

The Group's calculation of allowance for ECL is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model such as the expected life of the financial asset and timing and amount of expected net recoveries from defaulted accounts; and incorporating forward-looking information (called overlays), including the impact of the coronavirus pandemic, in calculating ECL.

The disclosures on the allowance for ECL are included in Notes 5 and 8 to the consolidated financial statements.

Audit response

We updated our understanding of the approved methodology and assumptions used for the Group's different credit exposures and reassessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome and the best available forward-looking information.

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) checked the definition of default against historical analysis of accounts and credit risk management policies and practices in place and management's assessment of the impact of the coronavirus pandemic on the counterparties; (c) checked historical loss rates by inspecting historical recoveries including the write-offs; (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) evaluated the forward-looking information used for overlay through corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices, including the impact of the coronavirus pandemic.

Further, we checked the data used in the ECL models, such as the historical analysis of defaults, by reconciling data from loss allowance analysis/model to the source reports and financial reporting system. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced or re-performed the disaggregation from source reports to the loss allowance analysis.

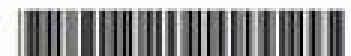
We recalculated the impairment provisions. We checked the disclosures made in the financial statements on allowance for ECL by tracing such disclosures to the ECL analysis prepared by management.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditor's report.

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

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



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

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

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

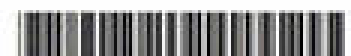
Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

SYCIP GORRES VELAYO & CO.



Ana Lea C. Bergado

Partner

CPA Certificate No. 80470

Tax Identification No. 102-082-670

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 0660-AR-4 (Group A)

October 22, 2019, valid until October 21, 2022

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-063-2020, November 27, 2020, valid until November 26, 2023

PTR No. 8853473, January 3, 2022, Makati City

April 1, 2022





STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of iPeople, inc. & Subsidiaries is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Reynaldo B. Vea
DR. REYNALDO B. VEA

Chairman and Chief Executive Officer

Alfredo Antonio L. Ayala
ALFREDO ANTONIO L. AYALA

President and Chief Operating Officer

Gema O. Cheng
GEMA O. CHENG

EVP and Chief Finance Officer

APR 26 2022

Signed this ___ day of April, 2022

JOC. NO. 46 2F Gregorio Bldg., 218 Sen. Gil Puyat Avenue, Makati City, Philippines

TEL: (832) 813-9638

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BOOK NO. 39

COPIES OF 2022

Romelo M. Bonfoni
ATTY. ROMELO M. BONFONI

NOTARY PUBLIC City of Makati

Extended until June 30, 2022

Per O.M. No. 0795

PTR No. 8952509 Jan. 3, 2022 Makati City

Appointment No. 16-122(2020-2021)

IEP No. 1052584 Jan. 3, 2018

MCLE NO. VI-0023417 Roll No. 27932

101 Urban Ave. Corrigos Russia Bldg.

Reg. No. P-14-0202, 2014-11-17-17

IPEOPLE, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Amounts in Thousands)

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 15 and 30)	P1,604,129	P1,319,002
Receivables (Notes 8 and 30)	1,032,851	1,036,297
Receivables from related parties (Notes 15 and 30)	26,077	26,048
Prepaid expenses and other current assets (Note 9)	391,021	270,604
Financial assets at fair value through profit or loss (FVTPL) [Note 30]	9,213	9,705
Total Current Assets	3,063,291	2,661,656
Noncurrent Assets		
Property and equipment at cost (Note 10)	5,407,008	5,585,512
Land at revalued amounts (Notes 10 and 11)	6,460,845	6,219,772
Intellectual property rights (Note 6)	523,103	523,103
Goodwill (Notes 6 and 12)	151,326	151,326
Student relationship (Note 6)	43,761	78,825
Right-of-use assets (Note 31)	309,391	346,905
Net pension assets (Note 25)	18,130	4,727
Deferred tax assets - net (Note 23)	38,118	31,901
Other noncurrent assets (Note 13)	113,671	108,027
Total Noncurrent Assets	13,065,353	13,050,098
	P16,128,644	P15,711,754
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14 and 30)	P1,036,119	P1,155,585
Short-term loans (Notes 16 and 30)	400,000	375,000
Unearned income (Note 14)	658,389	680,578
Lease liabilities - current portion (Note 31)	50,550	44,174
Current portion of long-term loan (Note 17)	21,001	-
Income tax payable	2,157	12,482
Payables to related parties (Notes 15 and 30)	14,135	29,481
Dividends payable (Notes 18 and 30)	565	565
Total Current Liabilities	2,182,916	2,297,865
Noncurrent Liabilities		
Net pension liabilities (Note 25)	124,152	168,134
Long-term loans (Note 17)	1,853,645	1,872,275
Lease liabilities - net of current portion (Note 31)	307,276	348,408
Deferred tax liabilities - net (Note 23)	489,169	476,977
Other noncurrent liabilities (Note 31)	51,683	56,091
Total Noncurrent Liabilities	2,825,925	2,921,885
Total Liabilities	5,008,841	5,219,750

(Forward)



	December 31	
	2021	2020
Equity		
Common stock (Notes 6 and 18)	P1,044,263	P1,044,263
Additional paid-in capital (Note 6)	3,294,368	3,294,368
Other comprehensive income (loss):		
Revaluation increment on land - net (Note 11)	1,633,847	1,425,033
Remeasurement losses on defined benefit plans (Note 25)	(15,033)	(76,722)
Equity reserve (Note 6)	(230,494)	(230,494)
Retained earnings (Note 18)	5,142,420	4,795,968
	10,869,371	10,252,416
Treasury stock (Note 18)	-	(0.21)
Equity attributable to equity holders of the Parent Company	10,869,371	10,252,416
Non-controlling interest in consolidated subsidiaries (Note 27)	250,432	239,588
Total Equity	11,119,803	10,492,004
	P16,128,644	P15,711,754

