Consolidated Financial Statements of March 31, 2019 and December 31, 2018
and
Three Months Ended March 31, 2019, 2018 and 2017

iPEOPLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited March 31, 2019	Audited December 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 14)	**₱702,344,187**	₱587,838,922
Receivables (Note 7)	**322,804,935**	327,765,719
Receivables from related parties (Note 14)	**831,812**	844,735
Prepaid expenses and other current assets (Note 8)	**84,322,005**	82,316,258
Financial assets at fair value through profit or loss	**8,802,631**	8,699,745
Total Current Assets	**1,119,105,570**	1,007,465,379
Noncurrent Assets		
Property and equipment at cost (Note 9)	**3,394,840,884**	3,246,597,467
Land at revalued amounts (Notes 9 and 10)	**5,521,007,994**	5,521,007,994
Goodwill (Note 11)	**137,853,345**	137,853,345
Equity instruments at fair value through other comprehensive income (FVOCI) (Notes 3)	**17,062,041**	14,389,673
Net pension asset	**6,276,581**	6,276,581
Deferred tax assets - net	**5,620,863**	5,129,252
Other noncurrent assets (Note 12)	**33,934,387**	33,770,600
Total Noncurrent Assets	**9,116,596,095**	8,965,024,912
	₱10,235,701,665	₱9,972,490,291

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 3 and 13)	**₱701,938,537**	₱674,290,435
Payables to related parties (Notes 14)	**18,809,237**	13,014,439
Income tax payable	**27,264,725**	11,077,149
Dividends payable (Notes 16)	**44,695,852**	57,018,083
Short-term loans (Notes 15)	**2,474,900,000**	2,240,000,000
Unearned income (Notes 3 and 13)	**242,524,044**	314,947,490
Total Current Liabilities	**3,510,132,395**	3,310,347,596
Noncurrent Liabilities		
Net pension liability	**42,009,412**	40,008,432
Deferred tax liabilities - net	**208,411,373**	208,573,950
Total Noncurrent Liabilities	**250,420,785**	248,582,382
Total Liabilities	**₱3,760,553,180**	₱3,558,929,978

(Forward)

	Unaudited March 31, 2019	Audited December 31,

	2018	
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	**(1,300,203)**	(3,972,571)
Revaluation increment on land - net (Note 10)	**1,574,007,954**	1,574,007,954
Remeasurement gains on defined benefit plans	**35,093,161**	35,093,161
Retained earnings (Note 16)	**3,694,688,385**	3,643,131,374
	6,052,861,345	5,998,631,966
Less: Treasury stock (Note 16)	**209**	209
	6,052,861,136	5,998,631,757
Non-controlling interest in consolidated subsidiaries	**422,287,349**	414,928,556
Total Equity	**6,475,148,485**	6,413,560,313
	₱10,235,701,665	₱9,972,490,291

See accompanying Notes to Consolidated Financial Statements.

iPEOPLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	January 1 to March 31		
	2019	2018	2017
REVENUE			
Tuition and other fees (Note 17)	**₱538,752,893**	₱470,197,047	₱505,766,297
COSTS AND EXPENSES			
Cost of tuition and other fees (Note 18)	**331,327,785**	302,653,532	292,856,284
GROSS PROFIT	**207,425,108**	167,543,515	212,910,013
GENERAL AND ADMINISTRATIVE EXPENSES (Note 19)	**(74,071,453)**	(55,145,998)	(56,304,875)
INTEREST AND OTHER FINANCE CHARGES (Note 20)	**(21,250,762)**	(734,632)	(654,394)
INTEREST INCOME (Note 20)	**6,181,442**	2,446,064	2,955,162
OTHER INCOME	**1,632,455**	4,628,828	4,241,575
INCOME BEFORE INCOME TAX	**119,916,790**	118,737,777	163,147,481
PROVISION FOR INCOME TAX	**16,064,993**	12,553,698	16,618,471
NET INCOME	**103,851,797**	106,184,079	146,529,010
OTHER COMPREHENSIVE INCOME			
Other comprehensive income (loss):			
Fair value reserve of equity instruments at FVOCI (Notes 3)	**2,672,368**	(4,892,489)	–
Unrealized gain on AFS financial assets (Notes 3)	–	–	(575,587)
	2,672,368	(4,892,489)	(575,587)
TOTAL COMPREHENSIVE INCOME	**₱106,524,165**	₱101,291,590	₱145,953,423
Net income attributable to:			
Equity holders of the parent (Note 21)	**₱96,493,004**	₱98,620,414	₱136,044,781
Non-controlling interest in consolidated subsidiaries	**7,358,793**	7,563,665	10,484,229
	₱103,851,797	₱106,184,079	₱146,529,010
Total comprehensive income attributable to:			
Equity holders of the parent	**₱99,165,372**	₱93,727,925	₱135,469,194
Non-controlling interest in consolidated subsidiaries	**7,358,793**	7,563,665	10,484,229
	₱106,524,165	₱101,291,590	₱ 145,953,423
Basic Earnings Per Share (Note 21)	**₱0.1288**	₱0.1317	₱0.1817

