SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended

   Dec 31, 2017

2. SEC Identification Number

   1746

3. BIR Tax Identification No.

   000-126-853-000

4. Exact name of issuer as specified in its charter

   STI Education Systems Holdings, Inc.

5. Province, country or other jurisdiction of incorporation or organization

   Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   7th Floor STI Holdings Center, 6764 Ayala Avenue, Makati City
   Postal Code
   1226

8. Issuer's telephone number, including area code

   632 844-9553

9. Former name or former address, and former fiscal year, if changed since last report

   JTH Davies Holdings, Inc.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	9,904,806,924

11. Are any or all of registrant's securities listed on a Stock Exchange?

   ☑ Yes ☐ No

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

   Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 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 ninety (90) days

☑ Yes ☐ No

STI EDUCATION SYSTEMS HOLDINGS

STI Education Systems Holdings, Inc.

STI

PSE Disclosure Form 17-2 - Quarterly Report

References: SRC Rule 17 and

Sections 17.2 and 17.8 of the Revised Disclosure Rules

For the period ended	Dec 31, 2017
Currency (indicate units, if applicable)	Philippine Pesos

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Dec 31, 2017	Mar 31, 2017
Current Assets	4,354,350,671	3,914,385,487
Total Assets	14,807,549,261	14,291,438,596
Current Liabilities	1,741,025,936	1,465,466,905
Total Liabilities	6,183,442,362	5,740,018,959
Retained Earnings/(Deficit)	4,452,150,560	4,553,788,628
Stockholders' Equity	8,624,106,899	8,551,419,637
Stockholders' Equity - Parent	8,528,525,386	8,456,975,237
Book Value per Share	0.87	0.86

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	860,331,699	837,123,581	2,232,285,723	2,122,784,098
Gross Expense	555,413,217	532,220,625	1,586,689,228	1,477,794,184

Non-Operating Income	37,991,231	33,275,114	112,387,692	162,588,168
Non-Operating Expense	54,703,338	218,785,547	606,317,370	113,776,582
Income/(Loss) Before Tax	288,206,375	119,392,523	151,666,817	693,801,500
Income Tax Expense	29,494,528	38,022,766	63,133,322	69,489,883
Net Income/(Loss) After Tax	258,711,847	81,369,757	88,533,495	624,311,617
Net Income Attributable to Parent Equity Holder	253,860,049	80,337,303	86,449,412	615,372,151
Earnings/(Loss) Per Share (Basic)	0.03	0.01	0.01	0.06
Earnings/(Loss) Per Share (Diluted)	0.03	0.01	0.01	0.06

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	0.01	0.12
Earnings/(Loss) Per Share (Diluted)	0.01	0.12

Other Relevant Information
-

Filed on behalf by:

Name	Elizabeth Guerrero
Designation	Member & Alternate Corporate Information Officer

COVER SHEET

1746

STI EDUCATION SYSTEMS HOLDINGS, INC.

(Company's Full Name)

7/F STI HOLDINGS CENTER
6764 AYALA AVE., MAKATI CITY
1226

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

Contact Person	Company Telephone Number
Ms. VETTE ALVAREZ	(632)8170402

Fiscal Year (Month / Day)	FORM TYPE	Annual Meeting (Month / Day)
03 / 31	SEC FORM 17-Q For the Quarter ended 31 December 2017	Last Friday of September

Secondary License Type, If Applicable: N A

Dept. Requiring this Doc.: CFD

Amended Articles Number/Section: N A

Total No. of Stocholders: 1258

Total Amount of Borrowings

Domestic	Foreign
N A	N A

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1.	For the quarterly period ended	**31 December 2017**
2.	SEC Identification No.	**1746**
3.	BIR Tax Identification No.	**000-126-853**
4.	Exact name of registrant as specified in its charter	**STI EDUCATION SYSTEMS HOLDINGS, INC.**
5.	Province, Country or other Jurisdiction of incorporation or organization	**Philippines**
6.	(SEC Use Only) Industry Classification Code	______________________
7.	Address of Philippine Office	**7/F STI Holdings Center** **6764 Ayala Avenue** **Makati City, 1226**
8.	Registrant's Telephone No. including Area Code	**(632) 844-9553**
9.	Former name, former address, former Fiscal year, if changed since last report	**JTH DAVIES HOLDINGS, INC.** 7th Floor **iACADEMY Building** 6764 Ayala Avenue, Makati City 1226

10. Securities Registered pursuant to Sections 4 and 8 of the RSA.

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding

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COMMON SHARES – 9,904,806,924 - ISSUED AND OUTSTANDING

9,904,806,924 – LISTED SHARES

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11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [x]　　　　No [ ]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports;

Yes [x]   No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [x]   No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to Annex "A".

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

Please refer to Annex "B".

PART II - OTHER INFORMATION

Not Applicable

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant	**STI EDUCATION SYSTEMS HOLDINGS, INC.**
Signature and Title	**YOLANDA M. BAUTISTA** **Treasurer**
Date	February 12, 2018
Signature and Title	**MONICO V. JACOB** **President and CEO**
Date	February 12, 2018

ANNEX "A"

STI EDUCATION SYSTEMS HOLDINGS, INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017 AND MARCH 31, 2017

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱2,026,837,826**	₱3,198,723,556
Receivables (Notes 6 and 20)	**1,307,523,781**	443,059,848
Inventories (Note 7)	**147,905,322**	123,577,199
Prepaid expenses and other current assets (Notes 8 and 10)	**117,021,158**	149,024,884
	3,599,288,087	3,914,385,487
Noncurrent asset held for sale (Notes 2, 9 and 12)	**755,062,584**	–
Total Current Assets	**4,354,350,671**	3,914,385,487
Noncurrent Assets		
Property and equipment (Notes 8, 10 and 14)	**7,795,045,915**	6,875,570,837
Investment properties (Note 11)	**1,871,504,865**	1,891,231,534
Investments in and advances to associates and joint ventures (Notes 2, 9 and 12)	**42,294,490**	1,095,823,498
Available-for-sale financial assets (Note 13)	**68,327,180**	51,602,130
Deferred tax assets – net	**35,872,119**	32,875,741
Pension assets – net	**27,141,979**	2,763,398
Goodwill, intangible and other noncurrent assets (Notes 10 and 14)	**613,012,042**	427,185,971
Total Noncurrent Assets	**10,453,198,590**	10,377,053,109
TOTAL ASSETS	**₱14,807,549,261**	₱14,291,438,596

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 15)	**₱601,064,266**	₱460,093,058
Current portion of interest-bearing loans and borrowings (Note 16)	**320,800,000**	812,800,000
Current portion of obligations under finance lease	**7,248,871**	5,667,168
Unearned tuition and other school fees	**714,457,354**	100,320,948
Nontrade payable	**67,000,000**	67,000,000
Income tax payable	**30,455,445**	19,585,731
Total Current Liabilities	**1,741,025,936**	1,465,466,905
Noncurrent Liabilities		
Bonds payable (Note 17)	**2,950,434,455**	2,947,028,638
Interest-bearing loans and borrowings - net of current portion (Note 16)	**1,078,412,500**	916,400,000
Obligations under finance lease - net of current portion	**16,542,434**	7,172,214
Pension liabilities - net	**47,298,716**	48,092,221
Other noncurrent liabilities (Note 18)	**113,803,892**	119,353,609
Deferred tax liabilities	**235,924,429**	236,505,372
Total Noncurrent Liabilities	**4,442,416,426**	4,274,552,054
Total Liabilities (Carried Forward)	**6,183,442,362**	5,740,018,959

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Total Liabilities (Brought Forward)	**₱6,183,442,362**	₱5,740,018,959
Equity Attributable to Equity Holders of the Parent Company (Note 19)		
Capital stock	**4,952,403,462**	4,952,403,462
Additional paid-in capital	**1,119,127,301**	1,119,127,301
Cost of shares held by a subsidiary	**(498,142,921)**	(498,142,921)
Cumulative actuarial gain	**71,276,362**	44,398,122
Unrealized mark-to-market gain on available-for-sale financial assets	**1,079,280**	462,127
Other equity reserve	**(1,667,792,370)**	(1,667,792,370)
Other comprehensive income associated with noncurrent asset held for sale (Note 19)	**98,339,576**	–
Share in associates':		
Unrealized mark-to-market loss on available-for-sale financial assets	–	(48,710,891)
Cumulative actuarial gain	**84,136**	722,894
Other equity reserve	**–**	718,885
Retained earnings	**4,452,150,560**	4,553,788,628
Total Equity Attributable to Equity Holders of the Parent Company	**8,528,525,386**	8,456,975,237
Equity Attributable to Non-controlling Interests	**95,581,513**	94,444,400
Total Equity	**8,624,106,899**	8,551,419,637
TOTAL LIABILITIES AND EQUITY	**₱14,807,549,261**	₱14,291,438,596

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

STI EDUCATION SYSTEMS HOLDINGS, INC.
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED DECEMBER 31, 2017 AND 2016

	Nine Months Ended December 31		Three Months Ended December 31	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
REVENUES				
Sale of services:				
Tuition and other school fees	**₱1,854,692,198**	₱1,805,896,952	**₱718,799,457**	₱724,571,891
Educational services	**148,669,983**	152,279,614	**68,845,886**	70,048,962
Royalty fees	**13,724,723**	13,911,991	**6,252,859**	6,399,783
Others	**44,266,932**	19,784,928	**18,788,410**	4,455,920
Sale of goods:				
Sale of educational materials and supplies	**170,931,887**	130,910,613	**47,645,087**	31,647,025
	2,232,285,723	2,122,784,098	**860,331,699**	837,123,581
COSTS AND EXPENSES				
Cost of educational services	**613,672,174**	590,083,844	**227,065,013**	239,732,633
Cost of educational materials and supplies sold	**134,774,732**	111,911,571	**40,109,118**	28,315,607
General and administrative expenses	**838,242,322**	775,798,769	**288,239,086**	264,172,385
	1,586,689,228	1,477,794,184	**555,413,217**	532,220,625
INCOME BEFORE OTHER INCOME (OTHER EXPENSES) AND INCOME TAX	**645,596,495**	644,989,914	**304,918,482**	304,902,956
OTHER INCOME (EXPENSES)				
Equity in net earnings (losses) of associates and joint ventures (Note 12)	**(445,644,199)**	76,423,593	**62,069**	(197,566,171)
Interest expense	**(160,673,171)**	(52,893,189)	**(54,703,338)**	(21,150,438)
Rental income	**87,237,151**	81,384,384	**28,493,534**	31,844,714
Interest income	**20,704,093**	3,252,485	**7,125,489**	1,430,400
Dividend and other income	**4,431,658**	1,527,706	**2,310,139**	–
Gain (loss) on sale of property and equipment	**14,790**	(53,938)	**–**	(68,938)
Effect of derecognition of a subsidiary	**–**	(60,829,455)	**–**	–
	(493,929,678)	48,811,586	**(16,712,107)**	(185,510,433)
INCOME BEFORE INCOME TAX	**151,666,817**	693,801,500	**288,206,375**	119,392,523
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	**69,737,676**	87,558,726	**31,068,865**	48,503,907
Deferred	**(6,604,354)**	(18,068,843)	**(1,574,337)**	(10,481,141)
	63,133,322	69,489,883	**29,494,528**	38,022,766
NET INCOME (Carried Forward)	**88,533,495**	624,311,617	**258,711,847**	81,369,757

	Nine Months Ended December 31		Three Months Ended December 31	
	2017	2016	**2017**	2016
	(Unaudited)		(Unaudited)	
NET INCOME (Brought Forward)	**₱88,533,495**	₱624,311,617	**₱258,711,847**	₱81,369,757
OTHER COMPREHENSIVE INCOME				
Items to be reclassified to profit or loss in subsequent years:				
Share in associates' unrealized mark-to-market gain (loss) on available-for-sale financial assets	**147,634,384**	(307,316,339)	**–**	(311,161,276)
Unrealized mark-to-market gain on available-for-sale financial assets	**625,050**	657,510	**76,720**	466,290
	148,259,434	(306,658,829)	**76,720**	(310,694,986)
Item not to be reclassified to profit or loss in subsequent years:				
Share in associates' remeasurement gain (loss) on pension liabilities	**38,416**	(9,520)	**–**	(9,520)
Remeasurement gain on pension liabilities	**30,270,333**	–	**7,552,900**	–
Tax effect	**(3,027,033)**	–	**(755,290)**	–
	27,281,716	(9,520)	**6,797,610**	(9,520)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**175,541,150**	(306,668,349)	**6,874,330**	(310,704,506)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱264,074,645**	₱317,643,268	**₱265,586,177**	(₱229,334,749)
Net Income Attributable To				
Equity holders of the Parent Company	**₱86,449,412**	₱615,372,151	**₱253,860,049**	₱80,337,303
Non-controlling interests	**2,084,083**	8,939,466	**4,851,798**	1,032,454
	₱88,533,495	₱624,311,617	**₱258,711,847**	₱81,369,757
Total Comprehensive Income (Loss) Attributable To				
Equity holders of the Parent Company	**₱260,964,647**	₱312,814,563	**₱260,642,092**	(₱226,203,775)
Non-controlling interests	**3,109,998**	4,828,705	**4,944,085**	(3,130,974)
	₱264,074,645	₱317,643,268	**₱265,586,177**	(₱229,334,749)
Basic/Diluted Earnings Per Share on Net Income Attributable to Equity Holders of the Parent Company (Note 21)	**₱0.009**	₱0.062	**₱0.026**	₱0.008

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

STI EDUCATION SYSTEMS HOLDINGS, INC.
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2017 AND 2016

	Equity Attributable to Equity Holders of the Parent Company (Note 19)													
	Capital Stock	Additional Paid-in Capital	Cost of Shares Held by a Subsidiary	Cumulative Actuarial Gain	Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets	Other Equity Reserve	Share in Associates' Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets	Share in Associates' Cumulative Actuarial Gain (Loss)	Share in Associates' Equity Reserve	Other comprehensive income associated with noncurrent asset held for sale	Retained Earnings	Total	Equity Attributable to Non-controlling Interests	Total Equity
Balance at April 1, 2017	**₱4,952,403,462**	**₱1,119,127,301**	**(₱498,142,921)**	**₱44,398,122**	**₱462,127**	**(₱1,667,792,370)**	**(₱48,710,891)**	**₱722,894**	**₱718,885**	**₱–**	**₱4,553,788,628**	**₱8,456,975,237**	**₱94,444,400**	**₱8,551,419,637**
Net income	–	–	–	–	–	–	–	–	–	–	**86,449,410**	**86,449,410**	**2,084,085**	**88,533,495**
Other comprehensive income	–	–	–	**26,878,240**	**617,153**	–	**145,654,922**	**37,902**	–	–	–	**173,188,217**	**2,352,933**	**175,541,150**
Total comprehensive income	–	–	–	**26,878,240**	**617,153**	–	**145,654,922**	**37,902**	–	–	**86,449,410**	**259,637,627**	**4,437,018**	**264,074,645**
Dividend declaration	–	–	–	–	–	–	–	–	–	–	**(188,087,478)**	**(188,087,478)**	**(3,299,905)**	**(191,387,383)**
Other comprehensive income associated with noncurrent asset held for sale	–	–	–	–	–	–	**(96,944,031)**	**(676,660)**	**(718,885)**	**98,339,576**	–	–	–	–
Balance at December 31, 2017	**₱4,952,403,462**	**₱1,119,127,301**	**(₱498,142,921)**	**₱71,276,362**	**₱1,079,280**	**(₱1,667,792,370)**	**₱–**	**₱84,136**	**₱–**	**₱98,339,576**	**₱4,452,150,560**	**₱8,528,525,386**	**₱95,581,513**	**₱8,624,106,899**
Balance at April 1, 2016	₱4,952,403,462	₱1,119,079,467	(₱500,009,337)	₱15,729,797	(₱373,642)	(₱1,658,272,599)	₱120,917,874	(₱18,002,502)	₱–	₱–	₱4,107,181,601	₱8,138,654,121	₱91,649,812	₱8,230,303,933
Net income	–	–	–	–	–	–	–	–	–	–	615,372,151	615,372,151	8,939,466	624,311,617
Other comprehensive income (loss)	–	–	–	–	650,179	–	(303,198,375)	(9,392)	–	–	–	(302,557,588)	(4,110,761)	(306,668,349)
Total comprehensive income (loss)	–	–	–	–	650,179	–	(303,198,375)	(9,392)	–	–	615,372,151	312,814,563	4,828,705	317,643,268
Dividend declaration	–	–	–	–	–	–	–	–	–	–	(188,049,980)	(188,049,980)	(14,437,088)	(202,487,068)
Acquisition of non-controlling interests by a subsidiary	–	–	–	–	–	(9,519,771)	–	–	–	–	–	(9,519,771)	9,519,771	–
Associate's acquisition of its subsidiary's non-controlling interest	–	–		–	–	–	–	–	718,885	–	–	718,885	9,766	728,651
Subsidiary's disposal of shares	–	14,713	970,536	–	–	–	–	–	–	–	–	985,249	–	985,249
Balance at December 31, 2016	₱4,952,403,462	₱1,119,094,180	(₱499,038,801)	₱15,729,797	₱276,537	(₱1,667,792,370)	(₱182,280,501)	(₱18,011,894)	₱718,885	₱–	₱4,534,503,772	₱8,255,603,067	₱91,570,966	₱8,347,174,033

STI EDUCATION SYSTEMS HOLDINGS, INC.
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱151,666,817**	₱693,801,500
Adjustments to reconcile income before income tax to net cash flows:		
Depreciation and amortization (Notes 10 and 11)	**289,721,136**	283,627,505
Effect of derecognition of a subsidiary	**–**	60,829,455
Equity in net (earnings) losses of associates and joint ventures	**445,644,199**	(76,423,593)
Interest expense	**160,673,171**	52,893,189
Net change in pension assets and liabilities	**5,320,194**	8,471,398
Interest income	**(20,704,093)**	(3,252,485)
Dividend income	**(4,431,658)**	(1,527,706)
Provision for impairment loss on investments in and advances to an associate	**591,839**	1,045,467
Loss (gain) on sale of property and equipment	**(14,790)**	53,938
Operating income before working capital changes	**1,028,466,815**	1,019,518,668
Decrease (increase) in:		
Receivables	**(366,473,442)**	(155,791,856)
Inventories	**(23,653,769)**	(63,294,191)
Prepaid expenses and other current assets	**35,848,847**	(51,113,797)
Increase (decrease) in:		
Accounts payable and other current liabilities	**250,116,073**	30,308,140
Other noncurrent liabilities	**(5,549,717)**	27,689,688
Net cash generated from operations	**918,754,807**	807,316,652
Income and other taxes paid	**(60,578,454)**	(99,156,869)
Interest received	**20,704,093**	3,108,371
Net cash flows from operating activities	**878,880,446**	711,268,154
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 10)	**(1,155,327,908)**	(776,330,424)
Investment properties (Note 11)	**(3,631,991)**	(34,352,144)
Subsidiary, net of cash acquired	**5,828,110**	–
Decrease (increase) in:		
Investments in and advances to associates and joint ventures	**(96,814)**	38,348
Goodwill, intangible assets and other noncurrent assets	**(226,874,236)**	(46,718,046)

(Forward)

	2017 (Unaudited)	2016
Dividends received	**₱4,438,297**	₱14,162,704
Proceeds from sale of property and equipment	**16,000**	16,000
Net cash flows used in investing activities	**(1,375,648,542)**	(843,183,562)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of:		
Short-term loans	**70,000,000**	1,490,000,000
Long-term loans	**200,000,000**	–
Payments of:		
Short-term loans (Note 16)	**(565,000,000)**	(510,000,000)
Long-term loans (Note 16)	**(33,900,000)**	(128,400,000)
Obligations under finance lease	**(4,775,914)**	(3,156,585)
Bond deferred finance charge	**(1,933,257)**	–
Interest paid	**(148,222,979)**	(42,818,884)
Dividends paid	**(191,285,484)**	(211,482,026)
Net cash flows from (used in) financing activities	**(675,117,634)**	594,142,505
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,171,885,730)**	462,227,097
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**3,198,723,556**	664,777,743
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (Note 5)	**₱2,026,837,826**	₱1,127,004,840

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

STI EDUCATION SYSTEMS HOLDINGS, INC.
AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

a. General

STI Education Systems Holdings, Inc. ("STI Holdings" or the "Parent Company") and its subsidiaries (hereafter collectively referred to as the "Group") are all incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission ("SEC"). STI Holdings was originally established in 1928 as the Philippine branch office of Theo H. Davies & Co., a Hawaiian corporation. It was reincorporated as a Philippine corporation and registered with the SEC on June 28, 1946. STI Holdings' shares were listed on the Philippine Stock Exchange ("PSE") on October 12, 1976. On June 25, 1996, the SEC approved the extension of the Parent Company's corporate life for another 50 years. The primary purpose of the Parent Company is to invest in, purchase or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, pledge, exchange, or otherwise dispose of real properties as well as personal and movable property of any kind and description, including shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned, but not to act as dealer in securities, and to invest in and manage any company or institution. STI Holdings aims to focus on education and education-related activities and investments.

STI Holdings' registered office address, which is also its principal place of business, is 7th Floor, STI Holdings Center, 6764 Ayala Avenue, Makati City.

The subsidiaries of STI Holdings, which are all incorporated in the Philippines, are as follows:

		Effective Percentage of Ownership			
		December 31, 2017		March 31, 2017	
Subsidiaries	**Principal Activities**	**Direct**	**Indirect**	Direct	Indirect
STI ESG	Educational Institution	**99**	–	99	–
STI WNU	Educational Institution	**99**	–	99	–
iACADEMY	Educational Institution	**100**	–	100	–
AHC	Holding Company	**100**	–	100	–
Neschester Corporation	Real Estate	**100**	–	100	–
STI College Tuguegarao, Inc. ("STI Tuguegarao")	Educational Institution	–	**99**	–	99
STI College of Kalookan, Inc. ("STI Caloocan") [(a)]	Educational Institution	–	**99**	–	99
STI College Batangas, Inc. ("STI Batangas")	Educational Institution	–	**99**	–	99
STI College Iloilo, Inc. ("STI Iloilo")	Educational Institution	–	**99**	–	99
STI College Tanauan, Inc. ("STI Tanauan")	Educational Institution	–	**99**	–	99
STI Lipa, Inc. ("STI Lipa")	Educational Institution	–	**99**	–	99
STI College Pagadian, Inc. ("STI Pagadian")	Educational Institution	–	**99**	–	99
STI College Novaliches, Inc. ("STI Novaliches")	Educational Institution	–	**99**	–	99
STI College Dagupan, Inc. ("STI Dagupan") [(b)]	Educational Institution	–	–	–	99
STI College Taft, Inc. ("STI Taft") [(b)]	Educational Institution	–	–	–	99
STI College of Santa Maria ("STI Sta. Maria") [(c)]	Educational Institution	–	**99**	–	–
De Los Santos-STI College, Inc. ("De Los Santos-STI College") [(d)]	Educational Institution	–	**51**	–	51
STI College Quezon Avenue, Inc. ("STI QA") [(e)]	Educational Institution	–	**51**	–	51

[(a)] A subsidiary of STI ESG through a management contract
[(b)] The SEC approved the merger with STI ESG, with STI ESG as the surviving entity on August 30, 2017.
[(c)] A subsidiary starting April 2017(Note 14)
[(d)] On June 28, 2016, De Los Santos-STI College wrote to CHED advising the latter of the suspension of its operations for school years 2016-2017 and 2017-2018 as a result of the implementation of the Government's K to 12 program. In the same letter, De Los Santos-STI College requested that it be allowed to keep all of its existing permits and licenses for its academic programs. It also mentioned that the grant of such request would allow De Los Santos-STI College to immediately resume offering its academic programs to incoming freshmen students for its planned resumption

of operation in SY 2018-2019. These academic programs are: BS Nursing, BS Radiologic Technology, BS Psychology, BS Physical Therapy, BS Hotel and Restaurant Management and BS Tourism. CHED, in a letter reply dated July 1, 2016, said that De Los Santos-STI College shall apply again for initial permits if it intends to offer the said programs in SY 2018-2019. De Los Santos-STI College shall request CHED for a reconsideration.

[e]A wholly-owned subsidiary of De Los Santos - STI College

b. STI Education Services Group, Inc. and Subsidiaries (collectively referred to as "STI ESG")

In September 2012, STI ESG became a subsidiary of the Parent Company through a share-for-share swap agreement with the shareholders of STI ESG. As at December 31, 2017, the Parent Company owns 98.7% of STI ESG.

STI ESG is involved in establishing, maintaining, and operating educational institutions to provide pre-elementary, elementary, secondary, and tertiary as well as post-graduate courses, post-secondary and lower tertiary non-degree programs. STI ESG also develops, adopts and/or acquires, entirely or in part, such curricula or academic services as may be necessary in the pursuance of its main activities, relating but not limited to information technology services, information technology-enabled services, education, hotel and restaurant management, engineering and business studies. STI ESG is also offering Senior High School ("SHS").