See accompanying Notes to Consolidated Financial Statements.



ipeople, inc. and subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2021	2020	2019 (Note 6)
REVENUE FROM CONTRACTS WITH CUSTOMERS (Note 19)			
Revenue from schools and related operations	P3,351,067	P3,017,106	P2,996,773
COSTS AND EXPENSES			
Cost of schools and related operations (Note 20)	(1,914,579)	(2,015,408)	(2,040,060)
GROSS PROFIT	1,436,488	1,001,698	956,713
GENERAL AND ADMINISTRATIVE EXPENSES (Note 21)	(702,359)	(619,942)	(481,461)
INTEREST AND OTHER FINANCE CHARGES (Note 22)	(138,577)	(151,762)	(129,338)
INTEREST INCOME (Notes 7 and 22)	6,192	10,897	22,758
OTHER INCOME (CHARGES) - Net (Note 11)	31,670	34,101	(26,986)
INCOME BEFORE INCOME TAX	633,414	274,992	341,686
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 23)	30,378	(32,818)	(67,595)
NET INCOME	663,789	242,174	274,091
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation increment on land - net of tax (Note 11)	201,075	498,606	9,778
Reversal of deferred tax liability on revaluation increment of land sold through sale of subsidiary - net of tax (Note 11)	-	146,983	-
Reversal of deferred tax liability on revaluation increment due to change in tax rate (Note 23)	7,764	-	-
Remeasurement gains (losses) on defined benefit plans - net of tax (Note 25)	67,827	(55,304)	(57,274)
Fair value reserve of equity instruments at FVOCI (Note 30)	-	-	3,093
	276,666	590,285	(44,403)
TOTAL COMPREHENSIVE INCOME	P940,455	P832,459	P229,688
Net income attributable to:			
Equity holders of the parent (Note 26)*	P659,108	P245,818	P254,588
Non-controlling interest in consolidated subsidiaries (Note 27)	4,681	(3,644)	19,503
	P663,789	P242,174	P274,091
Total comprehensive income attributable to:			
Equity holders of the parent	P929,611	P815,984	P212,557
Non-controlling interest in consolidated subsidiaries (Note 27)	10,844	16,475	17,131
	P940,455	P832,459	P229,688
*Basic/Diluted Earnings Per Share (Note 26)	P0.6312	P0.2354	P0.2602

See accompanying Notes to Consolidated Financial Statements.



iPEOPLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

Attributable to Equity Holders of the Parent Company

	Fair Value		Revaluation Increment on Land not of fair value (Note 11)	Reinvestment Gains (Losses) on Net Defined Benefit Plans (Note 23)	Equity Reserve (Note 4)	Retained Earnings (Note 18)	Treasury Stock (Note 18)	Total	Non-controlling Interest (Note 27)	Total	
	Common Stock (Notes 6 and 16)	Additional Paid-in Capital (Note 6)									
For the year ended December 31, 2021											
Balances as at January 1, 2021	\$1,044,263	\$3,294,368	\$1,435,003	(\$76,721)	(\$230,496)	\$4,795,968	—	(\$0.21)	\$10,752,416	\$1,593,588	\$12,346,004
Net income	—	—	—	—	—	659,104	—	—	659,104	4,681	663,785
Other comprehensive income	—	—	208,814	61,680	—	—	—	—	270,494	6,163	276,657
Total comprehensive income	—	—	208,814	61,680	—	659,104	—	—	929,611	10,844	940,455
Other adjustments	—	—	—	—	—	—	—	(0.21)	—	—	—
Dividends declared	—	—	—	—	—	(312,656)	—	—	(312,656)	—	(312,656)
Balances as at December 31, 2021	\$1,044,263	\$3,294,368	\$1,643,817	(\$15,041)	(\$230,496)	\$5,142,421	—	—	\$10,869,371	\$1,593,432	\$12,462,803
For the year ended December 31, 2020											
Balances as at January 1, 2020	\$1,044,263	\$3,294,368	\$1,583,741	(\$19,766)	(\$230,496)	\$3,838,446	—	(\$0.21)	\$9,509,680	\$23,113	\$9,532,793
Net income	—	—	—	—	—	245,815	—	—	245,815	(3,644)	242,171
Other comprehensive income	—	—	627,122	(56,956)	—	—	—	—	570,166	20,119	590,285
Total comprehensive income	—	—	627,122	(56,956)	—	245,815	—	—	815,984	16,475	832,459
Transfer of revaluation increment to retained earnings due to sale of land	—	—	(785,832)	—	—	785,832	—	—	—	—	—
Transfer to retained earnings	—	—	—	—	—	(680)	—	—	—	—	—
Dividends declared	—	—	—	—	—	(71,241)	—	—	(71,241)	—	(71,241)
Balances as at December 31, 2020	\$1,044,263	\$3,294,368	\$1,424,013	(\$76,721)	(\$230,496)	\$4,795,968	—	(\$0.21)	\$10,352,416	\$1,593,588	\$11,946,004
For the year ended December 31, 2019											
Balances as at January 1, 2019	\$748,903	\$1,439	\$1,574,008	\$33,069	—	\$3,643,131	—	—	\$5,998,611	\$614,929	\$6,613,540
Net income	—	—	—	—	—	254,588	—	—	254,588	19,500	274,088
Other comprehensive income	—	—	9,271	(54,699)	—	—	—	—	(45,428)	(2,372)	(47,800)
Total comprehensive income	—	—	9,271	(54,699)	—	254,588	—	—	212,857	17,128	229,985
Issuance of shares (Note 4)	295,100	3,292,929	—	—	—	—	—	—	3,588,299	—	3,588,299
Change in non-controlling interest	—	—	—	—	(230,496)	—	—	—	(230,496)	(308,947)	(439,443)
Dividends declared	—	—	—	—	—	(59,274)	—	—	(59,274)	—	(59,274)
Balances as at December 31, 2019	\$1,044,263	\$3,294,368	\$1,583,741	(\$19,766)	(\$230,496)	\$3,838,446	—	(\$0.21)	\$9,509,680	\$23,113	\$9,532,793

