COVER SHEET

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SEC Registration Number

S S I G R O U P , I N C . A N D S U B S I D I A R I E S

(Company's Full Name)

6 / F M i d l a n d B u e n d i a B u i l d i n g 4 0 3
S e n a t o r G i l P u y a t A v e n u e , M a k a t i
C i t y

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

Ms. Rossellina J. Escoto

(Contact Person)

890-8034

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Calendar Year)

1 7 - A

(Form Type)

June 15

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

26

Total No. of Stockholders as of
31 December 2015

Total Amount of Borrowings

₱8,011 million	Not Applicable
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC Number CS200705607
File Number ____________

<u>SSI Group, Inc.</u>
(Company's Full Name)

<u>6/F Midland Buendia Building</u>
<u>403 Senator Gil Puyat Avenue, Makati City</u>
(Company's Address)

<u>(632) 890-8034</u>
(Telephone Number)

<u>December 31, 2015</u>
(Fiscal Year Ending)
(Month & Day)

<u>SEC FORM 17-A</u>
(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2015**

2. SEC Identification Number **CS200705607** 3. BIR Tax Identification No. **006-710-876**

4. Exact name of issuer as specified in its charter **SSI Group, Inc.**

5. Province, Country or other jurisdiction of incorporation or organization: **Makati City, Philippines**

6. Industry Classification Code: [ ] SEC Use Only)

7. Address of principal office: **6/F Floor Midland Buendia Building, 403 Senator Gil Puyat Avenue, Makati City** Postal Code: **1200**

8. Issuer's telephone number, including area code: **(632) 896-95-91**

9. Former name, former address, and former fiscal year, if changed since last report: **N/A**

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

Title of each Class	Number of shares of common stock outstanding
Common Shares	**3,312,864,430**

11. Are any or all of these 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 **Common Shares 3,312,864,430**

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 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 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 [ ]

13. Aggregate market value of the voting stock held by non-affiliates: Approximately ₱3.41 billion (based on the closing price of SSI Group, Inc. common shares as of April 8, 2016 and outstanding shares owned by the public as of December 31, 2015).

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not applicable**

    Yes [ ]   No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

    2015 Consolidated Financial Statements of SSI Group, Inc. and Subsidiaries.

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PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

BACKGROUND

SSI Group, Inc. (the "Company") with its subsidiaries (collectively "SSI" or the "Group") is the leading specialty retailer in the Philippines with an extensive portfolio of established international brands. The Group's portfolio caters to all aspects of a quality lifestyle and is supported by a nationwide strategic retail presence. SSI leads the Philippine specialist retail market in terms of the size and breadth of its international brand portfolio and store footprint. As of December 31, 2015, SSI's retail network consists of 792 stores located within approximately 76 major malls across the Philippines, including Metro Manila, Luzon, Visayas and Mindanao, with a total gross selling space of approximately 147,145 square meters. SSI also expanded its retail format offerings with joint venture in convenience stores under the "FamilyMart" franchise in 2013.

While the Company was incorporated on April 16, 2007, the Group effectively began operations in 1987 through its subsidiary, Stores Specialists, Inc. The Group is the pioneer in introducing globally recognized brands through specialty store retailing to the Philippine market and continues to do so actively. The merchandise sold in its strategically located network of stores covers a broad range of categories and brands, from luxury and bridge apparel to casual wear and fast fashion, footwear, accessories and luggage, food, home and décor, and beauty and personal care. SSI represented 116 brands as of December 31, 2015. SSI's broad portfolio of international brands and retail formats targets the mid-to-upper tiers of the domestic consumer spectrum, positioning the Group to further capitalize on the macro-economic trends of increasing consumer spending and growing disposable income across the higher-income to middle-income segments in the Philippines. Always attuned to the evolving needs and desires of the Filipino consumer, the Group has actively transformed its business over time to capture a wider range of customers and consumer spending opportunities.

Brand management and specialty retailing is the Group's principal business. SSI believes that it has one of the largest and most attractive brand portfolio, comprising, among others, such well-known brands as Hermès, Gucci and Salvatore Ferragamo for premium luxury apparel and accessories, Zara, Bershka, Stradivarius and Old Navy for popular fast fashion, Lacoste and GAP for casual wear, TWG and SaladStop! for high-quality food and beverage selections, Samsonite for stylish travel and luggage offerings, Payless ShoeSource for value-priced trendy footwear, Muji and Pottery Barn for modern home furnishings and accessories, and "FamilyMart" for round-the-clock quality offerings with everyday convenience. The Group believes that its proven track record and ability to provide brand principals an integrated offering of brand development and management services, which are geared toward building a strong and sustainable retail presence in prime locations, makes it the Philippine partner of choice. SSI's strong track record of brand agreement renewals with brand principals is testimony to its success as a retail operator and ability to protect and promote the integrity of international brands in the local market.

The Group's position as exclusive franchisee of such well-known and prestigious international brands and its extensive and diversified portfolio enable it to secure prime retail space appropriate to the brands, as mall operators are generally eager to have SSI's brands included in their list of retail offerings. SSI is one of the first companies that landlords approach when it comes to selecting tenants for their new mall developments, as SSI's portfolio breadth allows it to anchor and populate a retail development according to the developer's vision. Store selection features significantly in SSI's development and management of the brands, as it takes care to ensure the stores of each brand are situated in areas frequented by its targeted customer demographic and that the surroundings are suitable and complementary to the characteristics of the brand. For example, its luxury brand stores are only located in premium upmarket malls in central business districts aimed at sophisticated and affluent customers of all age groups looking for the best in fashion and lifestyle products. In summary, SSI believes that its synergistic relationship with retail developers significantly strengthens its ability to position the brands effectively in the Philippine market.

As part of its growth strategy, in 2013, SSI added one of Japan's largest convenience store franchises, "FamilyMart", to its retail portfolio. The "FamilyMart" operations are managed by its joint venture, Philippine FamilyMart CVS, Inc. ("PFM") with FamilyMart ("FM"), the owner of the Japanese franchise, and Itochu Corporation. PFM is owned 60% by SIAL CVS Retailers, Inc. (SSI's 50/50 joint venture with Varejo Corporation, a wholly-owned subsidiary of Ayala Land), 37% by FM and 3% by Itochu Corporation. As of December 31, 2015, there were a total of 112 FamilyMart convenience stores across Metro Manila, Luzon (excluding Metro Manila) and Visayas.

COMPETITIVE STRENGTHS

The market leader in specialty retailing with a nationwide strategic presence that is well-positioned to benefit from favorable macroeconomic and demographic trends in the Philippines

SSI is the leading specialty retailer in the Philippines by size of international brand portfolio and store footprint. Established in 1987, but with a retail pedigree dating back to the founding of the Rustan's Group in 1951, the Group has benefited from a first mover advantage in developing standalone specialty stores for an increasingly diverse range of international brands in the Philippine market. SSI's extensive nationwide retail footprint consists of 792 directly-operated stores spread across approximately 76 major malls throughout the Philippines.

SSI's portfolio of international brands and footprint of stores has grown significantly since it commenced its retail operations in the Philippines and opened its first international branded retail store in 1988. Since then, SSI has leveraged its experience and expertise in retail operations and deep resources to expand its international offerings to Philippine consumers and establish its leading retail presence in the local market.

The Group believes that its leading market position in specialty retailing of international brands, broad brand portfolio, strategic store footprint and brand-centric management and execution capabilities favorably position it to capitalize on the consumer trends resulting from the Philippines' rising GDP, increasing urbanization, growing middle class and rising levels of disposable consumer income. The strong correlation between increasing disposable income and the resultant growth in discretionary consumer spending is driving a corresponding increase in demand and growth in the specialty retailing sector. With the Group's expansion into quality everyday convenience through its "FamilyMart" stores, its business model provides a platform to capture a broader range of consumption opportunities and shopping patterns, fueled by a growing and increasingly affluent consumer class.

Broad and growing international brand portfolio that is highly attractive to both consumers and brand principals

The Group carries, on an exclusive basis, many of the world's elite and highly-anticipated up-and-coming international brands and products that appeal to increasingly discerning Filipino consumers. SSI's broad and growing brand portfolio covers a wide range of distinctive merchandise across the market categories of luxury and bridge, casual wear, and fast fashion, and offering an extensive product range of apparel, footwear, accessories and luggage, food and dining, home and personal care — all targeting the lucrative and growing middle- to higher-income market in the Philippines. Furthermore, SSI has developed its own in-house concept store brands, "Beauty Bar" and "MakeRoom", in the personal care and home solutions categories, respectively, to carry both its own and also third-party brands, many of which are exclusive to it in the Philippine market. In addition to specialty retailing, SSI decided to grow its retail offerings further with the additions in 2013 of "FamilyMart," one of Japan's largest convenience store franchises. In an environment of rapidly changing consumer trends, SSI benefits from a balanced mix of well-established and newer international retail offerings that enable it to broaden its appeal across different segments of customers and provide them with retail choices at various price points. This balance drives sustainable growth for the Group's overall business.

The Group believes that the size and breadth of its brand portfolio and the competitive advantages it derives from the strength of its retail operations make it attractive to brand principals considering entry into the Philippine market. The Group believes that new brand principals take comfort in its proven track record of understanding the local market and connectivity to the Philippine consumer, and therefore what it takes for an international brand to be successful in the Philippines, as illustrated by the breadth of its brand portfolio, the longevity of its relationships with its major brand principals — some for as long as nearly three decades — and the breadth and quality of the store footprints it has developed for its brands.

Extensive network of directly-managed stores with strategic geographic coverage that is difficult to replicate

The Group believes that its specialty stores enjoy a footprint of prime locations across the Philippines that would be challenging to replicate. SSI stores are strategically located within malls, typically situated in urban areas with high foot traffic, such as central business districts and major metropolitan shopping districts, which attract a steady flow of target customers. The Group's store network includes tenancies in the major shopping centers in Metro Manila as well as new mall developments in other growth cities outside of Metro Manila that are complementary to its international brands. As SSI has no exclusivity arrangements with any one mall developer, SSI is able to gain access to most major mall developments in the country and select store sites according to the suitability of the retail space in terms of catchment area, customer demographics and image for its brands.

As the dominant player in the Philippine specialty retailing segment, the Group believes that it is a key tenant of all the major landlord groups and mall developers in terms of total leased floor area. SSI's current market presence, as well as its ability to impact mall developments by offering a uniquely broad portfolio of retail offerings, assists it to secure strategic locations for its brands in terms of access to targeted customer demographics and neighboring developments. Moreover, the breadth of SSI's international brand portfolio, valued and sought after by mall operators, provides SSI with the advantage of being a "tenant of choice," increasing its ability to gain attractive placements for its brands in new retail developments. The Group believes that its ability to secure prime locations is one of the factors that enable it to successfully develop the Philippine businesses of the Group's brand principals. The Group also believes that its ability to develop its existing brands makes it the preferred partner for new brand principals seeking entry into the Philippine retail market.

As of December 31, 2015, the Group's specialty store network of international brands was the largest in the country, with approximately 792 stores, representing a total gross selling space of 147,145 square meters. 610 stores are located in Metro Manila, 70 in Luzon (excluding Metro Manila), 45 in Visayas and 67 in Mindanao. SSI stores are located in prime retail space where consumer traffic is generally the most concentrated and brand visibility is the highest. 69 net new stores had been opened in 2015. The scale of SSI's network testifies to the Group's success and strength in constructing and operating specialty stores for international brand principals, which in turn facilitate its negotiations for favorable store-related arrangements, allowing for realization of cost savings and greater efficiencies in its store development processes.

Proven brand-centric execution capabilities that have cemented the Group's growing and long-standing relationships with brand principals

The Group's integrated operational approach to brand and store management is a key success factor in the development and operation of SSI's business. Leveraging the extensive resources, know-how and expertise, SSI operates an efficient and effective structure of specialized brand-centric teams led by experienced brand-merchandising managers. These professionals are supported, in turn, by the spectrum of centralized operational divisions, including the Group's capabilities and resources in sales and marketing, customer relationship management, construction and engineering, finance and human resources. The coordination between SSI's individual brand teams and its centralized divisions drives the Group's effectiveness and efficiency in bringing the brands to market, developing their local store footprint, and establishing their retail presence in the Philippines. The Group believes that its well-structured processes allow it to realize benefits of scale from SSI's shared resources, thus optimizing the Group's execution capabilities and allowing it to achieve operational efficiencies, while tailoring its expertise and focus to the requirements of SSI's brand principals.

The Group offers a unique strength in understanding and selecting international brand merchandise for the local market. Most of SSI's brand principals adopt a "pull" merchandising model and sales performance of SSI stores depends largely on the Group's ability to select and purchase the most suitable mix of merchandise from each brand to suit the needs and preferences of the local market. To achieve this, SSI's in-depth understanding not only of consumers and market segments in the Philippines but also of the brands themselves — from their history, principles and values, to their merchandise and image — is critical. Through the regular interaction and active management of the Group's relationships with brand principals, SSI receives early information on and access to international developments relating to the Group's brands, usually six to eight months ahead of the local market. The Group's international buying trips, made in accordance with each brand's seasonal schedules, provide SSI with intensive exposure to upcoming retail trends on a worldwide basis. Combining this "first look" advantage with the Group's knowledge of the Philippine retail market, SSI refines its merchandising targets and strategies to ensure that the Group is purchasing and importing the optimal mix of merchandise to generate customer sales.

Highly experienced management team with significant expertise and solid track record of profitability

The Group's senior management team has deep experience across a broad range of disciplines in the specialty retail industry, including sales, marketing, merchandising, operations, logistics, IT, real estate, finance and human resources. Mr. Anthony T. Huang, SSI's President, with his Rustan's Group and Tantoco family heritage, has extensive experience running branded consumer as well as retail-oriented businesses. His vision and leadership has been instrumental to the growth of the Group over the past two decades. The Group's Executive Vice-Presidents are industry veterans with in-depth understanding of the Philippine market, and possess on average 20 years of experience in their respective fields. SSI's merchandising group is comprised of brand-merchandising managers, many of whom have been with SSI for an average of ten to 15 years and have acted as brand-merchandising managers of "their" brands since the inception of these brand relationships. SSI's track record of growing its brands, relationships with brand principals, and the resultant revenues and profits enjoyed by the Group, are all testimony to the quality and ability of its management team and staff.

The quality of SSI's store personnel is likewise a key factor to the Group's success. As such, the Group takes care in selecting and appointing competent store managers who are well-educated and experienced with international brand retailing, and are trained to be familiar with the relevant brand policies and guidelines on daily store operations. To enhance the provision of quality services to the Group's customers, SSI also provides regular training to its retail staff, including courses on store operation skills, marketing skills and product knowledge conducted by the Group's brand principals.

ANY BANKRUPTCY, RECEIVERSHIP OR SIMILAR PROCEEDING

The Company has not been into any bankruptcy, receivership or similar proceedings since its incorporation.

ANY MATERIAL RECLASSIFICATION, MERGER, CONSOLIDATION, OR PURCHASE OR SALE OF A SIGNIFICANT AMOUNT OF ASSETS NOT IN THE ORDINARY COURSE OF BUSINESS

CORPORATE RESTRUCTURING IN 2014

In 2014, The Tantoco Family undertook a restructuring of its ownership over the Group in order to convert a subsidiary, Casual Clothing Specialists, Inc. ("CCSI") into a new holding company, SSI Group, Inc. CCSI was deemed to be the vehicle for the Initial Public Offering and listing of the Group last November 2014 based on its qualification under the listing eligibility requirements of the Philippine Stock Exchange (the "PSE"). The Group's former holding company, Stores Specialists, Inc. was converted into a wholly-owned operating subsidiary of SSI Group, Inc. Stores Specialists, Inc. remains as the primary franchisee under the Group's brand agreements and also acts as the principal shareholder of most of its operating subsidiaries.

Prior to the restructuring activities undertaken in contemplation of the Offer, CCSI was owned 100% by Stores Specialists, Inc. and its nominees. On April 3, 2014, the Philippine Securities and Exchange Commission (the "SEC") approved the increase in authorized capital stock of CCSI from ₱200.0 million divided into 2,000,000 shares with par value of ₱100.00 per share, to ₱3.0 billion divided into 30,000,000 shares with par value of ₱100.00 per share. Of the increased authorized capital stock of CCSI, Stores Specialists, Inc. subscribed to 7,000,000 shares for a consideration of ₱700.0 million, of which ₱175.0 million was paid and ₱525.0 million was booked as subscription receivables. On April 10, 2014, all of the shares held by Stores Specialists, Inc. in CCSI were sold to the Tantoco Family via a deed of sale and a deed of assignment of subscription rights. As a result of the share sale, CCSI ceased to be a subsidiary of Stores Specialists, Inc. In turn, CCSI purchased all of the shares held by the Tantoco Family in Stores Specialists, Inc. for a total consideration of ₱2.2 billion and funded such purchase primarily with loan proceeds secured from the Bank of Philippine Islands. This transaction resulted in Stores Specialists, Inc. becoming a wholly-owned subsidiary of CCSI.

On April 15, 2014, using the proceeds of the sale of its shares in Stores Specialists, Inc. to CCSI, the Tantoco Family settled the outstanding ₱525.0 million subscription payable on the 7,000,000 shares in CCSI previously subscribed by Stores Specialists, Inc. and now owned by the Tantoco Family. Simultaneously, the Tantoco Family further subscribed to an additional unissued 12,171,629 shares in CCSI, which amounted to ₱1.2 billion. In addition, the Tantoco Family subscribed to an additional 5,000,000 shares in CCSI for a total consideration of ₱500.0 million following approval by the Philippine SEC of the increase in authorized capital stock of CCSI from ₱3.0 billion to ₱5.0 billion on August 29, 2014. On January 10, 2014, Casual Clothing Retailers, Inc. was incorporated for the purpose of continuing the businesses of CCSI, including operation of the brands under the Group's arrangements with GAP Inc.

On June 18, 2014, certain resolutions were approved by the Board and shareholders of CCSI in preparation for the Initial Public Offering and Listing of the Group, including, among others: (1) change in its corporate name from "Casual Clothing Specialists, Inc." to "SSI Group, Inc."; (2) change in its primary purpose as a retail company to that of a holding company; (3) increase in its authorized capital stock from ₱3.0 billion to ₱5.0 billion; (4) reduction of par value of its shares from ₱100.00 per share to ₱1.00 per share; and (5) increase in the number of members of its board of directors from five to nine. These changes, including the appropriate amendments to its articles of incorporation, were submitted to the Philippine SEC on July 30, 2014 and approved on August 29, 2014. As of December 31, 2015, the Company has an authorized capital stock of ₱5,000,000,000 divided into 5,000,000,000 Shares with a par value of ₱1.00 per share, and 3,312,864,430 shares are outstanding.

