the effectivity of the merger. The Parent Company and AEI filed the proposed merger with the Philippine SEC in February 2019 and SEC is in the process of reviewing the proposed merger.

2. Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for the land which is under revaluation model, financial assets at fair value through profit or loss (FVTPL) and listed equity instruments which are measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional currency. Except as otherwise indicated, all amounts are rounded off to the nearest peso.

Statement of Compliance

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, 2017 and 2016.

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

Below are the Group's subsidiaries and percentage of ownership:

	Percentage of Ownership		
	2018	2017	2016
Malayan Education System, Inc. (Operating Under the Name of Mapua University) and subsidiaries	**93%**	93%	93%
Direct ownership of MESI on its subsidiaries:			
Malayan Colleges Laguna, Inc., A Mapua School, formerly Malayan Colleges Laguna, Inc., Led by a Mapua School of Engineering	**100**	100	100
Malayan Colleges Mindanao (A Mapua School), Inc.	**100**	100	–
Malayan High School of Science, Inc.	**100**	100	100
Mapua Information Technology Center, Inc.	**100**	100	100
Mapua Techserv, Inc.	**100**	100	100
Mapua Techpower, Inc.	**75**	75	75
San Lorenzo Ruiz Institute of Health Sciences, Inc.	**100**	100	100
People eServe Corporation	**100**	100	100
Pan Pacific Computer Center, Incorporated (PPCCI)	**100**	100	100

PPCCI, the Group's IT business, ceased operations in July 2017.

All subsidiaries were incorporated in the Philippines.

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Group's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interest represents interest in a subsidiary which is not owned, directly or indirectly, by the Parent Company and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the Group's shareholders equity. Transactions with non-controlling interests are handled in the same way as transactions with external parties.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group adopted the following new accounting pronouncements starting January 1, 2018:

- PFRS 9, *Financial Instruments*, replaces PAS 39, *Financial Instrument: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Group applied PFRS 9 using the modified retrospective approach, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39.

  The impact of the adoption is described below:

  (a) Classification and measurement
  Under PFRS 9, debt instruments are subsequently measured at FVTPL, amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

  The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. The following are the changes in the classification of the Group's financial assets:

- Cash and cash equivalents, receivables and receivables from related parties previously classified as loans and receivables as at December 31, 2017, are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments or financial assets at amortized cost.

- Listed equity instruments in PetroEnergy Resources Corporation previously classified as AFS financial assets as at December 31, 2017 and with recycling of cumulative gains and losses to profit or loss, are now classified and measured as equity instruments at FVOCI with no recycling of cumulative gains and losses to profit or loss. The Group elected to classify irrevocably its equity instruments under this category as it intends to hold these for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods.

The Group has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon the adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018.

		PFRS 9 measurement category		
PAS 39 measurement category		**Amortized cost**	**FVTPL**	**FVOCI**
Loans and receivables				
Cash and cash equivalents	₱632,811,619	₱632,811,619	₱–	₱–
Receivables*	145,894,555	145,894,555	–	–
Receivables from related parties	1,035,882	1,035,882	–	–
Financial assets at fair value through profit or loss				
Investments in unit investment trust fund (UITF)	8,461,820	–	8,461,820	–
AFS investments				
Listed equity instruments	25,079,144	–	–	25,079,144
	₱813,283,020	₱779,742,056	₱8,461,820	₱25,079,144

**excluding advances to officers and employees subject to liquidation*

(b) *Impairment*
The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVTPL.

For cash and cash equivalents, management evaluated that these financial assets have low credit risk. Hence, the Group measured ECL on these instruments on a 12-month basis applying the low credit risk simplification. The Group uses external credit ratings both to determine whether these financial assets has significantly increased in credit risk and to estimate ECL.

For the Group's receivables, PFRS 9's simplified approach was applied where ECLs are calculated based on lifetime ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The

Group has established a provision matrix that is based on its historical credit loss experience, and considered forward-looking factors specific to the debtors and the economic environment.

The adoption of PFRS 9 did not have any significant impact on the Group's provision for impairment on its financial assets carried at amortized cost.

- PFRS 15, *Revenue from Contracts with Customers*, supersedes PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

  The Group adopted PFRS 15 using the full retrospective approach of adoption with January 1, 2018 as the date of initial application. The adoption of the standard resulted to changes in the presentation and classification of certain items included under revenue, costs and expenses, prepaid expenses and other current assets, and unearned income, which are summarized and presented in the tables below. The 2017 and 2016 statement of comprehensive income and the 2017 statement of financial position were also adjusted to conform with the 2018 presentation.

  Reclassification on statement of comprehensive income for the years ended December 31, 2017 and 2016

	2017	2016
Revenue, as previously reported under PAS 18	₱1,982,871,060	₱2,359,986,547
Adjustments to present:		
Scholarships and discounts as deduction from revenue (a)	(77,528,915)	(82,077,511)
Bookstore income presented at gross amount (b)	27,871,054	34,717,693
Rental income as other income (d)	(5,723,916)	(16,759,419)
Revenue, as re-presented*	₱1,927,489,283	₱2,295,867,310

**presented as revenue from contracts with customers in the statements of comprehensive income*

	2017	2016
Costs and expenses, as previously reported	₱1,327,542,321	₱1,426,325,101
Adjustments to present:		
Scholarships and discounts as deduction from revenue (a)	(77,528,915)	(82,077,511)
Cost of bookstores as part of costs and expenses (b)	27,871,054	34,717,693
Costs and expenses, as re-presented	₱1,277,884,460	₱1,378,965,283

Reclassification on statement of financial position as at December 31, 2017

	2017
Prepaid expenses and other current assets, as previously reported	₱115,546,510
Reversal of deferred charges arising from unearned revenue on scholarships and discounts (c)	(4,160,802)
Prepaid expenses and other current assets, as re-presented	₱111,385,708
Unearned income, as previously reported	₱89,159,755
Reversal of deferred charges arising from unearned revenue on scholarships and discounts (c)	(4,160,802)
Reclassification of unearned rental income, seminar and interest from accounts payable and accrued expenses (d)	1,787,925
Unearned income, as re-presented	₱86,786,878

The nature of the above reclassifications are described below:

a) Scholarship grants and discounts to students, previously presented as student-related expenses under Cost of schools and related operations, are now presented as deduction from Revenue from schools and related operations (Notes 17 and 18).

b) Bookstore income and related cost, previously presented at net under revenue, is now presented at gross with bookstore income included under Revenue from schools and the related operations and related cost presented as part of Cost of schools and related operations (Notes 17 and 18).

c) Reversal of deferred charges and related unearned revenue representing the unearned revenue arising from students entitled to scholarship grants and discounts.

d) Other reclassifications to conform with the 2018 presentation.

The Group applied PFRS 15 retrospectively, with the initial application date of January 1, 2018 and adjusting the comparative information for the period beginning January 1, 2017. The Group did not present its consolidated statement of financial position as at December 31, 2016 since the adoption of PFRS 15 affected only the minimal amounts of prepaid expenses and other current assets and unearned income line items in the consolidated statement of financial position. It has no impact on the Group's January 1, 2017 retained earnings.

Other than the foregoing, the adoption of this standard has no significant impact on the Group's consolidated statements of financial position, consolidated statements of comprehensive income and consolidated cash flows but resulted to changes in the Group's accounting policies and new disclosures (Notes 4, 13 and 17).

The Group also adopted the following new accounting pronouncements starting January 1, 2018. The adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to Philippine Accounting Standards (PAS) 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2019

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

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

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

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

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Group is currently assessing the impact of adopting IFRIC 23.

Adoption of the following pronouncements is currently not expected to have a significant impact in the Group. The Group intends to adopt the following pronouncement once they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2018 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

Financial Instruments – Effective January 1, 2018
Initial recognition and subsequent measurement
The Group recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Financial assets - Initial recognition and measurement
Financial assets are classified, at initial recognition, as "subsequently measured at amortized cost"; FVOCI; and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

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

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

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

The Group has financial assets at amortized cost (debt instruments), financial assets at FVTPL and financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

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

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

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

This accounting policy relates to the Group's cash and cash equivalents, receivables and receivables from related parties.

Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments at fair value through OCI when they meet the definition of equity under PAS 32,

Financial Instruments: Presentation, and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

The Group elected to classify irrevocably its listed equity investments in PetroEnergy Resources Corporation shares under this category.

Financial assets at fair value through profit or loss
A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Included in this classification is the peso-denominated investment in UITF in Rizal Commercial Banking Corporation (RCBC).

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group’s statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

An impairment analysis is performed at each reporting date and the Group generally used the provision matrix to measure ECL. The mechanics of the ECL calculations and the key elements are, as follows:

a. *Probability of default (PD)* is an estimate of the likelihood of default over a given time horizon.

b. *Exposure at default (EAD)* is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.
c. *Loss given default (LGD)* is an estimate of the loss arising in the case where a default occurs at a given time.

The Group's debt instruments at amortized cost comprise of cash and cash equivalents that is considered to have low credit risk. Hence, it is the Group's policy to measure ECL on such instrument on a 12-month basis applying the low credit risk simplification and based on the PD which is publicly available. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses external credit ratings both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECL.

For tuition and other fees receivables, the Group generally uses a provision matrix to calculate ECLs. The provision rates are based on days past due for groupings based on school term.

The provision matrix is initially based on the Group's historical observed default rates. The Group will then consider directly relevant forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are considered.

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities - Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate, and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable and accrued expenses, payables to related parties, dividends payable and short-term loans.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. The EIR amortization is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

This accounting policy applies primarily to accounts payable and accrued expenses, payables to related parties, dividends payable and short-term loans.

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Financial Instruments – Effective Prior to January 1, 2018
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.

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

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

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

The financial assets of the Group are of the nature of loans and receivables, financial assets at FVPL and AFS financial assets, while its financial liabilities are of the nature of other financial liabilities.

Financial assets at FVPL
This includes financial assets held for trading and financial assets designated upon initial recognition as FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling them in the near term.

Financial assets at FVPL are recorded in the statement of financial position at fair value with unrealized mark-to-market gains and losses recognized in “Other income (loss)” account in the consolidated statement of comprehensive income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in the consolidated statement of comprehensive income according to the terms of the contract, or when the right of payment has been established. Derivatives, including separated embedded derivatives are also classified as FVPL unless they are designated as effective hedging instruments or a financial guarantee contract.

This consists of peso-denominated investment in UITF in RCBC.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, designated as AFS or as financial assets at FVPL. Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at cost or at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization, if any, is included in profit or loss. The losses arising from impairment of receivables are recognized in profit or loss. These financial assets are included in current assets if maturity is within twelve (12) months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Group’s cash and cash equivalents, receivables and receivables from related parties.

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as such or do not qualify as financial assets at FVPL, HTM or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include government securities, equity investments and other debt instruments.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as “Unrealized gains (losses) in AFS financial assets.” The losses arising from impairment of such investments are recognized as provision for impairment losses in profit or loss. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized as realized gain in profit or loss. Interest earned or paid on the investments is reported as interest income or expense using the effective interest method. Dividends earned on investments are recognized in profit or loss when the right to receive has been established.

This accounting policy relates to the consolidated statement of financial position caption “Available-for-sale (AFS) financial assets” which pertain to investments in PetroEnergy Resources Corporation shares.

Other financial liabilities
Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Gains and losses are recognized in profit or loss when the liabilities are derecognized (redemption is a form of derecognition), as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

Classified under this category are the Group's accounts payable and accrued expenses, payables to related parties, dividends payable and short-term loans.

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

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

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

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

Impairment of Financial Assets
The Group assesses at each financial reporting date whether a financial asset or group of financial assets is impaired.

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

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has

been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the assets original EIR (excluding future credit losses that have not been incurred). If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset, together with the other assets that are not individually significant and were thus not individually assessed for impairment, is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics as to the school terms.

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

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

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

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

Inventories
Inventories are stated at the lower of cost and net realizable value (NRV). NRV is the selling price in the ordinary course of the business, less costs of completion, marketing and distribution. Cost is determined using specific identification method for computer equipment and weighted and simple average method for textbooks, printed materials and supplies intended for sale.

Prepaid Expenses and Other Current Assets
Prepaid expenses and other current assets pertain to resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group. This includes restricted funds invested in money market placements exclusively for use in Civic Welfare Training Service (CWTS), National Service Training Program (NSTP) and for financing of scholars of certain private entities.