See accompanying Notes to Consolidated Financial Statements.



ipeople, inc. and subsidiaries**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in Thousands)

	Years Ended December 31		
	2021	2020	2019 (Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P633,414	P274,992	P341,686
Adjustments for:			
Depreciation and amortization (Notes 10, 13, 20 and 21)	456,685	463,422	397,612
Interest expense and other finance charges (Note 22)	140,949	178,294	129,338
Provision for doubtful accounts (Notes 8 and 21)	114,229	48,755	79
Reversal on impairment on land (Note 11)	(15,763)	(5,238)	–
Interest income (Note 22)	(6,192)	(10,897)	(22,758)
Unrealized foreign exchange loss (gain) - net	(450)	(1,800)	505
Unrealized market loss (gain) on financial assets at FVTPL	492	(355)	(650)
Operating income before working capital changes	1,323,364	947,143	845,811
Decrease (increase) in:			
Receivables	(110,641)	(95,364)	(416,734)
Prepaid expenses and other current assets	(120,416)	(94,656)	94,017
Increase (decrease) in:			
Accounts payable and other current liabilities	(100,017)	(58,029)	122,388
Unearned income	(22,189)	(100,128)	431,782
Other noncurrent liabilities	10,713	(2,291)	75,644
Net pension assets and liabilities	(54)	40,748	(22,970)
Net cash generated from operations	980,760	637,423	1,129,938
Interest paid	(137,410)	(139,909)	(101,550)
Income taxes paid	(567)	(41,025)	(63,275)
Interest received	6,050	10,734	22,637
Net cash flows from operating activities	848,833	467,223	987,750
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment (Notes 10 and 29)	(183,735)	(881,887)	(1,437,212)
Computer software (Note 13)	(15,479)	(1,840)	–
Acquisition through business combination - net of noncash acquired (Note 6)	–	–	1,291,500
Non-controlling interest (Note 6)	–	–	(881,068)
Proceeds from disposal of:			
Land through sale of subsidiary (Note 11)	–	1,754,800	–
Equity instruments at FVOCI (Note 30)	–	–	17,482
Decrease (increase) in:			
Receivables from related parties	(28)	(25,445)	(13,927)
Other noncurrent assets	5,284	1,819	2,181
Net cash flows from (used in) investing activities	(193,958)	847,447	(1,023,044)

(Forward)



	Years Ended December 31		
	2021	2020	2019 (Note 6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans (Notes 16 and 29)	P400,000	P230,530	P1,437,000
Payments of short-term loans (Notes 16 and 29)	(375,000)	(1,254,330)	(2,348,200)
Dividends paid to stockholders (Note 29)	(312,656)	(73,248)	(116,781)
Payment of lease liabilities (Note 31)	(67,196)	(68,826)	(49,101)
Increase (decrease) in payables to related parties (Note 27)	(15,345)	14,070	2,398
Proceeds from long-term loans (Note 29)	-	-	1,679,903
Tax on issuance of new shares (Note 6)	-	-	(2,953)
Net cash flows from (used in) financing activities	(370,197)	(1,151,804)	602,266
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	449	1,830	(505)
NET INCREASE IN CASH AND CASH EQUIVALENTS	285,127	164,696	566,467
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,319,002	1,154,306	587,839
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 7 and 30)	P1,604,129	P1,319,002	P1,154,306

See accompanying Notes to Consolidated Financial Statements.



YPEOPLE, 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.

The Parent Company, a subsidiary of House of Investments, Inc. (HI), is a holding and management company. Its principal office address is 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 mainly involved in education sector with the list of subsidiaries disclosed in Note 2.

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).

Merger with AC Education, Inc.

On October 1, 2018, the Board of Directors (BOD) of iPeople, inc. executed a memorandum of agreement (MOA) for a proposed Plan of Merger between iPeople, inc. and AC Education, Inc. (AEI), the wholly owned education arm of Ayala Corporation (AC), with iPeople, inc. as the surviving entity with HI and AC owning 48.18% and 33.5%, respectively. The merger would bring together the educational group of HI and AC.

The proposed merger was subsequently approved by iPeople, inc.'s Stockholders on December 12, 2018 and was approved by the Philippine Competition Commission (PCC) on December 12, 2018. On April 24, 2019, the Securities and Exchange Commission (SEC) approved the merger between iPeople, inc. and AEI, with iPeople, inc. as the surviving entity, and to take effect five business working days thereafter or May 2, 2019. On said date, iPeople, inc. issued 295,329,976 common shares from its unissued capital stock to AC. After the merger, iPeople, inc. became 48.18% owned by HI and 33.5% owned by AC. Details of the merger is disclosed in Note 6.