PUBLIC OFFER AND LISTING IN NOVEMBER 2014

In August 2014, the Company filed with the Philippine Securities and Exhange Commission (the "SEC") a registration statement and all the other pertinent documents to obtain a permit to sell in respect to the primary and secondary offer (the "Offer") of 864,225,503 common shares of the Company (the "Firm Shares") with an overallotment option of up to 129,633,826 common shares (the "Option Shares") (collectively, the "Offer Shares") at the offer price (the "Offer Price") of ₱7.50 per share. The Firm Shares was comprised of 695,701,530 new common shares and 168,523,973 existing common shares offered by selling shareholders. Certain selling shareholders have granted Credit Suisse (Singapore) Limited the role as stabilizing agent, an option exercisable in whole and in part beginning on the date the Offer Shares are listed in the Philippine Stock Exchange (the "Listing Date") and ending on the date 30 calendar days from Listing Date to purchase up to an additional 129,633,826 common shares at the Offer Price, on the same terms and conditions as the Firm Shares solely to cover over-allotments (the "Overallotment Option").

A listing application was likewise filed by the Company with the Philippine Stock Exchange for the listing and trading of the Offer Shares. This was approved by the PSE on October 8, 2014 while the SEC issued a permit to sell in relation to the Offer Shares on October 24, 2014.

On November 7, 2014, the Offer Shares commenced trading in the Philippine Stock Exchange while the Overallotment Option was fully exercised on November 13, 2014. The total amount raised by the company was ₱5.22 billion gross of relevant expenses while the selling shareholders received an aggregate of ₱2.24 billion gross of relevant expenses for the secondary offer and the Overallotment Option. As of December 31, 2015, SSI Group, Inc. was 29.57% owned by the public.

BUSINESS OF THE GROUP

OVERVIEW

The Group's principal business is the management and operation of international lifestyle brands through stores situated in prime retail space in the Philippines. SSI's brand portfolio can be broadly classified into five categories: (1) luxury and bridge, (2) casual, (3) fast fashion, (4) footwear, accessories and luggage, and (5) others. As of December 31, 2015, SSI managed 116 brands through a nationwide retail footprint of approximately 792 stores. In 2013 and 2014, SSI entered into two joint ventures with Ayala Land, Inc. to develop and operate in the Philippine market: "FamilyMart", one of the largest convenience store franchise chains in Japan, and "Wellworth", a department store targeted at the mid-price retail market.

In March 2016, in line with the Group's desire to focus its resources on its core specialty retailing business and on the convenience store business, the Group exited the department store business through the sale of the Wellworth department store fixed assets and equipment.

In August 2015, the Group entered the growing travel retail market in the Philippines through the acquisition of a 50% stake in Landmark Management Services, Ltd. ("LMS"). LMS is a company specializing in travel retail concepts with existing supply and management agreements for travel retail stores at airport and downtown locations in the Philippines.

Specialty retailing accounts for all of the Group's revenues while gains and losses from its two joint ventures are recorded under "Share in net earnings (losses) of joint ventures". Please refer to the financial statements of the Group as of December 31, 2015 and 2014 and for each of the three years ended December 31, 2015 attached for more information.

The following table sets out the Company’s subsidiaries as of December 31, 2015 together with their corresponding dates of organization:

Subsidiary Name	Date of Organization	Percentage Ownership	
		Direct	Indirect
Stores Specialists, Inc.	December 9, 1987	100	-
Rustan Marketing Specialists, Inc.	September 13, 1996	–	100
International Specialty Concepts, Inc.	June 3, 2005	–	100
Rustan Specialty Concepts, Inc.	August 24, 2005	–	100
Specialty Office Concepts, Inc.	July 16, 2008	–	100
Specialty Investments, Inc.	February 13, 2008	–	100
Luxury Concepts, Inc.	March 10, 2008	–	100
International Specialty Fashions, Inc.	November 26, 2008	–	100
Footwear Specialty Retailers, Inc.	July 16, 2008	–	100
Global Specialty Retailers, Inc.	August 9, 2011	–	100
Specialty Food Retailers, Inc.	June 25, 2012	–	100
International Specialty Retailers, Inc.	November 29, 2012	–	100
International Specialty Wear, Inc.	November 29, 2012	–	100
Fastravel Specialists Holdings, Inc.	February 21, 2013	–	100
International Specialty Apparel, Inc.	October 8, 2013	–	100
Casual Clothing Retailers, Inc.	January 10, 2014	–	100
SKL International, Ltd.	July 16, 2015	–	100

The following table further describes the Group’s brand categories and product offerings:

Category	Description	Products
Luxury	Exclusive, prestigious brands which cater to the high-end luxury market. Examples are Hermès, Gucci, and Cartier.	Apparel, footwear, timepieces, jewelry and accessories
Bridge	Affordable luxury brands that specifically target younger customers. Examples are Kate Spade, Michael Kors and Tory Burch.	Apparel, footwear and accessories
Casual	Can be used to describe a variety of styles, but brands in this category design informal clothing that usually emphasizes comfort. Examples are GAP and Lacoste.	Apparel, footwear and accessories
Fast Fashion	Affordable names and collections which are the result of runway designs moving into stores in the fastest possible way to respond to the latest trends. Examples are Zara, Stradivarius, Bershka and Old Navy.	Apparel, footwear and accessories

(Forward)

Category	Description	Products
Footwear, Accessories and Luggage	Brands that focus only on collections of shoes, accessories, and luggage. Examples are Steve Madden, Nine West, Payless Shoesource, and Samsonite.	Footwear, acessories and luggage
Others	Include: ***Home*** - Brands that cater to home furnishings and accessories, and interior design items. Examples are Pottery Barn, West Elm and Make Room. ***Food*** - Mostly food brands such as TWG, SaladStop!, and Oliviers & Co. ***Personal Care*** - Brands which manufacture products dedicated to health and beauty, including perfume, sunscreen, nails hair and skin care products and cosmetics. Examples are Lush, L'Occitane, Beauty Bar and Fruits & Passion.	Furniture, food and beverage, and Cosmetics

The table below sets out revenues by category as well as their respective percentage contribution for the years ended December 31, 2013, 2014 and 2015.

In PhP Millions	**For the years ended December 31**					
	2013	**(%)**	**2014**	**(%)**	**2015**	**(%)**
Luxury and Bridge	2,907	22.7	3,334	21.9	3,556	20.4
Casual Wear	2,306	18.0	2,443	16.1	2,695	15.5
Fast Fashion	4,213	32.9	5,433	35.7	6,232	35.8
Footwear, Accessories and Luggage	1,746	13.7	2,134	14.0	2,533	14.5
Others	1,616	12.6	1,869	12.3	2,405	13.8
Total Revenues	**12,788**		**15,213**		**17,421**	

FOREIGN SALES

As of December 31, 2015, the Group had *de minimis* foreign sales from its Guam operations which are loss making.

PATENTS, TRADEMARKS, LICENSES, FRANCHISES, ETC.

Substantially all of the Group's brand arrangements are in the form of exclusive franchise or distribution agreements with brand principals, pursuant to which SSI provides comprehensive retail management services, and acquire the right to construct, manage and operate customized stores for its brands in the Philippines. SSI's senior management is responsible for overseeing the overall development of the brands' retail operations in the Philippines, including the formulation of initial business plans and strategies with brand principals. In addition, SSI assigns to each brand a brand-merchandising manager who has primary responsibility for the day-to-day execution of all aspects of the relevant brand arrangements with the respective brand principal.

SSI is generally responsible, with strategic guidance from its brand principals, for all aspects of the brands' Philippine businesses, including the selection of store sites, construction and fitting-out of the stores, marketing and promotions, merchandising, pricing and after-sales service. SSI's brand principals provide operational support in the form of promotional materials, signage, design schemes, construction parameters and store personnel training, amongst others. The Group maintains close working relationships with its brand principals to ensure that its stores adhere to strict standards and that SSI's brand management services properly convey their images.

Under the Group's brand agreements, SSI must source the merchandise sold in its stores directly from its brand principals or their approved suppliers. In addition to minimum advertising and product purchase spend obligations, SSI has a number of further obligations under the brand agreements, including ensuring that SSI's stores are constructed and periodically refurbished in accordance with the standards mandated by its brand principals. All such construction and refurbishment costs are borne by the Group. Pursuant to the terms of its brand agreements, the Group is required to obtain the necessary business licenses and permits for store operations, and are responsible for compliance with applicable local laws and regulations. Substantially all of the Group's brand agreements grant it exclusive rights in the Philippine market for an average term ranging from three to eight years.

Most of The Group's brand agreements include terms that allow automatic renewal upon their expiry, and many of SSI's brand principals have been with it for ten years or more. At times, for commercial considerations, SSI has deliberately allowed certain brand agreements to lapse, but none of SSI's brand principals have voluntarily discontinued their cooperation with the Group in at least the last three years.

As of December 31, 2015, SSI registered 39 trademarks in the Philippines as enumerated in the following table. SSI is also the owner of six domain names, including: www.ssilife.com.ph, www.ssilife.ph, www.ssilife.com, www.ssi.ph, www.ssigroup.com.ph, and www.storespecialistsinc.com.ph.

Name of Trademark	Logo/Symbol	Expiry Date
"MAKEROOM THE STORAGE AND ORGANIZATION SPECIALIST & DEVICE" (42006008298)	MakeRoom The Storage and Organization Specialist	August 28, 2017

(Forward)

Name of Trademark	Logo/Symbol	Expiry Date
"MAKEROOM THE STORAGE AND ORGANIZATION SPECIALIST & DEVICE" (42006008299)		August 28, 2017
"MAKEROOM THE STORAGE AND ORGANIZATION SPECIALIST & DEVICE" (42006008300)		August 28, 2017
"MAKEROOM THE STORAGE AND ORGANIZATION SPECIALIST & DEVICE" (42006008301)		August 28, 2017
"MAKEROOM THE STORAGE AND ORGANIZATION SPECIALIST & DEVICE" (42006008302)		August 28, 2017
"MAKEROOM THE STORAGE AND ORGANIZATION SPECIALIST & DEVICE" (42006008303)		August 6, 2017
"WELLWORTH" (42013000265)		September 12, 2023
"WELLWORTH RUNNING RIBBON PATTERN (WITH COLOR)" (42013012064)		January 2, 2024
"WELLWORTH RUNNING RIBBON PATTERN (PLAIN ONLY)" (42013012086)		January 2, 2024
"WELLWORTH RUNNING RIBBON PATTERN (WITH COLOR)" (42013012063)		January 2, 2024
"WELLWORTH RUNNING RIBBON PATTERN (PLAIN ONLY)" (42013012085)		June 26, 2024
"W WELLWORTH LOGO (PLAIN ONLY)" (42013012087)		January 2, 2024
"W WELLWORTH LOGO (PLAIN ONLY)" (42013012089)		January 2, 2024

(Forward)

Name of Trademark	Logo/Symbol	Expiry Date
"W WELLWORTH LOGO (PLAIN ONLY)" (42013012088)	w wellworth	March 27, 2024
"W WELLWORTH LOGO (PLAIN ONLY)" (42013012090)	w wellworth	March 27, 2024
"WELLWORTH "W" RIBBON DESIGN (PLAIN ONLY)" (42013012091)		January 2, 2024
"WELLWORTH "W" RIBBON DESIGN (PLAIN ONLY)" (42013012092)		April 24, 2024
"WELLWORTH "W" RIBBON DESIGN (PLAIN ONLY)" (42013012094)		April 24, 2024
"W WELLWORTH LOGO (WITH COLOR)" (42013012065)	wellworth	January 2, 2024
"W WELLWORTH LOGO (WITH COLOR)" (42013012067)	wellworth	January 2, 2024
"W WELLWORTH LOGO (WITH COLOR)" (42013012069)	wellworth	September 18, 2024
"W WELLWORTH LOGO (WITH COLOR)" (42013012072)	wellworth	Pending application approval
"WELLWORTH W RIBBON DESIGN (WITH COLOR) (42013012081)"		April 24, 2024
"WELLWORTH W RIBBON DESIGN (WITH COLOR) (42013012083)"		April 24, 2024
"WELLWORTH W RIBBON DESIGN (WITH COLOR)" (42013012084)		April 24, 2024
"BEAUTY BAR" (42001008393)	Beauty bar	Pending application approval
"W WELLWORTH LOGO (WITH GRAY BACKGROUND)" (42013012074)	w wellworth	April 10, 2024

(Forward)

Name of Trademark	Logo/Symbol	Expiry Date
"W WELLWORTH LOGO (WITH GRAY BACKGROUND)" (42013012076)	w wellworth	April 10, 2024
"W WELLWORTH LOGO (WITH GRAY BACKGROUND)" (42013012077)	w wellworth	April 10, 2024
"W WELLWORTH LOGO (WITH GRAY BACKGROUND)" (42013012079)	w wellworth	April 10, 2024
"SSI LOGO (WITH COLOR)" (42014010942)		December 18, 2024
"SSI WORD MARK AND LOGO (WITH COLOR)" (42014010941)	Stores Specialists, Inc.	July 9, 2025
"SSI LOGO (PLAIN ONLY)" (42014010943)		December 18, 2024
"SSI WORD MARK" (42014010944)	Stores Specialists, Inc.	July 9, 2025
"SSI WORD MARK AND LOGO (PLAIN)" (42014010945)	Stores Specialists, Inc.	July 9, 2025
"SSI GROUP, INC. LOGO (WITH COLOR)" (42014010951)		March 5, 2025
"SSI GROUP, INC. WORD MARK AND LOGO (WITH COLOR)" (42014010950)	SSIGROUP, Inc	March 5, 2025
"SSI GROUP, INC. LOGO (PLAIN)" (42014010952)		March 5, 2025
"SSI GROUP, INC. WORD MARK AND LOGO (PLAIN ONLY)" (42014010953)	SSIGROUP, Inc	March 5, 2025
"SSI GROUP, INC. WORD MARK (PLAIN ONLY)" (42014010954)	SSIGROUP, Inc	March 5, 2025

(Forward)

Name of Trademark	Logo/Symbol	Expiry Date
"KISS AND FLY WORD MARK" (42014012250)	KISS AND FLY	March 12, 2015
"THEXCHANGE (WITH COLOR)" (42015013295)	thexchange	Pending application approval
"THEXCHANGE (PLAIN ONLY)" (42015013294)	thexchange	Pending application approval
"158 DESIGNERS BLVD. WORD MARK" (42015013290)	158 Designers Blvd.	Pending application approval
"TUTTO MODA WORD MARK" (42015013293)	Tutto Moda	Pending application approval
"RED TAG WORD MARK" (42015013291)	Red Tag	Pending application approval

DISTRIBUTION METHODS OF THE PRODUCTS OR SERVICES

The Group's products are distributed to its clients through its specialty store network, as well as its convenience stores and department store for the joint ventures.

As of December 31, 2015, the Group's specialty retail footprint consisted of approximately 792 stores in Metro Manila and other major cities in the Philippines, as well as two stores in Guam. SSI stores are located primarily in major malls in premium shopping districts with well-established customer traffic. In 2015, SSI opened 69 net new specialty stores.

The following table sets out the number of SSI stores, gross selling space and growth in gross selling space for SSI's stores as of December 31, 2013, 2014 and 2015.

	As of December 31		
	2013	2014	2015
Number of Brands	91	106	116
Number of Stores	597	723	792
Gross selling space	98,126	133,640	147,145
Growth in Gross Selling Space (%)	18.8	36.2	10.1

The following table sets out SSI's store footprint by region as of December 31, 2013, 2014 and 2015.

	As of December 31		
	2013	**2014**	**2015**
Metro Manila	459	557	610
Luzon (Excluding Metro Manila)	55	66	70
Visayas	28	35	45
Mindanao	55	65	67

For its joint ventures, *FamilyMart* had 112 convenience stores as of December 31, 2015 while *Wellworth* had two locations at *Fairview Terraces* Mall and *UP Town Center* Mall in Quezon City.

SSI currently has eight distribution centers with warehouse facilities located in strategic areas throughout Metro Manila to ensure the efficient coordination of its merchandise shipments and the timely delivery of products to its stores.

As of December 31, 2015, SSI had standing accounts with eight international third-party freight companies based in the main geographic areas from which SSI's brands originate their merchandise. Although SSI does not enter into long-term agreements with its logistics service providers, most of them have provided services to Group for more than ten years according to well-established terms of business. They are responsible for shipping merchandise from SSI's brand principals to the Group's distribution centers based on purchase orders. Delivery of merchandise from SSI's distribution centers to its stores in Metro Manila is generally handled by the Group's internal truck fleet. For stores located outside Metro Manila, SSI uses external transportation providers for merchandise delivery. Pursuant to the terms of SSI's shipping arrangements, the third-party service providers are responsible for any loss that may occur during transportation and SSI has the right to seek indemnification or damages from these providers for any such losses.

SSI's logistics staff is responsible for managing the Group's distribution centers and warehouse inventory levels and coordinating with the Group's brand-merchandising managers for the shipment and arrival of merchandise. They monitor and update the Group's brand-merchandising managers on shipment progress and arrivals to improve coordination and timely plan deliveries to SSI stores. This ensures that every store maintains appropriate and updated merchandise inventory throughout the year, to maximize sales.

COMPETITION

Specialty Retailing. Amongst specialty domestic retailers who carry international brands, the Group competes primarily with Suyen Corporation, LVMH, Robinsons Specialty Stores, Inc., Vogue Concepts, Inc., Retail Specialist, Inc. and Primer International Holdings & Management, Inc. The Group likewise competes with international retailers such as *Uniqlo*, and *H&M* that directly operate their stores in the Philippines.

Convenience Stores. FamilyMart directly competes with *7-Eleven* and *MiniStop*.

SUPPLIERS

The following table sets out, in chronological order, the brands SSI represented as of December 31, 2015, including SSI's own "Beauty Bar" and "MakeRoom" concept brands, and the year each of these brands were added to the Group's portfolio.