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 Available-for-Sale Financial Assets**	**Fair Value Reserve of Equity instruments at FVOCI**	**Revaluation Increment on Land - net of tax (Note 10)**	**Remeasurement Gains (Losses) on Net Defined Benefit Plans**	**Retained Earnings (Note 16)**	**Treasury Stock (Note 16)**	**Total**	**Non - controlling Interest**	**Total**
For the quarter ended March 31, 2019											
Balances as at January 1, 2019	**₱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**
Net income	–	–	–	–	–	–	**96,493,004**	–	**96,493,004**	**7,358,793**	**103,851,797**
Other comprehensive income	–	–	–	**2,672,368-**	–	–	–	–	**2,672,368**	–	**2,672,368**
Total comprehensive income	–	–	–	**2,672,368**	–	–	**96,493,004**	–	**99,165,372**	**7,358,793**	**106,524,165**
Dividends declared	–	–	–	–	–	–	**(44,935,993)**	–	**(44,935,993)**	–	**(44,935,993)**
Balances as at March 31, 2019	**₱748,933,221**	**₱1,438,827**	**₱–**	**(₱1,300,203)-**	**₱1,574,007,954**	**₱35,093,161**	**₱3,694,688,385**	**(₱209)**	**₱ 6,052,861,136**	**₱422,287,349**	**₱6,475,148,485**
For the quarter ended March 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	₱6,025,040,414
Net income	–	–	–	–	–	–	98,620,414	–	98,620,414	7,563,662	106,184,076
Other comprehensive income	–	–	–	(4,892,489)	–	–	–	–	(4,892,489)	–	(4,892,489)
Total comprehensive income	–	–	–	(4,892,489)	–	–	98,620,417	–	93,727,925	7,563,662	101,291,587
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	–	–	–	–	–	–	–
Adjustment on remeasurement losses	–	–	–	–	–	(50,231)	–	–	–	–	(50,231)
Dividends declared	–	–	–	–	–	–	(44,935,993)	–	(44,935,993)	–	(44,935,993)
Balances as at March 31, 2018	₱748,933,221	₱1,438,827	₱–	1,824,411	₱1,248,233,353	31,626,143	3,665,524,559	(₱209)	₱5,697,580,305	₱383,815,472	₱6,081,395,777
For the quarter ended March 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	–	–	–	–	–	–	136,044,781	–	136,044,781	10,484,229	146,529,010
Other comprehensive income (loss)	–	–	(575,587)	–	–	–	–	–	(575,587)	–	(575,587)
Total comprehensive income (loss)	–	–	(575,587)	–	–	–	139,609,591	–	135,469,194	10,484,229	145,953,423
Dividends declared	–	–	–	–	–	–	(44,935,993)	–	(44,935,993)	–	(44,935,993)
Balances as at March 31, 2017	₱748,933,221	₱1,438,827	(₱1,875,790)	₱–	₱984,985,652	₱23,017,641	₱3,501,108,457	(₱209)	₱5,257,607,798	₱359,013,946	₱5,616,621,744

See accompanying Notes to Consolidated Financial Statements.

iPEOPLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	January 1 to March 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱119,916,790**	₱118,687,547	₱163,147,480
Adjustments for:			
Depreciation and amortization (Notes 9, 12, 18 and 19)	**61,794,470**	53,240,138	52,173,148
Interest income (Note 20)	**(6,181,442)**	(2,446,063)	(2,955,162)
Interest expense and other finance charges (Note 20)	**21,250,762**	734,632	654,394
Unrealized market gain on financial assets at FVPL	**(102,886)**	(44,428)	(38,640)
Unrealized foreign exchange gain	**(58,281)**	(473,605)	(123,171)
Operating income before working capital changes	**196,619,413**	169,698,221	212,858,049
Decrease (increase) in:			
Receivables	**4,240,528**	10,267,009	14,109,721
Prepaid expenses and other current assets	**(2,005,746)**	5,783,185	(14,218,759)
Increase (decrease) in:			
Accounts payable and accrued expenses	**20,161,437**	91,859,828	22,708,663
Unearned tuition fees	**(72,423,446)**	(63,401,698)	(38,657,912)
Net pension asset and liability	**1,346,791**	845,737	1,146,366
Net cash generated from operations	**147,938,977**	215,052,282	197,946,128
Interest received	**6,901,698**	2,595,430	2,955,162
Interest paid	**(13,764,095)**	(734,632)	(654,394)
Income taxes paid	**122,583**	4,417,786	2,130,136
Net cash flows from operating activities	**141,199,163**	221,330,866	202,377,032
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment (Notes 9)	**(209,905,480)**	(203,751,829)	(292,154,011)
Computer software (Note 12)	–	–	(225,000)
Decrease (increase) in:			
Receivables from related parties	**12,922**	(530,479)	2,797,830
Other noncurrent assets	**(296,194)**	(412,314)	(504,790)
Net cash flows used in investing activities	**(210,188,752)**	(204,694,622)	(290,085,971)

(Forward)

	January 1 to March 31		
	2018	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans (Note 15)	**₱904,900,000**	₱60,000,000	
Payments of short-term debts (Note 15)	**(670,000,000)**	–	145,000,000
Dividends paid to stockholders	**(57,258,225)**	(50,860,696)	(49,626,011)
Increase (decrease) in payables to related parties	**5,794,798**	2,079,872	14,799,000
Net cash flows from (used in) financing activities	**183,436,573**	11,219,176	110,172,989
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**58,281**	473,605	123,171
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**114,505,265**	28,329,024	22,587,221
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**587,838,922**	632,811,619	873,357,931
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱702,344,187**	₱661,140,643	₱895,945,152

See accompanying Notes to Consolidated Financial Statements.

iPEOPLE, INC. AND SUBSIDIARIES
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 and People eServe Corporation. The Parent Company also has 93% ownership in Malayan Education System, Inc. (formerly Malayan Colleges, Inc.), Malayan Colleges Laguna, Inc., Malayan Colleges Mindanao (A Mapua School), Inc., Malayan High School of Science, Inc., Mapua Information Technology Center, Inc., Mapua Techserv, Inc., and San Lorenzo Ruiz Institute of Health Science, Inc.; and 69.75% effective ownership in Mapua Techpower, Inc. (Note 2).