STI ESG has investments in several entities which own and operate STI schools. STI schools may be operated by (a) STI ESG; (b) its subsidiaries; or (c) independent entrepreneurs (referred to as the "franchisees") under the terms of licensing agreements with STI ESG. All franchisees are covered by licensing agreements, which require courseware to be obtained from STI ESG. Other features of the licensing agreements are as follows:

- Exclusive right to use proprietary marks and information such as but not limited to courseware programs, operational manuals, methods, standards, systems, that are used exclusively in the STI network of schools;
- Continuing programs for faculty and personnel development, including evaluation and audit of pertinent staff;
- Development and adoption of the enrollment and registration system; and
- Assistance on matters pertaining to financial and accounting procedures, faculty recruitment and selection, marketing and promotion, record keeping and others.

All STI schools start the school calendar every June of each year.

c. STI West Negros University, Inc. ("STI WNU", formerly West Negros University Corp.)

STI Holdings owns and operates STI WNU in Bacolod City. It offers pre-elementary, elementary, secondary including SHS, and tertiary education and post-graduate courses.

It starts its school calendar every June of each year.

On December 9, 2015, SEC approved the amendment of STI WNU's Articles of Incorporation allowing STI WNU to provide maritime training services that will offer and conduct training required by the Maritime Industry Authority ("MARINA") for officers and crew on board Philippine and/or foreign registered ships operating in the Philippines and/or international waters.

On October 9, 2017, MARINA granted STI WNU full course approval for the simulator course "Ratings Forming Part of a Navigational Watch". The said approval is valid for three years.

On December 5, 2017, the Department of Education ("DepEd") granted STI WNU the permit to operate the SHS program under the Technological-Vocational strand, the TVL Maritime Specialization track effective School Year ("SY") 2018-2019.

d. Attenborough Holdings Corp. ("AHC")

AHC is a holding company which is a party to the Joint Venture Agreement and Shareholders' Agreement among the Parent Company, Philippine Women's University ("PWU") and Unlad Resources Development Corporation ("Unlad") (see Note 22).

e. Information and Communications Technology Academy, Inc. ("iACADEMY")

iACADEMY is the premier school in the Group that specializes in course offerings in animation, multimedia arts and design, fashion design and technology, software engineering and game programming and design. It also offers Senior High School. It started in 2002 as a wholly-owned subsidiary of STI ESG until its acquisition by STI Holdings in September 2016. The school is located at iACADEMY Plaza in Makati, with top-of-the-line multimedia arts laboratories and computer suites.

On September 27, 2016, STI Holdings purchased One Hundred Million (100,000,000) iACADEMY shares or 100% of iACADEMY's issued and outstanding capital stock from STI ESG for a purchase price of ₱113.5 million. STI Holdings also subscribed to 100.0 million out of the 400.0 million increase in the authorized capital stock of iACADEMY. On November 9, 2016, SEC approved the increase in the authorized capital stock of iACADEMY. Since the purchase of 100% of iACADEMY's issued and outstanding capital stock from STI ESG, iACADEMY has become a wholly-owned subsidiary of the Parent Company.

iACADEMY changed the start of its school calendar starting SY 2016-2017 from May of each year to July for tertiary level and August for SHS.

On October 19, 2016, iACADEMY signed a Licensing Agreement to Offer a Graduate Business Program with DePaul University ("DePaul") of Chicago, Illinois, United States of America. The agreement is in accordance with the CHED's approval for iACADEMY to operate as a Transnational Education ("TNE") provider for the Master in Business Administration program in partnership with DePaul as the degree granting institution.

The Government Authority ("GA") is valid up to April 26, 2018, and shall be subject to revocation if iACADEMY fails to operate in accordance with the laws of the Republic of the Philippines and/or fails to maintain the prescribed standards of instruction and/or fails to comply with the rules and regulations pertaining to the organization, administration and supervision of private/public Higher Education Institutions ("HEIs") in the Philippines. This GA applies only to the iACADEMY Plaza campus.

On August 8, 2017, iACADEMY requested CHED for an extension of the validity of the GA. As of the date of this report, iACADEMY is still awaiting the response of CHED to this request.

On September 7, 2017, the Board of Governors ("BOG") of iACADEMY and Board of Directors ("BOD") of Neschester approved the merger of the companies with iACADEMY as the surviving corporation. The Stockholders of both companies confirmed, ratified and approved the merger on the same date. The Plan of Merger was filed with the SEC on January 24, 2018.

On the same date, September 7, 2017, at separate meetings at the principal office of iACADEMY, the BOG and stockholders of iACADEMY approved the increase in its authorized capital stock from ₱500.0 million to ₱1,000.0 million. The purpose of the increase in authorized capital stock is to issue sufficient shares to STI Holdings, the parent company of Neschester Corporation, pursuant to the plan of merger. The application for the increase in authorized capital stock was filed with the SEC on January 30, 2018.

f. Neschester Corporation (“Neschester”)

On August 2, 2016, STI Holdings subscribed to all of the unissued authorized capital stock of Neschester totaling to Six Hundred Seventy Thousand (670,000) common shares of stock at a subscription price of ₱200.0 million. STI Holdings also purchased all of the issued shares of Neschester owned by the former stockholders of Neschester totaling Five Hundred Fifty Thousand (550,000) common shares at an aggregate purchase price of ₱173.2 million. As a result, STI Holdings now owns one hundred percent (100%) of the issued, outstanding and authorized capital stock of Neschester.

The major asset of Neschester is a parcel of land along Yakal St. in Makati City, where iACADEMY has constructed a building for its Yakal campus (see Note 10).

2. Basis of Preparation and Summary of the Group’s Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for quoted available-for-sale (“AFS”) financial assets which have been measured at fair value, certain inventories which have been measured at net realizable value, certain investments in associates and joint ventures which have been measured at recoverable amount and refundable deposits which are measured at amortized cost. The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company’s functional and presentation currency, and all values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (“PAS”) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the audited annual consolidated financial statements of STI Holdings as at and for the year ended March 31, 2017.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new pronouncements that became effective beginning on or after April 1, 2017. The adoption of these new pronouncements did not have any significant impact on the consolidated financial statements:

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Standards Issued but Not Yet Effective

Pronouncements that are issued, but not yet effective as at December 31, 2017 are listed below. The Group intends to adopt these standards when they become effective. Unless otherwise indicated, the adoption of these pronouncements are not expected to have any significant impact on the unaudited interim condensed consolidated financial statements.

Effective in fiscal year 2019

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The Group is currently assessing the impact of adopting the amendments to PFRS 4 to the unaudited interim condensed consolidated financial statements.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group is currently assessing the impact of adopting PFRS 15.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Group is currently assessing the impact of adopting PFRS 9.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

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

The Group is currently assessing the impact of adopting this interpretation.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective in fiscal year 2020

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group has not early adopted the previously mentioned pronouncements. The Group continues to assess the impact of the above new pronouncements effective subsequent to December 31, 2017 on its unaudited interim condensed consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the unaudited interim condensed consolidated financial statements when these amendments are adopted.

Noncurrent Asset Held for Sale

The Group classifies a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such noncurrent asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale.

The criteria for held for sale classification are regarded as met only when the asset is available for immediate sale in its present condition and the sale is highly probable. Management must be committed to a plan to sell, which is expected to be completed within one year from the date of the classification, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Actions required to complete the plan to sell should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Equity method of accounting for investment in shares of an associate ceases upon classification of the investment as a noncurrent asset held for sale. Noncurrent asset held for sale is presented separately as part of current assets in the unaudited interim condensed consolidated statements of financial position.

Judgment and Estimate
Noncurrent Asset Held for Sale. On June 27, 2017, STI ESG's BOD approved the disposition of STI ESG's shares in Maestro Holdings, Inc. ("Maestro Holdings") to enable the Group to focus on its core business of offering educational services. Management considered the investment in the shares of Maestro Holdings to meet the criteria to be classified as held for sale for the following reasons:

- The BOD approved the disposition of the shares in Maestro Holdings
- The investment in the shares of Maestro Holdings is available for immediate sale in its present condition
- Actions to locate a buyer and complete the sale have been initiated
- The shares will be sold at a price approximating its current fair value
- Management expects to complete the sale within one year from the date of classification

As a result of the classification as noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for its investment in Maestro Holdings. The carrying value as of June 30, 2017, which is the date of reclassification of the noncurrent asset held for sale, is ₱755.1 million (see Notes 9 and 12). While it is recognized that there are costs to sell the investment, such amount is not yet determinable at this time. As such, the write-down to fair value less costs to sell cannot be established at this time.

3. Seasonality of Operations

The Group's business is linked to the academic cycle. The academic cycle, which is one academic year, starts in the month of June and ends in the month of March, except for iACADEMY where the academic year starts in July for the tertiary level and August for SHS, with both levels ending in June. The revenue of the Group which is mainly from tuition and other school fees is recognized as income over the corresponding academic year to which they pertain. Accordingly, revenue is expected to be lower during the first quarter of the fiscal year as compared to the other quarters if the number of enrollees remains constant. This information is provided to allow for a proper appreciation of the results of operations of the Group. However, management has concluded that the Group's operation is not 'highly seasonal' in accordance with PAS 34.

4. Segment Information

For management reporting purposes, the Group is organized into business units based on the geographical location of the students and assets, and has five reportable segments as follows:

a. Metro Manila
b. Northern Luzon
c. Southern Luzon
d. Visayas
e. Mindanao

Management monitors operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with profit and loss in the unaudited interim condensed consolidated financial statements.

On a consolidated basis, the Group's performance is evaluated based on net income for the nine-month periods ended December 31, 2017 and 2016 and EBITDA, defined as earnings before provision for income tax, interest expense, interest income, depreciation and amortization, and equity in net earnings/losses of associates and joint ventures and nonrecurring gains/losses such as effect of derecognition of a subsidiary.

The following table shows the reconciliation of the interim consolidated net income to interim consolidated EBITDA for the nine-month periods ended December 31, 2017 and 2016.

	Unaudited	
	2017	2016
Consolidated net income	**₱88,533,495**	₱624,311,617
Depreciation and amortization	**289,721,136**	283,627,505
Equity in net losses (earnings) of associates and joint ventures	**445,644,199**	(76,423,593)
Provision for income tax	**63,133,322**	69,489,883
Interest expense	**160,673,171**	52,893,189
Interest income	**(20,704,093)**	(3,252,485)
Effect of derecognition of a subsidiary	–	60,829,455
Consolidated EBITDA	**₱1,027,001,230**	₱1,011,475,571

Geographical Segment Data

The following tables present revenue and income information regarding geographical segments for the nine-month periods ended December 31, 2017 and 2016.

	December 31, 2017 (Unaudited)					
	Metro Manila	**Northern Luzon**	**Southern Luzon**	**Visayas**	**Mindanao**	**Consolidated**
Revenues						
External revenue	**₱1,373,942,673**	**₱99,781,214**	**₱467,619,525**	**₱228,859,235**	**₱62,083,076**	**₱2,232,285,723**
Results						
Income before other income and income tax	**₱370,398,311**	**₱21,277,565**	**₱193,588,387**	**₱56,986,461**	**₱3,345,771**	**₱645,596,495**
Equity in net losses of associates and joint ventures	**(445,644,199)**	**–**	**–**	**–**	**–**	**(445,644,199)**
Interest income	**20,238,949**	**13,270**	**108,612**	**324,257**	**19,005**	**20,704,093**
Interest expense	**(154,093,182)**	**–**	**(8,442)**	**(6,571,547)**	**–**	**(160,673,171)**
Other income	**89,459,819**	**–**	**909,348**	**1,230,678**	**83,754**	**91,683,599**
Provision for income tax	**(58,971,249)**	**–**	**–**	**(4,162,073)**	**–**	**(63,133,322)**
Net Income (Loss)	**(₱178,611,551)**	**₱21,290,835**	**₱194,597,905**	**₱47,807,776**	**₱3,448,530**	**₱88,533,495**
EBITDA						**₱1,027,001,230**

	December 31, 2016 (Unaudited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
Revenues						
External revenue	₱1,344,437,331	₱68,619,214	₱435,332,572	₱208,931,175	₱65,463,806	₱2,122,784,098
Results						
Income before other income and income tax	₱381,356,513	₱20,925,916	₱188,590,004	₱39,755,695	₱14,361,786	₱644,989,914
Equity in net earnings of associates and joint ventures	76,423,593	–	–	–	–	76,423,593
Effect of derecognition of a subsidiary	(60,829,455)	–	–	–	–	(60,829,455)
Interest income	2,749,297	30,865	55,280	412,445	4,598	3,252,485
Interest expense	(43,418,283)	–	(21,346)	(9,453,560)	–	(52,893,189)
Other income	80,912,096	78,310	520,823	1,333,137	13,786	82,858,152
Provision for income tax	(67,451,647)	–	–	(2,038,236)	–	(69,489,883)
Net Income	₱369,742,114	₱21,035,091	₱189,144,761	₱30,009,481	₱14,380,170	₱624,311,617
EBITDA						₱1,011,475,571

The following tables present certain assets and liabilities information regarding geographical segments as at December 31, 2017 and March 31, 2017.

	December 31, 2017 (Unaudited)					
	Metro Manila	**Northern Luzon**	**Southern Luzon**	**Visayas**	**Mindanao**	**Consolidated**
Assets and Liabilities						
Segment assets[(a)]	**₱11,472,632,905**	**₱165,309,420**	**₱1,102,568,678**	**₱789,272,058**	**₱176,159,454**	**₱13,705,942,515**
Investments in and advances to associates and joint ventures	**42,294,490**	**–**	**–**	**–**	**–**	**42,294,490**
Pension assets – net	**27,141,979**	**–**	**–**	**–**	**–**	**27,141,979**
Noncurrent asset held for sale	**755,062,584**	**–**	**–**	**–**	**–**	**755,062,584**
Goodwill	**225,554,342**	**–**	**–**	**15,681,232**	**–**	**241,235,574**
Deferred tax assets – net	**27,446,485**	**593,061**	**612,817**	**7,162,370**	**57,386**	**35,872,119**
Total Assets	**₱12,550,132,785**	**₱165,902,481**	**₱1,103,181,495**	**₱812,115,660**	**₱176,216,840**	**₱14,807,549,261**
Segment liabilities[(b)]	**₱1,052,157,179**	**₱72,637,779**	**₱219,010,869**	**₱123,107,813**	**₱59,867,317**	**₱1,526,780,957**
Interest-bearing loans and borrowings	**1,203,712,500**	**–**	**–**	**195,500,000**	**–**	**1,399,212,500**
Bonds payable	**2,950,434,455**	**–**	**–**	**–**	**–**	**2,950,434,455**
Pension liabilities – net	**9,983,169**	**3,062,219**	**561,490**	**33,630,210**	**61,628**	**47,298,716**
Obligations under finance lease	**23,445,820**	**–**	**45,719**	**299,766**	**–**	**23,791,305**
Deferred tax liabilities – net	**235,924,429**	**–**	**–**	**–**	**–**	**235,924,429**
Total Liabilities	**₱5,475,657,552**	**₱75,699,998**	**₱219,618,078**	**₱352,537,789**	**₱59,928,945**	**₱6,183,442,362**
Other Segment Information						
Capital expenditure -						
Property and equipment						**₱1,176,144,943**
Depreciation and amortization						**289,721,136**
Noncash expenses other than depreciation and amortization						**67,267,606**

	March 31, 2017(Audited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
Assets and Liabilities						
Segment assets[(a)]	₱11,185,319,211	₱49,589,935	₱889,436,637	₱674,990,253	₱121,181,045	₱12,920,517,081
Investments in and advances to associates and joint ventures	1,095,823,498	–	–	–	–	1,095,823,498
Pension assets – net	2,763,398	–	–	–	–	2,763,398
Goodwill	223,777,646	–	–	15,681,232	–	239,458,878
Deferred tax assets – net	24,649,787	316,278	342,397	7,512,232	55,047	32,875,741
Total Assets	₱12,532,333,540	₱49,906,213	₱889,779,034	₱698,183,717	₱121,236,092	₱14,291,438,596
Segment liabilities[(b)]	₱648,983,384	₱17,560,937	₱41,425,419	₱34,900,321	₱23,483,285	₱766,353,346
Interest-bearing loans and borrowings	1,520,200,000	–	–	209,000,000	–	1,729,200,000
Bonds payable	2,947,028,638	–	–	–	–	2,947,028,638
Pension liabilities – net	10,143,720	666,374	429,565	36,811,729	40,833	48,092,221
Obligations under finance lease	12,222,083	–	172,021	445,278	–	12,839,382
Deferred tax liabilities – net	236,505,372	–	–	–	–	236,505,372
Total Liabilities	₱5,375,083,197	₱18,227,311	₱42,027,005	₱281,157,328	₱23,524,118	₱5,740,018,959
Other Segment Information						
Capital expenditure -						
Property and equipment						₱1,599,419,108
Depreciation and amortization						375,621,499
Noncash expenses other than depreciation and amortization						89,864,801

[(a)] Segment assets exclude investments in and advances to associates and joint ventures, pension assets, noncurrent asset held for sale, goodwill and net deferred tax assets.
[(b)] Segment liabilities exclude interest-bearing loans and borrowings, bonds payable, net pension liabilities, obligations under finance lease and net deferred tax liabilities.

5. Cash and Cash Equivalents

This account consists of:

	December 31, 2017 (Unaudited)	March 31,2017 (Audited)	December 31, 2016 (Unaudited)
Cash on hand and in banks	**₱754,207,260**	₱2,414,468,046	₱841,364,203
Cash equivalents	**1,272,630,566**	784,255,510	285,640,637
	₱2,026,837,826	₱3,198,723,556	₱1,127,004,840

Cash in banks and cash equivalents earn interest at their respective bank deposit and investment rates.

Interest earned from cash in banks and cash equivalents amounted to ₱20.5 million and ₱1.8 million for the nine-month periods ended December 31, 2017 and 2016, respectively.

6. Receivables

This account consists of:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Tuition and other school fees	**₱1,294,227,894**	₱420,707,108
Educational services	**79,203,718**	47,862,238
Rent, utilities and other related receivables (see Note 20)	**47,076,331**	45,861,725
Advances to officers and employees (see Note 20)	**31,040,674**	22,689,625
Current portion of advances to associates, joint ventures and other related parties (see Note 20)	**143,571**	143,571
Others	**27,038,565**	29,548,075
	1,478,730,753	566,812,342
Less allowance for doubtful accounts	**171,206,972**	123,752,494
	₱1,307,523,781	₱443,059,848

7. Inventories

This account consists of:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
At net realizable value:		
Educational materials	**₱128,033,728**	₱111,579,144
Promotional materials	**17,957,580**	9,178,463
School materials and supplies	**1,914,014**	2,819,592
	₱147,905,322	₱123,577,199

Educational materials is composed of inventory of school uniforms amounting to ₱115.9 million and ₱100.6 million as at December 31, 2017 and March 31, 2017, respectively. This also includes textbooks and other educational related materials amounting to ₱12.1 million and ₱11.0 million as at December 31, 2017 and March 31, 2017, respectively.

Promotional materials include proware materials amounting to ₱11.1 million and ₱7.4 million as of December 31, 2017 and March 31, 2017, respectively. It also includes marketing materials amounting to ₱6.9 million as of December 31, 2017 and ₱1.8 million as at March 31, 2017.

8. Prepaid Expenses and Other Current Assets

This account consists of:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Prepaid taxes	**₱76,140,725**	₱122,652,271
Prepaid subscriptions and licenses	**12,329,825**	875,469
Prepaid rent	**9,861,219**	9,928,047
Prepaid insurance	**5,245,688**	723,958
Excess contributions to CEAP	**3,171,418**	3,603,282
Software maintenance cost	**1,538,467**	2,414,514
Rental deposits	**131,299**	5,079,750
Others	**8,602,517**	3,747,593
	₱117,021,158	₱149,024,884

Prepaid taxes includes input VAT mostly from purchase of uniforms and the construction activities in iACADEMY's Yakal campus. On August 30, 2017, the amount of ₱46.8 million was reclassified by STI ESG to "Land" with the SEC approval of the merger of STI Taft and STI ESG, with STI ESG as the surviving entity (see Note 10). This account also includes prepaid business and real property taxes which will be amortized within the year.

Prepaid subscriptions and licenses pertain substantially to the eLearning Management System, Microsoft license, Adobe Acrobat, Sophos Firewall and licenses for various software obtained by iACADEMY for its student activities, which shall be amortized within the school year.

Prepaid rent represents advance rent paid for the lease of land and building spaces, which shall be applied to the monthly rental in accordance with the terms of the lease agreements.

Prepaid insurance includes fire insurance coverage on buildings including equipment and furniture, health insurance coverage of employees and life and accident insurance of the students which were paid in advance and will be recognized as expense over the period of the coverage, which is normally within one year.

Excess contributions to the Catholic Educational Association of the Philippines Retirement Plan ("CEAP") pertain to contributions made by De Los Santos-STI College and STI QA to CEAP which are already considered forfeited pension benefits of those employees who can no longer avail their pension benefits either because they did not meet the required tenure of ten years or they did not reach the retirement age of sixty when they left the service or when De Los Santos-STI College has already advanced the benefits of qualified employees. These contributions will be offset against De Los Santos-STI College's and STI QA's future required contributions to CEAP.

Software maintenance cost includes the annual support and maintenance charges for the Group's accounting and enrollment systems, which are amortized in accordance with the terms of the agreements.

Rental deposits pertain to security deposits made for warehouse and office space rentals which will expire within one year and will be applied against future lease payments in accordance with the respective lease agreements.

Other current assets include ₱3.3 million of borrowing transaction costs incurred by iACADEMY on its term loan facility with China Bank. This amount will be amortized over the term of the loan.

9. Noncurrent Asset Held for Sale

Noncurrent asset held for sale amounting to ₱755.1 million represents the carrying value of STI ESG's 20% ownership in Maestro Holdings. This is the company that owns 100% of PhilPlans First, Inc. ("PhilPlans"), 99.89% of PhilhealthCare, Inc. and 70.6% of Philippine Life Financial Assurance Corporation. On June 27, 2017, STI ESG's BOD approved the disposal of this 20% stake in Maestro Holdings to enable the Group to focus on its core business of offering educational services.

With the classification as noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for its investment in Maestro Holdings on June 30, 2017. While it is recognized that there are costs to sell the investment, such amount is not yet determinable at this time. With this, the write-down to fair value less costs to sell cannot be established at this time.

10. Property and Equipment

The rollforward analysis of this account follows:

	December 31, 2017 (Unaudited)									
	Land	**Buildings**	**Office and School Equipment**	**Office Furniture and Fixtures**	**Leasehold Improvements**	**Transportation Equipment**	**Computer Equipment and Peripherals**	**Library Holdings**	**Construction In Progress**	**Total**
Cost, Net of Accumulated Depreciation and Amortization										
Balance at beginning of the period	**₱2,984,860,600**	**₱3,215,847,552**	**₱167,937,611**	**₱81,200,005**	**₱60,336,785**	**₱14,695,980**	**₱46,913,898**	**₱18,045,674**	**₱285,732,732**	**₱6,875,570,837**
Additions	**224,877,779**	**51,251,051**	**25,598,769**	**14,622,059**	**9,819,634**	**23,423,023**	**46,405,928**	**5,225,142**	**774,921,558**	**1,176,144,943**
Reclassifications	**–**	**5,748,222**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,748,222)**	**–**
Disposal	**–**	**–**	**(1,205)**	**–**	**–**	**(330,000)**	**–**	**–**	**–**	**(331,205)**
Effect of business combination	**–**	**–**	**462,403**	**14,750**	**–**	**–**	**923,020**	**129,718**	**–**	**1,529,891**
Adjustment	**–**	**–**	**–**	**–**	**–**	**(14,494)**	**–**	**–**	**(216,440)**	**(230,934)**
Depreciation and amortization	**–**	**(128,426,653)**	**(46,195,547)**	**(25,027,316)**	**(20,772,836)**	**(6,894,274)**	**(24,099,628)**	**(6,221,363)**	**–**	**(257,637,617)**
Balance at end of the period	**₱3,209,738,379**	**₱3,144,420,172**	**₱147,802,031**	**₱70,809,498**	**₱49,383,583**	**₱30,880,235**	**₱70,143,218**	**₱17,179,171**	**₱1,054,689,628**	**₱7,795,045,915**
At December 31, 2017:										
Cost	**₱3,209,738,379**	**₱4,127,858,379**	**₱600,596,923**	**₱290,569,545**	**₱395,091,460**	**₱86,921,460**	**₱515,741,034**	**₱194,295,014**	**₱1,054,689,628**	**₱10,475,501,822**
Accumulated depreciation and amortization	**–**	**983,438,207**	**452,794,892**	**219,760,047**	**345,707,877**	**56,041,225**	**445,597,816**	**177,115,843**	**–**	**2,680,455,907**
Net book value	**₱3,209,738,379**	**₱3,144,420,172**	**₱147,802,031**	**₱70,809,498**	**₱49,383,583**	**₱30,880,235**	**₱70,143,218**	**₱17,179,171**	**₱1,054,689,628**	**₱7,795,045,915**

	March 31, 2017 (Audited)									
	Land	Buildings	Office and School Equipment	Office Furniture and Fixtures	Leasehold Improvements	Transportation Equipment	Computer Equipment and Peripherals	Library Holdings	Construction In Progress	Total
Cost, Net of Accumulated Depreciation and Amortization										
Balance at beginning of year	₱2,072,955,019	₱2,956,925,994	₱167,861,381	₱86,721,158	₱83,574,397	₱17,919,135	₱35,854,912	₱20,646,692	₱167,979,793	₱5,610,438,481
Additions	911,905,581	262,995,022	50,904,125	25,987,967	2,606,294	6,252,282	41,863,364	6,094,515	290,809,958	1,599,419,108
Reclassifications	–	161,120,186	9,268,564	–	2,668,269	–	–	–	(173,057,019)	–
Disposal	–	–	(75,257)	(9,680)	–	(132,300)	–	–	–	(217,237)
Depreciation and amortization	–	(165,193,650)	(60,021,202)	(31,499,440)	(28,512,175)	(9,343,137)	(30,804,378)	(8,695,533)	–	(334,069,515)
Balance at end of year	₱2,984,860,600	₱3,215,847,552	₱167,937,611	₱81,200,005	₱60,336,785	₱14,695,980	₱46,913,898	₱18,045,674	₱285,732,732	₱6,875,570,837
At March 31, 2017:										
Cost	₱2,984,860,600	₱4,070,859,106	₱574,945,215	₱275,672,568	₱385,264,288	₱71,300,806	₱469,352,030	₱188,852,767	₱285,732,732	₱9,306,840,112
Accumulated depreciation and amortization	–	855,011,554	407,007,604	194,472,563	324,927,503	56,604,826	422,438,132	170,807,093	–	2,431,269,275
Net book value	₱2,984,860,600	₱3,215,847,552	₱167,937,611	₱81,200,005	₱60,336,785	₱14,695,980	₱46,913,898	₱18,045,674	₱285,732,732	₱6,875,570,837

The cost of fully depreciated property and equipment still being used by the Group amounted to ₱1,065.6 million and ₱945.7 million as at December 31, 2017 and March 31, 2017, respectively. There were no idle assets as at December 31, 2017 and March 31, 2017.