Creditable Withholding Tax (CWT)
This pertains to the tax withheld at source by the Group's customers and lessees and is creditable against its income tax liability.

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

Output VAT pertains to the 12% tax due on the local sale of goods or services by the Group.

Property and Equipment
Property and equipment, except for land, is stated at cost, less accumulated depreciation and any impairment in value.

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

Construction in progress represents property under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are ready for their intended use.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the related assets as follows:

	Years
Buildings and improvements	10-40
Office furniture and equipment	5-10
Transportation equipment	5

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

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization are credited to or charged against current operations.

When assets are retired or otherwise disposed of, the cost or revalued amount, and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as part of current operations.

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

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

The appraisal increment (net of deferred tax) resulting from the revaluation is credited to the “revaluation increment on land - net” account under the equity section of the Group’s consolidated statements of financial position and under the consolidated statements of changes in equity. Upon disposal, any revaluation increment relating to the land being sold is transferred to retained earnings.

Business Combination and Goodwill

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

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The goodwill recognized in the Group’s consolidated statement of financial position pertains to the acquisition of MESI.

Other Noncurrent Assets
Other noncurrent asset represents the Group's software cost for its financial systems which are carried at cost less amortization and impairment, if any. Software is amortized over a period of three (3) years.

Impairment of Nonfinancial Assets
This accounting policy relates to impairment of nonfinancial assets such as property and equipment, goodwill and other noncurrent assets.

The Group assesses as of reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An assessment is made at each financial reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase in OCI. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment on goodwill is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Equity
The Group records common stock at par value for all shares issued and outstanding, and additional paid-in capital for the excess of the total contributions received over the aggregate par values of the equity shares. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When any member of the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity. No gain or loss is

recognized in profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity investments.

Retained earnings represent accumulated earnings less dividends declared and any adjustment arising from application of new accounting standards, policies or correction of errors applied retroactively.

The Parent Company's retained earnings declarable as dividends amounted to ₱1,133.57 million and ₱1,167.11 million as at December 31, 2018 and 2017, respectively. Dividend distribution is approved by the BOD of the Parent Company.

The individual accumulated earnings of the subsidiaries are available for dividend declaration when these are declared as dividends by the respective subsidiaries as approved by their respective BOD or BOT, as applicable.

Revenue Recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. Revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the goods or service. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements.

Revenue from schools and related operations consist of the following:

Revenue from tuition and other matriculation fees

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

Other student-related income

Other student-related income are recognized at a point in time upon delivery of the promised goods to the customer or at point in time when services has been rendered. These mainly consist of the following:

Admission, examination and other fees

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

Bookstore income

Bookstore income is recognized when goods have been delivered to the buyer (at point in time).

Seminar income

Seminar income is recognized as income over the corresponding term or as the services are rendered (at point in time or over time).

Miscellaneous income

Miscellaneous income is recognized when earned (at point in time).

Sale of goods is recognized as revenue upon delivery of the goods to the buyer (at point in time).

Sale of services is recognized when services are rendered (over time).

Following are contract balances relative to adoption of PFRS 15:

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

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

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to a customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract. The Group's contract liabilities represent the unearned income on tuition fees (presented under unearned income) and accounts payable to students (presented under accounts payable and accrued expenses) and will be recognized as revenue when the related educational services are rendered. Accounts payable to students are advance collections from students to be applied to the next school year or school term.

Costs and Expenses
The Group's costs and expenses constitute costs of operating the business recognized in the consolidated statement of comprehensive income as incurred.

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

Cost of goods sold
Cost of goods sold includes all expenses associated with the sale of computer equipment and hardware. Such costs are recognized when the related sales have been recognized.

Cost of services
Cost of services includes all expenses associated with sale of computer and consultancy services. Such costs are recognized when the related services have been recognized.

General and Administrative Expenses
These expenses constitute costs of administering the business. General and administrative expenses, except for rent expense, are recognized as incurred. Rent expenses are recognized on a straight-line basis over the lease term.

Interest and Financing Charges
Interest and financing charges, excluding capitalizable borrowing costs, is recognized as expense in the period in which it is incurred.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Borrowing costs not qualified for capitalization are expensed as incurred.

Retirement Benefits
Retirement benefits cost is actuarially determined using the projected unit credit method. This method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Retirement benefits cost comprises the following:
- Service costs
- Net interest on the net defined benefit liability or asset

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

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

Remeasurements comprising actuarial gains and losses (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax that relates to items that are recognized: (a) in other comprehensive income shall be recognized in other comprehensive income; and (b) directly in equity shall be recognized directly in equity.

Deferred income tax assets and liabilities are offset if a legally enforceable right to offset current income tax against current income tax liabilities and the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current income tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred income tax assets and liabilities are expected to be settled or recovered. Subsidiaries operating in the Philippines file income tax returns on an individual basis. Thus, the deferred tax assets and deferred tax liabilities are offset on a per entity basis.

Leases
Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the leased term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group as a lessee
The Group entered into a lease agreement for office space where the Group has determined that it does not obtain the risks and rewards of ownership of these properties and therefore the agreement is accounted for as an operating lease.

Foreign Currency-denominated Transactions and Translation
Foreign currency-denominated transactions are recorded using the prevailing exchange rates at the time of transactions. Foreign currency-denominated monetary assets and liabilities are translated to Philippine Peso closing rate of exchange prevailing at the reporting date. Exchange gains or losses arising from foreign currency are charged to profit or loss.

Basic Earnings Per Share (EPS)
Basic earnings per common share is computed based on weighted average number of issued and outstanding common shares, less treasury shares, after giving retroactive effect for any stock dividends. Diluted earnings per share, if applicable, is computed on the basis of the weighted average

number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive potential common shares that would require disclosure of diluted earnings per common share in the consolidated financial statements.

As at December 31, 2018 and 2017, the Group has no potential dilutive common shares (Note 24).

Segment Reporting
The Group's operating business are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 26 to the consolidated financial statements.

Provisions
Provisions are recognized when (a) the Group has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

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

5. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable.

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

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

Recognition of tuition and other matriculation fees over time
The Group determined that tuition and other matriculation fees, the major source of revenue of the Group, are to be recognized over time using the output method on the basis of time lapsed over the service period since it provides a faithful depiction of the Group's performance in transferring control of the services to the students. The fact that another entity would not need to re-perform the service that the Group has provided to date demonstrates that the customer or the student simultaneously receives and consumes the benefits of the Group's performance as it performs (Note 17).

Accounting for School-granted Scholarships to Students
With the adoption of PFRS 15, the Group assessed its arrangement with students who availed of school-granted scholarships. Based on management assessment, the arrangement with these students will not qualify as revenue from contracts with customers under PFRS 15 as there is no consideration involved in exchange for the educational services that the Group will render to these students. Accordingly, management changed its accounting on school-granted scholarships from presenting revenue and cost of service at gross in the statement of comprehensive income to presenting the related cost of service as deduction from revenue (Notes 3 and 17).

Allocation of costs and expenses
Management exercises judgment in determining the classification of costs and expenses as to whether cost of services or general and administrative expenses. In 2018 and 2017, the Group specifically identified the expenses directly related to the Group's school and related operations which include expenses for salaries and wages of teaching and academic support personnel, student welfare activities, and all other student-related costs and expenses (Notes 18 and 19).

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

Fair valuation of land
The Group measures land at revalued amount with changes in fair value being recognized in other comprehensive income. The Group engaged an independent firm of appraisers to determine the fair value as at December 31, 2018 and 2017. The key assumptions used to determine fair value are disclosed in Note 10. As at December 31, 2018 and 2017, the fair value of the land amounted to ₱5,521.01 million and ₱3,939.77 million, respectively (Note 10).

Estimation of allowance for doubtful accounts on receivables using the ECL model
The Group generally uses a provision matrix to calculate ECLs for tuition and other fees receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will then consider directly relevant forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are considered.

The Group's historical credit loss experience and forecast of economic conditions may not be representative of customer's actual default in the future.

Allowance for doubtful accounts on receivables amounted to ₱65.03 million as at December 31, 2018. The carrying value of receivables as at December 31, 2018 amounted to

₱327.77 million (Note 7). The carrying value of receivables from related parties as at December 31, 2018 amounted to ₱0.84 million (Note 14).

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

Allowance for doubtful accounts on receivables amounted to ₱69.22 million as at December 31, 2017. The carrying value of receivables as at December 31, 2017 amounted to ₱156.40 million (Note 7). The carrying value of receivables from related parties as at December 31, 2017 amounted to ₱1.04 million (Note 14).

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

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

Impairment of goodwill is assessed at least on an annual basis. The goodwill recognized in the consolidated statement of financial position pertains to the acquisition of MESI. In assessing the impairment on goodwill, the Group determines the recoverable amount using value in use which represents the present value of expected cash flows from the continuing operations of MESI which is in educational services. The value in use calculations used cash flow projections based on financial budgets approved by management covering a five-year period. The cash flow projections considered the impact of the Enhanced K+12 Basic Education Program on MESI's financial performance effective in 2016. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year. There is no impairment loss recognized on goodwill in 2018, 2017 and 2016. As at December 31, 2018 and 2017, the carrying value of goodwill amounted to ₱137.85 million (Note 11).

As to the Group's property and equipment and noncurrent assets, no impairment loss was recognized for the years ended December 31, 2018 and 2017 (Notes 9 and 12).

Estimation of pension obligations and other retirement benefits
The determination of the Group's pension cost and liabilities is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate which were disclosed in Note 23 and to which the cash flows are most sensitive to. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect the retirement expense and related asset or liability.

As at December 31, 2018 and 2017, the net pension liability amounted to ₱40.01 million and ₱66.30 million, respectively, while net pension asset amounted to ₱6.28 million and ₱1.88 million as at December 31, 2018 and 2017, respectively (Note 23).

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

Deferred tax assets recognized amounted to ₱5.13 million and ₱5.99 million as at December 31, 2018 and 2017, respectively (Note 21). The temporary differences on which deferred tax assets were not recognized amounted to ₱59.53 million and ₱49.52 million, respectively (Note 21).

Provisions and Contingencies
The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The ultimate disposition of these matters cannot be determined with certainty. The Group will exhaust all legal remedies available to it in defending itself in these claims and proceedings (Notes 13 and 29).

6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	**₱1,008,000**	₱995,454
Cash in banks (Note 14)	**163,609,680**	159,883,899
Cash equivalents (Note 14)	**423,221,242**	471,932,266
	₱587,838,922	₱632,811,619

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents have terms with varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates.

Interest income from cash in banks and cash equivalents amounted to ₱11.23 million, ₱12.82 million and ₱11.97 million in 2018, 2017 and 2016, respectively (Note 20).

7. Receivables

This account consists of:

	2018	2017
Tuition and other fees	**₱299,383,753**	₱153,016,719
Other receivables:		
Trade	**3,411,484**	7,830,758
Advances to officers and employees	**11,141,200**	10,508,242
Others	**78,857,790**	54,264,426
	392,794,227	225,620,145
Allowance for doubtful accounts	**(65,028,508)**	(69,217,348)
	₱327,765,719	₱156,402,797

Tuition and other fees pertain to matriculation and miscellaneous fees which are collected at end of every school term before the students can proceed to the next term.

Trade receivables represent amounts arising from the sale of computer equipment and computer services. These are noninterest-bearing and are generally on thirty (30) to sixty (60) days term and are not used as collaterals to secure obligations.

Advances to officers and employees consist mostly of advances subject to liquidation, interest-bearing receivables pertaining to car loan and noninterest-bearing telephone charges, hospitalization bill and library and printing charges. Receivables from employees are settled through salary deductions. Interest income from advances to officers and employees amounted to ₱0.12 million, ₱0.14 million and ₱0.11 million in 2018, 2017 and 2016, respectively (Note 20).

Other receivables mainly pertain to receivable from DepEd amounting to ₱60.14 million and ₱36.74 million as at December 31, 2018 and 2017, respectively, arising from the Senior High School (SHS) Voucher Program wherein qualified SHS students are given assistance on tuition fees. These receivables are noninterest-bearing and are generally collectible within one year.