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 and information technology sector.

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 merger would bring together the educational arms of HI and AC.

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. On April 24, 2019, the Company received from the Securities and Exchange Commission (SEC), the Certificate of Filing of the Articles and Plan of Merger approving the merger. On May 02, 2019, the merger by and between the Company and of AC Education became effective with iPeople, being the surviving corporation, is deemed to have acquired all the assets and to have assumed all the liabilities of AC Education, Inc. On May 09, 2019, the Company acquired the 281,642 Malayan Education Systems, Inc. (MESI) common shares owned by HI, which represents its 7% ownership in MESI. With the acquisition, iPeople now owns 100% of MESI.

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 (FVPL) and available-for-sale (AFS) financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company’s functional and presentation 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).

The Parent Company also prepares and issues financial statements for the same period as the consolidated financial statements in compliance with PFRSs, which can be obtained from the Parent Company's registered office address.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of March 31, 2019 and December 31, 2018, and for each of the three years in the period ended March 31, 2019, 2018 and 2017.

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

Below are the Group's subsidiaries and percentage of ownership as of March 31:

	Percentage of Ownership		
	2019	2018	2017
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 for the adoption of the following new accounting pronouncements starting January 1, 2018. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements of the Group.

- 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.

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. 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*

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.

<u>Inventories</u>
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.

<u>Prepaid Expenses and Other Current Assets</u>
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.

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

<u>Value-added Tax (VAT)</u>
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.

<u>Property and Equipment</u>

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.

<u>Other Noncurrent Assets</u>
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.

<u>Impairment of Nonfinancial Assets</u>
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 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.

<u>Costs and Expenses</u>
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.

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. 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).

Estimates

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. The key assumptions used to determine fair value are disclosed in Note 10. As at March 31, 2019 and December 31, 2018, the fair value of the land amounted to ₱5,521.01 million (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 ₱65.52 million and ₱65.03 million as of March 31, 2019 and December 31, 2018, respectively. The carrying value of receivables as of March 31, 2019 and December 31, 2018 amounted to ₱322.80 million and ₱327.77 million, respectively (Note 7). The carrying value of receivables from related parties as of March 31, 2019 and December 31, 2018 amounted to ₱0.83 million and ₱0.84 million, respectively (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 2019, 2018 and 2017. As at March 31, 2019 and December 31, 2018, 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 period ended March 31, 2019 and for the year ended December 31, 2018 (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 March 31, 2019 and December 31, 2018, the net pension liability amounted to ₱42.01 million and ₱40.01 million, respectively, while net pension asset amounted to ₱6.28 million as at March 31, 2019 and December 31, 2018.

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 ₱5.62 million and ₱5.13 million as at March 31, 2019 and December 31, 2018, respectively.

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 24).

6. Cash and Cash Equivalents

This account consists of:

	Unaudited March 2019	Audited December 2018
Cash on hand	**₱1,000,000**	₱1,008,000
Cash in banks (Note 14)	**80,274,940**	163,609,680
Cash equivalents (Note 14)	**621,069,247**	423,221,242
	₱702,344,187	₱587,838,922

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 ₱6.15 million, ₱2.06 million and ₱2.92 million in 2019, 2018 and 2017, respectively (Note 20).

7. Receivables

This account consists of:

	Unaudited March 2019	Audited December 2018
Tuition and other fees	**₱275,732,031**	₱299,383,753
Other receivables:		
Trade	**3,411,484**	3,411,484
Advances to officers and employees	**12,992,920**	11,141,200
Others	**96,188,618**	78,857,790
	388,325,053	392,794,227
Allowance for doubtful accounts	**(65,520,118)**	(65,028,508)
	₱322,804,935	₱327,765,719

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 ₱0.03 million, ₱0.39 million and ₱0.03 million in 2019, 2018 and 2017, respectively (Note 20).

Other receivables mainly pertain to receivable from DepEd amounting to ₱78.84 million and ₱60.11 million as at March 31, 2019 and December 31, 2018, 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 of March 31 and December 31 follow:

	March 2019			
	Tuition and other fees	**Trade**	**Others**	**Total**
Balance at beginning of year	**₱55,682,504**	**₱3,392,997**	**₱5,953,007**	**₱65,028,508**
Provisions for the year	**491,610**	**–**	**–**	**491,610**
Write-off	**–**	**–**	**–**	**–**
Balance at end of year	**₱56,174,114**	**₱3,392,997**	**₱5,953,007**	**₱65,520,118**
Gross receivables	**₱275,732,031**	**₱3,411,484**	**₱109,181,538**	**₱388,325,053**

	December 2018			
	Tuition and other fees	Trade	Others	Total
Balance at beginning of year	₱55,682,504	₱3,392,997	₱5,953,007	₱65,028,508
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

8. **Prepaid Expenses and Other Current Assets**

	Unaudited March 2019	Audited December 2018
Prepaid expenses	**₱42,285,145**	₱40,243,938
Restricted funds (Note 14)	**20,087,297**	21,356,004
CWT	**8,967,495**	8,593,986
Inventory	**3,048,932**	3,445,034
Input VAT	**535,508**	539,583
Office supplies	**41,319**	41,319
Others	**9,356,309**	8,096,394
	₱84,322,005	₱82,316,258

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.

Others relate to prepayment to local government unit, rent deposits and other supplies.

