# CENTRO ESCOLAR UNIVERSITY
Company's Full Name

**9 Mendiola Street**
**San Miguel, Manila**
Company's Address

**735-68-61 to 71**
Telephone Number

**March 31**
Fiscal Year Ending
(Month & Day)

## SEC FORM 17 – A, as Amended
Form Type

**March 31, 2011**
Period Ended Date

–
--------------------------------------------------
(Secondary License Type and File Number)

**cc: Philippine Stock Exchange**

**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17**
**OF THE SECURITIES REGULATION CODE**
**AND SECTION 141 OF THE CORPORATION CODE**

| | |
|---|---|
| 1. For the fiscal year ended | March 31, 2011 |
| 2. SEC Identification Number | 1093 |
| 3. BIR Tax Identification No. | 000-531-126-000 |
| 4. Exact name of issuer as specified in its charter | **CENTRO ESCOLAR UNIVERSITY** |
| 5. Province, Country or other jurisdiction of incorporation or organization | Philippines |
| 6. Industry Classification Code | (SEC Use Only) |
| 7. Address of Principal Office | 9 Mendiola Street, San Miguel, Manila |
| Postal Code | 1005 |
| 8. Issuer's telephone number, Including area code | (02) 735-68-61 |
| 9. Former name, former address and fiscal year, if changed since last report | Not Applicable |

10. Securities registered pursuant to Section 8 and 12 of the SRC, or Section 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| Common Stock | 372,414,400 |

11. Are any or all these securities listed on a stock exchange?

Yes [ √ ] No [ ]

If yes, state the name of such stock exchange and classes of securities listed therein:
Philippine Stock Exchange

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder of 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 twelve (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. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

| | |
|---|---|
| Number of non-affiliate shares as of June 30, 2011 | 372,414,400 |
| Closing price per share as of June 30, 2011 | ₱8.80 |
| Market value as of June 30, 2011 | ₱3,277,246,720 |

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

### Description of Business

### Business Development During the Past Three Fiscal Years (2008-2011)

Centro Escolar University (CEU), an institution of higher learning established in 1907 by Librada Avelino and Carmen de Luna, is committed to the furtherance of its founders' philosophy, *Ciencia y Virtud* (knowledge and virtue), and aims to cultivate the mind, the spirit, and the body for service to God, country and the family. It has ranked among the top ten institutions of higher education in the Philippines.

In pursuit of this philosophy, it seeks to educate students:

1. To develop wholesome values and attitudes;
2. To become intellectually, technologically, and globally proficient in their chosen professions; and
3. To be involved in the promotion of nationalism.

CEU, a stock corporation, was first incorporated in 1932 to exist for 50 years, or until 1982. On March 31, 1982 the corporate life was extended for another 12 years to last until 1994. On March 31, 1994, the Articles of Incorporation was amended extending the life of CEU for another 50 years.

There was no bankruptcy, receivership or similar proceeding that happened to the corporation.

Stock split was approved by SEC on March 31, 2000, effectively reducing the par value from ₱100 to ₱1 per share. PSE correspondingly adjusted the par value on August 3, 2000.

**School Year 2008-2009**

Enrolment and Growth

While a drop in enrolment was anticipated due to the overall economic crisis, CEU managed to maintain its enrolment with only an insignificant decrease of 0.04%. This may be attributed to the favorable enrolment in CEU-Makati campus and the demand for allied health science programs that CEU is known for such as Dentistry, Pharmacy, Medical Technology, Nursing, Hotel and Restaurant Management and Tourism Management courses. In SY 2008-2009, the University had an average total enrolment of 19,362 students for all campuses combined.

Foreign Student Enrollment

CEU is one of the higher education institutions preferred by foreign students for their tertiary education. This school year, there was an increase in the foreign student enrollment of 80.7% compared to the previous school year. The top three countries of origin of foreign students are Iran, Korea and China, with Dentistry and Pharmacy as the favored programs of study.

New Programs and Revised Curricula

An important goal of the University is to strengthen existing academic programs and design new ones. The following new programs will be offered for School Year 2009-2010: the Juris Doctor program to be offered by the newly established CEU School of Law and Jurisprudence and the Master of Information Technology.

Several curricula were revised in response to market needs: the 4-year Bachelor of Science in Accountancy was converted to a 5-year ladderized Bachelor of Science in Accountancy; the Bachelor of Science in Computer Science and Information to Bachelor of Science in Computer Science; the Bachelor of Science in E-Commerce Technology to Bachelor of Science in Information Technology; and, the revision of the Bachelor of Science in Computer Engineering based on the new guidelines issued by the Commission on Higher Education (CHED.)

CEU-Professional and Continuing Education (CEU-PACE)

In response to the need of individuals and organizations for continuing education, CEU established the CEU-Professional and Continuing Education (CEU-PACE) program. Thus, in addition to undergraduate and graduate programs, the University will actively pursue the conduct of training programs that address the lifelong learning needs of professionals and individuals. The review classes for board examinations, including those for repeaters and re-takers, are included in this program.

Performance in Board Examinations

CEU graduates continue to show excellent performance in the PRC Board Examinations: two topnotchers (Pharmacy and Dentistry) and seventeen other top ten placers. The over-all CEU passing percentages of graduates in Nursing, Elementary and Secondary Education, Library Science, Optometry, Pharmacy, Dentistry, Nutrition and Dietetics are all higher than the respective national passing percentages. It is worth noting that Social Work and Dentistry graduates of CEU-Malolos obtained 100% passing percentage. Pharmacy was recognized by the Professional Regulations Commission (PRC) as the third top performing school in the Philippines, while the Nutrition and Dietetics was one of the top five performing schools.

Accreditation and Recognition of Programs

The Federation of Accrediting Agencies of the Philippines (FAAP) certified the recommendation of the Board of Directors of the Philippine Association of Colleges and Universities Commission on Accreditation (PACUCOA) for the Level IV accreditation of the CEU Biology and Psychology programs effective until 2013. CEU is the first university in the Philippines whose Science programs have been accredited at Level IV.

Deregulated Status for Malolos

CEU Malolos was granted deregulated status for a period of five (5) years, from March 11, 2009 to March 30, 2014.

Quality Assurance

The CEU Management System of the Manila and Malolos campuses have been re-assessed and re-certified by the Societe Generale de Surveillance (SGS) as meeting the requirements for ISO 9001:2000. The certification is valid from

November 26, 2008 until November 25, 2011. The University is now preparing for ISO certification of the Makati campus.

CEU as one of the Top 15 Publicly Listed Corporations

The Institute of Corporate Directors (ICD) recognized CEU as one of the top 15 publicly listed corporations with the highest scores in ICD's 2008 Corporate Governance Scorecard, Silver Category. The recognition of the top 15 corporations is a joint undertaking of ICD, Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE) and Ateneo Law School. With this recognition, CEU is recognized as one of the corporations with almost perfect compliance with corporate governance principles and proper practices, and therefore has standards of compliance that match those of other publicly listed corporations in the world. CEU has been included in ICD's Companies Circle.

Faculty Achievements

Dr. Olivia M. Limuaco, Dean of School of Pharmacy, was given the BWL of Hygeian Award as Outstanding Pharmacist for 2009 by the Philippine Pharmacists Association. Dr. Limuaco was recognized for her notable contributions that have helped set the direction of pharmacy education and practice in the Philippines.

Student Achievements

Three CEU students from Business Administration, Computer Science and Information System and Mass Communication were chosen as regional finalists of this year's Ten Outstanding Student of the Philippines-NCR search.

A film produced by CEU junior Mass Communication students won three awards given by the University of the Philippines-Piling Obrang Vidyo (UP-POV) 2009: Viewer's Choice Award, Best Screenplay and Best Editing. CEU has been participating in the UP-POV film-making competitions for the past 3 years and has won awards in the last two years.

A junior Medical Technology student from CEU-Manila placed third among the thirty-four participants from Metro Manila colleges and universities in an On-the-Spot English Skills Challenge held last December 3, 2008 under the auspices of Medical Transcription Industry Association of the Philippines, Inc. (MTIAPI).

A junior Medical Technology student from CEU-Makati was also one of the finalists from among thirty-seven participants in the MTIAPI On-the-Spot Essay Writing Contest.

Mr. Kendrick Nigel Tan, Mr. CEU 2008, and Ms. Julie Ann Velarde, Miss CEU 2008, represented CEU in the search for Mister and Miss University-Philippines. Ms. Velarde got the fourth runner-up title, while Mr. Tan won the Mr.

University-Philippines title and will thereby be the Philippine representative to the Mister University-World competitions to be held in South Korea in October 2009.

Ms. Sherilee Sustiguer, a BS Tourism senior who was the first runner-up in the Search for Miss and Mr. CEU 2008, won the Bb. Turismo Pilipina 2008 title. She will represent the Philippines in next year's Turismo Pilipina International Pageant in Canada, joining other Filipina beauties from overseas Filipino communities all over the world.

Construction of Student Activity Center in Makati Campus

The newly constructed Student Activity Center in CEU Makati-Gil Puyat was inaugurated on April 17, 2009. It serves as a multipurpose hall where Physical Education classes are conducted and used as a venue for relevant University-wide activities and programs.

**School Year 2009-2010**

Enrolment and Growth

In SY 2009-2010, the University had an average enrolment for the first and second semesters of 19,597 students for all campuses. As compared to the previous school year, CEU had an increase in total enrolment of 3.79%. The increase can be attributed to the increase in the freshman enrolment and on the demand in hospitality management and health sciences programs. It is worthy to note that the freshman enrolment increased by 12.09%.

Foreign Student Enrolment

CEU is still the preferred institutions by foreign students for their tertiary education, most especially by the Iranian students for Dentistry and Pharmacy programs. This school year, there was an increase in foreign student enrolment of 49% compared to the previous school year.

New Program/Majors and Revised Curricula

As part of the continuous improvement of the program offerings and commitment to academic excellence, new areas of study were designed to explore additional markets. The new program to be offered for School Year 2010-2011 is the Bachelor of Science in Legal Management. This program will be offered in Manila campus during the first year and in Makati campus for the succeeding years.

The Master of Science in Tourism was revised to the Master of Science in Hospitality Management with majors in Tourism Management, Hotel and Restaurant Management, and Leisure Management. The Master of Science in Dental Education was also revised to Master of Science in Health Education with majors in Dental Education, Medical Technology Education, and Optometry Education. A new major, Financial Analysis, was instituted for the Master of Business Administration program.

Several curricula were revised: Master of Arts major in Applied Linguistics and Special Education, Master of Arts in Teaching, Master of Science in Cosmetic Science and in Bachelor of Arts in Mass Communication

Performance in Board Examination

The outcome of the government licensure examinations is one of the best indicators of the quality of education offered by an academic institution. Thus, topping the board examinations and achieving high passing percentages are important achievements of the University. CEU graduates maintained their excellent performance in the PRC Board Examinations topping the examinations in Dentistry and Social Work. There were sixteen other top ten placers in other licensure examinations. The overall passing percentages of graduates in Dentistry, Social Work, Nursing, Nutrition, Optometry, Pharmacy, Education and Accountancy were all higher than the respective national passing percentages.

It is worth noting that the first batch of Medical Technology graduates of Makati campus obtained 100% passing percentage.

Accreditation and Recognition of Programs

The Commission on Higher Education (CHED) renewed the Autonomous Status of CEU Manila and CEU Malolos. The Federation of Accrediting Agencies of the Philippines (FAAP), upon the recommendation of the Philippine Association of Colleges and Universities Commission on Accreditation (PACUCOA), awarded Institutional Accreditation to CEU, the first institution to be granted such status. CEU was also recognized by the PACUCOA during its 20$^{th}$ Annual General Assembly as the institution with the Highest Number of Level III Accredited Programs in the whole country.

Quality Assurance

CEU continues to maintain its ISO certification under ISO 9001:2000 with Societe Generale de Surveillance as certifying body. The University is preparing for the transition of the standard from the 2000 to the 2008 version.

Part of the continuous improvement of the quality management system of the University is the review of the Manuals of Policies and Procedures for all functions and units.

Faculty Achievements

Dr. Flordeliza Anastacio, Dean of the School of Accountancy and anagement was chosen as a recipient of the Philippine Council of Deans and Educators in Business (PCDEB) Presidential Award. The PCDEB Council of Advisers approved her PCDEB Presidential Award in recognition of her unprecedented accomplishments as president of the organization for SY 2007-2008.

Student Achievements

Hotel and Restaurant Management students participated in the World Food Expo where CEU won several awards in different competitions that were participated in by ten (10) colleges and universities in the Philippines.

Student representatives from the College of Medical Technology participated in the 28$^{th}$ National PAMET-PASMETH Quiz Contest and placed 3$^{rd}$ runner up from among the 23 participating schools.

Students of Dentistry participated in the undergraduate research competition of Philippine Dental Association (PDA) through poster presentations during the 101$^{st}$ Scientific Meeting held last September 24, 2009 at SMC Convention Center. CEU had the most number of researches submitted for the competition. CEU obtained the 1$^{st}$ and 3$^{rd}$ place in the competition.

CEU was among the seven dental schools that participated in the Student Clinicians Research Competition in the 8$^{th}$ Student Clinician Program of Dentsply Philippines held October 9, 2009. CEU Malolos got the 1$^{st}$ place, while CEU Manila got the 2$^{nd}$ place. The CEU Malolos entry was the Philippine entry to the South East Asia Dentsply competition held during the 20$^{th}$ South East Asia Association for Dental Education (SEAADE) at Chiang Mai, Thailand.

CEU Malolos Pharmacy students emerged as Champion in the National Pharmacy Quiz Bee 2009. The contest organized by the Federation of Junior Chapter Philippines Pharmacist Association was held on December 3, 2009 at the UST.

Students of BSHRM participated in the EDEN YUMM Culinary Competition Noche Buena Cook-off and Cheese Sculpture. CEU was the Champion in Cheese Sculpture and Runner-up in Noche Buena Cook-Off.

CEU Malolos HRM students participated in the Regional Culinary Skills Development Competition where they garnered two(2) Gold Medals, four(4) Silver Medals, one(1) Bronze Medal and a Special Award.

Improvement of Facilities and Services

The University is presently upgrading the existing Enrolment Automation and Registration Systems (EARS). The project EARS2 was launched to do the migration of existing EARS database, and expansion of the system to accommodate new requirements in admission, alumni Information and others.

Offices affected by Typhoon Ondoy were refurbished. A Student Center in CEU Makati, Gil Puyat Campus was constructed along with the classrooms, offices and library for the School of Law and Jurisprudence.

**School Year 2010-2011**

In S.Y. 2010-2011, the University had an average enrolment of 20,548 for the first and second semester. The total enrolment in the three campuses both for the 1$^{st}$ and 2$^{nd}$ semesters of school year 2010-2011 increased by 4.28% and 3.2%, respectively as compared to the previous school year. It is worthy to note that the freshman enrolment also increased by 5.23%. The increase in enrolment is in Medical Technology, Pharmacy and Dentistry.

Foreign Student Enrolment

This school year, CEU had an average number of foreign students of 1,304 for the first and second semester. It showed an increased by 57.6% as compared to the previous school year.

CEU has been reported to have the biggest number of foreign students enrolled during the current year. Based on Statistics provided by the Bureau of Immigration showed that 1,066 foreign students are enrolled in CEU, followed by UE with 799, FEU with 573, MCU with 504, DLSU with 396 and Fatima University with 309.

Performance in Board Examination

CEU graduates performed well in the licensure examinations given by the Philippine Regulatory Commission (PRC). They TOPPED in the licensure examinations for Optometry and Pharmacy. There were nineteen other top ten placers in other licensure examinations. All CEU programs with licensure examinations had the overall passing percentages higher than the national passing percentages.

Foreign Certification and Examination

Four (4) graduates of Doctor of Pharmacy from CEU Makati passed the Foreign Pharmacy Graduates Equivalency Exam (FPGEE) given last April 19, 2010 in the United States.

Three (3) students of BSBA Management Accounting of CEU Manila passed the foreign registration and certification examination as Registered Cost Accountant in Australia. One (1) student of BSBA Management Accounting and two (2) BS Accounting students passed the certification examination as Certified Bookkeeper in United Kingdom.

Accreditation and Recognition

CEU was recognized by the Philippine Association of Colleges and Universities Commission on Accreditation (PACUCOA) as the institution with the highest number of Level III reaccredited programs during the 21st National Assembly on December 10, 2010.

The Pharmacy program was granted Level IV Accreditation, the highest accreditation level of PACUCOA. CEU is the first and only HEI with Level IV accreditation in Pharmacy. On the other hand, the Nursing and Social Work programs were granted Level II Re-accreditation for five years from the Philippine Accrediting Association of Schools, Colleges and Universities (PAASCU).

International Linkages

CEU signed a cooperative agreement with Daegu Health College in South Korea for student and faculty exchange in the areas of Dentistry, Optometry and Medical Technology. There were nine (9) CEU students who went to Daegu Health College for their internship and clinical practice. On the other hand, on February 2011, there were nine (9) students from Daegu Health College visited CEU and had their internship.

Quality Assurance

CEU's commitment to quality management system was fulfilled through the ISO certification. On October 2010, CEU Manila and Malolos campuses underwent external audit of the academic and support functions by the Societe Generale de Surveillance (SGS). The audit was based on the new version of ISO standards, thus, a transition of the certification from ISO 9001: 2001 to ISO 9001:2008. in addition, CEU Makati is now included in the certification.

As part of the continuous improvement, the manuals of Policies and Procedures for all functions and units were revised.

Faculty Achievements

Dr. Olivia Limuaco, Dean of School of Pharmacy has been elevated to Council of Advisers for 2010 by the Philippine Organization of Colleges of Pharmacy, while Dr. Cecilia Santiago, program head of Pharmacy in Malolos was elected as treasurer of Philippine Association of Colleges of Pharmacy.