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 and financial assets at fair value through profit or loss (FVTPL). The consolidated financial statements are presented in Philippine Peso (P), which is the Parent Company's functional currency. Except as otherwise indicated, all amounts are rounded off to the nearest thousands.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021.

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



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

	Percentage of Ownership		
	2021	2020	2019
Malayan Education System, Inc. (MESI) [Operating Under the Name of Mapua University] and subsidiaries	100%	100%	100%
Direct ownership of MESI on its subsidiaries:			
Malayan Colleges Laguna, Inc., A Mapua School (MCLI)	100	100	100
Malayan Colleges Mindanao (A Mapua School), Inc. (MCM)	100	100	100
Malayan High School of Science, Inc. (MHSSI)	100	100	100
Mapua Information Technology Center, Inc. (MITC)	100	100	100
Mapua Techserv, Inc.	100	100	100
Mapua Techpower, Inc.	75	75	75
San Lorenzo Ruiz Investment Holdings and Services Inc. (SLRIHSI)*	-	-	100
People eServe Corporation	100	100	100
Pan Pacific Computer Center, Incorporated (PPCCI)	100	100	100
New subsidiaries in 2019 after the merger (Note 1):			
Affordable Private Education Center, Inc. doing business under the name of APEC Schools	100	100	100
National Teachers College doing business under the name/s and style/s of The National Teachers College	99.79	99.79	99.79
University of Nueva Caceres	83.62	83.62	83.62
AC College of Enterprise and Technology, Inc.	100	100	100
LINC Institute, Inc. doing business under the Name and Style of LINC Academy	100	100	100

*Sold in December 2020 to III (see Note 11).

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 (OCI) 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 new standards effective as at January 1, 2021. The adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*
- Amendments to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*



Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

The Group does not expect the future adoption of the applicable pronouncements to have a significant impact on its consolidated financial statements.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2021 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.

Financial Instruments

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”; fair value through other comprehensive income (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) and financial assets at FVTPL.



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, receivables from related parties, and refundable deposits.

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 (OCI). 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 OCI.

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 Unit Investment Trust Fund (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.



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

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 and refundable deposits that are 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 applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Group generally uses a provision matrix to calculate ECL. 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.

Primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on inflation rate and unemployment rate were added to the ECL calculation to reach a forecast supported by both quantitative and qualitative data points.

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.



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

The Group's financial liabilities include 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 accounting policy applies primarily to accounts payable and other current liabilities (excluding payables to government), payables to related parties, dividends payable, lease liabilities, and loans payable.

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.

'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.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets pertain to resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group. This account includes the following:



Prepaid Expenses

These are expenses paid in advance to be amortized over the benefit period or to be expense once incurred or consumed. These consist of prepaid insurance and subscriptions, among others.

Restricted Funds

Restricted funds are funds held for government and private entities and invested in money market placements exclusively for use in government programs such as Civic Welfare Training Service (CWTS), National Service Training Program (NSTP) and for financing of scholars of certain private entities. These are recorded at face value.

Creditable Withholding Tax (CWT)

This pertains to the tax withheld source by the Group's customers and lessees and is creditable against its income tax liability.

Inventories

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

Value-added Tax (VAT)

The input VAT pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchases of goods or services. Input VAT that is not expected to be fully applied against the output VAT of the succeeding year is presented as noncurrent asset.

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

Property and Equipment

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

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

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

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

	<u>Years</u>
Buildings and improvements	10-40
Office furniture and equipment	5-10
Transportation equipment	5



Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

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 carried at cost are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as part of current operations. When land carried at revalued amount are retired or otherwise disposed of, the carrying amount, which is the fair value at the time of sale or disposal, is derecognized and no gain or loss is recognized.

Land at Revalued Amounts

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

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

The appraisal increment (net of deferred tax) resulting from the revaluation is credited to OCI and accumulated in equity under "revaluation increment on land - net" account. Decreases in valuation is charged to profit or loss, except to the extent that it reverses the existing accumulated revaluation increment on the same asset and therefore such decrease is recognized in OCI. The decrease recognized in OCI reduces the revaluation increment on land - net account in equity. In case a subsequent revaluation increase of an asset reverses a revaluation decrease previously recognized in profit or loss, such increase is credited to income in profit or loss.

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

Upon disposal, any revaluation increment relating to the land being sold is transferred to retained earnings.

Right-of-use Assets and Lease Liabilities

Effective January 1, 2019, upon adoption of PFRS 16, the Group recognizes right-of-use assets and lease liabilities on contracts that qualify as leases under PFRS 16. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.



Right-of-use assets are subject to impairment. Refer to the accounting policies on Impairment of Nonfinancial Assets.

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

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

The Group applies the short-term lease recognition exemption to its short-term leases of office space. It also applies the low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Business Combination and Goodwill

An acquisition of a business (i.e. an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors) is a business combination. Business combinations are accounted for using the acquisition method. The acquired identifiable tangible and intangible assets, liabilities and contingent liabilities are measured at their fair values at the date of the acquisition. Any excess of the acquisition cost over the net fair value of the identifiable assets acquired and liabilities assumed is recognized as goodwill. 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.

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. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill at least annually.

The goodwill recognized in the Group's consolidated statement of financial position pertains to the acquisition of MESI and merger with AEI as disclosed in Notes 6 and 12.

Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful life of intangible assets is assessed as either finite or indefinite. The estimated useful lives of intangible assets recognized as a result of the merger with AEI (see Note 6) are as follows:

	<u>Number of Years</u>
Intellectual property rights	Indefinite
Student relationship	5-7
Software cost	3

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight-line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of comprehensive income when the intangible asset is derecognized.