9. Property and Equipment

The rollforward analysis of this account follows:

	March 2019				
	Buildings and Improvements	**Office Furniture and Equipment**	**Transportation Equipment**	**Construction In Progress**	**Total**
Cost					
Balance at beginning of year	**₱3,608,820,820**	**₱1,570,007,803**	**₱35,909,884**	**₱188,429,128**	**₱5,403,167,635**
Acquisitions (Note 24)	**8,810,136**	**54,446,346**	**806,000**	**145,843,524**	**209,906,006**
Balance at end of year	**3,617,630,956**	**1,624,454,149**	**36,715,884**	**334,272,652**	**5,613,073,641**
Accumulated depreciation, amortization and impairment loss					
Balance at beginning of year	**969,272,676**	**1,167,519,518**	**19,777,974**	**–**	**2,156,570,168**
Depreciation (Notes 18 and 19)	**29,232,008**	**30,996,889**	**1,433,166**	**–**	**61,662,063**
Reclassifications and adjustments	**–**	**526**	**–**	**–**	**526**
Balance at end of year	**998,504,684**	**1,198,516,933**	**21,211,140**	**–**	**2,218,232,757**
Net book value	**2,619,126,272**	**425,937,216**	**15,504,744**	**334,272,652**	**3,394,840,884**
Land at revalued amounts (Note 10)	**–**	**–**	**–**	**–**	**5,521,007,994**
Total	**₱ 2,619,126,272**	**₱ 425,937,216**	**₱ 15,504,744**	**₱ 334,272,652**	**₱ 8,915,848,878**

	December 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 (Note 24)	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

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

Interest expense on short-term loans obtained to finance the construction, which was included as part of the construction in progress amounted to ₱19.39 million and ₱23.77 million as of March 2019 and December 2018, respectively (Note 15).

10. **Land at Revalued Amounts**

This account consists of:

	Unaudited March 2019	Audited December 2018
Land at cost:		
Balance at beginning of year	**₱3,062,820,881**	₱1,870,976,481
Capitalizable costs	–	1,191,844,400
Balance at end of year	**3,062,820,881**	3,062,820,881
Revaluation increment on land:		
Balance at beginning of year	**2,458,187,113**	2,068,797,119
Change in revaluation increment	–	389,389,994
Balance at end of year	**2,458,187,113**	2,458,187,113
	₱5,521,007,994	₱ 5,521,007,994

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.

			Range (Weighted Average)	
Location	**Valuation Techniques**	**Unobservable Inputs Used**	**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)**	₱168,000 to ₱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	Market Approach	Price per square	**₱8,289to**	₱10,800 to

Location	Valuation Techniques	Unobservable Inputs Used	Range (Weighted Average) 2018	2017
of Cabuyao, Laguna		meter	**₱31,350 (₱18,910)**	₱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 to ₱137.85 million as at March 31, 2019 and December 31, 2018 pertains to the excess of the acquisition cost over the fair values of the net assets of MESI acquired by iPeople in 1999.

Impairment testing of Goodwill
For purposes of impairment testing of this asset, MESI was considered as the CGU. In 2019, 2018 and 2017, management assessed that no impairment losses 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:

	Unaudited March 2019	Audited December 2018
Books and periodicals	**₱10,508,587**	₱10,857,623
Input VAT	**10,393,388**	9,930,106
Creditable withholding tax	**6,666,175**	6,705,426

Computer software	**5,689,734**	5,822,141
Miscellaneous deposits	**676,503**	455,304
	₱ 33,934,387	₱33,770,600

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:

	Unaudited March 2019	Audited December 2018
Cost		
Balance at the beginning of the year	**₱37,147,970**	₱37,147,970
Additions	–	–
Balance at the end of the year	**37,147,970**	37,147,970
Accumulated Amortization		
Balance at the beginning of the year	**31,325,829**	30,796,199
Amortization (Notes 18 and 19)	**132,407**	529,630
Balance at the end of the year	**31,458,236**	31,325,829
Net Book Value	**₱ 5,689,734**	₱5,822,141

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	Unaudited March 2019	Audited December 2018
Accounts payable	**₱343,672,740**	₱356,262,208
Accrued expenses	**257,316,393**	210,012,834
Funds payable	**99,992,176**	107,137,375
Other payables	**957,228**	878,018
	₱701,938,537	₱674,290,435

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:

	Unaudited March 2019	Audited December 2018
Provisions (Note 29)	**₱153,558,082**	₱153,558,082
Accrued salaries and wages	**39,282,791**	6,782,080
Payable to suppliers	**11,611,273**	11,004,917
Withholding taxes and others	**10,402,179**	7,827,505
Insurance	**7,836,748**	6,843,573
Accrued interest	**7,486,667**	–
Accrued utilities	**5,140,244**	4,063,613
Accrued professional fees	**4,413,771**	4,026,484
SSS and other contributions	**3,670,146**	3,615,970

Contracted services	**3,306,486**	3,785,465
Accrued communication expense	**2,893,913**	2,300,811
Output VAT payable	**1,512,014**	1,406,716
Others	**6,202,079**	4,797,618
	₱257,316,393	₱210,012,834

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 ₱247.63 million and ₱310.88 million as at March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, contract liabilities amounted to ₱270.36 million and ₱325.31 million, respectively.

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.