Dr. Charito Bermido, Dean of the College of Medical Technology was again elected to the Philippine Organization of Schools of Medical Technology and Public Health, Inc. (PASMETH) Board as Internal Vice-President.

Dr. Lolita Pablo, Head of the CEU Community Outreach Department was elected National President of the Philippine Association of Social Workers, Inc., the national organization for professional social workers and the sole accredited professional organization by the PRC.

Student Achievements

CEU 2010 graduate won first place in the Food and Nutrition Research Institute, Dept. Of Science and Technology (FNRI-DOST) Undergraduate Student Research Competition, Nutrition Category for their research entitled "The Feasibility of Producing Siopao with the Extract of the Leaves and Fruits of Ampalaya (Momordica Charantia)". The undergraduate research competition was part of FNRI-DOST's 36$^{th}$ Annual Seminar Series, which had the theme "Pagkaing Tama at Sapat, Kalusugan para sa Lahat".

CEU Malolos won first place in the 8$^{th}$ Annual Dentsply Student Clinician Program Search for the Best Research. The competition was open to all schools and colleges of dentistry. Other universities competing in the finals were UP, UE, University of Baguio and Our Lady of Fatima University. The CEU team represented the Philippines in the South East Asia Association of Dental Education Annual Scientific Meeting in Chiang Mai, Thailand.

The undergraduate research of the CEU School of Dentistry entitled " Chico (Achras sapota Linnaeus) sap preparations as possible alternative to thermoplasticized gutta percha in root canal theraphy" won 3$^{rd}$ place in the IADR-SEA/Dentsply Student Clinician Competition held at Taipei, Taiwan on September 19, 2010.

CEU joined the "Discover Israel 2010 College Quiz" organized by the Embassy of Israel in Manila. CEU hosted the qualifying exam last September 14, 2010. Ten (10) CEU students qualified in the semi-final round. The semi-final round was held in De La Salle University with one (1) CEU student qualified for the final round.

The CEU School of Accountancy and Management (SAM) won the second place in the 4th National Business Ideas and Development Award (BIDA) 2010 sponsored by the Philippine Chamber of Commerce and Industry. The recognition was given to CEU-SAM for outstanding ideas in entrepreneurship and creativeness of the students under the non-food category.

The Hotel and Restaurant Management students joined the 2nd Umami Culinary Challenge held on January 21, 2011. CEU HRM student won as Umami Master (Master Chef) in the said competition. The culinary challenge was participated by more than 23 universities and schools that other offer HRM and Culinary programs. CEU students also won in the following categories: 3rd Place Umami Buzz, 3rd Place Bento Box and 3rd Place Best Ginisa Dish.

The School of Nutrition and Hospitality Management (SNHM) got the GOLD trophy in the recently concluded National Skills Olympics by the Union of Filipino Tourism Educators. CEU has been the over-all champion of the skills competition for three consecutive years. The Intercollegiate Culinary Challenge 2011 was held on February 28 to March 1, 2011 at the World Trade Center. Students from SNHM participated in the competition and got the following awards: Bronze Medalist in Creative Filipino Merienda and finalist in Modern Team Challenge and Great Adobo Challenge.

The students got a diploma in the Traditional Filipino Market Basket contest. They were chosen finalists in Filipino Set-Menu and Asian Dessert categories

**Business of Issuer**

Centro Escolar University is one of the country's largest and most respected higher educational institutions for over 100 years.

CEU caters to the B and C class of the population and as such its competitors are UST, UE and FEU.

Three programs in CEU-Manila has Level 4 accredited status. Eleven programs in CEU-Manila and three in CEU-Malolos are enjoying level 3 accredited status. Two programs in Mendiola are on Level 2 accredited status. The summary is as follows:

| Accredited College/School Programs | Accrediting Agency | Accreditation Level | Expiry Date |
|---|---|---|---|
| CEU-MENDIOLA | | | |
| BS Pharmacy | PACUCOA* | Accredited Level 4, 2011 | March 2016 |
| Bachelor of Arts | PACUCOA | Re-accredited Level 3, 2006 | April 2011 |
| BS Elementary Education | | | April 2011 |
| BS Secondary Education | | | April 2011 |
| BS Commerce | | | April 2011 |
| BS Nutrition and Dietetics | | | April 2011 |
| Doctor of Dental Medicine | | | April 2011 |
| Doctor of Optometry | | | April 2011 |
| BS Social Work | PAASCU** | Re-accredited Level 2, 2011 | May 2016 |
| BS Nursing | PAASCU | Re-accredited Level 2, 2011 | May 2016 |
| BS Medical Technology | PACUCOA | Re-accredited Level 3, 2007 | June 2012 |
| Graduate School<br>- Master of Arts | PACUCOA | Re-accredited Level 3, 2007 | November 2012 |
| - Master of Business Administration | | | November 2012 |
| - Master of Science | | | November 2012 |
| B.S. Biology<br>B.S. Psychology | PACUCOA | Accredited Level 4, 2008 | October 2013 |
| CEU-MALOLOS | | | |
| Liberal Arts Program | PACUCOA | Re-accredited Level 3, 2009 | April 2014 |
| Business Administration Program | | | April 2014 |
| Science Program | | | April 2014 |
| FULL AUTONOMY GRANT TO CENTRO ESCOLAR UNIVERSITY | CHED*** | | November 2012 |

Level 4 status granted by PACUCOA to the Science program (BS Biology and BS Psychology) is certified by the Federation on Accrediting Agencies of the Philippines (FAAP).

CEU was awarded as the first science program to be granted a level 4 across the country.

CEU also is the first Higher Educational Institution to receive institutional accreditation as certified by FAAP.

CEU was awarded for having the highest number of Level III re-accredited programs as well as for having the First Science Program granted Level 4 accredited status in the country during PACUCOA's 35th Anniversary Assembly in December 2008 at the Diamond Hotel, Manila.

*Philippine Association of Colleges and Universities Commission on Accreditation (PACUCOA)
**Philippine Accrediting Associations of Colleges and Universities (PAASCU)
***Commission on Higher Education (CHED)

The University entered into a 25-year lease contract with Philtrust Bank on July 29, 2004. The lease covers the use of Philtrust Bank's land, building and improvements thereon located at 259-263 Sen. Gil Puyat Avenue and Malugay Street, Makati City. The lease commenced on January 1, 2005 for the operation of the CEU-Makati Extension Campus for school year 2005-2006.

CEU complies with environmental laws. Its buildings are inspected regularly by the Office of the Mayor of Manila for sanitation and other safety measures, and the University pays the corresponding regulatory fees.

CEU has 1,168 employees, 829 of whom are faculty members and 339 are non-teaching staff. The University expects to hire approximately 20 additional employees within the ensuing 12 months to accommodate its expansion program. Of the total number of employees, 66 have administrative functions and are not subject to Collective Bargaining Agreement (CBA). The latest CBA expires in 2013. There have been no strikes in the past 3 years. Aside from basic salary and legally mandated benefits and bonuses, CEU employees receive incremental proceeds and retirement benefits under the University's non-contributory retirement plan.

CEU offers comprehensive training and development through its wide variety of college and graduate courses in the fields of Commerce, Science and the Arts, such as Dentistry, Optometry, Music, Public Administration and Education which together with the other programs and courses have been granted Levels 2 and 3 Accredited Status by the Philippine Association of Colleges and Universities Commission on Accreditation (PACU-COA) and the Philippine Accrediting Association of Schools, Colleges and Universities (PAASCU) as certified by the Federation of Accrediting Agencies of the Philippines (FAAP).

The Level IV accreditation of its Science program and the Level III accreditation status of its 15 programs certifies that CEU has met the FAAP's stringent requirements specifically, (a) reasonably high standard of instruction as manifested by the quality of its teachers, (b) highly visible community extension programs, (c) highly visible research tradition, (d) strong staff development, (e) highly creditable performance of graduates in licensure examinations, and (f) existence of working consortia or linkages with other schools/agencies.

The University is recognized for its specialization in the fields of Dentistry, Medical Technology, Nursing, Education, Nutrition, Optometry, Pharmacy and Business education.

### Contribution of Product Services to Revenues

| College | 2008-2009 | 2009-2010 | 2010-2011 | Total |
|---|---|---|---|---|
| Liberal Arts | ₱26,176,016 | ₱24,955,522 | ₱24,416,641 | ₱75,548,179 |
| Science | 60,971,347 | 32,432,070 | 23,673,662 | 117,077,079 |
| ACS | 80,256,980 | 60,889,556 | 73,154,595 | 214,301,131 |
| Dentistry | 42,989,647 | 89,672,448 | 114,546,597 | 247,208,692 |
| Education | 2,293,895 | 2,345,557 | 5,762,969 | 10,402,421 |
| Medical Tech. | 19,097,707 | 32,975,194 | 43,525,882 | 95,598,783 |
| Music | 418,120 | 966,235 | 1,190,792 | 2,575,147 |
| Nursing | 132,405,627 | 95,994,144 | 70,486,607 | 298,886,378 |
| Nutrition/HE/Tourism/HRM | 155,198,455 | 150,734,534 | 171,204,431 | 477,137,420 |
| Optometry | 8,216,597 | 8,971,866 | 9,718,711 | 26,907,174 |
| Pharmacy | 41,079,864 | 56,984,797 | 88,336,837 | 186,401,498 |
| Social Work | 1,342,993 | 1,328,299 | 1,248,586 | 3,919,878 |
| Graduate School | 4,706,616 | 6,980,933 | 8,285,871 | 19,973,420 |
| Law | | 827,871 | 1,633,927 | 2,461,798 |
| | ₱575,153,864 | ₱566,059,026 | ₱637,186,108 | ₱1,778,398,998 |

### Tuition Fee Increase

For SY 2008-2009, there was an increase of 7% in tuition fee.

For SY 2009-2010, there was no increase in tuition fees and miscellaneous fees except for laboratory materials 15% to 20%.

For SY 2010-2011, there was no increase in tuition fees and miscellaneous fees except for laboratory materials and equipment use fee which increased by 15% to 20%.

### Effect of Government Regulation with Respect to Increase in Tuition Fees

The Commission on Higher Education (CHED) promulgates guidelines to be followed by Higher Educational Institutions (HEIs) intending to increase their tuition and other fees. The guidelines provide, among others:

> "A Certificate of Intended Compliance (COIC) stating that (70%) of the proceeds to be derived from the tuition fee increase shall be used for the payment of the salaries, wages, allowances and other benefits of its teaching and non-teaching personnel and other staff x x x.
>
> "The 20% shall go to the improvement of the following:
>
> 1. Modernization of buildings
> 2. Equipment
> 3. Libraries
> 4. Laboratories

5. Gymnasium and similar facilities and
6. Payment of other cost of operations.

"Only 10% is left for return on investment."

The University has consistently distributed 70% of the increase in tuition fees to its employees on a semestral basis. The 70% increase in tuition fees is distributed in the form of the benefit known as incremental proceeds, employee development programs, and other benefits.

The University regularly spends on capital expenditures to improve its facilities. These expenditures are sourced from internally-generated funds and generally exceed the allotted 20% of the tuition fee increase for the year.

Except for competition from other schools and universities, the rising cost of goods and materials and adverse economic situation which can affect operational costs and enrollment figures, there are no other major risks involved in the business of the University.

**Item 2. Properties**

CEU's main campus site, which houses 13 buildings, is located on a two-hectare prime real estate in Mendiola, Manila. Its campus in Malolos, Bulacan is located on a seven-hectare property along McArthur Highway.

The properties in Manila campus are covered by TCT Nos. 11919, 69761, 76251, 76252, 76253, 92437, 99602 and 171233. The Malolos property is covered by TCT No. T87162.

The University has no property that is subject to any mortgage, lien or encumbrance.

In connection with the establishment of CEU-Makati Campus, the University has been leasing the Philtrust Bank Building since 2004 for ₱2M fixed rental per month for 25 years plus a percentage of the annual income for its CEU-Makati, Gil Puyat Campus.

Pursuant to the authority granted by the Board of Directors and as part of the University's expansion program for CEU-Makati Campus, the University purchased on July 5, 2006 Seaboard Centre Condominium on Esteban Street, Legaspi Village, Makati City on installment basis through internally generated funds. The CEU-Makati, Legaspi Village Campus is covered by CCT Nos. 99424, 99167, 99410, 99425, 99426, 99427, 99411, 99428, 99429, 99430, 99431, 99432, 99168, 99408, 99169, 99170, 99433, 99434, 99435, 99436, 99437, and 99438.

**Item 3. Legal Proceedings**

CEU is not a party nor is any of the University's principal properties subject to any pending legal proceeding that could be expected to have a material adverse effect on the results of its operations.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

**Item 5. Market for Issuer's Common Equity and Related Stockholder Matters**

Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

**Market Information**

The University's common equity is traded at the Philippine Stock Exchange. Following are the high and low prices for each quarter within the last two (2) fiscal years:

| | | High | Low |
|---|---|---|---|
| Fiscal Year Ended 2010 | | | |
| April 2009 – June 2009 | First Quarter | ₱ 6.30 | ₱ 5.70 |
| July 2009 – September 2009 | Second Quarter | 9.50 | 6.10 |
| October 2009 – December 2009 | Third Quarter | 9.40 | 7.80 |
| January 2010 – March 2010 | Fourth Quarter | 9.00 | 8.00 |
| Fiscal Year Ended 2011 | | | |
| April 2010 – June 2010 | First Quarter | ₱ 10.00 | ₱ 8.50 |
| July 2010 – September 2010 | Second Quarter | 10.25 | 8.60 |
| October 2010 – December 2010 | Third Quarter | 9.40 | 8.40 |
| January 2011 – March 2011 | Fourth Quarter | 9.20 | 8.65 |

The closing price per share of the University's common shares as of June 30, 2011 was ₱8.80.

**Holders**

As of June 30, 2011, there was a total of 1,044 common shareholders. The name of the top twenty (20) shareholders and the number of shares and the percentage of total shares outstanding held by each are as follows:

| Stockholder | | Number of Common Shares Held | Percentage of Total Shares (%) |
|---|---|---|---|
| 1. | USAUTOCO, INC. | 126,620,891 | 34.0000 |
| 2. | PCD Nominee Corp. – Filipino | 56,448,171 | 15.1574 |
| 3. | U.S. Automotive Co., Inc. | 55,824,195 | 14.9898 |
| 4. | Southville Commercial Corp. | 29,686,293 | 7.9713 |
| 5. | Jose M. Tiongco | 13,439,614 | 3.6088 |
| 6. | Corazon M. Tiongco | 10,107,793 | 2.7141 |
| 7. | Erlinda T. Galeon | 9,252,982 | 2.4846 |
| 8. | Generosa T. Cabrera | 9,190,225 | 2.4677 |
| 9. | Marie T. Sands | 9,186,138 | 2.4666 |
| 10. | Security Bank Corp. TA#1090 | 8,072,299 | 2.1676 |
| 11. | Fredrick C. Ong | 1,250,000 | 0.3356 |
| 12. | Soledad T. Inducil | 901,762 | 0.2421 |
| 13. | Emma de Santos Oboza | 758,190 | 0.2036 |
| 14. | Alicia de Santos Villarama | 758,190 | 0.2036 |
| 15. | Trinidad V. Javellana | 713,666 | 0.1916 |
| 16. | Jose Hontiveros | 650,107 | 0.1746 |
| 17. | Manuel M. Paredes | 650,107 | 0.1746 |
| 18. | Amado R. Reyes | 650,107 | 0.1746 |
| 19. | Conrado Sanchez, Jr. | 650,000 | 0.1745 |
| 20. | Ma. Alexa J. Intengan | 634,621 | 0.1704 |

There are no transactions that relate to an acquisition, business combination or other reorganization which will affect the amount and percentage of shareholdings of any of the University's directors, officers (as a group) or any person owning more than 5% of the University's outstanding capital stock.

**Dividends**

Dividends declared for the two most recent fiscal years, i.e., Fiscal Year ended March 31, 2010 and Fiscal Year ended March 31, 2011, are as follows:

Fiscal Year Ended March 31, 2010
(April 1, 2009 – March 31, 2010)

1. Cash dividend of ₱0.25 per share was declared on April 24, 2009 in favor of stockholders of record as of May 11, 2009, payable on June 4, 2009.

2. Cash dividend of ₱0.25 per share was declared on June 26, 2009 in favor of stockholders of record as of July 10, 2009, payable on August 5, 2009.

3. Cash dividend of ₱0.30 per share was declared on July 31, 2009 in favor of stockholders of record as of August 14, 2009, payable on September 9, 2009.

4. Cash dividend of ₱0.20 per share was declared on August 28, 2009 in favor of stockholders of record as of October 2, 2009, payable on October 28, 2009.

Fiscal Year Ended March 31, 2011
(April 1, 2010 – March 31, 2011)

1. Cash dividend of ₱0.75 per share was declared on June 25, 2010 in favor of stockholders of record as of July 12, 2010, payable on August 2, 2010.

Dividends shall be declared only from retained earnings.

There are no restrictions that limit the ability to declare dividends on common equity.

**Recent Sales of Unregistered or Exempt Securities**

The University did not sell any unregistered or exempt securities in the past three (3) years.

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

**Financial Performance**

Tuition and Other School Fees increased by 3.23% to ₱1,342,181,789 from the previous year's ₱1,300,154,119 and 6.73% increased from ₱1,257,457,686 in 2008. This account consists of Tuition Fees, Miscellaneous Fees, and Income from Other School Services. Miscellaneous fees are comprised of fees for electricity, registration materials, miscellaneous classroom expenses, laboratory materials diplomas and certificates, ID cards, and various collections for specific items or activities. Income from Other School Services consist of audio-visual fees, testing materials, computer materials, and the like. Interest income were reported at ₱6,048,014 in 2011 and ₱6,889,836 in 2010.