The changes in allowance for doubtful accounts as at December 31 follow:

	2018			
	Tuition and other fees	**Trade**	**Others**	**Total**
Balance at beginning of year	**₱56,420,633**	**₱6,843,708**	**₱5,953,007**	**₱69,217,348**
Provisions for the year (Note 19)	**1,091,430**	**808,147**	**–**	**1,899,577**
Write-off	**(1,829,559)**	**(4,258,858)**	**–**	**(6,088,417)**
Balance at end of year	**₱55,682,504**	**₱3,392,997**	**₱5,953,007**	**₱65,028,508**
Gross receivables	**₱299,383,753**	**₱3,411,484**	**₱89,998,990**	**₱392,794,227**

	2017			
	Tuition and other fees	Trade	Others	Total
Balance at beginning of year	₱52,010,269	₱9,115,504	₱5,953,007	₱67,078,780
Provisions for the year (Note 19)	5,831,618	4,168,858	–	10,000,476
Write-off	(1,421,254)	(6,440,654)	–	(7,861,908)
Balance at end of year	₱56,420,633	₱6,843,708	₱5,953,007	₱69,217,348
Gross receivables	₱153,016,719	₱7,830,758	₱64,772,667	₱225,620,145

8. Prepaid Expenses and Other Current Assets

	2018	2017
Prepaid expenses	**₱40,243,938**	₱38,937,645
Restricted funds (Note 14)	**21,356,004**	40,770,731
CWT	**8,593,986**	8,969,218
Books inventory	**3,445,034**	3,133,012
Input VAT	**539,583**	630,444
Office supplies	**41,319**	97,163
Deposits to real estate sellers	–	15,956,045
Others	**8,096,394**	2,891,450
	₱82,316,258	₱111,385,708

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

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

Deposits to real estate sellers represent the deposits for future land acquisition. With the transfer of the ownership of the land to the Group in 2018, the deposits were then subsequently applied (Note 10).

Others relate to rent deposits and other supplies.

9. Property and Equipment

The rollforward analysis of this account follows:

	2018				
	Buildings and Improvements	**Office Furniture and Equipment**	**Transportation Equipment**	**Construction In Progress**	**Total**
Cost					
Balance at beginning of year	**₱1,898,233,022**	**₱1,397,207,373**	**₱33,304,524**	**₱1,164,165,969**	**₱4,492,910,888**
Acquisitions	**591,678,080**	**117,533,769**	**4,105,792**	**199,892,464**	**913,210,105**
Disposals	–	**(105,357)**	**(2,823,312)**	–	**(2,928,669)**
Reclassifications and adjustments	**1,118,909,718**	**55,372,018**	**1,322,880**	**(1,175,629,305)**	**(24,689)**
Balance at end of year	**3,608,820,820**	**1,570,007,803**	**35,909,884**	**188,429,128**	**5,403,167,635**
Accumulated depreciation, amortization and impairment loss					
Balance at beginning of year	**877,499,849**	**1,047,136,288**	**17,682,149**	–	**1,942,318,286**
Depreciation (Notes 18 and 19)	**92,468,979**	**121,425,486**	**3,886,150**	–	**217,780,615**
Disposals	–	**(33,655)**	**(2,024,562)**	–	**(2,058,217)**
Reclassifications and adjustments	**(696,152)**	**(1,008,601)**	**234,237**	–	**(1,470,516)**
Balance at end of year	**969,272,676**	**1,167,519,518**	**19,777,974**	–	**2,156,570,168**
Net book value	**2,639,548,144**	**402,488,285**	**16,131,910**	**188,429,128**	**3,246,597,467**
Land at revalued amounts (Note 10)	–	–	–	–	**5,521,007,994**
Total	**₱2,639,548,144**	**₱402,488,285**	**₱16,131,910**	**₱188,429,128**	**₱8,767,605,461**

	2017				
	Buildings and Improvements	Office Furniture and Equipment	Transportation Equipment	Construction In Progress	Total
Cost					
Balance at beginning of year	₱1,854,287,331	₱1,311,626,463	₱25,618,551	₱146,770,038	₱3,338,302,383
Acquisitions	32,961,068	75,514,351	10,561,887	1,039,219,980	1,158,257,286
Disposals	–	(772,867)	(2,875,914)	–	(3,648,781)
Reclassifications and adjustments	10,984,623	10,839,426	–	(21,824,049)	–
Balance at end of year	1,898,233,022	1,397,207,373	33,304,524	1,164,165,969	4,492,910,888
Accumulated depreciation, amortization and impairment loss					
Balance at beginning of year	792,197,637	928,894,474	14,887,555	–	1,735,979,666
Depreciation (Notes 18 and 19)	85,302,212	118,844,013	4,502,102	–	208,648,327
Disposals	–	(602,199)	(1,707,508)	–	(2,309,707)
Balance at end of year	877,499,849	1,047,136,288	17,682,149	–	1,942,318,286
Net book value	1,020,733,173	350,071,085	15,622,375	1,164,165,969	2,550,592,602
Land at revalued amounts (Note 10)	–	–	–	–	3,939,773,600
Total	₱1,020,733,173	₱350,071,085	₱15,622,375	₱1,164,165,969	₱6,490,366,202

Construction in progress as at December 31, 2018 mainly includes the general cost of construction of MESI's school building in the newly acquired land in Makati City from HI and other direct costs (Note 10).

Construction in progress as at December 31, 2017 mainly includes the general cost of construction of MCMI's school building in Davao City and other direct costs. MCMI started school operations in July 2018.

Included also as part of the construction in progress is the interest expense on short-term loans obtained to finance the construction amounting to ₱23.77 million and ₱9.73 million in 2018 and 2017, respectively (Note 15).

10. Land at Revalued Amounts

This account, classified as property and equipment (see Note 9), consists of:

	2018	2017
Land at cost:		
Balance at beginning of year	**₱1,870,976,481**	₱1,870,976,481
Acquisitions (Notes 8 and 9)	**1,191,844,400**	–
Balance at end of year	**3,062,820,881**	1,870,976,481
Revaluation increment on land:		
Balance at beginning of year	**2,068,797,119**	1,754,143,919
Change in revaluation increment	**389,389,994**	314,653,200
Balance at end of year	**2,458,187,113**	2,068,797,119
	₱5,521,007,994	₱3,939,773,600

Land at revalued amounts consists of owner-occupied property wherein the school buildings and other facilities are located. Capitalizable costs include taxes paid for purchase of land.

Acquisitions during the year include the land purchased from HI in October 2018 amounting to ₱1,121.88 million, inclusive of other direct costs and taxes. Except for the recently acquired land from HI, the other parcels of land were appraised in January 2019 and 2018 by an independent firm of appraisers to determine the revalued amounts as at December 31, 2018 and 2017, respectively.

The valuation was derived through the market approach based upon prices paid in actual market transactions. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject properties adjusted based on certain elements of comparison (e.g. market conditions, location and physical condition).

The parcels of land were valued in terms of their highest and best use which is categorized under Level 3 of the fair value hierarchy.

For the acquired land from HI in October 2018, management assessed that the purchase price of the recently acquired land is reflective of the fair value of the land as at December 31, 2018. Based on comparison of recent sale transactions or offerings of similar properties done by the Group as at December 31, 2018, management assessed that there was no significant movement in the fair value of the land from date of acquisition until December 31, 2018.

Location	Valuation Techniques	Unobservable Inputs Used	Range (Weighted Average) 2018	2017
Sen. Gil Puyat Avenue corners Nicanor Garcia and Jupiter Streets, Bel-Air, Makati City	Market Approach	Price per square meter	**₱183,750 to ₱227,500 (₱210,287)**	₱168,000to ₱238,000 (₱200,000)
Muralla Street, Intramuros, Manila	Market Approach	Price per square meter	**₱42,075 to ₱55,575 (₱44,764)**	₱36,000 to ₱49,400 (₱44,000)
Paz Mendoza Guazon, Pandacan, Manila	Market Approach	Price per square meter	**₱56,525 to ₱68,400 (₱59,755)**	₱45,000 to ₱58,526 (₱52,000)
Barangay Pulo and Niyugan, City of Cabuyao, Laguna	Market Approach	Price per square meter	**₱8,289 to ₱31,350 (₱18,910)**	₱10,800 to ₱11,800 (₱11,300)
MacArthur Highway (Davao-Cotabato National Road), Brgy. Ma-a, Davao City	Market Approach	Price per square meter	**₱13,968 to ₱31,350 (₱25,835)**	₱6,863 to ₱30,600 (₱27,684)

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

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

11. Goodwill

The goodwill recognized in the consolidated statement of financial position amounting ₱137.85 million as at December 31, 2018 and 2017 pertains to the excess of the acquisition cost over the fair values of the net assets of MESI acquired by iPeople in 1999.

For purposes of impairment testing of this asset, MESI was considered as the CGU. In 2018, 2017 and 2016, management assessed that no impairment loss should be recognized.

Key assumptions used in the value in use (VIU) calculation
As at December 31, 2018 and 2017, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU are most sensitive to the following:

- Future revenues, profit margins and revenue growth rates: Cash flow projections based on financial budgets approved by management covering a five-year period (2019-2023) and considers the impact of the K to 12 Basic Education Program on MESI's financial performance effective 2016.
- Long-term growth rates (*3.67% for 2018 and 5.25% for 2017*): The Long-term growth rate is the expected growth rate in the education industry sector.
- Discount rate (10.10% for 2018 and 9.06% for 2017): The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to Parent Company's capital structure.

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

12. Other Noncurrent Assets

This account consists of:

	2018	2017
Books and periodicals	**₱10,857,623**	₱–
Input VAT	**9,930,106**	7,946,013
Creditable withholding tax	**6,705,426**	6,705,426
Computer software	**5,822,141**	6,351,771
Reservation deposit (Note 14)	–	300,000,000
Miscellaneous deposits	**455,304**	196,904
	₱33,770,600	₱321,200,114

Reservation deposit as at December 31, 2017 pertains to amount paid by MESI to HI in December 2017 to secure a space for the building project of HI located along P. Ocampo Ext., Makati City. The reservation deposit will be applied against the lease payments, any fit-out payments advanced by HI on behalf of MESI, and security deposit payment.

In 2018, HI and the Group agreed that MESI will purchase from HI the land and any building constructed thereon by HI. HI refunded the reservation deposit to the Group.

Books and periodicals represent the books and periodicals purchased by MCMI in its initial year of school operation. These are amortized over five years.

Computer software is amortized over a period of three years.

The rollforward analysis of computer software follows:

	2018	2017
Cost		
Balance at the beginning of the year	**₱37,147,970**	₱35,117,351
Additions	**–**	2,030,619
Balance at the end of the year	**37,147,970**	37,147,970
Accumulated Amortization		
Balance at the beginning of the year	**30,796,199**	30,161,283
Amortization (Notes 18 and 19)	**529,630**	634,916
Balance at the end of the year	**31,325,829**	30,796,199
Net Book Value	**₱5,822,141**	₱6,351,771

13. Accounts Payable and Accrued Expenses and Unearned Income

This account consists of:

	2018	2017
Accounts payable	**₱356,262,208**	₱353,378,775
Accrued expenses	**210,012,834**	194,257,337
Funds payable	**107,137,375**	80,688,909
Other payables	**878,018**	1,645,372
	₱674,290,435	₱629,970,393

Accounts payable pertains to the Group's obligation to local suppliers. The normal trade credit terms of accounts payable and accrued expenses of the Group are expected to be settled within the next twelve (12) months. Accounts payable also includes payables to students as disclosed under Unearned Income below.

Accrued expenses consist of:

	2018	2017
Provisions (Note 29)	**₱153,558,082**	₱142,976,418
Payable to suppliers	**11,004,917**	8,795,454
Withholding taxes and others	**7,827,505**	9,416,724
Insurance	**6,843,573**	5,928,269
Accrued salaries and wages	**6,782,080**	6,877,110
Accrued utilities	**4,063,613**	3,613,796
Accrued professional fees	**4,026,484**	3,879,705
Contracted services	**3,785,465**	1,312,282
SSS and other contributions	**3,615,970**	3,181,607
Accrued communication expense	**2,300,811**	2,073,406
Output VAT payable	**1,406,716**	1,798,704
Others	**4,797,618**	4,403,861
	₱210,012,834	₱194,257,337

Funds payable include funds received by the Group from Department of Science and Technology (DOST), Commission on Higher Education (CHED) and private entities for the scholarships programs to be provided to the students, and NSTP and CWTS fees collected from students.

Other payables pertain to due to bookstore, deferred credits and liabilities other than those owed to suppliers and contractors and those arising from ordinary accruals.