Additions

Acquisitions

On July 5, 2017, STI ESG executed a Deed of Absolute Sale with Abacus Global Technovisions, Inc. for the purchase of a parcel of land with an area of 2,873 square meters situated at Poblacion, City of Lipa, Province of Batangas for a total consideration of ₱86.2 million. On the same date, STI ESG executed Deeds of Absolute Sale with Asean Commodity Enterprises for the purchase of land aggregating to 349 square meters at Poblacion, City of Lipa, Province of Batangas for a total consideration of ₱10.5 million. As at December 31, 2017, the aggregate cost of the land amounted to ₱99.1 million inclusive of taxes, registration and other fees related to the acquisition. This will be the future site of STI Lipa.

On September 30, 2017, STI ESG purchased a parcel of land located along Rizal Street, Legazpi City with an area of 4,149 square meters for a total cost of ₱74.7 million. As at December 31, 2017, the aggregate cost of the land amounted to ₱76.4 million inclusive of taxes related to the acquisition. This will be the future site of STI Legazpi.

Property and Equipment under Construction

As at December 31, 2017, the construction in-progress account includes the renovation works in STI Sta. Maria and the costs incurred for the fit out works on a leased building, which will be the new site of STI Malaybalay. The related contract costs totaled to ₱69.0 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the projects. The construction projects in Sta. Maria and Malaybalay were completed in January 2018.

The construction in-progress account also includes costs related to the construction of school buildings which will be the new site of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte. The related contract costs amounted to ₱2,676.8 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the projects. The construction project in Lipa is expected to be completed by end of June 2018 while the rest are expected to be completed in time for the second semester or in November 2018.

iACADEMY's construction in-progress includes costs related to the construction of Yakal campus. The related contract costs amounted to ₱1,067.7 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the project. The eight floors set to be utilized for the school have been completed in January 2018. Students will start using the facility in February 2018. The twelfth floor, lower penthouse and upper penthouse where the multi-purpose hall, basketball court and mini theater are located and the three floors which will be initially offered for lease are expected to be completed in March 2018.

As at March 31, 2017, the construction in-progress account includes costs incurred for the following: (a) construction of classrooms and faculty rooms in STI Batangas; (b) renovation works in STI Novaliches; (c) construction of swimming pool and firing range in STI WNU and (d) land development and building for the Yakal campus of iACADEMY. The related contract costs amounted to ₱1,050.6 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the projects. The construction of classrooms and faculty rooms in STI Batangas was completed in July 2017 while the renovation works in STI Novaliches were completed in September 2017. The construction of swimming pool in STI WNU was completed in August 2017.

Reclassification to Land

The amount of ₱46.8 million previously recorded by STI ESG as Input VAT and classified as part of prepaid taxes was reclassified to "Land", forming part of the acquisition cost of the 3,911 square meter property along EDSA, Pasay City purchased by STI ESG in January 2017. This is intended to be the site of the nine-storey STI Academic Center Pasay-EDSA where the existing students of STI Taft, a separate corporate entity then, will eventually transfer. On August 30, 2017, SEC approved the merger of STI Taft with STI ESG, with STI ESG as the surviving entity. With the approval of the merger, the related input VAT on the purchase of the said EDSA property amounting to ₱46.8 million, was reclassified as part of the acquisition cost of the land (see Note 8).

Capitalized Borrowing Costs. Total borrowing costs capitalized as part of property and equipment amounted to ₱28.8 million and ₱1.9 million as at December 31, 2017 and March 31, 2017, respectively. The average interest capitalization rates were nil, 3.89% and 6.12% for STI WNU, iACADEMY and STI ESG, respectively, for the nine-month period ended December 31, 2017, and 4.42%, 3.75% and nil for STI WNU, iACADEMY and STI ESG, respectively, for the year ended March 31, 2017, which were the effective rates of the general borrowings.

11. **Investment Properties**

The rollforward analysis of this account follows:

	December 31, 2017 (Unaudited)		
	Land	**Building**	**Total**
Cost:			
Balance at beginning of the period	**₱1,309,753,568**	**₱665,357,550**	**₱1,975,111,118**
Additions	**3,631,991**	–	**3,631,991**
Balance at end of the period	**1,313,385,559**	**665,357,550**	**1,978,743,109**
Accumulated depreciation:			
Balance at beginning of the period	**–**	**83,879,584**	**83,879,584**
Depreciation	**–**	**23,358,660**	**23,358,660**
Balance at end of the period	**–**	**107,238,244**	**107,238,244**
Net book value	**₱1,313,385,559**	**₱558,119,306**	**₱1,871,504,865**

	March 31, 2017 (Audited)		
	Land	Building	Total
Cost:			
Balance at beginning of the period	₱1,275,401,424	₱665,357,550	₱1,940,758,974
Additions	34,352,144	–	34,352,144
Balance at end of the period	1,309,753,568	665,357,550	1,975,111,118
Accumulated depreciation:			
Balance at beginning of the period	–	52,734,708	52,734,708
Depreciation	–	31,144,876	31,144,876
Balance at end of the period	–	83,879,584	83,879,584
Net book value	₱1,309,753,568	₱581,477,966	₱1,891,231,534

12. **Investments in and Advances to Associates and Joint Ventures**

The details and movements in this account follow:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Investments at Equity		
Acquisition cost:		
Balance at beginning of the period	**₱225,736,031**	₱243,235,800
Reversal	**(43,000)**	–
Reclassification to noncurrent asset held for sale (see Note 9)	**(174,075,126)**	–
Cancellation of subscription payable balance by Maestro Holdings	–	(17,499,769)
Balance at end of the period	**51,617,905**	225,736,031
Accumulated equity in net earnings (losses):		
Balance at beginning of the period	**917,999,986**	1,077,265,944
Equity in net losses	**(445,644,199)**	(158,497,925)
Dividends received	**(452,025)**	(768,033)
Reclassification to noncurrent asset held for sale (see Note 9)	**(481,312,235)**	–
Balance at end of the period	**(9,408,473)**	917,999,986
Accumulated share in associates' other comprehensive income (loss):		
Balance at beginning of the period	**(48,641,168)**	104,311,772
Unrealized mark-to-market gain (loss) on AFS financial assets	**147,634,384**	(171,932,663)
Remeasurement gain on pension liabilities	**38,416**	18,979,723
Reclassification to noncurrent asset held for sale (see Note 9)	**(98,946,574)**	–
Balance at end of the period	**85,058**	(48,641,168)
Share in associates' other equity reserve:		
Balance at beginning of the period	**728,649**	728,649
Reclassification to noncurrent asset held for sale (see Note 9)	**(728,649)**	–
Balance at end of the period	**–**	728,649
	42,294,490	1,095,823,498
Advances (see Note 20)	**37,868,986**	37,277,147
Less allowance for impairment loss	**37,868,986**	37,277,147
	–	–
	₱42,294,490	₱1,095,823,498

The equity in net losses amounting to ₱445.6 million pertains substantially to the share of STI ESG in the loss of PhilPlans up to June 30, 2017 arising from its full recognition of the mandated discount interest rate imposed by the Insurance Commission ("IC") on the reserves of pre-need companies. IC is the government regulatory agency supervising pre-need companies. In November 2012, the IC issued Circular Letter 23-2012 relating to the Valuation of Transitory Pre-need Reserves. The circular mandated that for the years 2012-2016, the discount interest rate shall be 8%; for 2017, 7.25%; for 2018, 6.5% and for 2019 onwards, 6%. The purpose of this Circular is to provide regulatory leeway for the old basket of plans previously approved by the SEC when the pre-need companies were under its supervision. In July 2017, PhilPlans opted to have an early adoption of the 6% discount interest rate starting January 2017. This means higher allocation to pre-need reserves from its trust funds, thus recognizing a bigger expense item.

The carrying values of the Group's investments in and advances to associates and joint ventures are as follows:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Associates:		
STI Alabang	**₱20,864,819**	₱20,864,819
GROW	**16,417,303**	15,507,702
STI Accent	**37,868,986**	37,277,147
STI Marikina	**385,946**	–
Maestro Holdings	**–**	1,053,968,500
Joint venture:		
PHEI	**4,626,422**	5,482,477
	80,163,476	1,133,100,645
Allowance for impairment loss	**37,868,986**	37,277,147
	₱42,294,490	₱1,095,823,498

As discussed in Note 9, on June 27, 2017, the BOD of STI ESG approved the disposal of its 20% stake in Maestro Holdings in whole or in part, subject to compliance with all regulatory requirements for the disposal of the said shares. On June 30, 2017, STI ESG reclassified its investments in Maestro Holdings with a carrying value of ₱755.1 million to "Noncurrent Asset held for sale" (see Note 2).

The Group's allowance for impairment loss on investments in and advances to associates and joint ventures amounting to ₱37.9 million and ₱37.3 million as at December 31, 2017 and March 31, 2017, respectively, pertain to the Group's investment in and advances to STI Accent.

13. Available-for-Sale Financial Assets

This account consists of:

	December 31, 2017 (Unaudited)	**March 31, 2017 (Audited)**
Quoted equity shares - at fair value	**₱5,143,770**	₱4,518,720
Unquoted equity shares - at cost	**63,183,410**	47,083,410
	₱68,327,180	₱51,602,130

STI ESG made deposits for the purchase of proprietary shares in a development in Batangas amounting to ₱3.2 million and ₱12.9 million on December 2016 and January 2017, respectively. These deposits previously taken up as "Deposits for asset acquisitions" were reclassified to "Available for Sale Financial Assets" in December 2017 (see Note 14).

14. Goodwill, Intangible and Other Noncurrent Assets

This account consists of:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Advances to suppliers	**₱289,122,590**	₱29,663,654
Goodwill	**241,235,574**	239,458,878
Rental and utility deposits	**49,272,418**	45,641,805
Intangible assets	**19,086,924**	27,400,516
Deferred input VAT	**11,731,509**	9,767,344
Deposits for asset acquisitions	**200,000**	72,764,000
Others	**2,363,027**	2,489,774
	₱613,012,042	₱427,185,971

Advances to suppliers primarily pertain to advance payments made in relation to the acquisition of property and equipment and buildings/land improvements under construction (see Note 10). These will be reclassified to the "Property and equipment" account when the goods are received or the services are rendered.

The "Deposits for asset acquisitions" as at December 31, 2017 pertains to the reservation fee for a property in Iloilo which has been identified as the future site of STI Academic Center Iloilo, while the balance as at March 31, 2017 includes deposits paid for the purchase of land located in Poblacion, Lipa City, Batangas which is to be the site of STI Academic Center Lipa, deposit for the purchase of proprietary shares in a development in Batangas and deposits made for the acquisition of the net assets of an STI franchised school located in Santa Maria, Bulacan.

On May 23, 2017, STI Sta. Maria entered into a Deed of Assignment with Halili Reyes Educational Institution, Inc. ("HREI") whereby HREI assigned, transferred and conveyed in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, to STI Sta. Maria all its rights, title and interest in its school's assets and liabilities for a price of ₱20.0 million. The assignment of the net assets shall retroact to April 1, 2017. Consequently, the ₱18.0 million initial deposits made which were previously recognized under "Deposits for asset acquisitions" were applied and STI Sta. Maria paid the remaining balance of ₱2.0 million.

The purchase price consideration has been allocated to the assets and liabilities based on the fair values at the date of acquisition resulting in goodwill amounting to ₱1.8 million. The carrying values of the financial assets and liabilities and other assets recognized at the date of acquisition approximate their fair values due to the short-term nature of the transactions.

15. Accounts Payable and Other Current Liabilities

This account consists of:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Accounts payable (see Note 20)	**₱389,557,161**	₱230,907,098
Dividends payable	**25,122,779**	25,278,074
Accrued expenses:		
Rent	**42,382,073**	40,929,809
Interest	**24,327,295**	12,387,255
Contracted services	**15,639,848**	29,632,054

(*Forward*)

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
School-related expenses	**8,532,519**	24,772,365
Salaries, wages and benefits	**6,508,442**	22,076,587
Utilities	**5,069,059**	5,259,861
Advertising and promotion	**758,977**	3,963,957
Others	**9,195,424**	12,920,630
Statutory payables	**23,755,342**	15,090,909
Network events fund	**16,996,246**	6,959,471
Current portion of payable to STI Diamond	**7,963,763**	3,712,143
Student organization fund	**6,623,101**	4,153,806
Current portion of refundable deposits	**1,106,752**	1,413,374
Others	**17,525,485**	20,635,665
	₱601,064,266	₱460,093,058

The terms and conditions of the above liabilities are as follows:

a. Accounts payable are noninterest-bearing and are normally settled within a 30 to 60-day term.

b. Statutory payables primarily include taxes payable and monthly contributions to government agencies. These are normally settled within a 30-day term.

c. Network events fund refers to the fund contributed by the STI network of schools which is used for activities or programs intended to enhance student development. The fund subsidizes the expenses of the schools' delegates to STI network wide social and academic competitions to reduce the schools' financial burden of participating in such events.

16. Interest-bearing Loans and Borrowings

This account consists of:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Current portion:		
Short-term loans	**₱250,000,000**	₱745,000,000
Corporate notes facility	**70,800,000**	67,800,000
	320,800,000	812,800,000
Noncurrent portion	**1,078,412,500**	916,400,000
	₱1,399,212,500	₱1,729,200,000

a. Short-term Loans

On August 1, 2016, iACADEMY obtained a short-term loan from China Banking Corporation ("China Bank") amounting to ₱200.0 million. The loan is subject to 3.75% interest per annum. The amount recognized as interest expense from the loan amounted to ₱3.1 million up to December 31, 2016. The loan was treated as bridge financing for the construction of the building for the Yakal campus of iACADEMY. Interest on this loan was capitalized starting January 1, 2017 as part of the cost of the building. STI Holdings signed as co-maker for this bridge financing. On September 29, 2017, this bridge loan was fully paid from the term loan facility arranged with China Bank.

STI ESG's short-term loan balance amounted to ₱250.0 million and ₱545.0 million as at December 31, 2017 and March 31, 2017, respectively. STI ESG availed of loans from Bank of the Philippine Islands with a total amount of ₱70.0 million and made payments aggregating to ₱365.0 million as at December 31, 2017. Interest rates of STI ESG loans ranged from 3.20% to 3.75%. The proceeds from these loans were used for working capital requirements.

b. Long-term Loans

<u>Corporate Notes Facility</u>
On March 20, 2014, STI ESG entered into a Corporate Notes Facility Agreement ("Credit Facility Agreement") with China Bank granting STI ESG a credit facility amounting to ₱3,000.0 million with a term of either 5 or 7 years. The facility is available in two tranches of ₱1,500.0 million each. The net proceeds from the issuance of the notes shall be used for capital expenditures and other general corporate purposes.

On May 9, 2014, the first drawdown date, STI ESG elected to have a 7-year term loan with floating interest based on the 1-year PDST-F plus a margin of two percent (2.00%) per annum, which interest rate shall in no case be lower than the BSP overnight rate plus a margin of three-fourths percent (0.75%) per annum, which is subject to repricing.

In 2015, STI ESG availed a total of ₱1,200.0 million loan. STI ESG has made payments amounting to ₱20.4 million and ₱80.4 million for the nine-month periods ended December 31, 2017 and for the year ended March 31, 2017, respectively.

An Accession Agreement to the Credit Facility Agreement was executed on December 16, 2014 among STI ESG, STI WNU and China Bank whereby STI WNU acceded to the Credit Facility entered into by STI ESG with China Bank in March 2014. On the same date, an Amendment and Supplemental Agreement was also executed by the parties allowing STI WNU to draw up to ₱300.0 million from the facility.

On December 19, 2014, STI ESG advised China Bank that it will not be availing of tranche 2 of the Credit Facility Agreement thus limiting the facility available to STI ESG to ₱1,500.0 million. On the same date, STI WNU availed the amount of ₱300.0 million under the same terms and conditions as that of STI ESG Credit Facility. This loan is secured by a Comprehensive Surety issued by the Parent Company. STI WNU fully settled its outstanding term loans with China Bank amounting to ₱67.0 million out of the net proceeds of the long-term loan of ₱300.0 million. These term loans from China Bank were originally secured by land on which STI WNU is situated. The mortgage on the properties was cancelled and the land titles were released in January 2015.

STI WNU has made payments on the Corporate Notes Facility amounting to ₱13.5 million and ₱66.0 million for the nine-month periods ended December 31, 2017 and for the year ended March 31, 2017, respectively. Included in the payments made were prepayments amounting to nil and ₱50.0 million for the nine-month periods ended December 31, 2017 and for the year ended March 31, 2017, respectively. Total prepayments made since the inception of the loan amounts to ₱50.0 million as at December 31, 2017. Such prepayments will be applied in the last year of amortization of the loan.

These loans are unsecured and are due based on the following schedule:

Fiscal year ending March 31	STI ESG	STI WNU
2018	₱20,400,000	₱13,500,000
2019	134,400,000	33,000,000
2020	240,000,000	79,600,000
2021	240,000,000	69,400,000
2022	120,000,000	–
	₱754,800,000	₱195,500,000

The Credit Facility Agreement, together with the Accession Agreement, contains, among others, covenants regarding incurring additional debt and declaration of dividends, to the extent that such will result in a breach of the required debt-to-equity and debt service cover ratios. STI ESG was required to maintain a debt-to-equity ratio of not more than 1.0:1 and debt service cover ratio of not less than 1.1:1.

On January 19, 2017, STI ESG, STI WNU and China Bank executed a Second Amendment and Supplemental Agreement to the Corporate Notes Facility Agreement. Significant amendments are as follows:

a) change in interest rate of either (1) the 1-year Benchmark Rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.75% per annum or (2) the 3-month Benchmark Rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.5% per annum.

b) amendments on the required financial ratios, whereby STI ESG shall maintain the following ratios which shall be computed based on the consolidated financial statements:

    (1) Debt-to-equity ratio of not more than 1.5x, computed by dividing total debt by total equity. For the purpose of this computation, total debt shall exclude unearned tuition and other school fees;

    (2) Debt service cover ratio of a minimum of 1.05x.

On February 17, 2017, China Bank likewise advised STI WNU that it has approved that the latter shall maintain a debt-to-equity ratio of not more than 1.5x, computed by dividing the total debt over the total equity and that for the purpose of this computation, total debt shall exclude unearned tuition and other school fees.

The required debt service cover ratio of a minimum of 1.1x for STI WNU remained the same.

As at December 31, 2017 and March 31, 2017, STI ESG and STI WNU are compliant with the above covenants.

Term Loan Facility

On September 28, 2017, iACADEMY and Neschester as Third Party Mortgagor entered into an Omnibus Loan and Security Agreement ("Omnibus Agreement") with China Bank granting iACADEMY a Term Loan Facility amounting to ₱800.0 million with a term of ten (10) years from date of execution of the Omnibus Agreement, with a 3-year grace period on principal payment. Principal repayment is on a semi-annual basis with the first payment to start on September 30, 2020. The proceeds from the loan shall be used to refinance the ₱200.0 million bridge loan and partially finance the cost of construction of iACADEMY's Yakal Campus Building. The loan is secured by a real estate mortgage on the Yakal land owned by Neschester and the building being constructed thereon owned by iACADEMY, together with all the machineries and equipment to be installed therein.

Interest on this loan is based on one (1)-year PDST-R2 plus a margin of 1.5% per annum which interest rate shall in no case be lower than the sum of the BSP Overnight Lending Facility Rate and 0.50% per annum, and is subject to annual repricing. Interest is payable every March 31 and September 30 of each year up to September 30, 2027.

The Omnibus Loan and Security Agreement, contains, among others, covenants regarding incurring additional debt and declaration of dividends, to the extent that such will result in a breach of the required debt-to-equity and debt service cover ratios. The required financial ratios are:

1) Debt-to-equity ratio of not more than 2.0x, computed by dividing total liabilities by total equity. For the purpose of this computation, total liabilities shall exclude unearned tuition and other school fees;

2) Debt service cover ratio of a minimum of 1.05x.

On September 29, 2017, iACADEMY made its first drawdown to fully settle the ₱200.0 million bridge loan.

As of December 31, 2017, iACADEMY is compliant with the required financial ratios.

Future repayment of the loan principal under the Omnibus Loan Facility Agreement follows:

Fiscal year ending March 31	iACADEMY
2018	–
2019	–
2020	–
2021	₱26,666,667
2022	26,666,667
2023	26,666,667
2024	26,666,667
2025	26,666,667
2026	26,666,667
2027	26,666,667
2028	13,333,331
	₱200,000,000

c. Interest Expense

Starting with the interest period February 1, 2016, the one-year PDST-F was changed to PDST-R2 as the basis for determining the interest rate for both STI ESG and STI WNU loans. On January 31, 2017, STI ESG and STI WNU elected to adopt the interest rate based on the 1-year Benchmark Rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.75% payable every January 31 and July 31 of each year.

iACADEMY elected to use the one (1)-year Benchmark Rate, PDST-R2, plus a margin of 1.5% per annum which interest rate shall in no case be lower than the sum of the BSP Overnight Lending Facility Rate and 0.50% per annum.

Interest incurred on the loans amounted to ₱41.9 million and ₱50.0 million for the nine-month periods ended December 31, 2017 and 2016 respectively.

17. **Bonds Payable**

This account consists of:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Principal:		
Fixed rate bonds due 2024	**₱2,180,000,000**	₱2,180,000,000
Fixed rate bonds due 2027	**820,000,000**	820,000,000
	3,000,000,000	3,000,000,000
Less: unamortized debt issuance costs	**49,565,545**	52,971,362
	₱2,950,434,455	₱2,947,028,638

On March 23, 2017, STI ESG issued the first tranche of its ₱5,000.0 million fixed rate bonds program under its 3-year shelf registration with the SEC, which was listed through the Philippine Dealing and Exchange Corp. The bonds, amounting to an aggregate of ₱3,000.0 million, with interest payable quarterly, were issued with a fixed rate 5.8085% for the 7-year series, due 2024, and 6.3756% for the 10-year series, due 2027, and were rated a high rating of 'PRS Aa' by Philippine Rating Services Corporation ("PhilRatings"). Proceeds of the issuance will be used to finance the campus expansion projects, refinance the short-term loans incurred for the acquisition of land, and for other general corporate requirements of the Group.

The bonds include an embedded derivative in the form of an early redemption option that gives STI ESG the option, but not the obligation, to redeem in whole (and not in part), the outstanding bonds before the relevant maturity date, based on a certain price depending on the fixed early redemption option dates. Management has assessed that the early redemption option is closely related to the bonds and would not require to be separated from the value of the bonds and accounted for as a derivative under PAS 39, *Financial Instruments: Recognition and Measurement.*

A summary of the terms of STI ESG's issued bonds follows:

Year Issued	**Interest Payable**	**Term**	**Interest Rate**	**Principal Amount**	**Carrying Value as at December 31, 2017**	**Features**
2017	Quarterly	7 years	5.8085%	₱2,180,000,000	₱2,144,353,057	Callable on the 3rd month after the 5th anniversary of Issue Date and on the 6th anniversary of issue date
2017	Quarterly	10 years	6.3756%	820,000,000	806,081,398	Callable from the 7th anniversary issue and every year thereafter until the 9th anniversary issue date
				₱3,000,000,000	₱2,950,434,455	

Covenants
The bonds provide certain restrictions and requirements with respect to, among others, change in majority ownership and management, merger or consolidation with other corporation resulting in loss of control over the overall resulting entity and sale, lease, transfer or otherwise disposal of all or substantially all of its assets. The Trust Agreement also contains, among others, covenants regarding incurring additional debt and declaration of dividends. STI ESG is required to maintain a debt-to-equity ratio of not more than 1.5:1 and debt service cover ratio of not less than 1.05:1. For the purpose of computing the debt-to-equity ratio, total debt shall exclude unearned tuition and other school fees.

