

COVER SHEET

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S.E.C. Registration Number

i P e o p l e , i n c .

(Company's Full Name)

3 r d F L R . G R E P A L I F E B U I L D I N G 2 1 9

S E N . G I L P U Y A T A V E N U E M A K A T I

(Business Address: No. Street City/ Town/ Province)

Mr. Jose Ma. G. Castillo, III

Contact Person

815-96-36

Company Telephone Number

SEC FORM 17 -A

1 2 3 1

Month Day Fiscal Year

FORM TYPE

0 6 2 8

Month Day Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. Of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2006**
2. SEC Identification Number **166411** 3. BIR Tax Identification No. **000-187-926-000**
4. Exact Name of registrant as specified in its charter **iPeople, inc.**
5. **Manila, Philippines** 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
incorporation or organization
7. **3rd Flr., Grepalife Bldg, 219 Sen. Gil Puyat Avenue, Makati City** **1200**
Address of principal office Postal Code
8. **(632) 815-9636**
Registrant's telephone number, including area code
9. _____
Former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA
- | Title of Each Class
Authorized | Number of Shares of Common Stock
Outstanding |
|------------------------------------|---|
| Common 2,000,000,000 shares | 748,933,221 |
- Amount of Debt Outstanding = P1.36 B**
11. Are any or all of these securities listed on the Philippine Stock Exchange. **Yes**
12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);
- Yes No
- (b) has been subject to such filing requirements for the past 90 days.
- Yes No

13. As of March 31, 2007 within 60 days prior to the filing of SEC17-A, the aggregate market value of the voting stock held by non-affiliates of the Company is *equivalent to four hundred ninety nine million eight hundred sixteen thousand two hundred twenty six pesos (P499,816,226) or one hundred fifty three million seven hundred eighty nine thousand six hundred eight (153,789,608) shares at P3.25/share.*

DOCUMENTS INCORPORATED BY REFERENCE

The following document is incorporated by reference:

- (a) 2006 Audited Consolidated Financial Statements

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PART I - BUSINESS AND GENERAL INFORMATION

a) Description of Business

Item 1. Business Development

iPeople, inc.(the Company), formerly known as Petrofields Exploration and Development Co., Inc. (Petrofields), was organized and incorporated on July 27, 1989 by Benguet Corporation to engage in petroleum and mineral exploration, development, and production. Petrofields operated as such until 1997 when the shareholders changed its name and primary purpose to that of a development and investment management company while retaining oil exploration as one of its secondary purposes.

With the change of its primary purpose, iPeople's main interests are centered on education and information technology led by Malayan Colleges, Inc. - Operating under the name Mapua Institute of Technology (MCI), Pan Pacific Computer Center, Inc. (PPCCI), and People eServe Corporation. The operations of Mapua are divided among the following companies: Malayan Colleges, Inc. (MCI) with campuses in Intramuros and Makati; Mapua Information Technology Center (MITc); Mapua Techserv, Inc. (Mapua Techserv); San Lorenzo Ruiz Institute of Health Sciences, Inc.; Malayan High School of Sciences (formerly Pandacan Properties, Inc.); and Malayan College Laguna, Inc (MCLI) led by a Mapua School of Engineering in Laguna.

Established in 1925, the Malayan Colleges, Inc. (MCI) is a leader in engineering and architecture education in the Philippines. Under the stewardship of the Yuchengco Group of Companies (YGC), MCI has been recognized for its strong curriculum, faculty, facilities, and institutional development programs.

In June 2000 MCI added the BS Computer Science degree to its academic offerings. Within that year, a state-of-the-art electronic network connecting some 1,800 computers was set up "at internet speed."

In 2001 MCI added BS Information Technology and BS Information Management to its roster of program offerings. It also offered MS Geo-informatics and MS Environmental Engineering.

It created two wholly-owned subsidiaries: Mapua Techserv, which is Mapua's arm for engineering consultancy and testing services; and MITc which is the vehicle for the two-year associate degree programs, short courses and various business ventures in Information Technology (I.T.).

In 2002, MCI created undergraduate programs in Materials Science and Engineering, Geological Engineering and Geology. It was granted "Fully Deregulated Status" by the Commission on Higher Education. It established a campus in Makati, which has become the home of all of its I.T. academic programs and of the MITc. MCI successfully pioneered the adoption of the quarter system of education.

In 2003, MCI instituted the BS Biotechnology program with double-degree and triple-degree options combining Chemistry and Chemical Engineering. It also instituted the MS Computer Science program. The process of ABET Certification of Substantial Equivalency was started with the application of the EE, ECE and CoE programs for Certification. In this year MCI was granted "Fully Autonomous" status by the CHED.

In 2004 MCI set up the San Lorenzo Ruiz Institute of Health Sciences, Inc. in its Makati campus that offers the B.S. Nursing program. The year saw three new undergraduate degree program offerings: BS Interior Architecture Design, BS Project Construction Management and BS Engineering Management. New graduate programs included MS Engineering Management, MS Materials Science and Engineering, and MS Electronics and Communications Engineering.

Joint BS-MS programs which shortened the residency time of students were started: BS Chemical Engineering-MS Environmental Engineering; BS Chemical Engineering and Chemistry-MS Environmental Engineering and BS Chemical Engineering and Chemistry-MS Chemistry.

MCI also ventured beyond the walls of its Intramuros and Makati campuses to offer *in situ* MS degree programs in Materials Science and Engineering and ECE at the industrial estates of Laguna. In this year seven additional programs (CE, ChE, IE, ME, CS, IT and IM) applied for ABET Certification.

People eServe Corporation is a wholly owned subsidiary of iPeople, Inc., incorporated in July 17, 2001 as an IT company, and was reorganized in July 1, 2002 to venture into specific IT projects, which include providing PC maintenance services, reselling IT equipment and marketing various products and services developed by MCI. In 2004, People eServe focused on expanding its business in IT equipment maintenance and IT equipment reselling.

To support its expansion programs, People eServe filed for the increase of its authorized capital stock from P1.00 million to P5.00 million in 2004. This was approved by the Securities and Exchange Commission on December 21, 2004.

On January 1, 2004, iPeople, inc. acquired 70% ownership in Pan Pacific Computer Center, Inc. through a share swap agreement with Grepalife. From being the IT arm of Grepalife and Pacific Plans, 2004 marked the repositioning of PPCCI to be the service provider of choice for consolidated IT services of the entire Yuchengco Group of Companies (YGC) as well as create its niche in the local market.

Item 2. Business of Issuer and Properties

The Company acquired the capital stock of MCI on December 21, 1999. The Company has drawn a general program which includes improvement of the academic program, institution of a comprehensive faculty development program, advancement of Information Technology and upgrading of school facilities and construction of new buildings.

The Company has subsidiaries (collectively referred to as the Group) namely: MCI, People eServe, and PPCCI. MCI is in the field of education. People eServe is engaged in PC maintenance services and PC reselling operations. PPCCI is engaged in business software development, internet application development and IT staffing services.

The Company has no principal product which contributes 10% or more to sales or revenues.

The revenues of the Company are predominantly denominated in Pesos.

Competition

Many of the Group's activities are carried on in highly competitive industries. MCI recognizes competition among 32 engineering schools in Metro Manila and about 188 all over the country. Schools like DLSU, UST, FEU, UE, Adamson and TIP, among others, are pursuing for a bigger share of student enrollment. The industry is affected by, among other things, preferences, local and economic conditions, traffic patterns and the type, number, and location of competing universities and colleges.

PPCCI's service portfolio includes the following:

Customer Relationship Management Services

- Business intelligence and customer analytics implementation services

Document Management Services

- Imaging technology implementation services
- Imaging technology service bureau

Application Support Services

- Application development and maintenance
- Project management and consultancy services

Data Center Operations Services

- Co-location
- Managed services which includes application back-up and application processing services

Technical Support Services

- Desktop support services
- Network and network security management services
- Database administration services
- Systems administration services

A few major players sharing in the same market with PPCCI are Corporate Information Services, Information Technology Solutions, Inc; and Infomax.

People eServe is a hardware reselling company who predominantly carries IBM, Hewlett Packard, Dell, Toshiba, and "white box" (more commonly referred to as clones) models specifically configured for its customers' needs. People eServe directly competes with other seller such as Villman, PC Corner, Infoworks Inc., and Paramount Computer System Inc.

Risks

a) Political / Country Risks :

Any business operating in the Philippines is faced with potentially adverse effects of any changes in the country's socio-political environment. Changes in the Administration through non-constitutional means affects the continuity of commercial operations, increase provisions for adverse scenarios and enhance general cost of doing business in the country. To manage this risk exposure or any risk of this kind, the Audit Committee and Board of Directors meet regularly and exercise an oversight role in managing the risks involved in the operations of the Company.

b) Regulatory Risks :

The introduction of the new fiscal or tax measures by the government can affect the profitability and cash flows of the Company. The increase in Corporate Income Tax Rate I has direct impact on the Company's net income while the implementation of the new E-Vat law has a great impact on the Company's cash flows.

b) Economic Risks :

The economic situation has had a direct impact on enrollment in private schools, particularly in the National Capital Region, which has shown a steady decline over the last five years.¹ This is attributable to the decrease in the value of real incomes which is reflected in the matriculation trend in local and state colleges and universities. Also, students and their families now prefer to stay in the various regions which offer ample educational opportunities rather than study in Metro Manila and incur a substantial amount of expense.

The Group operates its businesses in a highly regulated environment. Many of its businesses depend upon licenses issued by the Government authorities or agencies for its operation. These businesses would be materially and adversely affected by the suspension or revocation of these licenses, which may have a material effect in the Group's financial position and results of operations. Likewise, the introduction or inconsistent application of, or changes in regulations may from time-to-time materially affect the Company's operations. The Group's schools may be closed by CHED and the Department of Education should there be any breach or violation on the license granted by the regulating agencies. The accreditation by PACUCOA may be withdrawn should the Group's schools fail to comply with the regulations regarding the maintenance of its status.

The Group has maintained its full compliance on the said regulations.

Number of Employees

	ACTUAL 2006	ACTUAL 2005
Operations / Teaching	498	590
Administrative / Non-teaching	451	492
Total	949	1,082

¹ Source: Commission on Higher Education data on Enrollment by Region and Institutional Type.

A total of 176 employees are members of Mapua Institute of Technology Labor Union (MITLU). Collective Bargaining Agreement (CBA) and a total of 271 employees are members of Faculty of Mapua Institute of Technology (FAMIT). CBA as of March 2007.

Description of Property

The Company and its subsidiaries own land located in the areas enumerated below:

Description of Property	Date Acquired	Area in Sq. Meters	Location	Remarks
School Campus	December 1999	17,996.70	Intramuros, Mla.	
School Campus	July 2001	8,371.00	Makati City	Mortgaged with RCBC
School Campus	October 12, 2004	3,624.20	Paco, Manila	
School Campus	June 15, 2006	60,000.00	Cabuyao, Laguna	Finance lease - RCBC

Item 3. Legal Proceedings

1. Aranas vs. MAPUA – Retiree Prof. Ricardo Aranas filed a case for alleged unpaid retirement pay benefits, longevity pay, damages and attorney's fees. Aranas availed himself of optional retirement benefits in July 1997 and has received all benefits due him as an optional retiree. He claims to be entitled to retirement benefits arising from his extension of service as fixed-term faculty.

The case was dismissed without prejudice for failure to prosecute due to non-appearance of neither complainant nor counsel and non-submission of position paper due last 14 March 2007.

2. Gatbonton, Ulep et. al. vs. MAPUA – Complainants Renato Gatbonton, Carlito Ulep, Michael Santos, Reynaldo Galias, Frances Cablayan and Teresita Faustino are all optional retirees who were extended fixed-term teaching contracts. Complainants have received all benefits due them as optional retirees. When their fixed-term contracts were not renewed, they filed the present case before the NLRC for reinstatement, backwages and other benefits, damages and attorney's fees. The parties' respective position papers were submitted last February 7, 2007. The reply was submitted last February 28, 2007 with a Motion to Inhibit the Labor Arbiter, who previously decided another case against MCI. Labor Arbiter Gaudencio Dimaisip has recused himself and the case is set for re-raffling.
3. De Veyra et. al. vs. MAPUA – Complainants Olivia De Veyra, Flordeliza Espineda, Marlyn Solina, Basilio Macale and Melchor Seguisa are former Section Heads of the MIT Library Dept. whose positions were declared redundant and abolished. They received all benefits due them by reason of redundancy. They are suing for reinstatement, back-wages, and other benefits, damages, and attorney's fees. The parties' respective position papers were submitted last February 7, 2007. The reply was submitted last February 21, 2007 with a Motion to Dismiss on grounds of forum-shopping since there is an earlier pending case questioning the redundancy program. The Motion to Dismiss is pending.

4. MITLU vs Mapua Institute of Technology (Notice of Strike) – MITLU, the non teaching union, filed a notice of strike and an unfair labor practice (ULP) case in response to management's implementation of a redundancy program. The Institute filed a Petition for Assumption of Jurisdiction with the office of the DOLE Secretary. In a resolution dated June 9, 2006, the Dole Secretary certified the case to the National Labor Relations Commission for Compulsory Arbitration. The case was raffled off to NLRC Commissioner Angelita Gacutan. The parties' Memoranda was submitted last July 28, 2006 and Comment/Reply was submitted last August 14, 2006. The case was submitted for resolution.
5. FAMIT vs. Court of Appeals. FAMIT filed a petition for *certiorari* with the Supreme Court. The case involves an earlier Court of Appeals decision in favor of Management regarding the college faculty ranking system and the high school salary rate computation. MCI filed its opposition with the Supreme Court. The Memoranda for MCI was filed on August 25, 2005. MCI is still awaiting decision from the Supreme Court.
6. Lolita Tungpalan vs. Mapua. Lolita Tungpalan filed an illegal dismissal case against MCI. The NLRC First Division upheld the decision of the Labor Arbiter finding complainant Lolita Tungpalan as constructively illegally dismissed. Motion for Reconsideration (MR) was already filed by ACCRA, the lawyer handling the case for MCI. MCI is still awaiting resolution of the MR. If the MR is denied, appeal will be taken to the Court of Appeals.
7. LLDA vs. Mapua. This is a case for water pollution filed by the Laguna Lake Development Authority against MIT. In an Order dated January 5, 2007, MCI was assessed a penalty of P940,000.00 for not treating its wastewater. A Motion for Reconsideration was filed on the ground that Maynilad Water, as sewage service provider, is responsible for providing a water treatment facility and should answer for any violations of LLDA regulations. The MR is pending.