Accounts payable, accrued expenses, and other payables are noninterest-bearing and are expected to be settled within a year after the financial reporting date. Funds payables are noninterest-bearing and are expected to be settled upon payout related to the funded projects and scholarship programs.

Unearned Income
Unearned income mainly includes unearned tuition fees amounting to ₱310.88 million and ₱85.00 million as at December 31, 2018 and 2017, respectively.

The Group's contract liabilities represent the unearned tuition fees (presented under unearned income) and accounts payable to students (presented under accounts payable) and will be recognized as revenue when the related educational services are rendered. Payables to students are advance collections from students to be applied to the next school year or school term.

As at December 31, 2018, contract liabilities amounted to ₱325.31 million and these will be recognized as revenue in the following year. Contract liabilities as of January 1, 2018 amounting to ₱86.95 million were recognized as revenue in 2018. The increase in contract liabilities in 2018 is due to the increase in unearned tuition fees brought about by the change in start of school year from July to August which resulted to a one month unearned tuition fees as of December 31, 2018.

14. Related Party Transactions

Related party relationships exist when the entity has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the entity in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Following are the transactions with related parties and the balances as at December 31:

	Year	Amount / Volume	Receivables from (Payables to)	Terms and Conditions
Parent Company				
a) Payable to Parent Company (HI)				
	2018	**₱–**	**(₱9,770,860)**	**Noninterest-bearing; unsecured; due**
	2017	–	(16,236,214)	**and demandable**
Management fee and other professional fees (Notes 18 and 19)	**2018**	**46,940,072**	**–**	
	2017	59,932,921	–	
b) Receivable from Parent Company				
	2018	**–**	**203,120**	**Noninterest-bearing; unsecured; due**
	2017	–	370,195	**and demandable; no impairment**
Land and building acquisition (Notes 9 and 10)				
	2018	**1,222,228,989**	–	
	2017	–	–	

(Forward)

	Year	Amount / Volume	Receivables from (Payables to)	Terms and Conditions
Entities under common control of HI				
c) Receivables from related parties				
	2018	**₱–**	**₱623,351**	**Noninterest-bearing; unsecured; due**
	2017	–	404,376	**and demandable; no impairment**
Rental income (Note 17)				
	2018	**(1,853,233)**	**–**	**–**
	2017	(2,447,168)	–	–
d) Payables to related parties				
	2018	**–**	**(3,243,579)**	**Noninterest-bearing; unsecured; due**
	2017	–	(4,721,441)	**and demandable**
Contracted services (Notes 18 and 19)				
	2018	**46,006,107**	**–**	**–**
	2017	61,997,789	–	–
Reservation deposit (Note 12)				
	2018	**–**	**–**	
	2017	–	300,000,000	**Applied against land acquired**
e) Accounts payable (Notes 9 and 13)	**2018**	**162,655,973**	**(159,682,759)**	
	2017	876,697,819	(175,965,730)	**Noninterest-bearing; unsecured; payable on demand**
Entities under common control of PMMIC				
Cash and cash equivalents (Note 6)				
	2018	**–**	**532,976,320**	**Interest atprevailing deposit and short-term rates; unsecured; no**
	2017	–	534,473,668	**impairment**
Interest income (Note 20)				
	2018	**11,231,125**	**–**	**–**
	2017	12,815,093	–	–
f) Receivables from related parties	**2018**	**–**	**18,264**	**Noninterest-bearing; unsecured; due**
	2017	–	261,311	**and demandable; no impairment**
Rental income (Note 17)				
	2018	**–**	**–**	**–**
	2017	257,143	–	–
g) Payables to related parties				
	2018	**–**	**–**	**Noninterest-bearing; unsecured; due**
	2017	–	–	**and demandable**
Insurance expense				
	2018	**5,933,700**	**–**	
	2017	7,745,431	–	
Financial asset at FVPL (Note 28)				
	2018	**–**	**8,699,745**	**Carried at fair value; No impairment**
	2017	–	8,461,820	
Available for sale financial assets (Note 28)				
	2018	**–**	**14,389,673**	**Carried at fair value; No impairment**
	2017	–	25,079,144	
Restricted funds (Note 8)	**2018**	**–**	**21,356,004**	**Interest at prevailing deposit and short-term rates; unsecured; no impairment**
	2017	–	40,770,731	

The Group’s significant transactions with related parties follow:

a) *Payable to Parent Company*
This account pertains to management and other professional fees charged by HI for administering the subsidiaries’ operations.

b) *Receivables from Parent Company*
This account pertains to fuel consumption, car plan and gym rental advanced by parent company. These are noninterest-bearing and are payable on demand.

c) *Receivables from entities under common control of HI*
Receivables from entities under common control of HI arise from HI subsidiaries’ lease of the Group’s canteen kiosks in its Makati and Intramuros properties. The term of the lease is for one year and renewable with uniform rental payments.

d) *Payable to entities under common control of HI*
Payables to entities under common control of HI pertain to property management and janitorial and security services (contractual services).

e) *Accounts payable to HI*
Accounts payable pertains to the outstanding balance of general cost of construction of MCMI’s school buildings and other facilities and professional fees related to the building construction (Notes 9 and 13).

f) *Receivables from entities under common control of PMMIC*
Due from entities under common control of PMMIC arises from RCBC’s rental of the Group’s office spaces in its Makati property.

g) *Payables to entities under common control of PMMIC*
The Group obtains property and personnel insurance with its affiliated insurance company, Malayan Insurance Company, Inc. (MICO). Insurance contract coverage pertains to the Group’s fire, accident, group and other insurance policies.

Other related party transactions follow:

a) The Group maintains its retirement fund with RCBC trust division. As at December 31, 2018 and 2017, the fair value of the plan assets of the retirement fund amounted to ₱181.42 million and ₱162.74 million, respectively (Note 23). Trust fees paid by the retirement plan to RCBC amounted to ₱0.09 million and ₱0.42 million for the years ended December 31, 2018 and 2017, respectively.

b) Compensation of key management personnel of the Group

The remuneration of directors and other members of key management are as follows:

	2018	2017	2016
Short-term benefits	**₱32,022,746**	33,954,200	₱59,468,310
Post-employment benefits	**1,132,219**	1,078,854	1,124,916
	₱33,154,965	₱35,033,054	₱60,593,226

Terms and conditions of transaction with related parties
Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. For the years ended December 31, 2018 and 2017, the Group has not recorded any impairment losses on receivables relating to amounts owed by related parties. This assessment is undertaken each year through examining the financial position of the related party and the market in which the related party operates.

15. Short-term Loans

- In September 2016, the Group obtained an unsecured short-term loan from Bank of the Philippine Islands (BPI) amounting to ₱100.00 million, with an annual interest of 3.00% p.a. This loan was fully paid in June 2017.

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

  Total STL drawdowns in 2018 and 2017 amounted to ₱1,850.00 million and ₱940.00 million, respectively, with interest rates ranging from 3.00% to 5.50% p.a.

  In November and December 2018, the Group, through MCMI, obtained short-term loans from Land Bank of the Philippines amounting to ₱110.00 million, with annual interests ranging from of 5.60% to 6.25%. The loans remained outstanding as at December 31, 2018.

  Outstanding balance of short-term loans obtained by MCMI amounted to ₱1,540.00 million and ₱810.00 million as at December 31, 2018 and 2017, respectively.

- In 2018, the Group, through MESI, obtained unsecured peso-denominated short-term loans with BPI amounting to ₱900.00 million with annual interest rates ranging from 5.50% to 6.00%, to finance the acquisition of land from HI and the construction of MESI’s school building in Makati City (Notes 9 and 10).

  Outstanding balance of short-term loans obtained by MESI amounted to ₱700.00 million as at December 31, 2018.

Interest expense charged to operations in 2018, 2017 and 2016 amounted to ₱31.90 million, ₱1.19 million and ₱1.28 million, respectively (Note 20).

Interest expense that was capitalized as part of construction of MESI and MCMI’s building in 2018 and 2017 amounted to ₱23.77 million and ₱9.73 million, respectively (Note 9).

16. Equity

Capital Stock

Capital stock consists of 2,000,000,000 authorized and 748,932,949 issued and outstanding common shares as at December 31, 2018 and 2017, with a par value of ₱1 per share. Issued and outstanding shares is 748,932,949 (excluding treasury shares of 272) as at December 31, 2018 and 2017.

On September 15, 1989, SEC approved the registration of the Group's entire authorized capital stock with a Certificate of Permit to Sell Securities authorizing the sale of 25 billion shares worth ₱250.00 million. The Group's capital stock was listed in both Manila and Makati Stock Exchanges on January 24, 1990. Actual number of shares initially listed is 15 billion at an offer price of ₱0.01 per share.

Below is the summary of the Group's outstanding number of shares and holders of securities as at December 31, 2018:

Year	Number of shares registered	Number of holders of securities as at year end
January 1, 2017	748,932,949	2,048
Add (deduct) movement	–	(10)
December 31, 2017	748,932,949	2,038
Add (deduct) movement	–	(16)
December 31, 2018	748,932,949	2,022

Note: Exclusive of 272 treasury shares.

Retained Earnings

In accordance with Securities Regulation Code (SRC) Rule No. 68, As Amended (2011), Annex 68-C, after reconciling items, the Group's retained earnings available for dividend declaration as at December 31, 2018 and 2017 amounted to ₱1,133.57 million and ₱1,167.11 million, respectively. The Parent Company and its subsidiaries will declare dividends out of their retained earnings available for dividend declaration.

The retained earnings account includes the accumulated equity in undistributed earnings of consolidated subsidiaries amounting ₱2,969.06 million and ₱2,818.57 million as at December 31, 2018 and 2017, respectively. These are not available for dividends until declared by the subsidiaries.

The Group's retained earnings is restricted for dividends declaration to the extent of the cost of treasury stock amounting ₱209.

The BOD declared cash dividends as follows:

	2018	2017	2016
December 12, 2018, 6% cash dividends (₱0.06 per share) to stockholders of record as of January 8, 2019, paid on February 1, 2019	**₱44,935,993**	₱–	₱–
October 1, 2018, 6% cash dividends (₱0.06 per share) to stockholders of record as of October 26, 2018, paid on November 21, 2018	**44,935,993**	–	–
June 29, 2018, 6% cash dividends (₱0.06 per share) to stockholders of record as of July 26, 2018, paid on August 17, 2018,	**44,935,977**	–	–
March 23, 2018, 6% cash dividends (₱0.06 per share) to stockholders of record as of April 19, 2018, paid on May 16, 2018	**44,935,993**	–	–
November 24, 2017, 6% cash dividends (₱0.06 per share) to stockholders of record as of December 21, 2017, paid on January 18, 2018	**–**	44,935,993	–
September 27, 2017, 6% cash dividends (₱0.06 per share) to stockholders of record as of November 7, 2017, paid on November 29, 2017	**–**	44,935,993	–
June 30, 2017, 6% cash dividends (₱0.06 per share) to stockholders of record as of July 28, 2017, paid on August 23, 2017,	**–**	44,935,993	–
March 24, 2017, 6% cash dividends (₱0.06 per share) to stockholders of record as of April 21, 2017, paid on May 9, 2017	**–**	44,935,993	–
November 25, 2016, 6% cash dividends (₱0.06 per share) to stockholders of record as of December 23, 2016, paid on January 18, 2017	**–**	–	44,935,993
September 15, 2016, 6% cash dividends (₱0.06 per share) to stockholders of record as of October 13, 2016, paid on November 8, 2016	**–**	–	44,935,993
June 24, 2016, 6% cash dividends (₱0.06 per share) to stockholders of record as of July 22, 2016, paid on August 16, 2016,	**–**	–	44,935,993
March 17, 2016, 6% cash dividends (₱0.06 per share) to stockholders of record as of April 14, 2016, paid on May 15, 2016	**–**	–	44,935,993
	₱179,743,956	₱179,743,972	₱179,743,972

On March 29, 2019, the BOD declared ₱44.94 million cash dividends (₱0.06 per share) to stockholders of record as of April 15, 2019, payable on May 14, 2019.

Treasury Stock
As at December 31, 2018 and 2017, there are 272 treasury shares amounting ₱209. The retained earnings is restricted for dividend declaration to the extent of the amount of ₱209 treasury shares.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group considers its equity attributable to equity holders of the Parent Company as Capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2018 and 2017.

As at December 31, 2018 and 2017, the Group is not subject to externally imposed capital requirements.