The total revenues increased to ₱1,374,087,093 in 2011 from ₱1,334,404,794 last year and ₱1,305,190,080 in 2009. While the Operating Expenses were reported at ₱1,151,994,852 in 2011 from ₱1,016,055,482 last year and ₱998,596,267 in 2009.

Net income of the University for 2011 was ₱199,162,376 from ₱285,748,081 last year and ₱275,799,856 in 2009.

The University is optimistic that a considerable increase in net income can be achieved in view of the good first semester enrollment, implementation of the 3% increase in tuition and other fees and 2012 is not a CBA year.

**Financial Condition**

The University reported a healthy cash position as of March 31, 2011. Cash and cash equivalents were at ₱259,576,548 as compared to last year's balance of ₱252,034,028 and ₱356,515,473 in 2009. Tuition and other receivables were at ₱19,090,579 as compared to ₱16,380,785 last year and ₱16,921,815 in 2009. The University's receivables consist of tuition receivables, advances to contractors and suppliers, interest receivables, and employee and lessee receivables (classified as Other Receivables). There are no receivables from unconsolidated subsidiaries or related parties

Inventories, consisting of materials, uniforms and supplies, were at ₱6,737,498. Other current assets, which consist largely of Advances to Suppliers and Contractors, stood at ₱10,993,171.

Available for Sale (AFS) Investments had a market value of ₱583,568 as compared to ₱588,764 last year.

The current assets of the University as of fiscal year ended March 31, 2011 were ₱296,397,796 as compared to ₱306,876,059 for March 31, 2010.

Property and Equipment were reported at ₱2,925,394,710 from ₱2,934,467,902 last year.

Total non-current assets were at ₱2,925,978,278 and Total Assets were at ₱3,222,376,074 at the end of the fiscal year.

Accounts payable and accrued expenses increased to ₱177,547,722 from ₱135,160,681 last year and ₱98,093,198 in 2009. Dividends payable were at ₱68,628,460 compared to ₱60,979,347 last year and ₱47,147,996 in 2009. The current portion of the long-term liability due to the building acquisition was ₱40,000.00 and the income tax payable decreased to ₱8,133,753 from ₱15,781,808 last year and ₱14,315,951 in 2009. Total current liabilities were at ₱294,309,935 at fiscal year end.

Total non-current liability as of March 31, 2011 increased to ₱479,835,078 from ₱461,626,207 last year and ₱429,106,681 in 2009. The long-term liability of ₱148,308,283 reflects the present value of the installment payments due on the acquired Seaboard Building. Because schools are allowed to claim 10% of its capital expansion as an advanced tax credit, it can no longer claim the depreciation on these capital assets as tax deduction. Instead, the unamortized portion of these tax credits are lodged under deferred tax liability, and is amortized yearly in congruence with the depreciation of the capital assets. Deferred tax liabilities were at ₱222,994,425. Retirement liability refers to the portion of the Retirement Fund that needs to be funded over the course of the expected working lives of the employees. As of March 2011, retirement liability was at ₱108,532,370.

The University's stockholder's equity stood at ₱2,448,231,061 as of March 2011 as compared to ₱2,528,384,682 in March 2010.

**Key Performance Indicators**

| Key | 2011 | 2010 | 2009 | Manner of Computation | Significance |
|---|---|---|---|---|---|
| Revenue Growth | 3.23% | 3.40% | 5.43 % | Difference between current and last year's tuition and other school fees divided by last year's revenues | Measures Revenue growth |
| Return on Revenue | 14.84% | 22% | 22% | Net income divided by Tuition and other school fees | Shows how much profit is derived from every pesos of tuition and other school fees |
| Dividend Pay-out Ratio | 140.24% | 130% | 93% | Dividends divided by net income | Indicates how earnings support dividend payment |
| Return on Equity | 8.93% | 12% | 12% | Net profit divided by average total stockholder's equity | Measures extent of profit earned |
| Return on Assets | 6.87% | 9.34% | 9.6% | Net profit divided by average total assets | Measures use of assets to generate income |

**Liquidity**

The University relies on internally generated cash to fund its working capital needs, capital expenditures and cash dividends.

Cash flows provided by operating activities were at ₱401,779,265 for fiscal year ended March 31, 2011 as compared to cash flows provided by operating activities of ₱417,580,841 for the previous fiscal year and ₱415,027,132 in March in 2009.

Cash used in investing activities was ₱82,489,968 during fiscal year ended March 31, 2011, as compared to cash used in investing activities of ₱119,387,150 during fiscal year ended March 31, 2010 and ₱76,362,430 in March 31, 2009.

Cash used in financing activities was at ₱311,661,687 during the current fiscal year. This was primarily used for the payment of dividends as well as the payment of the loan installment for the purchase of the CEU-Makati Legaspi Village building. Cash used for financing activities was at ₱398,583,049 for fiscal year ended March 31, 2010 and ₱333,995,690 in fiscal year ended March 31, 2009.

The University has a current ratio of 1.007 to 1; that is, its current assets of ₱296,397,796 is more than its current liabilities of ₱294,309,935. Its cash levels adequately meet all short-term liabilities, operating expenses and capital expenditures for the year.

**Segment Reporting**

The University operates in four geographical segments – Mendiola, Malolos, Makati-Gil Puyat and Makati-Legaspi campus. The financial information on the operations of these segments are disclosed in terms of segment assets, segment property and equipment (net), segment liabilities, segment revenues, operating expenses and net income/loss.

The segment report is included in Note 19 of the financial statements.

**Known Trends**

**Effect of Government Regulation with Respect to Increase in Tuition Fees**

The Commission on Higher Education (CHED) promulgates guidelines to be followed by Higher Education Institutions (HEIs) intending to increase their tuition and other fees. Notable among them follows:

> “A Certificate of Intended Compliance (COIC) stating that (70%) of the proceeds to be derived from the tuition fee increase shall be used for the payment of the salaries, wages, allowances and other benefits of its teaching and non-teaching personnel and other staff xxx.
>
> “The 20% shall go to the improvement of the following:
>
> 1. Modernization of buildings
> 2. Equipment
> 3. Libraries
> 4. Laboratories
> 5. Gymnasium and similar facilities and
> 6. Payment of other cost of operations.
>
> “Only 10% is left for return on investment.”

**Education Trends**

For School year 2009-2010, the University registered upward trends in Dentistry, Pharmacy and Medical Technology while nursing course started to experience downward enrollment due to lesser demand in the United States and United Kingdom.

Currently, there are no known trends, events, or uncertainties that have a material impact on the University's liquidity.

The Registrant does not know of any event that will trigger any direct or contingent financial obligation that may be material to the company, including default or acceleration of an obligation.

There are no known material off-balance sheet transactions, arrangements, or obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

All income is derived from the normal course of operations or through interest income on money market placements. There are no significant elements of income or loss.

**New Accounting Standards**

The University presented its consolidated financial statements to comply with accounting principles generally accepted in the Philippines (Philippine GAAP) as set forth in Philippine Financial Reporting Standards (PFRS). New and revised accounting standards, consisting of Philippine Accounting Standards (PAS) and PFRS became effective for financial reporting purposes.

The transition to PFRS in 2006 resulted in certain changes to the University's previous accounting policies. The comparative figures for the 2005 financial statements were restated to reflect the changes in policies except those relating to financial instruments. The standards adopted were: PAS 16, *Property and Equipment;* PAS 19, *Employee Benefits;* PAS 21, *Effects of Changes in Foreign Exchange Rates;* PFRS, Operating Segments; and PAS 39, *Financial Instruments: Recognition and Measurement.*

The University has also adopted the following other PFRS, which did not materially affect the University's financial position and results of operation: PAS 1, *Presentation of Financial Statements*; PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; PAS 10, *Events After the Balance Sheet Date*; PAS 16, *Property, Plant and Equipment*; PAS 17, *Leases*; PAS 24, *Related Party*

*Disclosures*; PAS 32, *Financial Instruments: Disclosure and Presentation*; and, PAS 33, *Earnings Per Share*. The comparative presentation and disclosures have been amended as required by these standards. Adoption of these standards has no effect on equity as of April 1, 2004 and March 31, 2005.

The consolidated financial statements include the financial statements of the University and its wholly owned subsidiary namely the Hospital, which were incorporated in the Philippines (collectively referred to as the Group).

The financial statements of the Hospital are prepared for the same reporting year as the University.

Subsidiary is consolidated when control is transferred to the Group and ceases to be consolidated when control is transferred out of the Group. Control is presumed to exist when the University owns more than 50% of the voting power of an entity unless in exceptional cases, it can be clearly demonstrated that such ownership does not constitute control. The consolidated financial statements are prepared using uniform accounting policies for the like transactions and other events in similar circumstances. All intercompany balances and transactions, intercompany profits and unrealized gains and losses have been eliminated in the consolidation.

For 2011, the accounting policies adopted are consistent with those of the previous year except for the adoption of the following new and amended Philippine Accounting Standards (PAS), Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) and PFRS mandatory for financial years beginning on or after January 1, 2010:

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new and amended standards, interpretations and improvements to PFRS mandatory for financial years beginning on or after January 1, 2010. These new and amended standards interpretations and improvements to PFRS did not have any impact on the accounting policies, financial position or performance of the Group.

*New and Amended Standards and Interpretations*

PFRS 2 (Amendment), *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
PFRS 3, (Revised), *Business Combinations*, and Philippine Accounting Standard (PAS) 27 (Amended), *Consolidated and Separate Financial Statements*
PAS 32 (Amendment), *Financial Instruments: Presentation- - Classification of Rights Issues*

PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 17, *Distributions of Non-cash Assets to Owners*

*Improvement to PFRS in 2008*

- PFRS 5, *Non-current Assets held for Sale and Discontinued Operations*

*Improvement to PFRS in 2009*

- PFRS 2, *Share-based Payment*
- PFRS 5*, Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

Future Changes in Accounting Policies

Standards or interpretations issued but are not yet effective up to date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt these standard and interpretation when they become effective. Except as otherwise stated, the Group does not expect the adoption of these new standards and interpretations to have significant impact on its consolidated financial statements.

- PAS 12 (Amendment), Income Taxes – *Deferred Tax: Recovery of Underlying Assets*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of An asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

- PAS 24 (Amended), *Related Party Disclosures*

The amended standard is effective for annual period beginning on or after January 1, 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The amended standard introduces a partial exemption from disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

●PFRS 7 (amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*
The amendments to PFRS 7 are effective for annual period beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of the report period.

●PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the second quarter of 2011.

●Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC 14 is effective for annual period beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

●Philippine Interpretation IFRIC 15, *Agreement for the Construction of Real Estate*
This Interpretation, effective for annual periods on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualified as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

●Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are

measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

*Improvements to PFRS in 2010*

Improvements to IFRS are omnibus to amendments to PFRS. The amendments listed below have not yet been adopted by the Group as these will become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Group expects the adoption of these improvements to have no significant impact on the financial statements.

●PFRS 3, *Business Combinations*
●PFRS 7, *Financial Instruments: Disclosures*
●PAS 1, *Presentation of Financial Statements*
●PAS 27, *Consolidated and Separate Financial Statements*
●Philippines Interpretations IFTRIC 13, *Customer Loyalty Programmes*

The Registrant has no knowledge of any seasonal aspects that had a material effect on the financial condition or results of the operations.

The University engaged the services of Sycip Gorres Velayo & Co. (SGV) in SY 2007-2008 to undertake the external quality assessment review of its internal audit activity in compliance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA), specifically Standard 1312 - External Assessments. The purpose of said external quality assessment review was to determine and, as appropriate, to improve the internal audit activity's compliance with ISPPIA.

SGV completed the external quality assessment review of the University's internal audit activity last January 28, 2008 and rendered the overall opinion that "the internal audit activity of CEU *Partially Complies* to the Standards. 'Partially Complies' means that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organization."

The audit was completed in the last fiscal year and the University is committed to move in the direction of the risk-based auditing process. The plan will be set forth by the University's Quality Management Systems Group along with the Internal Audit Department.

**Item 7. Financial Statement**

The audited financial statements and supplementary schedules to the financial statements duly submitted to BIR* are attached as Exhibit 1 hereto.

**Item 8. Changes in and Disagreements with External Accountants on Accounting and Financial Disclosure**

**1. External Audit Fees and Services**

**Audit Fees and Related Fees**

In 2011 and 2010, the University paid ₱715,000, VAT exclusive, for each year, to Sycip Gorres, Velayo and Co. (SGV) for the audit of the University's annual financial statements, as well as assistance in the preparation of the annual income tax returns.

There is no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the University financial statements.

**Tax Fees**

In 2011, the University paid ₱240,000, VAT exclusive to Sycip, Gorres, Velayo and Co (SGV) for the performance of a tax compliance review for the fiscal year ended March 31, 2010 covering income tax, expanded withholding tax, fringe benefit tax and withholding tax on wages. The review involved a study of the University's opposition and practices and procedures in relation to specific tax laws, regulations and rulings. The objectives were to determine whether or not the tax position, practices and procedures adopted and maintained are in compliance with the tax laws and regulations; top identify areas where non-compliance are noted and quantify, if possible, the extent of the University's exposure thereon, and to provide recommendations to improve or correct the University's tax practices and procedures in compliance with the tax laws and BIR regulations.

**Other Fees**

There are no other services provided by the external auditor, other than the services reported.

The Audit Committee found the services and fees for external audit reasonable and approved the same following a conference with the external auditors and the University's financial officers to clarify the scope, extent and details of the audit.

* Due for submission with BIR on July 13, 2011.

## 2. Changes in and Disagreements with External Accountants on Accounting and Financial Disclosure

There was no change in nor disagreement with External Accountants on accounting and financial disclosures.

## PART III. CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the University

Directors and Executive Officers

| | Name | Age | Citizenship | Positions | Term of Office | Directorship Held in Other Companies |
|---|---|---|---|---|---|---|
| 1 | Emilio T. Yap | 85 | Filipino | Chairman of the Board – since July 10, 2002 | Yearly | Chairman, Manila Bulletin Publishing Corp.<br>Chairman, Manila Hotel Corp.<br>Chairman, Centro Escolar University Hospital, Inc. |
| 2 | Ma. Cristina D. Padolina | 65 | Filipino | Director<br>- since July 25, 2006<br><br>President/Chief Academic Officer - since Aug. 18, 2006 | Yearly | Professor Emeritus, University of the Philippines, Los Baños<br>Director, Centro Escolar University Hospital, Inc. |
| 3 | Angel C. Alcala* | 82 | Filipino | Director<br>- since July 22, 2008 | Yearly | Executive Director, Silliman University-Angelo King Center for Research and Environmental Management (SUAKCREM)<br>Director, Silliman University-CHED Zonal Research Center<br>Professor Emeritus, Silliman University |

* Independent Director

| | | | | | | |
|---|---|---|---|---|---|---|
| 4 | Emil Q. Javier* | 70 | Filipino | Director<br>- since July 10, 2002 | Yearly | Chairman, Asia Rice Foundation, Inc.<br>President and Chair, Biology Division, National Academy of Science and Technology (Phil.)<br>Board Member, International Service for the Acquisition of Agri-Biotechnology Applications (ISAAA), South East Asia Center<br>Board Member, Nutrition Foundation of the Philippines<br>Director, Centro Escolar University Hospital, Inc. |
| 5 | Ricardo F. de Leon | 61 | Filipino | Director<br>- since July 22, 2008<br><br>Executive Vice President<br>- since Feb. 15, 2008 | Yearly | Director and Vice President, Centro Escolar University |
| 6 | Alejandro C. Dizon | 50 | Filipino | Director<br>- since Aug. 31, 2007 | Yearly | Chief Quality Officer; Head, Breast Center; Vice Chairman, Department of Surgery, St. Luke's Medical Center<br>Fellow and Member, Board of Regents, Philippine College of Surgeons<br>Fellow, American College of Surgeons<br>President, Philippine Association of Training Officers in Surgery, Inc.<br>Asst. Professor, St. Luke's-W.H. Quasha Memorial College of Medicine<br>Asst. Professor, UERMMMC College of Medicine |
| 7 | Emilio C. Yap III | 39 | Filipino | Directors<br>- since Sept. 1, 2009 | Yearly | Chairman, Manila Prime Holding<br>Director, Manila Bulletin Corporation, Manila Hotel, Philtrust Bank and US |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | Automotive Co., Inc. |
| 8 | Corazon M. Tiongco | 62 | Filipino | Director - since July 25, 2000<br><br>Assistant Treasurer - since Aug. 12, 2005 | Yearly | Director, Centro Escolar University Hospital, Inc. |
| 9 | Johnny C. Yap | 38 | Filipino | Director - since Oct. 26, 2007 | Yearly | Director and Treasurer, Euromed Laboratories Philippines, Inc. |

## Executive Officers Who Are Not Directors

| | Name | Age | Citizenship | Position | Term of Office | Directorship Held in Other Companies |
|---|---|---|---|---|---|---|
| 1 | Sergio F. Apostol | 76 | Filipino | Corporate Secretary & Compliance Officer - since Feb. 26, 2010 | Yearly | Chairman, Kaytrix Agri-Aqua Corp.<br>Director, Manila Hotel |
| 2 | Cesar F. Tan | 57 | Filipino | Treasurer - since April 17, 2006<br>Asst. Corp. Sec. – since Oct. 1, 2009 | Yearly | Treasurer, Centro Escolar University Hospital, Inc. |
| 3 | Juliana M. Alvaro | 62 | Filipino | VP–Malolos Campus – since Jan. 29, 2010<br><br>AVP- Malolos Campus - since Aug. 1, 2001 | Yearly | None |
| 4 | Lucia D. Gonzales | 63 | Filipino | VP-University Registrar – since Jan. 29, 2010<br><br>AVP-University Registrar - since August 18, 2006<br><br>Registrar - since February 1, 1990 | Yearly | None |

| | | | | | | |
|---|---|---|---|---|---|---|
| 5 | Maria Clara Perlita Erna V. Yabut | 45 | Filipino | VP-Research & Evaluation – since Jan. 29, 2010<br><br>AVP- Research & Evaluation - since August 18, 2006<br><br>Head, EDP Department - since August 1, 2001 | Yearly | None |
| 6 | Priscilla C. Panlasigui | 64 | Filipino | VP-Makati Campus – since Jan. 29, 2010<br><br>AVP – Makati Campus - since July 25, 2008<br><br>Acting AVP- Makati City - since July 27, 2007 | Yearly | None |
| 7 | Teresa R. Perez | 49 | Filipino | VP-Academic Affairs – since Jan. 29, 2010<br><br>AVP- Academic Affairs - since July 25, 2008<br><br>Acting AVP- Academic Affairs - since July 27, 2007 | Yearly | None |
| 8 | Wandalyn Maira L. Bondoc | 29 | Filipino | Assistant Treasurer - since August 18, 2006 | Yearly | Asst. Treasurer, Centro Escolar University Hospital, Inc. |
| 9 | Bernardita T. Traje | 50 | Filipino | Assistant Controller - since August 18, 2006<br><br>Assistant Treasurer - March 8, 1995 to August 18, 2006 | Yearly | None |
| 10 | Carlito B. | 47 | Filipino | VP-Student Affairs – | Yearly | None |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Olaer | | | since July 30, 2010<br><br>Acting AVP- Student Affairs, Student Affairs Office<br>- since July 25, 2008<br><br>Officer in Charge, Student Affairs Office<br>- since May 3, 2008 | | |

**Significant Employees**

All employees are expected to make reasonable contribution to the success of the business of the University. There is no “significant employee” as defined in Part IV(A)(2) of the SRC Rule 12 (i.e., a person who is not an executive officer of the registrant but who is expected to make a significant contribution to the business).