	Year	Amount / Volume	Receivables from (Payables to)	Terms and Conditions
Parent Company				
a) Payable to Parent Company (HI)				
	2019	**₱–**	**(₱10,320,314)**	**Noninterest-bearing; unsecured;**
	2018	–	(9,770,860)	**due and demandable**
Management fee and other professional fees (Notes 18 and 19)	**2019**	**17,633,569**	–	
	2018	46,940,072	–	
b) Receivable from Parent Company				
	2019	**–**	**173,376**	**Noninterest-bearing; unsecured; due and demandable; no**
	2018	–	203,120	**impairment**

	Year	Amount / Volume	Receivables from (Payables to)	Terms and Conditions
Entities under common control of HI				
c) Receivables from related parties				
	2019	**–**	**640,173**	**Noninterest-bearing; unsecured; due and demandable; noimpairment**
	2018	–	623,351	
Rental income				
	2019	**(625,185)**	**–**	
	2018	(1,853,233)	–	
d) Payables to related parties				
	2019	**–**	**(8,488,923)**	**Noninterest-bearing; unsecured; due and demandable**
	2018	–	(3,243,579)	
Contracted services (Notes 18 and 19)				
	2019	**10,683,084**	**–**	
	2018	46,006,107	–	
e) Accounts payable (Notes 9 and 13)	**2019**	**75,354,025**	**(235,036,784)**	
	2018	162,655,973	(159,682,759)	Noninterest-bearing; unsecured; payable on demand
Entities under common control of PMMIC				
f) Cash and cash equivalents (Note 6)				
	2019	**–**	**701,344,187**	**Interest at prevailing deposit and short-term rates; unsecured; no impairment**
	2018	–	532,976,320	
Interest income (Note 20)				
	2019	**6,154,462**	**–**	
	2018	11,231,125	–	
g) Receivables from related parties				
	2019	**–**	**18,263**	**Noninterest-bearing; unsecured; due and demandable; no impairment**
	2018	–	18,264	
h) Insurance expense				
	2019	**3,280,705**	**–**	
	2018	5,933,700	–	
i) Financial asset at FVPL				
	2019	**–**	**8,802,631**	**Carried at fair value; No impairment**
	2018	–	8,699,745	
j) Available for sale financial assets				
	2019	**–**	**17,062,041**	**Carried at fair value; No impairment**
	2018	–	14,389,673	
k) Restricted funds (Note 8)	**2019**	**–**	**20,087,297**	**Interest at prevailing deposit and short-term rates; unsecured; no impairment**
	2018	–	21,356,004	

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 pertains to the general cost of construction of MCMI's school buildings and other facilities and professional fees related to the on-going building construction (Notes 9 and 13).

f) *Cash and cash equivalents*
The Group maintains cash in banks and short-term investments with its affiliated bank. Cash in banks and cash equivalents earn interest at prevailing bank deposit and short-term investments rates, respectively.

g) *Receivables from entities under common control of PMMIC*
This pertains to the student insurance claim against Malayan Insurance Company..

h) *Payables to entities under common control of PMMIC*
The Group maintains 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.

i) *Financial Assets at FVPL*
This account consists of peso-denominated investment in UITF with RCBC which allow the pooling of funds from different investors with similar investment objectives (Note 28).

j) *AFS financial asset*
This account pertains to equity investments in Petroenergy Resources Corporation classified as AFS securities

k) *Restricted funds*
As disclosed in Note 8, restricted funds pertain to funds invested in money market placements maintained with an affiliated bank.

15. **Short-term Loans**

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

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

- 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).

  Total STL drawdowns in 2019 and 2018 amounted to ₱904.90 million and ₱1,850.00 million, respectively, with interest rates ranging from 3.00% to 5.00% p.a.

  Interest expense charged to operations in 2019 amounted to ₱20.08 million, nil and ₱0.62 million, respectively (Note 20).

  Interest expense that was capitalized as part of construction of MESI and MCMI's building in 2019 and 2018 amounted to ₱19.39 million and ₱6.52 million, respectively (Note 9).

16. **Equity**

Capital Stock

Capital stock consists of 2,000,000,000 authorized and 748,933,221 issued common shares as of December 31, 2017 and 2016, with a par value of ₱1 per share. Issued and outstanding shares is 748,932,949 (excluding treasury shares of 272).

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 of March 31, 2019:

Year	Number of shares registered	Number of holders of securities as at year end
January 1, 2018	748,932,949	2,038
Add (deduct) movement	–	(16)
December 31, 2018	748,932,949	2,022
Add (deduct) movement	–	(5)
March 31, 2019	748,932,949	2,017

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 Parent Company's retained earnings available for dividend declaration as of March 31, 2019 and December 31, 2018 amounted to ₱1,089.88 million and ₱ 1,133.57 million, respectively. The Parent Company and its subsidiaries will declare dividends out of their retained earnings available for dividend declaration.

The retained earnings account in the equity includes the accumulated equity in undistributed earnings of consolidated subsidiaries amounting to ₱3,102.91 million and ₱2,969.06 million as of March 31, 2019 and December 31, 2018, 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 to ₱209.

The BOD declared cash dividends as follows:

	2019	2018	2017
March 29, 2019, 6% cash dividends (₱0.06 per share) to stockholders of record as of April 15, 2019, payable on May 14, 2019	**₱44,935,993**	₱–	₱–
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
	₱44,935,993	**₱179,743,956**	₱179,743,972

Treasury Stock
As of March 31, 2019 and December 31, 2018, 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 for the period ended March 31, 2019 and for the year ended December 31, 2018. As at March 31, 2019 and December 31, 2018, the Group is not subject to externally imposed capital requirements.

17. Revenue from Contracts with Customers

Revenue from schools and related operations consists of:

	2019	2018	2017
Tuition and other matriculation fees	**₱541,282,038**	₱465,704,399	₱503,776,218
Less: Scholarship grants and discounts	**31,602,308**	22,155,209	22,314,125
	509,679,730	443,549,190	481,462,093
Other student-related income:			
Bookstore sales	**6,460,922**	8,430,140	8,648,138
Seminar fee income	**3,076,650**	1,821,053	358,199
Miscellaneous	**19,535,591**	16,396,664	15,297,867
	₱538,752,893	₱470,197,047	₱505,766,297

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.