STI ESG's debt-to-equity and debt service cover ratios as at December 31, 2017 and March 31, 2017 are as follows:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Total liabilities*	**₱4,416,187,813**	₱4,794,395,544
Total equity	**6,426,229,733**	6,492,014,878
Debt-to-equity	**0.69:1.00**	0.74:1.00

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
EBITDA**	**₱1,237,353,547**	₱1,298,327,425
Total interest-bearing liabilities	**513,979,625**	827,543,947
Debt service cover	**2.41:1.00**	1.57:1.00

* *Excluding unearned tuition and other school fees*
** *EBITDA for the last twelve months*

Bond Issuance Costs
STI ESG incurred costs related to the issuance of the bonds amounting to ₱53.8 million. These costs are capitalized and amortized using the effective interest rate method. Unamortized bond issuance costs are presented as a contra-liability account in the unaudited interim condensed consolidated statement of financial position as at December 31, 2017 and the audited consolidated statement of financial position as at March 31, 2017. The carrying value of the unamortized bond issuance costs amounted to ₱49.6 million inclusive of ₱0.8 million additional bond issue cost recognized as at December 31, 2017 and ₱53.0 million as at March 31, 2017, respectively. Amortization of bond issuance costs amounting to ₱4.2 million and nil for the nine-month periods ended December 31, 2017 and 2016, respectively, is recognized as part of "Interest expense" account in the unaudited interim condensed consolidated statements of comprehensive income.

Interest Expense
Interest expense associated with the bonds payable recognized in the unaudited interim condensed consolidated statements of comprehensive income amounted to ₱112.7 million and nil for the nine-month periods ended December 31, 2017 and 2016, respectively.

18. **Other Noncurrent Liabilities**

This account consists of:

	December 31, 2017 (Unaudited)	March 31,2017 (Audited)
Payable to STI Diamond - net of current portion	**₱49,153,549**	₱57,117,312
Advance rent	**41,580,782**	39,135,025
Refundable deposit - net of current portion	**19,668,382**	19,867,318
Deferred lease liabilities	**3,401,179**	3,233,954
	₱113,803,892	₱119,353,609

On August 16, 2016, STI Diamond entered into a Deed of Assignment with STI Novaliches where STI Diamond assigned, transferred and conveyed in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, to STI Novaliches all its rights, title and interest in its assets and liabilities for a price of ₱75.0 million, payable quarterly over five years. Consequently, the management contract between STI ESG and STI Diamond was terminated. In addition, any rights to the residual interest in STI Diamond was transferred to an entity outside of the Group. As a result, STI Diamond was derecognized as a subsidiary of STI ESG. The impact of ₱60.8 million, shown as "Effect of derecognition of a subsidiary" in the interim consolidated statements of comprehensive income for the six months ended September 30, 2016, represents the present value of the purchase price. The total carrying value of the unpaid purchase price amounted to ₱57.1 million, of which, ₱8.0 million is classified as current as at December 31, 2017 (see Note 15).

19. **Equity**

Capital Stock

Details as at December 31, 2017 and March 31, 2017 follow:

	Shares	Amount
Common stock - ₱0.50 par value per share		
Authorized	10,000,000,000	₱5,000,000,000
Issued and outstanding	9,904,806,924	4,952,403,462

Other Comprehensive Income (Loss)

	December 31, 2017 (Unaudited)		
	Attributable to Equity Holders of the Parent Company	**Non-controlling interests**	**Total**
Unrealized mark-to-market gain on AFS financial assets	**₱1,079,280**	**₱7,581**	**₱1,086,861**
Share in associates' unrealized mark-to-market gain on AFS financial assets	**–**	**98,260,215**	**98,260,215**
Cumulative actuarial gain	**71,276,362**	**479,211**	**71,755,573**
Share in associates' cumulative actuarial gain	**84,136**	**687,281**	**771,417**
	₱72,439,778	**₱99,434,288**	**₱171,874,066**

	March 31, 2017 (Audited)		
	Attributable to Equity Holders of the Parent Company	Non-controlling interests	Total
Unrealized mark-to-market gain (loss) on AFS financial assets	₱462,127	(₱316)	₱461,811
Share in associates' unrealized mark-to-market loss on AFS financial assets	(48,710,891)	(663,278)	(49,374,169)
Cumulative actuarial gain	44,398,122	479,211	44,877,333
Share in associates' cumulative actuarial gain	722,894	10,107	733,001
	(₱3,127,748)	(₱174,276)	(₱3,302,024)

Other Comprehensive Income associated with Noncurrent Asset Held for Sale
The cumulative balance of other comprehensive income associated with noncurrent asset held for sale aggregating to ₱98.3 million consists of:

	December 31, 2017 (Unaudited)
Shares in associates':	
Unrealized mark-to-market gain on AFS financial assets	**₱96,944,031**
Cumulative actuarial gain	**676,660**
Other equity reserve	**718,885**
	₱98,339,576

Retained Earnings
Consolidated retained earnings represent STI ESG and other subsidiaries' retained earnings, net of amount attributable to NCI, and STI Holdings' accumulated earnings, net of dividends declared from April 1, 2010, after the Controlling Shareholder's acquisition of STI Holdings.

On September 29, 2017, cash dividends amounting to ₱0.02 per share or the aggregate amount of ₱198.1 million were declared by the Parent Company's BOD in favor of all stockholders of record as at October 16, 2017, payable on November 13, 2017.

On September 30, 2016, cash dividends amounting to ₱0.02 per share or the aggregate amount of ₱198.1 million were declared by the Parent Company's BOD in favor of all stockholders of record as at October 14, 2016, payable on November 10, 2016.

Policy on Declaration of Dividends

On September 29, 2017, the BOD of the Parent Company adopted a policy on the declaration of dividends starting with Fiscal Year 2017-2018.

The BOD approved a dividend declaration policy of not less than 25% of the core income of the Company from the previous fiscal year, subject to compliance with the requirements of applicable laws and regulations, statutory limitations and/or restrictions, terms and conditions which may be imposed on the Company by lenders or other financial institutions, and the Company's investment plans and financial condition.

Core income is defined as consolidated net income derived from the Company's main business which is education, and other recurring income.

The amount of dividends will be reviewed periodically by the BOD in light of the Company's earnings, financial conditions, cash flows, capital requirements and other considerations, while maintaining a level of capitalization that is commercially sound and sufficient to ensure that the Company can operate on a standalone basis.

Dividends shall be declared and paid out of the Company's unrestricted retained earnings which shall be payable in cash, property or stock to all shareholders on the basis of outstanding stock held by them. Unless otherwise required by law, the BOD, at its sole discretion, shall determine the amount, type and date of payment of the dividends to the shareholders, taking into account various factors, including:

- the level of the Company's earnings, cash flow, return on equity and retained earnings;
- its results for, and its financial condition at the end of, the year in respect of which the dividend is to be paid and its expected financial performance;
- the projected levels of capital expenditures and other investment programs;
- restrictions on payments of dividends that may be imposed on it by any of its financing arrangements and current or prospective debt service requirements; and
- such other factors as the BOD deems appropriate.

Other Equity Reserve and Non-controlling Interests

STI Taft. On December 1, 2015, the BOD of STI Taft approved the application for an increase in authorized capital stock from 5,000 shares to 750,000 shares with ₱100 par value per share. On the same date, the BOD of STI Taft approved the conversion of STI Taft’s advances from STI ESG amounting to ₱49.0 million to deposit for future stock subscriptions. On April 4, 2016, the SEC approved STI Taft’s increase in authorized capital stock to ₱75.0 million. Consequently, the deposit for future stock subscriptions was reclassified as part of the investment cost. As at September 30, 2016, STI Taft became a 99.9%-owned subsidiary of STI ESG. This transaction resulted in the dilution of the non-controlling interest and an equity adjustment of ₱11.3 million for the year ended March 31, 2017.

On August 30, 2017, the SEC approved the application for merger of STI Taft and STI ESG, with STI ESG as the surviving entity.

20. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) enterprises or individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Parent Company; (b) associates; and (c) enterprises or individuals owning, directly or indirectly, an interest in the voting power of the company that gives them significant influence over the company, key management personnel, including directors and officers of the Group and close members of the family of any such enterprise or individual.

The following are the Group's transactions with its related parties:

Related Party	Amount of Transactions during the Period **December 31, 2017**	 December 31, 2016	Outstanding Receivable (Payable) **December 31, 2017**	 March 31, 2017	Terms	Conditions
Associates						
STI Accent						
Advances for various expenses and other charges	**₱591,839**	₱1,045,467	**₱37,868,986**	₱37,277,147	30 days upon receipt of billings; noninterest-bearing	Unsecured; with impairment
GROW						
Rental income and other charges	**29,025**	27,418	**7,003,524**	7,139,094	30 days upon receipt of billings	Unsecured; no impairment
Advances for various expenses	**–**	–	**143,571**	143,571	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI Alabang						
Educational services and sale of educational materials and supplies	**12,820,202**	12,941,840	**391,128**	1,124,509	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI Marikina						
Educational services and sale of educational materials and supplies	**13,562,986**	11,127,089	**1,645,497**	31,789	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Affiliates*						
PhilCare						
Rental income and other charges	**12,237,822**	12,587,239	**4,664,082**	3,572,074	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
HMO coverage	**4,471,160**	2,952,117	**–**	–	30 days upon receipt of billings; noninterest-bearing	–
Philippines First Insurance Co., Inc.						
Utilities and other charges	**158,275**	150,936	**2,023**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Rental and other charges	**2,219,246**	2,037,251	**(369,218)**	(288,214)	Within 1 year; Noninterest-bearing	Unsecured; no impairment
Insurance	**4,631,483**	3,699,424	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured
Philippines First Condominium Corporation						
Association dues and other charges	**7,979,342**	8,517,762	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured
PhilLife						
Rental income and other charges	**10,179,337**	9,693,089	**1,820,505**	1,822,962	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Officers and employees						
Advances for various expenses	**24,472,717**	10,810,334	**31,040,674**	22,689,625	Liquidated within one month; noninterest-bearing	Unsecured; no impairment
Others						
Rental income and other charges	**718,583**	715,533	**1,943,129**	1,972,715	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
			₱86,153,901	₱75,485,272		

**Affiliates are entities under common control of a majority Shareholder*

Related party receivables and payables are generally settled in cash.

Outstanding receivables from related parties, before any allowance for impairment, and payables arising from these transactions are summarized below:

	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)
Educational services (see Note 6)	**₱2,036,625**	₱1,156,298
Advances to officers and employees (see Note 6)	**31,040,674**	22,689,625
Rent and other related receivables	**15,433,263**	14,506,845
Current portion of advances to associates, joint ventures and other related parties	**143,571**	143,571
Advances to associates and joint ventures (see Note 12)	**37,868,986**	37,277,147
Accounts payable (see Note 15)	**(369,218)**	(288,214)
	₱86,153,901	₱75,485,272

21. **Basic and Diluted Earnings Per Share on Net Income Attributable to Equity Holders of STI Holdings**

The table below shows the summary of net income and weighted average number of common shares outstanding used in the calculation of earnings per share for the nine-month periods ended December 31, 2017 and 2016:

	2017	2016
	(Unaudited)	
Net income attributable to equity holders of STI Holdings	**₱86,449,412**	₱615,372,151
Common shares outstanding at beginning and end of the period (see Note 19)	**9,904,806,924**	9,904,806,924
Basic and diluted earnings per share on net income attributable to equity holders of STI Holdings	**₱0.009**	₱0.062

The basic and diluted earnings per share are the same as there are no dilutive potential common shares.

22. Contingencies and Commitments

Contingencies

a. *Agreements with PWU and Unlad.* In various dates in 2011, 2012 and 2013, the Parent Company and AHC extended loans and advances to PWU and Unlad by virtue of several agreements (collectively, "Loan Documents"), which were secured by mortgages over PWU and Unlad properties, entered into among the Parent Company, AHC, PWU and Unlad in the total principal amount of ₱513.0 million. Upon the non-adherence to the terms and conditions stated in the agreements, the Parent Company and AHC served notices of default to PWU and Unlad in December 2014, and demanded the payment of the total combined amount of approximately ₱926.0 million, inclusive of interests, penalties, fees and taxes.

   Upon failure to pay the aforesaid loan, the Parent Company and AHC enforced its rights under the aforesaid agreements and mortgages and filed several Petitions for Extra-Judicial Foreclosure of Real Estate Mortgage on (a) PWU Indiana and Taft Properties with the Office of the Clerk of Court and Ex-Officio Sheriff of the Regional Trial Court ("RTC") of Manila, (b) Unlad's properties in Quezon City and (c) Davao Property with the Office of the Clerk of Court and Ex-Officio Sheriff of the RTC of Quezon City and Davao, respectively, in February 2015.

   On March 13, 2015, Helena Z. Benitez ("HZB") filed a Creditor-Initiated Petition for Rehabilitation of PWU in RTC Manila ("PWU Rehabilitation Case"). The PWU Rehabilitation Case was raffled to Branch 46 of the RTC Manila ("Rehabilitation Court").

   On March 26, 2015, the Parent Company filed a Notice of Claim with the Rehabilitation Court.

   On August 29, 2015, the Rehabilitation Court rendered a decision dismissing the PWU Rehabilitation Case.

   After filing of the Motion for Reconsideration and responsive pleadings thereto, on January 21, 2016, the Rehabilitation Court denied the respective Motions for Reconsideration filed by HZB and PWU.

   Extra-judicial foreclosure sales were conducted in various dates in 2015 and 2016 for the above mentioned properties and the Parent Company was declared as the winning bidder for all extra-judicial foreclosure sales held.

   On March 1, 2016, the Parent Company and AHC executed a Deed of Assignment wherein AHC assigned its AHC Loan to Unlad, including capitalized foreclosure expenses, amounting to ₱66.7 million for a cash consideration of ₱73.8 million.

   On March 22, 2016, the Parent Company, PWU, Unlad, and HZB entered into a MOA for the extinguishment and settlement of the outstanding obligations of PWU and Unlad to the Parent Company. The MOA includes, among others, the execution of the following on March 31, 2016:

   - Deed of Dacion en pago of Quezon City Properties and Davao Property (collectively referred to as the "Deeds") in favor of the Parent Company

- Release and cancellation of mortgages over the Manila Properties to be executed by the Parent Company

The MOA also provides that the Parent Company will be committed to fund and advance all taxes, expenses and fees to the extent of ₱150.0 million in order to obtain the CAR and the issuance of new TCT and TD in favor of the Parent Company. In the event that such expenses are less than ₱150.0 million, the excess shall be given to Unlad. However, if the ₱150.0 million will be insufficient to cover the expenses, the Parent Company will provide the deficiency without any right of reimbursement from Unlad.

Prior to the settlement, the breakdown of the receivables from PWU and Unlad follows:

	PWU	Unlad	Total
Principal amount	₱250,000,000	₱263,000,000	₱513,000,000
Interest*	12,651,546	3,327,389	15,978,935
Auction expenses**	23,195,709	951,876	24,147,585
Foreclosure and legal expenses**	18,021,970	5,941,989	23,963,959
	₱303,869,225	₱273,221,254	₱577,090,479

**Interest up to December 31, 2012 only*
***₱15.2 million and ₱32.9 million of auction, foreclosure and legal expenses, were recognized as part of the noncurrent receivables in 2016 and 2015, respectively*

Pursuant to the MOA, on March 31, 2016, the Parent Company and Unlad entered into the Deeds wherein Unlad transferred four parcels of land in Quezon City and a parcel of land in Davao to the Parent Company for a total dacion price of ₱611.0 million and ₱300.0 million, respectively, for the settlement of the outstanding loans of PWU and Unlad. As at June 30, 2017 and March 31, 2017,"Investment properties" account includes the Quezon City and Davao properties.

Relative to the above, the following cases have been filed:

(i). *Complaint filed by the Heirs of the Family of Villa-Abrille relative to Unlad's Davao Property.* On October 21, 2015, the Parent Company and AHC each received copies of the Complaint filed by the Heirs of Carlos Villa-Abrille, Heirs of Luisa Villa-Abrille, Heirs of Candelaria V.A. Tan, Heirs of Adolfo V.A. Lim, Heirs of Saya V.A. Lim Chiu, Heirs of Guinga V.A. Lim Lu, Heirs of Rosalia V.A. Lim Lua, Heirs of Lorenzo V.A. Lim, and Heirs of Fermin Abella against the Philippine Women's Educational Association ("PWEA"), Unlad, the Parent Company, and AHC for cancellation of certificate of title, reconveyance of real property, declaration of nullity of real estate mortgage, damages, and attorney's fees. The subject matter of the case is Unlad's property located in Davao City.

The Plaintiffs claim that ownership of Unlad's property in Davao City should revert back to them because PWEA and Unlad violated the restrictions contained in the Deed of Sale covering the property. The restrictions referred to by the Plaintiffs provide that PWEA shall use the land for educational purposes only and shall not subdivide the land for purposes of resale or lease to other persons. The Plaintiffs also claim that the real estate mortgage constituted over Unlad's property in Davao City in favor of the Parent Company and AHC should be declared null and void because PWEA and Unlad have no capacity to mortgage the property based on the restrictions contained in the Deed of Sale.

On November 20, 2015, the Parent Company and AHC filed the Motion to Dismiss ("First Motion to Dismiss"). In the First Motion to Dismiss, the Parent Company and AHC asserted that the Plaintiffs' cause of action against PWEA and Unlad has prescribed considering that the alleged violation of the restrictions in the Deed of Sale occurred in 1987 or more than ten (10) years from the filing of the case. In addition, Plaintiffs cannot seek the cancellation of the real estate mortgage in favor of the Parent Company and AHC because (a) Plaintiffs are not privy/real parties in interest to the said mortgage, and (b) the restrictions in the title and Deed of Sale do not prohibit the mortgage of the subject property. The First Motion to Dismiss was scheduled by the Trial Court on December 4, 2015.

On December 4, 2015, the Plaintiffs failed to attend the hearing of the Motion to Dismiss. The Trial Court instead ordered the Plaintiffs to file their comment to the Motion to Dismiss within ten (10) days from receipt of its order while the Parent Company and AHC are given the same period to file their reply thereto.

The Trial Court also noticed that the records failed to show that PWEA and Unlad received the Summons. The Trial Court then ordered the branch sheriff to cause the service of the Summons to PWEA and Unlad.

Despite the extensions given to the Plaintiffs, Plaintiffs belatedly filed its Comment/Opposition to the First Motion to Dismiss. Subsequently, the Parent Company and AHC filed a Second Motion to Dismiss dated March 22, 2016 ("Second Motion to Dismiss").

In the Second Motion to Dismiss, the Parent Company and AHC informed the Trial Court that they were able to discover that the plaintiffs filed a similar case against PWEA and Unlad with another Trial Court of Davao City, which was dismissed without qualifications for their failure to comply with the said Trial Court's order. Said dismissal was eventually affirmed with finality by the Supreme Court. Because of this information, the Parent Company and AHC moved to dismiss the case for res judicata and willful and deliberate forum shopping for filing the same case to the Trial Court.

After receipt of all the motions filed by the Parent Company and AHC, the Trial Court ordered the parties to file their responsive pleadings to said pending motions, after which, the same shall be submitted for resolution.

The parties filed their responsive pleading wherein the last responsive pleading was filed on May 30, 2016. With the filing of the said last responsive pleading, the Motions to Dismiss were submitted for resolution.

On October 20, 2016, the Trial Court issued the Order, which granted the Motions to Dismiss, and dismissed the instant case on the basis of (a) prescription, and (b) res judicata. The Trial Court likewise affirmed that there were no violations of the provisions and/or restrictions in the Deed of Sale annotated on the title of the subject property because (a) the mortgage of the subject property between the Parent Company and AHC and Unlad is not a prohibited act; and (b) there is no allegation that the subject property shall not be used by the Parent Company and AHC for educational purpose.

On November 24, 2016, the Plaintiffs filed a Notice of Appeal of the Order dated October 20, 2016, and sought the reversal of the same with the Court of Appeals-Cagayan de Oro ("Court of Appeals").

On February 22, 2017, the Parent Company and AHC received the Notice from the Court of Appeals that the Plaintiffs' appeal is docketed as CA-G.R. CV No. 04538. The Court of Appeals required the Plaintiffs to file their Appellants' Brief within forty five (45) days from their receipt of the said Notice. Upon receipt of their Appellants' Brief, the Parent Company and AHC have the same period to file its Appellees' Brief.

After filing a Motion for Extension of time to file the Appellants' Brief, the Plaintiffs filed their Appellants' Brief. In the Appellants-Brief, they reiterated that (a) their cause of action in Civil Case No. 36,430-2015 has not prescribed, (b) they have a cause of action against the Corporation to nullify the mortgage contracts over the subject property and (c) there is no res judicata.

While co-Respondents PWEA and UNLAD filed their joint Appellees' Brief, the Parent Company and AHC filed an Omnibus Motion on June 21, 2017. In the Omnibus Motion, the Parent Company and AHC moved to dismiss the Plaintiffs' appeal because the Appellants' Brief did not comply with the mandatory requirements on the content thereof and period to file the same as provided in Sections 7 and 13 of Rule 44 in relation to Section 1 of Rule 50 of the Rules of the Court. The Parent Company and AHC likewise move to suspend the filing of the Appellees' Brief pending the resolution of the said motion to dismiss appeal.

On August 1, 2017, the Parent Company and AHC received the Resolution of the Court of Appeals. In the Resolution, the Court of Appeals, among others, (a) noted the filing of the Omnibus Motion, and (b) required Plaintiffs' to file their Comment thereto within ten (10) days from their receipt of the Resolution.

The Plaintiffs filed their Comment with Motion to declare the Parent Company and AHC to have deemed waived their right to file their Appellees' Brief. In the said Comment with Motion, Plaintiffs invoked the liberal application of the *Rules of Court* to excuse the defects in their Appellants' Brief. Moreover, Plaintiffs moved that the Parent Company and AHC be declared to have waived their right to file their Appellants' Brief because the period to file the same has lapsed.

On September 15, 2017, the Parent Company and AHC filed a Motion to Admit Reply with Comment/Opposition. In the said Reply with Comment/Opposition, they asserted that the defects in the Plaintiffs' Appellants' Brief are inexcusable. Moreover, the filing of the Omnibus Motion to seek the dismissal of the Appeal suspends the period to file an Appellees' Brief until its resolution.

On October 19, 2017, the Parent Company and AHC received the Court of Appeals' Resolution, which dismissed the Plaintiffs' appeal based on defects in their Appellants' Brief.

On November 21, 2017, the Parent Company and AHC received Plaintiffs' Omnibus Motion (1) for reconsideration to the dismissal of the appeal and (2) admit the amended Appellants' Brief. In the Omnibus Motion, Plaintiffs asserted that the appeal should be reinstated because they have cured all the defects in their Appellants' Brief.

On January 25, 2018, the Parent Company and AHC received the Court of Appeal's Resolution wherein they are required to file a Comment to the aforesaid Omnibus Motion within ten (10) days from receipt thereof or until February 5, 2018.

On February 5, 2018, the Parent Company and AHC filed its Comment to the Omnibus Motion. In the Comment, the Parent Company and AHC opposed the Omnibus Motion because the attached Amended Appellants' Brief still has the same defects raised by the Court of Appeals in its Resolution dismissing the Plaintiffs' appeal. The Parent Company and AHC manifested that in the event the Plaintiffs' appeal shall be reinstated, the former shall be given forty-five (45) days to file their Appellees' Brief to the Amended Appellants' Brief.

The Plaintiffs' Omnibus Motion is deemed submitted for resolution.

(ii) *Arbitration Case and Derivative Suit filed by Mr. Conrado Benitez II.*

a. Mr. Conrado L. Benitez II (the "Claimant") filed a Request for Arbitration, with the Philippine Dispute Resolution Center, Inc. ("PDRCI"), for and on behalf of PWU and Unlad, wherein he requested that the directors/trustees and stockholders/members of Unlad and PWU, Mr. Eusebio H. Tanco ("EHT"), the Parent Company, Mr. Alfredo Abelardo B. Benitez ("ABB") and AHC (collectively, the "Respondents") submit the alleged dispute over the settlement of the loan obligations of PWU and Unlad as provided in the arbitration clause of the Joint Venture Agreement and Omnibus Agreement (the "Loan Documents").

In the said Arbitration Case, the Claimant asserted that PWU and Unlad are not in default in their obligations under the Loan Documents. The obligations provided therein, specifically obtaining a tax free ruling for Property for Share Swap Transaction from the Bureau of Internal Revenue, is an impossible condition. Consequently, the foreclosures on the securities of the Loan Documents, real properties of PWU and Unlad, were null and void because (a) failure to submit the case for arbitration and (b) PWU and Unlad are not in default. Based on such circumstances, the Claimant sought, among others, the (a) renegotiation, or (b) rescission of the Loan Documents. Should the Loan Documents be rescinded, the Claimant also sought that PWU and Unlad shall be allowed twelve months to sell the Davao and Quezon City Properties to return the alleged investments made by the Parent Company, EHT, ABB and AHC. Lastly, the Claimant sought the payment of attorney's fees not less than ₱5.0 million, ₱0.5 million for expenses and reimbursement of cost of suit, expenses, and other fees.

On July 12, 2016, the Parent Company, AHC and EHT received the Notice of Arbitration from the PDRCI, and required said parties to file their Response to the Request for Arbitration filed by the Claimant within thirty (30) days from receipt thereof, or until August 11, 2016.