MCI's management believes that the ultimate liability, if any, with respect to these lawsuits and disputes will not materially affect the financial position and results of operations of MCI.

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

None.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant’s Common Equity and Related Stockholders’ Matters

1. Market Information

The Company shares are actively traded in Philippine Stock Exchange as shown in the history of stock prices below:

Amount in Pesos Par Value P1.00	1st Quarter			2nd Quarter		3 rd Quarter		4 th Quarter	
	2007	2006	2005	2006	2005	2006	2005	2006	2005
Common									
Highest Price Per Share	3.70	3.35	5.60	4.00	4.80	3.20	4.00	3.20	3.55
Lowest Price Per Share	3.00	2.90	3.10	2.85	3.10	2.70	2.75	2.65	2.50

Description of Registrants Securities

a. Common Stock

Capital structure of the Company as of December 31, 2006 is shown below:

Authorized	P2,000,000,000
Subscribed	P748,933,221
Paid-up	P748,933,221

b. Debt Securities - Not Applicable

2. Holders

The Company’s capital stock is listed in the Philippine Stock Exchange.

The BOD and stockholders approved on March 1, 2001 and April 25, 2001, respectively, the resolution to declassify the capital stock from P2 billion, divided into 1,200,000,000 Class “A” shares and 800,000,000 Class “B” shares with P1.00 par value into 2,000,000,000 shares with par value of P1.00 per share. The said declassification was approved by the SEC on August 10, 2001.

As of March 31, 2007, there are approximately 2,444 stockholders.

Top 20 stockholders as of March 31, 2007 are as follows:

STOCKHOLDERS	SHARES	PERCENTAGE
1. House of Investments, Inc.	504,331,631	67.34%
2. PCD Nominee Corporation (Filipino)	216,843,532	28.95%
3. Juan Yu &/ or Grace Yu	6,702,308	0.89%
4. Great Pacific Life Assurance Corp.	3,653,977	0.49%
5. PCD Nominee Corporation (Non-Filipino)	652,551	0.09%
6. Les B. Lee	650,000	0.09%
7. Ma. Lea B. Lee	650,000	0.09%
8. R. P. Land Development Corp	565,175	0.08%
9. Roderick Philip Ong	487,500	0.07%
10. Pan Malayan Management & Investment Corp.	487,484	0.07%
11. Hyde Management & Res. Corp	423,800	0.06%
12. David L. Kho	343,900	0.05%
13. Lucio Yan	325,000	0.04%
14. Sally C. Ong Pac	299,000	0.04%
15. Benjamin Philip G. Romualdez	287,500	0.04%
16. Fely Ley	243,750	0.03%
17. Bingson U. Tecson	195,000	0.03%
18. Ceferina Co &/or Ferdinand Co	190,125	0.03%
19. Roberto Chan Kwan	190,000	0.03%
20. Tan Bi Tin	182,975	0.02%
Total	737,705,208	98.50%
Various	11,228,013	1.50%
Total Outstanding Shares	748,933,221	100.00%

3. Dividends

In accordance with the Corporation Code of the Philippines, the Company intends to declare dividends (either in cash or stock or both) in the future. Shareholders of the Company are entitled to receive a proportionate share in cash dividends that may be declared by the BOD out of surplus profits derived from the Company's operations. The same right exists with respect to a stock dividends, the declaration of which is subject to the approval of the stockholders representing at least two-thirds (2/3) of the outstanding shares entitled to vote. The amount will depend on the Company's profits, capital expenditure, and investment requirements at the relevant time.

The Company has declared cash dividends of P0.30 per with a total amount of P223.61 million in 2006. In 2005, P0.64 per share amounting to P482.20 million and 30% stock dividends amounting to P172.83 million was declared. Cash dividends of P0.30 per share in 2004 for a total of P172.41 million, and P0.05 per share in 2003 amounting to P28.53 million were declared.. No cash or stock dividends were declared in years 2002, 2001 and 2000.

4. Recent Sales of Unregistered or Exempt Securities (within 3 years)

Not applicable.

Item 6. Management's Discussion and Analysis or Plan of Operation

1. Plan of Operation

Malayan Colleges, Inc. (MCI)

In 2005, MCI expanded its degree programs to the fields of business and social sciences, starting with the introduction of B.S. Accounting and B.S. Business Administration programs. In addition, MCI also began to offer BS and AB Psychology, the social science component that addresses one of the five independent fields of discipline required by the CHED of learning institutions that aspire to acquire the university status.

MCI also started its MS Construction Engineering, MS Structural Engineering and MS Water Resources Engineering programs. These three new MS programs were also offered in joint BS-MS programs along with BS Civil Engineering.

Also in 2005, MCI offered its first ever Ph.D. programs. These are the Ph.D. in Chemistry and Ph.D. in Environmental Engineering.

MCI also started its Hotel and Restaurant Management program in the Makati campus. In addition, the straight BS ECE-MS ECE (major in microelectronics) and BS ECE-MS MSE programs were opened. As of the Academic Year 2006-2007, MCI has 13 straight BS-MS programs. Because of the quarter system, straight BS-MS programs can be finished within five years compared to six or seven years in other schools.

Also in 2006, MCI developed and started marketing two new programs for opening in academic year 2007-2008: the BS Multimedia Arts and Sciences and BS Entrepreneurship. The said new programs are expected to be popular programs because of its interdisciplinary nature.

Seven engineering programs [Civil Engineering (CE), Environmental and Sanitary Engineering (EnSE), Electronics and Communications Engineering (ECE), Electrical Engineering (EE), Computer Engineering (CE), Mechanical Engineering (ME) and Industrial Engineering (IE)] received the Level II-3rd Re-accreditation status from PACUCOA. In 2007, MCI will be aiming for Level III accreditation, another step closer in the Institute's objective of attaining University Status.

Further, programs such as BS Information Technology and BS Computer Science were visited by PACUCOA for candidate status. The accreditation processes for MS Computer Science and MS Environmental Engineering were started by holding a consultancy visit. Although ABET visits were held in abeyance due to security concerns on the basis of a US Travel Advisory, the Institute is confident that the visits would push through at the soonest possible time.

New linkages and agreements with both local and international entities such as private corporations and educational institutions were signed. To give an example; agreements were signed with three different companies for the successful offering of Japanese, French and Spanish language training as part of the Institute's Foreign Languages program. Further, discussions between MCI's San Lorenzo Ruiz Institute of Health Sciences and Capstone College of Nursing, University of Alabama have commenced.

Academic excellence has been highlighted again through topnotch performances in licensure examinations, award winning research, and recognitions in noteworthy competitions. A Mapuan marked history when he set the new record in the highest examination rating in the Civil Engineering board examination. The Mapua Robotics Team bagged 4 major awards, including the prestigious DOST SIBOL Award in the 2006 National Inventors Week. MCI's stature in the field of Information Technology was acknowledged when its website won two major awards in the 9th Philippine Web Awards' school category namely, the Best Website Award and the People's Choice Award. This is the first time that the two awards were given to a single organization.

Seminars and symposiums for faculty development were held. The school's facilities and library holdings were upgraded for a more competitive academic environment.

Also in 2006, the hallways of the MHSSI were opened to 112 incoming freshmen students. MHSS is foreseen to be a premiere high school with specializations in science, mathematics and technology. It boasts the school's comprehensive curriculum that mixes academic excellence with fun and excitement. Truly, in this school, imagination is the favorite subject.

The construction of the Malayan Colleges Laguna, Inc. started in 2006. It is expected to commence its operations in 2007, in time for the SY 2007-2008. Initially, MCLI would be offering 5 engineering programs, a program in Information Technology and one in Accountancy. More program offerings shall be offered later on.

Truly, the year 2006 has been another year of excellence for MCI.

People eServe Corporation (People eServe)

In 2004, People eServe through tie-ups with strategic partners, expanded its hardware maintenance service (PC and Printers) portfolio to include Uninterruptible Power Supply (UPS) Machines and Automated Teller Machines (ATMs).

Its reselling arm has steadily expanded its portfolio of IT products to PCs, servers, laptops and various computer parts and peripherals. It has forged reselling arrangements with industry leaders such as IBM, HP, Toshiba and Dell to carry a wider range of IT equipment.

For 2005, People eServe is looking to add to its brand assortment in (a) hardware reselling business and (b) ink reselling business by taking on a new printer line.

People eServe also seeks to increase to its client base both in the reselling and maintenance business by marketing more aggressively to other companies outside the YGC.

Pan Pacific Computer Center, Incorporated (PPCCI)

The year 2005 was a "building year" for PPCCI with the formation of its Sales and Marketing Division and Customer Relationship Management Division, which focuses on business intelligence and customer analytics implementation. The year 2005 marked the beginning of the upgrade of PPCCI's IT infrastructure by improving the quality of service it provides to its clients and increasing its capacity to handle new clients.

The year 2006 was the “year of expansion” with PPCCI doubling its Sales Team, capturing new external clients, as well as forging new partnerships, to be able to carry complementing hardware products (i.e. storage and back-up equipment) as well as application solution for helpdesk and document imaging.

It is expected that business will continue to grow rapidly for 2007.

2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The Group’s consolidated financial statements have been prepared under the historical cost basis, except for land, which is carried at revalued amounts and available-for-sale securities that have been measured at fair market value. The accompanying consolidated financial statements are presented in Philippine Peso.

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

The accounting policies adopted are consistent with those of the previous financial years except for the policies related to the following new and revised PFRS and Philippine Interpretation from International Financial Reporting Interpretation Committee (IFRIC) that the Group has adopted during the year. Adoption of the new and revised standards and interpretation did not have any effect on the Group except for additional disclosures on the financial statements.

- PAS19 Amendment :Employees benefits – Actuarial Gains & Losses, Group Plans and Disclosures
- PAS 39 Amendment : Financial Instruments : Recognition & Measurement
- PAS 21 Amendment : The effect of Changes in Foreign Exchange Rate
- PFRS 6 Exploration for & Evaluation of Mineral Resources
- IFRC 4 Determining Whether an Arrangement Contains a Lease
- IFRC 5 Rights on Interest Arising from Decommissioning, Restoration and Environment Rehabilitation Funds
- IFRC 6 Liabilities Arising from Participating in a Specific Market

Net income for the year (attributable to equity holders of the Parent Company) amounted to P184.88 million. However, a decrease of 6.46% in retained earnings was reflected due to P223.61 million or 30% cash dividends paid during the year. Retained Earnings decreased from P599.59 million in 2005 to P560.86 million in 2006.

Balance Sheets

The increase in cash and receivables this year caused the 15.08% increase in current assets as compared to year 2005.

Cash and cash equivalents increased by 21.91% from P304.62 million in 2005 to P371.36 million in 2006 due to loan made to finance the construction of building of Malayan Collages Laguna, Inc. at Cabuyao, Laguna.

Receivables increased by P18.79 million from P49.18 million in 2005 compared to P67.98 million in 2006. The 38.21% increase was due to P29.73 million or 49.17% increase in revenues from sales and service.

Available-for-sale securities increased by 239.73% from its previous balance of P3.58 million in 2005 to P12.16 million, fair market value, in 2006. The P8.58 million increase represents the increase in market value of available for sale securities in 2006.

Property and equipment at cost (excluding land) increased from P532.92 million in 2005 to P724.07 million in 2006. The 35.87% increase was due to the construction of the new school building including its furniture, fixtures and equipment at Cabuyao, Laguna.

Property at revalued amount (land) increased from P1.66 billion in 2005 to P2.13 billion in 2006. The increase of P469.12 million or 28.19% represents (1) P294.61 million revaluation increment on the existing land; and (2) cost of land leased from RCBC where the new school at Cabuyao, Laguna is being built. The land will be purchased after two years at its fair market value less the monthly lease payment made. The lease of the land started on June 15, 2006 with monthly payment of P2.56 million for 10 years with an escalation rate of 5% per year. At the inception of the lease the land that was capitalized amounted to P174.51 million which include the security deposit and advance rental amounting to P7.7 million. The lease liability or finance lease that was recognized amounted to P155.87 million which is the present value of lease payments for 2 years and bargain purchase option.

Accounts payable and accrued expenses increased from P307.77 million in 2005 to P413.69 million in 2006. The 34.42 % increase was the result of the incorporation of MCLI and the first year of operation of MHSS wherein various expenses were incurred. Maximization of credit terms of MCI and increase in its retirement benefits and other liabilities also contributed to the increase in the account.

Prompt payment of liabilities to related parties resulted a 5.73% decrease in due to related parties account from P28.00 million in 2005 to P26.40 million in 2006.

Increase in provision for income tax caused the 66.69 % increase in income taxes payable from P5.90 million in 2005 to P9.84 in 2006.

Unearned tuition fees decreased by 35.75% from P124.71 million in 2005 to P80.12 million in 2006. The movement of this account is relative to the decrease in number of enrollees of MCI during the year.

Dividends payable represents additional dividends declared by MCI in December 2006. The P12.60 million represents dividends payable to minority owners of MCI.

Deferred tax liability increased by 54.19% from P46.77 million in 2005 compared to P72.12 million in 2006. The movement of this account pertains to the tax effect of the appraisal increase in land.

The 100% decrease in the Due to Preferred Stockholders of a Subsidiary account pertains to the derecognition of financial liability of MCI due to the amendment of the features of its preferred shares.

The 36.86% increase in Long-Term Debt account from P757.97 million in 2005 compared to P1.04 billion in 2006 was attributable to the loan obtained by MCI which significant portion of the loan was used in the construction of building go MCLI.

The P8.58 million increase in unrealized gain (loss) on available-for-sale securities was caused by the increase in market value of available-for-sale securities.

Revaluation increment in land increased significantly due to appraisal increase in land of MCI.