Lacoste	1990	GAP	2007	Dune	2013
Marks & Spencer	1990	Michael Kors	2007	Nars	2013
Salvatore Ferragamo	1991	Aerosoles	2008	Stradivarius	2013
Bass	1994	Agatha	2008	Swarovski	2013
Anne Klein	1995	Banana Republic	2008	Women's Secret	2013
MCS	1995	L'Occitane	2008	A2 by Aerosoles	2014
Charriol	1996	Marc by Marc Jacobs	2008	Acca Kappa	2014
Nine West	1996	Oka-B	2008	Alexander McQueen	2014
Polo Ralph Lauren	1996	Samsonite	2008	Clarins	2014
CK Jeans	1997	Sinéquanone	2008	Cortefiel	2014
Armani Exchange	1998	Steve Madden	2008	Diptyque	2014
Beauty Bar	1998	Superga	2008	Eden Park	2014
CK Underwear	1998	Hermès	2009	F&F	2014
Jessica	1998	Jimmy Choo	2009	Giuseppe Zanotti	2014
Prada	1999	MAC Cosmetics	2009	Givenchy	2014
Kenneth Cole	2000	Massimo Dutti	2009	Hamley's	2014
Bally	2001	Tory Burch	2009	Isaac Mizrahi	2014
DKNY	2001	Vilebrequin	2009	Longchamp	2014
Lush	2001	Cache Cache	2010	MBT	2014
Make Room	2001	Juicy Couture	2010	Old Navy	2014
Diesel	2002	Muji	2010	Oliviers & Co	2014
Bottega Veneta	2003	Payless ShoeSource	2010	Pottery Barn	2014
Burberry	2003	Stride Rite	2010	Pull and Bear	2014
Gucci	2003	Essences	2011	Reiss	2014
Kate Spade	2003	Gant	2011	Salad Stop	2014
Lacoste Accessories	2003	Le Sportsac	2011	Saville Row	2014
Saint Laurent	2003	Replay	2011	West Elm	2014
Springfield	2003	Vince Camuto	2011	Amazonas	2015
Tod's	2003	Bobbi Brown	2012	Castell	2015
Dashing Diva	2005	Clinique	2012	Charming Charlie	2015
Debenhams	2005	Hackett	2012	Coach	2015
Fruits & Passion	2005	Superdry	2012	Jelly Bunny	2015
Hugo Boss	2005	Tommy Hilfiger	2012	Joe Fresh	2015
Zara	2005	TWG	2012	Kurt Geiger	2015
Ecco	2006	Aéropostale	2013	Lipault	2015
Furla	2006	American Tourister	2013	Makeup Factory	2015
Cartier	2007	Bershka	2013	Max & Co	2015
Dunhill	2007	Brooks Brothers	2013	Radley	2015
Ermenegildo Zegna	2007	Desigual	2013		

SSI offers a comprehensive and highly-attractive portfolio of lifestyle brands catering to different gender, age, occupation, income and demographics. For example, The Group carries bridge brands aimed at younger aspirational customers interested in stylish and fashionable yet affordable apparel and footwear. SSI's luxury brands, on the other hand, seek to capture the tastes of the country's affluent consumers that are modern, sophisticated, well-informed on international lifestyle trends, attuned to stylistic innovations and requiring products of both high quality and recognized prestige.

Please refer to the section—*PATENTS, TRADEMARKS, LICENCES, FRANCHISES, ETC.* for a discussion on the primary terms of the brand agreements.

DEPENDENCE UPON SINGLE OR FEW CUSTOMERS

SSI is not dependent upon a single customer or a limited number of customers. No single customer accounts for 20% or more of the Group's sales.

TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of business, the Group engages in a variety of transactions with related parties. The Group is controlled by the Tantoco Family Members. Members of the Tantoco

Family also serve as directors and executive officers of the Group. Certain members of the Tantoco Family are also major shareholders of Rustan Commercial Corporation. The most significant transactions with the Tantoco Family include leasing retail spaces in department stores operated by Rustan Commercial Corporation. The Group's policy with respect to related party transactions is to ensure that these transactions are entered into on terms comparable to those available from unrelated third parties.

RESEARCH AND DEVELOPMENT

SSI did not incur any material research and development costs from 2013 to 2015.

GOVERNMENT APPROVALS

The Group has obtained all permits and licenses from the relevant government units necessary to operate its stores

COMPLIANCE WITH ENVIRONMENTAL LAWS

The Group is compliant with all relevant environmental laws. The Group does not consider compliance costs to these laws material.

EFFECTS OF EXISTING OR PROBABLE GOVERNMENTAL REGULATIONS ON THE BUSINESS

The Group may be affected by certain government regulations including, but not limited to regulations affecting the issuances of permits. Any change to laws affecting the issuance or the revocation of such permits could adversely affect the business of SSI. Please refer to the Section—*PRINCIPAL RISKS* for a discussion on risks related to regulation.

EMPLOYEES

As of December 31, 2015, SSI's specialty store operations employed a total of approximately 6,610 permanent employees, of which approximately 65% are store-based. SSI also hires temporary staff, including staff on short-term contracts as well as those on part-time and hourly-rated employment, particularly during peak periods.

With respect to convenience store operations, as the majority of joint venture FamilyMart stores operate 24 hours a day and seven days a week, it employs two shifts of staff at each store. At any given time, at least two employees are required to be stationed at each store.

The following table provides the Group's employees by function as of December 31, 2015.

Operations	Function	Number of Employees
Specialty Stores	Executive and Managerial	732
	Administrative and head office staff	1,106
	Store personnel—Full time	2,944
	Store personnel—Part time or temporary	1,328
	Subtotal	**6,610**
Convenience Stores	Executive and Managerial	107
	Administrative and head office staff	57
	Store personnel—Full time	321
	Store personnel—part time or temporary	131
	Subtotal	**616**
Department Store	Executive and Managerial	38
	Administrative and head office staff	29
	Store personnel—Full time	119
	Store personnel—part time	192
	Subtotal	**378**

Hiring policy for the next 12 months will remain in line with expansion and store development plans, subject to the changing needs of the Group's business. The Group believes that it is in compliance with all minimum compensation and benefit standards as well as applicable labor and employment regulations.

As of December 31, 2015, none of the Group's employees belonged to any union nor were they parties to any collective bargaining agreements. To the best of SSI's knowledge, it has not experienced any strikes or other disruptions to labor disputes.

PRINCIPAL RISKS

SSI's rights to manage and operate its portfolio of brands and stores are dependent on the brand agreements with its brand principals.

SSI's rights to manage and operate the brands it represents in the Philippines, and therefore conduct its business, are derived exclusively from the rights granted to it by the brand principals in the brand agreements SSI has entered into with them. However, there is no assurance that SSI will continue to be granted rights by the brand principals to the brands in its portfolio. As a result, SSI's ability to continue operating in its current capacity is dependent on the renewal and continuance of its contractual relationships with its brand principals. Any of its brand principals may decline to extend the terms of its brand agreements, or those who granted SSI exclusive rights in the Philippines may only agree to renewal on a non-exclusive basis or renew on less favorable terms, although SSI has not experienced such instances. Furthermore, if any of SSI's brand principals grants other parties the right to franchise or distribute their products in the Philippines, the Group may face significant competition from such other parties and may lose the benefit of the capital and other resources it has expended to market the brands in the country. Additionally, if SSI loses any of its brand principals for any reason, including due to changes in the business model of any brand principal, or any of its brand principals deciding to cease investments in the Philippine market or enter the Philippine market on their own, then SSI's business, financial condition and results of operations may be adversely affected.

The success of SSI's business depends on its ability to maintain and develop relationships with its current and future brand principals.

SSI derives substantially all of its revenue from direct sales of merchandise of its brand principals, and its success depends on its ability to both retain existing brands and attract new brand principals. SSI has long-standing working relationships with a large number of brand principals, most of which have existing franchise or distribution arrangements with it, but for a small minority of brand principals, SSI's operation of their stores and sale of their merchandise are currently premised on verbal extensions of prior written agreements. SSI is also in the process of actively negotiating with certain brand principals for the renewal of the relevant brand agreements. If SSI is unable to maintain these relationships, SSI may not be able to continue to maintain or further expand its brand portfolio and store network. Furthermore, SSI receives training, merchandising, design and other operational support from its brand principals, giving SSI the benefit of their global knowledge in the operation of specialty stores, logistics, merchandising, and their brand image. Should adverse changes occur in market conditions or its competitive position, SSI may not be able to maintain or negotiate continuing support from its brand principals, thus losing its access to their assistance and the benefit of their expertise, which could have a material adverse effect on SSI's ability to run its operations successfully and efficiently and, in turn, SSI's profitability and prospects.

SSI may encounter difficulties in executing its expansion plans.

SSI's ability to expand its retail portfolio and store footprint depends on, among others:

- favorable economic conditions and regulatory environment;
- SSI's ability to maintain existing relationships with brand principals and add new brands to its portfolio;
- SSI's ability to identify suitable sites for new stores and successfully negotiate lease agreements for these sites on terms acceptable to it;
- SSI's ability to control "cannibalization" among different brands and adjacent retail outlets;
- SSI's ability to construct and open new stores in a timely and cost-efficient manner;
- SSI's ability to market existing brands in new geographic regions and introduce new brands to the market;
- SSI's ability to continue to attract customers to its existing and new stores;
- SSI's ability to increase sales from existing customers or reduce inventory shrinkage and improve its operating margins;
- SSI's ability to attract, train and retain talented personnel in sufficient numbers for its expanded operations;

- SSI's ability to adapt and refine its operational and management systems, including its IT and CRM systems, to support an expanded network and maintain the effectiveness of its merchandising and sales processes;

- SSI's ability to control and manage its costs in SSI's expanded network, in particular purchase costs and expenses related to rent, logistics, human resources and marketing;

- the availability of sufficient levels of cash flow or necessary financing to support its expansion and operations;

- SSI's ability to obtain financing and other support from business partners for its expansion; and

- SSI's ability to manage its multi-format business model.

If SSI fails to achieve any of the above, it may not be able to achieve its planned expansion objectives. In addition, if SSI is unable to successfully manage the potential difficulties associated with growth of its retail portfolio and store footprint, it may not be able to capture fully the benefits of scale that it expects from expansion.

SSI operates in a regulated industry and its business is affected by the development and application of regulations in the Philippines.

SSI operates its businesses in a regulated environment. Retail establishments in the Philippines are subject to a variety of government ordinances, which vary from one locality to another but typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. SSI must also comply with food safety, consumer quality and pricing regulations.

The primary regulations applicable to SSI's operations include standards regarding:

- the suitability of the store site;
- air pollution;
- price controls;
- food inspection;
- promotional activities;
- packaging safety;
- waste discharge;
- electricity supply;
- construction;
- business permits;
- fire safety;
- sanitation; and
- sale of consumer products.

All construction and development plans are required to be filed with and approved by the local government unit concerned. The requirements of each local government unit may vary but in general, approval of such plans is conditional upon, among other things, the developer's financial, technical and administrative capabilities and, where the project site is leased, presentation of the lease contract or authority from the registered owner of the land authorizing the construction. Alterations of approved plans that affect significant areas of the project, such as infrastructure and public facilities, also requires the prior approval of the relevant government unit. There can be no assurance that SSI or its associates or partners will be able to obtain governmental approvals for SSI's projects or that when given, such approvals will not be revoked. There can also be no assurance that SSI will continue to pass ongoing consumer safety and quality inspections in all of its store locations.

SSI may face increased competition in the Philippines from other retail companies as well as brand principals, including those who may choose to terminate their partnership arrangements with it.

The retail industry in the Philippines is highly competitive. The intensity of the competition in the Philippine retail market varies from region to region, but Metro Manila is generally considered to be the most competitive market. Metro Manila is SSI's largest market in terms of net sales. SSI faces potential competition principally on two levels: (i) with national and international retailers in the Philippines and neighboring shopping destinations such as Hong Kong, Singapore and Bangkok, among others, and (ii) with brands that are in competition with the brands in its portfolio, including those which SSI is restricted by its brand principals from operating, as well as SSI's existing brands should the respective brand principals decide to discontinue their brand arrangements with it. SSI's retail competitors, including operators of physical stores and online retailers, compete with it on the basis of brand selection, product quality, acquisition or development of new brands, customer service, and distribution networks. Brand competitors compete with SSI on the basis of product design and range, brand popularity, price, store location or a combination of these factors. SSI anticipates competition from new market entrants and joint partnerships between national and international operators and brand principals. SSI expects that an increasing number of international retailers may enter the Philippine market in the event that the geographical and shareholding restrictions on foreign enterprises engaged in the Philippine retail business are removed or diminished and as the economy continues to improve. Potential competition may also come from SSI's existing brand principals, who may decide to terminate or not renew their arrangements with it and attempt to operate their business in the Philippines on their own. In this regard, pursuant to the standard policies of a small number of SSI's brands, it has granted such brand principals certain options, which are generally exercisable on the expiration or termination of the respective brand agreements, to acquire the relevant store businesses and/or lease rights to the store locations, or up to 100% equity interests in relevant members of the Group. The regulatory and business environment of the Philippines, however, constrains the practicability of exercising any such options. Moreover in SSI's 28-year operating history, none of its brands have terminated their relationships with it, nor attempted to operate on their own within the Philippines.

SSI leases substantially all of its premises and may not be able to continue to renew these leases or to enter into new leases in favorable locations on acceptable terms.

As of December 31, 2015, SSI has leased substantially all of its total gross selling space. SSI's lease terms generally average three years, and SSI generally has the option to renew its leases upon expiry. However, there is no assurance that SSI will be able to renew its leases on acceptable terms or at all. Leases of premises in large shopping centers may not be available for extension because landlords may decide to change tenants for better commercial arrangements or otherwise. In addition, SSI has a 20-year land lease with Fort Bonifacio Development Corporation for its Central Square retail development, in which some of its brands' stores are located. Any inability to renew leases as they expire, including its Central Square land lease, or to acquire new leases in other comparable or more favorable locations on acceptable terms, the termination of the existing leases, or the revision of lease terms to SSI's detriment may have a material adverse effect on its business, financial condition and results of operations.

With a nationwide footprint of approximately 792 stores, a continued increase in property prices in the Philippines will increase the costs that SSI incurs in securing locations for its stores and may increase its costs associated with locations that it already operates. Any sustained upward revisions in rental rates at major malls may squeeze SSI's margins, making it less economical to lease certain stores and requiring SSI to discontinue operations at some stores. Furthermore, a number of SSI's landlords are normally granted the right to terminate the leases prior to their expiration upon the occurrence of an event of default. In the event that any of SSI's leases are terminated prior to their expiration, or if SSI's leases expire and are not renewed, it would need to relocate to alternative premises. Relocation of any of its operations may cause disruptions to its business and may require significant expenditure, and SSI cannot assure that it will be able to find suitable premises on acceptable terms or at all, in a timely manner.

SSI depends on the development of mall operators for the growth of its business.

Historically, the development of SSI's store network has been substantially mall-based. In finding sites for SSI's stores, SSI also benefits from being one of the major tenants in a number of third-party malls in the Philippines, including Power Plant Mall, Greenbelt and Bonifacio High Street in Metro Manila. A significant amount of SSI's growth depends on the growth of mall operators. There is no assurance that these mall operators will continue to grow at a rate that is consistent with SSI's planned rate of growth, or that new malls will be developed and constructed in the cities where SSI operates or wishes to penetrate, or that such malls will offer suitable store sites for SSI's brands. In addition, there is no assurance that SSI will continue to be able to secure space in new malls on terms acceptable to it or at all. In the event that it is unable to obtain space in a sufficient number of malls, or malls in suitable locations for its brands, it may be unable to fully implement its expansion plans, and its business, financial condition and results of operations may be materially and adversely affected.

SSI is subject to risks associated with its dependence on the importation of foreign merchandise sold in all of its stores.

As a specialty retailer of international brands, SSI purchases merchandise from its brand principals directly or through their authorized suppliers. As a result, SSI's business is sensitive to the dynamics of global trade, including international trade and related cost factors that impact any specific foreign countries where its brand principals are located or from where its merchandise is sourced. SSI's dependence on foreign imports makes it vulnerable to risks associated with products manufactured abroad, including among other things, risks of damage, destruction or confiscation of products while in transit to SSI's distribution centers located in the Philippines, charges on or assessment of additional import duties, VAT, tariffs and quotas, fluctuations in exchange rates, work stoppages, freight cost increases, inflation, foreign government regulations, trade restrictions, and increased labor costs. Any delay or interruption in receiving the merchandise SSI orders could impair its ability to timely and adequately supply products to its stores. The lack of sufficient new merchandise or the merchandise anticipated by SSI's customers could have a negative impact on its sales, which in turn may have a material adverse effect on its profitability and results of operation.

As SSI typically place orders through individual purchase orders, it also may be subject to price fluctuations based on changes in SSI's brand principals' businesses, cost structures or other factors. Under SSI's brand agreements, it generally has the autonomy to set retail prices for the merchandise sold in its stores. However, its competiveness and profit margins may still be adversely affected if its brand principals increase the prices of their merchandise and SSI is unable to offset such increase in its merchandising costs or otherwise. In addition, the imposition of increased duties, taxes or other charges on SSI's imports, could also negatively impact its pricing strategies and generate a material adverse effect on its profitability, business, and results of operations.

SSI relies upon independent third-party service providers for substantially all of its product shipments and are subject to increased transportation costs as well as the risks of delay.

All merchandise purchased from SSI's brand principals is shipped and delivered to its distribution centers by third-party freight forwarders. Although SSI does not have any long-term agreements with these service providers, it has maintained long-standing relationships with them based on established terms of business. Any deterioration in or other changes relating to such relationships including changes in supply and distribution chains, could result in delayed or lost deliveries or damaged products. SSI may not be able to re-source lost or damaged merchandise from its brand principals and/or suppliers or re-arrange shipment and delivery in the shortest time possible. Moreover, these service providers are third parties whom SSI does not control. They may decide to increase their prices for services provided to SSI or discontinue their relationships with it. There is no assurance that SSI will be able -to negotiate for or maintain terms commercially acceptable to it, or locate replacement service providers on a timely basis. Delivery disruptions may also occur for reasons out of SSI's control, such as poor handling, transportation bottlenecks, labor strikes, and adverse climate conditions. For example, in February 2014, the local government imposed a truck ban in Manila, which was subsequently lifted in September 2014, that created congestion at the Port of Manila and the Manila International Container Port, two of the country's biggest ports, and backlogs in deliveries to and from these ports, thereby causing delays in transporting goods into and out of the city. Any occurrence of the foregoing could cause SSI to incur costs or suffer reduced sales, which could materially and adversely affect its business, profitability and competitiveness.

SSI relies on the satisfactory performance of its IT systems and any malfunction for an extended period or loss of data could materially and adversely affect its ability to operate.

The effectiveness and efficiency of SSI's operations are dependent on a number of management information systems. SSI relies on its IT systems to manage many key aspects of its business, such as demand forecasting, purchasing, supply chain management, store operations and sales processing, staff planning and deployment, marketing and advertising, financial management and safeguarding of information. These systems are critical to its operations, as it uses them for the exchange of information between its stores and centralized teams, to manage procurement, sales and inventory, to collect and analyze customer information, and to oversee cash management and internal processes. As it develops its online sales strategy, SSI's reliance on appropriate IT systems will also increase. There is no assurance that SSI's IT systems will always operate without interruption or malfunction in the future and that it will not lose data. Any failure of its management systems to perform as anticipated or to meet the needs of its operations, particularly as it conducts its expansion, could disrupt SSI's business, expose it to operational inefficiencies and risks, and may result in higher costs, reduced sales or otherwise adversely affect SSI's results of operation and future financial performance.

The sale of counterfeit products may affect SSI's reputation and profitability.