Impairment of Nonfinancial Assets

Property and equipment, student relationship, right-of-use assets, 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 to the extent that it reverses a revaluation decrease of the same asset that was previously recognized 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 and intellectual property rights

Goodwill and intellectual property rights are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment on goodwill and intellectual property rights are determined by assessing the recoverable amount of the cash-generating unit, to which these assets 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 and Income Recognition

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. 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. 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 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 on installment.

Other student-related income

Other student-related income is recognized at a point in time when the promised goods are delivered 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).

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).

Following are contract balances relative to 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 other current liabilities) and



will be recognized as revenue when the related educational services are rendered. Accounts payable to students are advance collections from students to be applied to the next school year or school term.

Costs and Expenses

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

Cost of schools and related operations

Cost of schools and related operations constitute expenses directly related to the Group's school and related operations which include expenses for salaries and wages of teaching and academic support personnel, student welfare activities, 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.

General and Administrative Expenses

These expenses constitute costs of administering the business. General and administrative expenses, except for rent expense, are recognized as incurred.

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 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.

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, net operating loss carry over (NOLCO) and minimum corporate income tax (MCIT) 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.

When a subsidiary is disposed, and said subsidiary has a single asset, land, which is classified as property and equipment carried at revalued amount in the consolidated financial statements, the tax paid on disposal of the subsidiary, emanating from the difference between the cost of the land and its selling price, is taken to OCI in the consolidated statement of comprehensive income. The related tax, e.g. capital gains tax (CGT), is netted against the reversal of deferred tax liability on revaluation increment of land sold through sale of subsidiary.

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 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. Rental income is recognized on a straight-line basis over the term of the 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 28 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.

Fair valuation of land

The Group measures land at revalued amount with changes in fair value being recognized in other comprehensive income. The Group engaged an independent firm of appraisers to determine the fair value as at December 31, 2021 and 2020. The key assumptions used to determine fair value are disclosed in Note 11.

As at December 31, 2021 and 2020, the fair value of land amounted to P6,460.8 million and P6,219.8 million, respectively (Note 11).

Estimation of allowance for ECL on tuition and other fees receivables

The Group generally uses provision matrix to calculate ECL 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 forward-looking factors specific to the debtors and the economic environment are updated to consider the impact of the coronavirus pandemic.

The Group also applied weights to various scenarios in the computation of the allowance for ECL to incorporate impact of uncertainty due to the current economic conditions such as the impact of the coronavirus pandemic. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Allowance for ECL on tuition and other fees receivables and related carrying value are disclosed in Note 8.

Leases under PFRS 16 – Estimating the IBR

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses IBR to measure lease liabilities. The IBR is the rate of interest that an entity would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the entities 'would have to pay', which requires estimation when no observable rates are available (such



as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the stand-alone credit rating).

The Group's right-of-use assets and lease liabilities are disclosed in Note 31.

Estimation of useful lives of student relationship

The Group estimates the useful lives of student relationship based on the period over which the assets are expected to be available for use which represents the number of years that the students are expected to stay until they graduate. The Group reviews the estimated useful lives based on factors that include asset utilization, internal technical evaluation and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the aforementioned factors. A reduction in the estimated useful lives of student relationship would increase amortization expenses and decrease noncurrent assets.

There is no change in the estimated useful lives of student relationship from the effectivity of the merger. The carrying values of student relationship amounted to P43.8 million and P78.8 million as of December 31, 2021 and 2020, respectively (Note 6).

Impairment of nonfinancial assets

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

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

As to the Group's property and equipment, student relationship and noncurrent assets, no impairment loss was recognized, except for the allowance for impairment in value of land amounting to P15.8 million as of December 31, 2020, and the 2021 impairment in student relationship attributable to APEC (Notes 6, 10, 11 and 13). The impairment in land was reversed in 2021 with the increase in fair value based on the appraisal report obtained from SEC-accredited independent firms of appraisers as at December 31, 2021.

In 2021, the Group performed an impairment testing on the property and equipment and right-of-use assets of APEC due to the continuing losses and significant decline in number of students. In assessing the impairment, the Group determines the recoverable amount using value in use with details disclosed in Note 31. There is no impairment loss recognized on these assets in 2021. The carrying value of these assets are disclosed in Notes 10 and 31.



Impairment of goodwill and intellectual property rights are assessed at least on an annual basis. In assessing the impairment, the Group determines the recoverable amount using value in use with details disclosed in Notes 6 and 12. There is no impairment loss recognized on these assets in 2021, 2020 and 2019. The carrying value of these assets are disclosed in Notes 6 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 25 and to which the cash flows are most sensitive to. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect the retirement expense and related asset or liability.

As at December 31, 2021 and 2020, the net pension liabilities amounted to P124.2 million and P168.1 million, respectively, while net pension assets amounted to P18.1 million and P4.7 million as at December 31, 2021 and 2020, respectively (Note 25).

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 and temporary differences on which deferred tax assets were not recognized are disclosed in Note 23.

Provisions and contingencies

The Group is currently involved in certain legal proceedings and claims in the ordinary course of business. 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 14 and 31).

6. Business Combination and Transactions with Non-Controlling Interests

Business Combination

As disclosed in Note 1, on October 1, 2018, the BOD of iPeople, inc. executed a MOA for a proposed Plan of Merger between iPeople, inc. and AEL with iPeople, inc. as the surviving entity with HI and AC owning 48.18% and 33.5%, respectively. The merger would bring together the educational groups of HI and AC.