Minority interest represents mainly the direct interest of (a) House of Investments, Inc. in MCI and (b) Great Pacific Life Assurance Corporation in PPCCI. The 70.09% increase in minority interest from P59.41 million in 2005 compared to P101.05 million in 2006 was attributable to the derecognition of financial liability, minority share of deposit for future stock subscription of PPCCI and the declaration of cash dividends by MCI.

Income Statements

Revenues

Total revenues amounted to P1.22 billion, P1.26 billion and P1.36 billion for 2006, 2005 and 2004, respectively. The 2.86% and 7.85% decline in revenues in 2006 and 2005 were mainly attributable in the decrease in revenue from school related operations.

The 2.86% or P35.89 million decrease in revenues in 2006 were mainly attributable to the 5.49% or P65.56 million decrease in school and related operations due to decrease in number of student enrollees of MCI. The 49.07% or P29.66 million increase in revenues from sales and services was not enough to recover from the said decrease. The increase in revenues from sales and services was the result of successful efforts exerted by PPCCI and eServe Corporation for the year 2006.

The 6.09% or P81.39 million decrease in revenues in 2005 compared to 2004 was contributed mainly by the decreased in school and related operations due to low number of student enrollees of MCI.

Cost of Sales

Cost of sales and services increased by 66.70% in 2006 (from P28.19 million in 2005 to P46.99 million in 2006) due to the increase in revenues from sales and services and decreased by 30.14% in 2005 (from P40.35 million in 2004 to P28.19 million in 2005) due to the decrease in sales.

Gross Profit

Gross profits amounted to P1.17 billion, P1.23 billion and P1.32 billion in 2006, 2005 and 2004 respectively. The decrease in gross profit was the reciprocal effect of the decrease in revenues.

Administrative and general expenses

The 0.66% or P5.97 million increase in general and administrative expenses in 2006 was attributed mainly to the incorporation of MCLI, first year operation of MHSS and the corresponding increase in expenses of PPCCI and eServe.

In 2005, the 9.96% increase in administrative and general expenses was mainly due to the increase in depreciation expenses attributable to the change in estimated useful life of library books and office equipment (i.e. computers)

Other Income

The 11.20% or P11.20 million decrease in other income in 2006 arose from the decrease in interest income due to the significant use of cash and cash equivalents needed for the construction of MCLI and likewise the decrease in student enrollees of MCI.

The 16.44% or P19.01 million decrease in 2005 was likewise attributable to the decrease of interest income.

Interest Expense

Interest expenses decreased by 4.96% (from P0.12 billion in 2005 to P0.11 billion in 2006) and 14.88% (from P0.14 billion in 2004 to P0.12 billion in 2005) due to decrease of Group's liabilities.

Net income before tax

The Company's results of operations showed a 21.67% or P65.98 million decrease in net income before income tax in 2006 (from P304.41 million in 2005 compared to P238.43 million in 2006) and a 32.91% or P149.32 million decrease in 2005 (from P453.73 million in 2004 compared to P304.41 million in 2005).

Income tax

Provision for income tax for 2006 increased by 27.97% or P7.21 million despite the fact that net income decreased as compared with 2005. This was due to increase in income tax rate for the year 2006. However, comparing 2005 with 2004, the decrease in net income correspondingly decreased the provision for income tax by 43.54% or P19.89 million.

Net income for the year

Net income attributable to equity holders of parent company amounted to P184.88 million, P257.58 million and P400.08 million for 2006, 2005 and 2004, respectively.

Minority interest share in net income for the years 2006 and 2005 amounted to P20.55 million and P21.04 million, respectively. While P7.97 million was for the 3-month operations (i.e, October – December) in 2004. Minority interest represents mainly the direct interest of Grepalife in PPCCI and preferred minority interest of HI in MCI.

Comparison of Performance Indicators:

Current Ratio – provides the liquidity position of the business by comparing the current assets to current liabilities. The current ratio decreased from 0.87:1 in 2005 to P0.86:1 in 2006.

Total Debt-to-Service Ratio – is the sum of earnings before taxes, interest, depreciation, and amortization, divided by the sum of interest expenses, current portion of long-term loans, and current loans payable. This ratio shows that the Group is effective in meeting its annual principal and interest charges on its outstanding debts even total debt-to-service ratio decreased from 2.02:1 in 2005 to 1.71:1.00 in 2006.

Return on Assets – measures the ability to utilize the Company's assets to create profits by dividing the net income by the average of the total assets, i.e. beginning plus ending divided by two. The Company's return on assets decreased from 10% in year 2005 to 6% in year 2006.

Return on Equity - measures the income earned by shareholder's investment in the business by dividing net income after minority interest by the equity after minority interest. The Company's return on equity decreased from 19% in year 2005 to 12% in year 2006.

Net Profit Margin – represents a measure of net income generated for every peso of revenue and is computed by dividing the net income by the total net revenues. The company's net profit margin ratio decreased from 22% in year 2005 to 17% in year 2006.

Future financial and results of operations will depend on the number of enrollees and amount of tuition fees of MCI.

Sources of liquidity will depend on the dividend declaration of MCI and bank loans.

Earnings per share attributed to equity holders of the Parent Company amounted to P0.3439 in December 2005 and P0.2469 in December 2006

The Philippines was still affected by high oil prices and internal and external political environment.

Uncertainties remain as to whether the country will continue to be affected by regional trends in the coming months. The financial statements do not include any adjustments that might result from these uncertainties. Related effects will be reported in the financial statements as they become known and estimable.

Due to the Company's sound financial condition, there is no foreseeable trend, event or uncertainty, which may have material impact on the short-term and long-term liquidity.

There is no foreseeable event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation

There is no material off-balance sheet transaction, arrangement, obligation (including contingent obligation) and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

Funding will be sourced from internally generated funds and borrowings.

There is no known trend, event, or uncertainty, which may have material impact on revenues.

Material commitments on capital expenditures other than those performed in ordinary course of trade of business are as follows:

December 31, 2004, the balance of MIT's appropriation for capital expenditures amounted to P240.79 million.

In 2004, MIT used P19.21 million of its appropriation for capital expenditures related to its nursing school.

In 2005, the Board of Trustees approved the allocation of P50M for capital expenditures. Of this amount, Mapua earmarked P8.77M for facilities upgrade relative to the forthcoming PACUCOA accreditation and P3.6M for computer hardware upgrades and replacements

No material commitments on capital expenditures for year 2006.

There is no known trend, event or uncertainty that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations.

There is no significant element of income arising from continuing operations.

There has not been any seasonal aspect from period to period that had a material effect on the financial condition or results of the Company's operations.

Item 7. Financial Statements

The 2006 Audited Consolidated Financial Statements of the Company and Subsidiaries is incorporated herein by reference. The schedules listed in the accompanying index to Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures. - None -

Information on Independent Auditors

The Accounting firm of Sycip Gorres Velayo & Company. (SGV & Co.), with office address at 6760 Ayala Avenue, SGV Building, Makati City, Philippines, has been the Company's Independent Auditors since the Company's incorporation, and has been recommended to serve as such for the current year. Representatives of SGV are expected to be present at the meeting with the opportunity to make any statement, if they so desire, and will be available to respond to appropriate questions.

Pursuant to Memorandum Circular No. 8, series of 2003 (Rotation of External Auditors), the Company shall engage Mr. Ramon D. Dizon as the Engagement Partner of SGV & Co. replacing Mr. Medel T. Nera. Mr. Nera was engaged by the Company since 2002 for the examination of the Company's financial statements.

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

External Audit Fees and Services

The Company has engaged SGV & Co. as the external auditor, who is tasked to conduct the financial audit of the company. For this service, SGV & Co. has billed the company the amount of P386,000 and P425,000 for the years 2005 and 2006, respectively.

The Company has not engaged SGV & Co. for any other services aside from its annual audit for the last four (4) years.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Directors as of December 31, 2006:

1. Mr. Renato C. Valencia	Chairman of the Board - Independent
2. Mr. John F. Alabastro	Board Member
3. Mr. Cesar A. Buenaventura	Board Member - Independent
4. Ms. Helen Y. Dee	Board Member
5. Ms. Milagros V. Reyes	Board Member
6. Mr. Marco Y. Santos	Board Member
7. Mr. Orlando B. Vea**	Board Member - Independent
8. Mr. Perry Y. Uy	Board Member
9. Ms. Yvonne S. Yuchengco	Board Member
10. Mr. Filemon T. Berba, Jr. **	Board Member - Independent

**In July 24, 2006, Mr. Orland Vea resigned as member of the Board of Director of IPeople, inc.; Mr. Felimon T. Berba was elected as Board Member last September 7, 2006 .

a) Board of Directors and Officers

The Company's BOD is composed of nine (9) members elected by and from among the Company's stockholders. The Board is responsible for providing overall management and direction of the Company. Board meetings are held on a regular basis or as often as required to discuss the Company's operations, business strategy, policies and other corporate matters. A brief background on each member of the Company's BOD is provided as follows:

RENATO C. VALENCIA, 65: Filipino: Chairman of the Board (Sept. 2, 2005 –present)
Director, Independent (2003 – Sept. 2, 2005)

Other Directorship/Position within the last 5 years up to present:

Vice Chairman	Asia Pacific Network Holdings, Inc. (1998) Habitat for Humanity Foundation Philippines
Director - independent	Metropolitan Bank & Trust Co. (1998); Bases Conversion Dev. Authority (2004); Roxas Holdings, Inc. (2004); Fort Bonifacio Development Corp.; Grepalife Fixed Income Fund Corp.; House of Investments, Inc.; Malayan Insurance Co., Inc.; and Roxas & Company

JOHN F. ALABASTRO, 35: Filipino : Director & President (2002 - Present)

Other Directorship/Position within the last 5 years up to present:

Chairman	People eServe Corporation (May 2004)
Director / President	Pan Pacific Computer Center, Incorporated(2004)

MARCO Y. SANTOS, 38: Filipino : Director (2001 - Present)

Other Directorship/Position within the last 5 years up to present:

Chairman	Touch Media Philippines, Inc.
Vice-Chairman	IP Ventures Group Inc.
Director	Mapua Information Technology Center Inc. (MITc); People eServe Corporation; Indio Communications, Inc.; and Team Micro Credit Corporation

PERRY Y. UY, 62: Filipino : Director (2001 - present)

Other Directorship/Position within the last 5 years up to present:

Executive Vice President	House of investments, Inc.
President	RCBC Realty Corp.; Honda Cars Kalookan, Inc
Chairman	First Malayan Leasing & Finance Corp.
Vice Chairman	EEl Corporation; EEl Realty Corp.
Director	Landev Corp.; HI Eisai Pharmaceutical, Inc.; Benguet Management Corp.; Manila Memorial Park, Inc.; and Subic Power Corp.

YVONNE S. YUCHENGCO, 52: Filipino : Director (2000 - present)

Other Directorship/Position within the last 5 years up to present:

Chairperson/President	RCBC Capital Corporation (2000 – present)
Chairperson	Tokio Marine Malayan Insurance Co.(1995 - present), Phil. Integrated Advertising Agency (PIAA) (2003 - present)
President/Director	MICO Equities (1995 – present); Malayan Insurance Company, Inc. (1995 - present),
President	PIA-Phil-Asia Assistance Foundation, Inc. (1992-present)
Treasurer/Director	Pan Malayan Management & Investment Corp.; Honda Cars Kalookan, Inc.,
Sr. Executive Vice-President/ Director	Great Pacific Life Assurance Corporation
Asst. Treasurer	Enrique T. Yuchengco, Inc.
Advisory Board Member	Rizal Commercial Banking Corporation
Member, Board of Trustee	AY Foundation, Inc.
Director	Pan Malayan Realty Corp.; Malayan Insurance (U.K); Malayan Insurance (H.K.); Malayan International Insurance Corp.; Manila Memorial Park, Inc.; House of Investments, Inc.; La Funeraria Paz; Mapua Institute of Technology; Nippon Life Insurance Corp.; La Funeraria Paz – Sucat; Petroenergy Resource Corp.; Seafront Resources Corp.; Universal Malayan Reinsurance Corp.; and Malayan High School of Science, Inc.

CESAR A. BUENAVENTURA, O.B.E., 77: Filipino: Director, Independent (1989 - present)

Other Directorship/Position within the last 5 years up to present:

Chairman	A G & P Company of Manila
Vice Chairman	DMCI Holdings, Inc.; Montecito Properties, Inc.
Managing Partner	Buenaventura, Echauz & Partners (BEP) Financial Services
Director	Pilipinas Shell Petroleum Corporation; Phil. American Life Insurance Co.; PetroEnergy Resources Corporation; Paysetter Holdings Limited; Paysetter International, Inc.; and Semirara Coal Company;

ORLANDO B. VEA, 58: Filipino: Director, Independent (2000 – July 2007)

Other Directorship/Position within the last 5 years up to present:

Chairman of the Board	NewNet Holdings, Inc.; NextStage, Inc.; Mondex Phils., Inc.; Infinite-E Asia, Inc.; Fortag Realty, Inc.; Peakview Properties, Inc; Mobiletech, Inc., Wirelesspace, Inc.; Wireless Partners, Inc.; TechPartners, Inc.; and One Vision, Inc.
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Director Bidshot Wireless Services, Inc.; Kalayaan College, Inc.; Digital Paradise, Inc.; Netgames, Inc.; Netvoice, Inc.; and 25by8, Inc.

MILAGROS V. REYES, 66: Filipino : Director (2004 - 2005)

Other Directorship/Position within the last 5 years up to present:

President PetroEnergy Resources Corporation and Resources Corporation
 Director/Treasurer Hermoza Ecozone & Dev. Corp.