As the brands SSI operates enjoy widespread consumer recognition, it may encounter counterfeiting of the products sold in its stores, such as unauthorized imitation or replication of the brands' designs, trademarks, or labeling by third parties. SSI usually relies on its brand principals for anti-counterfeiting efforts and enforcement of their intellectual property rights, but it can be particularly difficult and expensive to detect and stop counterfeiting in the Philippines. Any actions taken by SSI's brand principals may require significant assistance on SSI's part and force it to devote substantial management time and resources, and may not provide a satisfactory or timely result, any of which could harm sales and results of operations. Under SSI's brand agreements, it is generally indemnified by its brand principals for any infringement of their intellectual property rights by third parties. Moreover, SSI believes that it serves vastly different markets to those targeted by counterfeiters. However, there can be no assurance that any actions taken to combat counterfeiting of SSI's brand principals' products will be successful in the prevention of counterfeiting, or that counterfeiting will not negatively impact SSI's sales. Despite SSI's success in combating piracy through measures such as pricing, the significant presence of counterfeit products in the market could dilute the value of the brands it operates and impact product sales, adversely affecting its business and results of operations.

SSI's business, financial performance and results of operations are subject to seasonality.

The apparel, footwear and accessories industries have historically been subject to cyclical variations, recessions in the general economy and uncertainties regarding future economic prospects that affect consumer spending habits. Purchases of discretionary luxury items, such as products of SSI's brands, tend to decline during recessionary periods, when disposable income is lower. The success of SSI's operations depends on a number of factors impacting discretionary consumer spending, including general economic conditions, consumer confidence, wages and unemployment, housing prices, consumer debt, interest rates, fuel and energy costs, taxation and political conditions. A worsening of the economy may negatively affect consumer purchases from SSI's brands and could have a material adverse effect on its business, financial condition and operating results.

SSI also experiences seasonal fluctuations in its specialty stores and may continue to do so. Sales generally slow down in the first and third quarters of the year, and start to pick up in the second and last quarters, driven by the summer and gift-giving holiday seasons as well as seasonal promotions and sales activities that SSI conducts. If sales during its peak selling periods are significantly lower than it expects for any reason, or if there is any prolonged disruption in its operations during its peak selling periods, it may be unable to adjust its expenses in a timely manner and may be left with a substantial amount of unsold inventory, especially seasonal merchandise that is difficult to liquidate after the applicable season. This may materially and adversely affect its profitability, results of operations and financial condition.

Risks Relating to SSI's Organization and Structure

SSI is controlled by the Tantoco Family, whose interests may differ significantly from the interests of other shareholders.

SSI is controlled by members of the Tantoco Family who, together with other insiders as of December 31, 2015, own approximately 70.43% of the total outstanding common shares. Members of the Tantoco Family also serve as SSI's directors and executive officers. Certain members of the Tantoco Family are also major shareholders of the Group, and, either individually or collectively, have private interests in a number of other companies. While the Company's By-laws contain a non-compete clause as part of the qualifications of its directors, there is no assurance that companies controlled by the Tantoco Family will not engage in activities that compete directly with SSI's retail businesses or activities, which could have a negative impact on its business. Further, they could influence the outcome of any corporate transaction or other matters submitted to shareholders for approval, including the election of directors, mergers and acquisitions, and other significant corporate actions, to the extent they are not required to abstain from voting in respect of such transactions. The interests of the Tantoco Family, as SSI's controlling shareholder, may differ significantly from or compete with SSI's interests or the interests of its other shareholders, and there can be no assurance that the Tantoco Family will exercise influence over SSI in a manner that is in the best interests of its other shareholders.

Item 2. Properties

As of December 31, 2015, SSI owns one property, the Central Square building, which is located at Fort Bonifacio, Taguig, Metro Manila with a total gross floor area of 33,813 square meters. This property is a retail development which was constructed by the Group for its stores. It is situated on land owned by Fort Bonifacio Development Corporation. SSI also entered into a cooperative agreement with Ayala Land, Inc., pursuant to which SSI transferred ownership to them of the uppermost floor and permitted the construction of a Cineplex that it operates.

As of December 31, 2015, other than liens created by the operation of law, there were no mortgage, lien or other encumbrances attached to this property or any limitations on SSI's ownership or usage of this property.

In the ordinary course of business, the Company leases substantially all of its 147,145 square meters gross selling area as of December 31, 2015. The Group maintains relationships with Philippine's major developers and mall operators including Ayala Land, Inc., SM Prime Holdings, Inc. Shangri-La Plaza Corporation, Rockwell Land Corporation, Megaworld Corporation and Robinsons Land Corporation. SSI's lease terms generally average three years. Some contracts provide for renewal options subject to mutual agreement of the parties. The terms and conditions, including rental rates, are determined at arm's length, based on market conditions.

Please refer to Note 27 of the accompanying Notes to the Consolidated Financial Statements for further details on Lease agreements and to Note 11 of the accompanying Notes to the Consolidated Financial Statements for further details on property and equipment.

Item 3. Legal Proceedings

As of December 31, 2015, the Group is not engaged in nor a subject of any material litigation, claims or arbitration, either as a plaintiff or defendant, which could be expected to have a material effect on the Group's financial position. The Group is likewise unaware of any facts likely to give rise to any proceeding which would materially and adversely affect its business or operations.

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

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

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

MARKET INFORMATION

The common stock of SSI Group, Inc. is listed on the Philippine Stock Exchange.

The following table sets out the high and low closing prices (in PhP) of SSI Group, Inc.'s shares in the Philippine Stock Exchange for the fourth quarter of 2015:

	2015	
	High	**Low**
4th Quarter	6.00	3.37

Source: CapitalIQ

The market capitalization of SSI Group, Inc's common shares as of December 31, 2015, based on the closing price of ₱3.45 per share, was approximately ₱11.4 billion.

The stock price of SSI Group, Inc's common shares as of April 8, 2016 is ₱3.48 per share translating to a market capitalization of approximately ₱3.41 billion.

HOLDERS

The number of registered shareholders as of March 31, 2016 was 31. Outstanding common shares as of March 31, 2016 were 3,312,864,430.

The following are the top 20 registered holders of SSI Group, Inc.'s securities as of March 31, 2016:

No.	Name of Shareholder	Number of Shares Held	Percent to Total Outstanding Shares
1	PCD Nominee Corporation (Filipino)	1,260,566,766	38.0507%
2	Wellborn Trading & Investments, Inc.	466,043,679	14.0677%
3	Marjorisca Incorporated	434,440,400	13.1137%
4	Birdseyeview, Inc.	434,412,500	13.1129%
5	Educar Holdings Corporation	415,753,800	12.5497%
6	PCD Nominee Corporation (Non-Filipino)	301,126,334	9.0896%
7	Northpoint R&E Holdings, Inc.	475,000	0.0143%
8	Ong Jr., Eugene D.	15,000	0.0005%
9	Tacub, Pacifico B.	7,000	0.0002%
10	Wee, Joseph	5,000	0.0002%
11	Blanco, Ofelia R.	2,000	0.0001%
12	Quimpo, Celeste Virginia C. Ylagan And/Or Ma	2,000	0.0001%
13	Go, Frederick D.	1,500	0.0000%
14	Lucero, Celine Carmela Ferrer	1,000	0.0000%

(Forward)

No.	Name of Shareholder	Number of Shares Held	Percent to Total Outstanding Shares
15	Santiago, Rosanna Maria Y. Santiago ITF Raym	1,000	0.0000%
16	Lucero, Maria Carissa F.	1,000	0.0000%
17	Santiago, Rosanna Maria Y. Santiago ITF Enri	1,000	0.0000%
18	Celine Carmela Ferrer Lucero ITF Alyssa Ches	1,000	0.0000%
19	Herrera, Joselito C.	1,000	0.0000%
20	Ylagan, Celso Virgilio C. Ylagan IV and Mari	1,000	0.0000%

DIVIDENDS

No dividends were declared by the Company during the year while ₱100.0 million was declared by the Company as cash dividends in 2013.

DIVIDEND POLICY

The Group have not established a specific dividend policy. 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 Board 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 Group's cash earnings, 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 plans;
- 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 Board deems appropriate.

Aside from the provisions of the Corporation Code and applicable regulations there are no existing legal restrictions that limit the payment of dividends on common shares.

RECENT SALES OF UNREGISTERED SECURITIES

Not Applicable in the fiscal year covered by this report.

**Item 6.	Management Discussion and Analysis**

<u>RESULTS OF OPERATIONS</u>

For the years ended December 31, 2015, 2014 and 2013

Key Performance Indicators ***PhP MM except where indicated***	**For the years ended December 31** **2015**	**2014**	**2013**
Net Sales	17,421	15,213	12,788
Gross Profit	9,324	8,532	6,292
Net Income	811	998	614
Gross Selling Space (sq.m.)	147,145	133,640	98,126
Growth in Gross Selling Space (%)	10.1%	36.2%	18.8%

Key Financial and Operating Data	**For the years ended December 31**		
PhP MM except where indicated	**2015**	**2014**	**2013**
Key Financial Data			
Net Sales	17,421	15,213	12,788
Luxury & Bridge	3,556	3,334	2,907
Casual	2,695	2,443	2,306
Fast Fashion	6,232	5,433	4,213
Footwear, Accessories & Luggage	2,533	2,134	1,746
Others	2,405	1,869	1,616
Gross Profit	9,324	8,532	6,292
Gross Profit Margin (%)	53.5%	56.1%	49.2%
EBITDA[1]	3,266	2,921	1,551
EBITDA Margin (%)	18.7%	19.2%	12.1%
Other Income (Charges)	(475)	(385)	(16)
Net Income	811	998	614
Net Income Margin (%)	4.7%	6.6%	4.8%
Adjusted Net Income[2]	1,039	1,143	634
Adjusted Net Income Margin (%)	6.0%	7.5%	5.0%
Total Debt[3]	8,011	5,417	5,094
Net Debt[4]	6,706	2,889	3,959
Key Operating Data			
Specialty Retailing			
Number of Brands	116	106	91
Number of Stores	792	723	597
Gross Selling Space (sq.m.)	147,145	133,640	98,126
Growth in Gross Selling Space (%)	10.1%	36.2%	18.8%
Convenience Stores			
Number of Stores	112	90	31
Gross Selling Space (sq.m.)	13,037	9,656	3,711
Growth in Gross Selling Space (%)	35%	160%	-

2015 vs. 2014

Net Sales

For the year ended December 31, 2015, the Group generated net sales of ₱17.4 billion, an increase of 14.5%, as compared to the year ago period. The growth in net sales was driven by the expansion of the Group's store network and brand portfolio, as it continues to benefit from the availability of prime retail space in leading malls and from the breadth and relevance of its brand portfolio.

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[1] EBITDA is calculated as operating income plus depreciation and amortization
[2] Adjusted Net Income is derived by excluding the effect of share in net losses of joint ventures in the Group's net income
[3] Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt.
[4] Calculated as Total Debt minus Cash and cash equivalents

In the year ended December 31, 2015, the Group expanded its store network by a net of 69 stores and added 11 new brands. The additions in 2015 allowed the Group to increase its gross selling area by 10.1%, or 13,505 square meters, as compared to its gross selling area at the end of 2014. The Group's store network at the end of 2015 consisted of 792 specialty stores covering 147,145 square meters of retail space.

As of December 31, 2015 the Group's brand portfolio consisted of 116 brands. The Group acquired 11 international brands in 2015: Amazonas, Castell, Charming Charlie, Coach, Jelly Bunny, Joe Fresh, Kurt Geiger, Lipault, Make-up Factory, Max & Co and Radley.

The following table sets out the Group's number of stores and gross selling space for the years ended December 31, 2015, 2014 and 2013.

Store Network	**For the years ended December 31**		
	2015	**2014**	**2013**
Number of Stores	792	723	597
Luxury & Bridge	165	150	130
Casual	138	119	94
Fast Fashion	97	92	62
Footwear, Accessories & Luggage	234	219	187
Others	158	143	124
Gross Selling Space (sq.m.)	147,145	133,640	98,126
Luxury & Bridge	17,544	15,229	12,597
Casual	19,129	18,217	13,723
Fast Fashion	60,941	56,151	33,924
Footwear, Accessories & Luggage	26,209	23,556	19,792
Others	23,322	20,487	18,090

*Number of Stores for the period excludes stores located in Guam.
As of December 31, 2015 the Group operated 2 stores in Guam which contributed de minimis sales to the Group's net sales for the period

Gross Profit

For the year ended December 31, 2015, the Group's gross profit was ₱9.3 billion an increase of 9.3% as compared to the year ago period. Gross profit margin in 2015 was at 53.5% as compared to 56.1% in 2014. The decrease in gross profit margins reflects increased discounting and promotional activities during the year, as the Group faced a more competitive operating environment.

Operating Expenses

For the year ended December 31, 2015, the Group's operating expenses amounted to ₱7.6 billion, an increase of 13.6%, as compared to the year ago period. Operating expenses as a percentage of revenue were stable at 43.4% of revenues as compared to 43.7% in 2014. Operating expenses net of depreciation and amortization declined to 34.9% of revenue as compared to 37.0% in 2014.

Selling and distribution expenses increased 17.4% to ₱6.5 billion driven primarily by additional rental, personnel and depreciation expenses associated with the Group's expanded store network.

General and administrative expenses, on the other hand, declined 5.4% as compared to the previous year as a result of the moderate rate of increase for general and administrative personnel expense, which increased 8.7%, and reduced tax and license expenses in 2015, which were at ₱29.2 million as compared to ₱106.7 million in 2014. The reduction in tax and license expenses reflects the absence of various tax expenses associated with the Group's Initial Public Offering ("IPO") and pre-IPO restructuring in 2014.

Total depreciation and amortization expense in 2015 increased 43.9% in 2015 to ₱1.5 billion. The increase in depreciation and amortization expense reflects the continued expansion of the Group's store network.

As a result of the foregoing, operating income for the period was at ₱1.8 billion, as compared to ₱1.9 billion in 2014.

Other Income (Charges)

For the year ended December 31, 2015, the Group incurred other charges of ₱474.7 million as compared to other charges of ₱384.8 million in 2014. The increase in other charges is attributable primarily to an increase in interest expense to ₱315.3 million, from ₱281.6 million in 2014, as the Group continued to fund its store expansion program.

The Group's share in the net losses of the FamilyMart and Wellworth joint ventures increased to ₱228.3 million as compared to ₱144.9 million in 2014.

For the year ended December 31, 2015 the Group generated rent income of ₱42.4 million as compared to rent income of ₱9.0 million in 2014. This is related to the lease of store spaces in Central Square.

Provision for Income Tax

For the year ended December 31, 2015, provision for income tax was ₱485.1 million. The Group's effective tax rate was 37.4% as a result of non-deductible tax expenses such as the Group's share in the net losses of the FamilyMart and Wellworth joint ventures.

Net Income

As a result of the foregoing, 2015 net income was ₱810.7 million a decline of 18.8% as compared to 2014.

2015 net income excluding losses of the joint ventures was ₱1.0 billion, a decline of 9.1% as ecompared to 2014.

EBITDA

As a result of the foregoing, 2015 EBITDA was ₱3.3 billion, an increase of 11.8% as compared to 2014.

FINANCIAL CONDITION

As of December 31, 2015 the Group had consolidated assets of ₱20.6 billion, an increase of 14.2% as compared to December 31, 2014.

Current Assets

Cash and Cash Equivalents

As of December 31, 2015, cash and cash equivalents were at ₱1.3 billion as compared to ₱2.5 billion on December 31, 2014. The decline in cash balance reflects the deployment of the proceeds from the Group's IPO in 2014.

Merchandise Inventory

Merchandise inventory as of December 31, 2015 was at ₱9.7 billion from ₱8.0 billion at the end of 2014. Increases in inventory levels are driven by higher sales levels as well as by purchases for new stores.

Prepayments and other Current Assets

As of December 31, 2015, prepayments and other current assets were at ₱1.3 billion from ₱590.3 million at the end of 2014. The increase in prepayments and other current assets was due primarily to an increase in advances to suppliers to ₱436.0 million, representing advance payments for merchandise inventory, an increase in input VAT to ₱277.2 million, and an increase in supplies inventory to ₱263.3 million.

Non-Current Assets

Interests in Joint Ventures

As of December 31, 2015, interests in joint ventures were at ₱1.1 billion, from ₱479.5 million at the end of 2014. During the year the Group increased its investment in SIAL CVS Retailers, Inc. (SCRI) by ₱196.5 million and booked its share of SCRI losses of ₱80.0 million. The Group also increased its investment in SIAL Specialty Retailers, Inc. (SSRI) by ₱231.5 million and booked its shares of SSRI losses of ₱147.7 million. Also, on August 12, 2015, the Group acquired a 50% stake in Landmark Management Services, Ltd. (LMS), a company specializing in travel retail concepts with supply and management agreements for travel retail stores in the Philippines, for ₱375.3 million.

Property and Equipment

As of December 31, 2015, property and equipment was at ₱5.2 billion, as compared to ₱4.7 billion at the end of 2014. The increase in Property and Equipment was driven by additions to leasehold improvements related to new stores and renovations of ₱1.5 billion.

Security Deposits and Construction Bonds

As of December 31, 2015, security and construction bonds were at ₱1.0 billion, as compared to ₱807.0 million at the end of 2014. The increase was due primarily to deposits for new stores and security deposit escalation.

Current Liabilities

As of December 31, 2015, the Group had consolidated current liabilities of ₱8.1 billion, as compared to ₱7.4 billion at the end of 2014.

Trade and Other Payables

As of December 31, 2015, trade and other payables were at ₱2.4 billion as compared to ₱3.2 billion at the end of 2014. The decrease was due primarily to a decrease in trade payables, reflecting the terms of merchandise deliveries during the year.

Short-term Loans Payable

As of December 31, 2015, short-term loans payable were at ₱5.1 billion, as compared to ₱3.6 billion at the end of 2014. Additional short term loans were used to fund requirements of the Group's store expansion program.

Current Portion of Long-Term Debt

As of December 31, 2015, Current Portion of Long Term Debt was at ₱467.6 million, as compared to ₱328.5 million at the end of 2014. This reflects quarterly payments due within the next 12 months on the ₱2.0 billion syndicated term loan facility entered into by the Group on May 8, 2013 and on ₱1.0 billion term loan facility entered into on September 14, 2015 as well as a ₱400.0 million term loan facility entered into on October 15, 2015.

Non- Current Liabilities

Long-term Debt

As of December 31, 2015, long-term debt was at ₱2.4 billion from ₱1.5 billion at the end of 2014. Long-term debt for the period increased as the Group switched some of its short-term loans to term facilities through a ₱1.0 billion term loan entered into on September 14, 2015 and a ₱400.0 million term loan facility entered into on October 15, 2015.

Retirement Benefit Obligation

As of December 31, 2015, retirement benefit obligation was at ₱330.6 million from ₱306.2 million at the end of 2014. The retirement benefit obligation represents the difference between the present value of the Company's retirement plan obligations and the fair value of its plan assets. In 2015, a total of ₱8.1 million in retirement benefits were paid out.

Tenant Deposits

As of December 31, 2015, tenant deposits were at ₱21.3 million primarily representing deposits on spaces rented out at Central Square in Bonifacio High Street.

Equity

As of December 31, 2015, total equity was at ₱9.7 billion as compared to ₱8.9 billion at the end of 2014. The increase in total equity was due primarily to an increase in retained earnings, reflecting net income generated in 2015.