18. Cost of Tuition and Other Fees and Cost of Goods Sold

Cost of tuition and other fees account consists of:

	2019	2018	2017
Personnel expenses	**₱158,489,666**	₱148,429,458	₱143,726,844
Depreciation and amortization (Notes 9 and 12)	**50,477,676**	49,435,516	47,396,503
Management and other professional fees (Note 14)	**30,476,210**	27,141,405	26,927,517
Student-related expenses	**23,149,118**	22,979,733	23,669,920
Utilities	**21,672,563**	19,143,394	19,968,566
IT expense - software license	**9,839,390**	7,964,233	5,659,086

	2019	2018	2017
Tools and library books (Note 9)	**9,196,018**	7,049,196	3,956,010
Periodicals and subscriptions	**5,856,365**	4,169,070	5,183,136
Research and development fund	**4,448,674**	1,450,090	1,850,628
Repairs and maintenance	**4,115,537**	3,694,595	3,095,965
Advertising	**3,579,378**	1,708,889	286,526
Insurance	**2,064,906**	1,291,398	1,765,949
Seminar	**2,010,153**	2,136,895	3,291,865
Office supplies	**1,880,308**	1,764,382	1,452,813
Accreditation cost	**1,327,049**	2,396,617	1,710,538
Laboratory supplies	**861,915**	615,638	1,394,737
Taxes and licenses	**774,326**	492,957	625,847
Transportation and travel	**335,715**	203,022	229,536
Entertainment, amusement and recreation	**320,097**	138,841	118,546
Rent (Note 24)	**54,850**	38,850	94,900
Miscellaneous	**397,871**	409,353	450,852
	₱331,327,785	₱302,653,532	₱292,856,284

a. Details of depreciation and amortization follows:

	2019	2018	2017
Depreciation (Note 9)	**₱61,662,063**	₱53,470,699	₱52,172,620
Amortization (Note 12)	**132,407**	86,407	78,759
	₱61,794,470	₱53,557,106	₱52,251,379

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

	2019	2018	2017
Cost of Services	**₱50,477,676**	₱49,435,516	₱47,396,503
General and administrative Expenses (Note 19)	**11,316,794**	4,121,590	4,854,877
	₱61,794,470	₱53,557,106	₱52,251,379

19. General and Administrative Expenses

This account consists of:

	2019	2018	2017
Management and other professional fees (Note 14)	**₱27,927,445**	₱21,126,403	₱21,735,201
Personnel expenses	**15,887,668**	14,358,243	15,724,532
Depreciation and amortization (Note 18)	**11,316,794**	4,121,590	4,854,877
Taxes and licenses	**4,044,741**	3,877,763	3,231,936
Seminar	**3,241,283**	172,588	149,508
IT expense - software license	**1,785,660**	79,297	208,110
Advertising	**1,723,606**	5,324,033	2,369,572
Repairs and maintenance	**1,710,362**	553,878	672,373
Utilities	**1,642,946**	1,223,232	2,073,310
Insurance	**1,215,799**	306,149	488,315
Transportation and travel	**656,292**	1,261,541	750,774
Office supplies	**594,153**	505,094	480,478

	2019	2018	2017
Entertainment, amusement, and recreation	**531,188**	385,883	751,925
Investor relations	**355,418**	443,933	418,756
Commission	**213,123**	151,499	124,768
Rent (Note 24)	**152,190**	142,295	545,453
Donations	–	50,000	–
Accreditation cost	–	10,000	–
Miscellaneous	**1,072,785**	1,052,577	1,724,987
	₱74,071,453	₱55,145,998	₱56,304,875

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:

	2019	2018	2017
Cash in banks and cash equivalents (Note 6)	**₱6,154,462**	₱2,060,624	₱2,924,584
Advances to officers and employees (Note 7)	**26,980**	385,440	30,578
	₱6,181,442	₱2,446,064	₱2,955,162

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

	2019	2018	2017
Bank charges	**₱1,170,229**	₱734,632	₱33,561
Short-term loan (Note 15)	**20,080,533**	–	620,833
	₱21,250,762	₱734,632	₱654,394

21. Earnings Per Share

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

	2019	2018	2017
Net income attributable to equity holders of Parent Company (a)	**₱96,493,004**	₱98,620,414	₱136,044,781
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)	**₱ 0.1288**	₱0.1317	₱0.1817

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

22. **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.

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		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Revenues												
Income from external customers	**₱539**	₱487	₱523	**₱–**	₱1	₱20	**₱–**	₱–	₱–	**₱539**	₱488	₱543
Total Revenues	**₱539**	₱487	₱523	**₱–**	₱1	₱20	**₱–**	₱–	₱–	**₱539**	₱488	₱543
Net Income attributable to Parent Company	**₱104**	₱108	₱149	**₱1**	(₱2)	(₱3)	**(₱9)**	(₱8)	(₱10)	**₱96**	₱99	₱136
Other Information												
Segment assets	**₱11,178**	₱9,353	₱8,005	**₱1,927**	₱1,953	₱1,873	**(₱2,869)**	(₱3,253)	(₱3,088)	**₱10,236**	₱8,053	₱6,790
Segment liabilities	**3,931**	2,534	1,286	**88**	106	283	**(258)**	(668)	(396)	**3,761**	1,972	1,169
Deferred tax assets	**6**	6	3	**0**	0	4	**–**	–	–	**6**	6	7
Deferred tax liabilities	**208**	175	145	**–**	–	–	**–**	–	–	**208**	175	145
Interest expense	**21**	1	1	**0**	0	0	**0**	0	0	**21**	1	1
Provision for income tax	**16**	13	17	**0**	0	–	**–**	–	–	**16**	13	17
Depreciation and amortization	**62**	53	52	**0**	0	–	**–**	–	–	**62**	54	52

23. **Notes on Consolidated Statements of Cash Flows**

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

		Non-cash Changes			
	2018	Declaration of Cash Dividend	Non-controlling interest	Cash Flows	2019
Short-term loan	₱2,240,000,000	₱–	₱–	₱234,900,000	₱ 2,474,900,000
Dividends payable	57,018,083	44,935,993	–	(57,258,224)	44,695,852
Payable to related parties	13,014,440	–	–	5,794,797	18,809,237
	₱2,310,032,523	₱44,935,993	₱–	₱183,436,573	₱2,538,405,089

- Noncash investing activities as of March 2019, December 2018 and 2017 pertain to liability for construction in progress amounting to ₱235.04 million, ₱221.30 million, and ₱180.97 million, respectively.