HELEN Y. DEE, 62 : Filipino: Director (Sept. 2, 2005 –present)

Other Directorship/Position within the last 5 years up to present :

Chairman & President Hydee Management & Resources, Inc.; Grepalife Fixed Income Fund Corp.; Grepalife Asset Management Corp.
 Chairman & President & CEO House of Invesments, Inc.
 Chairman & CEO Tameena Resources, Inc.
 Chairman Landev Corp.; HI-Eisai Pharmaceuticals, Inc.; Manila Memorial Park Cemetery, Inc.; Mapua Information Technology Center, Inc.; and Rizal Commercial Banking Corp.
 Vice-Chairman/Director Pan Malayan Management & Investment Corp.
 President Moira Management Inc.; and YGC Corporate Services, Inc.
 Director Phil. Long Distance Telephone Company; Petro Energy Resources Corp; Nippon Life Insurance Company of the Philippines, Inc.; South Western Cement Corp.; Seafont Resources Corp; Malayan Insurance Co.; MICO Equities, Inc.; La Funeraria Paz, Inc.; RCBC Savings Bank ; Honda Cars Philippines, Inc.; and Isuzu Philippines, Inc.
 Board Member Mapua Board of Trustee; Hermoza Ecozone Development Corporation; Rizal Commercial Banking Corporation; and EEI Corporation
 Treasurer Business Harmony Realty, Inc.

FILEMON T. BERBA, JR., 70 ; Filipino : Director (2006 – present)

Other Directorship/Position within the last 5 years up to present :

Director Integrated Microelectronics, Inc.: CGKFormaprint, Inc.; EEI Corporation
 Member of the Board of Trustees Society for the Advancement of Technology Management in the Philippines; Philippine Quality and Productivity Movement
 President Emeritus Philippine Quality Award Foundation
 Vice-President Philippine Foundation for Science & Technology

JOSE MA. G. CASTILLO III, 62: Filipino : Senior - VP Finance, Treasurer, Chief Information Officer & Compliance Officer (2002 - present)

Other Directorship/Position within the last 5 years up to present: :

SVP Finance, Treasurer and Chief Information Compliance Officer	House of Investments, Inc.
Director /SVP Finance and Treasurer	Landev Corporation
Director / Treasurer	Malayan Colleges Laguna, Inc.
Director / Chief Finance Officer	Greyhounds Security and Investigation Agency Corporation
Director	Zamboanga Industrial Finance Corporation
Vice President & Treasurer	HI-Eisai Pharmaceutical, Inc.
Vice President	Subic Power Corp.
Chief Finance Officer	Mapua Information Technology Center; People eServe Corporation; and Pan Pacific Computer Center, Incorporated
Treasurer	Malayan Colleges, Inc.

ATTY SAMUEL V. TORRES, 41 : Filipino : Assistant Corporate Secretary (Sept. 2005 to Feb. 14, 2006)
Corporate Secretary (Feb 15, 2006 to present)

Other Directorship/Position up to present:

General Counsel/Corporate Secretary	Pan Malayan Management and Investment Corporation
Corporate Secretary	Bankard, Inc.; Pacific Plans, Inc.; ET Yuchengco, Inc.; First Malayan Leasing & Finance Corp.; GPL Cebu Tower Office Condominium Corporation; GSA Travel, Inc.; RCBC Capital Corporation; RCBC Forex Broker Corporation; RCBC Realty Corporation; RCBC Savings Inc.; and RCBC Securities, Inc.
Assistant Corporate Secretary	First Nationwide Assurance Corp.; Malayan Insurance Company, Inc.; Malayan Reinsurance Corporation; Malayan Zurich Insurance Corporation; MICO Equities, Inc.; and Tokio Marine Malayan Insurance Corp.

MARY ANN EMILY D. ROQUE, 35: Filipino: Assistant Corporate Secretary (June 2006 to present)

Other Directorship/Position up to present

Corporate Secretary/Director	Orophil Stonecraft, Inc.; Oro Filipino Enterprises & Dev't. Corporation; Golden Tower Industrial & Dev't. Corporation
Corporate Secretary	Yuchengco Tower Ofc. Condominium Corporation

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management

- a) The following table sets forth information with respect to a record or beneficial owner directly or indirectly owning more than 5% of the Company's capital stock as of March 31, 2007.

TITLE OF CLASS	<u>NAME, ADDRESS OF RECORD OWNER & RELATIONSHIP WITH ISSUER</u>	<u>NAME OF BENEFICIAL OWNER & RELATIONSHIP WITH RECORD OWNER</u>	CITIZENSHIP	NO. OF SHARES HELD	PERCENTAGE
Common	House of Investments, Inc. <u>Grepalife Bldg. Sen. Gil Puyat Ave. Makati</u> <u>Principal Stockholder</u>	House of Investments, Inc. Person authorized to direct voting of the shares is Ms. Helen Y. Dee, the current Chairperson, President, and CEO	Filipino	504,331,631	67.34%
Common	PCD Nominee Corp. <u>GF Makati Stock Exchange Bldg. Ayala Avenue, Makati City, Public</u>	RCBC Securities Person authorized to direct voting of the shares is Mr. Ramon M. Posadas.	Filipino	44,778,086	5.98%
		RCBC Trust & Investments Division Person authorized to direct voting of the shares is Ms. Ma. Lourdes M. Ferrer.	Filipino	47,459,526	6.34%
		Various stockholders (less than 5% ownership) registered under the name of PCD Nominee Corp.	Filipino	124,605,920	16.64%
			Non-Filipino	652,551	0.09%

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

- b) The following table sets forth the Security Ownership of Management:

As of March 31, 2006, the Company's directors and executive officers owned an aggregate of 770,174 shares equivalent to 0.102836 % of the Company's outstanding shares.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage
Common	Renato Valencia Chairman of the Board	1,300 indirect	Filipino	0.000174%
Common	John F. Alabastro Director & President	6 direct	Filipino	0.000001%
Common	Helen Y. Dee Director	9,750 direct 423,800 indirect	Filipino	0.057889%
Common	Milagros V. Reyes Director	55,218 direct	Filipino	0.007373%
Common	Yvonne S. Yuchengco Director	6,500 direct 68,000 indirect	Filipino	0.009947%
Common	Filemon T. Berba Director	1,000 direct	Filipino	0.000134%
Common	Marco Y. Santos Director	6,500 direct	Filipino	0.000868%
Common	Mr. Perry Y. Uy Director	3,750 direct	Filipino	0.000501%
Common	Cesar A. Buenaventura Director	194,350 indirect	Filipino	0.025950%
TOTAL				0.102836%

Item 12. Certain Relationships and Related Transactions

Ms. Helen Y. Dee and Ms. Yvonne S. Yuchengco are sisters. Mr. Marco Y. Santos is the nephew of Ms. Helen Y. Dee and Ms. Yvonne S. Yuchengco.

There is no significant employee of the registrant that is expected to make significant contribution to the business.

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next successor shall have been elected, appointed or shall have qualified.

Officers are appointed or elected annually by the BOD at its first meeting following the Annual Meeting of the Stockholders, each to hold office until the next annual stockholders' meeting or until a successor shall have been elected, appointed or shall have qualified.

Involvement in certain legal proceedings

The Company is not aware of:

(a) any bankruptcy petition filed by or against any business of which any of its director or executive officers was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time except the petition for rehabilitation filed and with Makati Regional Trial Court by Pacific Plans, Inc., wherein Ms. Helen Y. Dee and Ms. Yvonne S. Yuchengco were former Officers; and the petition for rehabilitation filed with General

Santos City RTC by T'Boli Agro-Industrial Development Inc. wherein Mr. Jose Ma. G. Castillo III served as former Treasurer;

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

(c) any director or senior executive being subject to any order, judgment or decree not subsequently reversed or suspended or vacated of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting such director's or executive officer's involvement in any type of business, securities, commodities or banking activities; (d) any executive officer or director found by a domestic or foreign court of competent jurisdiction, the Commission or other foreign body or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended or vacated.

PART IV - CORPORATE GOVERNANCE

Item 13. Corporate Governance

Compliance with SEC Memorandum Circular No. 2 dated April 5, 2002 as well as all relevant Philippine Stock Exchange Circulars on Corporate Governance have been monitored.

The Company complied with the leading practices and principles on good corporate governance.

The Company also complied with the appropriate self-rating assessment and performance evaluation to determine and measure the compliance with the Manual.

Any deviation, if any, with the Manual on Corporate Governance were properly explained and reasons thereof were properly indicated.

In addition, the company continuously monitors all relevant PSE and SEC Circulars on Corporate Governance that may be used to improve its Manual for Corporate Governance.

REGISTRATION STATEMENT AND PROSPECTUS PROVISIONS

Not applicable

PART V - EXHIBITS AND SCHEDULES

A. Exhibits and index of Exhibits Required

Item 14. Reports on SEC Form 17-C

SUMMARY REPORTS ON SEC FORM 17-C

- A. Declaration of cash dividends from unrestricted retained earnings of 2005 as follows :

Amount per Share	Percentage	Total Amount	Record Date	Payment Date
P0.05	5.00%	P 37.27 million	March 31, 2006	April 28, 2006
P0.08	8.00%	P 59.63 million	July 14, 2006	Aug. 09, 2006
P0.05	5.00%	P 37.27 million	Sept.22, 2006	Oct. 18, 2006
P0.12	12.00%	P 89.45 million	Nov. 24, 2006	Dec. 20, 2006

- B. Resignation of Atty. Guia Y. Santos as Corporate Secretary of iPeople, inc. effective February 15, 2006. Appointments of Atty. Samuel Torres as the Corporate Secretary effective March 2007 and of Atty. Mary Anne D. Roque as Assistant Corporate Secretary effective June 2006.
- C. Notice and acceptance of resignation of Mr. Orlando B. Veja as member of the Board effective July 24, 2006. Appointment of Mr. Filemon T. Berba as member of the Board of Director of iPeople, inc. vice Mr. Orlando B. Veja.
- D. Amendments of By-Laws of iPeople, inc., Article 11 - Sec. 4 – “Regular Meetings” and Sec. 5 – “Special Meetings” regarding inclusion of teleconference/videoconference during regular and special meetings of the Board of Directors of the Company.

SIGNATURES

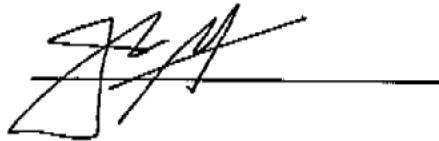
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on ___th of ___, 2007.

IN WITNESS WHEREOF, we have hereunto affixed our signatures and the seal of the Corporation this ___th day of ___, 2007 at Makati City.

30 APR 2007

By:

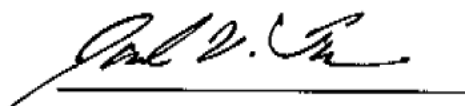
John F. Alabastro
President



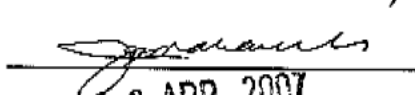
Jose Ma. G. Castillo III
SVP Finance, Treas. & Chief
Information and Compliance Officer



Atty. Samuel Torres
Corporate Secretary



Julieta O. Maravilla
Accounting Officer




SUBSCRIBED AND SWORN to before me this ___ day of ___, 2007, at Makati City. Affiant exhibited to me their Residence Certificate Numbers indicated beside each name.

30 APR 2007

<u>NAMES</u>	<u>RES. CERT. NO.</u>	<u>DATE / PLACE OF ISSUE</u>
John F. Alabastro	17673235	2/07/07 Manila
Jose Ma. G. Castillo III	12625037	3/06/07 Manila
Atty. Samuel Torres	20028624	1/10/07 Quezon City
Julieta O. Maravilla	12625062	3/06/07 Manila

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Book No. 18 ;
Series of 2007.

NOTARY PUBLIC

ATTY FIDEL L. EVANGELISTA
NOTARY PUBLIC
UNTIL 11-30-2008
ISS. NO. 820105 12-08-08 MAKATI
PTR. NO. 0015048 1-03-07 MAKATI
ROLL NO. 31459 (2)

iPeople, inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2006 and 2005
and Years Ended December 31, 2006, 2005 and 2004

and

Independent Auditors' Report



iPeople, inc.

A YGC Member

March 15, 2007

**Statement of Management's Responsibility
for Financial Statements**

The management of iPeople, inc. is responsible for all information and representations contained in the consolidated balance sheets as of and for the years ended December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, 2005 and 2004, and the summary of significant accounting policies and other explanatory notes. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved.

SyCip, Gorres, Velayo & Co, the independent auditors appointed by the Board of Directors and Stockholders have examined the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing and have expressed their opinion on the fairness of presentation upon completion of such audit in the attached report to the Board of Directors and Stockholders.

RENATO C. VALENCIA
Chairman of the Board


JOHN EDWARD F. ALABASTRO
Chief Executive Officer

JOSE MA. G. CASTILLO, III
SVP-Finance, Treasurer and
Chief Information and Compliance Officer

SUBSCRIBED AND SWORN to before me this _____ of _____ 2007, at Makati City. Affiant exhibited to me their Residence Certificate Numbers indicated beside each name.