Upon verification with the PDRCI, the Claimant has yet to pay the full amount of fees required by the PDRCI.

Based on the rules of the PDRCI, the Respondents in the arbitration case need not file their Response until full payment of the Claimant.

Based on said circumstances, the Parent Company, AHC, and EHT filed an Entry of Appearance with Manifestation ("Manifestation"). In the Manifestation, they informed the PDRCI that the filing of their Response shall be deferred until full payment of the provisional advance of cost by the Claimant as required under the PDRCI Rules. Likewise, they manifested that the Claimant should be compelled to pay said fees in order for the PDRCI and/or the arbitral tribunal to be constituted to rule on the defenses and/or claim to be raised by the Parent Company, AHC and EHT.

On September 7, 2016, the PDRCI issued a *Notice* dated August 26, 2016, which informed the parties to the instant case that the proceedings are suspended until the Claimant settles the outstanding provisional advance on cost for filing the instant case.

In view of the foregoing, the case is deemed suspended pending the settlement by the Claimant of the provisional advance on cost.

(b) After filing the Request for Arbitration, Mr. Conrado L. Benitez II (the "Petitioner") then filed a derivative suit for himself and on behalf of Unlad and PWU against directors/trustees and stockholders/members of Unlad and PWU, EHT, the Parent Company, ABB and AHC (collectively, the "Defendants") docketed as Civil Case No. 16-136130 in the RTC of Manila (the "Derivative Suit"). The Derivative Suit was raffled to Branch 24 of the RTC of Manila presided over by Judge Ma. Victoria A. Soriano-Villadolid.

In the Derivative Suit, the Petitioner primarily asserts that the Parent Company, EHT, ABB and AHC should submit themselves to the arbitration proceedings filed with the PDRCI because the Loan Documents required any alleged dispute over the same to be resolved through arbitration. Consequently, the Petitioner alleges that the foreclosure proceedings and settlement of the obligations of PWU and Unlad as evidenced by the MOA dated March 22, 2016 executed by PWU and Unlad with the Parent Company and AHC are null and void for not complying with the aforesaid arbitration clause. Likewise, the Petitioner sought the payment of attorney's fees not less than ₱1.0 million, ₱0.1 million for expenses and cost of suit.

On July 26, 2016, the Parent Company and AHC filed their Joint Answer with Compulsory Counterclaim ("Joint Answer"). In the Joint Answer, the Parent Company and AHC asserted that the instant case is a mere harassment and nuisance suit, and a deliberate form of forum shopping when the Petitioner filed the Arbitration Case for the same purpose. Likewise, the Petitioner cannot compel the corporations to submit themselves to arbitration because (a) the parties to the Loan Documents have already settled any disputes, and (b) the said corporations are not stockholders and members of PWU and Unlad. Lastly, the relevant laws allow the Parent Company and AHC to institute foreclosure proceedings even if there is an arbitration clause.

Simultaneously, EHT filed his Answer wherein he asserted that the Petitioner cannot compel him to submit himself to arbitration when he is not a party to the Loan Documents. Under the relevant laws and arbitration clause of the Loan Documents, only parties to said contracts may be required to submit themselves to arbitration. EHT has ceased to be a party to the Joint Venture Agreement when he assigned all his rights and interests thereto to the Parent Company, while he is not a party to the Omnibus Agreement. EHT further asserted that the Petitioner's only motive of including him in said case is to destroy his good name with the latter's blatant lies and baseless allegations.

The Petitioner then filed his Consolidated Reply to the Joint Answer and Answer of EHT.

Meanwhile, Defendants ABB, Dr. Francisco Benitez (as president of PWU), and Mr. Marco Alfredo Benitez (as president of Unlad) filed their respective Motion(s) to set preliminary hearing on the special and affirmative defenses raised by said Defendants in their respective Answers.

On October 19, 2016, the Petitioner filed his Ex Parte Motion to Set Pre-Trial of the instant case.

The Trial Court ordered the parties to file their respective comments to the aforesaid Motions.

Based on the records of the case, Dr. Francisco Benitez (as president of PWU), and Mr. Marco Alfredo Benitez (as president of Unlad) have filed their opposition to the Ex Parte Motion to Set Pre-Trial insofar as the same is premature due to the pending Motion(s) to set preliminary hearing on the special and affirmative defenses.

On November 11, 2016, the Parent Company, AHC and EHT filed their respective Motion(s) to Set Hearing on Affirmative Defenses. In EHT's Motions, EHT moved to dismiss the case because EHT is no longer a party to the loan documents subject of the instant case. While, the Parent Company and AHC asserted that the dismissal of the case is warranted when (a) the Plaintiff is guilty of forum shopping for filing the arbitration case with the PDRCI and (b) the same is a mere harassment and/or nuisance suit. The said Motions were set for hearing on December 8, 2016.

After the hearing on the aforesaid Motions filed by the Defendants in the instant case and filing of all the parties their respective responsive pleadings to the said Motions, the Trial Court issued its Order dated February 22, 2017, which denied the co-defendants respective Motion(s) to Set Preliminary Hearing on the Special and Affirmative Defenses.

On March 13, 2017, the Parent Company, AHC and EHT received two (2) Order(s) both dated March 3, 2017 from the Trial Court. The first Order provides that their Motion(s) to Set Preliminary Hearing on the Special and Affirmative Defenses were denied by the Trial Court while the second Order set the case for pre-trial conference on April 18, 2017 with pre-marking of documentary evidence on April 7, 2017 ("Notice of Pre-Trial"). The Notice of Pre-Trial further requires the parties to file their respective (a) pre-trial briefs, (b) documentary evidence, (c) affidavits of witnesses, and (d) special power of attorney of counsels, in case any of the party-litigants cannot attend the pre-trial conference.

After participating in the pre-marking of evidence and filing of their respective Pre-Trial Briefs and Judicial Affidavits of witnesses, the parties' respective counsels attended the pre-trial for the above-captioned case on April 18, 2017.

During the pre-trial conference, the Trial Court referred the case for Court-Annexed Mediation with the Philippine Mediation Center ("PMC") as allowed during pre-trial. The Trial Court further informed the parties that should the parties fail to amicably settle, the Trial Court may require the parties to (a) file their respective Memorandum, (b) present their evidence or witness on factual issues need to be clarified and/or resolved, and/or (c) submit the case for judgment based on the pleadings and evidence submitted by the parties.
Immediately after the hearing, the parties went to the PMC, wherein the parties agreed to schedule the mediation hearing on May 3, 2017. While setting the schedule of the mediation hearing, counsel for the Petitioner made a proposal for the amicable settlement of the instant case.

On May 2, 2017, the Parent Company and AHC received the Urgent Motion (For Issuance of Temporary Restraining Order and Writ of Preliminary Injunction) ("Motion for TRO/Injunction") filed by the Petitioner. In the Motion for TRO/Injunction, the Petitioner sought to enjoin the construction work being initiated by the Parent Company on the Davao Property on the ground that (a) the said property is subject of the instant case, and (b) Unlad and/or Philippine Women's College of Davao will be dispossessed of the said property. The Motion for TRO/Injunction was scheduled by the Trial Court on May 11, 2017.

On May 3, 2017, the parties were all present for the mediation hearing. During the said hearing, the Parent Company, through counsel, manifested that it rejects the Petitioner's proposal, and moved to terminate the mediation hearing. Upon said motion, the Court-Annexed Mediation was terminated.

On May 11, 2017, the parties' respective counsels attended the hearing on the Motion for TRO/Injunction. During the hearing, the Trial Court denied the Petitioner's request for a status quo pending the resolution of the said Motion. Instead, the Trial Court required the parties to file their respective Position Paper on the issuance of the TRO on May 18, 2017. The Trial Court also set the hearing on the issuance of a Preliminary Injunction wherein the parties will present their respective witnesses and evidence for the same.

While the aforesaid Motion for TRO/Injunction was pending, on May 17, 2017, the Parent Company and AHC received an Ex Parte Reiterative Motion of the Plaintiff. In the said Ex Parte Motion, the Petitioner reiterated his request for a status quo order considering that the Parent Company was able to obtain a permit to construct a fence on the Davao Property. The said Motion was set for hearing on May 18, 2017.

On May 18, 2017, all of the parties filed their respective Position Papers in relation to Petitioner's Motion for TRO/Injunction.

On May 25, 2017, the Petitioner filed a Manifestation and Motion to Withdraw its Motion for TRO/Injunction. The Petitioner alleged that instead of conducting hearings on the issuance of an Injunction, the Trial Court should proceed to resolve the case based on the pleadings and affidavits already filed by the parties in accordance with Interim Rules Governing Intra-Corporate Controversies.

Upon receipt of the aforesaid Manifestation and Motion to Withdraw of the Petitioner, the Trial Court granted the same and cancelled the scheduled injunction hearings.

On July 5, 2017, the Parent Company, AHC and EHT received the Trial Court's Order dated June 23, 2017. In the Order, the parties were required to file their respective Memoranda within twenty (20) days from receipt thereof in order for the Trial Court to proceed to render judgment, full or otherwise, based on all of the pleadings and evidence submitted by the parties in relation and pursuant to Rule 4, Section 4 of the Interim Rules of Procedure Governing Intra-Corporate Controversies under Republic Act No. 8799 ("Interim Rules").

On July 25, 2017, all of the parties filed their respective Memoranda.

While the case is submitted for resolution, the Petitioner has been filing Manifestations wherein he manifested to the Trial Court that the Parent Company has initiated the construction of a school on the alleged subject Davao Property.

On February 9, 2018, the Parent Company received the Decision dated January 19, 2018, which dismissed the case. In the Decision, the Trial Court deemed that Petitioner failed to establish fraud or bad faith on the part of the Defendants. Consequently, the Trial Court cannot contravene in the agreement among the Parent Company, Unlad, PWU and AHC to amicably settle the outstanding obligations of PWU and Unlad to the Parent Company.

b. *Specific Performance Case filed by the Agustin Family*. The Agustin family filed a Specific Performance case against the Parent Company for the payment by the latter of the remaining balance of the purchase price for the sale of the Agustin Family's shares in STI WNU.

The Agustin family alleges in their Complaint that based on the Share Purchase Agreement and Deed of Absolute Sale they executed with the Parent Company, the price of their shares in STI WNU has been pegged at ₱400.0 million. Despite these two agreements, the Parent Company refuses to pay the full purchase price for the STI WNU shares they acquired from the Agustin family.

In its Answer, the Parent Company stated that the Agustin family is not entitled to the full purchase price of their STI WNU shares because they have not complied with all the requirements for its release. In particular, the Agustin family has not been able to deliver the Commission on Higher Education permits for the operation of STI WNU's Maritime Program as provided in the MOA, and the Share Purchase Agreement. In addition, there are other trade receivables in favor of STI WNU wherein full satisfaction of the same entitles the Agustins a portion of the balance of the purchase price.

On June 2, 2016, the Parent Company received the Agustins' Reply to the Answer. In the Reply, the Agustin family are asserting that (a) the Memorandum of Agreement, Share Purchase Agreement and Deed of Absolute Sale (the "STI WNU Contracts") provide that the Parent Company can withhold the payment of the remaining balance of ₱50.0 million, which alleged to be pursuant to the license to operate the Maritime Programs of STI WNU, and (b) the Parent Company should be deemed to have agreed on the ₱400.0 million purchase price. Likewise, the allegations in the Answer are also against the Parol Evidence Rule which provides that the parties to a written agreement cannot change the stipulations provided therein.

The Agustin family also filed and served a Request for Admission to the Parent Company's counsel wherein they sought the Parent Company to submit (a) the existences and authenticity of the STI WNU Contracts, (b) issues of the instant case are (i) determination of the final purchase price based on the STI WNU Contracts and (ii) final purchase price should be either the ₱400.0 million or the adjusted price of ₱350.0 million, and (c) the STI WNU Contracts constitute the entire written agreement of the parties.

On June 17, 2016, the Parent Company filed its Comment/Opposition to the Agustin family's Request for Admission. In the Comment/Opposition, the Parent Company filed their objections thereto and sought the same to be denied or deemed ineffectual on the following grounds; (a) defective service because it should have been served directly to the Parent Company and not to its counsel as required under the Rules of Court, (b) redundant because the matters raised therein have already been addressed in the Answer, and (c) improper and irrelevant because it sought admission of issues which are proper during pre-trial and not in a Request for Admission.

Besides the Trial Court's resolutions on the aforesaid objections to the Request for Admission, the case may be referred to pre-trial and/or court-annexed mediation unless the Agustin family filed any other motions or pleading.

Pending the resolution on the aforesaid objections, the Agustin family filed an Omnibus Motion, which seeks, among others, a judgment on the pleadings to be issued against the Parent Company by the Trial Court. The Agustin family asserted that the Parent Company is prohibited from presenting parol evidence.

Pursuant to the order of the Trial Court, the parties filed their respective responsive pleadings in relation to the Agustin family's Omnibus Motion.

On March 27, 2017, the Trial Court issued the Omnibus Order, which denied the Agustin family's Omnibus Motion. In the Omnibus Order, the Trial Court affirmed that the matter raised in the Request for Admission has already been admitted by the Parent Company. The Trial Court also adopted the Parent Company's position that the affirmative defenses raised in the Answer may only be resolved in a full blown trial, and consequently, the Agustin family's Judgment on the Pleading should be denied for lack of merit.

On May 2, 2017, the Parent Company received the Agustin family's Motion for Reconsideration. In the Motion for Reconsideration, the Agustin family reiterated its position that the Parent Company could not question or insist the reduction of the purchase price of WNU Shares due to their failure to submit the CHEd Permits when the Share Purchase Agreement and Deed of Absolute Sale of the WNU Shares stipulated that the purchase price is for the amount of ₱400.0 million. The Motion for Reconsideration was set for hearing on May 5, 2017.
During the May 5, 2017 hearing, the Trial Court allowed the parties to file their respective responsive pleadings to the Agustin family's Motion for Reconsideration, wherein the Parent Company had to file its Comment/Opposition thereto on May 22, 2017. After the filing of all of the said responsive pleadings of the parties, the Motion for Reconsideration was submitted for resolution.

On October 19, 2017, the Parent Company received the Trial Court's Order dated October 3, 2017. In the Order, the Trial Court granted the Agustin Family's Motion for Reconsideration insofar as the proceedings in the instant case should no longer be through a full blown trial. The Trial Court considered that an expeditious disposition of the case is warranted considering the age and medical condition of the Plaintiffs. Consequently, the Trial Court required the parties to file their respective Memoranda with supporting affidavits and deposition, if any, within twenty days from receipt of the Order, or until November 8, 2017.

On October 27, 2017, the Parent Company filed its Motion for Reconsideration with prayer to suspend the filing of the Memorandum in relation to the summary procedure taken by the Trial Court to resolve the instant case. In the Motion for Reconsideration, the Parent Company asserted that the aforesaid procedure is improper considering that the defenses raised in its Answer can only be threshed out in a full blown trial. The Motion for Reconsideration was set for hearing on November 3, 2017.

On November 3, 2017, the Motion for Reconsideration was not acted upon by the Trial Court due to the non-availability of the Presiding Judge.

Meanwhile, the Parent Company received the Plaintiffs' Memorandum in Support of the Summary Judgment dated October 23, 2017 (Plaintiffs' Memorandum). In the Plaintiffs'

Memorandum, the Plaintiffs asserted that they are entitled to the (a) full purchase price of Four Hundred Million Pesos (₱ 400,000,000.00) and not Three Hundred Fifty Million Pesos (₱ 350,000,000.00) as asserted by the Parent Company; (b) moral, nominal, temporal, exemplary damages; and (c) attorney's fees.

On November 8, 2017, the Parent Company filed an Urgent Omnibus Motion. In the said Motion, the Parent Company moved that the Trial Court (a) set the Motion for Reconsideration of the Order dated October 3, 2017 for oral arguments, and (b) suspend the filing of Memorandum, or in the alternative, grant an additional period of ten (10) days to file the same. The Urgent Omnibus Motion was set for hearing on November 24, 2017.

During the hearing on the Urgent Omnibus Motion, both parties were given the opportunity to present their respective arguments on the (a) reconsideration for a summary judgment and (b) issue on the non-filing of the Memorandum of the Parent Company.

Meanwhile, the presiding judge proposed that the Parent Company should file its *Memorandum*, and waive the *Omnibus Motion* in order for the Trial Court to resolve the case through summary judgment.

While the Parent Company insisted that the Trial Court should resolved the *Omnibus Motion* before proceeding to summary judgment, the Parent Company filed and served the *Memorandum* without prejudice to the *Omnibus Motion.*

On January 29, 2018, the Parent Company received its Order dated January 10, 2018. In the Order, the Motion for Reconsideration of the Parent Company was denied but, in the interest of justice, admitted the Memorandum of the Parent Company.

Consequently, the case is deemed submitted for decision.

c. *Tax Assessment Case*. STI ESG filed a petition for review with the Court of Tax Appeals ("CTA") on October 12, 2009. This is to contest the Final Decision on Disputed Assessment issued by the BIR assessing STI ESG for deficiencies on income tax, and expanded withholding tax for the year ended March 31, 2003 amounting to ₱124.3 million. On February 20, 2012, STI ESG rested its case and its evidence has been admitted into the records.

On June 27, 2012, the BIR rested its case and has formally offered its evidence. On April 17, 2013, the CTA issued a Decision which granted STI ESG's petition for review and ordered the cancellation of the BIR's assessment since its right to issue an assessment for the alleged deficiency taxes had already prescribed. On May 16, 2013, STI ESG received a copy of the Commissioner of Internal Revenue's ("CIR") Motion for Reconsideration dated May 8, 2013. STI ESG filed its Comment to CIR's Motion for Reconsideration on June 13, 2013. The CTA issued a resolution dated July 17, 2013 denying the CIR's Motion for Reconsideration. On August 22, 2013, the CIR filed its Petition for Review dated August 16, 2013, with the CTA En Banc. On October 29, 2013, STI ESG filed its Comment to the CIR's Petition for Review. The CTA En Banc deemed the case submitted for decision on May 19, 2014, considering the CIR's failure to file its memorandum. On March 24, 2015, the CTA En Banc affirmed the decision dated April 17, 2013 and the resolution dated July 17, 2013 and granted STI ESG's Petition for Review and ordered the cancellation of the BIR assessment for the fiscal year ending March 31, 2003. On April 21, 2015, the CIR filed a Motion for Reconsideration with the CTA En Banc. On July 3, 2015, STI ESG filed its Comment on the Motion for Reconsideration. On September 2, 2015, the CTA En Banc denied the CIR's Motion for Reconsideration. On October 30, 2015, the CIR filed a Petition for Review with the Supreme

Court. On January 26, 2016, STI ESG received a notice from the Supreme Court requiring it to file its Comment on the Petition for Review filed by the CIR. On February 5, 2016, STI ESG filed a Motion for Extension of Time to File Comment on the Petition for Review requesting an additional period of twenty (20) days from February 5, 2016, or until February 25, 2016, within which to file the Comment. On February 25, 2016, STI ESG filed another Motion for Extension of Time to File Comment on the Petition for Review requesting an additional period of fifteen (15) days from February 25, 2016, or until March 11, 2016, within which to file the Comment. On March 11, 2016, STI ESG, through its counsel, filed its Comment on the Petition. On October 27, 2016, STI ESG received a notice from the Supreme Court in which the Court, *inter alia*, required the CIR to reply to STI ESG's Comment (to the Petition for Review) within ten (10) days from receipt of notice. On November 25, 2016, the CIR filed its reply to STI ESG's Comment.

On October 4, 2017, STI ESG received the decision from the Supreme Court dated July 26, 2017. In its decision, the Supreme Court denied the petition for review filed by the CIR and affirmed the Decision dated March 24, 2015 and Resolution dated September 2, 2015 of the Court of Tax Appeals En Banc in CTA EB No. 1050. The Supreme Court ruled that the Waivers of Statute of Limitations, being defective and invalid, did not extend the CIR's period to issue the subject assessments. Thus, the right of the government to assess or collect the alleged deficiency taxes is already barred by prescription. On October 25, 2017, the CIR filed a Motion for Reconsideration of the Supreme Court's decision dated July 26, 2017.

As at report date, STI ESG has not received an order from the Supreme Court to file a Comment on the Motion for Reconsideration.

d. *Labor Case*. A former employee of STI ESG filed a Petition with the Supreme Court after the Court of Appeals denied the former employee's claims and rendered prior decisions in favor of STI ESG. On August 13, 2014, STI ESG received the Supreme Court's decision dated July 9, 2014 annulling the decision of the Court of Appeals and ordered that STI ESG reinstate the former employee to her former position and pay the exact salary, benefits, privileges and emoluments which the current holder of the position is receiving and should be paid backwages from the date of the former employee's dismissal until fully paid, with legal interest. On August 28, 2014, STI ESG filed its Motion for Reconsideration and on November 17, 2014, the Supreme Court issued a resolution which denied with finality STI ESG's Motion for Reconsideration. On January 5, 2015, STI ESG filed an Omnibus Motion and requested to move the case for review by the Supreme Court En Banc. On May 22, 2015, STI ESG received a notice from the Supreme Court which denied STI ESG's Omnibus Motion. As a result of the decision, STI ESG recognized provision amounting to ₱3.0 million representing the estimated compensation to be made to the former employee. On October 20, 2015, a Bank Order to release was issued to one of STI ESG's depository banks for the release of the garnished amount of ₱2.2 million. The bank released the garnished amount to the National Labor Relations Commission ("NLRC").

   The garnished amount was put on hold for fifteen (15) days because of the filing of STI ESG's Petition questioning, among others, the Writ of Execution issued by labor arbiter, which was docketed as LER-CN-10291-15.

   While the Petition was pending for resolution by the NLRC and without any injunction order being issued by the said Commission, the garnished amount of ₱2.2 million was released to the former employee.

On March 1, 2016, the former employee filed an Entry of Appearance with Manifestation/Motion for Computation dated February 24, 2016. In the said motion, the former employee sought for computation of her backwages, inclusive of monetary equivalent of leaves and 13th month pay from July 22, 2004 until the same is actually paid. In addition, the former employee waived the reinstatement aspect of the March 31, 2016 Decision of labor arbiter, and sought the payment of separation pay.

As mentioned in an earlier paragraph, STI ESG on October 19, 2015, STI ESG filed a Petition with the NLRC, docketed as LER-CN-10291-15, to (1) annul the Writ of Execution issued by the labor arbiter for the amount of ₱2.2 million, and (2) order the payment of separation pay in favor of the former employee instead of reinstatement as Chief Operating Officer of STI Makati.

In the said Petition, STI ESG asserted that the Writ of Execution was issued with undue haste when there were pending issues to be resolved by labor arbiter with respect to the computation of the judgment award of the former employee. In addition, labor arbiter cannot order the former employee to be reinstated as Chief Operating Officer of STI Makati because said position no longer exists. STI ESG averred that an order of separation pay in lieu of reinstatement should be issued in favor of the former employee.

On October 28, 2015, STI ESG filed another Petition with the NLRC, which sought to inhibit Labor Arbiter from continuing the execution proceedings for the former employee's judgment award. In the said Petition, STI ESG alleged that the actions of Labor Arbiter showed partiality and bias in favor of the former employee.

On October 29, 2015, STI ESG filed a Motion to Consolidate with the NLRC. In the said Motion, STI ESG moved that the aforesaid Petitions would be consolidated and resolved by the same Division of the NLRC.

The former employee, thru her new counsel, filed two (2) Entry of Appearance with Motion for Leave (To Admit Attached Answer with Comment/Opposition) for the two (2) Petitions of STI ESG. In the said Comment/Opposition, the former employee averred that (a) the Writ of Execution was issued pursuant to the Supreme Court's Decision dated July 9, 2014 and (b) the acts of labor arbiter were above-board.

Before the NLRC resolved the pending Petitions filed by STI ESG, the garnished amount was released to the former employee as partial payment for the judgment award. Based on the record of the NLRC, the amount of ₱2.2 million was released for the partial execution of the judgment award of the former employee.

On February 29, 2016, the Sixth Division of the NLRC issued a Decision wherein it, among others, nullified the Writ of Execution, and ordered the inhibition of labor arbiter. In the same Decision, the Sixth Division of the NLRC also set a guide for the enforcement of the judgment award in favor of the former employee, which provides, among others, that the computation of the backwages of the former employee shall be from May 18, 2004 until October 30, 2006.

On March 29, 2016, STI ESG received the former employee's Motion for Reconsideration. In the Motion for Reconsideration, the former employee questioned the guide issued by the NLRC and the inhibition of the labor arbiter.

On April 19, 2016, STI ESG filed a Motion for Leave (To Admit Comment and/or Opposition with Manifestation). In the Comment and/or Opposition, STI ESG defended the guide issued by the Sixth Division of the NLRC and the inhibition on the Labor Arbiter by, among others, asserting that the former employee's grounds for reconsideration of the Decision are based on misleading allegations, and misquoted orders and pleadings of the Corporation. STI ESG also manifested to that (1) it would no longer seek the cancellation of the Writ of Execution provided that any legal effect thereof on the judgment award shall be recognized and applied therein, and (2) the appropriate labor arbiter commence with the computation of the separation pay in lieu of reinstatement.

On July 1, 2016, STI ESG received the Resolution of the NLRC, which denied the former employee's Motion for Reconsideration.