**Deans**

| | Name and Address | Position | Term of Office | Directorship Held in Other Companies |
|---|---|---|---|---|
| 1. | Ma. Flordeliza L. Anastacio<br>B-18, L-25, Humel Heritage Homes, Malolos City | Dean | 3 years | None |
| 2. | Charito M. Bermido<br>33-C 11th Ave., Murphy, Quezon City | Dean | 4 years | None |
| 3. | Teresita G. Carey<br>42 Acacia Lane, Palmera Heights, Ortigas Ave. Ext., Cainta, Rizal | Dean | 3 years | None |
| 4. | Nilo V. Francisco<br>247 San Jose, Paombong, Bulacan | Dean | 3 years | None |
| 5. | Maria Jona D. Godoy<br>B-157, L-14, Central Bicutan, Taguig City | Dean | 3 years | None |
| 6. | Olivia M. Limuaco<br>#6 Philtrust Compound, India St., Better Living Subd., Bicutan, Parañaque City | Dean | 3 years | None |
| 7. | Merlina V. Locquiao<br>B-19, L-5 Tree Lane 3, Bayan Luma, Imus, Cavite | Dean | 3 years | None |
| 8. | Betty M. Lontoc<br>33 Arabejo St., Gatchalian Subd., Manuyo Dos, Las Piñas City | Dean | Retireable up to July 11, 2011 | None |
| 9. | Elizabeth C. Roces<br>339 A & V Subdivision, Panginay, Balagtas, Bulacan | Acting Dean | 1 year | None |
| 10. | Jessica L. Flor-Torre<br>877 Katarungan St., Mandaluyong City | Dean | 3 years | None |

| | | | | |
|---|---|---|---|---|
| 11. | Cecilia G. Uncad<br>11 Gladiola Mall, Gardenville Condo<br>Sta. Mesa, Manila | Dean | 3 years | None |
| 12. | Veronica F. Balintona<br>3016 Espiritu St., Park View Homes,<br>Bgy. Sunvalley, Parañaque City | Assistant Dean | 3 years | None |
| 13. | Amelita M. Borlongan<br>Bldg. 2 DE-I GSIS City<br>Pureza St., Sta. Mesa, Manila | Assistant Dean | 3 years | None |
| 14. | Mildred B. Go<br>14 Gutierrez St.., Panghulo<br>Malabon, Metro Manila | Associate Dean | 3 years | None |
| 15. | Juliana M. Laraya<br>2327-B San Anton St., Sampaloc, Manila | Assistant Dean | 3 years | None |
| 16. | Pearly P. Lim<br>48B Pangasinan St., Quezon City | Assistant Dean | 3 years | None |
| 17. | Elvira L. Urgel<br>7 Sinag St., Mandaluyong City | Assistant Dean | 3 years | None |

## Heads

| | Name and Address | Position | Term of Office | Directorship Held in Other Companies |
|---|---|---|---|---|
| 1. | Ma. Lourdes R. Baello<br>43 M. Hizon St., 10th Ave., Caloocan City | Head | 3 years | None |
| 2. | Jonathan P. Catapang<br>Unit 308, La Casarita Condominium<br>333 San Rafael, San Miguel, Manila | Head | 3 years | None |
| 3. | Dorothea C. Dela Cruz<br>Blk 24A, Lot 3, Phase 3D Silvestre Street,<br>Sto. Niño, Meycauayan, Bulacan | Head | 3 years | None |
| 2. | Teofilo A. de Guzman<br>B-22, L-27, Citation Homes,<br>Bahay Pare, Meycauayan, Bulacan | Head | 3 years | None |
| 3. | Rommel N. Jotic<br>Unit 5-E, Talas Apartment Condominium<br>301 Kapilya St.., San Miguel, Manila | Head | 1 year | None |
| 4. | Zenaida R. Los Baños<br>Morning Glory St., Ridgemont Village<br>Cainta, Rizal | Head | 3 years | None |
| 5. | Aleli V. Lozano<br>847 Inosentes Street, Mandaluyong City | Head | 3 years | None |
| 6. | Imelda C. Nery<br>Lot 2, Blk 6, Pigeon St.<br>Gatchalian 2, Sucat, Parañaque City | Head | 2 years | None |
| 7. | Lolita D. Pablo<br>4012-A Dangal St., Bacood,<br>Sta. Mesa, Manila | Head | 3 years | None |
| 8. | Tessie A. Ramirez<br>B-1, L-23, Phase 4, Ecotrend<br>Subd., Ligas 3, Bacoor, Cavite | Head | 3 years | None |

| | | | | |
|---|---|---|---|---|
| 9. | Aida S. Villanueva<br>43 M. Hizon St., 10th Ave., Caloocan City | Head | Retireable up to Nov. 21/10, extended March 31, 2011 | None |
| 10. | Lolita M. Balboa<br>16 I. Esteban St., Mandaluyong City | Head | 3 years | None |
| 11. | Milagros L. Borabo<br>39 R. Magsaysay St., Potrero, Malabon, Metro Manila | Program Director | 3 years | None |
| 12. | Elvira G. Borlongan<br>852 Bambang St., Bocaue, Bulacan | Head | 3 Years | None |
| 13. | Raul J. Caparas<br>91 Hipolito St., Caingin, Malolos City | Head | 3 years | None |
| 14. | Ma. Dolores E. Delacruz<br>19 General San Luis St., San Juan City | Head | 3 years | None |
| 15. | Ma. Eleanor C. Espinas<br>#164 P. Castillo St., San Diego Subd., Caloocan City | Head | 3 years | None |
| 16. | Teresita G. Hernandez-Calma<br>25 Dr. Garcia St., Pasig City | Head | 3 years | None |
| 17. | Thelma V. Jambalos<br>2024 Ilustre St., Sta. Cruz, Manila | Head | 3 years | None |
| 18. | Rosario Donalyne L. Manigbas<br>22 Queen's Road, Project 8, Quezon City | Head | 3 years | None |
| 19. | Edita V. Maralit<br>1006 J. Se3nson St., Carebi Sto. Niño, Angono, Rizal | Head | 3 years | None |
| 20. | Eduardo M. Masangcay<br>139 Bulusan St., La Loma, Quezon City | Head | 3 years | None |
| 21. | Teresita S. Mijares<br>2943 Lorenzo dela Paz St., Pandacan, Manila | Head | 3 years | None |
| 22. | Joel P. Romandi<br>B-4, L-26, Greentown Village<br>Toclong 2B, Imus, Cavite | Officer-in-Charge | 1 year | None |
| 23. | Fe C. Sagun<br>1187-A Arellano St., Singalong, Manila | Head | 3 years | None |
| 24. | Leonisa S. Sagun<br>L-18, B-10, Phase 18 Paris St., Vista Real Classica, Old Balara, Quezon City | Head | 1 year | None |
| 25. | Carmencita H. Salonga<br>82 12th Ave., 4th St.,<br>Grace Park, Caloocan City | Head | 3 years | None |
| 26. | Precious Swelan Carlos-Santiago<br>Unit 2, Carfel Townhouse, Anastacio St., Teoville 3 Subd. BF Homes,<br>Parañaque City | Head | 3 years | None |
| 27. | Ma. Rolina S. Servitillo<br>15 Bayabas Road, Gardenville Subd.,<br>Pio Cruzcosa, Calumpit, Bulacan | Head | 3 years | None |

| | | | | |
|---|---|---|---|---|
| 28. | Bernardita T. Traje<br>B-34, L-10 Adelita St.<br>Evergreen Executive Village,<br>Bo. Bagumbong, Caloocan City | Head | 3 years | None |
| 29. | Amelita T. Valencia<br>L-25, B-4, Heritage Homes,<br>Longos, Malolos City | Head | 3 years | None |
| 30. | Eracisimo C. Veranga<br>182 Ilang-Ilang St.,<br>Alido Subd., Malolos City | Head | 3 years | None |
| 31. | Grace N. Villanueva<br>B-3, L-7, CTH Bgy. Daniel Fajardo,<br>Las Piñas City | Head | 2 years | None |
| 32. | Edwin C. Huan<br>111-C McArthur Highway, Marulas,<br>Valenzuela City | Program Head | 3 years | None |
| 33. | Marietta D. Lapuebla<br>67 Road 20, Bgy. Bahay Toro,<br>Project. 8, Quezon City | Program Head | 1 year | None |
| 34. | Cecilia D. Santiago<br>973 Bambang St., Bocaue, Bulacan | Program Head | 2 years | None |
| 35. | Cresencia Manalastas-Santos<br>L-6, B-5 Queensland Village Novaliches,<br>Quezon City | Program Head | 3 years | None |
| 36. | Maricar A. Veranga<br>B4, L35, Sampaguita St., Sta. Rita Village,<br>Guiguinto, Bulacan | Program Head | 3 years | None |
| 37. | Shirley S. Wong<br>27 Scout Madrinan St., South Triangle<br>Quezon City | Program Head | 3 years | None |

**Family Relationships**

Dr. Emilio T. Yap, Emilio C. Yap III and Mr. Johnny C. Yap are relatives within the second degree of consanguinity.

**Involvement in Certain Legal Proceedings**

The University is not aware of any legal proceeding in the past five (5) years to date involving its directors and officers which are material to the evaluation of the ability and integrity of any director or officer of the University.

No director or officer has been convicted by final judgment during the last five (5) years up to the present of any offense punishable by Philippine laws or by the laws of any other country.

Likewise, the University has no knowledge of pending legal proceedings against any of its directors or executive officers involving: (a) any bankruptcy petition filed by or against any business of which its directors or executive officers is subject; or (b) any judgment or decree permanently or temporarily limiting or suspending their involvement in any type of business, securities, commodities or banking activities; or, (c) any violation of a securities or commodities law or regulation and the judgment has not been reversed, suspended or vacated.

**Item 10. Executive Compensation**

### Salaries and Benefits of Executive Officers

| **Name and Position** | Fiscal Year | Annual Salary | Bonus | Other Annual Compensation | Total Compensation |
|---|---|---|---|---|---|
| Ma. Cristina D. Padolina, President; Juliana M. Alvaro, VP-Malolos Campus; Lucia D. Gonzales, VP-Registrar; Teresa R. Perez, VP-Academic Affairs; Priscilla A. Panlasigui, VP-Makati Campus | 2009*<br>2010<br>2011** | ₱ 8,116,068.72<br>₱ 8,898,400.64<br>₱ 8,898,400.64 | ₱ 974,379.77<br>₱ 1,458,370.76<br>₱ 1,458,370.76 | N.A.<br>N.A.<br>N.A. | ₱ 9,090,448.49<br>₱ 10,376,771.40<br>₱ 10,376,771.40 |

### All Officers and Directors as a Group

| Name and Position | Fiscal Year | Annual Salary | Bonus | Other Annual Compensation | Total Compensation |
|---|---|---|---|---|---|
| All Officers and Directors As a Group | 2009*<br>2010<br>2011** | | | | ₱ 25,623,006.25<br>₱ 26,209,729.62<br>₱ 26,209,729.62 |

*2009 figure include the compensation of Mrs. Patricia E. Chilip who resigned on January 31, 2009. 2010 figures are estimated accounts
**2011 figures are estimated accounts

The Directors do not receive compensation for services provided as a director other than reasonable per diems for attendance at meetings of the Board or any of its committees.[1]

There are no bonuses, profit sharing stock options warrants, rights of other compensation plans or arrangements with directors or officers that will result from their resignation, retirement, termination of employment or change in the control of the University.

The duties and responsibilities of the elected corporate officers are specified in the University's By-laws and/or Manual of Corporate Governance.

Other officers whose duties and responsibilities are set by Management are considered regular employees of the University.

There are no outstanding warrants or options held by the University's President, executive officers and directors.

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

## 1. Security Ownership of Certain Record and Beneficial Owners

Owners of record of more than 5% of the University's shares of stock as of May 31, 2011 were as follows:

| Title of Class | Name & Address of Record Owner* & Relationship with Issuer | Name of Beneficial Owner & Relationship with Record Owner | Citiizenship | Number of Shares Held | Percent(%) |
|---|---|---|---|---|---|
| Common | USAUTOCO, Inc. 1000 United Nations Ave., Ermita, Manila Authorized Represen-tative- Basilio C. Yap Relationship to Registrant-Stockholder | USAUTOCO, Inc. Authorized Represen-tative- Basilio C. Yap Position-President | Filipino | 126,620,891 | 34.00 |
| Common | U.S. Automotive Co., Inc. 1000-1046 United Nations Ave., cor. San Marcelino, Ermita, Manila Authorized Represen-tative - Basilio C. Yap Relationship to Registrant – Stockholder | U.S. Automotive Co., Inc. Authorized Represen-tative - Basilio C. Yap Position - President | Filipino | 55,824,195 | 14.98 |

[1] During the stockholders' meeting on July 27, 2004, the stockholders approved the grant of annual medical allowance and related bonuses to the members of the Board of Directors.

* Authorized representative has voting power over the shareholdings of the corporate stockholder.

| | | | | | |
|---|---|---|---|---|---|
| Common | PCD Nominee Corp.- Filipino | Alejandro C. Dizon Beneficial Owner | Filipino | 50,033.412 | 13.43 |
| Common | Southville Commercial Corporation 403 Topaz St., Posadas Village, Sucat, Muntinlupa City Authorized Represen- tative - Petronila G. Mallare Relationship to Registrant – Stockholder | Southville Commercial Corporation Authorized Represen- tative - Petronila G. Mallare Position - President | Filipino | 29,686,293 | 7.97 |
| Aggregate Number of Shares and Percentage of All Beneficial/Record Owners as a Group | | | | 262,164,791 | 70.39 |

The proxy designated by the Board of Directors votes for the corporation.

## 2. Security Ownership of Management

Owners of record of CEU shares among Management as of May 31, 2011 are as follows:

| Title of Class | Directors | Amount and Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Common | Emilio T. Yap (Chairman) | 1 (d) | Filipino | Nil |
| Common | Ma. Cristina D. Padolina | 8,300 (d) | Filipino | 0.0022 |
| Common | Angel C. Alcala* | 1 (d) | Filipino | Nil |
| Common | Emil Q. Javier* | 1 (d) | Filipino | Nil |
| Common | Ricardo F. de Leon | 1 (d) | Filipino | Nil |
| Common | Alejandro C. Dizon | 50,033,412(d) | Filipino | 13.4348 |
| Common | Emilio C. Yap III | 267,173 (d) | Filipino | 0.0717 |
| Common | Corazon M. Tiongco | 10,107,793 (d) | Filipino | 2.7141 |
| Common | Johnny C. Yap | 1,000 (d) | Filipino | 0.00027 |
| Total | | 60,417,682 (d) | | 16.22 |

* Independent Director.
**Dr. Alejandro C. Dizon has 51,837 shares registered in his name in addition to 49,981,575 shares Lodged with PCD Nominee Corporation

| Title of Class | Executive Officers | Amount and Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Common | Ma. Cristina D. Padolina | 8,300 (d) | Filipino | 0.0022 |
| Common | Ricardo F. de Leon | 1 (d) | Filipino | Nil |
| - | Cesar F. Tan | 0 | Filipino | 0 |
| Common | Juliana M. Alvaro | 16,885 (d) | Filipino | 0.0045 |
| Common | Gonzales, Lucia D. | 7,528 (d) | Filipino | 0.0020 |
| - | Maria Clara Perlita Erna V. Yabut | 0 (d) | Filipino | 0 |
| Common | Priscilla A. Panlasigui | 15,164 (d) | Filipino | 0.0040 |
| Common | Teresa R. Perez | 3,226 (d) | Filipino | 0.0008 |
| Common | Corazon M. Tiongco | 10,107,793 (d) | Filipino | 2.71 |
| - | Wandalyn Maira L. Lao | 0 (d) | Filipino | 0 |
| Common | Bernardita T. Traje | 753 (d) | Filipino | 0.0002 |
| Common | Carlito B. Olaer | 0 (d) | Filipino | 0 |
| Total (excluding shares of Ma. Cristina D. Padolina, Ricardo F. de Leon, and Corazon M. Tiongco) | | 43,556 (d) | | 0.01 |
| Aggregate Number of Shares and Percentage of All Security Ownership of Management as a Group | | 60,461,238 (d) | | 16.23 |

To the best knowledge of the University, the above lists include shares beneficially owned by the directors and officers.