NAME	RES. CERT. NO.	DATE/PLACE OF ISSUE
Renato C. Valencia	176-676-25	01/25/2007 Makati City
John F. Alabastro	176-732-35	02/07/2007 Makati City
Jose Ma. G. Castillo, III	126-250-37	03/06/2007 City of Manila

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NOTARY PUBLIC

ATTY FIDEL J. EVANGELISTA
NOTARY PUBLIC
UNTIL DEC. 31, 2008
IBP NO. 628185 12-06-06 MAKATI
PTR NO. 0015848 1-03-07 MAKATI
ROLL NO. 31498 (2)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of iPeople, inc. and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group, as of December 31, 2006 and 2005, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2006, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Medel T. Nera

Medel T. Nera

Partner

CPA Certificate No. 31835

SEC Accreditation No. 0089-AR-1

Tax Identification No. 113-423-143

PTR No. 0267370, January 2, 2007, Makati City

March 15, 2007



iPeople, inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 28)	₱371,361,227	₱304,622,652
Receivables - net (Notes 5 and 28)	67,978,000	49,183,600
Due from related parties (Notes 11 and 28)	183,844,419	185,141,428
Prepaid expenses and other current assets	15,299,876	15,858,124
Total Current Assets	638,483,522	554,805,804
Noncurrent Assets		
Available-for-sale securities (Note 28)	12,158,380	3,578,801
Property and equipment - net (Notes 3, 6 and 11)		
At cost	724,069,010	532,918,059
Land at revalued amounts (Notes 7 and 11)	2,133,507,035	1,664,382,000
Other noncurrent assets - net (Note 8)	144,295,671	139,090,528
Total Noncurrent Assets	3,014,030,096	2,339,969,388
	₱3,652,513,618	₱2,894,775,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 9, 11 and 28)	₱144,802,569	₱146,536,344
Accounts payable and accrued expenses (Notes 10 and 28)	413,691,897	307,769,686
Due to related parties (Notes 11 and 28)	26,396,009	28,001,074
Income tax payable	9,841,629	5,904,194
Unearned tuition fees	80,124,982	124,709,918
Dividends payable (Note 28)	12,600,000	4,594,256
Lease liability - current portion (Notes 7, 11 and 28)	32,812,386	-
Current portion of long-term debt (Notes 12 and 28)	20,625,000	20,625,000
Total Current Liabilities	740,894,472	638,140,472
Noncurrent Liabilities		
Deferred tax liabilities (Note 18)	72,119,438	46,773,515
Lease liability - noncurrent portion (Notes 11 and 28)	123,057,155	-
Long-term debt - net of current portion (Notes 12 and 28)	1,037,343,750	757,968,750
Due to preferred stockholders of a subsidiary (Notes 26 and 28)	-	30,871,325
Total Noncurrent Liabilities	1,232,520,343	835,613,590
Total Liabilities	1,973,414,815	1,473,754,062

(Forward)



	December 31	
	2006	2005
Stockholders' Equity		
Attributable to equity holders of parent company		
Capital stock (Note 14)	₱748,933,221	₱748,933,221
Additional paid-in capital	2,037,972	2,037,972
Unrealized gain (loss) on available-for-sale securities	7,299,880	(1,279,699)
Revaluation increment in land	261,653,231	15,063,489
Retained earnings (Notes 13, 14 and 15)	560,859,418	599,591,794
	1,580,783,722	1,364,346,777
Less treasury stock (Note 13)	2,732,188	2,732,188
	1,578,051,534	1,361,614,589
Minority interest (Note 25)	101,047,269	59,406,541
Total Stockholders' Equity	1,679,098,803	1,421,021,130
	₱3,652,513,618	₱2,894,775,192

See accompanying Notes to Consolidated Financial Statements.



iPeople, inc. and Subsidiaries**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31		
	2006	2005	2004
REVENUES			
School and related operations	₱1,129,230,913	₱1,194,789,024	₱1,269,983,564
Sales and services	90,177,576	60,453,973	66,647,339
	1,219,408,489	1,255,242,997	1,336,630,903
COST OF SALES AND SERVICES	46,990,876	28,189,069	40,349,320
GROSS PROFIT	1,172,417,613	1,227,053,928	1,296,281,583
ADMINISTRATIVE AND GENERAL EXPENSES (Note 16)	(907,657,917)	(901,692,299)	(820,054,880)
OTHER INCOME (Note 17)	85,440,750	96,644,562	115,652,765
INTEREST EXPENSE (Notes 10, 11 and 17)	(111,768,940)	(117,599,562)	(138,153,274)
INCOME BEFORE INCOME TAX	238,431,506	304,406,629	453,726,194
PROVISION FOR INCOME TAX (Note 18)	32,998,862	25,787,397	45,674,744
NET INCOME	₱205,432,644	₱278,619,232	₱408,051,450
NET INCOME ATTRIBUTABLE TO:			
Equity Holders of the Parent Company	184,882,037	257,583,279	400,079,448
Minority interest	20,550,607	21,035,953	7,972,002
NET INCOME	₱205,432,644	₱278,619,232	₱408,051,450
EARNINGS PER SHARE FOR NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY - BASIC AND DILUTED (Note 22)	₱0.2480	₱0.3456	₱0.5362

See accompanying Notes to Consolidated Financial Statements.



iPeople, inc. and Subsidiaries**CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY**

	Years Ended December 31		
	2006	2005	2004
ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY			
CAPITAL STOCK (Note 14)			
Common stock - ₱1 par value			
Authorized - 2,000,000,000 shares			
Issued - 748,933,221 in 2006 and 2005 and 576,102,894 in 2004			
Balance at beginning of year	₱748,933,221	₱576,102,894	₱573,292,142
Stock dividends - 30%	—	172,830,327	—
Issuance during the year	—	—	2,810,752
Balance at end of year	748,933,221	748,933,221	576,102,894
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	2,037,972	2,037,972	1,841,219
Additions during the year	—	—	196,753
Balance at end of year	2,037,972	2,037,972	2,037,972
UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE SECURITIES			
Balance at beginning of year	(1,279,699)	—	—
Unrealized gain (loss) during the year	8,579,579	(1,279,699)	—
Balance at end of year	7,299,880	(1,279,699)	—
REVALUATION INCREMENT IN LAND			
Balance at beginning of year	15,063,489	15,063,489	—
Revaluation increment for the year	246,589,742	—	15,063,489
Balance at end of year	261,653,231	15,063,489	15,063,489

(Forward)



	Years Ended December 31		
	2006	2005	2004
RETAINED EARNINGS (Note 13)			
Balance at beginning of year			
As previously reported	₱599,591,794	₱997,875,218	₱770,205,026
Effect of change in accounting for financial instruments of subsidiaries (Note 2)	-	(831,810)	-
As restated	599,591,794	997,043,408	770,205,026
Net income	184,882,037	257,583,279	400,079,448
Cash dividends (Note 15)	(223,614,413)	(482,204,566)	(172,409,256)
Stock dividends - 30% (Note 14)	-	(172,830,327)	-
Balance at end of year	560,859,418	599,591,794	997,875,218
TREASURY STOCK (Note 13)	(2,732,188)	(2,732,188)	(2,732,188)
	1,578,051,534	1,361,614,589	1,588,347,385
MINORITY INTEREST (Note 25)			
Balance at beginning of year			
As previously reported	59,406,541	91,808,177	(1,564,266)
Effect of change in accounting for financial instruments of subsidiaries (Note 2)	-	(27,667,589)	-
As restated	59,406,541	64,140,588	(1,564,266)
Net additions during the year (Notes 23 and 24)	600,000	-	105,400,462
Effect of derecognition of due to preferred stockholders (Note 26)	27,604,980	-	-
Net income	20,550,607	21,035,953	7,972,002
Dividends of subsidiaries	(25,675,377)	(25,770,000)	(20,000,021)
Revaluation increment in land	18,560,518	-	-
Balance at end of year	101,047,269	59,406,541	91,808,177
	₱1,679,098,803	₱1,421,021,130	₱1,680,155,562

See accompanying Notes to Consolidated Financial Statements.



iPeople, inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱238,431,506	₱304,406,629	₱453,726,194
Adjustments for:			
Interest expense	111,768,940	117,599,562	138,153,274
Depreciation (Note 6)	122,717,184	140,698,394	107,307,941
Interest income	(35,446,488)	(61,681,382)	(77,633,678)
Provision for probable losses (Note 16)	–	–	2,166,665
Operating income before working capital changes	437,471,142	501,023,203	623,720,396
Decrease (increase) in:			
Accounts receivable	(17,571,665)	5,133,407	(14,291,524)
Prepaid expenses and other current assets	558,248	3,382,742	4,281,620
Increase (decrease) in:			
Accounts payable and accrued expenses	103,246,719	31,545,825	67,131,191
Unearned tuition fees	(44,584,936)	(1,755,132)	104,870,489
Cash generated from operations	479,119,508	539,330,045	785,712,172
Interest received	34,223,753	61,681,382	75,635,136
Interest paid	(112,359,793)	(117,599,562)	(139,940,236)
Income taxes paid	(33,185,394)	(45,214,850)	(52,673,980)
Net cash provided by operating activities	367,798,074	438,197,015	668,733,092
CASH FLOWS FROM INVESTING ACTIVITIES			
Gross additions to property and equipment (Note 6)	(322,276,872)	(167,684,143)	(82,478,214)
Proceeds from disposal of property and equipment	8,408,737	1,338,285	–
Decrease (increase) in:			
Due from related parties	1,297,009	221,430,122	36,720,514
Other noncurrent assets	(5,196,393)	746,322	162,266
Net cash received from acquired company (Note 23)	–	–	226,157
Net cash provided by (used in) investing activities	(317,767,519)	55,830,586	(45,369,277)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	300,000,000	–	–
Payments made on lease liability	(10,961,694)	–	–
Payments of loans payable	(1,733,775)	(150,063,656)	(150,670,000)
Payments of long-term debt	(20,625,000)	(20,625,000)	(20,625,000)

(Forward)



	Years Ended December 31		
	2006	2005	2004
Dividends paid to stockholders and minority interest	(P241,284,046)	(P503,025,644)	(P181,584,387)
Increase (decrease) in due to related parties	(9,287,465)	1,856,536	(4,656,095)
Cash received as equity contribution from minority interest	600,000	–	12,041,702
Net cash provided by (used) in financing activities	16,708,020	(671,857,764)	(345,493,780)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	66,738,575	(177,830,163)	277,870,035
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	304,622,652	482,452,815	204,582,780
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 29)	P371,361,227	P304,622,652	P482,452,815

See accompanying Notes to Consolidated Financial Statements.



iPeople, inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

The Group’s ultimate parent company is Pan Malayan Management and Investment Corporation (PMMIC).

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 15, 2007.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared under the historical cost basis, except for land, which is carried at revalued amounts and available-for-sale securities that have been measured at fair market value. The accompanying consolidated financial statements are presented in Philippine Peso, which is the Group’s functional and presentation currency.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the policies related to the following new and revised PFRS and Philippine Interpretations that the Group has adopted during the year. Adoption of these new and revised standards and interpretations did not have any effect on the Group except for additional disclosures on the financial statements.

- Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, introduced an additional option for recognition of actuarial gains and losses in post-employment defined benefit plans. The amendment permits an entity to recognize actuarial gains and losses in the period in which they occur outside profit or loss. The amendment also requires additional disclosures of the entity’s pension plan. The adoption of amendments to PAS 19 does not have an effect on the Group’s results of operations and financial position. The Group elected to continue to recognize a portion of actuarial gains and losses in profit and loss if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined obligation or 10% of the fair value of plan assets.



- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement*, (a) *Amendment for financial guarantee contracts*, amended the scope of PAS 39 to require financial guarantee contracts that are not considered as insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*; , long-term debt; (b) *Amendment for cash flow hedge accounting of forecast intragroup transaction*, permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedge item in a cash flow, provided that the transaction is denominated in a currency other than the functional currency of an entity entering into that transaction and that the foreign currency risk will affect the consolidated statement of income; (c) *Amendment for the fair value option*, restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss (FVPL).
- Philippine Interpretation, IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, provides for guidance in determining whether an arrangement contains a lease to which lease accounting must be applied.

The following new and revised standards and Philippine interpretations became effective beginning January 1, 2006. These new and revised standards and interpretations are not relevant to the Group.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources*
- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*
- Philippine Interpretation, IFRIC 5, *Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- Philippine Interpretation, IFRIC 6, *Liabilities Arising from Participating in a Specific Market*

The Group did not early adopt the following new and revised standards that have been approved but are not yet effective at December 31, 2006:

- PFRS 7, *Financial Instruments: Disclosures*, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements of PAS 32, *Financial Instruments: Disclosure and Presentation*. This standard is applicable to all entities reporting under PFRS. The Group will include the applicable additional disclosures when it adopts PFRS 7 beginning January 1, 2007.
- Amendment to PAS 1, *Presentation of Financial Statements*, introduces disclosures about the level of an entity's capital and how it manages capital. The Group will include the new disclosures when it applies the amendment to PAS 1 starting January 1, 2007.



- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*, becomes effective for financial years beginning on or after May 1, 2006. This interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. The interpretation will have no impact on the financial statements of the Group.
- Philippine Interpretation, IFRIC 8, *Scope of PFRS 2*, becomes effective for financial years beginning on or after May 1, 2006. This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Group expects that the adoption of this interpretation will have no impact on the financial statements.
- Philippine Interpretation, IFRIC 9, *Reassessment of Embedded Derivatives*, becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group expects that the adoption of this interpretation will have no impact on the financial statements.
- Philippine Interpretation, IFRIC 10, *Interim Financial Reporting and Impairment*, which becomes effective for financial years beginning on or after November 1, 2006, provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS investments. This interpretation is not expected to have a significant impact on the financial statements of the Group.
- Philippine Interpretation, IFRIC 11, *PFRS 2, Group and Treasury Share Transactions*, will be effective on March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. The Group is still in the process of assessing the impact of this interpretation on the financial statements.
- Philippine Interpretation, IFRIC 12, *Service Concession Arrangement*, will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concessions arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the financial statements of the Group as this is not relevant to the Group's operations.
- PFRS 8, *Operating Segments*, will become effective on January 1, 2009. PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The Group will apply PFRS 8 in 2009 and will assess its impact on the Group's segment reporting disclosures.



Accounting Policies

Basis of Consolidation and Investments in Subsidiaries

The consolidated financial statements of the Group include the accounts of the Parent Company and the following companies that it controls:

	<u>Percentage of Ownership</u>	
	2006	2005
Malayan Colleges, Inc. (Operating Under the Name of Mapua Institute of Technology) (MCI) (formerly Mapua Institute of Technology, Inc. (MIT) and subsidiaries	100	100
Mapua Information Technology Center (MITC)	100	100
Mapua Techserv, Inc.	100	100
Malayan High School of Science, Inc. (MHSSI) (formerly Pandacan Properties, Inc.)	100	100
San Lorenzo Ruiz Institute of Health Sciences, Inc. (SLRHSI)	100	100
Malayan College Laguna, Inc. led by a Mapua School of Engineering (MCLI)	100	-
People eServe Corporation	100	100
Pan Pacific Computer Center, Incorporated (PPCCI)	70	70

*These are wholly owned subsidiaries of MIT

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2006 and 2005. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, if any, are eliminated in full.

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 that such control ceases.

Control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital.

Minority interests represent the portion of profit or loss and net assets not attributable to equity holders of the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet.

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 months or less and that are subject to an insignificant risk of change in value.