24. **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:

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

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 six (6) months and one (1) year amounted to ₱185,880 and ₱371, 760 as at June 30, 2019 and December 31, 2018, respectively, under the aforementioned lease agreements.

Provisions and Contingencies

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

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

25. Subsequent Event and Other Matter

- iPeople inc. received from the SEC the Certificate of Filing of the Articles and Plan of Merger dated April 24, 2019, approving the merger by and between iPeople, inc. and AC Education, Inc., a wholly owned subsidiary of Ayala Corporation. iPeople, being the surviving corporation, is deemed to have acquired all the assets and to have assumed all the liabilities of AC Education.
- iPeople issued 295,329,976 common shares from its authorized and unissued capital stock in exchange for 1,993,477,338 AC Education shares, inclusive of 132, 789,395 AC Education shares to be subscribed by Ayala Corporation prior to filing of Merger application with the SEC, AC will then acquire additional 54,500,000 shares from exiting HI affiliates. Combining the iPeople shares issued to Ayala Corporation as a result of the merger and the additional iPeople shares it purchased, Ayala Corporation now owns a 33.5% stake in iPeople.

- The Company informed the Exchange of the increase in the number of issued and outstanding shares of the Company from 748,933,221 shares to 1,044,263,197 shares following of the issuance of 295,329,976 shares to Ayala Corporation in May 02, 2019 in accordance to the Plan of Merger as approved by the Securities and Exchange Commission.

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

SUPPLEMENTARY SCHEDULES

Schedule	Content
I	Supplementary Information and Disclosures Required on Securities Regulation Code (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 Securities Regulation Code (SRC) Rule 68 and 68.1, As Amended
March 31, 2019

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 of March 31, 2019:

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 as at March 31, 2019	Income Received and Accrued
Available-for-sale financial assets				
Quoted:				
PetroEnergy Resources Corporation	₱4,111,335	₱17,062,041	₱17,062,041	₱–

The basis in determining the value of equity securities is the market quotation as at March 31, 2019. The Group has no income received and accrued related to the equity securities during the year.

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 March 31, 2019:

Name	**As of December 31, 2018**	**Additions**	**Liquidations/ Collections**	**As of March 31, 2019**
Arenillo, Denise Jordan	₱389,198	₱–	25,198	₱364,000
Quisaot, Concordio	–	394,000	–	394,000
Manuel, Mark Christian	–	394,000	6,567	387,433
Macayan, Jonathan	380,867	–	19,700	361,167
Uy, Francis Aldrine	366,762	–	19,825	346,937
Teodoro, Gloria	331,500	–	19,500	312,000
Tiongco, Danilo R.	324,411	–	23,172	301,238
Caparanga, Alvin	318,500	–	19,500	299,000
Camacho, Margarita	311,659	–	26,430	285,230
Robielos, Rex Aurelius	299,600	–	18,725	280,875
Hofilena, Joy	298,854	–	18,875	279,979
Kikuchi, Khristian	298,854	–	18,875	279,979
Medrano, Anthony H.	295,708	–	18,875	276,833
Salayo, John Vincent	295,708	–	18,875	276,833
Austria, Maria Rhodora	287,117	–	18,725	268,392
Costales, Aloysius Nathaniel	259,751	–	32,479	227,272
Lanuza, Dionisia	238,500	–	15,900	222,600
Sabino, Lilibeth	234,967	–	18,550	216,417
Agbulos, Erlin C.	223,453	–	22,343	201,110
Gochioco, Geraldine	220,851	–	19,912	200,940
Salvacion, Jonathan	212,461	–	18,475	193,986
Songsong, Maribel	198,400	–	18,600	179,800
Adanza, Carina Victoria T.	147,829	–	18,475	129,354
Tablante, Dennis H.	138,233	–	9,425	128,808
Doma, Bonifacio T. Jr.	137,569	–	9,488	128,081
Francisco, Ruth C.	149,549	–	21,492	128,056
Sauquillo, Dante	135,988	–	18,975	117,013
	₱6,496,289	₱788,000	₱496,956	₱6,787,333

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 March 31, 2019:

Name	Volume of transactions	Receivables	Terms
Pan Pacific Computer Center, Inc.	Share in expenses	₱1,475,320	Non-interest bearing and to be settled within the year

Schedule D. Intangible Assets

As at March 31, 2019, the Group's intangible assets consist of goodwill and computer software. Goodwill in the Group's consolidated statements of financial position arose from the acquisition of 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	5,822,141	–	(132,407)	5,689,734
	₱143,675,486	₱–	(₱132,407)	₱143,543,079

Schedule E. Long term debt

As of March 31, 2019, the Group has no outstanding long-term debt.

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

Please refer to Schedule E for the details of indebtedness to related parties.