2014 vs. 2013

Net Sales

For the year ended December 31, 2014, the Group generated net sales of ₱15.2 billion, an increase of 19%, as compared to the year ago period. The growth in net sales was driven by the expansion of the Group's store network as it continues to benefit from the availability of prime retail space located in leading malls that are suitable for its brands. The Group also continues to benefit from the breadth and relevance of its brand portfolio and from new brands added to the portfolio.

In the year ended December 31, 2014 the Group expanded its store network by a net of 126 stores and fifteen brands. The additions in 2014 allowed the Group to increase its gross selling area by 36.2% or 35,514 square meters as compared to its gross selling area at the end of 2013. The Group's store network at the end of 2014 consisted of 723 specialty stores covering 133,640 square meters of retail space.

Given that the Group's new stores and brands typically require three years to ramp up their operations and gain market acceptance, the Group's gross selling space growth was higher than its total revenue growth.

As of December 31, 2014 the Group's brand portfolio consisted of 106 brands. The Group acquired 22 international brands in 2014: A2 by Aerosoles, Acca Kappa, Alexander McQueen, Clarins, Cortefiel, Diptyque, Eden Park, F&F, Giuseppe Zanotti, Givenchy, Hamley's Isaac Mizrahi, Longchamp, MBT, Old Navy, Oliviers & Co., Pottery Barn, Pull & Bear, Reiss, Salad Stop, Saville Row and West Elm.

Gross Profit

For the year ended December 31, 2014 the Group's gross profit was at ₱8.5 billion an increase of 35.6% as compared to the year ago period. Gross profit margin in 2014 was at 56.1% as compared to 49.2% in 2013. The Group's gross profit margin reflects continued strong sell-through rates, efficient management of its sales cycle and the impact of purchasing terms negotiated with brand principals. Also, as the Group reduced its trade payable days, suppliers provided it with more favorable pricing for their goods.

Operating Expenses

For the year ended December 31, 2014, the Group's operating expenses amounted to ₱6.7 billion an increase of 23.7% as compared to the year ago period. Increased selling and distribution expenses are driven primarily by additional rental and personnel expense as the Group expanded its store network and staff new stores, and by additional depreciation expense associated with new stores. Increased general and administrative expenses are driven largely by increases in personnel costs and rental as the Group expanded its head office spaces and personnel to support the Group's growing store network. Taxes and license expense also increased in 2014, reflecting ₱22.3 million in one-time listing fees related to the Company's IPO in November 2014.

Other Income (Charges)

For the year ended December 31, 2014 the Group incurred other charges of ₱384.8 million as compared to other charges of ₱15.6 million in 2013. The increase in other charges is attributable primarily to an increase in interest expense to ₱281.6 million from ₱92.2 million in 2013 as the Group moved from trade payables to bank financing to fund its inventory purchases and secure prompt payment discounts, and as it financed its store expansion.

There was also an increase in the Group's share of the start-up losses of the FamilyMart and Wellworth joint ventures which were at ₱144.9 million in 2014 from ₱20.3 million during the year ago period.

Provision for Income Tax

For the year ended December 31, 2014, provision for income tax was ₱498.4 million as compared to ₱287.8 million during the year ago period, as a result of a 66% increase in the Group's income before tax to ₱1.5 billion. The Group's effective tax rate was 33.2% as a result of non-tax deductible expenses such as the Group's share in the net losses of the FamilyMart and Wellworth joint ventures.

Net Income

As a result of the foregoing, 2014 net income was at ₱998.2 million, an increase of 62.7% as compared to 2013.

2014 net income, adjusted for the start-up losses of the FamilyMart and Wellworth joint ventures was at P1.1 billion, an 80.0% y-o-y increase.

EBITDA

As a result of the foregoing, 2014 EBITDA was at ₱2.9 billion an 88.3% year-on-year increase from 2013.

FINANCIAL CONDITION

As of December 31, 2014 the Group had consolidated assets of ₱18.1 billion an increase of 52.0% as compared to December 31, 2013.

<u>Current Assets</u>

Cash and Cash Equivalents

As of December 31, 2014, cash and cash equivalents were at ₱2.5 billion as compared to ₱1.1 billion on December 31, 2013 reflecting higher sales levels during the fourth quarter of 2014 as well as unutilized proceeds from the IPO on November 7, 2014.

Trade and Other Receivables

As of December 31, 2014 trade and other receivables were at ₱584.8 million, an increase of 17.1% over the year ago period. The largest components of trade and other receivables were trade receivables of ₱244.2 million and non-trade receivables of ₱183.0 million. Trade receivables represent receivables from credit card companies while non-trade receivables consist primarily of receivables from brand principals and contractors. Non-trade receivables increased by 35.7% in 2014 primarily as a result of increases in receivables from brands and credit card companies related to promotional activities.

Merchandise Inventory

Merchandise inventory as of December 31, 2014 was at ₱8.0 billion as compared to ₱5.9 billion at the end of 2013. Increases in inventory are driven by higher sales levels as well as purchases for new store openings.

Prepayments and other Current Assets

As of December 31, 2014, prepayments and other current assets were at ₱590.3 million as compared to ₱331.6 million at the end of 2013. The increase in prepayments and other current assets was due primarily to an increase in input VAT to ₱211.2 million from ₱116.9 million in 2013 and an increase in supplies inventory to ₱103.6 million from ₱46.3 million.

Non-Current Assets

Interests in Joint Ventures

Interests in Joint Ventures as of December 31, 2014 were at ₱479.5 million from ₱369.1 million at the end of 2013 as the Group increased its investment in SIAL CVS Retailers, Inc. (SCRI) by ₱43.3 million and booked its share of SCRI losses amounting to ₱57.4 million. The Group also increased its investment in SIAL Specialty Retailers, Inc. (SSRI) by ₱212.0 million and booked its share of SSRI losses equivalent to ₱87.5 million.

As of December 31, 2014, SCRI had established 90 FamilyMart stores all of which were company-owned, while SSRI continued to operate one Wellworth Department store at Ayala Fairview Terraces in Quezon City.

Property and Equipment

As of December 31, 2014, Property and Equipment was at ₱4.7 billion, an 80.5% increase as compared to ₱2.6 billion as of December 31, 2013. The increase in Property and Equipment was driven by additions to leasehold improvements related to new store openings and renovations of ₱2.2 billion. Additions to construction in progress during the period related to the completion of the Central Square building in Bonifacio Global City were at ₱417.0 million, with a total of ₱678.6 million reclassified under the Building account at the end of the period.

Security Deposits and Construction Bonds

As of December 31, 2014, Security Deposits and Construction Bonds were at ₱807.0 million, a 42.8% increase as compared to ₱565.0 million as of December 31, 2013. The increase was due primarily to security deposits for new stores.

Other Noncurrent Assets

Other Noncurrent Assets as of December 31, 2014 were at ₱96.5 million, a 60% decrease as compared to ₱249.6 million as of December 31, 2013. This was due primarily to a decline in miscellaneous deposits which pertain to deposits with contractors for the construction and renovation of stores.

Current Liabilities

As of December 31, 2014, the Group had consolidated current liabilities of ₱7.4 billion, a decrease of 3.4% as compared to December 31, 2013.

Trade and Other Payables

As of December 31, 2014, Trade and Other Payables were at ₱3.2 billion, a 7.0% decrease as compared to ₱3.5 billion as of December 31, 2013. The decrease in Trade and Other Payables was due primarily to a decrease in trade payables as the Group moved from trade payables to bank financing to fund its inventory purchases and secure prompt payment discounts.

Short Term Loans Payable

Short-term loans payables as of December 31, 2014 were at ₱3.6 billion, a decrease of 6% as compared to ₱3.8 billion as of December 31, 2013. The reduction in short term loans reflects debt repayments utilizing proceeds from the Group's IPO.

Retirement Benefit Obligation

As of December 31, 2014, Retirement Benefit Obligation increased 35.8% to ₱306.0 million from ₱225.0 million. Retirement Benefit Obligation represents the difference between the present value of the Company's retirement plan obligations and the fair value of its plan assets. In 2014, a total of ₱13.8 million in retirement benefits were paid out.

Current Portion of Long-Term Debt

Current Portion of Long-Term Debt was at ₱328.5 million as of December 31, 2014 from ₱108.3 million as of December 31, 2013. This reflects quarterly repayments due within the next 12 months on the ₱2.0 billion syndicated term loan facility entered into by the Group on May 8, 2013.

Non- Current Liabilities

Long-Term Debt

As of December 31, 2014, Long-Term Debt was at ₱1.5 billion from ₱1.2 billion as of December 31, 2013. Long-term debt for the period increased as a result of drawdowns on a ₱2.0 billion syndicated term loan facility entered into on May 8, 2013. Proceeds from this facility were used to finance the construction and fit-out of the Central Square Building in Bonifacio Global City.

Equity

As of December 31, 2014, Total Equity was at ₱8.9 billion, an increase of 221.0% as compared to ₱2.8 billion as of December 31, 2013. The increase in Total Equity was driven by an increase in Capital Stock to ₱3.3 billion from ₱200.0 million at the end of 2013. This increase reflects: (1) a restructuring undertaken in April 2014 that converted SSI Group, Inc. into the holding company of the Group and (2) the par value of 695,701,530 new shares issued further to the Group's IPO.

Under the April 2014 restructuring, the Tantoco family subscribed to a total of ₱1.7 billion worth of SSI Group, Inc. shares and fully paid ₱525.0 million of ₱700.0 million partially paid SSI Group, Inc. shares purchased from Stores Specialists, Inc. The Tantoco family used proceeds from the sale of their Stores Specialists, Inc. shares to SSI Group, Inc. in order to subscribe and fully pay the aforementioned SSI Group, Inc. shares.

Additional paid in capital as of December 31, 2014 was at ₱4.0 billion reflecting subscriptions in excess of par value of the 695,701,530 new shares issued further to the Group's IPO, net of transaction costs incidental to the IPO amounting to ₱465.6 million.

Equity Reserve

The Equity reserve of ₱1.5 billion as of December 31, 2014 arises from the restructuring undertaken in order to convert SSI Group, Inc. into the holding company of the Group and represents the difference between the capital stock of SSI Group, Inc. and Stores Specialists, Inc. at the conclusion of the reorganization.

Other Disclosures

(i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

(ii) There were no events that will trigger direct or contingent financial obligations that are material to the Company, including and default or acceleration of an obligation

(iii) Likewise there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

(iv) There are no material commitments for capital expenditures aside from those performed in the ordinary course of business and in line with the Group's store expansion program

(v) 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 the Group's revenues from continuing operations.

(vi) There were no significant elements of income or loss that did not arise from continuing operations.

The Group experiences the fourth quarter of the year as the peak season relating to increased sales resulting from the Christmas and New Year holidays.

Item 7. Financial Statements

The Consolidated financial statements are filed as part of this report.

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

The following table sets out the aggregate fees billed to SSI Group, Inc. for the last three fiscal years for professional services rendered by SyCip Gorres Velayo & Co ("SGV & Co.").

(in PhP Millions)	**Audit and Audit-related Fees**		**Tax Fees**	**Other Fees**	**Total**
	Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings	Professional Fees related to the Initial Public Offering			
2015	4.7	–	–	–	4.7
2014	4.6	11.0	–	–	14.6
2013	4.0	–	–	–	4.0

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There are no disagreements with SGV & Co. on accounting and financial disclosure.

SSI Group, Inc.'s Manual on Corporate Governance provides that the Audit Committee shall, among other activities: (i) evaluate significant issues reported by the independent auditors in relation to the adequacy, efficiency and effectiveness of policies, controls, processes, and activities of the Company; (ii) ensure that other non-audit work provided by the independent auditors is not in conflict with their functions as independent auditors; and (iii) ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Currently, the Board consists of nine members, of which two are independent directors. The table below sets out certain information regarding the members of the Board. All members of the Board and executive officers listed below are citizens of the Philippines.

Name	Age	Position
Zenaida R. Tantoco	69	Chairman
Anthony T. Huang	44	President
Ma. Teresa R. Tantoco	51	Treasurer
Ma. Elena T. Valbuena	57	Director
Bienvenido V. Tantoco III	49	Director
Eduardo T. Lopez III	47	Director
Edgardo Luis Pedro T. Pineda, Jr.	44	Director
Jose Teodoro K. Limcaoco	53	Independent Director
Carlo L. Katigbak	45	Independent Director

The following table sets out certain information regarding the Company‘s executive officers:

Name	Age	Position
Zenaida R. Tantoco	69	Chief Executive Officer
Anthony T. Huang	44	President
Elizabeth T. Quiambao	63	Executive Vice President
Rossellina J. Escoto	62	Vice President - Finance
Reuben J. Ravago	46	Vice President - IT
Ma. Margarita A. Atienza	42	Vice President - Investor Relations
Cheryl Anne M. Berioso	36	Head of Corporate Planning
Gemma M. Santos	53	Corporate Secretary
Ma. Alicia Picazo-San Juan	44	Assistant Corporate Secretary

A summary of the qualifications of the incumbent directors and incumbent officers including positions currently held by the directors and executive officers, as well as positions held during the past five years is set forth below:

Zenaida R. Tantoco, 69, Director of the Company since 2007. She is the Chairman and Chief Executive Officer of the Company. Ms. Tantoco is also the Chairman and Chief Executive Officer of all of the Group’s companies. She has over 40 years of experience in the retail business, and serves as the President of Rustan Commercial Corporation and Rustan Marketing Corporation. In addition, she is a member of the board of directors of several Rustan’s Group companies, including, among others, Rustan Commercial Corporation, Rustan Marketing Corporation and Rustan Coffee Corporation. Ms. Tantoco graduated cum laude from the Assumption College with a Bachelor of Science degree in Business Administration.

Anthony T. Huang, 44, Director of the Company since 2007. He is the President of the Company. Mr. Huang is also the President and a director of all of the Group’s companies. He joined the Group in 1995 and has over 22 years of experience in the retail business. He also serves as the Executive Vice President of Rustan Marketing Corporation. He is a member of the board of directors of Sta. Elena Properties, Inc., Rustan Supercenters, Inc. and Commonwealth Foods, Inc. Mr. Huang graduated from the University of Asia and the Pacific with a Bachelor of Arts degree in Humanities.

Ma. Teresa R. Tantoco, 51, Director of the Company since 2008. She is the Treasurer of the Company. Ms. Tantoco is also the Treasurer and a director of the Group's companies, including, among others, International Specialty Apparel, Inc., Specialty Food Retailers, Inc., International Specialty Retailers, Inc., International Specialty Wear, Inc., Footwear Specialty Retailers, Inc., International Specialty Fashions, Inc. and Luxury Concepts, Inc. In addition, she serves as the Treasurer and a director of RPG Distribution Services, Inc., Rustan Marketing Corporation, and is a member of the board of directors of Rustan Commercial Corporation. Ms. Tantoco graduated from John Cabot International College with a Bachelor of Science degree in Business Administration.

Ma. Elena T. Valbuena, 57, Director of the Company since 2008. Ms. Valbuena is also a member of the board of directors of Group's companies, including, among others, Stores Specialists, Inc., Rustan Marketing Specialists, Inc., International Specialty Concepts, Inc., and Specialty Investments, Inc., She is a director of Rustan Commercial Corporation and serves as Vice President of Buying for its Home Division. In addition, she is a member of the board of directors of Rustan Coffee Corporation, Rustan Marketing Corporation and RPG Distribution Services, Inc. Ms. Valbuena graduated from the Assumption College with a Bachelor of Science degree in Entrepreneurship.

Bienvenido V. Tantoco III, 49, Director of the Company since 2007. Mr. Tantoco is the President of Rustan Supercenters, Inc. He was also the Executive Vice President and General Manager of Rustan Supercenters, Inc. prior to his appointment as the President. In addition, he served as the Vice President for Corporate Planning and later with the Office of the President, of Rustan Commercial Corporation. Mr. Tantoco graduated from Connecticut College with a Bachelor of Arts degree in Economics, and J.L Kellogg Graduate School of Management, Northwestern University with a Master of Management degree, majors in Marketing, Accounting, and Organizational Behavior.

Eduardo T. Lopez III, 47, Director of the Company since 2008. Mr. Lopez is the General Manager and Vice President of Finance and Administration of Superstar Security Agency, Inc., the Assistant to the President of Unilogix, Inc., the owner and General Manager of Blue Line Art Gallery, Inc., and the owner and General Manager of Secondo Time Pieces. He is a director of Touch Media Philippines, Inc., and Market Intelligence Holdings, Corp. In addition, Mr. Lopez serves as a member of the board of directors of Rustan Commercial Corporation, Rustan Marketing Corporation, Rustan Supermarket, Inc., Rustan Coffee Corporation, Rustan Superstore Administration, Inc., Rustan Investments Management Corporation and Rustan Design Specialists, Inc. Mr. Lopez graduated from Ateneo De Manila University with a Bachelor of Science degree in Economics, Santa Clara University with a Bachelor of Science degree in Economics, and Stanford University with a Master of Science degree in Management.

Edgardo Luis Pedro T. Pineda, Jr, 44, Director of the Company since 2014. Mr. Pineda is also a director of the Group's companies, Stores Specialists, Inc. and Rustan Marketing Specialists, Inc. In addition, he is a director of Rustan Commercial Corporation, Rustan Marketing Corporation, Rustan Supermarket, Inc., Rustan Coffee Corporation, Rustan Superstore

Administration, Inc., Rustan Investments Management Corporation and Rustan Design Specialists, Inc. Mr. Pineda graduated from Fordham University with a Bachelor of Science degree in Business Administration, and Stanford University with a Master of Science degree in Business Management.

Jose Teodoro K. Limcaoco, 53, Independent Director of the Company since 2015. Mr. Limcaoco is also the Chief Finance Officer and Finance Group Head of Ayala Corporation. Prior to assuming his current position, Mr. Limcaoco was the President of BPI Family Savings Bank. Prior to that, among other positions, he was the President of BPI Capital Corporation, Managing Director of BZW Asia, President of BZW Securities (Philippines) Inc., President of BPI Securities Corporation, and a Vice President – Emerging Asian Currency Derivatives at J.P. Morgan & Co., Singapore. He has served as the President of the Chamber of Thrift Banks, a Director of the Investment House Association of the Philippines, and a member of the PSE's Market Integrity Board. Mr. Limcaoco graduated from Stanford University with a Bachelor of Science degree in Mathematical Sciences (Honors Program), and the Wharton School, University of Pennsylvania with a Master of Business Administration degree, major in Finance and Investment Management.

Carlo L. Katigbak, 45, Independent Director of the Company since 2014. Mr. Katigbak has also been the President and Chief Executive Officer of ABS-CBN Corporation since January 1, 2016. Prior to assuming his current position, Mr. Katigbak was the Chief Operating Officer of ABS-CBN Corporation. Prior to that, Mr. Katigbak served as the President and Chief Executive Officer of Skycable Corporation, the Managing Director of Bayantel Holdings Corporation and the President of ABS-CBN Convergence, Inc. In addition, he is a member of the Board of Trustees of Knowledge Channel Foundation and ABS-CBN Lingkod Kapamilya Foundation, Inc. Mr. Katigbak graduated from the Ateneo de Manila University with a Bachelor of Science degree, major in Management Engineering and Harvard Business School, Advanced Management Program.