Impact of adoption of PAS 32 and PAS 39

On January 1, 2005, the Group adopted PAS 32, *Financial Instruments: Disclosure and Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*. Upon adoption, the Group reclassified (a) a portion of its minority interest amounting to ₱27.7 million to due to preferred stockholders of a subsidiary account because the preferred stock issued by its subsidiary qualified as a financial liability under PAS 32 (see Note 26) and (b) its investments-others to available-for-sale securities.

The increasing (decreasing) effects of the adoption of PAS 32 and PAS 39 as of January 1, 2005 follow:

Effect in:	
Current liabilities	₱894,419
Noncurrent liabilities	27,604,980
Retained earnings	(831,810)
Minority interest	(27,667,589)

Financial Assets and Financial Liabilities

Accounting Policies Effective January 1, 2005

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

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

Financial assets and financial liabilities are further classified as either financial asset or financial liability at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS securities, as appropriate. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.



Financial Asset or Financial Liability at FVPL

Financial assets or financial liabilities classified as held for trading are included in the category “financial asset or financial liability at FVPL”. Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term, or upon initial recognition, it is designated by the management at FVPL.

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met:

- (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- (ii) the assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- (iii) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Assets or liabilities classified under this category are carried at fair value in the consolidated balance sheet. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

The Group does not have any financial assets and liabilities classified as at FVPL as of December 31, 2006 and 2005.

HTM Investments

Nonderivative financial assets that are quoted in the market with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold the investments to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost.

The Group has no HTM investments as of December 31, 2006 and 2005.

Loans and Receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at cost or amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes the Group’s receivables and due from related parties which are carried at cost.



AFS Securities

AFS securities are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS securities are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative loss previously reported in the stockholders' equity is included in the consolidated statement of income.

The Group's AFS securities include investments in quoted common shares.

Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These liabilities are carried at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method.

The Group's loans payable, accounts payable and accrued expenses, due to related parties, dividends payable, long-term debt, due to preferred stockholders of a subsidiary and lease liability are classified in this category.

Due to Preferred Stockholders of a Subsidiary

This represents the debt component of the redeemable convertible preferred stock of MCI in 2005. The preferred shares of MCI can be redeemed at a certain redemption price at the option of the holder. Under PAS 32, this financial instrument qualified as a financial liability in 2005. Due to preferred stockholders of a subsidiary is carried at amortized cost and classified as part of the Group's noncurrent liabilities. Accordingly, the cumulative dividends on the preferred stock dividends are treated as interest expense in the consolidated statement of income. The computed discount at the time of issuance is amortized and recognized as interest expense over the term of the preferred stock based on the effective interest rate method.

In 2006, the features of the preferred shares were amended which now allows classification as equity instruments (see Note 26).

Determination of fair value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using reference to similar instrument for which market observable prices exist, discounted cash flow analysis and other relevant valuation models.



Derecognition of Financial Assets and Financial Liabilities

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

Financial Liabilities

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet 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.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate



(i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Securities

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

Property and Equipment

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

Land is carried at its revalued amount based on the latest appraisal conducted by an independent firm of appraisers. The latest appraisal was made as of December 31, 2006. The appraisal increment resulting from the revaluation is treated as a separate component in the Group's stockholders' equity.



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

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

Buildings and improvements	10-20 years
Office furniture and equipment	5-10 years
Transportation equipment	5 years

The useful life 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.

Impairment of Non-Financial Assets

The Group assesses at each balance sheet date whether there is any indication that its non-financial assets may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined had no impairment loss been recognized for the asset in prior years.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill is measured at cost less any accumulated impairment losses, if any. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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



Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

- Revenues from school and related operations are recognized as income over the corresponding school term. Unearned revenues are shown as unearned tuition fees in the consolidated balance sheet.
- Interest income is recognized as it accrues taking into account the effective yield on the asset.
- Rent income is recognized as revenue on a straight-line basis over the lease term.
- Sale of goods are recognized as revenue upon delivery and when the risks and rewards of ownership have passed to the buyer.
- Maintenance, service and commission income are recognized when services are rendered.

Retirement Cost

The Group has a noncontributory defined benefit retirement plan (the Plan). The retirement cost of the Group is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability of the Group in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged against or credited to income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the Plan.

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences except:

- (a) where the deferred income tax liability arises from the initial recognition of goodwill or 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 and; (b) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences and carryforward of unused MCIT and NOLCO can be utilized except; (a) where the deferred income tax asset relating to the deductible temporary difference 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 and; (b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).



Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Operating lease payments are recognized as expense in the statements of income on a straight-line basis over the lease term.

Foreign Currency Transactions

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 using the prevailing exchange rates at the balance sheet dates. Exchange gains or losses arising from foreign currency are charged to current operations.

Provisions

Provisions are recognized when (a) the Group has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) a reliable estimate can be made of the amount of the obligation.

Contingencies

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

Earnings Per Share

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

Subsequent Events

Post year-end events that provide additional information about the Group's situation at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.



3. Management's Use of Judgments and Estimates

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions 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. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

Operating lease commitments - Group as lessee

The Group has entered into commercial property leases on its administrative office locations. The Group has determined that it does not acquire all the significant risks and rewards of ownership of these properties which are accounted for as operating leases.

Estimates

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

Estimating allowance for doubtful accounts

The Group maintains allowances for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

The amount of timing and recording of expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts would increase recorded operating expenses and decrease current assets. Allowance for doubtful accounts amounted to ₱14.7 million and ₱8.6 million as of December 31, 2006 and 2005, respectively. The balance of receivables as of December 31, 2006 and 2005 amounted to ₱68.0 million and ₱49.2 million, respectively (see Note 5).

Impairment of AFS Securities

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The fair value of the Group's AFS amounted to ₱12.2 million and ₱3.6 million as of December 31, 2006 and 2005, respectively.



Estimating Useful lives of Property and Equipment

The Group estimated the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

As of December 31, 2006 and 2005, net book value of depreciable property and equipment amounted to ₱724.1 million and ₱532.9 million, respectively (see Note 6).

Impairment of Nonfinancial Assets

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Group considers important which could trigger an impairment review include the following:

- 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 net selling price and value in use. The net selling price 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 the 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.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

Accrued Retirement Obligation and Retirement Expense

The determination of the Group's accrued retirement obligation and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the Group's assumptions, subject to the 10% corridor test are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods. 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 accrued retirement obligation.



As of December 31, 2006 and 2005, the net retirement liability amounted to P72.1 million and P68.3 million, respectively (see Note 20).

Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 21).

4. **Cash and Cash Equivalents**

This account consists of:

	2006	2005
Cash on hand and in banks	P32,279,569	P50,382,074
Short-term investments	339,081,658	254,240,578
	P371,361,227	P304,622,652

Cash in banks earns interest at the prevailing bank deposit rates. Short-term investments are made for 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.

5. **Receivables**

This account consists of:

	2006	2005
Tuition and other fees	P54,807,638	P48,662,902
Others	27,841,494	9,138,861
	82,649,132	57,801,763
Less allowance for doubtful accounts	14,671,132	8,618,163
	P67,978,000	P49,183,600



6. Property and Equipment

This account consists of:

	2006			
	Buildings and Improvements	Office Furniture and Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year	P669,243,591	P552,969,906	P10,145,292	P1,232,358,789
Acquisitions	231,623,008	82,431,715	8,222,149	322,276,872
Disposals/adjustments	(1,159,422)	(10,504,409)	(2,873,182)	(14,537,013)
Balance at end of year	899,707,177	624,897,212	15,494,259	1,540,098,648
Accumulated Depreciation				
Balance at beginning of year	330,070,202	361,298,268	8,072,260	699,440,730
Depreciation	53,426,473	68,061,744	1,228,967	122,717,184
Disposals/adjustments	(1,180)	(5,527,097)	(599,999)	(6,128,276)
Balance at end of year	383,495,495	423,832,915	8,701,228	816,029,638
Net Book Value	P516,211,682	P201,064,297	P6,793,031	P724,069,010

	2005			
	Buildings and Improvements	Office Furniture and Equipment	Transportation Equipment	Total
Cost				
Balance at beginning of year	P549,362,939	P505,496,905	P12,691,861	P1,067,551,705
Acquisitions	119,880,652	47,497,696	305,795	167,684,143
Disposals/adjustments	-	(24,695)	(2,852,364)	(2,877,059)
Balance at end of year	669,243,591	552,969,906	10,145,292	1,232,358,789
Accumulated Depreciation				
Balance at beginning of year	305,514,018	246,807,966	7,959,126	560,281,110
Depreciation	24,556,184	114,496,000	1,646,210	140,698,394
Disposals/adjustments	-	(5,698)	(1,533,076)	(1,538,774)
Balance at end of year	330,070,202	361,298,268	8,072,260	699,440,730
Net Book Value	P339,173,389	P191,671,638	P2,073,032	P532,918,059

7. Land at Revalued Amounts

This account consists of:

	2006	2005
Balance at beginning of year	P1,664,382,000	P1,646,385,000
Additions during the year - leased land	174,513,635	-
Revaluation increment for the year	294,611,400	17,997,000
Balance at end of year	P2,133,507,035	P1,664,382,000

Land, at cost, amounted to P1.82 billion and P1.65 billion as of December 31, 2006 and 2005, respectively.



Land includes land currently being used by the Group in its operations, a portion of which is leased out under an operating lease to Rizal Commercial Banking Corporation (RCBC). The land cannot be sold nor leased out under a capital lease separately from the portion of the land used by the Group as an owner-occupied property. As prescribed under PFRS, the entire land is considered and accounted for as an owner-occupied property.

Land also includes land leased from RCBC in 2006. The lease agreement includes a bargain purchase option which serves as the basis for classifying it as finance lease. The Group will purchase the land after 2 years at its fair market value less lease payments made to the lessor as of purchase date. The lease of land started on June 15, 2006 with monthly payments of ₱2.56 million for 10 years, with an escalation rate of 5% per year. At the inception of the lease, the land that was capitalized amounted to ₱174.51 million, which include the security deposit and advance rental amounting to ₱7.70 million. The finance lease liability that was recognized amounted to ₱155.87 million which is the present value of lease payments for 2 years and the bargain purchase option.

8. Other Noncurrent Assets

This account consists of:

	2006	2005
Goodwill	₱137,853,345	₱137,853,345
Deferred tax assets (Note 18)	62,650	53,900
Others (Note 20)	6,379,676	1,183,283
	₱144,295,671	₱139,090,528

Goodwill was acquired through the acquisition of Malayan Colleges, Inc. (formerly Mapua Institute of Technology, Inc.) in December 1999.

9. Loans Payable

This account represents short-term clean loans obtained from a local bank and a related bank which bear interest ranging from 11% to 14% a year.

10. Accounts Payable and Accrued Expenses

This account consists of:

	2006	2005
Accounts payable	₱109,708,062	₱74,066,949
Accrued expenses	134,794,040	104,798,077
Others	169,189,795	128,904,660
	₱413,691,897	₱307,769,686



Accrued expenses consist of:

	2006	2005
Accrued retirement (Note 20)	₱74,153,421	₱69,304,916
Accrued interest	18,566,587	15,891,095
Accrued salaries and wages	9,958,001	6,131,168
Withholding taxes and others	4,971,041	4,768,059
SSS and other contributions	284,600	2,601,492
Others	26,860,390	6,101,347
	₱134,794,040	₱104,798,077

11. Related Party Transactions

Due from related parties consist of amounts receivable from:

	2006	2005
EEI Corporation	₱145,778,388	₱147,714,138
HI	30,374,633	30,564,866
Others	7,691,398	6,862,424
	₱183,844,419	₱185,141,428

EEI Corporation is a subsidiary of HI which is the Group's parent company.

Due from EEI Corporation consists mainly of cash advances with interest rates of 11.5% to 13% per annum due within a year.

Due to related parties consist of amounts payable to:

	2006	2005
RCBC	₱12,445,016	₱24,746,341
HI	8,069,043	-
Others	5,881,950	3,254,733
	₱26,396,009	₱28,001,074

RCBC and the other related parties referred to above are subsidiaries of PMMIC, which is the Group's ultimate parent company.

Due to related parties consist mainly of advances from other parties arising from computer-related services.

The Group also has a long-term debt payable to RCBC which arose mainly from the purchase of land with an unpaid balance amounting to ₱757.97 million and ₱778.59 million as of December 31, 2006 and 2005, respectively (see Note 12).



On October 13, 2006, the Company also obtained a syndicated loan amounting to ₱300.00 million from RCBC and another local bank. The additional loan from RCBC amounted to ₱200.00 million (see Note 12).

As disclosed in Note 7, the Group also entered into a finance lease agreement with RCBC.

Future minimum lease payments under the finance lease are as follows:

Within one year	₱36,747,480
After one year but not more than 5 years	123,412,660
	160,160,140
Less amount representing interest	4,290,599
Present value of minimum lease payments	155,869,541
Less current portion of lease liability	32,812,386
Long-term portion of lease liability	₱123,057,155

The income and expenses with respect to related parties included in the consolidated financial statements are as follows:

	2006	2005	2004
Interest expense (Note 17)	₱85,613,059	₱93,859,367	₱114,474,461
Interest income (Note 17)	23,322,967	34,191,216	29,534,093
Rental income (Note 17)	13,302,448	10,652,314	11,128,163
Computer income	25,714,719	24,468,350	23,629,395

The remuneration of members of key management amounted to ₱3,081,439 in 2006 , ₱2,782,500 in 2005 and ₱2,730,000 in 2004 representing compensation and short-term benefits.

12. Long-term Debt

	2006	2005
Peso-denominated bank loans with interest of 11% in 2006 and 2005 payable in accelerating amounts up to July 31, 2019	₱757,968,750	₱778,593,750
Peso-denominated syndicated bank loan, payable after 10 years with a grace period of 3 years on principal repayment, subject to floating rate equal to the 3-month Fixed Term Note bid yields as quoted in MART1 plus a spread of 2.75% per annum.	300,000,000	—
	1,057,968,750	778,593,750
Less current portion of long-term debt	20,625,000	20,625,000
	₱1,037,343,750	₱757,968,750



As collateral for the ₱757.97 million loan, MCI transferred and conveyed by way of first Mortgage in favor of RCBC and its successors and assigned all its rights and interest in a parcel of land and the improvements, as well as other improvements that may be constructed or installed on the improvements (see Note 11).