**Item 12. Certain Relationship and Related Transactions**

The University entered into a 25-year lease contract with Philtrust Bank on July 29, 2004. The lease covers the use of Philtrust Bank's land, building and improvements thereon located at 259-263 Sen. Gil Puyat Avenue and Malugay Street, Makati City. The lease commenced on January 1, 2005 for the operation of the CEU-Makati Extension Campus for school year 2005-2006. Lease of said building from Philtrust Bank Building is for the exclusive purpose of maintaining and operating an extension campus in Makati City, and to conduct therein all such activities necessary to provide adequate educational instruction and other services to its students, including authorized extra-curricular activities. The consideration for the lease was principally based on the valuation of the property by Asian Appraisal, Inc. and on the financial advisory by Buenaventura, Echauz and Partners. Except for the respective parties' covenants under said lease contract between CEU and Philtrust Bank, there is no further contractual or other commitment resulting from the arrangement that would pose any risk or contingency. There are no other parties involved in this transaction.

The University, in line with its expansion program and for marketing purposes, avails of advertising services of Manila Bulletin Publishing Corporation. The terms of said advertising transactions are based on terms similar to those offered to non-related parties.

For a more detailed discussion on related party transactions, please see Note 20 of the attached 2011 Audited Financial Statements.

## PART IV – CORPORATE GOVERNANCE

### Item 13. Corporate Governance

The University has complied with the provisions of its Manual on Corporate Governance. Continuous monitoring is being done by the Compliance Officer, Audit Committee, President and Chief Financial Officer to assure compliance.

In compliance with SEC Memorandum Circular No. 2, s. 2007, the University submitted its duly accomplished Corporate Governance Scorecard and supporting documents.

On February 13, 2008, the members of the Board of Directors as well as top and middle management officers attended a seminar on corporate governance conducted by the Institute of Corporate Directors (ICD) in compliance with the requirement contained in its Manual on Corporate Governance, adopted pursuant to SEC Memorandum Circular No. 2, s. 2002.

On May 27, 2009, CEU received recognition as one of the top 15 publicly-listed corporations with the highest scores in the ICD 2008 Corporate Governance Scorecard, Silver Category.

The University has not deviated from its Manual since the time of the self-rating process previously conducted and reported to the Securities and Exchange Commission through the Corporate Governance Self-Rating Form (CG-SRF) submitted on July 25, 2003. There is an ongoing commitment on the part of the University to consistently abide by and ensure improved compliance with the requirements of good corporate governance.

## PART V – EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

Exhibits

| | |
|---|---|
| Exhibit 1 | Consolidated Financial Statements and Schedules |
| Exhibit 2 | Quarterly Report (SEC Form 17-Q)<br>(Please refer to the SEC Form 17-Q previously filed with the SEC.) |

Reports on SEC Form 17-C

(Please refer to the SEC Form 17-C previously filed with the SEC for the following disclosures.)

| | |
|---|---|
| May 28, 2010 | Appointment of Atty. Sergio Apostol as member of Audit and Nomination Committee to replace Atty. Anita S. Regalado-Dalakouras |
| May 28, 2010 | Deadline of Submission for Nominees of Independent Directors |
| June 25, 2010 | Nominees of Independent Directors |
| June 25, 2010 | Declaration of Cash Dividend |
| July 27, 2010 | Results of Annual Stockholders Meeting |
| July 30, 2010 | Results of Organizational Meeting |
| February 18, 2011 | Manual of Corporate Governance Manual |
| February 18, 2011 | Certification of Board Attendance of Directors as of December 31, 2010 |

## 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, thereto duly authorized, in the City of Manila on July 14, 2011.

By:

**MA. CRISTINA D. PADOLINA**
Principal Executive Officer

**CESAR F. TAN**
Principal Financial Officer/Assistant Corporate Secretary & Assistant Compliance Officer

**RICARDO F. DE LEON**
Executive Vice President

**ERACISIMO C. VERANGA**
Principal Accounting Officer

JUL 14 2011

**SUBSCRIBED AND SWORN TO** before me this _____ day of _________, 2011, affiants exhibiting to me their respective Philippine Passport Numbers, as follows:

| NAME | PASSPORT | EXPIRY DATE | PLACE OF ISSUE |
|---|---|---|---|
| Ma. Cristina D. Padolina | XX1806605 | August 12, 2013 | Manila |
| Ricardo F. de Leon | VV0113997 | April 20, 2012 | Manila |
| Cesar F. Tan | XX4460568 | Sept. 8, 2014 | Manila |
| Eracisimo C. Veranga | XX5728862 | March 11, 2015 | Manila |

ATTY. RONALD SEGUNDINO C. CHING
NOTARY PUBLIC CITY OF MANILA
ADMIN. NO. 2011-099-UNTIL DEC. 31, 2011
ROLL NO. 54899
IBP NO. 809532/11-15-2010 MANILA
PTR NO. MLA. 9239771/12-29-2010 MLA
MCLE Compliance No. III-0016308

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Page No. 33
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Series of 2011.

# EXHIBIT 1

# CENTRO ESCOLAR UNIVERSITY

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Centro Escolar University (CEU) is responsible for all information and representations contained in the consolidated financial statements as of March 31, 2011 and 2010 and for each of the three years in the period ended March 31, 2011. The consolidated financial statements have been prepared in conformity 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 management likewise discloses to the Company's Audit Committee and to its external auditors: (i) all significant deficiencies in the design of operation of internal controls that could adversely affect its ability to record, process, and report financial data, (ii) financial weaknesses in the internal controls, and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the Stockholders of the Company.

Sycip, Gorres, Velayo and Co., the independent auditors appointed by the Board of Directors and Stockholders have examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such examination, in its report to the Company's Stockholders and Board of Directors.

**MA. CRISTINA D. PADOLINA**
Acting Chairman/President

**RICARDO F. DE LEON**
Executive Vice President

**CESAR F. TAN**
Treasurer

**Manila**
9 Mendiola Street, San Miguel, Manila
Tel. Nos.: (632) 735-6861 to 71
Telefax: (632) 735-6860; 736-8857
E-mail: ceuadmission@ceu.edu.ph

**Makati**
• 258 Sen. Gil Puyat Ave., Makati City
Tel. Nos.: (632) 843-0300; 889-7491
Telefax: (632) 889-8169; 845-0198
• 103 Esteban Street, Legaspi Village, Makati City
Tel. Nos.: (632) 893-2461; 893-2464; 893-6275
E-mail: papanlasigui@ceu.edu.ph

**Malolos**
KM. 44 McArthur Highway, Malolos, Bulacan
Tel. No.: (6344) 791-9233
Telefax: (6344) 791-6359; 791-5100
E-mail: jmalvaro@ceu.edu.ph

REPUBLIC OF THE PHILIPPINES )
CITY OF MANILA ) SS.

## SECRETARY'S CERTIFICATE

I, SERGIO F. APOSTOL, Filipino, of legal age, with business address c/o Centro Escolar University No. 11 Mendiola Street, San Miguel, Manila, Corporate Secretary of Centro Escolar University (CEU), a corporation duly organized and existing under Philippine laws, with principal office at No. 11 Mendiola Street, Manila, after being duly sworn, hereby by depose and say that:

1. I am the duly elected and qualified Corporate Secretary of Centro Escolar University (CEU), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at No. 11 Mendiola Street, San Miguel, Manila.

2. As such Corporate Secretary, I certify that during the regular meeting of the Board of Directors held on May 27, 2011, the following resolution was approved:

> "RESOLVED, that, DR. MA. CRISTINA D. PADOLINA, Vice Chairman and President of the Centro Escolar University, be as she is hereby authorized to sign and execute in behalf of the corporation, as Acting Chairman, the Statement of Management Responsibility for Financial Statements and all other documents pertinent thereto. "

3. I am executing this certificate to attest to the truth of the foregoing resolution .

IN WITNESS WHEREOF, I have hereunto affixed my signature this 1st day of July, 2011 at Manila .

**SERGIO F. APOSTOL**
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this JUL 01 2011 2011 at MANILA CITY, affiant exhibiting to me his Community Tax Certificate No. 07469422 issued at Barugo, Leyte on January 5, 2011.

DYLAN I. FELICIDARIO
Notary Public for Manila
Until December 31, 2011
Commission No. 2010-025
Roll No. 43016
PTR No. 9269636, 01/07/11, Manila
IBP No. 802932 (2010-2011) 12/12/09, Laguna

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SUBSCRIBED AND SWORN TO before me this ______ day of JUN 16 2011, 2011, affiants exhibiting to me their respective Philippine Passports, as follows:

| | Passport No. | Expiry Date and Place of Issue |
|---|---|---|
| MA. CRISTINA D. PADOLINA | XX18066005 | August 12, 2013, Manila |
| RICARDO F. DE LEON | VV0113997 | April 20, 2012, Manila |
| CESAR F. TAN | XX4460568 | September 8, 2014, Manila |

**PETER MICHAEL G. DIZON**
Commission No. M-525
Notary Public for Makati City
Until December 31, 2011
6th Floor, Don Pablo Building
114 Amorsolo St., Legaspi Village, Makati city
Roll No. 58525
PTR No. 2671175 / 01/08/11/ Makati City
IBP No. 817047 / 01/06/11/ Makati City

PETER MICHAEL G. DIZON
NOTARY PUBLIC
ROLL NO. 58525
CITY, PHILIPPINES

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# Centro Escolar University and a Subsidiary

Consolidated Financial Statements
March 31, 2011 and 2010
and Years Ended March 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Centro Escolar University

We have audited the accompanying consolidated financial statements of Centro Escolar University and a Subsidiary, which comprise the consolidated statements of financial position as at March 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended March 31, 2011, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Centro Escolar University and a Subsidiary as at March 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended March 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

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June 1, 2009, Valid until May 31, 2012
PTR No. 2641502, January 3, 2011, Makati City

May 27, 2011

# CENTRO ESCOLAR UNIVERSITY AND A SUBSIDIARY
# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | March 31 | |
|---|---|---|
| | **2011** | 2010 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 4, 20, 22 and 23) | **₱259,576,548** | ₱252,034,028 |
| Tuition and other receivables (Notes 3, 5, 22 and 23) | **19,090,579** | 16,380,785 |
| Inventories (Note 6) | **6,737,498** | 8,407,169 |
| Other current assets (Note 7) | **10,993,171** | 30,054,077 |
| Total Current Assets | **296,397,796** | 306,876,059 |
| **Noncurrent Assets** | | |
| Available-for-sale financial assets (Notes 8, 22 and 23) | **583,568** | 588,764 |
| Property and equipment (Notes 3 and 9) | **2,925,394,710** | 2,934,467,902 |
| Total Noncurrent Assets | **2,925,978,278** | 2,935,056,666 |
| | **₱3,222,376,074** | ₱3,241,932,725 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Notes 10, 22 and 23) | **₱177,547,722** | ₱135,160,681 |
| Dividends payable (Notes 22 and 23) | **68,628,460** | 60,979,347 |
| Current portion of long-term liability (Notes 11, 22 and 23) | **40,000,000** | 40,000,000 |
| Income tax payable | **8,133,753** | 15,781,808 |
| Total Current Liabilities | **294,309,935** | 251,921,836 |
| **Noncurrent Liabilities** | | |
| Long-term liability (Notes 11, 22 and 23) | **148,308,283** | 170,723,898 |
| Deferred income tax liabilities - net (Note 17) | **222,994,425** | 223,363,139 |
| Retirement liability (Notes 3 and 16) | **108,532,370** | 67,539,170 |
| Total Noncurrent Liabilities | **479,835,078** | 461,626,207 |
| Total Liabilities | **774,145,013** | 713,548,043 |
| **Equity** | | |
| Capital stock | **372,414,400** | 372,414,400 |
| Additional paid-in capital | **664,056** | 664,056 |
| Revaluation increment on land | **1,242,637,773** | 1,242,637,773 |
| Revaluation reserve on available-for-sale financial assets (Note 8) | **171,708** | 176,905 |
| Retained earnings (Note 12) | | |
| Unappropriated | **382,343,124** | 303,693,548 |
| Appropriated | **450,000,000** | 608,798,000 |
| Total Equity | **2,448,231,061** | 2,528,384,682 |
| | **₱3,222,376,074** | ₱3,241,932,725 |

*See accompanying Notes to Consolidated Financial Statements.*

## CENTRO ESCOLAR UNIVERSITY AND A SUBSIDIARY
## CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended March 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **REVENUES** | | | |
| Tuition and other school fees (Note 13) | **₱1,342,181,789** | ₱1,300,154,119 | ₱1,257,457,686 |
| Interest income | **6,048,014** | 6,889,836 | 12,550,471 |
| Miscellaneous income (Note 14) | **25,857,290** | 27,360,839 | 35,181,923 |
| | **1,374,087,093** | 1,334,404,794 | 1,305,190,080 |
| **EXPENSES** | | | |
| General and administrative expenses (Note 15) | **1,133,250,030** | 992,396,578 | 977,222,342 |
| Interest expense (Note 11) | **17,584,385** | 19,566,817 | 21,373,925 |
| Loss on retirement of assets | **1,075,347** | – | – |
| Foreign currency exchange losses - net | **85,090** | 4,092,087 | – |
| | **1,151,994,852** | 1,016,055,482 | 998,596,267 |
| **INCOME BEFORE INCOME TAX** | **222,092,241** | 318,349,312 | 306,593,813 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 17) | | | |
| Current | **23,298,579** | 30,219,622 | 26,514,772 |
| Deferred | **(368,714)** | 2,381,609 | 4,279,185 |
| | **22,929,865** | 32,601,231 | 30,793,957 |
| **NET INCOME** (Note 21) | **₱199,162,376** | ₱285,748,081 | ₱275,799,856 |
| **Basic/Diluted Earnings Per Share** (Note 21) | **₱0.53** | ₱0.77 | ₱0.74 |

*See accompanying Notes to Consolidated Financial Statements.*

## CENTRO ESCOLAR UNIVERSITY AND A SUBSIDIARY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended March 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **NET INCOME** | **₱199,162,376** | ₱285,748,081 | ₱275,799,856 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Revaluation increment on land | **–** | 409,755,000 | – |
| Income tax effect | **–** | (40,975,500) | – |
| | **–** | 368,779,500 | – |
| Revaluation gain (loss) on available-for-sale financial assets | **(5,197)** | 18,234 | (44,000) |
| Total other comprehensive income (loss), net of tax | **(5,197)** | 368,797,734 | (44,000) |
| **TOTAL COMPREHENSIVE INCOME** | **₱199,157,179** | ₱654,545,815 | ₱275,755,856 |

*See accompanying Notes to Consolidated Financial Statements.*

# CENTRO ESCOLAR UNIVERSITY AND A SUBSIDIARY

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Capital Stock (₱1 par value) | | | | Retained Earnings (Note 12) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Authorized | Issued and Outstanding | Amount | Additional Paid-in Capital | Appropriated | Unappropriated | Revaluation Increment on Land (Note 9) | Revaluation Reserve on Available-for-sale Financial Assets (Note 8) | Total Equity |
| **Balances at April 1, 2010** | **800,000,000** | **372,414,400** | **₱372,414,400** | **₱664,056** | **₱608,798,000** | **₱303,693,548** | **₱1,242,637,773** | **₱176,905** | **₱2,528,384,682** |
| **Net income** | **–** | **–** | **–** | **–** | **–** | **199,162,376** | **–** | **–** | **199,162,376** |
| **Other comprehensive income** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(5,197)** | **(5,197)** |
| **Total comprehensive income** | **–** | **–** | **–** | **–** | **–** | **199,162,376** | **–** | **(5,197)** | **199,157,179** |
| **Reversal of appropriations** | **–** | **–** | **–** | **–** | **(408,798,000)** | **408,798,000** | **–** | **–** | **–** |
| **Appropriations** | **–** | **–** | **–** | **–** | **250,000,000** | **(250,000,000)** | **–** | **–** | **–** |
| **Cash dividends** (Note 12) | **–** | **–** | **–** | **–** | **–** | **(279,310,800)** | **–** | **–** | **(279,310,800)** |
| **Balances at March 31, 2011** | **800,000,000** | **372,414,400** | **₱372,414,400** | **₱664,056** | **₱450,000,000** | **₱382,343,124** | **₱1,242,637,773** | **₱171,708** | **₱2,448,231,061** |
| | | | | | | | | | |
| Balances at April 1, 2009 | 800,000,000 | 372,414,400 | ₱372,414,400 | ₱664,056 | ₱608,798,000 | ₱390,359,867 | ₱873,858,273 | ₱158,671 | ₱2,246,253,267 |
| Net income | – | – | – | – | – | 285,748,081 | – | – | 285,748,081 |
| Other comprehensive income | – | – | – | – | – | – | 368,779,500 | 18,234 | 368,797,734 |
| Total comprehensive income | – | – | – | – | – | 285,748,081 | 368,779,500 | 18,234 | 654,545,815 |
| Cash dividends (Note 12) | – | – | – | – | – | (372,414,400) | – | – | (372,414,400) |
| Balances at March 31, 2010 | 800,000,000 | 372,414,400 | ₱372,414,400 | ₱664,056 | ₱608,798,000 | ₱303,693,548 | ₱1,242,637,773 | ₱176,905 | ₱2,528,384,682 |
| | | | | | | | | | |
| Balances at April 1, 2008 | 800,000,000 | 372,414,400 | ₱372,414,400 | ₱664,056 | ₱608,798,000 | ₱412,491,531 | ₱873,858,273 | ₱202,671 | ₱2,268,428,931 |
| Net income | – | – | – | – | – | 275,799,856 | – | – | 275,799,856 |
| Other comprehensive income | – | – | – | – | – | – | – | (44,000) | (44,000) |
| Total comprehensive income | – | – | – | – | – | 275,799,856 | – | (44,000) | 275,755,856 |
| Cash dividends (Note 12) | – | – | – | – | – | (297,931,520) | – | – | (297,931,520) |
| Balances at March 31, 2009 | 800,000,000 | 372,414,400 | ₱372,414,400 | ₱664,056 | ₱608,798,000 | ₱390,359,867 | ₱873,858,273 | ₱158,671 | ₱2,246,253,267 |