EXECUTIVE OFFICERS

Elizabeth T. Quaimbao, 63, is the Executive Vice President of the Company. Mrs. Quaimbao is also the Executive Vice President and General Manager of all of the Group's companies, except for Rustan Marketing Specialists, Inc. Prior to joining the Group in 1994, she was an auditor with SGV & Co., the Controller of Philippine Aerospace Development Corp., the Vice President of Tourist Duty Free Shops and Vice President of Grosby Footwear, Inc. Mrs. Quaimbao graduated magna cum laude from the University of Santo Tomas with a Bachelor of Science degree in Commerce, major in Accountancy and is a certified public accountant.

Rosselina J Escoto, 62, is the Vice President of Finance for the Company. Mrs. Escoto is also the Finance Manager of the Group companies, Stores Specialists, Inc., Global Specialty Retailers, Inc., Footwear Specialty Retailers, Inc., Luxury Concepts, Inc., International Specialty Fashions, Inc. and International Specialty Concepts, Inc. Prior to joining the Group in 1997, she was an auditor with SGV & Co., and also held a senior management position with the PSE. Mrs. Escoto graduated magna cum laude from the University of Santo Tomas with a Bachelor of Science degree in Commerce, major in Accountancy and is a certified public accountant.

Reuben J. Ravago, 46, is the Vice President of IT for the Company. Mr. Ravago is the Chief Technical Consultant for Rustan Commercial Corporation, and the founder and Chief Technology Architect of OLM Technologies, Inc. Prior to joining the Group in 2007, he was a senior technology consultant with SGV Associates, and the Managing Director and IT Director of K2 Interactive, Inc. Mr. Ravago graduated from the University of the Philippines with a Bachelor of Science degree in Computer Science and a Master of Science degree in Electrical Engineering (Computers and Communication).

Ma. Margarita A. Atienza, 42, is the Vice President of Investor Relations and Compliance Officer for the Company. Prior to joining the Group in 2014, she was an Associate Director for Client Coverage with BPI Capital Corporation, which she joined in 2008. Ms. Atienza graduated from the Ateneo de Manila University with a Bachelors Degree in Social Sciences and the Asian Institute of Management with a Masters in Business Administration.

Cheryl Anne M. Berioso, 36, is the Head of Corporate Planning for the Company. Prior to the joining the Group in 2001, she was a market and planning analyst with the Bank of Commerce, as well as the Secretary for the Executive and Asset and Liabilities Committees. Ms. Berioso graduated from De La Salle University with a Bachelor of Science in Applied Economics and a Master of Science degree in Economics.

Gemma M. Santos, 53, is the Corporate Secretary for the Company. Atty. Santos is a practicing lawyer and a Senior Partner of Picazo Buyco Tan Fider & Santos Law Offices and Corporate Secretary of various Philippine companies, including publicly-listed companies such as Roxas Holdings, Inc., Max’s Group, Inc., and Vista Land & Lifescapes, Inc. Atty. Santos graduated cum laude with the degree of Bachelor of Arts, Major in History from the University of the Philippines in 1981, and with the degree of Bachelor of Laws also from the University of the Philippines in 1985.

Ma. Alicia Picazo-San Juan, 44, is the Assistant Corporate Secretary for the Company. Atty. Picazo-San Juan is a practicing lawyer and a Partner of Picazo Buyco Tan Fider & Santos Law Offices and Corporate Secretary of various Philippine companies, including ATR KimEng Asset Management, Inc. and several mutual fund companies. Atty. Picazo-San Juan graduated magna cum laude with the degree of Bachelor of Science in Management, Major in Legal Management, from the Ateneo de Manila University in 1992, and graduated cum laude with the degree of Bachelor of Laws from the University of the Philippines in 1996.

SIGNIFICANT EMPLOYEES

The Company does not believe that its business is dependent on the services of any particular employee.

FAMILY RELATIONSHIPS

Bienvenido Tantoco, Sr. is the patriarch of the Tantoco Family, and together with his wife, the late Gliceria R. Tantoco, are the founders of the Rustan's Group. They have six children, Bienvenido R. Tantoco, Jr., Zenaida R. Tantoco, Ma. Carmencita T. Lopez, Ma. Elena T. Valbuena, Ma. Lourdes T. Pineda and Ma. Teresa R. Tantoco (collectively, the "Second Generation").

As set out below, the Board is comprised of several members of the Second Generation, as well as several of their children:

Zenaida R. Tantoco, is the Chairman and Chief Executive Officer of the Company.

Anthony T. Huang, is the President of the Company and the son of Zenaida R. Tantoco.

Ma. Teresa R. Tantoco, is the Treasurer of the Company.

Ma. Elena T. Valbuena, is a Director of the Company.

Bienvenido V. Tantoco III, is a Director of the Company and the son of Bienvenido R. Tantoco, Jr.

Eduardo T. Lopez III, is a Director of the Company and the son of Ma. Carmencita T. Lopez.

Edgardo Luis Pedro T. Pineda, Jr, is a Director of the Company and the son of Ma. Lourdes T. Pineda.

The only family members who hold senior management positions are Zenaida R. Tantoco, Ma. Teresa R. Tantoco and Anthony T. Huang.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

SSI Group, Inc. is not aware of (i) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (ii) Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; (iii) any of the directors and executive officers being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and (iv) any of the directors and executive officers being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated, occurring during the past five (5) years up to the latest date that are material to an evaluation of the ability or integrity of any director, any nominee for election as director, executive officer, underwriter or control person of SSI Group, Inc.

Item 10. Executive Compensation

The following table sets out the Company's chief executive officer ("CEO") and the four most highly compensated senior officers for the last three years and projected for the year 2015.

Name	**Position**
Zenaida R. Tantoco	Chairman and CEO
Anthony T. Huang	President
Elizabeth T. Quiambao	Executive Vice President
Rossellina J. Escoto	Vice President - Finance
Reuben J. Ravago	Vice President - IT

The following table identifies and summarizes the aggregate compensation of the Company's CEO and the four most highly compensated executive officers, as well as the aggregate compensation paid to all officers and Directors as a group, for the years ended December 31, 2013, 2014 and 2015.

	Year	**Total (In ₱ millions)**
CEO and the four most highly compensated executive officers named above	2013	15.6
	2014	16.1
	2015	19.0
	2016 (estimated)	20.9
Aggregate compensation paid to all other officers and Directors as a group unnamed	2013	3.1
	2014	3.4
	2015	3.7
	2016 (estimated)	4.1

STANDARD ARRANGEMENTS

Other than payment of reasonable per diem as may be determined by the Board for its meetings, there are no standard arrangements pursuant to which the Company's Directors are compensated directly, or indirectly for any services provided as a director

OTHER ARRANGEMENTS

On August 4, 2014, the Board and stockholders of SSI Group, Inc. approved a stock grant to reward and compensate the key executive officers for services rendered in 2014. As approved by the Board and stockholders of the Corporation, the shares to be issued pursuant to the stock grant for the year 2014 will be priced based on the Offer Price set during the initial public offering of the shares of the Company. The shares covered by the stock grant are expected to be issued to the eligible employees of the Corporation in 2016.

WARRANTS AND OPTIONS OUTSTANDING

Not applicable.

Item 11. Security Ownership of Certain Beneficial Owners and Management

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS HOLDING MORE THAN 5% OF THE COMPANY'S VOTING SECURITIES AS OF MARCH 31, 2016

As of March 31, 2016, the Company knows no one who beneficially owns in excess of 5% of the Company's common stock except set forth in the table below.

Title of Class	Names and addresses of record owners and relationship with the Company	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% to Total Outstanding Shares
Common	**Wellborn Trading & Investments, Inc.**[1] (*stockholder*)	**Wellborn Trading & Investments, Inc.**[1]	Filipino	467,043,679	14.0979%
Common	**Marjorisca, Inc.**[2] (*stockholder*)	**Marjorisca, Inc.**[2]	Filipino	434,440,400	13.1137%
Common	**Birdseyeview, Inc.**[3] (*stockholder*)	**Birdseyeview, Inc.**[3]	Filipino	434,412,500	13.1129%
Common	**Educar Holdings, Corp.**[4] (*stockholder*)	**Educar Holdings, Corp.**[4]	Filipino	415,753,800	12.5497%
Common	**PCD Nominee Corporation** 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (*stockholder*)	**Bordeaux Holdings, Inc.**[5] (*client of PDTC participant*)	Filipino	414,967,821	12.5260%

[1]*Wellborn Trading & Investments, Inc. is beneficially owned by Zenaida R. Tantoco, Anthony T. Huang, Michael T. Huang, and Catherine T. Huang as to 19.9%. 26.7%, 26.7%, and 26.7%, respectively.*

[2]*Marjorisca, Inc. is beneficially owned by Ma. Elena T. Valbuena, Christopher James Tantoco and Jose Miguel Tantoco as to 40%, 30% and 30%, respectively.*

[3]*Birdseyeview, Inc. is wholly and beneficially owned by Ma. Teresa R. Tantoco. Ma. Teresa R. Tantoco directly and indirectly owns 467,736,931 common shares of the Company equivalent to 14.12% of outstanding shares.*

[4]*Educar Holdings, Corp. is beneficially owned by seven members of the Lopez family, Eduardo S. Lopez, Jr., Ma. Carmencita T. Lopez, Eduardo T. Lopez III, Ma. Margarita L. De Jesus, Ma. Carmencita L. Tiangco, and Enrique Antonio T. Lopez, each of whom holds an equal shareholding interest of 14.3%.*

[5]*Bordeaux Holdings, Inc. is wholly and beneficially owned by Ma. Lourdes T. Pineda.*

SECURITY OWNERSHIP OF MANAGEMENT AS OF MARCH 31, 2016

Title of Class	Name of beneficial owner	Position	Amount and Nature of Beneficial Ownership (shares)	Citizenship	% to Total Outstanding Shares
Named Executive Officers					
Common	Zenaida R. Tantoco	Chairman and CEO	872,500 (direct)	Filipino	0.0263%
Common	Anthony T. Huang	President	5,265,100 (direct)	Filipino	0.1589%
Common	Elizabeth T. Quiambao	Executive Vice President	3,334,000 (direct)	Filipino	0.1006%
Common	Rossellina J. Escoto	Vice President - Finance	133,500 (direct)	Filipino	0.0040%
Common	Reuben J. Ravago	Vice President - IT	21,200 (direct)	Filipino	0.0006%
Other Executive Officers and Directors					
Common	Ma. Teresa R. Tantoco	Treasurer	467,736,931 (direct and indirect)	Filipino	14.1188%
Common	Ma. Elena T. Valbuena	Director	32,054,979 (direct)	Filipino	0.9676%
Common	Bienvenido V. Tantoco III	Director	856, 200 (direct and indirect)	Filipino	0.0258%
Common	Edgardo Luis Pedro T. Pineda, Jr.	Director	100 (direct)	Filipino	0.0000%
Common	Eduardo T. Lopez III	Director	790,100 (direct)	Filipino	0.0238%
Common	Jose Teodoro K. Limcaoco	Independent Director	10,000 (direct)	Filipino	0.0003%
Common	Carlo L. Katigbak	Independent Director	305,001 (direct)	Filipino	0.0092%
Common	Cheryl Anne M. Berioso	Head of Corporate Planning	20,000 (direct)	Filipino	0.0006%

Except as disclosed above, none of the Company's other executive officers or department managers own shares directly or indirectly in the Company. Ownership in the Company is limited to that indicated in the foregoing.

VOTING TRUST HOLDERS OF 5% OR MORE

There were no persons holding more than 5% of a class of shares under a voting trust or similar agreement as of March 31, 2016.

CHANGES IN CONTROL

Except for the corporate restructuring, as described on page 11 of this report, there has been no change in the control of the Company since it was formed on April 16, 2007. As of December 31, 2015, there are no arrangements that may result in a change in the control of the Company.

Item 12. Certain Relationships and Related Transactions

Please refer to Note 21 (Related Party Disclosures) of the Notes to Consolidated Financial Statements.

The Group, in the ordinary course of business, have engaged in transactions with each other as well as other affiliated companies, consisting principally of sales and purchases at market prices, advances made and obtained, as well as leases on an arms-length basis.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Please refer to the attached Annual Corporate Governance Report.

The Board approved the Company's Manual on Corporate Governance on August 4, 2014 to monitor and assess the level of the Company's compliance with leading practices on good corporate governance as specified in the relevant Philippine Securities and Exchange Commission ("SEC") Circulars. In addition to establishing specialized committees to assist in complying with principles of good corporate governance, the Manual also outlines specific investors' rights and protections and enumerates particular duties expected from the members of the Board, officers and employees. It also features a disclosure system which requires adherence to the principles of transparency, accountability and fairness. A compliance officer is responsible for the formulation of specific measures to determine the level of compliance with the Manual by members of the Board, officers and employees. As of December 31, 2014, the Company has not encountered any material deviations from the standards specified in the Manual.

The Manual also identifies the Company's policy with respect to the related party transactions, which covers any contract, agreement, transaction, arrangement or dealing of the Company with a director or officer or any related party. The Manual provides that such related party transactions shall be entered into by the Company on an arms' length basis and under such terms that inure to the benefit and best interest of the Company and its shareholders as a whole, considering relevant circumstances, but subject to the review and approval requirements set forth in the manual and the Corporation Code. A copy of the Manual containing the foregoing provisions was submitted to the SEC.

Committees of the Board

Pursuant to the Company's Corporate Governance Manual, the Board has created each of the following committees. Each member of the respective committees named below have effectively assumed office upon approval by the SEC of the Company's application to offer its shares to the public last October 24, 2014 and will serve until a successor shall have been elected and appointed.

Audit Committee

The Company's audit committee is responsible for assisting the Board in its fiduciary responsibilities by providing an independent and objective assurance to its management and shareholders of the continuous improvement of its risk management systems, business operations and the proper safeguarding and use of its resources and assets. The audit committee provides a general evaluation of and assistance in the overall improvement of its risk management, control and governance processes. The audit committee shall have functions and powers prescribed by the Board and in accordance with applicable laws and regulations, including, among others, assisting the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with laws, rules and regulations, oversight over the external auditors, the nature, scope and expenses of the audit, and evaluation and determination of any non-audit work and review of the non-audit fees paid to the external auditors.

The audit committee is comprised of three members, including one independent director, who serves as the chairman of the committee. The audit committee reports to the Board and is required to meet at least twice a year.

Remuneration and Compensation Committee

The Company's remuneration and compensation committee is responsible for objectively recommending a formal and transparent framework of remuneration and evaluation for the members of the Board and the Company's key executives to enable them to run the Company successfully. The remuneration and compensation committee is comprised of three members, including one independent director. The remuneration and compensation committee reports directly to the Board and is required to meet at least once a year.

Nomination Committee

The Company's nomination committee is responsible for providing the Company's shareholders with an independent and objective evaluation and assurance that the members of the Board are competent and will foster long-term success and competitiveness. The nomination committee is comprised of five members, including one independent director. The nomination committee reports directly to the Board and is required to meet at least once a year.

PART V – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Schedules

a. Exhibits - See accompanying Index to Financial Statements and Supplementary Schedules

b. Reports on SEC Form 17-C

Aside from compliance with periodic reporting requirements, the Company promptly discloses major and market sensitive information such as material transactions, press releases, and other information that may affect the decision of the investing public.

In 2015, the Company filed, among others, unstructured disclosures involving the following:

Date	Description
January 19, 2015	Clarification on the news article "SSI Ramps Up Expansion of Specialty Stores" which appeared in the Philippine Star dated January 19, 2015
March 19, 2015	Analyst Briefing of SSI Group, Inc. on FY2014 Results
March 23, 2015	Press release on SSI Group, Inc. 2014 Unaudited Net Income Increases 63% y-o-y to PhP998.7 Million
April 24, 2015	Disclosure on the expiration of the voluntary lock up period covering 978,069,500 shares of the selling shareholders on May 6, 2015
May 04, 2015	Notice and Agenda of 2015 Annual Stockholders’ Meeting
May 04, 2015	Amendment of the By-Laws of SSI Group, Inc. to move the Annual Stockholders' Meeting from First Monday of June to June 15 of each year
May 04, 2015	Change in Stock Transfer Agent
May 11, 2015	Analyst Briefing of SSI Group, Inc. on 1Q2015 Unaudited Results
May 13, 2015	Press release on SSI Group, Inc. 1Q 2015 Unaudited Net Income Increases 22% y-o-y to PhP267 million
May 29, 2015	Clarification of News Article "Retailer opens second Wellworth store at UP Town Center" by Businessworld Online dated May 28, 2015
June 15, 2015	Amend: Amendment of the By-Laws of SSI Group, Inc. to move the Annual Stockholders' Meeting from First Monday of June to June 15 of each year
June 16, 2015	Results of SSI Group, Inc. Annual Stockholders' Meeting
June 16, 2015	Results of the Organizational Meeting dated 6/15/2015
June 16, 2015	Change in Shareholdings of Directors and Principal Officers (Ma. Teresa R.Tantoco)
June 16, 2015	Clarification of news article "SSI can sustain 22% growth pace" by Businessworld Online dated June 15, 2015
June 18, 2015	Amend: Results of the Organizational Meeting dated 6/15/2015
June 18, 2015	Press release on SSI Group, Inc. to open Joe Fresh Stores in the Philippines
August 11, 2015	Analyst Briefing of SSI Group, Inc. on 1H2015 Unaudited Results
August 13, 2015	Press release: SSI Group, Inc. to Enter the Travel Retail Market
August 14, 2015	Acquisition of a 50% equity stake by SSI Group, Inc's ("SSI") wholly-owned subsidiary, SKL International Limited ("SKL"), in Landmark Management Services, Ltd. ("Landmark").
August 28, 2015	Change of shareholdings of directors and principal officers (Ma. Teresa R.Tantoco)
October 28, 2015	Change in Shareholdings of Director and Principal Officer (Anthony T. Huang)
November 13, 2015	Press release: SSI Group, Inc. 9 Month 2015 Revenues Increase 17% to Php11.8B

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this Report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 13, 2015.