On September 6, 2016, STI ESG received the Petition for Certiorari filed by the former employee to the Court of Appeals wherein she questioned the Decision dated February 29, 2016 and Resolution dated June 28, 2016 issued by the NLRC. In the Petition, the former employee reiterated all her grounds in the Motion for Reconsideration filed to the NLRC.

On September 26, 2016, STI ESG filed its Comment/Opposition Ad Cautelam. In the said Comment/Opposition, STI ESG reiterated its arguments raised against the former employee's Motion for Reconsideration. In addition, STI ESG raised that (a) the issue on annulment of the Writ of Execution should be deemed moot because STI ESG has already manifested that it would no longer enforce said decision, and (b) the former employee should show proof that the Motion for Reconsideration was actually filed to the NLRC within the period allowed by law or otherwise, the Petition should be denied due to non-exhaustion of administrative remedies.

Upon filing of extension to file Reply to the Comment/Opposition Ad Cautelam of STI ESG, the former employee filed her Reply thereto on October 19, 2016.

On October 24, 2016, the Court of Appeals referred the case for mediation with the Philippine Mediation Center-Court of Appeals. Based on the relevant rules, the mediator assigned in the instant case has an extendible thirty (30) days to complete the mediation proceeding. Should the parties fail to settle the instant case, the case shall be referred to the Court of Appeals for resolution.

Both parties attended the mediation hearing wherein both parties provided their respective settlement amount wherein the former employee rejected the last proposal made by STI ESG. Considering that both parties failed to amicably settle, the mediation proceedings was terminated.

On April 11, 2017, STI ESG received the Court of Appeals' Resolution which required both parties to file their respective Memoranda within a non-extendible period of fifteen (15) days from receipt thereof or until April 26, 2017.

In compliance with the aforesaid Resolution, STI ESG filed its Memorandum on April 26, 2017.

On June 6, 2017, STI ESG received the Court of Appeal's Decision on the former employee's Petition for Certiorari. In the Decision, the Court of Appeals determined that there is no need to resolve the issue on the nullification of the Partial Writ of Execution because both parties agreed that the funds garnished by virtue of said Writ to the former employee shall be considered as partial satisfaction of her judgment award.

The Court of Appeals likewise clarified that the issue on the former employee's waiver of reinstatement pending appeal should have been resolved by the new labor arbiter, and not the NLRC. Contrary to the former employee's assertion that the former labor arbiter resolved the said issue, the Court of Appeals took into consideration that the NLRC validly ordered the re-raffle of the case to a new labor arbiter who should resolve all pending incidents and issues.

Without making any findings and/or rulings contrary to STI ESG's claim that the former employee waived her reinstatement pending appeal on October 2006 and consequently invalidated her assertion that her backwages should be computed from May 2004 until present day, the Court of Appeals affirmed the re-raffle of the execution proceedings of the former employee's judgment award to a new labor arbiter to make an independent determination of all pending incidents and issues.

Considering the aforesaid Decision did not prejudice STI ESG's position, STI ESG decided to refer all pending issues on the execution of the judgment award of the former employee, including the waiver of backwages pending appeal, to the new labor arbiter.

On September 19, 2017, STI ESG received the former employee's Manifestation with Omnibus Motion filed with the new labor arbiter. In the said Manifestation with Omnibus Motion, the former employee sought for (a) computation of the updated judgment award, (b) resolution of the issue on waiver of reinstatement by the former employee raised by STI ESG and (c) issuance of Writ of Execution based on the updated judgment award. To date, there is no notice and/or decision on the issue of the waiver of reinstatement by the former employee.

The new labor arbiter then set the pre-execution hearing on January 31, 2018.

During the said hearing, STI ESG filed its Comment with Manifestation. In the Comment with Manifestation, STI ESG asserted that the only issues to be resolved are the computations of the (a) backwages, (b) legal interest and (c) separation pay. STI ESG further reiterated that the former employee is entitled to receive backwages from May 2004 until October 2006 and separation pay from November 1999 until February 2016. Based on said premises, STI ESG paid the former employee the amount of ₱2.0 million.

Based on the record, STI ESG has paid the total amount of ₱4.2 million, exclusive of withholding taxes, to the former employee. STI ESG then moved to the new labor arbiter that STI ESG be deemed to have fully paid the judgment award of the former employee.

While the former employee accepted the aforesaid amount, she manifested that the same is only partial payment of the judgment award, and moved that she would be given ten (10) days to file her reply to the Comment with Manifestation.

The new labor arbiter then set the continuation of the hearing on February 13, 2018.

e. *Specific Performance Case*. STI College Cebu, Inc. ("STI Cebu") was named defendant in a case filed by certain individuals for specific performance and damages. In their Complaint, the Plaintiffs sought the execution of Deed of Absolute Sale over a parcel of land situated in Cebu City on the bases of an alleged perfected contract to sell. On March 15, 2016, STI ESG, as the surviving corporation in the merger between STI ESG and STI Cebu, filed a Motion to Dismiss. On March 31, 2016, STI ESG received the Plaintiffs' Comment/Opposition to Motion to Dismiss with Motion to Declare Defendant in Default ("Motion"). On April 8, 2016, the Court required STI ESG and the Plaintiffs to file their respective Position Papers to the Motion to Dismiss and the Plaintiffs' Motion until April 13, 2016. On April 12, 2016, STI ESG received the Plaintiff's Position Paper.

On April 14, 2016, STI ESG filed a Manifestation with an attached Position Paper.

On August 2, 2016, STI ESG received the Plaintiffs' Motion to Resolve, which seeks for the resolution of all pending incidents.

On August 11, 2016, STI ESG filed a Comment dated August 10, 2016 to the Plaintiffs' Motion to Resolve. In the Comment, STI ESG also moved for the resolution of all pending incidents including the Motion to Dismiss filed by STI ESG, and reiterated the propriety of the dismissal of the instant case.

On August 12, 2016, the hearing on the Motion to Resolve proceeded wherein STI ESG reiterated its Motion(s) to Dismiss, and moved for the resolution of all pending incidents in the instant case. The Trial Court then ordered that all of the pending incidents shall be resolved.

On February 28, 2017, the Defendants received the Resolution of the Trial Court wherein it denied the Defendants' Motion to Dismiss.

On March 6, 2017 the Defendants filed their Joint Motion for Reconsideration Ad Cautelam in relation to the Resolution.

On March 14, 2017, the Defendants received the Plaintiffs' Comment/Opposition to Joint Motion Reconsideration Ad Cautelam and/or Motion to Declare Defendants in Default dated March 11, 2017 ("Comment with Motion"). In the Comment with Motion, Plaintiffs alleged that the Defendants should have filed their Answer instead of the Joint Motion for Reconsideration Ad Cautelam after the denial of their Motions to Dismiss. Considering that the Defendants did not file their Answer, Plaintiffs moved to declare the Defendants in default.

On March 17, 2017, the Defendants filed and served in open court their Reply and/or Comment/Opposition Ad Cautelam ("Reply") to the Plaintiffs' Comment with Motion. In the Reply, the Defendants asserted that under the relevant provisions of the Rules of Court and jurisprudence, a motion for reconsideration is allowed to be filed after the denial of a motion to dismiss. Consequently, the filing of the Answer is deemed suspended while the Joint Motion for Reconsideration Ad Cautelam is pending resolution.

Upon receipt of the Plaintiffs' Reply on April 3, 2017, the Defendants filed the Joint Rejoinder wherein they asserted that the Reply is a reiteration of the Plaintiffs' baseless argument that a motion for reconsideration is prohibited.

On August 16, 2017, the Trial Court issued the Resolution wherein it denied (a) the Joint Motion and (b) Motion to Declare in Default.

On August 24, 2017, Plaintiffs filed a Motion for Reconsideration on the denial of their Motion to Declare in Default. In the said Motion, Plaintiffs reiterated the same arguments raised in the Motion to Declare in Default.

Meanwhile, after filing an ex parte Motion for Extension of Time to File an Answer, Defendants filed the Consolidated Answer to the Amended Complaint on August 30, 2017. In the Consolidated Answer, Defendants asserted that there is no perfected contract to sell or of sale between STI ESG and the Plaintiffs considering that (a) there is no Board approval on the sale of the Subject Property; (b) lack of definite terms and conditions thereof; and (c) Mr. Amiel Sangalang has no authority to bind STI ESG on the alleged contract to sell or sale of the Subject Property.

On August 30, 2017, Defendants received the Plaintiffs' Opposition to the Motion for Extension of Time to file an Answer. In the said Opposition, Plaintiffs argued the said Motion for Extension should have been set for hearing.

During the hearing on the Plaintiffs' Motion for Reconsideration, the issues raised in the Motion for Reconsideration and the Opposition to the Motion for Extension of Time were discussed. After said discussion, the Trial Court required both parties to file their respective comments/opposition to the issues raised in the aforesaid Motion and Opposition.

On September 29, 2017, Defendants received the Plaintiffs' Reply to the former's Comment and Opposition.

On October 23, 2017, the Trial Court issued its Order denying the Plaintiffs' Motion for Reconsideration and set the case for pre-trial.

During the pre-trial on January 16, 2018, the Trial Court had to reset the hearing due to the unavailability of the Special Power of Attorney in favor of the Defendants' counsel.

On February 9, 2018, the parties attended the pre-trial. The Trial Court then referred the case for court-annexed mediation as required under the relevant rules.

The parties immediately attended the mediation proceeding. After presenting their respective position, the mediation was terminated because the parties failed to amicably settle.

Considering the termination of the court-annexed mediation, the Trial Court shall schedule the case for judicial dispute resolution.

f. *Complaint for Damages filed by GATE (formerly STI-College Santiago, Inc.)*. Global Academy of Technology and Entrepreneurship, Inc. ("GATE") filed a complaint for Damages against STI ESG for its non-renewal of the Licensing Agreement despite the former's alleged compliance of the latter's audit recommendations. On the basis of such alleged invalid non-renewal of the Licensing Agreement, GATE seeks for (a) moral damages in the amount of ₱0.5 million, (b) exemplary damages in the amount of ₱0.5 million and (c) attorney's fees in the amount of 15% of the amount to be awarded and ₱3.0 thousand per court appearance.

On January 23, 2017, STI ESG filed its Motion to Dismiss Ad Cautelam. In the said Motion, STI ESG asserted that the dismissal of the case was warranted on the following grounds; (a) lack of jurisdiction over STI ESG due to improper service of Summons to a Human Relations Officer ("HR Officer"), and (b) failure to state a cause of action because GATE has no right for the renewal of the Licensing Agreement when (i) the same already expired and (ii) it clearly provides that it may be renewed by mutual agreement of the parties. The Motion to Dismiss Ad Cautelam was set for hearing on February 3, 2017.

On February 3, 2017, STI ESG received GATE's Comment /Opposition. In the said Comment/Opposition, GATE alleged that (a) the HR Officer was allegedly authorized by its in house counsel to receive the Summons, and (b) the decision of STI ESG not to renew the Licensing Agreement was not based on its mutual agreement provision but the violations of GATE. Consequently, such decision of STI ESG to cancel the Licensing Agreement was allegedly in bad faith.

Upon the filing of all the pleadings in relation to the Motion to Dismiss Ad Cautelam of STI ESG, the Trial Court issued its Resolution dated May 16, 2017, which denied the said Motion.

The Trial Court also required STI ESG to file its Answer to the Complaint within the non-extendible fifteen (15) days from receipt of said Resolution on May 25, 2017 or until June 9, 2017.

On June 9, 2017, STI ESG filed its Answer to the Complaint. In the Answer, STI ESG reiterated its position that GATE has no cause of action against it because its decision not to renew the Licensing Agreement is in accordance with contractual stipulations therein that its renewal is upon mutual agreement of both parties. Considering the effectivity period of the Licensing Agreement expired on March 31, 2016 without being renewed by both parties, GATE cannot claim any damages for STI ESG's lawful exercise of its rights under the Licensing Agreement.

Both parties have been required to attend and participate in the court-annexed mediation, and subsequently, the judicial dispute resolution with the Trial Court. After the aforesaid proceedings, the parties failed to reach an amicable settlement, and terminated the judicial dispute resolution on October 27, 2017.

Considering the aforesaid circumstances, the case shall be raffled to a new presiding judge for the conduct of pre-trial and trial proper for the case. To date, there is no notice that the case has been assigned to a new presiding judge.

g. *Criminal Case.* A complaint for qualified theft was filed by STI ESG against its former school accounting supervisor and acting school accountant ("former supervisor/accountant"). In the complaint, STI ESG alleged that said former supervisor/accountant manipulated the payroll registers of STI College Global City by including the name of a former faculty member of STI College Global City in the payroll registers and placing a corresponding salary and 13th month pay beside said faculty member's name. The salary of said former faculty member was deposited in a bank account belonging to the former supervisor/accountant. The total amount deposited to the bank account of the former supervisor/accountant through this scheme amounted to ₱0.2 million.

The complaint for qualified theft was filed with Office of the City Prosecutor of Taguig City. Summons to the former supervisor/accountant was returned undelivered despite STI ESG providing additional addresses of the former supervisor/accountant where the summons could be served.

After the former supervisor/accountant failed to appear on two preliminary investigations, the complaint was submitted for resolution.

On September 8, 2016, STI ESG filed an Ex-Parte Motion for Early Resolution to resolve the case pointing out that more than sixteen (16) months has elapsed since the matter was submitted for resolution.

To date, there is no resolution issued by the Office of the City Prosecutor of Taguig City.

h. *Breach of contract.* STI ESG engaged the services of MOBEELITY to deploy its digital classroom pilot, also known as e-Learning Management System ("eLMS") and MOBEELITY committed to provide the necessary applications suite of the intended learning management system of STI ESG.

MOBEELITY undertook to provide STI ESG with access to the EDU 2.0 LMS (now known as "NEO") and iMEET virtual classroom. MOBEELITY committed to provide STI ESG with online and on-site technical support for the implementation of the EDU 2.0 LMS and iMEET virtual classroom. Furthermore, MOBEELITY committed to provide STI ESG with all updates and modifications to EDU 2.0 LMS and iMEET virtual classroom free of charge. Out of these two (2) platforms, STI ESG was only able to avail of and utilize the EDU 2.0 LMS under the agreement.

MOBEELITY provided STI ESG access to the EDU 2.0 LMS. EDU 2.0 LMS is a product of Cypher Learning, and MOBEELITY was an authorized reseller of this product.

In accordance with the terms of the Agreement, STI ESG paid MOBEELITY the sum of ₱3.3 million as downpayment for services to be rendered by MOBEELITY for the First Semester of SY2016-2017 or from June to November 2016.

On June 12, 2016, it came to the attention of STI ESG that Cypher Learning had terminated its relationship with MOBEELITY due to the fraudulent acts committed by MOBEELITY against Cypher Learning.

As a result of the termination of its relationship with Cypher Learning, MOBEELITY would no longer be able to grant access to the EDU 2.0 LMS in favor of STI ESG for the First Semester of SY2016-2017. MOBEELITY would also no longer be able to comply with its other obligations under the Agreement such as its obligation to provide STI ESG with all updates and modifications to EDU 2.0 LMS.

Considering the above circumstances, MOBEELITY should reimburse STI ESG ₱3.3 million. However, despite STI ESG's demand and efforts to amicably settle this concern, MOBEELITY refuses to return the downpayment. STI ESG seeks the return of the ₱3.3 million plus payment of all costs, expenses and fees incurred by STI ESG in recovering the said amount

On February 21, 2017, STI ESG sent a demand for arbitration in accordance with the arbitration clause in the Memorandum of Agreement. MOBEELITY did not respond to the demand for the commencement of arbitration proceedings.

On June 9, 2017, STI ESG filed a letter-request with the National President of the Integrated Bar of the Philippines ("IBP") to appoint the second arbitrator, as per Section 26 of the Alternative Dispute Resolution Act of 2004. On June 22, 2017, STI ESG received a letter from the IBP that acknowledged the receipt of our letter-request for the appointment of an arbitrator and requiring STI ESG to pay the Appointment Fee in the amount of ₱4.0 thousand. In the same letter, the IBP required MOBEELITY to comment on STI ESG's request within seven (7) days from receipt of the said letter. MOBEELITY failed to file any comment thereto. Hence, the IBP was prompted to appoint the Second Arbitrator on behalf of MOBEELITY.

After the appointment of the Third Arbitrator by the First and Second Arbitrators (collectively, the "Tribunal"), the pre-hearing conference was set on January 11, 2018.

During the January 11, 2018 pre-hearing conference, the Tribunal set the deadlines for the parties to file their respective claims and defenses, and such other pleadings and/or proceedings in order to resolve the issues in the instant case.

On January 15, 2018, STI ESG received the Procedural Order No. 1 of the Tribunal, which provides the timeline and periods for the filing of the Statement of Claim and Defenses of the parties as well as tentative setting of hearings.

Based on the said Order, STI ESG is required to file their Statement of Claim on February 9, 2018.

On February 9, 2018, STI ESG filed its Statement of Claim wherein it sought to declare Respondents to have breached its obligations and representation to provide NEO to STI ESG, and consider their agreement pre-terminated and/or rescinded. Considering the aforesaid circumstances, STI ESG sought for the Tribunal to order MOBEELITY to return the amount of ₱3.3 million, and pay for the cost of arbitration and attorney's fees.

Based on Procedural Order No. 1, MOBEELITY has thirty (30) days to file its Statement of Defense or until March 12, 2018.

i. Due to the nature of their business, STI ESG and STI WNU are involved in various legal proceedings, both as plaintiff and defendant, from time to time. The majority of outstanding litigation involves illegal dismissal cases under which former faculty members and employees have brought claims against STI ESG and STI WNU by reason of their faculty and employment contracts. Management and its legal counsels believe that STI ESG and STI WNU have substantial legal and factual bases for its position and are of the opinion that losses arising from these legal actions and proceedings, if any, will not have a material adverse impact on the Group's consolidated financial position as well as in the results of its operations.

j. STI ESG and STI WNU are likewise contingently liable for lawsuits or claims filed by third parties, including labor-related cases, which are pending decision by the courts, the outcome of which are not presently determinable.

k. Other subsidiaries also stand as defendant of various lawsuits and claims filed by their former employees. The complainants are seeking payment of damages such as backwages and attorney's fees. As of date of the report, the cases are pending before the respective labor arbiters.

Management and their legal counsels believe that the outcome of these cases will not have a significant impact on the unaudited interim condensed consolidated financial statements.

<u>Commitments</u>

a. Financial Commitments

STI ESG has ₱115.0 million domestic bills purchase lines from various local banks specifically for the purchase of local and regional clearing checks. Interest on drawdown from such facility is waived except when drawn against returned checks, to which the interest shall be the prevailing lending rate of such local bank. This facility is on a clean basis.

In December 2014, the Parent Company issued a Surety Agreement in favor of China Bank to secure STI WNU's ₱300.0 million long-term loan and ₱5.0 million credit line. As at December 31, 2017 and March 31, 2017, STI WNU's long-term loan amounted to ₱195.5 million and ₱209.0 million, respectively.

STI Holdings signed as co-maker on the ₱200.0 million bridge financing loan of iACADEMY which was fully paid on September 29, 2017 (see Note 16).

b. Capital Commitments

As at December 31, 2017, STI ESG has contractual commitments and obligations for the fit out works for a leased building which will be the new site of STI Malaybalay and the renovation works in STI Sta. Maria aggregating ₱47.5 million of which ₱42.4 million has been paid as at December 31, 2017.

STI ESG also has contractual commitments and obligations for the construction of school buildings which will be the site of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte with an aggregate amount of ₱1,956.0 million of which ₱568.0 million has been paid as at December 31, 2017.

As at March 31, 2017, STI ESG has contractual commitments and obligations for the construction of classrooms and faculty rooms in STI Batangas and for the renovation works in STI Novaliches aggregating ₱38.8 million of which ₱33.0 million and ₱22.1 million have been paid as at December 31, 2017 and March 31, 2017, respectively.

STI WNU likewise has contractual commitments and obligations for the construction of school buildings and upgrade of its facilities aggregating to ₱24.4 million and ₱25.8 million as at December 31, 2017 and March 31, 2017, respectively. Of these amounts, ₱21.0 million and ₱24.6 million have been paid as at December 30, 2017 and March 31, 2017, respectively.

iACADEMY has contractual commitments and obligations for the construction of its Yakal Campus totaling ₱937.3 million and ₱858.5 million as at December 31, 2017 and March 31, 2017, respectively . Of these, ₱383.0 million and ₱251.2 million have been paid as at December 31, 2017 and March 31, 2017, respectively.

c. Others

(i) August 1, 2017, STI ESG entered into a Memorandum of Understanding with Royal Caribbean Cruises Ltd. ("RCL") for the creation of the RCL-STI Cruise Talent Development Centre that will follow RCL standards in providing training for hospitality jobs on cruise ships. This facility will produce more Filipino seafaring talents ready to take on thousands of new hotel roles on cruise ships.

(ii) On April 21, 2017, STI ESG, Mr. Tony Tan Caktiong ("TTC"), STI Tanauan, and Injap Investments, Inc. ("Injap"), referred collectively as the Joint Venture Parties, entered into an agreement to transform STI Tanauan into a Joint Venture Company which shall operate a farm-to-table school that offers courses ranging from farm production to food services.

The Joint Venture Parties also agreed to increase STI Tanauan's authorized capital stock to an amount that will be agreed by the Joint Venture Parties in a separate agreement. As agreed by the Joint Venture Parties, the increase in the authorized capital stock will be made through STI Tanauan's declaration of stock dividends to STI ESG based on STI Tanauan's unrestricted retained earnings as of March 31, 2017 and cash payments by the Joint Venture Parties.

Additional amendments shall be made to STI Tanauan's Articles of Incorporation and By-Laws to implement the intent of the parties under the Joint Venture Agreement.

The equity sharing in the Joint Venture Company will be 60%, 25% and 15% for STI ESG, TTC and Injap, respectively.

On June 21, 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in the authorized capital stock of the corporation from ₱1.0 million divided into 10,000 shares with a par value of ₱100 to ₱75.0 million divided into 750,000 shares with a par value of ₱100. The increase will be funded through the declaration of stock dividends and cash subscriptions by the shareholders. In the same meeting, the stockholders and the BOD approved the declaration of 150,000 shares as stock dividends with an aggregate par value of ₱15.0 million to be distributed to stockholders of record as of March 31, 2017 based on the unrestricted retained earnings of STI Tanauan as shown in its audited financial statements as of March 31, 2017.

In accordance with the above, on January 23, 2018, STI ESG subscribed to 35,000 shares of the intended increase in authorized capital stock of STI Tanauan at an agreed subscription price of ₱ 495.00 per share. The application for the increase in the authorized capital stock of STI Tanauan was submitted to the SEC on February 12, 2018.

(iii) The Group, as an educational institution, is subject to CHED Memorandum Order No. 13, Series of 1998, otherwise known as the "Guidelines on the Procedure to be Followed by Higher Education Institutions ("HEIs") Intending to Increase their Tuition Fees, Effective Beginning School Year 1998–1999," which states that 70.00% of the proceeds derived from the tuition fee increase for the current school year should be used for the payment of increase in salaries and wages, allowances and other benefits of its teaching and non-teaching personnel and other staff, except those who are principal stockholders of the HEIs.

23. **Fair Value Information of Financial Instruments**

The Group's financial instruments consist of cash and cash equivalents, receivables, advances to associates and joint ventures, accounts payable and other current liabilities, deposits, interest-bearing loans and borrowings, bonds payable, obligations under finance lease, nontrade payable and other noncurrent liabilities. The primary purpose of these financial instruments, except for nontrade payable, is to finance the Group's operations.

There are no material unrecognized financial assets and liabilities as at December 31, 2017 and March 31, 2017.

Due to the short-term nature of cash and cash equivalents, receivables, accounts payable and other current liabilities, nontrade payable, their carrying values reasonably approximate their fair values as at December 31, 2017.

AFS Financial Assets. The fair values of publicly-traded AFS financial assets are determined by reference to market bid quotes as at financial reporting date. AFS financial assets in unquoted equity securities for which no reliable basis for fair value measurement is available are carried at cost, net of impairment.

Interest-bearing Loans and Borrowings. The carrying value approximates its fair value because of recent and regular repricing based on market conditions.

Management believes that the fair values of deposits, bonds payable, obligations under finance lease and other noncurrent liabilities as at December 31, 2017 and March 31, 2017 do not significantly differ from the carrying values of these financial instruments as at December 31, 2017 and March 31, 2017.

24. Note to the Unaudited Interim Condensed Consolidated Statements of Cash Flows

The Group's material non-cash investing and financing activities follow:

a. Acquisitions of property and equipment under finance lease recorded under the "Property and equipment" account in the unaudited interim condensed consolidated statements of financial position amounting to ₱15.4 million and ₱2.0 million as at December 31, 2017 and 2016, respectively.

b. Unpaid progress billing for construction- in-progress of STI ESG amounting to ₱4.5 million and nil as at December 31, 2017 and 2016, respectively. Unpaid progress billing for construction-in-progress for the land development and construction of the building for the Yakal campus of iACADEMY amounting to ₱194.4 million and nil as at December 31, 2017 and 2016, respectively.

c. Unpaid liability related to the derecognition of STI Diamond as a subsidiary amounting to ₱60.8 million as at December 31, 2016.

d. Reversal of subscriptions payable associated with the subscription by STI ESG over Maestro Holdings shares amounting to ₱17.5 million for the nine-month periods ended December 31, 2016 (see Note 12).