On April 24, 2019, the SEC approved the merger between iPeople, inc. and AEL, with iPeople, inc. as the surviving entity, and to take effect five business working days thereafter or May 2, 2019. On said date, iPeople, inc. issued 295,329,976 common shares from its unissued capital stock to AC, the parent company of AEL. iPeople, inc., being the surviving corporation, is deemed to have acquired all the assets and to have assumed all the liabilities of AEL in a business combination accounted for under the acquisition method. In exchange for the transfer of the net assets of AEL to iPeople, inc., iPeople, inc. issued to AC an aggregate of 295,329,976 shares with par value of P1.0 per share for a total fair value of P3,591.21 million based on iPeople, inc.'s quoted closing rate per share as of



May 2, 2019. The excess of the fair value of shares issued over the par value was recognized as additional paid-in capital.

Assets acquired from AEI includes investments in the following subsidiaries:

<u>Subsidiaries</u>	<u>Ownership Interest</u>
Affordable Private Education Center, Inc. doing business under the name of APEC Schools (APEC)	100.00%
National Teachers College doing business under the name/s and style/s of The National Teachers College (NTC)	99.79%
University of Nueva Caceres (UNC)	58.63%
AC College of Enterprise and Technology, Inc. (ACCET)	100.00%
LINC Institute, Inc. Doing Business under the Name and Style of LINC Academy (LINC)	100.00%

The purchase price allocation has been finalized. The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	P1,291,500
Trade and other receivables	231,421
Other current assets	188,222
Land classified as property and equipment (Note 11)	2,038,085
Other property and equipment (Note 10)	725,681
Right-of-use assets (Note 31)	363,029
Intellectual property rights	523,103
Student relationship	116,009
Other noncurrent assets	102,717
	<u>5,579,767</u>
Liabilities	
Accounts and other payables	319,124
Loans payable	260,000
Deferred tax liabilities	432,946
Leased liabilities (Note 31)	374,622
Other liabilities	77,815
	<u>1,464,507</u>
Total identifiable net assets at fair value	4,115,260
Non-controlling interest	(537,520)
Goodwill (Note 12)	13,472
Cost of acquisition	<u>P3,591,213</u>

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Acquisition-related costs incurred in 2019 were recognized as expense.



Analysis of 2019 cash flows on acquisition follows:

Cash acquired from the subsidiaries (included in cash flows from investing activities)	P1,291,500
Transaction costs of the acquisition (included in cash flows from operating activities)	(7,523)
Transaction costs attributable to issuance of shares (included in cash flows from financing activities)	(2,953)
Net cash flows on acquisition	P1,281,024

Based on the valuation performed, the Group has identified other intangible assets such as the intellectual property rights with infinite life and student relationship with an estimated useful life of 5 years to 7 years based on the contractual relationship between the school entities and its students. These assets are attributed from the acquisition of operating schools NTC, APEC and UNC. The carrying value and movement of student relationship as of and for the year ended December 31 follows:

	2021	2020
Cost from business combination	P116,009	P116,009
Accumulated amortization:		
Beginning balance	(37,184)	(14,874)
Amortization and impairment (Note 20a)	(35,064)	(22,310)
Ending balance	(72,248)	(37,184)
Balance at end of the year	P43,761	P78,825

Amortization amounted to P22.3 million in both years. In 2021, the Group recognized P12.8 million impairment loss on student relationship attributable to APEC due to the significant decline in students because of the impact of coronavirus pandemic.

As of December 31, 2021 and 2020, the Group performed impairment testing on intellectual property rights using the income approach. Key assumptions used are as follows:

- Revenue projections and long-term growth rate (3% for 2021 and 2020). Revenue projections based on financial budgets approved by management and considers the impact of the K to 12 Basic Education Program effective 2016 and the coronavirus pandemic. The long-term growth rate is the expected growth rate in the education industry sector.
- Discount rates (14% to 15% for 2021 and 13% to 14% for 2020). The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to comparable listed companies in the educational sector.
- Royalty rates (1% to 6% for 2021 and 2020). This is based on the publicly available information on franchising of educational institutions in the Philippines, with consideration on the operational risk of the involved entity.

In 2021 and 2020, management assessed that no impairment loss should be recognized.

Transactions with Non-Controlling Interests

On May 9, 2019, the Parent Company acquired the 281,642 shares of MESI owned by HI, representing 7% ownership in MESI. With this acquisition, MESI became a 100%-owned subsidiary of the Parent Company. The P354.2 million excess of the consideration paid over the book value of non-controlling interest acquired was recognized in equity by debiting "Equity reserve".



In December 2019, the Parent Company acquired 2,743 additional shares of UNC from various stockholders representing 24.99% ownership in UNC. With the acquisition, the Parent Company now owned 83.62% of UNC. The ₱123.8 million excess of book value of non-controlling interest acquired over the consideration paid was recognized in equity by crediting "Equity reserve".

7. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand	₱2,360	₱2,139
Cash in banks (Note 15)	448,853	344,874
Cash equivalents (Note 15)	1,152,916	971,989
	₱1,604,129	₱1,319,002

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 ₱6.0 million, ₱10.7 million and ₱22.6 million in 2021, 2020 and 2019, respectively (Note 22).

8. Receivables

This account consists of:

	2021	2020
Tuition and other fees	₱1,246,586	₱1,160,745
Advances to officers and employees	21,529	21,882
Others	54,626	31,418
	1,322,741	1,214,045
Allowance for ECL	(289,890)	(177,748)
	₱1,032,851	₱1,036,297

Tuition and other fees receivable pertain to tuition and other matriculation fees which are normally collected during the school term. This also includes receivable from Department of Education (DepEd) amounting to ₱140.8 million and ₱138.8 million as at December 31, 2021 and 2020, 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.