On October 13, 2006, MCI amended its Real Estate Mortgage with RCBC and included both Makati and Manila properties of the Company as collateral for their syndicated loan agreement with RCBC (₱200 million) and another local bank (₱100 million) for a total loan amount of ₱300 million.

13. Retained Earnings

The Group's retained earnings is restricted to the extent of the cost of treasury stock amounting to ₱2,732,188. As of December 31, 2006 and 2005, there were 3,551,844 shares held in treasury. As of December 31, 2004, there were 2,732,188 shares held in treasury.

14. Capital Stock

On June 24, 2005, the BOD approved the declaration of 30% stock dividends payable to stockholders of record as of July 22, 2005. The declaration of stock dividends was approved and ratified by the stockholders on the same date.

A reconciliation of the number of common shares outstanding as of December 31, 2006, 2005 and 2004, follows:

	2006	2005	2004
Beginning of the year	748,933,221	576,102,894	573,292,142
Issuance during the year	-	-	2,810,752
Stock dividends	-	172,830,327	-
End of the year	748,933,221	748,933,221	576,102,894

15. Cash Dividends

The BOD declared cash dividends as follows:

	2006	2005	2004
March 16, 2006, 5% cash dividends to stockholders of record as of March 31, 2006, payable on April 28, 2006	₱37,269,069	₱-	₱-
June 29, 2006, 8% cash dividends to stockholders of record as of July 14, 2006, payable on August 9, 2006	59,630,510	-	-
(Forward)	2006	2005	2004



September 7, 2006, 5% cash dividends to stockholders of record as of September 22, 2006, payable on October 18, 2006	₱37,269,069	₱-	₱-
November 9, 2006, 12% cash dividends to stockholders of record as of November 24, 2006, payable on December 20, 2006	89,445,765	-	-
March 14, 2005, 11% cash dividends to stockholders of record as of April 4, 2005, payable on April 28, 2005	-	60,777,228	-
June 24, 2005, 15% cash dividends to stockholders of record as of July 12, 2005, payable on August 5, 2005	-	86,005,653	-
September 2, 2005, 8% cash dividends to stockholders of record as of September 30, 2005, payable on October 24, 2005	-	59,630,443	-
November 24, 2005, 37% cash dividends to stockholders of record as of December 9, 2005, payable on December 23, 2005	-	275,791,242	-
June 25, 2004, 15% cash dividends to stockholders of record as of July 9, 2004, payable on July 9, 2004	-	-	85,993,822
November 8, 2004, 15% cash dividends to stockholders of record as of November 24, 2004, payable on December 17, 2004	-	-	86,415,434
	₱223,614,413	₱482,204,566	₱172,409,256



16. Administrative and General Expenses

This consists of:

	2006	2005	2004
Personnel expenses (Note 19)	₱461,977,040	₱458,809,667	₱446,238,731
Depreciation (Note 6)	122,717,184	140,698,394	107,307,941
Management and other professional fees	91,152,162	86,275,327	83,348,764
Utilities	65,537,088	68,622,971	55,475,741
Student related expenses	54,908,058	48,561,986	51,376,746
Tools and library books	24,967,537	20,070,453	5,619,709
Repairs and maintenance	10,926,134	8,763,408	8,694,508
Office supplies	8,896,388	6,808,711	7,153,082
Seminar	8,354,729	6,227,120	9,571,630
Advertising	7,930,899	5,217,993	2,232,166
Provision for doubtful accounts	6,181,217	1,741,605	1,217,712
Taxes and licenses	6,169,883	3,506,379	4,761,827
Rent	3,905,969	3,810,777	5,141,019
Entertainment, amusement, and recreation	3,721,624	1,536,165	1,661,333
Donations	3,198,154	10,143,397	4,511,874
Insurance	3,029,839	3,415,733	3,871,039
Research and development fund	2,769,838	3,609,471	3,442,795
Transportation and travel	2,524,400	2,011,155	892,472
Accreditation cost	2,131,128	9,932,089	1,528,263
Laboratory supplies	1,901,500	2,370,058	3,579,077
Provision for probable losses	-	-	2,166,665
Others	14,757,146	9,559,440	10,261,786
	₱907,657,917	₱901,692,299	₱820,054,880

17. Other Income and Interest Expense

The components of the Group's other income follow:

	2006	2005	2004
Interest income (Note 11)	₱35,446,488	₱61,681,382	₱77,633,678
Rental income (Note 11)	13,302,448	10,652,314	11,128,163
Gain on derecognition	6,336,404	-	-
Miscellaneous	30,355,410	24,310,866	26,890,924
	₱85,440,750	₱96,644,562	₱115,652,765



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

	2006	2005	2004
Advances to related parties (Note 11)	₱23,322,967	₱34,191,216	₱29,534,093
Short-term investments	12,123,521	27,490,166	48,099,585
	₱35,446,488	₱61,681,382	₱77,633,678

The Group's interest expense consists of interest on the following:

	2006	2005	2004
Advances from related parties (Note 11)	₱85,613,059	₱93,859,367	₱114,474,461
Bank loans	26,155,881	23,740,195	23,678,813
	₱111,768,940	₱117,599,562	₱138,153,274

18. Income Tax

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

	2006	2005
Deferred income tax assets		
Tax effect of accrued retirement expense	₱62,650	₱53,900
Deferred tax liabilities - net		
Tax effect of:		
Revaluation increment in property	₱88,915,363	₱59,454,223
Accrued expenses	(9,276,494)	(5,794,183)
Retirement expense	(5,924,881)	(4,950,742)
Allowance for doubtful accounts	(1,291,300)	(724,950)
Allowance for inventory obsolescence	(85,482)	(85,482)
Unearned rent	-	(1,048,016)
Others	(217,768)	(77,335)
	₱72,119,438	₱46,773,515

The Group did not recognize deferred tax assets on the following temporary differences:

	2006	2005
Tax effect of NOLCO	₱5,890,859	₱4,664,892
MCIT	727,167	703,096
Allowance for doubtful accounts	157,913	121,467
Provision for retirement and others	14,086	2,325,333
Allowance for inventory losses	2,706	2,706
	₱6,792,731	₱7,817,494



Provision for income tax consists of:

	2006	2005	2004
Current	₱37,122,829	₱36,811,062	₱52,143,669
Deferred	(4,123,967)	(11,023,665)	(6,468,925)
	₱32,998,862	₱25,787,397	₱45,674,744

The reconciliation of the provision for income tax computed at the statutory tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2006	2005	2004
Income before income tax at statutory rate	35%	32.50%	32%
Add (deduct) reconciling items:			
Income subject to lower tax rate	(19.30)	(39.73)	(27.96)
Others	(10.12)	15.70	6.02
	5.58%	8.47%	10.06%

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

The details of NOLCO and MCIT as of December 31, 2006 are as follows:

Taxable Year Incurred	NOLCO	MCIT	Expiry Year
2006	₱42,764,120	₱189,294	2009
2005	5,425,974	359,383	2008
2004	5,162,875	178,490	2007
	₱53,352,969	₱727,167	

The 2003 NOLCO and MCIT amounting to ₱10,485,687 and ₱166,931, respectively, expired in 2006.

On October 18, 2005, the Supreme Court has rendered its final decision declaring the validity of Republic Act No. 9337 (new EVAT Law) which included, among others, (a) provisions for the increase in corporate income tax rate from 32% to 35% effective November 1, 2005 and later on reducing the rate to 30% effective January 1, 2009 and (b) the change in allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and 33% beginning January 1, 2009.



19. Personnel Expenses

Details of personnel expenses are as follows:

	2006	2005	2004
Compensation	₱425,468,457	₱434,498,290	₱413,348,508
Retirement benefits (see Note 20)	15,896,531	16,709,167	13,748,516
Miscellaneous benefits	20,612,052	7,602,210	19,141,707
	₱461,977,040	₱458,809,667	₱446,238,731

20. Retirement Plan

The Group has a funded, noncontributory retirement plan (the Plan) for all of its regular employees. The Plan provides for normal, early retirement, death and disability benefits.

The latest actuarial valuation study of the Plan was made on December 31, 2006.

The principal actuarial assumptions used in 2006 and 2005 in determining retirement liability of the Group under the Plan are shown below:

	2006	2005
Discount rate at beginning of year	14%	10%
Expected rate of return on assets	8% - 10%	8%
Future salary increases	6% - 8%	5% - 10%
Discount rate at end of year	8%	14%

The movements in the present value of defined obligation follow:

	2006	2005
Balance at beginning of year	₱134,495,841	₱123,565,238
Interest cost	16,024,431	17,879,890
Current service cost	5,852,468	4,330,990
Benefits paid	(22,629,932)	(22,770,506)
Actuarial losses	2,610,116	11,490,229
Balance at end of year	₱136,352,924	₱134,495,841

The movements in the fair value of plan assets follow:

	2006	2005
Fair value of plan assets at beginning of year	₱52,234,241	₱57,830,890
Expected return on plan assets	4,955,203	5,501,713
Contributions	12,097,549	12,185,743

(Forward)



	2006	2005
Benefits paid	(P22,629,932)	(P22,770,506)
Actuarial gains (losses)	2,640,788	(513,599)
	49,297,849	52,234,241
Allowance for asset ceiling adjustment	-	(1,091,420)
Fair value of plan assets at end of year	P49,297,849	P51,142,821

The Group expects to contribute P10,936,908 to its defined benefit pension plan in 2007.

The major categories of plan assets as a percentage of the fair value of the plan assets are as follows:

	2006 %	2005 %
Cash	1.76	2.57
Investments in shares of stock	97.76	97.89
Receivables and others	0.48	(0.46)
	100.00	100.00

Amounts recognized in the consolidated balance sheets follows:

	2006	2005
Present value of defined benefit obligation	(P136,352,924)	(P134,495,841)
Fair value of plan assets	49,297,849	51,142,821
	(87,055,075)	(83,353,020)
Unrecognized actuarial losses	14,939,123	15,036,050
Net retirement liability	(72,115,952)	(68,316,970)
Retirement asset (classified under other noncurrent assets)	2,037,469	987,946
Retirement liability (classified under accrued expenses)	P74,153,421	P69,304,916

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

	2006	2005	2004
Current service cost	P5,852,468	P4,330,990	P4,703,687
Interest cost	16,024,431	17,879,890	13,920,782
Expected return on plan assets	(4,955,203)	(5,501,713)	(4,875,953)
Actuarial loss recognized	66,255	-	-
Asset ceiling adjustment	(1,091,420)	-	-
	P15,896,531	P16,709,167	P13,748,516



The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled. The actual return on the plan assets amounted to ₱7.6 million and ₱5.0 million in 2006 and 2005, respectively.

Amounts for the current and previous periods are as follows:

	2006	2005
Present value of defined benefit obligation	(₱136,352,924)	(₱134,495,841)
Fair value of the plan assets	49,297,849	51,142,821
Deficit on the plan	(₱87,055,075)	(₱83,353,020)

As of December 31, 2006, experience adjustments on plan liabilities amounted to ₱670,945, while experience adjustments on plan assets amounted to ₱2,640,788.

21. Contingent Liabilities

MCI is facing various labor lawsuits and disputes. These matters include a case filed by the Faculty Association of Mapua Institute of Technology concerning the alleged violation of Collective Bargaining Agreement provisions on the college faculty ranking system and high school salary rate computation.

As allowed under PFRS, certain information was not presented as this may impact the outcome of the cases.

The Group currently does not believe that these proceedings will have a material adverse effect on its financial position and results of operations.

22. Earnings Per Share

Basic earnings per share amounts attributable to equity holders of parent company are computed as follows:

	2006	2005	2004
Net income attributable to equity holders of parent company (a)	₱184,882,037	₱257,583,279	₱400,079,448
Weighted average number of outstanding shares - net of treasury shares (b)*	745,381,377	745,381,377	746,201,033
Earnings per share (a/b)	₱0.2480	₱0.3456	₱0.5362

*2004 balance was adjusted to give retroactive effect on the stock dividends declared in 2005 (see Note 12).

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

23. Acquisition of Pan Pacific Computer Center, Inc. (PPCCI)



On March 29, 2004, the BOD approved the acquisition of 70% of the common shares of PPCCI valued at ₱3,007,505 in exchange for the Parent Company's 2,810,752 common shares. The Parent Company issued 2,810,752 common stock amounting to ₱2,810,752. The difference between the value of the PPCCI common shares and capital stock issued amounting to ₱196,753 was recorded as additional paid-in capital in the stockholders' equity section of the parent company's balance sheet and in the parent company's statements of changes in stockholders' equity. The parties agreed that the effectivity date of the swap agreement is January 1, 2004.

On September 1, 2006, the BOD of PPCCI approved the Company's application with the SEC for an increase in authorized capital stock from ₱6 million (divided into 600,000 shares) to ₱8 million (divided into 800,000 shares) both at ₱10 par value per share. Of the 200,000 increase in PPCCI's capital stock, the Parent Company and the minority shareholders contributed ₱1,400,000 million and ₱600,000, respectively, as additional investment in PPCCI.

24. Acquisition of Malayan High School of Sciences, Inc. (MHSSI)

On October 12, 2004, MCI issued 55,609 preferred shares equivalent to ₱60,987,120 to HI in exchange for 3,500,000 or 100% of common shares in MHSSI, which was a wholly owned subsidiary of HI. The preferred shares are entitled to, among others, cumulative dividends at the rate of average 91-day T-Bill plus two percent payable quarterly in arrears from date of issue and full participation as to distribution of dividends of MCI (see Note 26).

The acquisition resulted in an increase in the land account by ₱72,484,000, deferred tax liability account by ₱12,002,880 and minority interest by ₱60,481,120 in 2004.

25. Minority Interest in the Stockholder's Equity

This represents preferred shareholdings of HI in MCI and common shareholdings of Great Pacific Life Assurance Corporation in PPCCI (see Notes 23, 24, and 26).