*See accompanying Notes to Consolidated Financial Statements.*

## CENTRO ESCOLAR UNIVERSITY AND A SUBSIDIARY
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended March 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱222,092,241** | ₱318,349,312 | ₱306,593,813 |
| Adjustments for: | | | |
| Depreciation and amortization (Note 9) | **90,487,812** | 70,706,254 | 71,331,837 |
| Movement in retirement liability | **40,993,200** | 9,595,600 | 18,633,500 |
| Interest expense | **17,584,385** | 19,566,817 | 21,373,925 |
| Losses (gains) on retirement of assets | **1,075,347** | (619,794) | (1,777,001) |
| Foreign exchange losses (gains) - net | **85,090** | 4,092,087 | (5,127,630) |
| Interest income | **(6,048,014)** | (6,889,836) | (12,550,471) |
| Operating income before changes in operating assets and liabilities | **366,270,061** | 414,800,440 | 398,477,973 |
| Changes in operating assets and liabilities | | | |
| Decrease (increase) in: | | | |
| Tuition and other receivables | **(2,576,400)** | (56,534) | (3,108,982) |
| Inventories | **1,669,671** | (671,550) | 1,903,787 |
| Other current assets | **19,060,906** | (12,292,633) | (793,026) |
| Increase in accounts payable and accrued expenses | **42,387,041** | 37,067,483 | 30,480,574 |
| Net cash generated from operations | **426,811,279** | 438,847,206 | 426,960,326 |
| Income taxes paid | **(30,946,634)** | (28,753,765) | (24,379,111) |
| Interest received | **5,914,620** | 7,487,400 | 12,445,917 |
| Net cash provided by operating activities | **401,779,265** | 417,580,841 | 415,027,132 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property and equipment (Note 9) | **(82,838,715)** | (120,222,284) | (78,498,433) |
| Proceeds from sale of property and equipment | **348,747** | 835,134 | 2,136,003 |
| Net cash used in investing activities | **(82,489,968)** | (119,387,150) | (76,362,430) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payments of cash dividends | **(271,661,687)** | (358,583,049) | (293,995,690) |
| Payments of long term liability (Note 11) | **(40,000,000)** | (40,000,000) | (40,000,000) |
| Cash used in financing activities | **(311,661,687)** | (398,583,049) | (333,995,690) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **7,627,610** | (100,389,358) | 4,669,012 |
| **EFFECT OF FOREIGN CURRENCY RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(85,090)** | (4,092,087) | 5,127,630 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **252,034,028** | 356,515,473 | 346,718,831 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱259,576,548** | ₱252,034,028 | ₱356,515,473 |

*See accompanying Notes to Consolidated Financial Statements.*

# CENTRO ESCOLAR UNIVERSITY AND A SUBSIDIARY
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

The accompanying consolidated financial statements include the accounts of Centro Escolar University (the University) and its wholly owned subsidiary, Centro Escolar University Hospital Inc. (the Hospital) (collectively referred to as the Group).

The University, a publicly listed entity, was organized in the Philippines on June 3, 1907 to establish, maintain, and operate an educational institution or institutions for the instruction and training of the youth in all branches of the arts and sciences, offering classes in tertiary level.

In accordance with Commission on Higher Education (CHED) Memorandum Order No. 32, the University's Mendiola and Makati campuses were granted autonomy status to be in force and in effect for five school years beginning the first semester of school year 2007 to 2008. Under this existing autonomy status, the University is free from monitoring and evaluation activities of the CHED and has the privilege to determine and prescribe curricular programs, among other benefits as listed in the memorandum order. The three general criteria used by the CHED for the selection and identification of institutions which shall receive autonomy status are institutions: (a) established as centers of excellence or centers of development and/or with Federation of Accrediting Agencies of the Philippines Level III Accredited programs; (b) with outstanding overall performance of graduates in the government licensure examinations; and (c) with long tradition of integrity and untarnished reputation.

The University's Malolos campus was granted deregulation status for a period of five years from March 11, 2009 to March 30, 2014.

The University invested in the Hospital, which was incorporated on June 10, 2008 and was consolidated beginning 2009. The primary purpose of the Hospital is to establish, maintain and operate a hospital, medical and clinical laboratories and such other facilities that shall provide healthcare or any method of treatment for illnesses or abnormal physical or mental health in accordance with advancements in modern medicine and to provide education and training facilities in the furtherance of the health-related professions. As of March 31, 2011, the Hospital has not yet started operations.

The registered principal office of the Group is 9 Mendiola Street, San Miguel, Manila.

The accompanying consolidated financial statements were approved and authorized for issue by the University's Board of Directors (BOD) on May 27, 2011.

## 2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying consolidated financial statements are prepared using the historical cost basis, except for land, which is carried at revalued amount and available-for-sale (AFS) financial assets, which are measured at fair value.

The consolidated financial statements are presented in Philippine Peso (₱), which is also the University and the Hospital's functional currency.

Statement of Compliance
The accompanying consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements include the financial statements of the University and its wholly owned subsidiary, the Hospital, which were incorporated in the Philippines.

The financial statements of the Hospital are prepared for the same reporting year as the University.

*Basis of consolidation from April 1, 2010*
A subsidiary is consolidated when control is transferred to the Group and ceases to be consolidated when control is transferred out of the Group. Control is presumed to exist when the University owns more than 50% of the voting power of an entity unless in exceptional cases, it can be clearly demonstrated that such ownership does not constitute control. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany balances and transactions, intercompany profits and unrealized gains and losses have been eliminated in the consolidation.

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

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

*Basis of consolidation prior to April 1, 2010*
Certain above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to April 1, 2010, are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired are recognized in goodwill;
- Losses are attributed to the non-controlling interest until the balance is reduced to nil. Any further excess losses are attributable to the University, unless the non-controlling interest has a binding obligation to cover these. Losses prior to April 1, 2010 are not reallocated between non-controlling interest and the University stockholders; and
- Upon loss of control, the Group accounted for the investment retained at its appropriate share of net asset value at the date control was lost.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new and amended standards, interpretations and improvements to PFRS mandatory for financial years beginning on or after January 1, 2010. These new and amended standards, interpretations and improvements to PFRS did not have any impact on the accounting policies, financial position or performance of the Group.

*New and Amended Standards and Interpretations*
- PFRS 2 (Amendment), *Share-based Payment - Group Cash-settled Share-based Payment Transactions*
- PFRS 3 (Revised), *Business Combinations*, and Philippine Accounting Standard (PAS) 27 (Amended), *Consolidated and Separate Financial Statements*
- PAS 32 (Amendment), *Financial Instruments: Presentation - Classification of Rights Issues*
- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 17, *Distributions of Non-cash Assets to Owners*

*Improvement to PFRS in 2008*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

*Improvements to PFRS in 2009*
- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

Future Changes in Accounting Policies

Standards or interpretations issued but are not yet effective up to date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt these standards and interpretation when they become effective. Except as otherwise stated, the Group does not expect the adoption of these new standards and interpretations to have significant impact on its consolidated financial statements.

- PAS 12 (Amendment), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
  The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

- PAS 24 (Amended), *Related Party Disclosures*
  The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The amended standard introduces a partial exemption from disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- PFRS 7 (Amendments), *Financial Instruments: Disclosures - Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of the reporting period.

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the second quarter of 2011.

- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
  The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 15, *Agreement for the Construction of Real Estate*
  This Interpretation, effective for annual periods on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

*Improvements to PFRS in 2010*
Improvements to IFRS are omnibus to amendments to PFRS. The amendments listed below have not yet been adopted by the Group as these will become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Group expects the adoption of these improvements to have no significant impact on the financial statements.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretations IFRIC 13, *Customer Loyalty Programmes*

**Summary of Significant Accounting Policies**

<u>Cash and Cash Equivalents</u>
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 from dates of placement and are subject to an insignificant risk of change in value.

<u>Inventories</u>
Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less costs of marketing and distribution. Cost includes the invoice amount, freight and other incidental costs and is determined using the first-in, first-out method.

<u>Financial Assets and Liabilities</u>
*Date of Recognition*
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

*Initial Recognition*
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 which are classified at fair value through profit or loss (FVPL). The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets, and loans and receivables. The financial liabilities, on the other hand, are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market and for HTM financial assets, the ability and intention to hold the investment until maturity. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of March 31, 2011 and 2010, the Group has no financial asset or liability at FVPL and HTM financial assets.

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

*Loans and Receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortized cost in the consolidated statement of financial position. Amortization is determined using the effective interest method and is included under interest income in profit or loss. The losses arising from impairment of such financial assets are recognized in profit or loss. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Included under this category are the Group's cash and cash equivalents and tuition and other receivables.

*AFS Financial Assets*
AFS financial assets are non-derivative instruments that are either designated in this category or are not classified in any of the other categories. AFS financial assets are carried at fair value in the consolidated statement of financial position.

Changes in the fair value of such assets are accounted for as other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognized as other comprehensive income is included in profit or loss.

Classified under this category are the Group's investments in quoted equity shares.

*Other Financial Liabilities*
Other financial liabilities pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder.

After initial recognition, these liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Other financial liabilities consist of accounts payable and accrued expenses, dividends payable and long-term liability.

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

*Financial 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 is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets*
If an AFS financial asset 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 profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Increases in fair value after impairment are recognized under other comprehensive income.

<u>Derecognition of Financial Assets and Liabilities</u>
*Financial Assets*
The derecognition of financial asset takes place when the Group has either (a) transferred substantially all the risks and rewards of the ownership or (b) when it has neither transferred nor retained substantially all the risks and rewards but it no longer has control over the assets or a portion of the asset.

*Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

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

Property and Equipment

Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any accumulated impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the assets to their working condition and location for their intended use.

Land is carried at revalued amount. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus net of tax effect is included under other comprehensive income except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation decrease is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized under other comprehensive income.

Construction in progress, included in property and equipment, is stated at cost. This includes costs related to acquisition of new enrolment and payroll systems that are not yet completed as of the reporting date. Construction in progress is not depreciated until such time that the relevant assets are completed and become available for intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul cost, are normally charged to profit or loss in the year 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.

Depreciation of property and equipment is computed using the straight-line method over 10 years except for buildings, which are depreciated over 50 years.

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

The useful life and depreciation and amortization method are reviewed at least at each reporting date to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Impairment of Nonfinancial Assets

The carrying values of nonfinancial assets (i.e., property and equipment) are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortization) had no impairment loss been recognized for the asset in prior years. Any reversal of an impairment loss is credited to current operations.

Other Current Assets

*Advances to suppliers and contractors*

Advances to suppliers and contractors represent amounts paid to suppliers and contractors for purchases not yet received as of reporting date. This is subsequently reversed to asset or expense accounts when the asset or services are received.

*Prepayments*

Prepayments are initially measured at the amounts paid and subsequently recognized as expense over the period on which the prepayments apply.

Income Taxes

*Current Tax*

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

*Deferred Tax*

Deferred tax is provided or recognized in full for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date except (a) where the deferred income tax asset or liability relating to the 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 temporary differences associated with investments in subsidiaries and associates, deferred income tax is provided or recognized where the timing of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused NOLCO can be utilized.

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

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. The following specific recognition criteria must also be met before revenue is recognized:

*Tuition and Other School Fees*
Tuition and other school fees are recognized as income when earned over the corresponding school term.

*Interest Income*
Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

*Miscellaneous Income*
Revenue is recognized when services are rendered.

Retirement Costs
Retirement costs on the Group's defined benefit retirement plan are actuarially computed using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses to the extent recognized, past service cost to the extent recognized and the effect of any curtailment or settlement. Actuarial gains and losses are recognized as income or expense using the corridor approach. The excess of the net cumulative actuarial gains and losses over the greater of 10% of the present value of the defined benefit obligation at the end of the previous reporting period and of 10% of the fair value of any plan assets is distributed over the expected average remaining working life of the employees as income or expense.

The liability recognized in the consolidated statement of financial position with respect to the defined benefit retirement plan is the present value of the defined benefit obligation at the reporting date and actuarial gains and losses not recognized less past service cost not yet recognized and the fair value of the plan asset. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using rates that have terms to maturity approximating the terms of the related retirement liability.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

Equity
Capital stock is measured at par value for all shares issued. When the University issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional Paid-in Capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received.

Retained earnings represent accumulated earnings of the Group less dividends declared. Unappropriated retained earnings represent accumulated earnings available for dividend declaration subject to certain adjustments per SEC Memorandum Circular No. 11, Series of 2008 while appropriated retained earnings represent portion appropriated by the University's BOD for expansion of school facilities and purchases of laboratory equipment, payment of long-term liability and contribution to the retirement fund.

Expense Recognition
Expenses are recognized in the consolidate statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

*Expenses are recognized in the consolidated statement of income:*

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Lease payments are recognized on a straight-line basis over the lease term plus payments based on a certain percentage of the net income of the leased property, pursuant to the terms of the lease contracts.

Foreign Currency Transactions and Translations
Transactions denominated in foreign currencies are recorded in Philippine Peso based on the exchange rates prevailing at the transaction dates. Foreign currency denominated monetary assets and liabilities are translated to Philippine Peso at exchange rates prevailing at the reporting date. Foreign exchange differentials between rate at transaction date and rate at settlement date or reporting date of foreign currency denominated monetary assets or liabilities are credited to or charged against current operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency exchange gains or losses are recognized in profit or loss.

Basic and Diluted Earnings Per Share (EPS)
Basic EPS amounts are calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year and adjusted for the effect of dilutive options and dilutive convertible preferred shares, if any.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the geographic locations, designated as the Group branches, with each segment representing a strategic business unit that offers varying courses depending on demands of the market. Financial information on business segments are presented in Note 19.

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

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. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Events after the Reporting Period
Post year-end events up to the date of approval of the BOD of the financial statements that provide additional information about the Group's position at reporting date (adjusting events) are reflected in the consolidated financial statements, if any. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 3. Significant Accounting 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.

Judgment
In the process of applying the Group's accounting policies, management has made the judgment below apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements:

*Operating Lease - Group as Lessee*
The Group has entered into a lease on premises it uses for its Makati-Buendia campus.

The Group has determined, based on an evaluation of (a) the terms and condition of the arrangement, (b) the economic life of the asset as against the lease term and (c) the minimum lease payments of the contract as against the fair value of the asset, that all significant risks and rewards of ownership of the properties are not transferred to the Group and so accounts for the contract as operating lease.

*Operating Lease - Group as Lessor*
The Group has entered into commercial property leases on its Mendiola campus. The Group has determined, based on an evaluation of (a) the terms and condition of the arrangement, (b) the economic life of the asset as against the lease term and (c) the minimum lease payments of the contract as against the fair value of the asset, that it retains all the significant risk and rewards of ownership of these properties and so accounts for the contracts as operating leases.

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

*Estimation of Allowance for Doubtful Accounts*
The Group maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of the allowance for doubtful accounts is evaluated by management on the basis of factors affecting the collectibility of the receivables. In addition, a review of the age and status of receivables, designed to identify accounts to be provided with allowance, is made on a continuous basis. The carrying value of tuition and other receivables as of March 31, 2011 and 2010 amounted to ₱19.09 million and ₱16.38 million, respectively (see Note 5).

*Estimation of Useful Lives of Property and Equipment*
The Group estimates the useful lives of its property and equipment based on the expected usage and expected wear and tear. The estimated useful lives of property and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

The carrying value of property and equipment as of March 31, 2011 and 2010 amounted to ₱2,925.39 million and ₱2,934.47 million, respectively (see Note 9).

*Estimation of Retirement Obligation*
The determination of the Group's obligation and cost for retirement is dependent on selection of certain assumptions used by actuaries in calculating such amounts.

Those assumptions are described in Note 16 and include among others, discount and salary increase rates. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations.

Retirement liability amounted to ₱108.53 million and ₱67.54 million as of March 31, 2011 and 2010, respectively (see Note 16).

*Revaluation of Land*
The Group engaged the services of an independent appraiser to determine the fair values of its land carried at revalued amount. Key assumptions used by the independent appraiser are disclosed in Note 9. The revalued amount of land included under property and equipment in the consolidated statements of financial position amounted to ₱1,569.16 million as of March 31, 2011 and 2010 (see Note 9).

## 4. Cash and Cash Equivalents

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Cash on hand and in banks | **₱82,246,236** | ₱62,391,491 |
| Short-term deposits | **177,330,312** | 189,642,537 |
| | **₱259,576,548** | ₱252,034,028 |

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

## 5. Tuition and Other Receivables

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Tuition fee receivable | **₱19,185,780** | ₱17,135,716 |
| Accrued interest receivable | **233,295** | 179,134 |
| Others | **8,548,764** | 7,548,330 |
| | **27,967,839** | 24,863,180 |
| Less allowance for doubtful accounts | **8,877,260** | 8,482,395 |
| | **₱19,090,579** | ₱16,380,785 |

Other receivables comprise of advances and loans to faculty members and employees, which are collectible through salary deductions.