The Group monitors capital using a debt-to-equity ratio, which is total liabilities divided by total equity attributable to equity holders of Parent Company. The Group's policy is to keep the debt-to-equity ratio not to exceed 2:1.

	2018	2017
Liabilities (a)	**₱3,558,929,978**	₱1,867,375,056
Equity (b)	**5,998,631,757**	5,648,838,604
Debt-to-equity ratio (a/b)	**0.59:1.00**	0.33:1:00

17. Revenue from Contracts with Customers

Revenue from schools and related operations consists of:

	2018	2017	2016
Tuition and other matriculation fees	**₱1,758,502,761**	₱1,860,068,605	₱2,128,257,429
Less: Scholarship grants and discounts	**(87,006,639)**	(77,528,915)	(82,077,511)
	1,671,496,122	1,782,539,690	2,046,179,918
Other student-related income:			
Bookstore sales	**39,828,321**	36,227,197	45,210,388
Seminar fee income	**14,335,836**	2,951,960	3,114,307
Miscellaneous	**81,897,845**	62,479,785	61,929,974
	₱1,807,558,124	₱1,884,198,632	₱2,156,434,587

Miscellaneous income consists of other student-related income which are other than payment for tuition fees. These include, but not limited to, entrance examination fees, exit examination fees, oral examination fees, graduation fees, certification of grades, good moral and other school credentials, photocopying and printing, among others.

Disaggregation of the Group's 2018 revenue from contracts with customers based on the timing of revenue recognition:

	2018	2017	2016
Revenue from schools and related operations:			
Revenue from tuition and other matriculation fees (over time)	**₱1,671,496,122**	₱1,782,539,691	₱2,046,179,919
Other student-related income (at a point in time)	**136,062,002**	101,658,941	110,254,668
	1,807,558,124	1,884,198,632	2,156,434,587
Sale of service (over time)	**937,820**	2,721,362	19,179,504
Sale of goods (at a point in time)	**37,062**	40,569,289	120,253,219
	₱1,808,533,006	1,927,489,283	2,295,867,310

For the Group's receivables and contract liabilities, these are disclosed in Notes 7 and 13, respectively.

Sale of services includes sale of computer services from PPCCI and revenue from consultancy services of MTI:

	2018	2017	2016
Consultancy fees	**₱937,820**	₱556,248	₱1,810,687
Computer services	**–**	2,165,114	17,368,817
	₱937,820	₱2,721,362	₱19,179,504

18. Cost of Schools and Related Operations and Cost of Goods Sold

Cost of schools and related operations account consists of:

	2018	2017	2016
Personnel expenses (Note 22)	**₱608,761,306**	₱575,949,479	₱602,806,069
Depreciation and amortization (Note 18)	**187,188,731**	194,769,392	190,097,703
Management and other professional fees (Note 14)	**113,974,424**	113,628,794	106,690,199
Student-related expenses	**110,314,055**	95,179,659	99,424,800
Utilities	**84,042,240**	81,734,815	85,398,299
IT expense - software license	**36,622,759**	27,321,190	23,819,290
Tools and library books (Note 9)	**26,333,830**	30,198,284	26,008,973
Periodicals	**21,693,225**	19,665,658	15,625,679
Advertising	**19,901,017**	16,659,662	24,338,283
Repairs and maintenance	**15,720,212**	12,251,634	13,688,679
Seminar	**12,667,874**	18,995,992	14,250,241
Accreditation cost	**8,951,062**	7,242,083	9,483,202
Research and development fund	**8,806,118**	17,303,387	16,303,676
Office supplies	**7,405,855**	6,944,143	5,779,015
Insurance	**7,350,745**	6,619,921	5,149,653
Laboratory supplies	**3,810,433**	6,565,801	7,865,267

(Forward)

	2018	2017	2016
Transportation and travel	**₱1,844,524**	₱1,144,372	₱876,604
Taxes and licenses	**1,527,092**	1,800,770	2,003,163
Entertainment, amusement and recreation	**510,375**	387,474	327,857
Rent (Note 29)	**205,301**	624,492	945,095
Miscellaneous	**1,771,797**	2,013,481	1,801,353
	₱1,279,402,975	₱1,237,000,483	₱1,252,683,100

a. Details of depreciation and amortization follows:

	2018	2017	2016
Depreciation (Note 9)	**₱217,780,615**	₱208,648,327	₱206,096,719
Amortization (Note 12)	**529,630**	634,916	639,375
	₱218,310,245	₱209,283,243	₱206,736,094

b. Depreciation and amortization expenses as function of expense follows:

	2018	2017	2016
Cost of schools and related operations	**₱187,188,731**	₱194,769,392	₱190,097,703
General and administrative expenses (Note 19)	**31,121,514**	14,513,851	15,725,426
Advertising cost	**–**	–	912,965
	₱218,310,245	₱209,283,243	₱206,736,094

Cost of goods sold pertains to the cost of computer equipment and hardware sold by PPCCI:

	2018	2017	2016
Merchandise inventory, beginning	**₱–**	₱15,804	₱358,268
Purchases	**30,280**	36,764,385	106,109,369
Less merchandise inventory, end	**–**	–	15,804
	₱30,280	₱36,780,189	₱106,451,833

19. **General and Administrative Expenses**

This account consists of:

	2018	2017	2016
Management and other professional fees (Note 14)	**₱112,905,159**	₱86,520,831	₱93,213,344
Personnel expenses (Note 22)	**48,210,073**	54,482,008	61,838,183
Depreciation and amortization (Notes 9 and 12)	**31,121,514**	14,513,851	15,725,426
Utilities	**9,582,547**	5,769,687	2,669,055
Taxes and licenses	**9,377,079**	4,457,779	6,065,787
Advertising	**9,173,061**	3,917,970	9,340,876
Donations	**3,950,792**	6,698,883	5,553,719

(Forward)

	2018	2017	2016
Transportation and travel	**₱3,709,587**	₱3,604,808	₱2,821,994
Repairs and maintenance	**3,059,114**	2,238,337	2,470,234
Insurance	**2,757,193**	1,130,410	2,193,772
Office supplies	**2,184,813**	1,699,329	2,073,060
Provisions for doubtful accounts (Note 7)	**1,899,577**	10,000,476	6,323,039
Entertainment, amusement, and recreation	**1,813,027**	2,951,210	2,768,864
Seminar	**904,299**	819,036	1,222,802
Rent (Note 29)	**751,353**	1,760,152	646,297
Commission	**680,100**	622,100	907,718
IT expense - software license	**524,521**	788,611	2,764,801
Miscellaneous	**5,158,541**	4,354,552	4,805,438
	₱247,762,350	₱206,330,030	₱223,404,409

Management and other professional fees consist of property management fees, janitorial and security service fees, lawyers, payroll specialists and other professional service fees (Note 14).

Miscellaneous expense includes dues and subscriptions, manual and training materials, periodicals and other contracted services, among others.

20. Interest Income, Interest and Other Finance Charges

The Group's interest income consists of interest from the following sources:

	2018	2017	2016
Cash in banks and cash equivalents (Note 6)	**₱11,231,125**	₱12,815,093	₱11,966,815
Advances to officers and employees (Note 7)	**115,276**	139,727	114,153
	₱11,346,401	₱12,954,820	₱12,080,968

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

	2018	2017	2016
Short-term loans (Note 15)	**₱31,895,320**	₱1,189,370	₱1,278,284
Bank charges	**4,131,045**	3,043,799	3,295,082
Long-term debt	**–**	–	4,515,928
	₱36,026,365	₱4,233,169	₱9,089,294

21. Income Tax

Provision for income tax consists of:

	2018	2017	2016
Current	**₱35,045,809**	₱49,345,096	₱72,581,966
Deferred	**(7,171,009)**	(1,769,746)	6,268,230
	₱27,874,800	₱47,575,350	₱78,850,196

The reconciliation of statutory tax rate of 30% to effective income tax rate follows:

	2018	2017	2016
Income before income tax at statutory rate	**30.00%**	30.00%	30.00%
Add (deduct) reconciling items:			
Difference in income tax rate	**(20.37)**	(20.61)	(20.05)
Others	**0.89**	0.94	0.97
	10.52%	10.33%	10.92%

MESI, MHSSI, MCLI and MCMI are educational institutions which are subject to a lower income tax rate of 10%.

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

	2018	2017
Deferred tax assets – net		
Retirement asset	**₱3,314,309**	₱3,995,398
Allowance for doubtful accounts	**1,816,008**	1,991,252
Unrealized foreign exchange loss (gain)	**(1,065)**	946
	5,129,252	5,987,596
(Forward)		
Deferred tax liabilities - net		
Revaluation increment on land	**₱245,818,711**	₱206,879,712
Allowance for inventory obsolescence	**(52,710)**	(52,710)
Allowance for doubtful accounts	**(4,997,405)**	(4,997,405)
Accruals	**(15,355,808)**	(8,525,245)
Retirement liability	**(7,419,180)**	(12,998,480)
NOLCO	**(9,659,057)**	(1,363,083)
Others	**239,399**	(1,672,112)
	208,573,950	177,270,677
	₱203,444,698	₱171,283,081

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

	2018	2017
Beginning	**₱171,283,081**	₱140,989,370
Provisions during the year	**(7,171,009)**	(1,769,746)
Tax effects of:		
Revaluation increment on land (Note 10)	**38,938,999**	31,465,320
Remeasurement gains on defined benefit plans (Note 23)	**393,627**	598,137
	₱203,444,698	₱171,283,081

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

	2018	2017
NOLCO	**₱49,462,220**	₱33,363,060
Allowance for doubtful accounts	**2,991,500**	2,991,503
Provision for retirement and others	**6,405,774**	8,394,229
Provision for impairment losses	**–**	4,258,858
Others	**671,812**	515,820
	₱59,531,306	₱49,523,470

As at December 31, 2018 and 2017, the details of the NOLCO and MCIT, which are available for offset against future taxable income and tax payable over a period of three (3) years from the year of inception, respectively, follow:

	NOLCO		MCIT	
	2018	2017	**2018**	2017
Beginning balance	**₱53,500,754**	₱35,354,166	**₱835,029**	₱817,948
Additions	**35,182,645**	31,932,649	**86,273**	113,214
Expiration	**(9,978,103)**	(13,743,460)	**(268,600)**	(89,648)
Application	**–**	(42,601)	**–**	(6,485)
Ending balance	**₱78,705,296**	₱53,500,754	**₱652,702**	₱835,029

		NOLCO		MCIT	
Year Incurred	Expiration Date	**2018**	2017	**2018**	2017
2018	2021	**₱35,182,645**	₱–	**₱86,273**	₱–
2017	2020	**31,932,649**	31,932,649	**113,214**	113,214
2016	2019	**11,590,002**	11,590,002	**453,215**	453,215
2015	2018	**–**	9,978,103	**–**	268,600
		₱78,705,296	₱53,500,754	**₱652,702**	₱835,029

22. Personnel Expenses

a. Details of personnel expenses are as follows:

	2018	2017	2016
Compensation	**₱583,742,405**	₱569,352,192	₱593,465,566
Retirement benefits (Note 23)	**16,918,815**	18,622,873	25,920,349
Miscellaneous benefits	**56,310,159**	42,456,422	45,258,337
	₱656,971,379	₱630,431,487	₱664,644,252

Miscellaneous benefits pertain to honoraria and mandatory government benefits.

b. Personnel expenses as function of expense follows:

	2018	2017	2016
Cost of schools and related operations (Note 18)	**₱608,761,306**	₱575,949,479	®602,806,069
General and administrative expenses (Note 19)	**48,210,073**	54,482,008	61,838,183
	₱656,971,379	₱630,431,487	₱664,644,252

23. Retirement Plans

The Group has a noncontributory and defined benefit retirement plan covering all of its regular employees. The benefits are based on the years of service and percentage of latest monthly salary. The retirement benefit is the only longterm benefit given to employees. Short-term benefits are expensed outright.

The most recent actuarial valuation was carried out in January 2019 for the retirement plan of the Group as at December 31, 2018.