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 ₱0.1 million, ₱0.2 million and ₱0.1 million in 2021, 2020 and 2019, respectively (Note 22). These receivables are noninterest-bearing and are generally collectible within one year.



The changes in allowance for ECL as at December 31 follow:

	2021			
	Tuition and other fees	Trade	Others	Total
Balance at beginning of year	P168,978	P3,393	P5,377	P177,748
Provisions for the year (Note 21)	114,229	-	-	114,229
Write-off	(2,087)	-	-	(2,087)
Balance at end of year	P281,120	P3,393	P5,377	P289,890
Gross receivables	P1,246,586	P4,964	P49,662	P1,301,212

	2020			
	Tuition and other fees	Trade	Others	Total
Balance at beginning of year	P125,261	P3,393	P6,191	P134,845
Provisions for the year (Note 21)	48,755	-	-	48,755
Write-off	(5,038)	-	(814)	(5,852)
Balance at end of year	P168,978	P3,393	P5,377	P177,748
Gross receivables	P1,160,745	P5,482	P47,818	P1,214,045

9. Prepaid Expenses and Other Current Assets

	2021	2020
Prepaid expenses	P192,032	P99,553
Restricted funds (Note 15)	34,816	30,960
CWT	7,298	12,676
Books inventories	5,095	3,983
Office supplies	3,805	2,802
Input VAT	1,539	507
Others	146,436	120,033
	P391,021	P270,604

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

Restricted funds significantly pertain to funds held for government and private entities and invested in money market placements exclusively for use in government programs such as CWTS, NSTP, for financing of scholars of certain private entities, and for the purpose of undertaking socio-economic studies, and development projects (Note 14).

Others relate to rent deposits and other supplies. This also includes payments made on certain claims that are under protest (Note 31).



10. Property and Equipment

The rollforward analysis of this account follows:

	2021				
	Buildings and Improvements	Office Furniture and Equipment	Transportation Equipment	Construction In Progress	Total
Cost					
Balance at beginning of year	₱4,914,555	₱2,365,584	₱48,521	₱1,624,804	₱8,953,464
Acquisitions	46,919	85,600	6,353	72,498	211,370
Disposals/retirement	(128,388)	(4,798)	-	-	(133,186)
Reclassifications and adjustments	58,969	125,924	(2,897)	(82,222)	99,774
Balance at end of year	4,991,055	2,572,210	51,977	1,615,080	9,169,822
Accumulated depreciation, amortization and impairment loss					
Balance at beginning of year	1,532,909	1,832,916	32,136	-	3,397,961
Depreciation (Notes 20 and 21)	198,864	156,212	7,863	-	362,839
Disposals/retirement	(128,388)	(2,215)	-	-	(130,603)
Reclassifications and adjustments	(21,317)	148,977	(2,426)	-	125,234
Balance at end of year	1,590,068	2,035,987	36,573	-	3,762,814
Net book value at cost	3,399,996	436,228	15,204	1,615,080	5,467,008
Land at revalued amounts (Note 11)	-	-	-	-	6,469,845
Total	₱3,399,996	₱436,228	₱15,204	₱1,615,080	₱5,467,008

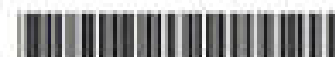
	2020				
	Buildings and Improvements	Office Furniture and Equipment	Transportation Equipment	Construction In Progress	Total
Cost					
Balance at beginning of year	₱4,833,654	₱2,235,728	₱49,532	₱1,628,920	₱8,747,834
Acquisitions	92,809	177,822	-	633,864	904,495
Disposals/retirement	-	(39,298)	-	-	(39,298)
Reclassifications and adjustments	(12,589)	(8,668)	(1,851)	-	(23,108)
Balance at end of year	4,914,555	2,365,584	48,521	1,624,804	8,953,464
Accumulated depreciation, amortization and impairment loss					
Balance at beginning of year	1,362,597	1,665,887	29,293	-	3,057,777
Depreciation (Notes 20 and 21)	178,303	201,698	7,851	-	379,852
Disposals/retirement	-	(39,298)	-	-	(39,298)
Reclassifications and adjustments	-	4,629	(5,000)	-	(371)
Balance at end of year	1,532,909	1,832,916	32,136	-	3,397,961
Net book value at cost	3,381,655	532,668	16,385	1,624,804	5,555,512
Land at revalued amounts (Note 11)	-	-	-	-	6,319,722
Total	₱3,381,655	₱532,668	₱16,385	₱1,624,804	₱5,555,512

Construction in progress as at December 31, 2021 and 2020 mainly includes the general cost of construction of MESI's new school building in Makati City and other direct costs (Note 11).

Capitalized interest expense on loans obtained to finance the construction of school buildings amounted to nil and ₱58.0 million in 2021 and 2020, respectively (Notes 16 and 17).

The land and related improvements owned by MCMI with carrying value of ₱2,382.0 million and ₱2,361.5 million as of December 31, 2021 and 2020, respectively, were used to secure the long-term loans of MCMI as disclosed in Note 17.

As disclosed in Note 5, the Group performed an impairment testing of the property and equipment and right-of-use assets of APEC in which management assessed that there is no impairment. Details of the impairment testing is disclosed in Note 31.