26. Due to Preferred Stockholders of a Subsidiary

In 2005, the redeemable convertible preferred shares issued by MCI (a subsidiary) to HI, the Company's parent company (see Note 24), qualified as a compound instrument containing both debt and equity component as defined under PAS 32, *Financial Instruments: Disclosure and Presentation*. The debt component represents MCI's contractual obligation to deliver cash in exchange for the instrument within a period of ten years from the date of issuance, at the option of HI, while the equity component represents the option of HI to convert the instrument to common shares of MCI. Accordingly, MCI obtained the fair value of the debt component from the date of transaction and treated this as a financial liability measured at amortized cost. As of



January 1, 2005, as required under PAS 32, the Group reclassified the debt component of the preferred shares amounting to ₱28.13 million representing the amortized cost of the debt component to due to preferred stockholders of a subsidiary account. The equity component of the preferred shares was recorded as part of the minority interest.

On September 28, 2006, the BOT approved the amendment of the Articles of Incorporation relating to the following changes in the features of the preferred shares:

(a) The preferred shares was amended to state simply that preferred shareholders are entitled to dividends at the rate of average 91-day T-Bill plus two percent. The phrase “payable quarterly in arrears from the date of issue” was deleted. (b) The preferred shares are redeemable at any one time or from time to time, at the option of the Board of Trustees of MCI (no longer at the option of the holders) in accordance with the given formula, and subject to availability of funds.

With the foregoing changes, the preferred shares qualify as equity instruments under PAS 32.

To effect the change, MCI determined the fair value of the equity instruments using the expected future dividends and the prevailing market rate for an equivalent non-redeemable bond as of December 19, 2006, SEC’s approval date for the amended Articles of Incorporation. In accordance with PAS 32, the Company derecognized the financial liability at amortized cost amounting to ₱33.94 million and the equity component of the original feature of the preferred shares amounting to ₱56.92 million and recognized the equity instruments amounting to ₱17.60 million preferred shares at par and ₱66.92 million additional paid-in capital as of December 19, 2006. The difference between the derecognized financial liability and the computed fair value of the liability amounting to ₱6.34 million is recognized as gain from derecognition of due to preferred shareholders in the consolidated statement of income.

Movements in due to preferred stockholders are as follows:

	2006	2005
Balance at beginning of year	₱30,871,325	₱28,134,583
Amortization of discount	3,070,059	2,736,742
Derecognition	33,941,384	—
Balance at end of year	₱—	₱30,871,325

The preferred shares amounting to ₱27.60 million, which is classified as financial liability in 2005, is included in minority interest in 2006.



27. Business Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the basis that is used internally for evaluating segment performance and allocating resources to segments. The Group only operates in one geographical location, thus, no information on geographical segments is presented.

The Company derives its revenues from the following reportable segments:

Information Technology and Education - primarily consists of revenues of MCI, MITC and MHSS in education.

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

Segment assets and liabilities exclude current and deferred income tax assets and liabilities.

Business Segment Data

(Amounts in Millions)

	Information Technology and Education		Others		Elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenues:								
Income from external customers	957	1,195	262	60	-	-	1,219	1,255
Inter-segment income	171	-	165	350	(336)	(350)	-	-
Total Revenues	1,128	₱1,195	427	₱410	(₱336)	(₱350)	1,219	₱1,255
Net Income (Loss)	226	262	313	(4)	(334)	21	205	279
Other Information								
Segment assets	4,038	2,683	1,423	1,546	(1,808)	(1,334)	3,653	2,895
Segment liabilities	2,123	1,500	36	174	(258)	(247)	1,901	1,427
Cash flows arising from:								
Operating activities	400	441	(5)	15	(27)	(18)	368	438
Investing activities	(775)	(190)	213	501	244	(255)	(318)	56
Financing activities	480	(470)	(229)	(513)	(234)	311	17	(672)
Capital Expenditures	106	(52)	7	(116)	209	-	322	(168)
Depreciation and amortization	94	133	6	3	23	5	123	141



28. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, loans payable and long-term debt. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group also has various other financial assets and liabilities such as receivables, available-for-sale securities and accounts payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest risk, liquidity risk, credit risk, and foreign currency risk. The BOD reviews and approves the policies for managing these risks, which are summarized as follows:

Liquidity Risk

The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and service maturing debts. As an inherent part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds and available short-term and long-term credit facilities. As of December 31, 2006 and 2005, the Group has available short-term credit facilities with banks aggregating to ₱940.54 million and ₱788.7 million, respectively.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements in the prevailing exchange rate between the Philippine Peso (PHP) and the United States Dollar (USD). The revenues and the operating expenses of the Group are denominated in PHP. However, the Group maintains certain deposits with banks which are denominated in USD, totaling to US\$3,848 and US\$19,460 as of December 31, 2006 and 2005, respectively.

The Group closely monitors the movements in the USD/PHP exchange rate and makes a regular assessment of future foreign exchange movements, based also, in part, on its analysis of other macroeconomic indicators. The Group then manages the balance of its USD-denominated deposits based on this assessment.

Interest Rate Risk

The Group's exposure to market rate risk for changes in interest rates relates primarily to the Group's short-term and long-term obligations. The Group follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities. The Group also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income.



The following table sets out the carrying amount (in thousands), by maturity, of the Group's financial instruments that are exposed to interest rate risk:

2006							
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	TOTAL
Liabilities:							
Loans payable							
<i>Fixed rate</i>	₱144,802,569						₱144,802,569
Interest rate	11.0% to 14.0%						
Long-term debt	₱20,625,000	₱20,625,000	₱20,625,000	₱20,625,000	₱20,625,000	₱654,843,750	₱757,968,750
<i>Fixed rate</i>	11%	11%	11%	11%	11%	11%	
Interest rate							
<i>Variable rate</i>						₱300,000,000 3-month FXTN based on MART 1 plus 2.75%	₱300,000,000
	₱165,427,569	₱20,625,000	₱20,625,000	₱20,625,000	₱20,625,000	₱954,843,750	₱1,202,771,319

2005							
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	TOTAL
Liabilities:							
Loans payable							
<i>Fixed rate</i>	₱146,536,344						₱146,536,344
Interest rate	11.0% to 14.0%						
Long-term debt	₱20,625,000	₱20,625,000	₱20,625,000	₱20,625,000	₱20,625,000	₱675,468,750	₱778,593,750
<i>Fixed rate</i>	11%	11%	11%	11%	11%	11%	
Interest rate							
	₱167,161,344	₱20,625,000	₱20,625,000	₱20,625,000	₱20,625,000	₱675,468,750	₱925,130,094

Credit risk and Concentration of Assets and Liabilities

The Group's exposure to credit risk on its receivables relates primarily to the inability of the debtors to pay and students to fully settle the unpaid balance of tuition fees and other charges owed to the Group based on the installment payment schemes. The Group manages its credit risk in accordance with its credit risk policies which requires the evaluation of the creditworthiness of the students based on factors such as monthly net disposable income and residence. Students are also not allowed to enroll in the following term unless the unpaid balance in the previous term has been paid. The Group also withholds the academic records and clearance of the students with unpaid balance. The Group's exposure to credit risk on its other receivables from debtors and related parties is managed through close account monitoring and setting limits.

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



	2005	
	Carrying Value	Fair Value
Financial Liabilities		
Current financial liabilities:		
Loans payable	₱146,536,344	₱146,536,344
Accounts payable and accrued expenses	307,769,686	307,769,686
Due to related parties	28,001,074	28,001,074
Dividends payable	4,594,256	4,594,256
Noncurrent financial liabilities:		
Due to preferred stockholders of a subsidiary	30,871,325	30,871,325
Long-term debt (carrying value includes current portion amounting to ₱20,625,000)	778,593,750	820,788,575
	₱1,296,366,435	₱1,338,561,260

Current assets and liabilities

Due to the short-term nature of the current assets and liabilities, the carrying values of these accounts were assessed to approximate their fair values.

Available-for-sale securities

The fair values of quoted equity securities are based on quoted market prices. In the absence of a reliable basis of determining fair values, unquoted equity securities are carried at cost, net of impairment provision.

Noncurrent financial liabilities

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

For fixed rate loans, the fair value is estimated as the present value of all future cash flows discounted using the applicable rates for similar loans.

Lease liability and due to preferred stockholders of a subsidiary

For lease liability and due to preferred stockholders of a subsidiary, the fair value is estimated as the present value of all future cash flows discounted using the applicable rates.

Due to preferred stockholders

Interest on due to preferred shareholders reprices every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.



29. Notes on Statements of Cash Flows

Noncash investing and financing activities are as follows:

2006

- Additional revaluation increment in land (Note 7); and
- Land acquired through finance lease agreement (Notes 7 and 11).

2004

- Acquisition of PPCCI (see Note 23); and
- Acquisition of MHSS (see Note 24).

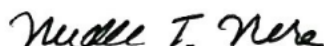


INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of iPeople, inc. and Subsidiaries (the Group) as of and for the year ended December 31, 2006 included in this Form 17-A and have issued our report thereon dated March 15, 2007. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management and presented for purposes of complying with the Securities Regulation Code Rule 68.1 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respect, the financial data required to be set therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Medel T. Nera
Partner
CPA Certificate No. 31835
SEC Accreditation No. 0089-AR-1
Tax Identification No. 113-423-143
PTR No. 0267370, January 2, 2007, Makati City

March 15, 2007



iPeople, inc.

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SCHEDULE A - MARKETABLE SECURITIES- (CURRENT MARKETABLE SECURITIES EQUITY SECURITIES AND OTHER SHORT-TERM CASH INVESTMENTS) FOR THE YEAR ENDED DECEMBER 31, 2006		
	2006	2005
Cash	P 32,279,569	P 50,382,074
Short-term investments	339,081,658	254,240,578
Cash and Cash Equivalents Available for Current Operations	P 371,361,227	P 304,622,652

iPeople, inc. SCHEDULE A.1 - SHORT TERM CASH INVESTMENTS FOR THE YEAR ENDED DECEMBER 31, 2006			
Name of issuing Entity and Association of Each Issued Temporary Cash Investments	Principal Amount	Balance as of December 31, 2006	Value as of December 31, 2006
Malayan Colleges, Inc. (MCI)			
Rizal Commercial Banking Corporation	P 245,528,275	P 245,528,275	P 245,528,275
First Malayan Leasing and Finance Corporation	48,349,997	48,349,997	48,349,997
Philtrust Bank	30,000,000	30,000,000	30,000,000
Mapua Information Technology Center, Inc. (MITC)			
Rizal Commercial Banking Corporation	3,433,356	3,433,356	3,433,356
Malayan Colleges Laguna, Inc.			
Rizal Commercial Banking Corporation	6,001,330	6,001,330	6,001,330
Pan Pacific Computer Center Inc.			
First Malayan Leasing and Finance Corporation	2,212,603	2,212,603	2,212,603
Rizal Commercial Banking Corporation	3,556,097	3,556,097	3,556,097
Total	P 339,081,658	P 339,081,658	P 339,081,658

iPeople, inc. SCHEDULE G - INTANGIBLE ASSETS FOR THE YEAR ENDED DECEMBER 31, 2006						
Description	Beginning Balance	Additions At Cost	Deductions		Other Changes- Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
Goodwill	P 137,853,345	P -	P -	P -	P -	P 137,853,345
						-
						-
						-
						-
	P 137,853,345	P -	P -	P -	P -	P 137,853,345

iPeople, inc. SCHEDULE H - LONG TERM DEBT FOR THE YEAR ENDED DECEMBER 31, 2006				
Name of Issuing Entity and Association of Each Issue	Long Term Debt	Current Portion	Long Term - net of Current Portion	Collateral
Malayan Colleges, Inc. (MCI) Rizal Commercial Banking Corporation Philtrust Bank	₱ 957,968,750 100,000,000	₱ 20,625,000	₱ 937,343,750 100,000,000	Land and other improvements Real properties
TOTAL	₱ 1,057,968,750	₱ 20,625,000	₱ 1,037,343,750	

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SCHEDULE B.1 - BANK LOANS				
FOR THE YEAR ENDED DECEMBER 31, 2006				
Name of Issuing Entity and Association of Each Issue		Principal Amount	Balance as of December 31, 2006	Asset Pledged/Security
Malayan Colleges, Inc. (MCI) East West Bank-Notes		146,330,000	144,647,500	Unsecured
TOTAL		P 146,330,000	P 144,647,500	

iPeople, inc SCHEDULE K - CAPITAL STOCK FOR THE YEAR ENDED DECEMBER 31, 2006						
Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common Stock	2,000,000,000	748,933,221	-	506,066,813	788,174	242,078,234

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SCHEDULE L - SEGMENT REPORTING
FOR THE YEAR ENDED DECEMBER 31, 2006
IN MILLIONS

	Information Technology		Others		Elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenues:								
Income from external customers	957	1,195	262	60	-	-	1,219	1,255
Inter-segment income	171	-	165	350	(336)	(350)	-	-
Total Revenues	1,128	1,195	427	410	(336)	(350)	1,219	1,255
Net Income (Loss)	226	262	313	(4)	(354)	-	185	258
Other Information								
Segment assets	4,038	2,683	1,423	1,546	(1,808)	(1,334)	3,653	2,895
Segment liabilities	2,123	1,500	36	174	(258)	(247)	1,901	1,427
Cash flows arising from:								
Operating activities	400	441	(5)	15	(27)	(18)	368	438
Investing activities	(775)	(190)	213	501	244	(267)	(318)	56
Financing activities	480	(470)	(229)	(513)	(234)	311	17	(672)
Capital Expenditures	106	(52)	7	(116)	209	-	322	(168)
Depreciation and amortization	94	133	6	3	23	5	123	141

iPeople, inc.

SCHEDULE M - AGING OF RECEIVABLES

AS OF DECEMBER 31, 2006

IN MILLIONS

	TOTAL	Current	31 to 60 Days	61 to 90 Days	Over 90 Days
Education and Information Technology	49.57	21.54	5.99	5.16	16.88
Parent and Others	18.41	13.37	0.92	0.48	3.64
TOTAL	67.98	34.91	6.91	5.64	20.52