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

	2018	2017
Pension expense (Note 22)	**₱16,918,815**	₱18,622,873
Net pension asset	**6,276,581**	1,881,243
Net pension liability	**40,008,432**	66,299,937

Components of pension expense follow:

	2018	2017	2016
Current service cost	**₱15,673,995**	₱16,590,239	₱17,252,506
Net interest cost on defined benefit obligation	**3,024,351**	3,312,949	4,135,269
Past service cost	**(1,779,531)**	(1,280,315)	4,532,574
Net pension expense	**₱16,918,815**	₱18,622,873	₱25,920,349

The net pension asset recognized in the consolidated statements of financial position as at December 31, 2018 and 2017 is as follows:

	2018	2017
Fair value of plan assets	**₱34,887,051**	₱5,333,804
Present value of defined benefit obligation	**(28,610,470)**	(3,452,561)
	₱6,276,581	₱1,881,243

The net pension liability recognized in the consolidated statements of financial position as at December 31, 2018 and 2017 is as follows:

	2018	2017
Fair value of plan assets	**₱146,536,601**	₱157,402,746
Present value of defined benefit obligation	**(186,545,033)**	(223,702,683)
	(₱40,008,432)	(₱66,299,937)

The movements in the net pension liability (asset) follow:

	2018	2017
At beginning of year	**₱64,418,694**	₱72,865,133
Contribution paid	**(42,970,884)**	(16,267,776)
Net pension expense	**16,918,815**	18,622,873
Withdrawal of plan asset	**728,168**	952,187
Amount to be recognized in OCI	**(4,123,260)**	(9,858,706)
Adjustments and reversals of defined benefit obligation	**(1,239,682)**	(1,895,017)
At end of the year	**₱33,731,851**	₱64,418,694

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

Remeasurement losses (gains) recognized in OCI follow:

	2018	2017
Actuarial losses (gains)	**(₱19,283,864)**	(₱9,911,226)
Return on assets excluding amount included in net interest cost	**15,160,604**	52,520
Total remeasurement losses (gains) recognized in OCI	**(₱4,123,260)**	(₱9,858,706)

Movement of cumulative remeasurement gains recognized in OCI:

	2018	2017
Balance at beginning of year	**₱38,870,017**	₱29,011,311
Remeasurement gains recognized in OCI	**4,123,260**	9,858,706
Total cumulative amounts recognized in OCI	**₱42,993,277**	₱38,870,017

The reconciliation of the present value of defined benefit obligation is as follows:

	2018	2017
Beginning balance	**₱227,155,244**	₱237,013,302
Interest cost	**12,264,351**	11,862,270
Current service cost	**15,673,995**	16,580,761
Reversal	**(1,239,682)**	(1,733,630)
Benefits paid	**(17,635,010)**	(25,375,918)
Past service cost	**(1,779,531)**	(1,280,315)
Actuarial losses (gains) on obligation:		
Experience adjustments	**(2,875,494)**	959,456
Changes in demographic assumptions	**9,067,930**	(2,663,249)
Changes in financial assumptions	**(25,476,300)**	(8,207,433)
Ending balance	**₱215,155,503**	₱227,155,244

The reconciliation of the fair value of plan assets is as follows:

	2018	2017
Beginning balance	**₱162,736,550**	₱164,148,169
Expected return	**9,240,000**	8,539,843
Contribution paid during the year	**42,970,884**	16,267,776
Benefits paid	**(17,635,010)**	(25,375,918)
Withdrawal	**(728,168)**	(952,187)
Actuarial losses on plan assets	**(15,160,604)**	(52,520)
Adjustment to plan assets	**–**	161,387
Ending balance	**₱181,423,652**	₱162,736,550

The distribution of plan assets as at December 31, 2018 and 2017 is as follows:

	2018		2017	
	Amount	**%**	Amount	%
Cash and cash equivalents	**₱30,404,467**	**16.76%**	₱17,218,802	10.58%
Investments in:				
Government securities	**153,985,399**	**84.88%**	117,593,305	72.26%
Equity instruments	**1,456,666**	**0.80%**	26,984,814	16.58%
Interest and other receivables	**1,453,485**	**0.80%**	1,575,920	0.97%
Accrued trust fees	**(5,876,365)**	**-3.24%**	(636,291)	-0.39%
	₱181,423,652	**100.00%**	₱162,736,550	100.00%

Actual loss and actual return in plan assets amounted to ₱5.99 million and ₱8.49 million in 2018 and 2017, respectively.

The Group plans to contribute ₱26.29 million in 2019.

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

	2018	2017
Discount rate:		
Beginning	**4.70%-5.74%**	5.19%-5.67%
End	**7.26%-7.38%**	4.70%-5.74%
Salary increase rate:		
Beginning	**3.00%-5.00%**	3.00%-5.00%
End	**3.00%-5.00%**	3.00%-5.00%

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

As at December 31, 2018

	Rate	Increase (Decrease)	PVO
Discount rate	**7.46%**	**+100bps**	**(₱201,151,766)**
	6.64%	**-100bps**	**231,626,110**
Salary rate	**5.25%**	**+100bps**	**₱233,606,705**
	3.25%	**-100bps**	**(199,204,773)**

As at December 31, 2017

	Rate	Increase (Decrease)	PVO
Discount rate	6.70%	+100bps	(₱207,933,610)
	4.70%	-100bps	248,484,018
Salary rate	5.25%	+100bps	₱250,231,441
	3.25%	-100bps	(206,159,743)

The sensitivity analysis above has been determined based on a method that extrapolates the impact of defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the balance sheet date.

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. It is the policy of the Trustee that immediate and near-term retirement liabilities of the Group's Retirement Fund are adequately covered by its assets. As such, due considerations are given that portfolio maturities are matched in accordance with due benefit payments. The Retirement Fund's expected benefits payments are determined through the latest actuarial reports.

24. Earnings Per Share

Earnings per share amounts attributable to equity holders of Parent Company are computed as follows:

	2018	2017	2016
Net income attributable to equity holders of Parent Company (a)	**₱211,035,192**	₱381,584,442	₱595,715,580
Weighted average number of outstanding shares - net of treasury shares (b)	**748,932,949**	748,932,949	748,932,949
Earnings per share (a/b)	**₱0.2818**	₱0.5095	₱0.7954

There are no dilutive potential shares that would require disclosure of diluted earnings per share in the consolidated financial statements.

25. Non-controlling Interest in Consolidated Subsidiaries

This represents shareholdings in material subsidiaries not held by the Group. Proportion of equity interest held by non-controlling interests (NCI) in material subsidiaries for 2018 and 2017 follows:

	NCI Equity Interest
Malayan Education System, Inc.	7.04%
Malayan Colleges Laguna, Inc.	7.04%
Malayan High School of Science, Inc.	7.04%
Malayan Colleges of Mindanao, Inc.	7.04%

Non-controlling interests in material subsidiaries as at December 31 follows (in million pesos):

	2018	2017
Malayan Education System, Inc.	**₱339**	₱312
Malayan Colleges Laguna, Inc.	**100**	98
Malayan Colleges of Mindanao, Inc.	**53**	54
Malayan High School of Science, Inc.	**6**	4

Dividends paid to non-controlling interest in consolidated subsidiaries amounted to ₱12.32 million, ₱24.64 million and ₱19.72 million in 2018, 2017 and 2016, respectively.

As at December 31, 2018, 2017 and 2016, the summarized financial information attributable to non-controlling interests in material subsidiaries is shown in the next page.

(In million pesos)

	Malayan Education System, Inc.			Malayan Colleges Laguna, Inc.			Malayan Colleges Mindanao, Inc.			Malayan High School of Science, Inc.		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Assets												
Current assets	**₱381**	₱467	₱540	**₱130**	₱81	₱119	**₱48**	₱13	₱146	**₱21**	₱30	₱35
Noncurrent assets	**6,147**	4,915	4,722	**1,508**	1,481	1,298	**2,469**	1,777	708	**262**	236	179
	₱6,528	₱5,382	₱5,262	**₱1,638**	₱1,562	₱1,417	**₱2,517**	₱1,790	₱854	**₱283**	₱266	₱214
Liabilities and Equity												
Current liabilities	**₱1,484**	₱762	₱647	**₱161**	₱93	₱202	**₱1,744**	₱1,002	₱70	**₱12**	₱14	₱14
Noncurrent liabilities	**196**	173	184	**49**	68	43	**12**	14	14	**193**	190	184
	1,680	935	831	**210**	161	245	**1,756**	1,016	84	**204**	204	198
Equity	**4,848**	4,447	4,431	**1,428**	1,401	1,172	**761**	774	770	**79**	62	16
	₱6,528	₱5,382	₱5,262	**₱1,638**	₱1,562	₱1,417	**₱2,517**	₱1,790	₱854	**₱283**	₱266	₱214
Attributable to:												
Equity holders of parent	**₱4,509**	₱4,136	₱4,121	**₱1,328**	₱1,303	₱1,090	**₱708**	₱54	₱716	**₱73**	₱58	₱15
Non-controlling interest	**339**	311	310	**100**	98	82	**53**	720	54	**6**	4	1
Net revenue	**₱1,264**	₱1,385	₱1,737	**₱468**	₱465	₱454	**₱59**	₱–	₱–	**₱23**	₱26	₱32
Gross profit (loss)	**371**	482	802	**154**	159	128	**8**	–	–	**(7)**	(3)	2
Net income (loss)	**352**	356	605	**102**	109	70	**(75)**	(9)	(2)	**(9)**	(6)	(1)
Attributable to:												
Equity holders of parent	**₱327**	₱331	₱563	**₱95**	₱101	₱65	**(₱70)**	(₱8)	(₱2)	**(₱8)**	(₱6)	(₱1)
Non-controlling interest	**25**	25	42	**7**	8	5	**(5)**	(1)	–	**(1)**	–	–

26. Operating Segment Information

Business Segment
The business segment is determined as the primary segment reporting format as the Group's risks and rates of return are affected predominantly by each operating segment.

Management monitors the operating results of its operating segments separately for the purpose of making decision about resources allocation and performance assessment. Group financing (including interest income, dividend income and interest expense) and income taxes are managed on a group basis and are not allocated to operating segments. The Group evaluates performance based on income before income tax, and earnings before income tax, depreciation and amortization. The Group does not report its results based on geographical segments because the Group operates only in the Philippines.

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

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the consolidated statement of financial position which is in accordance with PFRSs.

For management purposes, the Group is organized into business units based on the products and services it provides, which comprise of two (2) main groupings as follows:

Education - primarily consists of revenues of MESI, MCLI, MITC, MHSS and MCMI in education.

Information Technology and Others - represent support services which cannot be directly identified with the reportable segment mentioned above. These include sale of computer equipment, consulting, development, installation and maintenance of information technology systems.

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

Segment assets and liabilities exclude deferred tax assets and liabilities.

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

Capital expenditures consist of additions to property and equipment.

(In million pesos)

	Education			Information Technology and Others			Elimination			Consolidated		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Revenues												
Income from external customers	**₱1,808**	₱1,940	₱2,221	**₱1**	₱43	₱139	**₱–**	₱–	₱–	**₱1,809**	₱1,983	₱2,360
Inter-segment income	**118**	20	20	**163**	325	260	**(281)**	(345)	(280)	**–**	–	–
Total Revenues	**₱1,926**	₱1,960	₱2,241	**₱164**	₱368	₱399	**(₱281)**	(₱345)	(₱280)	**₱1,809**	₱1,983	₱2,360
Net Income attributable to Parent Company	**₱371**	₱452	₱677	**₱146**	₱298	₱244	**(₱306)**	(₱368)	(₱325)	**₱211**	₱382	₱596
Other Information												
Segment assets	**₱10,998**	₱9,037	₱7,782	**₱1,967**	₱2,009	₱1,920	**(₱2,993)**	(₱3,149)	(₱3,173)	**₱9,972**	₱7,897	₱6,529
Segment liabilities	**3,856**	2,326	1,366	**88**	110	145	**(385)**	(565)	(498)	**3,559**	1,871	1,013
Deferred tax assets	**5**	6	3	**–**	–	3	**–**	–	–	**5**	6	6
Deferred tax liabilities	**209**	177	147	**–**	–	–	**–**	–	–	**209**	177	147
Cash flows arising from:												
Operating activities	**633**	625	999	**(22)**	18	(30)	**(55)**	(18)	(173)	**556**	625	796
Investing activities	**(1,724)**	(1,250)	(412)	**260**	260	260	**(355)**	(355)	(83)	**(1,819)**	(1,345)	(235)
Financing activities	**941**	319	(364)	**(172)**	(176)	(179)	**449**	375	254	**1,218**	518	(289)
Interest expense	**41**	4	13	**–**	–	–	**(5)**	–	(4)	**36**	4	9
Provision for income tax	**28**	44	72	**–**	4	7	**–**	–	–	**28**	48	79
Capital expenditures	**2,127**	1,049	232	**–**	–	–	**(20)**	–	–	**2,107**	1,049	232
Depreciation and amortization	**218**	208	205	**–**	1	1	**0**	–	–	**218**	209	206

27. Notes on Consolidated Statements of Cash Flows

- Changes in the Group's liabilities arising from financing activities follow:

	2017	Non-cash Changes: Declaration of CashDividend	Non-cash Changes: Non-controlling interest	Cash Flows	2018
Short-term loans	₱810,000,000	₱–	₱–	₱1,430,000,000	₱2,240,000,000
Dividends payable	69,343,445	179,743,956	12,322,319	(204,391,637)	57,018,083
Payables to related parties	20,957,655		–	(7,943,215)	13,014,440
	₱900,301,100	₱179,743,956	₱12,322,319	₱1,217,665,148	₱2,310,032,523

	2016	Non-cash Changes: Declaration of CashDividend	Non-cash Changes: Non-controlling interest	Cash Flows	2017
Short-term loans	₱100,000,000	₱–	₱–	₱710,000,000	₱810,000,000
Dividends payable	64,412,064	179,743,973	24,644,638	(199,457,230)	69,343,445
Payables to related parties	13,288,486	–	–	7,669,169	20,957,655
	₱177,700,550	₱179,743,973	₱24,644,638	₱518,211,939	₱900,301,100

- Noncash investing activities in 2018, 2017 and 2016 pertain to the revaluation of land amounting ₱389.89 million, ₱314.65 million and ₱279.8 million, respectively (Note 10) and liability for construction in progress amounting to nil and ₱180.97 million in 2018 and 2017, respectively (Notes 9 and 13).