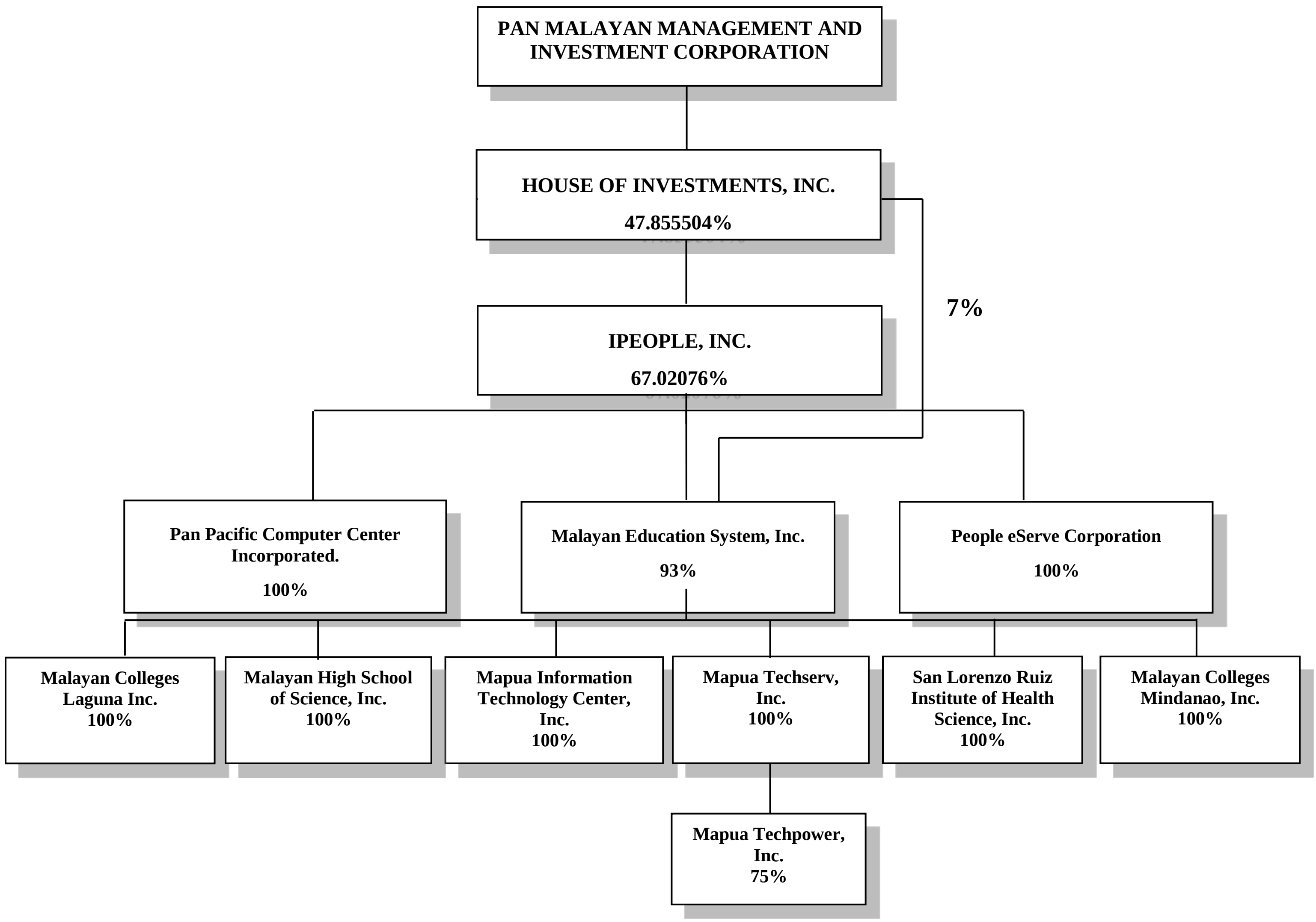
Schedule G. Guarantees of Securities of Other Issuers

As at March 31, 2019, 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 March 31, 2019:



SCHEDULE II

iPeople, inc. and Subsidiaries

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

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of March 31, 2019:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective at of March 31, 2019		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective at of March 31, 2019		Adopted	Not Adopted	Not Applicable
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
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 FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective at of March 31, 2019		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
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	Levies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective at of March 31, 2019		Adopted	Not Adopted	Not Applicable
Interpretation IFRIC-21				
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
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			✓

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

Standards tagged as “Not adopted” are standards issued but not yet effective as of March 31, 2019. The Group will adopt the Standards and Interpretations when these become effective.

SCHEDULE III

iPeople, inc. and Subsidiaries

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
MARCH 31, 2019

Items	Amount	
Unappropriated retained earnings, *as adjusted to available for distribution, beginning*		**₱1,133,573,847**
Add: Net income actually earned/realized during the period		
Net income during the period closed to retained earnings	₱1,243,719	
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		1,243,719
Add (Less):		
Dividends declaration during the year	(44,935,993)	
Appropriations of retained earnings during the period	–	
Reversal of appropriations	–	
Effects of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	(209)	
		(44,936,202)
Total Retained Earnings, end, Available for Dividend		₱1,089,881,364

iPeople, inc. and Subsidiaries
Aging of Accounts Receivable
For the quarter ended March 31, 2019

	No. of days due			
	0-30	**31-60**	**Over 61 days**	**Total**
Education	**₱171,569,454**	**₱30,342,575**	**₱73,820,003**	**₱275,732,032**
Information technology	**–**	**–**	**3,411,484**	**3,411,484**
Parent and others	**19,224,658**	**10,941,965**	**79,014,914**	**109,181,537**
Total	**190,794,112**	**41,284,540**	**156,246,401**	**388,325,053**
Less: Allowance for doubtful accounts	**–**	**–**	**(65,520,118)**	**(65,520,118)**
	₱190,794,112	**₱41,284,540**	**₱90,726,283**	**₱322,804,935**