11. Land at Revalued Amounts

This account, classified as property and equipment (see Note 10), consists of:

	2021	2020
Land at cost:		
Balance at beginning of year	P4,066,906	P5,100,906
Land sold through sale of subsidiary	-	(1,034,000)
Balance at end of year	4,066,906	4,066,906
Provision for impairment:		
Balance at beginning of year	(15,763)	(21,000)
Reversal during the year charged to profit or loss	15,763	5,237
Balance at end of year	-	(15,763)
Revaluation increment on land:		
Balance at beginning of year	2,168,629	2,480,949
Change in revaluation increment	225,310	600,321
Revaluation increment on land transferred to retained earnings as a result of the sale of subsidiary	-	(912,641)
Balance at end of year	2,393,939	2,168,629
	P6,460,845	P6,219,772

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

Land were appraised by SEC-accredited independent firms of appraisers to determine the revalued amounts as at December 31, 2021 and 2020, 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. location, size and road frontage).

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.

Location	Valuation Techniques	Unobservable Inputs Used	Range	
			2021	2020
Makati and Intramuros, Manila	Market Approach	Price per square meter	P61,000 to P122,500	P48,000 to P100,800
Cabuyao, Laguna	Market Approach	Price per square meter	P10,412 to P14,042	P8,640 to P16,200
Davao City, Davao Del Sur	Market Approach	Price per square meter	P23,750 to 32,148	P13,553 to 40,800
Pandacan, Metro Manila	Market Approach	Price per square meter	P76,500 to P93,500	P51,300 to P85,500



Location	Valuation Techniques	Unobservable Inputs Used	Range	
			2021	2020
San Jose Del Monte City, Bulacan	Market Approach	Price per square meter	P55,510 to 59,993	P50,468 to 59,993
Naga City, Camarines Sur	Market Approach	Price per square meter	P18,573 to 27,075	P15,750 to 31,050
Quiapo, Manila	Market Approach	Price per square meter	P70,837 to 130,625	P69,034 to 133,650

Net adjustment factors arising from external and internal factors (i.e. location, size and road frontage) affecting the subject properties as compared to the market listing of comparable properties, range from -5% to +50% in 2021 and from -55% to +35% in 2020.

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

In 2019, the Group recorded provision for impairment in value of P21 million on a parcel of land charged to profit or loss [presented under 'Other income (charges) - net] as there was no previous revaluation increment recognized on said land. Based on the 2021 and 2020 appraisal of the same parcel of land, there was an increase in value that resulted to the reversal of the impairment loss. The reversal was credited to profit or loss as "Other income (charges) - net" in the 2021 and 2020 statement of comprehensive income.

In December 2020, MESI sold its investment in subsidiary San Lorenzo Ruiz Investment Holdings and Services Inc. to HI for P1,946.6 million and paid CGT of P126.8 million on the gain on sale. MESI applied the P250.0 million earnest money received from HI in 2019 which was recorded as part of 2019 accounts payable (Note 15) as payment and the balance was paid in cash. The Group treated the sale of investment as disposal of the net assets of the subsidiary which mainly represents the land classified as property and equipment. As the land is carried at revalued amount, prior to the sale, the Group recorded revaluation increment of P188.7 million (gross of tax) to reflect the land's fair value of P1,946.6 million equivalent to the selling price of said land. The revaluation increment (net of tax) of P132.1 million was credited to OCI. Upon sale of the subsidiary in 2020, the Group recorded the following:

- Reversal through OCI of the deferred tax liability on revaluation increment of subsidiary's land amounting to P273.8 million;
- Recognition of CGT on the sale of the subsidiary through OCI amounting to P126.8 million, which is netted against Reversal of deferred tax liability on revaluation increment of land sold through sale of subsidiary in the consolidated statement of comprehensive income; and
- Transfer of revaluation increment of the subsidiary's land accumulated in equity (net of tax) amounting to P785.8 million to retained earnings.

Since the land of the sold subsidiary was carried at revalued amount, in accordance with the Group's accounting policy, gain or loss on sale will not recycle to profit or loss but the corresponding revaluation increment in equity is transferred to retained earnings.



12. Goodwill

The goodwill recognized in the consolidated statement of financial position amounting to P151.3 million as at December 31, 2021 and 2020 pertains to the P137.8 million goodwill from acquisition of MESI in 1999 and P13.5 million goodwill from the 2019 acquisition of AEI subsidiaries as disclosed in Note 6.

The Group performed impairment testing on goodwill arising from acquisition of MESI wherein MESI was considered as the CGU. No impairment testing was done on the P13.5 million goodwill as the Group assessed it as not material to the consolidated financial statements. In 2021, 2020 and 2019, management assessed that no impairment loss should be recognized.

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

As at December 31, 2021 and 2020, the recoverable amount of the CGU has been determined based on a VIU calculation using five-year cash flow projections. Key assumptions in the VIU calculation of the CGU are most sensitive to the following:

- Future revenues and revenue growth rates. Cash flow projections based on financial budgets approved by management covering a five-year period and considers the impact of coronavirus pandemic, among others.
- Long-term growth rates (4.84% for 2021 and 3.78% for 2020). The Long-term growth rate is the expected growth rate in the education industry sector.
- Discount rate (11% for 2021 and 10.9% for 2020). 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.

13. Other Noncurrent Assets

This account consists of:

	2021	2020
Input VAT - net	P39,146	P39,563
Miscellaneous deposits	27,081	29,322
Creditable withholding tax	22,714	23,059
Computer software	19,464	9,036
Books and periodicals	5,266	7,047
	P113,671	P108,027

Miscellaneous deposits include rent deposits of the Group amounting to P15.0 million and P18.0 million as of December 31, 2021 and 2020, respectively.