By:

ANTHONY T. HUANG President	**ROSSELLINA J. ESCOTO** Vice President – Finance

ATTY. KRISTINA JOYCE CARO-GAÑGAN
Acting Corporate Secretary

SUBSCRIBED AND SWORN to before me this 13th day of April 2015, affiant(s) exhibiting to me their identification documents, as follows:

NAMES	ID NUMBER	DATE OF ISSUE	PLACE OF ISSUE
Anthony T. Huang	Philippine Passport No. EB5215003	April 23, 2012	DFA Manila
Rossellina J. Escoto	Philippine Passport No. EC3798613	March 26, 2015	DFA Manila
Atty. Kristina Joyce Caro-Gañgan	Philippine Passport No. EB8740524	July 22, 2013	DFA Manila

NOTARY PUBLIC

Doc No. 206
Page No. 43
Book No. I
Series of 2016

PATRICIA JANELLI A. DAVIDE
Appointment No. M-173
Notary Public for Makati City
Until December 31, 2017
Penthouse, Liberty Center
104 H.V. dela Costa Street, Makati City
Roll of Attorneys No. 63977
PTR No. 5331149 / Makati City / 01-07-2016
IBP No. LRN-013919 / June 2015 / Cebu City

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

I. 2015 Consolidated Financial Statements of the Company

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b. SSI Group, Inc.'s Consolidated Financial Statements as of December 31, 2015 and 2014 and years ended December 31, 2015, 2014 and 2013 and Independent Auditor's Report

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III	Reconciliation of Retained Earnings Available for Dividend Declaration
IV	Financial Soundness Indicators
Supplementary Schedules	
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C	Amounts Receivable from Related Parties and Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **SSI Group, Inc. and Subsidiaries** are responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2015, 2014, and 2013 in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the consolidated financial statements and submits the same to the stockholders or members.

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

Signature: ______________________
Zenaida R. Tantoco – Chairman of the Board

Signature: ______________________
Zenaida R. Tantoco – Chief Executive Officer

Signature: ______________________
Anthony T. Huang – President

Signature: ______________________
Ma. Teresa R. Tantoco – Treasurer

MAKATI CITY

Signed this ___ day of APR 13 2016 ___ 2016

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M32
UNTIL DECEMBER 31, 2016
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016313/4-10-2013
IBP O.R No.706762-LIFETIME MEMBER JAN. 29,2007
PTR No. 532-35-05- JAN 04,2016 MAKATI CITY
EXECUTIVE BLDG. CENTER
MAKATI AVE., COR.

Doc. No. 748
Page No. 57
Book No. 24
Series No. 2016

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SSI Group, Inc.
6/F Midland Buendia Building
403 Senator Gil Puyat Avenue
Makati City

We have audited the accompanying consolidated financial statements of SSI Group, Inc. and its Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

SGV
Building a better working world

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SSI Group, Inc. and its Subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

John T. Villa

John T. Villa
Partner
CPA Certificate No. 94065
SEC Accreditation No. 0783-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 901-617-005
BIR Accreditation No. 08-001998-76-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321708, January 4, 2016, Makati City

April 13, 2016

SSI GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱1,304,962,341**	₱2,527,828,209
Trade and other receivables (Note 6)	**594,632,831**	584,872,648
Merchandise inventory (Note 7)	**9,679,995,388**	7,980,070,099
Amounts owed by related parties (Note 21)	**31,172,792**	6,941,758
Prepayments and other current assets (Note 8)	**1,351,636,657**	590,339,738
Total Current Assets	**12,962,400,009**	11,690,052,452
Noncurrent Assets		
Investment in an associate (Note 9)	**54,913,723**	49,117,530
Interests in joint ventures (Note 10)	**1,054,465,557**	479,455,513
Property and equipment (Note 11)	**5,208,538,864**	4,680,064,601
Deferred tax assets - net (Note 23)	**247,626,299**	254,727,150
Security deposits and construction bonds (Note 27)	**1,003,310,781**	806,968,668
Other noncurrent assets (Note 12)	**96,509,536**	99,591,385
Total Noncurrent Assets	**7,665,364,760**	6,369,924,847
TOTAL ASSETS	**₱20,627,764,769**	₱18,059,977,299
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 13)	**₱2,375,171,265**	₱3,248,120,916
Short-term loans payable (Note 14)	**5,125,000,000**	3,596,635,490
Current portion of long-term debt (Note 15)	**467,607,681**	328,514,924
Amounts owed to related parties (Note 21)	**504,095**	24,220
Deferred revenue	**21,103,013**	24,100,045
Income tax payable	**151,380,797**	192,460,335
Total Current Liabilities	**8,140,766,851**	7,389,855,930
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 15)	**2,418,300,395**	1,491,839,072
Retirement benefit obligation (Note 22)	**330,562,832**	306,185,820
Deferred tax liabilities - net (Note 23)	**–**	236,484
Tenant deposits (Note 27)	**21,267,898**	–
Total Noncurrent Liabilities	**2,770,131,125**	1,798,261,376
Total Liabilities	**10,910,897,976**	9,188,117,306
Equity (Note 29)		
Capital stock	**3,312,864,430**	3,312,864,430
Additional paid-in capital	**2,519,309,713**	2,519,309,713
Stock grant	**33,640,983**	4,205,123
Retained earnings		
Appropriated	**925,000,000**	510,000,000
Unappropriated	**3,012,834,660**	2,617,168,339
Cumulative translation adjustment	**(2,457,254)**	4,516,079
Other comprehensive loss	**(84,325,739)**	(96,203,691)
Total Equity	**9,716,866,793**	8,871,859,993
TOTAL LIABILITIES AND EQUITY	**₱20,627,764,769**	₱18,059,977,299

See accompanying Notes to Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2015	2014	2013
NET SALES	**₱17,420,769,116**	₱15,213,323,956	₱12,787,581,909
COSTS OF GOODS SOLD (Note 16)	**8,096,569,004**	6,680,845,452	6,495,583,688
GROSS PROFIT	**9,324,200,112**	8,532,478,504	6,291,998,221
OPERATING EXPENSES			
Selling and distribution (Note 17)	**6,493,059,856**	5,530,234,060	4,583,855,201
General and administrative (Note 18)	**1,060,671,797**	1,120,760,076	791,070,174
	7,553,731,653	6,650,994,136	5,374,925,375
OTHER INCOME (CHARGES)			
Rent income (Note 27)	**42,480,546**	8,954,701	–
Share in net earnings of an associate (Note 9)	**29,796,193**	24,179,835	17,628,250
Interest accretion on security deposits (Note 27)	**6,516,760**	8,510,623	6,165,280
Interest income (Note 5)	**3,379,270**	4,473,664	3,887,650
Interest expense (Notes 14 and 15)	**(315,250,994)**	(281,585,421)	(92,226,440)
Share in net losses of joint ventures (Note 10)	**(228,286,410)**	(144,869,202)	(20,275,285)
Foreign exchange gains (losses) - net	**(15,268,860)**	6,167,211	21,117,594
Others - net	**1,891,220**	(10,646,903)	48,125,922
	(474,742,275)	(384,815,492)	(15,577,029)
INCOME BEFORE INCOME TAX	**1,295,726,184**	1,496,668,876	901,495,817
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**483,286,043**	551,119,917	347,374,886
Deferred	**1,773,820**	(52,733,938)	(59,622,162)
	485,059,863	498,385,979	287,752,724
NET INCOME	**810,666,321**	998,282,897	613,743,093
OTHER COMPREHENSIVE INCOME			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustment on foreign operations, net of deferred tax	**(6,973,333)**	9,758,244	1,833,736
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gain (loss) on retirement benefit, net of deferred tax	**11,877,952**	(38,903,557)	(34,395,164)
TOTAL COMPREHENSIVE INCOME	**₱815,570,940**	₱969,137,584	₱581,181,665
BASIC/DILUTED EARNINGS PER SHARE (Note 24)	**₱0.24**	₱0.42	₱0.30

See accompanying Notes to Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	Capital Stock (Note 29)	Additional Paid-in Capital (APIC)	Stock Grants (Note 29)	Equity Reserve (Note 4)	Retained Earnings (Note 29)		Cumulative Translation Adjustment	Other Comprehensive Loss	Total
					Appropriated	Unappropriated			
Balances at January 1, 2013	₱25,000,000	₱175,000,000	₱–	(₱294,985,185)	₱900,000,000	₱614,873,136	(₱7,075,901)	(₱22,904,970)	₱1,389,907,080
Net income	–	–	–	–	–	613,743,093	–	–	613,743,093
Other comprehensive loss	–	–	–	–	–	–	–	(34,395,164)	(34,395,164)
Exchange differences on translation	–	–	–	–	–	–	1,833,736	–	1,833,736
Total comprehensive income for the year	–	–	–	–	–	613,743,093	1,833,736	(34,395,164)	581,181,665
Appropriation of retained earnings	–	–	–	–	500,000,000	(500,000,000)	–	–	–
Reversal of appropriation of retained earnings	–	–	–	–	(110,000,000)	110,000,000	–	–	–
Conversion of deposits for future subscription to capital stock (Note 29)	175,000,000	(175,000,000)	–	–	–	–	–	–	–
Movement in equity reserve (Note 4)	–	–	–	795,419,680	–	–	–	–	795,419,680
Balances at December 31, 2013	**₱200,000,000**	**₱–**	**₱–**	**₱500,434,495**	**₱1,290,000,000**	**₱838,616,229**	**(₱5,242,165)**	**(₱57,300,134)**	**₱2,766,508,425**
Balances at January 1, 2014	₱200,000,000	₱–	₱–	₱500,434,495	₱1,290,000,000	₱838,616,229	(₱5,242,165)	(₱57,300,134)	₱2,766,508,425
Net income	–	–	–	–	–	998,282,897	–	–	998,282,897
Other comprehensive loss	–	–	–	–	–	–	–	(38,903,557)	(38,903,557)
Exchange differences on translation	–	–	–	–	–	–	9,758,244	–	9,758,244
Total comprehensive income for the year	–	–	–	–	–	998,282,897	9,758,244	(38,903,557)	969,137,584
Issuance of capital stock	2,417,162,900	–	–	–	–	–	–	–	2,417,162,900
Issuance of capital stock through initial public offering	695,701,530	4,056,457,439	–	–	–	–	–	–	4,752,158,969
Reversal of appropriation of retained earnings	–	–	–	–	(780,000,000)	780,000,000	–	–	–
Stock grants (Note 29)	–	–	4,205,123	–	–	–	–	–	4,205,123
Movement in equity reserve (Note 4)	–	–	–	(2,037,582,221)	–	–	–	–	(2,037,582,221)
Closed-out of equity reserve to APIC (Note 4)	–	(1,537,147,726)	–	1,537,147,726	–	–	–	–	–
Other comprehensive income on retirement obligation closed directly to retained earnings	–	–	–	–	–	269,213	–	–	269,213
Balances at December 31, 2014	**₱3,312,864,430**	**₱2,519,309,713**	**₱4,205,123**	**₱–**	**₱510,000,000**	**₱2,617,168,339**	**₱4,516,079**	**(₱96,203,691)**	**₱8,871,859,993**

(Forward)

	Capital Stock (Note 29)	Additional Paid-in Capital	Stock Grants (Note 29)	Equity Reserve (Note 4)	Retained Earnings (Note 29)		Cumulative Translation Adjustment	Other Comprehensive Income (Loss)	Total
					Appropriated	Unappropriated			
Balances at January 1, 2015	₱3,312,864,430	₱2,519,309,713	₱4,205,123	₱–	₱510,000,000	₱2,617,168,339	₱4,516,079	(₱96,203,691)	₱8,871,859,993
Net income	–	–	–	–	–	810,666,321	–	–	810,666,321
Other comprehensive income	–	–	–	–	–	–	–	11,877,952	11,877,952
Exchange differences on translation	–	–	–	–	–	–	(6,973,333)	–	(6,973,333)
Total comprehensive income for the year	–	–	–	–	–	810,666,321	(6,973,333)	11,877,952	815,570,940
Additional appropriation of retained earnings	–	–	–	–	415,000,000	(415,000,000)	–	–	–
Stock grants (Note 29)	–	–	29,435,860	–	–	–	–	–	29,435,860
Balances at December 31, 2015	**₱3,312,864,430**	**₱2,519,309,713**	**₱33,640,983**	**₱–**	**₱925,000,000**	**₱3,012,834,660**	**(₱2,457,254)**	**(₱84,325,739)**	**₱9,716,866,793**

See accompanying Notes to Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,295,726,184**	₱1,496,668,876	₱901,495,817
Adjustments for:			
Depreciation and amortization (Notes 11, 12 and 20)	**1,498,501,295**	1,039,304,397	633,675,839
Interest expense (Notes 14 and 15)	**315,250,994**	281,585,421	92,226,440
Share in net losses of joint ventures (Note 10)	**228,286,410**	144,869,202	20,275,285
Stock grants (Note 29)	**29,435,860**	4,205,123	–
Loss on disposal of property and equipment (Note 11)	**17,605,873**	18,930,374	610,718
Share in net earnings of an associate (Note 9)	**(29,796,193)**	(24,179,835)	(17,628,250)
Interest accretion on refundable deposits (Note 27)	**(6,516,760)**	(8,510,623)	(6,165,280)
Unrealized foreign exchange losses (gains)	**(7,571,974)**	15,693,554	6,770,052
Interest income (Note 5)	**(3,379,270)**	(4,473,664)	(3,887,650)
Impairment loss on security deposits (Note 27)	**–**	4,870,502	–
Mark-to-market gain	**–**	–	(2,644,762)
Operating income before working capital changes	**3,337,542,419**	2,968,963,327	1,624,728,209
Decrease (increase) in:			
Trade and other receivables	**(9,760,183)**	(85,575,110)	(123,475,179)
Merchandise inventory	**(1,699,925,289)**	(2,081,162,341)	(504,767,181)
Amounts owed by related parties	**(24,231,034)**	1,726,601	(2,512,108)
Prepayments and other current assets	**(766,053,020)**	(248,504,967)	(102,383,832)
Increase (decrease) in:			
Trade and other payables	**(872,949,651)**	(249,514,809)	(3,108,769,403)
Deferred revenue	**(2,997,032)**	1,592,266	7,245,203
Amounts owed to related parties	**479,875**	(131,016)	(130,982)
Retirement benefit obligation	**41,345,515**	25,163,579	22,576,557
Tenant deposits	**21,267,898**	–	–
Net cash generated from (used in) operations	**24,719,498**	332,557,530	(2,187,488,716)
Interest received	**3,379,270**	4,473,664	3,887,650
Income taxes paid	**(524,365,581)**	(568,928,833)	(262,750,226)
Net cash flows used in operating activities	**(496,266,813)**	(231,897,639)	(2,446,351,292)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 11)	**(2,041,870,197)**	(3,143,865,049)	(1,950,468,614)
Additional interests in joint ventures (Note 10)	**(803,296,454)**	(255,250,000)	(252,500,000)
Dividends received from investment in an associate (Note 9)	**24,000,000**	18,000,000	16,000,000
Decrease (increase) in:			
Security deposits and construction bonds	**(185,069,258)**	(248,464,117)	(113,940,276)
Other noncurrent assets	**370,615**	148,293,258	34,474,522
Net cash flows used in investing activities	**(3,005,865,294)**	(3,481,285,908)	(2,266,434,368)

(Forward)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term loans payable (Note 14)	**₱7,695,500,000**	₱4,984,845,625	₱4,202,965,834
Long-term debt (Note 15)	**1,398,887,415**	704,190,142	1,282,830,520
Payments of:			
Short-term loans payable (Note 14)	**(6,167,135,490)**	(5,198,875,010)	(1,072,500,000)
Long-term debt (Note 15)	**(333,333,333)**	(166,666,666)	–
Interest	**(315,250,994)**	(281,585,421)	(81,704,414)
Proceeds from:			
Subscriptions to capital stock (Note 4)	–	2,417,162,900	195,419,680
Subscriptions to capital stock through initial public offering (Note 29)	–	4,752,158,969	–
Deposits for future stock subscription to SSI	–	–	61,580,320
Sale of SSI investment in CCSI (Note 1)	–	200,119,176	–
Return of deposits for future stock subscription to SSI	–	(61,580,320)	–
Payment for the purchase of SSI shares (Notes 1 and 4)	–	(2,242,162,541)	–
Net cash flows from financing activities	**2,278,667,598**	5,107,606,854	4,588,591,940
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**598,641**	(1,344,935)	2,776,142
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,222,865,868)**	1,393,078,372	(121,417,578)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,527,828,209**	1,134,749,837	1,256,167,415
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱1,304,962,341**	₱2,527,828,209	₱1,134,749,837

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

SSI Group, Inc. was registered with the Philippine Securities and Exchange Commission (SEC) on April 16, 2007 as Casual Clothing Specialists, Inc. (the Company). Its primary purpose was to carry on a general mercantile and commercial business of importing, buying, acquiring, holding, selling or otherwise disposing of and dealing in any goods, wares, merchandise and commodities of all kinds, and products, natural or artificial, of the Philippines or other countries, which are or may become articles of commerce, without, however, engaging in the manufacture of foods, drugs, and cosmetics. The Company was formerly one of the subsidiaries of Stores Specialists, Inc. (SSI).

Corporate Restructuring
The Tantoco Family undertook a restructuring of its ownership over SSI and subsidiaries (collectively referred to as the "Group") in order to convert the Company into the new holding company of the Group. The Company is principally owned and controlled by the Tantoco Family members, directly or through their respective holding companies. The Group's former holding company, SSI, was converted into a wholly-owned operating subsidiary of the Company. SSI remains as primary franchisee under the Group's brand agreements and also acts as the principal shareholder of all of the operating subsidiaries.

Prior to the restructuring activities undertaken, the Company was owned 100% by SSI and its nominees. On April 3, 2014, the Philippine SEC approved the increase in authorized capital stock of the Company from ₱200.00 million divided into 2,000,000 shares with par value of ₱100.00 per share, to ₱3.00 billion divided into 30,000,000 shares with par value of ₱100.00 per share. Of the increased authorized capital stock of the Company, SSI subscribed to 7,000,000 shares for a consideration of ₱700.00 million, of which ₱175.00 million was paid and ₱525.00 million remained outstanding as subscription receivables. On April 9, 2014, all of the shares held by SSI in the Company were sold to the Tantoco Family via a deed of sale and a deed of assignment of subscription rights. As a result of the share sale, the Company ceased to be a subsidiary of SSI. In turn, on April 14, 2014, the Company purchased all of the shares held by the Tantoco Family in SSI for a total consideration of ₱2.20 billion. This transaction resulted in SSI becoming a wholly-owned subsidiary of the Company.

Using the proceeds of the sale of its shares in SSI to the Company, the Tantoco Family settled the outstanding ₱525.00 million subscription payable on the 7,000,000 shares in the Company previously subscribed by SSI and now owned by the Tantoco Family. On April 10, 2014, the Tantoco Family further subscribed to an additional unissued 12,171,629 shares in the Company, which amounted to ₱1.20 billion. In addition, on April 15, 2014, the Tantoco Family made a deposit for future subscription to the 5,000,000 shares in the Company for a consideration of ₱500.0 million.

The above corporate restructuring resulted in the Company being wholly owned by members of the Tantoco Family, which in turn gives the Tantoco Family ownership and control of the Group. As of April 2014, the above restructuring was deemed legally complete.

On January 10, 2014, Casual Clothing Retailers, Inc. was incorporated for the purpose of continuing the businesses of the Company, including operation of the brands under the Group's arrangements with GAP Inc.