25. Events after the Reporting Period

On January 30, 2018, STI ESG entered into a Contract to Sell with Heva Management and Development Corporation for the acquisition of a lot in Iloilo City with a total area of 2,615 sqm. In accordance with the Contract to Sell, STI ESG made a down payment amounting to ₱67.5 million, net of the ₱200,000 reservation fee made on November 29, 2017 (see Note 14). The lot will be the future site of STI Iloilo.

Financial Highlights and Key Performance Indicators

(in millions except margins, financial ratios and earnings per share)	December 31, 2017 (Unaudited)	March 31, 2017 (Audited)	Increase (Decrease) Amount	%
Condensed Statements of Financial Position				
Total assets	14,807.5	14,291.4	516.1	4
Current assets	4,354.4	3,914.4	440.0	11
Cash and cash equivalents	2,026.8	3,198.7	(1,171.9)	(37)
Equity attributable to equity holders of the parent company	8,528.5	8,457.0	71.5	1
Total liabilities	6,183.4	5,740.0	443.4	8
Current liabilities	1,741.0	1,465.5	275.5	19
Financial ratios				
Debt-to-equity ratio (1)	0.63	0.66	(0.03)	(5)
Current ratio (2)	2.50	2.67	(0.17)	(6)
Asset to equity ratio (3)	1.72	1.67	0.05	3

	(Unaudited) Nine months ended December 31		Increase (Decrease)	
	2017	2016	Amount	%
Condensed Statements of Income				
Revenues	2,232.3	2,122.8	109.5	5
Direct costs (4)	748.4	702.0	46.4	7
Gross profit	1,483.9	1,420.8	63.1	4
Operating expenses	838.3	775.8	62.5	8
Operating profit	645.6	645.0	0.6	0
Other income (expenses)	(493.9)	48.8	(542.7)	(1112)
Income before income tax	151.7	693.8	(542.1)	(78)
Net income	88.5	624.3	(535.8)	(86)
EBITDA (5)	1,027.0	1.011.5	15.5	2
Core income (6)	534.2	608.8	(74.6)	(12)
Net income attributable to equity holders of the parent company	86.4	615.4	(529.0)	(86)
Earnings per share (7)	0.009	0.062	(0.053)	(85)

	(Unaudited)			
	Nine months ended December 31		Increase (Decrease)	
	2017	2016	Amount	%
Condensed Statements of Cash Flows				
Net cash from operating activities	878.9	711.3	167.6	24
Net cash used in investing activities	(1,375.6)	(843.2)	(532.4)	(63)
Net cash provided by (used in) financing activities	(675.1)	594.1	(1,269.2)	(214)

Financial Soundness Indicators

	(Unaudited)			
	As of/nine months ended December 31		Increase (Decrease)	
	2017	2016	Amount	%
Liquidity Ratios				
Current ratio (2)	2.50	0.99	1.51	153
Quick ratio (8)	1.92	0.88	1.04	118
Cash ratio (9)	1.16	1.38	(0.22)	(16)
Solvency ratios				
Debt-to-equity ratio (1)	0.63	0.36	0.27	75
Asset to equity ratio (3)	1.72	1.45	0.27	19
Interest coverage ratio(10)	1.94	14.12	(12.18)	(86)
Debt service cover ratio (11)	2.48	1.19	1.29	108
Profitability ratios				
EBITDA margin (12)	46%	48%	(2)	(4)
Gross profit margin (13)	66%	67%	(1)	(1)
Operating profit margin (14)	29%	30%	(1)	(3)
Net profit margin (15)	4%	29%	(25)	(86)
Return on equity (annualized)(16)	4%	8%	(4)	(50)

(1) *Debt-to-equity ratio is measured as total liabilities, net of unearned tuition and other schools fees, divided by total equity.*

(2) *Current ratio is measured as current assets divided by current liabilities.*

(3) *Asset to equity ratio is measured as total assets divided by total equity.*

(4) *Direct costs is calculated by adding the costs of educational services and educational materials and supplies sold.*

[5] *EBITDA is net income excluding provision for income tax, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest expense, interest income, and nonrecurring gains/losses such as effect of derecognition of a subsidiary.*

[6] *Core income is computed as consolidated net income after income tax derived from the Group's main business – education and other recurring income.*

[7] *Earnings per share is measured as net income attributable to equity holders of the parent company divided by the weighted average number of outstanding common shares.*

[8] *Quick ratio is measured as current assets less inventories, prepayments and noncurrent asset held for sale divided by current liabilities.*

[9] *Cash ratio is measured as cash and cash equivalents divided by current liabilities.*

[10] *Interest coverage ratio is measured as net income before income tax and interest expense divided by interest expense.*

[11] *Debt service cover ratio is measured as EBITDA for the last twelve months divided by total principal and interest due for the next twelve months.*

[12] *EBITDA margin is measured as EBITDA divided by total revenues.*

[13] *Gross profit margin is measured as gross profit divided by total revenues.*

[14] *Operating profit margin is measured as operating profit divided by total revenues.*

[15] *Net profit margin is measured as net income after income tax divided by total revenues.*

[16] *Return on equity is measured as net income attributable to equity holders of the parent company [annualized] divided by average equity attributable to equity holders of the parent company.*

STI Education Systems Holdings, Inc.
Aging of receivables
As of December 31, 2017

Type of Accounts Receivable	Total	0-30 days	31-60 days	61-90 days	over 90 days
Current Receivables	1,307,523,781	1,000,234,678	74,052,393	14,847,141	218,389,569
	1,307,523,781	1,000,234,678	74,052,393	14,847,141	218,389,569

TYPE OF ACCOUNTS RECEIVABLE	NATURE/DESCRIPTION	COLLECTION PERIOD
Current Receivables	Tuition fees and other current receivables	Monthly

ANNEX "B"

STI EDUCATION SYSTEMS HOLDINGS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

STI Education Systems Holdings, Inc. ("STI Holdings" or "the Parent Company") was originally established in 1928 as a Philippine branch office of Theo H. Davies and Co., a Hawaiian corporation. It was reincorporated as a Philippine company in 1946 as part of the Jardine-Matheson group and was listed in the Philippine Stock Exchange on October 12, 1976. STI Holdings was then sold to Filipino investors in 2006. In March 2010, it became part of the Tanco Group of Companies. STI Holdings completed its follow-on offering of 2.9 billion shares in November 2012 comprising of primary and secondary issues. Today, it is a holding company with investments in three large educational institutions and is also the owner of two other companies: Attenborough Holdings Corporation ("AHC") which was a party to the various agreements with Philippine Women's University ("PWU") and Unlad Resources and Development Corporation ("Unlad"), and Neschester Corporation ("Neschester"). Its three subsidiaries involved in education are STI Education Services Group, Inc. ("STI ESG"), STI West Negros University, Inc. ("STI WNU") and Information and Communications Technology Academy, Inc. ("iACADEMY"). STI Holdings and its subsidiaries (hereafter collectively referred to as the "Group") are all incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission ("SEC").

On September 7, 2017, the Board of Governors of iACADEMY and Board of Directors ("BOD") of Neschester approved the merger of the companies with iACADEMY as the surviving corporation. The Stockholders of both companies confirmed, ratified and approved the merger on the same date. The Plan of Merger was filed with the SEC on January 24, 2018.

- STI ESG was founded on August 21, 1983 to address the Information Technology ("IT") education needs of the Philippines. It evolved from its wholly-owned training centers to granting franchises to several locations in Metro Manila. In 1995, STI ESG was granted a permit by the Commission on Higher Education ("CHED") to operate colleges. It started to roll out four-year college programs in 1996. From offering various degrees related to Computer Science, STI ESG showed its strength beyond IT by expanding the existing programs to bachelor's degrees in the fields of Business Administration, Computer Engineering, Secondary Education, Hotel and Restaurant Management, Tourism, Accounting Technology, and Communications. STI ESG is now also offering Senior High School ("SHS").

  STI ESG's network of schools totals to 76 schools with 38 owned schools and 38 franchised schools comprising 64 colleges and 12 education centers.

  In recent years, STI ESG embarked on expansion and capital improvement projects as it encouraged schools to move from rented space into school-owned stand-alone campuses. Likewise, a number of franchised schools started their own facility expansion programs. To date, STI ESG has 14 owned campuses with newly constructed/renovated buildings while 12 of the franchised schools constructed/renovated their own buildings and upgraded their facilities.

STI ESG has a total student capacity of 123,800 students, with 76,168 pertaining to owned schools and 47,632 for franchised schools.

- STI WNU was founded on February 14, 1948. The campus sits on a 3.1 hectare property in the heart of Bacolod City. STI WNU was granted its university status by CHED on June 10, 2008. STI Holdings acquired 99.5% ownership of the university on October 1, 2013. Since then, STI WNU's facilities have been undergoing continuous upgrade.

  The university offers primary, junior and senior high school, tertiary and post-graduate courses. Tertiary courses include Engineering, Education, Criminology, Business Administration, Hospitality and Tourism Management, Computer Science and Information Technology and Maritime Training Courses required by the Maritime Industry Authority ("MARINA") for officers and crew on board Philippine and/or foreign registered ships operating in Philippine and/or international waters. Post-graduate courses include Master's degrees in Business Administration, Public Administration, Nursing and Education, and Doctorate degrees in Public Administration and Educational Management.

  On October 9, 2017, MARINA granted STI WNU full course approval for the simulator course "Ratings Forming Part of a Navigational Watch". The said approval is valid for three years. Further, on December 5, 2017, the Department of Education ("DepEd") granted STI WNU permit to operate the SHS program under the Technological-Vocational strand, the TVL Maritime Specialization track effective School Year ("SY") 2018-2019.

  STI WNU's facilities can accommodate 12,000 students. The classrooms are available for its primary, secondary including SHS, tertiary and post-graduate students. There is also ample space for its Maritime Training Center.

- iACADEMY is the premier school in the Group that specializes in course offerings in animation, multimedia arts and design, fashion design and technology, software engineering and game programming and design. It also offers SHS. It started in 2002 as a wholly-owned subsidiary of STI ESG until its spin-off when it became a 100% owned subsidiary of STI Holdings in September 2016. The school is located at iACADEMY Plaza in Makati – the Central Business District of Metro Manila, with top-of-the-line multimedia arts laboratories and computer suites.

  In April 2016, CHED granted iACADEMY a Government Authority ("GA") to operate as a Transnational Education ("TNE") provider for the Master in Business Administration ("MBA") program in partnership with DePaul University, Chicago, Illinois, United States of America, as the degree granting institution.

The GA is valid up to April 26, 2018 and is subject to the rules and regulations pertaining to the organization, administration and supervision of private/public Higher Education Institutions in the Philippines. The GA is valid only in the iACADEMY Plaza campus.

The MBA program has not been offered to date due to space constraints. The surge of SHS students took the priority lane. iACADEMY has already requested CHED for the extension of the GA. No response has been received from CHED to date.

- Neschester is a real estate company whose major asset is a parcel of land in Makati City with an area of 2,332.5 square meters ("sq. m."). In August 2016, STI Holdings acquired 100% ownership of Neschester.

  On September 20, 2016, iACADEMY had its groundbreaking ceremony on this parcel of land, which would be the site of its Yakal campus housing the senior high school students. The eight floors set to be utilized for the school have been completed in January 2018. Students will start using the facility in February 2018. The twelfth floor, lower penthouse and upper penthouse where the multi-purpose hall, basketball court and mini theater are located and the three floors which will be initially offered for lease are expected to be completed in March 2018.

- AHC is a holding company which was a party to the Joint Venture Agreement and Shareholders' Agreement ("Agreements") among the Parent Company, PWU and Unlad. It granted advances amounting to ₱65.0 million to Unlad by virtue of these Agreements. AHC assigned these receivables to the Parent Company on March 1, 2016.

  On March 22, 2016, AHC became a party to an arrangement for the settlement of the loans and advances, which included the said receivables. As of March 31, 2016, the loans and advances arising from the Agreements have been fully settled.

THE K TO 12 PROGRAM

The education landscape in the Philippines has changed with the signing on May 15, 2013 of Republic Act ("RA") 10533, also known as the Enhanced Basic Education Act of 2013. The emphasis of RA 10533 is the introduction of the K to 12 program which in summary adds two (2) years prior to tertiary education. The K to 12 Program was implemented in the Philippines to ensure that our college graduates will be aligned with the global standards and consequently, become globally competitive, job-ready college graduates.

For schools in the Philippines that offer tertiary education similar to the schools operated by the Group, this will mean two (2) academic years from SY 2016-17 to SY 2017-18 with substantial reduction in incoming college freshmen students.

To ease the transition and to help prepare the incoming Grade 11 students in choosing the right track, the DepEd released Order No. 41, otherwise known as the Senior High School Guidance Program and Early Registration. This aims to guide Grade 10 students or Senior

High entrants in coming up with informed decisions regarding their choice of track or specialization for the Early Registration held from October 19 up to November 13, 2015.

The Group collaborated with DepEd and conducted career guidance and orientation seminars for Grade 10 students in various public and private high schools nationwide. During the registration period, all Grade 10 students in all public and private high schools were encouraged to submit their choice of school and SHS track to their respective class advisers. The class advisers of Grade 10 in public schools were then tasked to register their students for SHS and submit learners' preferences through the SHS registration module in the Learner Information System ("LIS") of DepEd.

In addition, aligned with DepEd's objectives to assist students with their decisions, STI ESG developed a tool called the Student's Career Opportunity and Personality Evaluator or SCOPE. It is a unique computerized program that would help Grade 10 students find the best careers that fit their strengths, interests, and personality. With the assistance of a Guidance Counselor, incoming Senior High students would get a free comprehensive report in less than thirty (30) minutes that could lead them in making an important decision for their future.

The Group's intensive marketing efforts during the early registration period and its sustained marketing activities bore fruit with the total SHS enrollment reaching 39,206 and 57,634 students at the start of SY 2016-2017 and SY 2017-2018, respectively.

STI ESG is offering two program tracks, namely, the Academic and the Technical–Vocational-Livelihood tracks. Under the Technical-Vocational-Livelihood Track, STI ESG offers three strands with various specializations.

Academic Track

Accountancy, Business and Management
Humanities and Social Sciences
Science, Technology, Engineering, and Mathematics
General Academic Strand

Technical – Vocational-Livelihood Track

Information and Communications Technology ("ICT") Strand

Specializations:

- Computer Programming
- Animation
- Illustration
- Computer Systems Servicing
- Broadband Installation

Home Economics Strand

Specializations:

- Commercial Cooking
- Cookery
- Bartending
- Food and Beverage Services
- Local Guiding Services
- Travel Services
- Tourism Promotion Services

- Front Office Services
- Housekeeping

Industrial Arts Strand

Specialization:

- Electronic Products Assembly and Servicing

STI WNU, for its part, offers all tracks, namely:

<u>Academic Track</u>

Accountancy, Business and Management
Science and Technology, Engineering and Mathematics
Humanities and Social Sciences
General Academic Strand

<u>Technical-Vocational Track</u>

ICT Strand

Specializations:

- Computer Programming
- Computer Hardware Servicing
- Broadband Installation
- Contact Center Services

Home Economics Strand

Specializations:

- Bread and Pastry Production
- Cookery
- Food and Beverage Services
- Front Office Services
- Housekeeping
- Local Guiding Services
- Tourism Promotion Services
- Travel Services

<u>Sports Track</u>

<u>Arts and Design Track</u>

iACADEMY is offering three tracks:

<u>Academic Track</u>

Accountancy, Business and Management
Humanities and Social Sciences
General Academic Strand

<u>Technical-Vocational Track</u>

ICT Strand

Specializations:

- Computer Programming
- Animation

Home Economics Strand
Specialization:
- Fashion Design

<u>Arts & Design Track</u>
- Media and Visual Arts

STUDENT POPULATION

The enrollment at the start of the SY of the schools under STI Holdings are as follows:

	SY 2017-2018	SY 2016-2017	Increase (Decrease)	
			Enrollees	Percentage
STI ESG				
Owned schools	54,366	52,687	1,679	3.2%
Franchised schools	42,165	43,592	(1,427)	(3.3)%
	96,531	96,279	252	0.3%
iACADEMY	1,728	1,375	353	26%
STI WNU	6,772	6,073	699	12%
Total Enrollees	**105,031**	**103,727**	**1,304**	**1%**

Grouping the students in terms of government regulatory agencies supervising the programs, wherein CHED pertains to students enrolled in tertiary and post-graduate programs, Technical Education and Skills Development Authority ("TESDA") students are those enrolled in technical-vocational programs while DepEd pertains to primary and secondary education including SHS, following are the numbers:

	SY 2017-2018			
	CHED	**TESDA**	**DEPED***	**TOTAL**
STI ESG	40,147	2,191	54,193	96,531
iACADEMY	783	-	945	1,728
STI WNU	3,336	-	3,436	6,772
Total	**44,266**	**2,191**	**58,574**	**105,031**
Proportion of CHED:TESDA:DepEd	**42%**	**2%**	**56%**	**100%**

	SY 2016-2017			
	CHED	**TESDA**	**DEPED***	**TOTAL**
STI ESG	53,016	5,692	37,571	96,279
iACADEMY	945	-	430	1,375
STI WNU	3,989	-	2,084	6,073
Total	**57,950**	**5,692**	**40,085**	**103,727**
Proportion of CHED:TESDA:DepEd	**56%**	**5%**	**39%**	**100%**

* *For STI ESG and iACADEMY, these represent the number of enrolled SHS students while for STI WNU, this is the total of 2,496 SHS students and the 940 students enrolled in basic education for SY 2017-2018 and 1,205 SHS students and the 879 students enrolled in basic education for SY 2016-2017.*

FINANCIAL REVIEW

This discussion summarizes the significant factors affecting the financial condition and operating results of the Group as at and for the nine months ended December 31, 2017 and 2016. The following discussion should be read in conjunction with the attached unaudited interim condensed consolidated financial statements of the Group as at and for the period ended December 31, 2017. All necessary adjustments have been made to present fairly the financial position, results of operations, and cash flows of the Group as of December 31, 2017, and for all the other periods presented.

I. RESULTS OF OPERATIONS

a. Three months ended December 31, 2017 vs. three months ended December 31, 2016

For the three months ended December 31, 2017, the Group generated gross revenues of ₱860.3 million, up by ₱23.2 million from same period last year of ₱837.1 million. Gross profit likewise increased by ₱24.1 million year-on-year.

The Group's operating income, that is, income before other income and expenses and income tax, for the three-month period ended December 31, 2017 was approximately the same as same period last year of ₱304.9 million.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest expense, interest income, and nonrecurring gains/losses such as effect of derecognition of a subsidiary, slightly decreased to ₱432.2 million from last year's ₱435.8 million. EBITDA margin for the three-month period decreased from 52% last year to 50% this year.

Net income for the three-month period amounted to ₱258.7 million as against same period last year's net income of ₱81.4 million, substantially due to the equity in net gains/losses of an associate recognized last year but no longer recognized after June 2017 (see further discussion on this topic in succeeding paragraphs).

Core income, computed as the consolidated net income after income tax derived from the Group's main business – education and other recurring income, amounted to ₱258.6 million for the three-month period ended December 31, 2017 compared to the same period last year of ₱279.0 million.

b. <u>Nine months ended December 31, 2017 vs. nine months ended December 31, 2016</u>

For the nine months ended December 31, 2017, the Group generated gross revenues of ₱2,232.3 million, up by 5% or ₱109.5 million from same period last year of ₱2,122.8 million. Gross profit increased by ₱63.1 million or 4% year-on-year.

The Group's operating income, that is, income before other income and expenses and income tax, amounted to ₱645.6 million for the nine-month period ended December 31, 2017 from same period last year of ₱645.0 million.

EBITDA for the period increased by ₱15.5 million to ₱1,027.0 million from last year's ₱1,011.5 million. EBITDA margin for the nine-month period, however, decreased from 48% last year to 46% this year.

Net income for the period amounted to ₱88.5 million as against same period last year's net income of ₱624.3 million.

Core income amounted to ₱534.2 million for the nine-month period ended December 31, 2017 as against same period last year's core income of ₱608.8 million.

II. FINANCIAL CONDITION

The Group's total assets as at December 31, 2017 amounted to ₱14,807.5 million, ₱516.1 million higher than the balance as at March 31, 2017. This was largely due to the increase in receivables, mostly pertaining to receivables from students and from DepEd for tuition and other school fees. Property and equipment likewise increased as acquisition of land and construction projects continued in full swing.

Cash and cash equivalents decreased by 37% or ₱1,171.9 million as a result of continued capital expenditures, payment of loans and interest payments made by STI ESG on its bonds.

Total receivables amounted to ₱1,307.5 million, up by ₱864.5 million from ₱443.0 million as at March 31, 2017, since the December 31, 2017 balance is composed mostly of amounts expected to be collected as payment for tuition and other school fees from students and from DepEd for the remaining months of the current school term. Students who qualified for the DepEd Voucher Program are entitled to the government subsidy in amounts ranging from ₱8,750 to ₱22,500 per student per year. Under the Voucher Program, DepEd pays directly the schools where these students enrolled.

Inventories increased by 20% or ₱24.3 million substantially due to increase in stock of SHS uniforms. Also, STI ESG has introduced a new marketing material called the STI Organizer. This is a new primary tool during career orientation seminars. The intention is to have an engaging and sustainable relationship, all year round, between STI ESG and its target market, the Grades 10 and 12 students.

Prepaid expenses and other current assets decreased by 22% or ₱32.0 million from ₱149.0 million to ₱117.0 million with the reclassification of input tax on the purchase of land along EDSA (see further discussion on this topic below).

STI ESG reclassified its investments in Maestro Holdings, Inc. ("Maestro Holdings") amounting to ₱755.1 million as "Noncurrent Asset Held for Sale" in June 2017 and presented the same under the current assets portion of the unaudited interim condensed consolidated statements of financial position. "Investments in and advances to associates and joint ventures" consequently decreased by the same amount.

Property and equipment rose by ₱919.4 million or 13% as real properties are acquired and construction continued.

Available-for-sale financial assets increased by ₱16.7 million with the reclassification of ₱16.1 million from "Deposits for asset acquisitions" in December 2017.

Deferred tax assets rose by 9% or ₱3.0 million due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees collected in advance are taxed at the time of receipt. This amount is net of the deferred tax liability amounting to ₱3.0 million on the remeasurement gains recognized as the market value of the pension plan's investment in equity shares improved significantly.

Pension assets increased by ₱24.3 million from ₱2.8 million as at March 31, 2017 to ₱27.1 million as at December 31, 2017 due to remeasurement gains recognized on the improved valuation of the equity shares which form part of the plan assets for the nine-month period ended December 31, 2017.

Goodwill, intangible and other noncurrent assets increased by ₱185.8 million or 44% due to advances to suppliers. Advances to suppliers substantially pertain to advance payments made in relation to the acquisition of property and equipment and buildings under construction.

Total current liabilities increased by ₱275.5 million to ₱1,741.0 million as at December 31, 2017 from ₱1,465.5 million as at March 31, 2017, mainly due to the ₱614.1 million increase in unearned tuition and other school fees. Unearned revenues will be recognized as income over the remaining period of the related school term. Meanwhile, short-term loans declined by ₱495.0 million due to payments made as at December 31, 2017, net of the ₱70.0 million new loan availed by STI ESG during the period.

Total equity attributable to equity holders of the Parent Company increased by 1% or ₱71.6 million.

III. TOP 5 KEY PERFORMANCE INDICATORS

The top five key performance indicators ("KPIs") of the Group include tests of profitability, liquidity and solvency. Profitability refers to the Group's earning capacity and ability to earn income for its stockholders. This is measured by profitability ratios analyzing margins and returns. Liquidity refers to the Group's ability to pay its short-term liabilities as and when they fall due. Solvency refers to the Group's ability to pay all its debts as and when they fall due, whether such liabilities are current or non-current.

		9 Months ended December 31		
		2017	**2016**	**Remarks**
EBITDA margin	Net income excluding provision for income tax, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest expense, interest income and nonrecurring gains/losses such as effect of derecognition of a subsidiary ("EBITDA") divided by total revenues	46%	48%	EBITDA margin declined in 2017 as compared to same period in 2016 mainly due to faster increase in direct expenses and operating expenses compared to increase in revenues
Gross profit margin	Gross profit divided by total revenues	66%	67%	Gross profit margin declined as direct costs increased at a faster rate compared to revenues
Return on equity	Net income attributable to equity holders of the Parent company (annualized) divided by average equity attributable to equity holders of the Parent company	4%	8%	Return on equity decreased in 2017 substantially due to the equity share in net losses of associates and joint ventures for the current period as compared to same period last year.

		9 Months ended December 31		
		2017	2016	Remarks
Debt service cover ratio	EBITDA for the last twelve months divided by total principal and interest due for the next twelve months	2.48	1.19	Debt service cover ratio for the periods presented has always been well above the minimum set by management and the lending bank. The bar is 1.05 of cash income (EBITDA) for every peso of loans and interest maturing within the next 12 months.
Debt-to-equity ratio	Total liabilities, net of unearned tuition and other school fees, divided by total equity	0.63	0.36	Debt-to-equity ratio increased due to the ₱3 billion fixed rate bonds issued by STI ESG in March 2017

IV. MATERIAL CHANGES IN BALANCE SHEET ACCOUNTS

Cash and cash equivalents decreased by 37% or ₱1,171.9 million from ₱3,198.7 million to ₱2,026.8 million as at March 31, 2017 and December 31, 2017, respectively, as a result of continued capital expenditures on expansion projects which were funded by the proceeds of the bond offer as well as the payment of loans and interest payments made by STI ESG on its bonds for the nine-month period ended December 31, 2017.