28. Financial Instruments

Fair Value of Financial Instruments

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as at December 31, 2018 and 2017:

	Carrying Amount	**2018 Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:					
Financial assets at FVPL	**₱8,699,745**	**₱8,699,745**	**₱–**	**₱–**	**₱8,699,745**
Equity instruments at FVOCI	**14,389,673**	**14,389,673**	**–**	**–**	**14,389,673**

	Carrying Amount	2017 Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:					
Financial assets at FVPL	₱8,461,820	₱8,461,820	₱–	₱–	₱8,461,820
AFS financial assets	25,079,144	25,079,144	–	–	25,079,144

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

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

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

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

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

- *Financial assets at FVTPL* - the fair values are based on net assets value per unit (NAVPU).

- *Equity instruments at FVOCI (AFS financial assets in 2017)* - fair values were determined using quoted market prices at financial reporting date. The investments are included within the level 1 of the hierarchy. The movement in the cost and gain are as follow:

	2018	2017	2016
As at January 1	**₱25,079,144**	₱17,062,041	₱14,389,673
Changes in fair value	**(10,689,471)**	8,017,103	2,672,368
As at December 31	**₱14,389,673**	₱25,079,144	₱17,062,041

The rollforward of unrealized gains (losses) are as follows:

	2018	2017	2016
As at January 1	**₱6,716,900**	(1,300,203)	(₱3,972,571)
Changes in fair value	**(10,689,471)**	8,017,103	2,672,368
As at December 31	**(₱3,972,571)**	6,716,900	(₱1,300,203)

The unrealized gain (loss) on listed equity investments are presented in the equity section of the consolidated statements of financial position.

As at December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements. There are no financial assets and financial liabilities recognized at fair value based on Level 3 and there are no transfers in and out of Level 3 categories in 2018 and 2017. No financial instrument fall within Level 3.

Financial Risk Management Objectives and Policies
The Group’s principal financial instruments comprise of cash and cash equivalents, receivables, receivables from related parties, equity and other investments, accounts payable and accrued expenses, payables to related parties, dividends payable, and short-term loans. The main purpose of these financial instruments is to raise finances for the Group’s operations.

The main risks arising from the Group’s financial instruments are credit risk and liquidity risk. The BOD reviews and approves the policies for managing these risks. The Audit Committee and the Risk Management Committee of the Board meets regularly and exercises an oversight role in managing risks.

The Group's risk management policies are summarized as follows:

Credit risk and concentration of credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. The Group's exposure to credit risk relates primarily to the inability of the debtors and students to pay and to fully settle the unpaid balance of tuition fees and other charges, respectively, which are owed to the Group based on the installment payment schemes. The Group manages its credit risk in accordance with its credit policies by maintaining strict policies like not allowing students to enroll in the following term unless the unpaid balance in the previous term has been paid. The Group also withholds the academic records and clearance of the students with unpaid balances. The Group's exposure to credit risk arising from its other receivables from debtors and related parties is managed through close account monitoring and setting of limits.

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

The Group does not have any significant exposure to any individual customer or counterparty. With respect to credit risk arising from cash and cash equivalents, receivables, amounts due from related parties, financial assets at FVPL and listed equity investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. As at December 31, 2018 and 2017, there are no collaterals held in relation to the Group's financial assets.

The table below shows the credit risk exposure on the Group's financial assets as at December 31, 2018:

	Gross carrying amount at default	Expected credit loss (Impaired)
Cash in banks	**₱163,609,680**	**₱–**
Cash equivalents	**423,221,242**	**–**
Receivables from:		
Tuition and other fees	**299,383,753**	**55,682,504**
Trade	**3,411,484**	**3,392,997**
Related parties	**844,735**	**–**
Others	**78,857,790**	**5,953,007**
Financial assets at FVTPL	**8,699,745**	**–**
Equity investments at FVOCI	**14,389,673**	**–**
	₱992,418,102	**₱65,028,508**

As disclosed in Note 4, the Group recognizes an allowance for ECLs for all debt instruments not held at fair value. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The mechanics of the ECL calculations and the key elements are, as follows:

a. *Probability of default (PD)* is an estimate of the likelihood of default over a given time horizon.

b. *Exposure at default (EAD)* is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.
c. *Loss given default (LGD)* is an estimate of the loss arising in the case where a default occurs at a given time.

The Group's debt instruments at amortized cost comprise of cash and cash equivalents that is considered to have low credit risk. Hence, it is the Group's policy to measure ECL on such instrument on a 12-month basis applying the low credit risk simplification and based on the PD which is publicly available. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses external credit ratings both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECL.

For tuition and other fees receivables, the Group generally uses a provision matrix to calculate ECLs. The provision rates are based on days past due for groupings based on school term.

The provision matrix is initially based on the Group's historical observed default rates. The Group will then consider directly relevant forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are considered.

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The aging of tuition and other fees and the expected credit loss as at December 31 follows:

	2018					
	Current	< 1 quarter	1 - 2 quarters	> 2 quarters	Expected credit loss	Total
Tuition and other fees	₱227,619,873	₱10,615,569	₱2,047,423	₱58,892,815	(₱55,682,504)	₱243,701,249

The table below summarize the credit quality of the Group's neither past due financial assets as at December 31, 2017:

	2017					
	Neither past due nor impaired			Past due but		
	High Grade	Standard	Total	not impaired	Impaired	Total
Cash in banks	₱159,883,899	₱–	₱159,883,899	₱–	₱–	₱159,883,899
Cash equivalents	471,932,266	–	471,932,266	–	–	471,932,266
Receivables from:						
Tuition and other fees	66,665,836	4,600,054	71,265,890	25,330,196	56,420,633	153,016,719
Trade	–	–	–	987,050	6,843,708	7,830,758
Related parties	–	–	–	1,035,882	–	1,035,882
Others	4,355,663	210,998	4,566,661	43,744,758	5,953,007	54,264,426
Financial assets at FVPL	8,461,820	–	8,461,820	–	–	8,461,820
AFS financial assets	25,079,144	–	25,079,144	–	–	25,079,144
	₱736,378,628	₱4,811,052	₱741,189,680	₱71,097,886	₱69,217,348	₱881,504,914

The credit quality of the financial assets as at December 31, 2017 was determined as follows:

Cash in banks and cash equivalents - are composed of bank deposits and money market placements maintained with reputable financial institutions duly approved by the BOD.

Receivables:

a. *Tuition and other fees and others* - The Group categorizes their neither past due nor impaired receivables as follows:

High-grade - pertains to students in third, fourth and fifth-year levels with high likelihood of settlement of payables and higher accumulated educational investments in earlier years.
Standard - pertains to students in first and second year-levels with lower likelihood of settlement of payables and minimal accumulated educational investments.

b. *Related parties* - The Group categorizes their neither past due nor impaired receivables as follows:

High-grade - pertains to receivables from profitable related parties with good payment record with the Group and transactions were made during the year.
Standard-grade - pertains to receivables with up to three (3) defaults in payment.

c. *Financial assets at FVTPL and equity investments at FVOCI* - The Group categorizes these financial assets as high grade because it limits its exposure with a single or group of issuer and these are investments with reputable entities duly approved by the BOD.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due.

The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and service maturing debts. As an inherent part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. The Treasury Department is responsible for monitoring the short-term loans and demand deposits of the Group. It assesses the status and maturity period of the loans and deposits to be able to determine the financial standing of the Group and whether the funds being maintained will be able to accommodate any maturing liabilities. Short-term and long-term funding is obtained to finance capital expenditures and working capital. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds and available credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecasts approved by BOD. As at December 31, 2018 and 2017, the Group has available short-term credit facilities with banks aggregating to ₱1.11 billion and ₱1.54 billion, respectively. In addition to this, the Group also has available long-term credit facilities with a bank amounting to ₱1.5 billion. Short-term loans obtained by the Group are renewable subject to the terms of the agreements. The Group intends to convert short-term loans obtained to finance capital expenditures into long-term loans.

The tables below summarize the maturity profile of the Group's financial assets held for liquidity purposes. The maturity groupings are based on the remaining period from the end of the financial reporting date to the contractual maturity date.

	2018			
	On demand	**Less than 1 year**	**More than 1 year**	**Total**
Financial assets at amortized cost				
Cash	**₱164,617,680**	**₱–**	**₱–**	**₱164,617,680**
Cash equivalents	**423,221,242**	**–**	**–**	**423,221,242**
Receivables*	**228,731,654**	**87,892,865**	**–**	**316,624,519**
Receivables from related parties	**844,735**	**–**	**–**	**844,735**
Financial assets at FVPL	**8,699,745**	**–**	**–**	**8,699,745**
Equity investments at FVOCI	**–**	**–**	**14,389,673**	**14,389,673**
	₱826,115,056	**₱87,892,865**	**₱14,389,673**	**₱928,397,594**

**excluding advances to officers and employees*

	2017			
	On demand	Less than 1 year	More than 1 year	Total
Loans and receivables:				
Cash	₱160,879,353	₱–	₱–	₱160,879,353
Cash equivalents	471,932,266	–	–	471,932,266
Receivables*	79,449,014	66,445,541	–	145,894,555
Receivables from related parties	242,759	793,123	–	1,035,882
Financial assets at FVPL	8,461,820	–	–	8,461,820
AFS financial assets	25,079,144	–	–	25,079,144
	₱746,044,356	₱67,238,664	₱–	₱813,283,020

**excluding advances to officers and employees*

The tables below summarize the maturity profile of the Group's other financial liabilities as at December 31 based on contractual undiscounted payments and contractual remaining maturities.

	2018		
	On demand	**Less than 1 year**	**Total**
Accounts payable and accrued expenses*	**₱374,254,777**	**₱26,490,010**	**₱400,744,787**
Payables to related parties	**13,014,439**	**–**	**13,014,439**
Dividends payable	**44,695,764**	**12,322,319**	**57,018,083**
Short-term loan	**–**	**2,240,000,000**	**2,240,000,000**
	₱431,964,980	**₱2,278,812,329**	**₱2,710,777,309**

**excluding payables to regulatory bodies, funds payable and provisions*

	2017		
	On demand	Less than 1 year	Total
Accounts payable and accrued expenses*	₱334,777,162	₱57,130,869	₱391,908,031
Payables to related parties	20,957,655	–	20,957,655
Dividends payable	44,698,807	24,644,638	69,343,445
Short-term loan	–	810,000,000	810,000,000
Interest payable	1,218,646	–	1,218,646
	₱401,652,270	₱891,775,507	₱1,293,427,777

**excluding payables to regulatory bodies, funds payable and provisions*

29. Commitments and Contingencies

Lease Commitments

Operating lease - Group as a lessor

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

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

	2018	2017
Within one year	**₱1,750,332**	₱1,967,496
More than one year but not more than five years	**4,005,587**	3,763,169
Later than five years	**1,369,753**	3,395,445
	₱7,125,672	₱9,126,110

Operating lease - Group as a lessee
The Group entered into a renewable lease agreement with Grepa Realty Holdings Corporation for the use of the premises located at the 3rd floor of Grepalife Tower Building for a period of one (1) year from January 1, 2017 to December 31, 2017 with monthly rental of ₱29,544. The lease agreement was renewed on December 4, 2017 for another one year until December 31, 2018. In January 2019, the lease was renewed again for a period of six months from January 1, 2019 to June 30, 2019 with a monthly rental of ₱30,980.