The allowance for doubtful accounts pertains to the Group's tuition fee receivable which was impaired through collective assessment. Details for changes in the allowance for doubtful accounts follow:

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of year | **₱8,482,395** | ₱6,100,659 |
| Provision (Note 15) | **8,008,872** | 2,381,736 |
| Write-off | **(7,614,007)** | – |
| Balance at end of year | **₱8,877,260** | ₱8,482,395 |

## 6. Inventories

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| At cost: | | |
| Uniforms and outfits | **₱3,439,005** | ₱2,899,370 |
| Materials | **1,911,251** | 1,152,447 |
| Supplies | **1,387,242** | 4,355,352 |
| | **₱6,737,498** | ₱8,407,169 |

## 7. Other Current Assets

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Advances to suppliers and contractors | **₱6,508,475** | ₱22,656,416 |
| Prepayments | **3,814,529** | 7,022,982 |
| Others | **670,167** | 374,679 |
| | **₱10,993,171** | ₱30,054,077 |

## 8. Available-for-Sale Financial Assets

This account pertains to investment in equity shares consisting mostly of shares that are quoted in the stock market.

## 9. Property and Equipment

The rollforward analysis of this account follows:

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Land Improvement | Buildings and Leasehold Improvements | Furniture, Transportation and Auxiliary Equipment | Laboratory Equipment | Library Books | Construction in Progress | Total |
| **Cost** | | | | | | | | |
| Balances at beginning of year | ₱1,569,164,000 | ₱29,158,832 | ₱1,462,634,982 | ₱392,958,267 | ₱236,700,971 | ₱64,382,363 | ₱10,200,000 | ₱3,765,199,415 |
| Additions | – | – | 25,308,519 | 30,984,422 | 11,361,599 | 8,030,599 | 7,153,576 | 82,838,715 |
| Retirements / disposals | – | – | – | (9,183,076) | (1,508,931) | – | – | (10,692,007) |
| Reclassifications | – | – | 10,200,000 | – | – | – | (10,200,000) | – |
| Balances at end of year | 1,569,164,000 | 29,158,832 | 1,498,143,501 | 414,759,613 | 246,553,639 | 72,412,962 | 7,153,576 | 3,837,346,123 |
| **Accumulated depreciation and amortization** | | | | | | | | |
| Balances at beginning of year | – | 27,533,117 | 365,517,322 | 272,602,942 | 126,509,886 | 38,568,246 | – | 830,731,513 |
| Depreciation and amortization (Note 15) | – | 1,056,507 | 20,835,533 | 51,540,826 | 12,720,044 | 4,334,902 | – | 90,487,812 |
| Retirements / disposals | – | – | – | (7,845,750) | (1,422,162) | – | – | (9,267,912) |
| Balances at end of year | – | 28,589,624 | 386,352,855 | 316,298,018 | 137,807,768 | 42,903,148 | – | 911,951,413 |
| **Net book values** | ₱1,569,164,000 | ₱569,208 | ₱1,111,790,646 | ₱98,461,595 | ₱108,745,871 | ₱29,509,814 | ₱7,153,576 | ₱2,925,394,710 |

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Land Improvement | Buildings and Leasehold Improvements | Furniture, Transportation and Auxiliary Equipment | Laboratory Equipment | Library Books | Construction in Progress | Total |
| Cost | | | | | | | | |
| Balances at beginning of year | ₱1,159,409,000 | ₱29,158,832 | ₱1,425,182,333 | ₱371,618,409 | ₱176,861,540 | ₱55,597,008 | ₱18,285,074 | ₱3,236,112,196 |
| Additions | – | – | 19,487,575 | 22,229,923 | 59,839,431 | 8,785,355 | 9,880,000 | 120,222,284 |
| Retirements / disposals | – | – | – | (890,065) | – | – | | (890,065) |
| Reclassifications | | – | 17,965,074 | – | – | – | (17,965,074) | – |
| Revaluation | 409,755,000 | – | – | – | – | – | – | 409,755,000 |
| Balances at end of year | 1,569,164,000 | 29,158,832 | 1,462,634,982 | 392,958,267 | 236,700,971 | 64,382,363 | 10,200,000 | 3,765,199,415 |
| Accumulated depreciation and amortization | | | | | | | | |
| Balances at beginning of year | – | 27,022,386 | 330,920,028 | 249,492,530 | 117,084,154 | 36,180,886 | – | 760,699,984 |
| Depreciation and amortization (Note 15) | – | 510,731 | 34,597,294 | 23,785,137 | 9,425,732 | 2,387,360 | – | 70,706,254 |
| Retirements / disposals | – | – | – | (674,725) | – | – | – | (674,725) |
| Balances at end of year | – | 27,533,117 | 365,517,322 | 272,602,942 | 126,509,886 | 38,568,246 | – | 830,731,513 |
| Net book values | ₱1,569,164,000 | ₱1,625,715 | ₱1,097,117,660 | ₱120,355,325 | ₱110,191,085 | ₱25,814,117 | ₱10,200,000 | ₱2,934,467,902 |

Land at revalued amounts as of March 31, 2011 and 2010 consists of:

| | |
|---|---|
| At cost | ₱188,455,363 |
| Revaluation increment | 1,380,708,637 |
| | ₱1,569,164,000 |

The fair value of the Group’s land at revalued amount was based on a third party appraisal with effective date of valuation of March 31, 2010 using sales comparison approach.

In the sales comparison approach, the value of land is based on sales and listings of comparable property registered within the vicinity. This approach requires establishing comparable property by reducing reasonable comparative sales and listing to a common denominator. This is done by adjusting the difference between the subject properties and those actual sales and listing regarded as comparable.

The increase in revaluation increment amounted to ₱409.76 million in 2010. The Group did not recognize any increase in revaluation increment in 2011.

## 10. **Accounts Payable and Accrued Expenses**

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Accounts payable | **₱124,958,967** | ₱90,406,998 |
| Accrued expenses | **29,274,376** | 24,658,175 |
| Alumni fees payable | **4,747,775** | 2,739,609 |
| Deposits | **1,289,996** | 1,546,221 |
| Others | **17,276,608** | 15,809,678 |
| | **₱177,547,722** | ₱135,160,681 |

## 11. **Long-term Liability**

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Long-term liability | **₱222,532,281** | ₱256,590,147 |
| Less prepaid interest | **34,223,998** | 45,866,249 |
| | **188,308,283** | 210,723,898 |
| Less current portion of long-term liability | **40,000,000** | 40,000,000 |
| | **₱148,308,283** | ₱170,723,898 |

The long-term liability for the property acquired in 2007 amounting to ₱500.00 million consists of ₱100.00 million prepaid interest and ₱400.00 million, payable in 10 annual installment of ₱40.00 million payable every July 5 starting 2007 until fully paid on July 5, 2016. In case of delay in the payment of annual installment, the Group will pay interest to the vendor based on annual treasury bills rate plus 5%. In addition, a penalty amounting to 12% per annum will be paid to the vendor.

The long-term liability is initially recognized at fair value, determined based on discounted value using a discount rate of 9.70%. The long-term liability is subsequently measured at amortized cost using effective interest rate method, taking into account the prepaid interest and charges that are integral part of the effective interest rate. Interest expense on long-term liability amounted to ₱17.58 million, ₱19.57 million and ₱21.37 million in 2011, 2010 and 2009, respectively.

The Group paid its annual installment of ₱40.00 million in July 2010, 2009 and 2008.

## 12. **Equity**

Cash Dividends

The University's BOD approved the declaration of the following cash dividends:

| **Date of BOD Approval** | **Date of Record** | **Amount Per Share** | **Amount** |
|---|---|---|---|
| **2011** | | | |
| June 25, 2010 | July 8, 2010 | ₱0.75 | ₱279,310,800 |
| **2010** | | | |
| April 24, 2009 | May 11, 2009 | ₱0.25 | ₱93,103,600 |
| June 26, 2009 | July 10, 2009 | 0.25 | 93,103,600 |
| July 31, 2009 | August 14, 2009 | 0.30 | 111,724,320 |
| August 28, 2009 | October 2, 2009 | 0.20 | 74,482,880 |
| | | | ₱372,414,400 |
| **2009** | | | |
| April 22, 2008 | May 7, 2008 | ₱0.20 | ₱74,482,880 |
| July 25, 2008 | August 8, 2008 | 0.20 | 74,482,880 |
| October 27, 2008 | November 11, 2008 | 0.20 | 74,482,880 |
| January 30, 2009 | February 14, 2009 | 0.20 | 74,482,880 |
| | | | ₱297,931,520 |

Appropriated Retained Earnings
The Group's appropriated retained earnings as of March 31, 2011 and 2010 consist of the following:

| | 2011 | 2010 |
|---|---|---|
| Appropriations for: | | |
| Expansion of school facilities and laboratory equipment | **₱250,000,000** | ₱388,000,000 |
| Payment of long-term liability | **200,000,000** | 200,000,000 |
| Retirement fund | – | 20,798,000 |
| | **₱450,000,000** | ₱608,798,000 |

On June 25, 2010, the University's BOD approved the following:

a. Reversal of appropriations for expansion of school facilities and laboratory equipment and retirement fund amounting to ₱388.00 million and ₱20.80 million, respectively; and
b. New appropriation for expansion of school facilities and laboratory equipment amounting to ₱250.00 million.

## 13. Tuition and Other School Fees

This account consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Tuition fees | **₱637,186,108** | ₱566,059,026 | ₱575,153,864 |
| Other fees | **420,063,823** | 472,760,095 | 429,246,266 |
| Income from other school services | **284,931,858** | 261,334,998 | 253,057,556 |
| | **₱1,342,181,789** | ₱1,300,154,119 | ₱1,257,457,686 |

Other fees include registration fees, health services fees, library fees, laboratory fees, development fees, practicum fees, internship fees and review fees. Income from other school services comprise of fees for diploma and certificates, transcript of records, student handbooks, identification cards, entrance and qualifying examinations and various collections for specific items or activities.

## 14. Miscellaneous Income

This account consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Rental (Note 18) | **₱6,978,455** | ₱8,372,636 | ₱9,499,604 |
| Professional and continuing education | **3,698,337** | 1,259,119 | 2,427 |
| Dental materials | **3,041,695** | 2,211,201 | 2,196,296 |
| Swimming fees | **2,927,560** | 2,832,119 | 2,803,278 |
| Locker fees | **2,498,901** | 2,233,283 | 2,137,282 |
| Dental pre-board | **1,600,096** | 1,781,744 | 2,354,904 |
| Service commissions | **1,405,631** | 1,411,837 | 1,094,018 |
| Photograph fees | **1,245,002** | 1,254,535 | 870,864 |

(Forward)

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Handling fees | **₱398,258** | ₱656,809 | ₱787,577 |
| Insurance fees | **322,326** | 296,360 | 300,714 |
| Gain on retirement of assets | **–** | 619,794 | 1,777,001 |
| Foreign currency exchange gains - net | **–** | – | 5,127,630 |
| Others | **1,741,029** | 4,431,402 | 6,230,328 |
| | **₱25,857,290** | ₱27,360,839 | ₱35,181,923 |

## 15. General and Administrative Expenses

This account consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Salaries and wages | **₱280,214,544** | ₱255,960,434 | ₱261,958,956 |
| SSS contributions and other employee benefits | **277,396,347** | 257,861,899 | 257,343,508 |
| Depreciation and amortization (Note 9) | **90,487,812** | 70,706,254 | 71,331,837 |
| Light and water | **89,777,167** | 84,457,676 | 75,232,851 |
| Retirement expense (Note 16) | **65,993,200** | 31,595,600 | 18,633,500 |
| Development | **30,538,194** | 28,238,723 | 32,575,679 |
| Library | **28,404,284** | 25,860,496 | 28,230,724 |
| Rental (Note 18) | **28,350,508** | 30,618,332 | 26,565,839 |
| Janitorial and security services | **26,862,433** | 25,265,140 | 25,651,580 |
| Repairs and maintenance | **24,621,542** | 14,315,776 | 11,088,470 |
| Recruitment and placement | **23,617,424** | 21,480,461 | 18,073,796 |
| Management information | **23,399,355** | 15,374,846 | 11,367,031 |
| Transportation and communications | **22,626,465** | 23,017,648 | 24,966,312 |
| Expenses for co-curricular activities | **19,189,506** | 9,754,727 | 7,983,744 |
| Stationery and office supplies | **15,585,191** | 14,778,154 | 15,799,365 |
| Laboratory | **8,994,771** | 7,147,212 | 7,605,010 |
| Entertainment, amusement and recreation | **8,102,378** | 7,235,215 | 6,704,606 |
| Provision for doubtful accounts (Note 5) | **8,008,872** | 2,381,736 | – |
| Taxes and licenses | **7,769,153** | 11,066,823 | 9,502,518 |
| Guidance and counseling | **7,522,978** | 7,075,804 | 7,848,974 |
| Directors' and administrative committee | **7,295,472** | 7,045,656 | 5,537,451 |
| Insurance | **3,690,394** | 5,134,548 | 5,625,901 |
| Professional fees | **3,135,028** | 3,379,167 | 4,348,286 |
| Instructional and academic expenses | **2,373,592** | 5,895,167 | 7,142,541 |
| University chapel expenses | **1,303,183** | 1,433,118 | 1,150,065 |
| Registration expenses of students | **1,263,717** | 1,318,673 | 1,596,439 |
| Publications (Note 20) | **1,236,286** | 626,316 | 14,180,192 |
| Membership fees and dues | **1,034,395** | 623,504 | 1,240,692 |
| Comprehensive and oral examinations | **985,720** | 466,745 | 740,720 |
| Affiliation | **564,833** | 716,380 | 712,980 |
| Write-off of receivables | **–** | 7,596,699 | 6,696,924 |
| Miscellaneous | **22,905,286** | 13,967,649 | 9,785,851 |
| | **₱1,133,250,030** | ₱992,396,578 | ₱977,222,342 |

Miscellaneous expenses mainly pertain to expenses for conducting review classes, professional and continuing education trainings and community outreach programs, bank service charges, donations and other contributions.

## 16. Retirement Plan

The University has a funded, noncontributory defined benefit retirement plan which provides for death, disability and retirement benefits for all of its permanent employees. The annual contributions to the retirement plan consist of a payment covering the current service cost for the year plus payments toward funding the unfunded actuarial liabilities.

The following tables summarize the components of net retirement expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the existing retirement plan.

In 2011, the University approved a new collective bargaining agreement with its employees with changes in the increments on employee retirement benefits.

Retirement expense under "General and administrative expenses" in the consolidated statements of income follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Current service cost | **₱25,199,000** | ₱8,743,900 | ₱6,809,600 |
| Interest cost on benefit obligation | **42,866,000** | 28,133,100 | 22,446,000 |
| Expected return on plan assets | **(14,767,900)** | (8,168,300) | (12,120,500) |
| Net actuarial loss recognized | **11,212,500** | 2,886,900 | 1,498,400 |
| Amortization of past service cost | **1,483,600** | – | – |
| | **₱65,993,200** | ₱31,595,600 | ₱18,633,500 |

The unfunded status and amounts recognized under retirement liability in the consolidated statements of financial position for the retirement plan as of March 31, 2011 and 2010 are as follows:

| | **2011** | 2010 |
|---|---|---|
| Present value of benefit obligation | **₱290,978,540** | ₱454,570,000 |
| Fair value of plan assets | **208,667,940** | 184,599,100 |
| | **82,310,600** | 269,970,900 |
| Unamortized past service cost | **(28,188,900)** | – |
| Net unrecognized actuarial gains (losses) | **54,410,670** | (202,431,730) |
| | **₱108,532,370** | ₱67,539,170 |

Changes in the present value of the defined benefit obligation are as follows:

| | **2011** | 2010 |
|---|---|---|
| At beginning of year | **₱454,570,000** | ₱254,138,500 |
| Interest cost | **42,866,000** | 28,133,100 |
| Current service cost | **25,199,000** | 8,743,900 |
| Actuarial (gains) losses | **(246,166,460)** | 176,600,700 |
| Benefits paid | **(15,162,500)** | (13,046,200) |
| Past service cost | **29,672,500** | – |
| At end of year | **₱290,978,540** | ₱454,570,000 |

Changes in the fair value of plan assets are as follows:

| | 2011 | 2010 |
|---|---|---|
| At beginning of year | **₱184,599,100** | ₱136,138,400 |
| Expected return on plan assets | **14,767,900** | 8,168,300 |
| Benefits paid | **(15,162,500)** | (13,046,200) |
| Actuarial gains (losses) | **(536,560)** | 31,338,600 |
| Contributions | **25,000,000** | 22,000,000 |
| At end of year | **₱208,667,940** | ₱184,599,100 |

The University expects to contribute ₱35.00 million to the fund in 2012.

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 amounts of present value of defined benefit obligation, fair value of plan assets, deficit in the plan and experience adjustments arising on plan assets or liabilities recognized for the current and previous four periods are as follows:

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Present value of obligation | **₱290,978,540** | ₱454,570,000 | ₱254,138,500 | ₱240,321,400 | ₱200,697,400 |
| Fair value of plan assets | **208,667,940** | 184,599,100 | 136,138,400 | 151,506,000 | 148,171,300 |
| Deficit | **₱82,310,600** | ₱269,970,900 | ₱118,000,100 | ₱88,815,400 | ₱52,526,100 |
| Experience adjustments | **₱28,514,940** | ₱23,830,800 | (₱3,536,600) | ₱7,316,800 | ₱14,231,155 |

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

| | 2011 | 2010 |
|---|---|---|
| Investments in bonds and government securities | **57.91%** | 58.67% |
| Investments in shares of stocks | **37.91%** | 39.26% |
| Bank deposits | **3.52%** | 1.10% |
| Others | **0.66%** | 0.97% |
| | **100.00%** | 100.00% |

The principal assumptions used in determining retirement benefits are as follows:

| | 2011 | 2010 |
|---|---|---|
| Expected rate of return on plan assets | **8.00%** | 8.00% |
| Discount rate | **8.15%** | 9.43% |
| Salary increase rate | **5.00%** | 12.00% |

## 17. Income Taxes

The current provision for income tax represents the 10% income tax on special corporations.