Current receivables, largely pertaining to tuition and other school fees, increased by ₱864.5 million or 195%. Receivables from students increased by ₱383.5 million. The receivables from students are expected to be collected over the remaining months of the related school term. Outstanding receivables from DepEd for the SHS qualified voucher recipients amounted to ₱541.2 million as at December 31, 2017, posting an increase of ₱490.1 million from the March 31, 2017 balance. On October 23, 2017, DepEd released DepEd Order No. 54 or the "Guidelines on the Implementation of the SHS Voucher Program for SY 2017-2018". This DepEd order states that vouchers will now be paid once every school year instead of the original twice-a-year payment. The vouchers are expected to be collected within 8-12 weeks from date of submission of billing statements to DepEd.

Inventories increased by 20% or ₱24.3 million. This is mainly attributed to the build-up of the inventory of SHS uniforms. STI organizers were also produced as a new marketing tool targeting Grades 10 and 12 students.

Prepaid expenses and other current assets decreased by ₱32.0 million or 22%. This is largely due to the reclassification of input VAT amounting to ₱46.8 million from prepaid taxes to "Land", thus forming part of its acquisition cost. As a background, in January 2017, STI ESG purchased three parcels of land in P. Celle corner EDSA, Pasay City with a combined land area of 3,911 sq. m. This is intended to be the site of the nine-storey STI Academic Center Pasay-EDSA where the existing students of STI Taft, a separate corporate entity then, will eventually transfer. On August 30, 2017, SEC approved the merger of STI Taft and STI ESG, with STI ESG as the surviving entity. With the approval of the merger, the related input tax on the purchase of the said EDSA properties amounting to ₱46.8 million was reclassified as part of the acquisition cost of the land. Prepaid subscriptions and license pertain substantially to the eLearning Management System or eLMS, Microsoft license, Adobe Acrobat subscription, Sophos firewall and licenses for various software obtained by iACADEMY for its student activities which shall be amortized within the school year. Prepaid insurance likewise increased by ₱4.5 million compared to ₱0.7 million balance as at March 31, 2017 substantially attributed to the premiums paid for the fire insurance coverage on the buildings, including equipment and furniture, health insurance coverage of employees and life and accident insurance of the students as at December 31, 2017. Most of these cover the period April 2017 to March 2018 or in line with the school calendar and are amortized over the remaining months of the respective contracts. Other current assets include ₱3.3 million of borrowing transaction costs incurred by iACADEMY on its Term Loan Facility obtained from China Bank. This amount will be amortized over the term of the loan.

The noncurrent asset held for sale in the amount of ₱755.1 million represents the carrying value of STI ESG's 20% ownership in Maestro Holdings. This company owns 100% of PhilPlans First, Inc. ("PhilPlans"), 99.89% of PhilhealthCare, Inc. and 70.6% of Philippine Life Financial Assurance Corporation. On June 27, 2017, STI ESG's BOD approved the disposal of this 20% stake in Maestro Holdings. Final negotiations for the sale are now ongoing. As such, said investment account has been reclassified from noncurrent asset to current asset. Further, with the reclassification as noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for the investment in Maestro Holdings as at June 27, 2017.

Property and equipment, net of accumulated depreciation, increased by 13% or ₱919.4 million from the March 31, 2017 balance of ₱6,875.6 million to ₱7,795.0 million as at December 31, 2017. As part of the continued expansion projects, STI ESG acquired parcels of land in Lipa and Legazpi amounting to ₱99.1 million and ₱76.4 million, respectively, inclusive of taxes and registration fees. These acquisitions were funded by the proceeds from the bond offer. The cost of acquisition of EDSA properties increased likewise with the reclassification of input tax amounting to ₱46.8 million as part of the cost of land. As at December 31, 2017, the construction in-progress account includes costs incurred for the fit out works on a leased building which is newly constructed. This will be the new site of STI Malaybalay. There are also renovation works in STI Sta. Maria. The total related contract costs amounted to ₱69.0 million, inclusive of materials, equipment, furniture and fixtures, cost of labor and overhead and all other costs necessary for the completion of the projects. The construction projects in Sta. Maria and in Malaybalay were completed in January 2018. The construction in-progress account also includes costs related to the construction of school buildings which will be the new site of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte. The construction project in Lipa is expected to be completed by end of June 2018 while the rest are expected to be completed in time for the second semester or in November 2018. Construction costs of iACADEMY's Yakal campus, inclusive of machineries and equipment already purchased, contributed another ₱372.0 million increase in the construction-in-progress account. Building construction is expected to be fully completed in March 2018.

STI ESG reclassified its investments in Maestro Holdings amounting to ₱755.1 million as "Noncurrent Asset Available for Sale" in June 2017 under the current assets portion of the unaudited interim condensed consolidated statements of financial position. "Investments in and advances to associates and joint ventures" consequently decreased by the same amount. Equity share in net losses of this associate amounting to ₱446.4 million, recognized during the period April to June 2017, contributed to the decrease.

Available for sale financial assets increased by ₱16.7 million from ₱51.6 million to ₱68.3 million as at March 31, 2017 and December 31, 2017, respectively. Deposit for the purchase of proprietary shares in a development in Batangas amounting to ₱16.1 million was reclassified from Other Noncurrent Assets to Available-for-sale financial assets in December 2017.

Deferred tax assets rose by 9% or ₱3.0 million due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees which are collected in advance are taxed at the time of receipt.

Pension assets amounted to ₱27.1 million as at December 31, 2017 from ₱2.8 million as at March 31, 2017 due to recognition of remeasurement gains on pension plan assets for the nine-month period ended December 31, 2017.

Goodwill, intangible and other noncurrent assets increased by ₱185.8 million or 44%, mainly due to additional ₱259.5 million noncurrent advances to suppliers/contractors in connection with construction activities for the period. This was partially offset by the application of STI ESG's deposit for the purchase of the net assets of STI Sta. Maria and the reclassification of deposits paid for the purchase of land located in Poblacion, Lipa City, Batangas as part of the cost of land. These advance payments will be reclassified to the "Property and equipment" account when the goods are received or the services are rendered.

On May 23, 2017, STI Sta. Maria entered into a Deed of Assignment with Halili Reyes Educational Institution, Inc. ("HREI") whereby HREI assigned, transferred and conveyed in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, to STI Sta. Maria all its rights, title and interest in its school's assets and liabilities for a price of ₱20.0 million. The assignment of the net assets shall retroact to April 1, 2017. Consequently, the ₱18.0 million initial deposits made which were previously recognized under "Deposits for asset acquisitions" were applied and STI

Sta. Maria paid the remaining balance of ₱2.0 million. The purchase price consideration has been allocated to the assets and liabilities based on the fair values at the date of acquisition resulting in goodwill amounting to ₱1.8 million.

Accounts payable and other current liabilities increased by ₱141.0 million largely due to the additional payables amounting to ₱235.5 million recognized by iACADEMY in relation to construction works on its Yakal campus.

STI ESG's short-term loan balance amounted to ₱250.0 million and ₱545.0 million as at December 31, 2017 and March 31, 2017, respectively. STI ESG availed of loans from Bank of the Philippine Islands amounting to ₱70.0 million on October 18, 2017 and made payments aggregating to ₱365.0 million for the nine-month period ended December 31, 2017. Interest rates of STI ESG loans ranged from 3.20% to 3.75%. The proceeds from these loans were used for working capital requirements.

On the other hand, iACADEMY made its first drawdown on September 29, 2017 from the ₱800.0 million term loan facility arranged with China Banking Corporation to fully settle the ₱200.0 million bridge loan used for the construction of its Yakal campus.

Total of current and noncurrent portions of interest bearing loans under the Corporate Notes Facility with China Bank increased by a net amount of ₱165.0 million as iACADEMY recognized ₱200.0 million drawdown from its term loan facility while STI ESG and STI WNU remitted principal payments amounting to ₱20.4 million and ₱13.5 million, respectively.

Unearned tuition and other school fees increased substantially by ₱614.2 million from ₱100.3 million as at March 31, 2017 to ₱714.5 million as at December 31, 2017. The unearned revenue will be recognized as income over the remaining months of the school term.

Income tax payable increased by 56% to ₱30.5 million as at December 31, 2017 from ₱19.6 million last March 31, 2017. This is substantially attributed to taxes on tuition and other school fees collected in advance.

Current portion and noncurrent portion of obligations under finance lease increased by ₱1.6 million and ₱9.4 million, respectively, as at December 31, 2017 with the acquisition of property and equipment under finance lease.

Other comprehensive income associated with the noncurrent asset held for sale shown in the equity side of the unaudited interim condensed consolidated statement of financial position amounted to ₱98.3 million. This represents STI ESG's cumulative share in Maestro Holdings' unrealized mark-to-market gain on available-for-sale financial assets, cumulative actuarial gain on pension liabilities and other equity reserve, net of the non-controlling interests in STI ESG, up to June 30, 2017, which is the date of reclassification.

Cumulative actuarial gain increased to ₱71.3 million as at December 31, 2017 from ₱44.4 million as at March 31, 2017 due to the recognition of remeasurement gains, net of the related deferred tax, on pension plan assets.

The Group's unrealized mark-to-market gains on their available-for-sale financial assets increased by ₱0.6 million largely due to the higher market value of the Manulife shares held by STI ESG.

The Group's share in associates' unrealized mark-to-market loss on their available-for-sale financial assets of ₱48.7 million reported as at March 31, 2017 pertains to the 20% investment share in Maestro Holdings and is part of the reclassification made in June 2017.

The Group's share in its associates' cumulative actuarial gain sharply declined from ₱0.7 million as at March 31, 2017 to ₱0.08 million as at December 31, 2017. The balance shown as at December 31, 2017 does not include any amount pertaining to the reclassified noncurrent asset held for sale.

The Group's share in associates' other equity reserve of ₱0.7 million reported as at March 31, 2017 pertains to the 20% investment share in Maestro Holdings and is part of the reclassification made in June 2017.

Retained earnings decreased after recognition of the Group's equity share in the net losses of an associate in June 2017 (see further discussion below) as well as the cash dividends declared.

On September 29, 2017, the Parent Company's BOD declared cash dividends amounting to ₱0.02 per share to stockholders of record as of October 16, 2017. Said dividends were paid on November 13, 2017.

V. MATERIAL CHANGES IN INCOME STATEMENT ACCOUNTS

Total revenues reached ₱2,232.3 million during the nine-month period ended December 31, 2017, an increase of ₱109.5 million or 5% from same period last year.

Tuition and other school fees for the period increased by ₱48.8 million or 3%. While there was only a 1% increase in the total number of students of the Group from 103,727 last year to 105,031 students this year, the related increase in revenues is higher. This is due to the change in iACADEMY's school calendar in 2016, such that its revenues for the period April to December 2017 is equivalent to nine (9) months compared to previous year's revenues equivalent to only seven (7) months.

Revenues from educational services and royalty fees declined by 2% and 1%, respectively. Revenues from educational services are derived as a percentage of the tuition and other school fees actually collected by STI ESG's franchised schools from their students and from DepEd.

Other revenues rose by 124% to ₱44.3 million for the nine-month period ended December 31, 2017 as compared to ₱19.8 million for the same period last year, substantially due to fees for the use of the enrolment system.

Sale of educational materials and supplies increased by 31% or ₱40.0 million largely due to increased sale of textbooks.

Cost of educational services increased by 4% or ₱23.6 million from ₱590.1 million last year to ₱613.7 million for the same period this year, mainly due to costs associated with the operation of STI Sta. Maria which was consolidated this year with the costs of the Group. STI Sta. Maria became a 100% STI ESG subsidiary in April 2017. In addition, instructors' salaries increased by 8% or ₱20.8 million attributed to the salaries of instructors who handled the remedial classes of SHS students in April and May 2017 and due to salary alignment of SHS teachers who passed the Licensure Examination for Teachers ("LET") and tertiary instructors who earned their Master's degrees. Depreciation and amortization increased by ₱7.4 million substantially attributed to the impact of depreciation recognized for the STI Las Piñas campus building, completed in July 2016, as well as other completed construction and renovation projects. The cost increases were partially offset by the decrease of ₱8.2 million in cost of student activities and programs due to CHED Memorandum series order no. 17 which imposed a moratorium on field trips and other similar activities

Cost of educational materials and supplies sold increased by 20% concomitant with the increase in sale of textbooks.

Gross profit increased by ₱63.0 million from ₱1,420.8 million for the nine-month period ended December 31, 2016 to ₱1,483.8 million for the same period this year. The gross profit margin, however, decreased by 1 percentage point, from 67% for the period ended December 31, 2016 to 66% for the period ended December 31, 2017. The decrease is largely due to the mix of students that the Group now has. In SY 2016-2017, the proportion of students is 56:5:39 where the CHED students accounted for 56% of total student population as against the SHS students' share of 39%. This SY 2017-2018, the proportion is 42:2:56 where CHED students account for 42% and SHS students make up 56% of total student population. The Group's experience is that higher revenues and higher margins are derived from CHED students. The new batch of CHED first year students is expected to come starting SY 2018-2019.

General and administrative expenses increased by 8% or ₱62.4 million from ₱775.8 million last year to ₱838.2 million this year. Personnel costs increased by ₱15.9 million or 7% as plantilla positions were filled up and salary increases given to deserving employees. Light and water expenses increased substantially by ₱11.1 million due to the cost incurred by STI Sta. Maria and higher expenses recognized by the schools for the nine-month period ended December 31, 2017 compared to same period last year, as the average rate per kilowatt hour of electricity increased. Professional fees increased by ₱8.3 million largely due to expenses incurred in relation to the merger of STI Taft and STI Dagupan with STI ESG, special audits in connection with the disposal of Maestro Holdings, and various legal and labor-related cases. Advertising and promotions expense increased by ₱5.7 million as the marketing campaign for SHS programs was intensified. Costs of security, janitorial and other outside services increased by ₱5.6 million due to the consolidation of operations of STI Sta. Maria as well as additional costs incurred by STI Las Piñas and various other schools for additional security and janitorial personnel. Taxes and licenses increased by ₱5.5 million due to real property taxes on investment properties.

The Group's operating income, that is, income before other income and expenses and income tax, remained flat at ₱645.6 million for the nine-month period ended December 31, 2017 compared to same period last year of ₱645.0 million.

Equity in net losses of associates and joint ventures amounting to ₱445.6 million pertains largely to the share of STI ESG in the loss of Maestro Holdings up to end of June 2017. With the reclassification of the carrying value of STI ESG's 20% ownership in Maestro Holdings to noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for its investment in Maestro Holdings as at June 27, 2017. By way of explanation, this loss arose from the decision of PhilPlans to fully recognize the mandated discount interest rate imposed by the Insurance Commission ("IC") on the reserves of pre-need companies. The IC is the government regulatory agency supervising pre-need companies. In November 2012, the IC issued Circular Letter 23-2012 relating to the Valuation of Transitory Pre-need Reserves. The IC mandated a gradual decrease in the discount interest rate to be used for valuing the reserves to provide regulatory leeway for the compliance to this circular. The old basket of plans previously approved by the SEC when the pre-need companies were under its supervision were using higher discount rate. The circular mandated that for the years 2012-2016, the discount interest rate shall be 8%; for 2017, 7.25%; for 2018, 6.5% and for 2019 onwards, 6%. In July 2017, PhilPlans opted to have an early adoption of the 6% discount interest rate starting January 2017. This means bigger allocation to pre-need reserves from its trust funds, thus recognizing a higher expense item.

Rental income increased by ₱5.9 million or 7% due to the substantial occupancy of the investment properties owned by STI ESG.

Interest expenses on loans increased by 204% year-on-year mainly due to interest incurred on STI ESG's bond issue that was charged to expense, net of borrowing costs capitalized as part of the cost of the related capital expenditure based on accounting standards in the recognition of borrowing costs. Interest on STI WNU's loan was also charged to expense as construction projects were already completed.

Interest income rose by ₱17.5 million mainly due to interest earned from short-term placements of the proceeds from STI ESG's bond issue.

STI Diamond and STI Novaliches executed in August 2016, a deed of assignment transferring the net assets of the former to the latter for a transfer price of ₱75.65 million payable in five (5) years. As a result, the management contract between STI ESG and STI Diamond was terminated and residual interest was transferred. With this, STI Diamond was derecognized as a subsidiary of STI ESG for an amount equal to the present value of the related transfer price of ₱60.8 million which is presented as "Effect of derecognition of a subsidiary" in the interim consolidated statements of comprehensive income for the nine-month period ended December 31, 2016.

Provision for income tax declined by 9% due to lower taxable income for the current period as compared to same period last year.

Net income decreased by ₱535.8 million from ₱624.3 million for the nine-month period ended December 31, 2016 to ₱88.5 million for the current period largely due to the Group's equity share in the net losses of associates and joint ventures taken up for the three-month period ended June 30, 2017.

STI ESG reported a remeasurement gain on pension liability of ₱27.2 million for the nine-month period ended December 31, 2017, net of income tax effect, due to the higher market value of the investment in equity securities forming part of the pension plan assets.

Total comprehensive income amounted to ₱264.1 million this year, a decrease of ₱53.6 million compared to same period last year.

VI. FINANCIAL RISK DISCLOSURE

The Group's present activities expose it to liquidity risk, credit risk, interest rate risk and capital risk.

Liquidity risk – Liquidity risk relates to the possibility that the Group might not be able to settle its obligations/commitments as they fall due. To cover its financing requirements, the Group uses internally-generated funds and avails of various bank loans. The Group regularly evaluates available financial products and monitors market conditions for opportunities to enhance yields at acceptable risk levels. Bank loans are judicially utilized to minimize financing cost. The debt service cover ratio, as a bank requirement, is also monitored on a regular basis to keep it at a level acceptable to the Group and to the lender bank. The debt service cover ratio is equivalent to EBITDA in the last twelve months divided by total principal and interest due in the next twelve months. The Group's policy is to keep the debt service cover ratio not lower than 1.05:1.00.

As at December 31, 2017 and December 31, 2016, the Group's debt service cover ratio is 2.48:1.00 and 1.19:1.00, respectively.

Credit risk – Credit risk is the risk that the Group will incur a loss arising from students, franchisees or counterparties that fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk that the Group is willing to accept for individual counterparties and by monitoring expenses in relation to such limits.

It is the Group's policy to require students to pay all their tuition and other incidental fees before they can get their report cards and other credentials. Receivable balances are monitored such that exposure to bad debts is minimal.

Interest rate risk – Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. While the Group's long term debt has a floating interest rate, the Group elected to have the interest rate repriced every year, thus minimizing the exposure to market changes in interest rates. The interest rates for the STI ESG bonds are, however, fixed for the 7 year bonds and the 10 year bonds.

Capital risk – The Group's objectives when managing capital are to provide acceptable returns to stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital using the debt-to-equity ratio, which is computed as the total of current and noncurrent liabilities less unearned tuition and other school fees, divided by total equity. The Group monitors its debt-to-equity ratio to keep it at a level acceptable to the companies in the Group and to the lender bank. The Group's policy is to keep the debt-to-equity ratio at a level not exceeding 1.50:1.00.

As at December 31, 2017 and December 31, 2016, the Group's debt-to-equity ratio is 0.63:1.00 and 0.36:1.00, respectively.

VII. AGREEMENTS/COMMITMENTS AND CONTINGENCIES/OTHER MATTERS

a. There are no changes in accounting estimates used in the preparation of unaudited interim condensed consolidated reports for the current and prior financial period.

b. Except as provided in Note 22 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as Annex "A," the Group has no other financial and capital commitments.

c. On June 3, 2013, STI ESG executed a deed of pledge on all of its shares in De Los Santos Medical Center (formerly De Los Santos General Hospital) in favor of Neptune Stroika Holdings, Inc., a wholly-owned subsidiary of Metro Pacific Investments Corporation ("MPIC"), to cover the indemnity obligations of STI ESG enumerated in its investment agreement entered into in 2013 with MPIC. The book value of the investment in De Los Santos Medical Center amounted to ₱24.1 million and ₱23.2 million as at December 31, 2017 and 2016, respectively.

d. On April 21, 2017, STI ESG, Mr. Tony Tan Caktiong ("TTC"), STI Tanauan, and Injap Investments, Inc. ("Injap"), referred collectively as the Joint Venture Parties, entered into an agreement to transform STI Tanauan into a Joint Venture Company which shall operate a farm-to-table school that offers courses ranging from farm production to food services.

   The Joint Venture Parties also agreed to increase STI Tanauan's authorized capital stock to an amount that will be agreed by the Joint Venture Parties in a separate agreement. As agreed by the Joint Venture Parties, the increase in the authorized capital stock will be made through STI Tanauan's declaration of stock dividends to STI ESG based on STI Tanauan's unrestricted retained earnings as of March 31, 2017 and cash payments by the Joint Venture Parties.

Additional amendments shall be made to STI Tanauan's Articles of Incorporation and By-Laws to implement the intent of the parties under the Joint Venture Agreement.

The equity sharing in the Joint Venture Company will be 60%, 25% and 15% for STI ESG, TTC and Injap, respectively.

On June 21, 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in the authorized capital stock of the corporation from ₱1.0 million divided into 10,000 shares with a par value of ₱100 to ₱75.0 million divided into 750,000 shares with a par value of ₱100. The increase will be funded through the declaration of stock dividends and cash subscriptions by the shareholders. In the same meeting, the stockholders and the BOD approved the declaration of 150,000 shares as stock dividends with an aggregate par value of ₱15.0 million to be distributed to stockholders of record as of March 31, 2017 based on the unrestricted retained earnings of STI Tanauan as shown in its audited financial statements as of March 31, 2017.

In accordance with the above, on January 23, 2018, STI ESG subscribed to 35,000 shares of the intended increase in authorized capital stock of STI Tanauan at an agreed subscription price of ₱495.00 per share. The application for the increase in the authorized capital of STI Tanauan was submitted to the SEC on February 12, 2018.

e. On August 1, 2017, STI ESG entered into a Memorandum of Understanding with Royal Caribbean Cruises Ltd. ("RCL") for the creation of the RCL-STI Cruise Talent Development Centre that will follow RCL standards in providing training for hospitality jobs on cruise ships. This facility will produce more Filipino seafaring talents ready to take on thousands of new hotel roles on cruise ships.

f. On September 29, 2017, the BOD of the Parent Company adopted a policy on the declaration of dividends starting with Fiscal Year 2017-2018. The BOD approved a dividend declaration policy of not less than 25% of the core income of the Company from the previous fiscal year, subject to compliance with the requirements of applicable laws and regulations, statutory limitations and/ or restrictions, terms and conditions which may be imposed on the Company by lenders or other financial institutions, and the Company's investment plans and financial condition (see Note 19).

VIII. MATERIAL EVENT/S AND UNCERTAINTIES KNOWN TO MANAGEMENT THAT WOULD ADDRESS THE PAST AND WOULD HAVE AN IMPACT ON FUTURE OPERATIONS

a. There are no material events and uncertainties known to management that would address the past and would have an impact on future operations of the Group.

b. There are no known trends, demands, commitments, events of uncertainties that will have an impact on the Group's liquidity except for the contingencies and commitments enumerated in Note 22 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as Annex "A".

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

d. The various loan agreements entered into by STI ESG, STI WNU and iACADEMY and the issuance of fixed rate bonds of STI ESG provide certain restrictions and conditions with respect to, among others, change in majority ownership and management and maintenance of financial ratios. STI ESG, STI WNU and iACADEMY are fully compliant with all the covenants of the respective agreements. See Note 16 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements of the Company attached as Annex "A" for a more detailed discussion. There are no other events that will trigger direct or contingent financial obligations that are material to the Group, including any default or acceleration of an obligation.

e. There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net revenues/sales/income from continuing operations except for the contingencies and commitments enumerated in Note 22 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as Annex "A".

f. There are no significant elements of income or loss that did not arise from the Group's continuing operations.

g. The education landscape in the Philippines has changed with the introduction of the K to 12 program which in summary adds two (2) years prior to tertiary education. For the schools in the Philippines that offer tertiary education, similar to STI ESG, STI WNU and iACADEMY, this will mean two (2) academic years, that is, SY 2016-2017 and SY 2017-2018, with significantly reduced and minimal incoming college freshmen students.

   This threat has been constructively converted into an opportunity by the Group. All 76 schools of STI ESG have been granted permits to offer SHS. STI WNU and iACADEMY were also granted permits by the DepEd. For SY 2017-2018, the SHS students who enrolled in the schools of the Group totaled to 57,634. This number boosted Management's confidence that the schools comprising the Group will continuously meet the challenges of the K to 12 program.

h. The Group's business is linked to the academic cycle. The academic cycle, which is one academic year, starts in the month of June and ends in the month of March, except for iACADEMY where the academic year starts in July for the tertiary level and August for the SHS and with both levels ending in June of each year. The core business and revenues of the Group, which are mainly from tuition and other school fees, are recognized as income over the corresponding academic year to which they pertain. Accordingly, revenue is expected to be lower during the first quarter of its fiscal year as compared to the other quarters if the number of enrollees remains constant. This information is provided to allow for a proper appreciation of the results of operations of the Group.