The future minimum rentals payable within one (1) year amounted to ₱371,760 and ₱354,516 as at December 31, 2018 and 2017, respectively, under the aforementioned lease agreements.

Provisions and Contingencies

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

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

  As at December 31, 2018 and 2017, total accumulated payments to faculty members amounted to ₱230.78 million. Related accruals as at December 31, 2017 amounting to ₱64.09 million was reversed by the Group in 2018. Management assessed that the liability already prescribed after applying the 10-year prescription period which ended in March 2018.

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

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

30. Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, 2017 and 2016 were approved and authorized for issuance by the BOD on March 29, 2019.

SGV
Building a better working world

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

INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
iPeople, inc.
3rd Floor, Grepalife Building
219 Sen. Gil J. Puyat Avenue
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of iPeople, inc. and its subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 included in this SEC Form 17-A and have issued our report thereon dated March 29, 2019. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Schedules I-IV listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule No. 68, As Amended (2011), and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332529, January 3, 2019, Makati City

March 29, 2019

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IPEOPLE, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES

SUPPLEMENTARY SCHEDULES

Schedule	Content
I	Supplementary Information and Disclosures Required On SRC Rule 68 and 68.1, As Amended
II	Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards
III	Reconciliation of Retained Earnings Available for Dividend Declaration

SCHEDULE I

iPeople, inc. and Subsidiaries

Supplementary Information and Disclosures Required on SRC Rule 68 and 68.1, As Amended December 31, 2018

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule (SRC) Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by amended SRC Rule No. 68 and 68.1 that are relevant to the Group. This information is presented for purposes of filing with the SEC and is not required parts of the basic financial statements.

Schedule A. Financial Assets in Equity Securities

Below is the detailed schedule of financial assets in equity securities of the Group as at December 31, 2018:

Name of Issuing entity and association of each issue	Number of Shares	Amount Shown in the Statement of Financial Position	Value Based on Market Quotation at end of year	Income Received and Accrued
Equity investments at fair value through other comprehensive income				
Quoted:				
PetroEnergy Resources Corporation	4,111,335	₱14,389,673	₱14,389,673	₱205,567

The basis in determining the value of equity securities is the market quotation as at December 31, 2018.

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

Below is the schedule of advances to officers and employees of the Group with balances above ₱100,000 as at December 31, 2018:

Name	As at December 31, 2017	Additions	Liquidations/ Collections	As at December 31, 2018
Arenillo, Denise Jordan	₱53,062	₱398,720	₱62,584	₱389,198
Macayan, Jonathan	35,463	394,000	48,597	380,867
Uy, Francis Aldrine	46,141	396,500	75,879	366,762
Teodoro, Gloria	–	390,000	58,500	331,500
Tiongco, Danilo R.	417,100	–	92,689	324,411
Caparanga, Alvin	–	377,000	58,500	318,500
Camacho, Margarita	383,480	–	71,821	311,659
Robielos, Rex Aurelius	621,299	–	321,698	299,600
Hofilena, Joy	374,354	–	75,500	298,854
Kikuchi, Khristian	374,354	–	75,500	298,854
Medrano, Anthony H.	371,208	–	75,500	295,708
Salayo, John Vincent	371,190	–	75,482	295,708
Austria, Maria Rhodora	366,698	–	79,581	287,117
Costales, Aloysius Nathaniel	389,668	–	129,916	259,751
Lanuza, Dionisia	302,100	–	63,600	238,500
Sabino, Lilibeth	309,167	–	74,200	234,967
Agbulos, Erlin C.	312,827	–	89,374	223,453
Gochioco, Geraldine	297,584	–	76,733	220,851
Salvacion, Jonathan	286,363	–	73,901	212,461
Songsong, Maribel	272,800	–	74,400	198,400
Francisco, Ruth C.	232,374	–	82,825	149,549
Adanza, Carina Victoria T.	221,729	–	73,900	147,829
Tablante, Dennis H.	175,933	–	37,700	135,988
Doma, Bonifacio T. Jr.	175,518	–	37,950	138,233
Sauquillo, Dante	211,888	–	75,900	137,569
	₱6,602,300	₱1,956,220	₱2,062,230	₱6,496,289

These advances pertain to the officers and employees car plan agreements. Such advances are interest-bearing and shall be liquidated on a monthly basis. There were no amounts written off during the year.

Schedule C. Amounts Receivable/Payables from and to Related Parties which are Eliminated During the Consolidation of Financial Statements

Below is the schedule of receivables and payables with related parties, which are eliminated in the consolidated financial statements as at December 31, 2018:

Name	Volume of transactions	Receivables	Terms
Pan Pacific Computer Center, Inc.	Share in expenses	₱1,104,410	Noninterest-bearing and to be settled within the year

Schedule D. Intangible Assets

As at December 31, 2018, the Group's intangible assets consist of goodwill and computer software. Goodwill in the Group's consolidated statements of financial position arose from the acquisition of MESI. Details of the Group's intangible assets are as follows:

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Ending balance
Goodwill	₱137,853,345	₱–	₱–	₱137,853,345
Computer software	6,351,771	–	(529,630)	5,822,141
	₱144,205,116	₱–	(₱529,630)	₱143,675,486

Schedule E. Long term debt

As at December 31, 2018, the Group has no outstanding long-term debt.

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

As at December 31, 2018, the Group has no outstanding long-term debt from/to related parties.

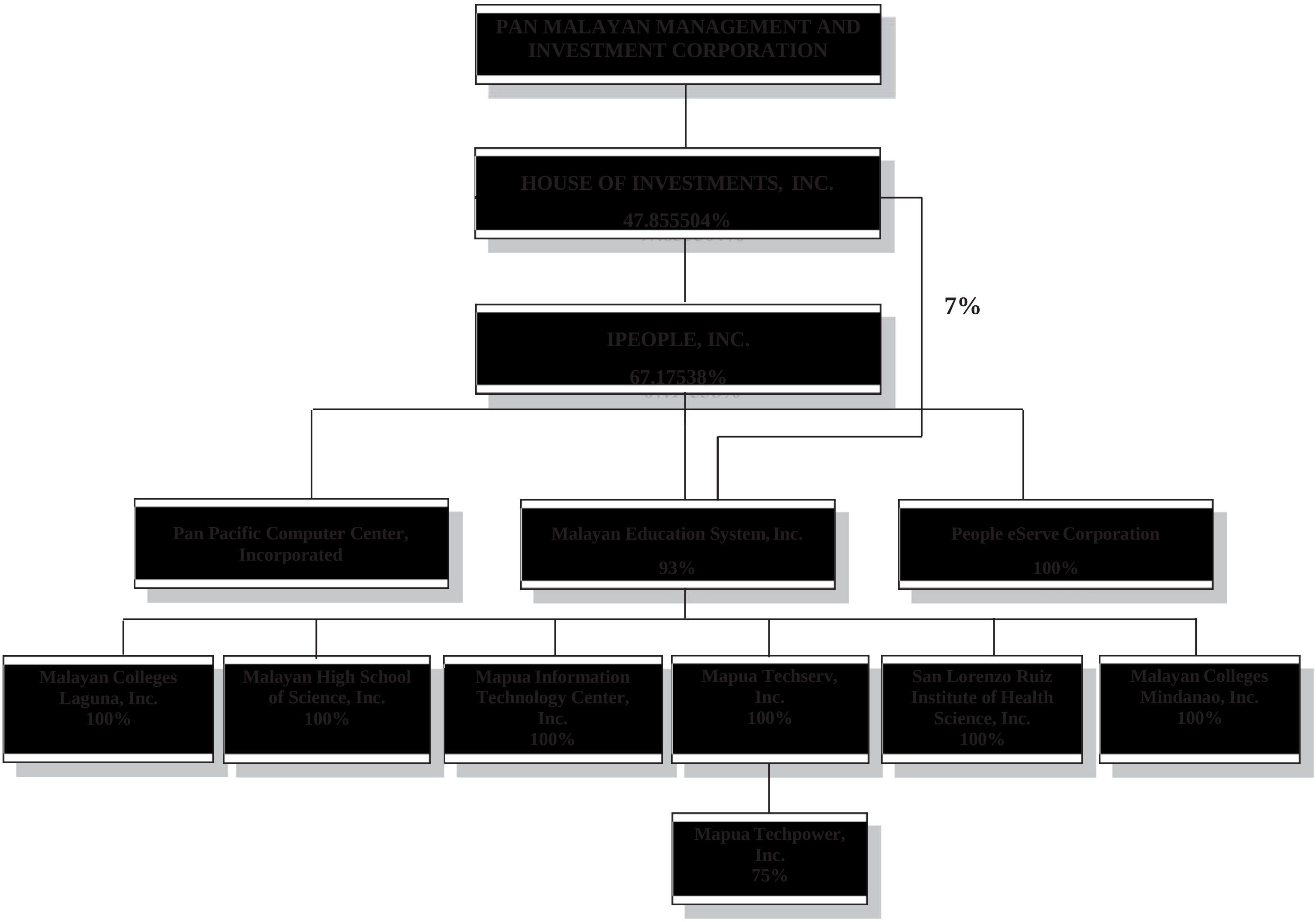
Schedule G. Guarantees of Securities of Other Issuers

As at December 31, 2018, the Group does not guarantee any securities.

Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, Officers and Employees	Others
Common Shares	2,000,000,000	748,932,949	-	600,576,067	199,988	148,157,166

Group Structure
Below is a map showing the relationship between and among the Group and its ultimate parent company and subsidiaries as at December 31, 2018:



SCHEDULE II

iPeople, inc. and Subsidiaries

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective at of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective at of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective at of December 31, 2018**		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			✓
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners	✓		
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments	✓		
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective at of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

SCHEDULE III

iPeople, inc. and Subsidiaries

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION*

DECEMBER 31, 2018

Items	Amount	
Unappropriated retained earnings, *as adjusted to available for distribution, beginning*		**₱1,167,109,906**
Add: Net income actually earned/realized during the period		
Net income during the period closed to retained earnings	**₱146,207,897**	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	–	
Unrealized actuarial gain	–	
Fair value adjustment (M2M gains)	–	
Fair value adjustment of Investment Property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP-gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	–	
Sub-total	–	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustments due to deviation from PFRS/GAAP - loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Sub-total	–	
Net income actually realized during the period		**146,207,897**
Add (Less):		
Dividends declaration during the year	**(179,743,956)**	
Appropriations of retained earnings during the period	–	
Reversal of appropriations	–	
Effects of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	**(209)**	
		(179,744,165)
Total Retained Earnings, End Available for Dividend		**₱1,133,573,638**

**Based on December 31, 2018 Parent Company Supplementary Schedule.*

Financial Soundness Indicators

Below are the financial ratios that are relevant to the Group's for the years ended December 31, 2018 and 2017:

Financial ratios		**2018**	2017
Current ratio *Indicates the Group's ability to pay short-term obligation*	Current Assets / Current Liabilities	**0.30:1**	0.56:1
Solvency Ratio *Shows how likely a company will be to continue meeting its debt obligations*	Net Income+Depreciation / Total Liabilities	**0.13:1**	0.33:1
Debt-to-equity ratio *Measures the Group's leverage*	Total Debt / Equity	**0.59:1**	0.31:1
Asset to Equity Ratio *Shows how the company's leverage (debt) was used to finance the firm*	Total Assets / Equity	**1.55:1**	1.31:1
Interest Rate Coverage *Shows how easily a company can pay interest on outstanding debt*	EBIT* / Interest Expense	**8.35:1**	109.89:1
Return on Average Stockholders' Equity *Reflects how much the Group's has earned on the funds invested by the stockholders*	Net Income / Average Equity	**3.81%**	7.16%
Return on Assets *Measure the ability to utilize the Group's assets to create profits*	Net Income / Total Assets	**2.38%**	5.24%

**Earnings before interest and taxes (EBIT)*