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

| | **2011** | 2010 |
|---|---|---|
| Deferred income tax assets on: | | |
| Accrued retirement benefit | **₱10,853,237** | ₱6,753,917 |
| Unamortized excess of contribution over the normal cost | **5,149,835** | 4,767,028 |
| Allowance for doubtful accounts | **887,726** | 848,240 |
| Unrealized foreign currency exchange loss | **8,509** | 409,209 |
| | **16,899,307** | 12,778,394 |
| Deferred income tax liabilities on: | | |
| Revaluation increment on land | **138,070,864** | 138,070,864 |
| Undepreciated cost of property and equipment | **101,822,868** | 98,070,669 |
| | **239,893,732** | 236,141,533 |
| Net deferred income tax liabilities | **₱222,994,425** | ₱223,363,139 |

The University claims the tax deductions of capital expenditures for tax purposes when incurred.

The Group's reconciliation of income before tax computed at statutory income tax rate to provision for income tax in the consolidated statements of income for the years ended March 31, 2011, 2010 and 2009 follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Income tax at statutory income tax rate of the University | **₱22,209,224** | ₱31,834,931 | ₱30,659,381 |
| Adjustments on: | | | |
| Nondeductible interest expense | **822,989** | 926,271 | 1,284,911 |
| Effect of higher tax rate of the Hospital | **469,774** | 355,536 | 139,555 |
| Interest income subjected to final tax | **(571,181)** | (664,730) | (1,148,361) |
| Others | **(941)** | 149,223 | (141,529) |
| Provision for income tax | **₱22,929,865** | ₱32,601,231 | ₱30,793,957 |

## 18. Operating Lease

*Group as Lessee*

On July 29, 2004, the Group entered into a 25-year operating lease which commenced on January 1, 2005 with Philtrust Bank for the lease of its land and building in Makati. The contract requires for ₱24.00 million fixed minimum annual rentals plus a percentage of the annual income of the Group's Makati-Buendia campus.

As lessee, future minimum rentals under operating lease are as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Within one year | **₱24,000,000** | ₱24,000,000 | ₱24,000,000 |
| After one year but not more than five years | **96,000,000** | 96,000,000 | 96,000,000 |
| More than five years | **330,000,000** | 354,000,000 | 378,000,000 |
| | **₱450,000,000** | ₱474,000,000 | ₱498,000,000 |

The Group's rental expense for its Makati-Buendia campus follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Minimum lease payments | **₱24,000,000** | ₱24,000,000 | ₱24,000,000 |
| Contingent rents | **3,758,811** | 6,034,043 | 1,692,928 |
| | **₱27,758,811** | ₱30,034,043 | ₱25,692,928 |

*Group as Lessor*
The Group leases out portions of its spaces to concessioners which is renewable every two (2) years. Total rent income recognized amounted to ₱6.98 million, ₱8.37 million and ₱9.50 million in 2011, 2010 and 2009, respectively.

## 19. Segment Reporting

The Group operates in geographical segments. Financial information on the operations of these segments are summarized as follows:

**2011**

| | **Mendiola** | **Malolos** | **Makati-Buendia** | **Makati-Legaspi** | **Makati-Legaspi Hospital (Pre-operating)** | **Adjustments** | **Total** |
|---|---|---|---|---|---|---|---|
| Segment assets | **₱1,792,783,064** | **₱749,978,782** | **₱75,970,113** | **₱550,411,657** | **₱52,648,890** | **₱583,568** | **₱3,222,376,074** |
| Segment liabilities | **152,987,340** | **11,336,990** | **9,497,400** | **191,965,626** | **68,649** | **408,289,008** | **774,145,013** |
| Capital expenditures | **53,529,906** | **3,735,305** | **15,778,919** | **9,794,585** | **–** | **–** | **82,838,715** |
| Segment revenues | **975,678,324** | **141,155,067** | **135,928,867** | **121,191,441** | **133,394** | **–** | **1,374,087,093** |
| Operating expenses | **771,241,429** | **137,983,942** | **130,290,649** | **107,647,704** | **4,831,128** | **–** | **1,151,994,852** |
| Depreciation expense | **51,748,631** | **10,039,926** | **4,815,933** | **21,482,190** | **2,401,132** | **–** | **90,487,812** |
| Net income (loss) | **204,436,895** | **3,171,125** | **5,638,218** | **13,543,737** | **(4,697,734)** | **(22,929,865)** | **199,162,376** |

2010

| | Mendiola | Malolos | Makati-Buendia | Makati-Legaspi | Makati-Legaspi Hospital (Pre-operating) | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| Segment assets | ₱1,800,420,389 | ₱746,785,596 | ₱65,964,123 | ₱570,559,456 | ₱57,614,397 | ₱588,764 | ₱3,241,932,725 |
| Segment liabilities | 122,077,275 | 3,933,069 | 7,391,975 | 212,422,453 | 59,807 | 367,663,464 | 713,548,043 |
| Capital expenditures | 29,270,667 | 4,708,087 | 23,202,897 | 18,893,555 | 44,147,078 | – | 120,222,284 |
| Segment revenues | 968,806,811 | 138,401,883 | 123,926,439 | 103,269,661 | – | – | 1,334,404,794 |
| Operating expenses | 691,958,032 | 114,804,619 | 114,875,375 | 90,862,103 | 3,555,353 | – | 1,016,055,482 |
| Depreciation expense | 50,114,760 | 9,608,645 | 1,581,362 | 8,347,566 | 1,053,921 | – | 70,706,254 |
| Net income (loss) | 276,848,779 | 23,597,264 | 9,051,064 | 12,407,558 | (3,555,353) | (32,601,231) | 285,748,081 |

2009

| | Mendiola | Malolos | Makati-Buendia | Makati-Legaspi | Makati-Legaspi Hospital (Pre-operating) | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| Segment assets | ₱2,074,907,796 | ₱150,514,813 | ₱31,192,255 | ₱556,552,272 | ₱61,179,427 | ₱570,530 | ₱2,874,917,093 |
| Segment liabilities | 91,794,103 | 3,887,132 | 1,884,482 | 231,609,592 | 74,970 | 299,413,547 | 628,663,826 |
| Capital expenditures | 43,970,717 | 5,463,247 | 12,763,254 | 16,301,215 | – | – | 78,498,433 |
| Segment revenues | 960,873,939 | 144,545,280 | 122,949,002 | 76,214,032 | 607,827 | – | 1,305,190,080 |
| Operating expenses | 676,259,574 | 118,602,830 | 118,716,682 | 83,013,811 | 2,003,370 | – | 998,596,267 |
| Depreciation expense | 50,971,416 | 10,812,140 | 1,047,012 | 8,501,269 | – | – | 71,331,837 |
| Net income (loss) | 284,614,365 | 25,942,450 | 4,232,320 | (6,799,779) | (1,395,543) | (30,793,957) | 275,799,856 |

The Hospital has not yet started its operations as of March 31, 2011.

In 2011, 2010 and 2009, there were no inter-segment revenues and all revenues are made to external customers.

Segment assets for each segment do not include AFS financial assets amounting to ₱0.58 million, ₱0.59 million and ₱0.57 million as of March 31, 2011, 2010 and 2009, respectively.

Segment liabilities for each segment do not include the following:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Deferred income tax liabilities - net | **₱222,994,425** | ₱223,363,139 | ₱180,006,030 |
| Retirement liability | **108,532,370** | 67,539,170 | 57,943,570 |
| Dividends payable | **68,628,460** | 60,979,347 | 47,147,996 |
| Income tax payable | **8,133,753** | 15,781,808 | 14,315,951 |
| | **₱408,289,008** | ₱367,663,464 | ₱299,413,547 |

Net income (loss) for each segment does not include provision for income tax amounting to ₱22.93 million, ₱32.60 million and ₱30.79 million in 2011, 2010 and 2009, respectively.

## 20. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Affiliates are entities that are subject to common control.

Transactions with related parties are made at terms similar to those offered to third parties.

In the ordinary course of business, the Group has transactions with Philtrust Bank, an affiliate under common control, as follow:

a. Lease of a building in Makati as lessee (see Note 18)
b. Savings account and deposits, the balances of which follow:

| | **2011** | 2010 |
|---|---|---|
| Short-term deposits | **₱161,130,967** | ₱190,685,180 |
| Savings and checking accounts | **51,529,164** | 36,438,604 |
| | **₱212,660,131** | ₱227,123,784 |

The Group avails of advertising services of Manila Bulletin Publishing Corporation, an affiliate under common control. Total advertising expense incurred by the Group which is included in the publications and recruitment and placement accounts amounted to ₱12.46 million, ₱11.71 million and ₱16.12 million in 2011, 2010 and 2009, respectively (see Note 15).

The Group's key management personnel include the president and directors. The compensation of key management personnel by benefit type follows:

| | **2011** | 2010 |
|---|---|---|
| Short-term employee salaries and benefits | **₱10,376,771** | ₱9,090,449 |
| Post-employment benefits | **9,565,843** | 6,544,958 |
| | **₱19,942,614** | ₱15,635,407 |

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plan.

## 21. Basic/Diluted EPS

The income and share data used in the basic/diluted EPS computations are as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Net income (a) | **₱199,162,376** | ₱285,748,081 | ₱275,799,856 |
| Weighted average number of outstanding common shares (b) | **372,414,400** | 372,414,400 | 372,414,400 |
| Basic/diluted earnings per share (a/b) | **₱0.53** | ₱0.77 | ₱0.74 |

There were no dilutive financial instruments during 2011, 2010 and 2009.

## 22. Financial Assets and Liabilities

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of March 31, 2011 and 2010.

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial assets** | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents | **₱259,576,548** | **₱259,576,548** | ₱252,034,028 | ₱252,034,028 |
| Tuition and other receivables - net | | | | |
| Tuition fee receivable | **10,308,520** | **10,308,520** | 8,653,321 | 8,653,321 |
| Accrued interest receivable | **233,295** | **233,295** | 179,134 | 179,134 |
| Other receivables | **8,548,764** | **8,548,764** | 7,548,330 | 7,548,330 |
| AFS financial assets | **583,568** | **583,568** | 588,764 | 588,764 |
| Total financial assets | **₱279,250,695** | **₱279,250,695** | ₱269,003,577 | ₱269,003,577 |
| **Financial liabilities** | | | | |
| Other financial liabilities | | | | |
| Accounts payable and accrued expenses | | | | |
| Accounts payable* | **₱113,575,433** | **₱113,575,433** | ₱80,449,189 | ₱80,449,189 |
| Accrued expenses | **29,274,376** | **29,274,376** | 24,658,175 | 24,658,175 |
| Alumni fees payable | **4,747,775** | **4,747,775** | 2,739,609 | 2,739,609 |
| Deposits | **1,289,996** | **1,289,996** | 1,546,221 | 1,546,221 |
| Others | **17,276,608** | **17,276,608** | 15,809,678 | 15,809,678 |
| Dividends payable | **68,628,460** | **68,628,460** | 60,979,347 | 60,979,347 |
| Long-term liability (including current portion) | **188,308,283** | **203,717,899** | 210,723,898 | 223,678,676 |
| Total other financial liabilities | **₱423,100,931** | **₱438,510,547** | ₱396,906,117 | ₱409,860,895 |

**Excludes statutory liabilities amounting to ₱11,383,534 and ₱9,957,809 in 2011 and 2010, respectively.*

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

- *Cash and cash equivalents, tuition and other receivables, accounts payable and accrued expenses and dividends payable* - due to short-term nature of these accounts, the fair values approximate the carrying amounts.

- *AFS financial assets* - fair values of AFS financial assets are based on quoted prices.

- *Long-term liability* - fair value is estimated using the discounted cash flow methodology using the prevailing risk free rates plus applicable spread.

Fair Value Hierarchy
The Group uses the following hierarchy for determining the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The only financial instruments that are being carried at fair value are AFS financial assets, which fall under level 1 in the fair value hierarchy.

## 23. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise of cash and cash equivalents, receivbales, AFS investments and long-term liability. The main purpose of these financial instruments is to raise funds for the Group's operations and capital expenditures. The Group has various other financial instruments such as tuition and other receivables, accounts payable and accrued expenses and dividends payable that arise directly from operations.

The main risk arising from the Group's financial instruments are credit risk and liquidity risk.

*Credit Risk*
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss.

The Group's risk management policy to mitigate credit risk on its accounts receivable from students include the refusal of the Group to release pertinent records like examination permit, transcript of records and transfer credentials, if applicable, until the student's account is cleared/paid. As of reporting date, there are no significant concentrations of credit risk.

As of March 31, 2011 and 2010, the analysis of financial assets follows:

| | 2011 | | | |
|---|---|---|---|---|
| | **Neither past due nor impaired** | **Past due but not impaired** | **Impaired** | **Total** |
| Cash and cash equivalents | **₱259,576,548** | **₱–** | **₱–** | **₱259,576,548** |
| Tuition fee and other receivables | | | | |
| Tuition fee receivable | **–** | **10,308,520** | **8,877,260** | **19,185,780** |
| Accrued interest receivable | **233,295** | **–** | **–** | **233,295** |
| Other receivables | **8,548,764** | **–** | **–** | **8,548,764** |
| AFS financial assets | **583,568** | **–** | **–** | **583,568** |
| | **₱268,942,175** | **₱10,308,520** | **₱8,877,260** | **₱288,127,955** |

| | 2010 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
| Cash and cash equivalents | ₱252,034,028 | ₱– | ₱– | ₱252,034,028 |
| Tuition fee and other receivables | | | | |
| Tuition fee receivable | – | 8,653,321 | 8,482,395 | 17,135,716 |
| Accrued interest receivable | 179,134 | – | – | 179,134 |
| Other receivables | 7,548,330 | – | – | 7,548,330 |
| AFS financial assets | 588,764 | – | – | 588,764 |
| | ₱260,350,256 | ₱8,653,321 | ₱8,482,395 | ₱277,485,972 |

The Group's neither past due nor impaired receivables are high grade receivables which, based from experience, are highly collectible and exposure to bad debt is not significant.

As of March 31, 2011 and 2010, the age of all of the Group's past due but not impaired tuition fee receivables is less than 30 days.

*Liquidity Risk*
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial assets and liabilities. Liquidity risk may result from a counterparty failing on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and 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.

The maturity profile of the Group's financial liabilities as of March 31, 2011 and 2010 based on contractual undiscounted payments follows:

| | **2011** | | | | |
|---|---|---|---|---|---|
| | **On demand** | **Less than 3 months** | **3 to 6 months** | **Over 1 year** | **Total** |
| Accounts payable and accrued expenses | | | | | |
| Accounts payable* | **₱113,575,433** | **₱–** | **₱–** | **₱–** | **₱113,575,433** |
| Accrued expenses | **–** | **29,274,376** | **–** | **–** | **29,274,376** |
| Alumni fees payable | **4,747,775** | **–** | **–** | **–** | **4,747,775** |
| Deposits | **–** | **–** | **1,289,996** | **–** | **1,289,996** |
| Other payables | **17,276,608** | **–** | **–** | **–** | **17,276,608** |
| Dividends payable | **68,628,460** | **–** | **–** | **–** | **68,628,460** |
| Current portion of long-term liability | **–** | **–** | **40,000,000** | **–** | **40,000,000** |
| Long-term liability | **–** | **–** | **–** | **200,000,000** | **200,000,000** |
| | **₱204,228,276** | **₱29,274,376** | **₱41,289,996** | **₱200,000,000** | **₱474,792,648** |

**Excludes statutory liabilities amounting to ₱11,383,534.*

| | 2010 | | | | |
|---|---|---|---|---|---|
| | On demand | Less than 3 months | 3 to 6 months | Over 1 year | Total |
| Accounts payable and accrued expenses | | | | | |
| Accounts payable* | ₱80,449,189 | ₱– | ₱– | ₱– | ₱80,449,189 |
| Accrued expenses | – | 24,658,175 | – | – | 24,658,175 |
| Alumni fees payable | 2,739,609 | – | – | – | 2,739,609 |
| Deposits | – | – | 1,546,221 | – | 1,546,221 |
| Other payables | 15,809,678 | – | – | – | 15,809,678 |
| Dividends payable | 60,979,347 | – | – | – | 60,979,347 |
| Current portion of long-term liability | – | – | 40,000,000 | – | 40,000,000 |
| Long-term liability | – | – | – | 240,000,000 | 240,000,000 |
| | ₱159,977,823 | ₱24,658,175 | ₱41,546,221 | ₱240,000,000 | ₱466,182,219 |

**Excludes statutory liabilities amounting to ₱9,957,809.*

*Interest Rate Risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest risk. As of March 31, 2011 and 2010, the Group has no exposure to the risk of changes in market interest rate. The Group paid in advance the interest on its long-term liability.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives and policies or processes during the years ended March 31, 2011 and 2010.

The Group monitors capital using a debt-to-equity ratio which is debt divided by total equity. The Group includes within debt, interest-bearing loans and accounts payable and accrued expenses.

The following table shows how the Group computes for its debt-to-equity ratio as of March 31, 2011 and 2010:

| | **2011** | 2010 |
|---|---|---|
| Accounts payable and accrued expenses (a) | **₱177,547,722** | ₱135,160,681 |
| Long-term liability (including current portion) (b) | **188,308,283** | 210,723,898 |
| Liabilities (c) | **₱365,856,005** | ₱345,884,579 |
| Total Equity (d) | **₱2,448,231,061** | ₱2,528,384,682 |
| Debt-to-Equity ratio (c/d) | **0.15:1** | 0.14:1 |

## 24. Event after Reporting Date

On May 27, 2011, the University's BOD approved a cash dividend declaration amounting to ₱186.21 million, which is equivalent to ₱0.50 per share to stockholders of record as of June 10, 2011 and with payment date of July 7, 2011.