On June 18, 2014, certain resolutions were approved by the Board and shareholders of the Company, including, among others: (1) change in its corporate name from "Casual Clothing Specialists, Inc." to "SSI Group, Inc."; (2) change in its primary purpose as a retail company to that of a holding company; (3) increase in its authorized capital stock from ₱3.0 billion to ₱5.0 billion; (4) reduction of par value of its shares from ₱100.00 per share to ₱1.00 per share; and (5) increase in the number of members of its board of directors from five to nine. These changes, including the appropriate amendments to its articles of incorporation, were submitted to the Philippine SEC on July 30, 2014 and were subsequently approved on August 29, 2014. Upon approval, the Company has an authorized capital stock of ₱5.00 billion divided into 5,000,000,000 shares with a par value of ₱1.00 per share.

On November 7, 2014, SSI Group, Inc. completed its initial public offering of 695,701,530 common shares with the Philippine Stock Exchange (PSE) (see Note 29).

The registered office and principal place of business of the Company is 6/F Midland Buendia Building, 403 Senator Gil Puyat Avenue, Makati City.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") as of December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on April 13, 2016. The same consolidated financial statements were approved and authorized by the BOD on the April 13, 2016.

2. Basis of Presentation and Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Presentation

As discussed in Note 1, the Company entered into a sale and purchase of shares transactions with SSI and the members of the Tantoco Family resulting in the Company becoming the holding company of the Group. The Company and its subsidiaries, now comprising "the Group", are under common control of the Tantoco Family before and after the sale and purchase transactions in April 2014. The said transactions were treated as a reorganization of entities under common control and were accounted for similar to pooling-of-interests method. Accordingly, the consolidated financial statements of the Company have been prepared as a continuation of the consolidated financial statements of SSI, the former holding company of the Group.

The comparative December 31, 2013 financial information presented in the accompanying consolidated financial statements (i.e. prior to reorganization) is that of SSI and not originally presented in the previous financial statements of the Company; and that has been retroactively adjusted to reflect the legal capital of the Company with the difference between the capital of SSI and the Company prior to the reorganization being recognized as "Equity Reserve" in the consolidated balance sheets. Refer to Note 4 for the movements in the "Equity Reserve" account.

Basis of Preparation
The consolidated financial statements of the Group have been prepared on a historical cost basis and are presented in Philippine peso (₱), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. All values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Company and the following wholly-owned subsidiaries:

	Percentage ownership					
	2015		2014		2013	
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect
Stores Specialists, Inc. (SSI)	**100**	–	100	–	100	–
Rustan Marketing Specialists, Inc. (RMSI)	–	**100**	–	100	–	100
International Specialty Concepts, Inc. (ISCI)	–	**100**	–	100	–	100
Rustan Specialty Concepts, Inc. (RSCI)	–	**100**	–	100	–	100
Specialty Office Concepts, Inc. (SOCI)	–	**100**	–	100	–	100
Specialty Investments, Inc. (SII)	–	**100**	–	100	–	100
Luxury Concepts, Inc. (LCI)	–	**100**	–	100	–	100
International Specialty Fashions, Inc. (ISFI)	–	**100**	–	100	–	100
Footwear Specialty Retailers, Inc. (FSRI)	–	**100**	–	100	–	100
Global Specialty Retailers, Inc. (GSRI)[1]	–	**100**	–	100	–	100
Specialty Food Retailers, Inc. (SFRI)[2]	–	**100**	–	100	–	100
International Specialty Retailers, Inc. (ISRI)[3]	–	**100**	–	100	–	100
International Specialty Wears, Inc. (ISWI)[4]	–	**100**	–	100	–	100
Fastravel Specialists Holdings, Inc. (FSHI)[5]	–	**100**	–	100	–	–
International Specialty Apparels, Inc. (ISAI)[6]	–	**100**	–	100	–	–
Casual Clothing Retailers, Inc. (CCRI)[7]	–	**100**	–	100	–	–
SKL International, Ltd. (SKL)[8]	–	**100**	–	–	–	–

[1] GSRI was registered with the SEC on August 9, 2011 and started commercial operations on February 17, 2012.
[2] SFRI (formerly Specialtea Blends, Inc.) was registered with the SEC on June 25, 2012 and started commercial operations on November 8, 2012.
[3] ISRI was registered with the SEC on November 29, 2012 and started commercial operations on March 16, 2013.
[4] ISWI was registered with the SEC on November 29, 2012 and started commercial operations on March 17, 2013.
[5] FSHI was registered with the SEC on February 21, 2013 and immediately started commercial operations.
[6] ISAI was registered with the SEC on October 8, 2013 and started commercial operations on October 18, 2014.
[7] CCRI was registered with the SEC on January 10, 2014 and immediately started commercial operations.
[8] On July 16, 2015, SSI caused the incorporation of SKL, a wholly owned subsidiary, under the territory of the British Virgin Islands (BVI).

All subsidiaries, except for FSHI, SII and SKL, are in the retail business and hold exclusive distributorship of certain brands.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Company and to the non-controlling interests (NCI), even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

<u>Common Control Business Combinations and Group Reorganizations</u>
Where there are group reorganizations and business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e., controlling shareholders) before and after the business combination and the control is not transitory (business combinations under common control), the Group accounts for such group reorganizations and business combinations similar to a pooling-of-interests method. The assets and liabilities of the acquired entities and that of the Company are reflected at their carrying values at the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction without loss of control, the difference in the amount recognized and the fair value of consideration received, is also accounted for as an equity transaction.

The Group records the difference as "Equity reserve" and is presented as a separate component of equity in the consolidated balance sheet. Comparatives shall be restated to include balances and transactions as if the entities have been acquired at the beginning of the earliest period presented in the consolidated financial statements, regardless of the actual date of the combination.

<u>Changes in Accounting Policies and Disclosures</u>
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015.

The nature and impact of each new standard and amendment is described below:

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2015

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended standards and improved PFRS which the Group has adopted starting January 1, 2015. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Group.

Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

Improvements to PFRS
The *Annual Improvements to PFRS* contains non-urgent but necessary amendments to the following standards:

2010-2012 Cycle
- **PFRS 2, *Share-based Payment - Definition of Vesting Condition***
- **PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination***
- **PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets***
- **PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization***
- **PAS 24, *Related Party Disclosures - Key Management Personnel***

2011-2013 Cycle
- **PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements***
- **PFRS 13, *Fair Value Measurement - Portfolio Exception***
- **PAS 40, *Investment Property***

New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2015
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the Group's financial statements.

Effective in 2016:
Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants

will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the balance sheet and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016.

Improvements to PFRS
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group.

- **PFRS 5,** ***Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal***
- **PFRS 7,** ***Financial Instruments: Disclosures - Servicing Contracts***
- **PFRS 7 -** ***Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements***
- **PAS 19,** ***Employee Benefits - Regional Market Issue Regarding Discount Rate***
- **PAS 34,** ***Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'***

Effective in 2018:
PFRS 9, ***Financial Instruments*** **(2014 or final version)**
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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 comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015. The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the impact of adopting this standard.

Deferred Effectivity:
- **Philippine Interpretation IFRIC 15,** ***Agreements for the Construction of Real Estate***

In addition, the International Accounting Standards Board has issued the following new standards that have not yet been adopted locally by the SEC and Financial Reporting Standards Committee (FRSC). The Group is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

International Financial Reporting Standards (IFRS) 15, ***Revenue from Contracts with Customers***
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

IFRS 16, *Leases*
IFRS 16 was issued in January 2016 which will replace PAS 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance lease in accordance with PAS 17. 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 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.

The new standard is effective for annual periods beginning on or after January 1, 2019. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

Summary of Significant Accounting Policies

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, returns and other sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of merchandise
Revenue from the sale of merchandise, presented as “Net Sales”, is recognized when the significant risks and rewards of ownership of the merchandise have passed to the buyer which is generally at the time the sale is consummated. Sales returns and sales discounts are deducted from the sales to arrive at the net sales shown in the consolidated statements of comprehensive income.

RMSI operates Marks and Spencer Loyalty Program and RSCI operates Debenhams Loyalty Program which allows customers to accumulate points when they purchase products. The points can then be redeemed or used to pay for the purchase of merchandise, subject to a minimum number of points being obtained.

The consideration received is allocated between the products sold and points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is the amount for which the award credits could be sold separately. The fair value of the points issued is deferred, presented as “Deferred revenue” in the consolidated balances sheet and recognized as revenue when the points are redeemed.

Interest income
Interest income is recognized as interest accrues using the effective interest rate (EIR) method.

Cost of Goods Sold
Cost of goods sold includes the purchase price of the merchandise sold, as well as costs that are considered to have functions a part of cost of merchandise sold. Vendor returns, discounts and allowances are generally deducted from the cost of goods sold.

Operating Expenses
Operating expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Operating expenses are recognized when incurred.

Cash and Cash Equivalents
Cash in the consolidated balance sheets consists of cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments
Financial instruments are recognized in the consolidated balance sheets when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at FVPL, the initial measurement of financial assets includes transaction costs.

The Group's financial assets are of the nature of loans and receivables while the Group's financial liabilities are of the nature of other financial liabilities.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or designated as of FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Trade and other receivables", "Amounts owed by related parties" and "Security deposits and construction bonds".

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included as part of other income in the consolidated statements of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on *Impairment of Financial Assets Carried at Amortized Cost*).

Loans and receivables are classified as current when they are expected to be realized within 12 months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial measurement, other financial liabilities are measured at amortized cost using the EIR method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Group's "Trade and other payables", "Short-term and Long-term debt", "Tenant deposits" and "Amounts owed to related parties".

Other financial liabilities are presented as current when these are expected to be settled within 12 months from the reporting date or the Group does not have any unconditional right to defer settlement within 12 months from reporting date. Otherwise, these are classified as noncurrent.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the balance sheets if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

<u>Fair Value Measurement</u>
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statements of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

Merchandise Inventory
Merchandise inventory is valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted or moving average methods. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of selling and distribution.

Investment in an Associate and Interests in Joint Ventures
The Group's investment in an associate and interests in joint ventures follow:

	Percentage of Ownership		
	December 31		
	2015	2014	2013
Joint Ventures:			
SIAL CSV Retailers, Inc. (SCRI)	**50%**	50%	50%
SIAL Specialty Retailers, Inc. (SSRI)	**50%**	50%	50%
Landmark Management Services, Ltd. (LMS)	**50%**	–	–
Associate:			
Samsonite Philippines, Inc. (SPI)	**40%**	40%	40%

The Group's investment in an associate and interests in joint ventures are accounted for under the equity method of accounting in the consolidated financial statements. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture, generally accompanying a shareholding of between 20% and 50% of the voting rights. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under the equity method, the investments in an associate and interests in joint ventures are initially recognized at cost. The carrying amounts of the investments and interests are adjusted to recognize changes in the Group's share of net assets of the associate and joint ventures since the acquisition date. Goodwill relating to the associate and joint ventures are included in the carrying amount of the investment and are neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate and joint ventures. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and joint ventures is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate and interests in joint ventures. At each balance sheet date, the Group determines whether there is objective evidence that the investment in an associate and interests in joint ventures are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share in net earnings/losses of an associate and joint ventures' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint ventures, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint ventures upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the associate and joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property and Equipment

Property and equipment are stated at cost, excluding the cost of day to day servicing, less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of such property and equipment when the costs are incurred and if the recognition criteria are met.

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

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

Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets, or in the case of leasehold improvements, the term of the related lease or estimated useful lives of the improvement, whichever is shorter:

Category	Estimated useful lives (in years)
Building	10-20
Transportation equipment	3-15
Store, office, warehouse furniture and fixtures	3-5
Leasehold improvements	2-5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The asset's useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized.

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful life of intangible assets is assessed as finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting date. Changes in the expected useful life or the expected patter of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period and/or method, as appropriate, and are treated as changes in accounting estimates and/or changes in accounting policies, respectively. The amortization expense on intangible assets is recognized in the consolidated statements of comprehensive income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of comprehensive income when the asset is derecognized.

<u>Software Costs</u>
Costs incurred in the purchase and customization of computer software are initially recognized at cost. Following initial recognition, software costs are carried at cost less accumulated amortization and any accumulated impairment in value.

Software costs, included in "Other noncurrent assets" account are amortized on a straight-line basis over the estimated useful economic life of 5 years and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the related software is ready for use. The amortization period and the amortization method for the software costs are reviewed at each reporting date. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the software costs.

Impairment of Nonfinancial Assets

Prepayments and other current assets, investment in an associate, interests in joint ventures, property and equipment and other noncurrent assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's estimated recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For nonfinancial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable estimated amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its estimated recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital (APIC).

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Retained Earnings

Retained earnings includes accumulated earnings of the Group reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

Equity Reserve

Equity reserve represents the effect of the application of the pooling-of-interests method as discussed under the Basis of Preparation.

Retirement Benefit Obligation

The Group is covered by a noncontributory defined benefit retirement plan. The net defined benefit obligation or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

Share-based Payment Transactions

Officers and management of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

Equity-settled transactions
The cost of equity-settled transactions with employees for awards granted is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each balance date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after the inception of the lease only if one of the following applies:

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

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

Operating Leases - Group as a Lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Operating Lease - Group as a Lessor
Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Lease payments received are recognized in the consolidated statement of comprehensive income as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of the assets, until such time that the assets are substantially ready for their intended use or sale, which necessarily take a substantial period of time. Income earned on temporary investment of specific borrowings, pending the expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance the project to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are recognized in the consolidated statements of comprehensive income in the period in which they are incurred.

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

Current income tax relating to items recognized directly in equity is recognized in other comprehensive income and not in the profit or loss.

Deferred tax
Deferred tax is provided using the balance sheet liability method on temporary differences on the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward benefits of unused MCIT and NOLCO can be utilized.

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

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

Deferred tax relating to items recognized directly in equity is recognized in other comprehensive income and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax
Revenues, expenses, and assets are recognized net of amount of sales tax except:
- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivable and payables that are stated with the amount of sales tax are included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Segment Reporting
The Group’s operating business are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on reporting segment is presented in Note 28 to the consolidated financial statements.

Earnings Per Share (EPS)
Basic EPS is computed by dividing the net income of the Group by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net income attributable to the Group (after deducting interest on the convertible preferred shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The weighted average number of common shares used in the calculation of the basic/diluted EPS is determined on the basis of the weighted average number of shares of the Company as of balance sheet date.

For comparative purposes, the number of shares used in EPS calculation for the previous periods presented is the number of shares outstanding at the time of restructuring.

Foreign Currency Translation and Transactions

The consolidated financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Company. Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of all the subsidiaries, except GSRI, is the Philippine Peso. The functional currency of GSRI is United States Dollar (USD). As of financial reporting date, the assets and liabilities of GSRI are translated into the presentation currency of the Company (the Philippine Peso) at the rate of exchange prevailing at financial reporting date while the capital stock and other equity balances are translated at historical rates of exchange. The income and expenses are translated at the weighted average exchange rates during the year. The exchange differences arising from the translation to the presentation currency are taken directly to “Exchange differences on translation” in the consolidated statement of comprehensive income and “Cumulative translation adjustment” account within the equity section of the consolidated balance sheet. Upon disposal of this foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign subsidiary will be recognized in the consolidated statement of comprehensive income.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Events After the Reporting Date

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Determination of Functional Currency
The functional currencies of the entities under the Group are the currencies of the primary economic environment in which the entity operates. It is the currency that mainly influences the sales prices of goods and the costs of the goods sold.

Based on the economic substance of the underlying circumstances, the functional currency of the Company and its subsidiaries, except GSRI, is the Philippine peso. The functional and presentation currency of GSRI is the United States Dollar (USD).

Determination of Operating Segment
The Group has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Group meets the qualifications of an operating segment as defined in PFRS 8, *Operating Segments*.

Operating Lease Commitments - Group as Lessee
The Group has entered into leases of its office and commercial spaces. The Group has determined that it does not acquire all the significant risks and rewards of ownership of these properties which are leased on operating leases.

Classification of Investment in SPI as Investment in an Associate
SII, together with another company, established SPI through a joint venture agreement. The Group has determined that there is no control or joint control over the operating and financial activities of SPI since it does not own directly or indirectly more than 50% of the voting rights of SPI.

However, the Group holds voting power in SPI that represents significant influence. Accordingly, the Group classified its investment in SPI as an investment in an associate.

Classification of Interests in SCRI, SSRI and LMS as Interests in Joint Ventures
SII, together with another company, established SCRI and SSRI through joint venture agreements. In 2015, SKL was incorporated and subsequently acquired 50% stake in LMS through a joint venture agreement. The Group has determined that these arrangements are joint arrangements as they have the following characteristics:

- the parties are bound by a contractual arrangement; and
- the contractual arrangement gives the parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture. The Group determines its interests in SCRI, SSRI and LMS as a joint venture since it has rights to the net assets instead of rights to the assets and obligations for the liabilities of these companies. Accordingly, the Group classified its interests in SCRI, SSRI and LMS as joint ventures.

Estimates and Assumptions

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

Estimating Impairment of Trade and Other Receivables and Amounts Owed by Related Parties

The Group maintains allowances for impairment losses on trade and other receivables and amounts owed by related parties at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses would increase the Group's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group assesses impairment into two areas: individually assessed allowances and collectively assessed allowances. The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, non-moving account receivables, accounts of defaulted agents and accounts from closed stations.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility.

As of December 31, 2015 and 2014, the Group has no allowance for impairment losses on trade and other receivables and amounts owed by related parties. Trade and other receivables and amounts owed by related parties amounted to ₱625.81 million and ₱591.81 million as of December 31, 2015 and 2014, respectively (see Notes 6 and 21).

Assessing NRV of Merchandise Inventory

The Group maintains allowance for merchandise inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV of inventories are assessed regularly based on the prevailing selling prices of inventories less the estimated cost necessary to sell. Increase in the NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs.

As of December 31, 2015 and 2014, the Group has no allowance for inventory losses. Merchandise inventory amounted to ₱9,680.00 million and ₱7,980.07 million as of December 31, 2015 and 2014, respectively (see Note 7).

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

As of December 31, 2015 and 2014, the aggregate net book values of property and equipment, franchise fee and software costs presented under "Other noncurrent assets" amounted to ₱5,261.37 million and ₱4,695.61 million, respectively (see Notes 11 and 12).

The Group recognized depreciation and amortization expense amounting to ₱1,495.79 million, ₱1,039.30 million and ₱633.68 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 20).

Assessing Impairment of Investment in an Associate, Interests in Joint Ventures and Property and Equipment
Internal and external sources of information are reviewed at each balance sheet date to identify indications that investment in an associate, interests in joint ventures and property and equipment may be impaired or an impairment loss previously recognized no longer exists or may be decreased.

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results; and
- significant negative industry or economic trends.

As of December 31, 2015 and 2014, the Group has not identified any events or change in circumstances that would indicate impairment of its nonfinancial assets. The carrying values of the Group's nonfinancial assets as of December 31, are as follows:

	2015	2014
Property and equipment (see Note 11)	**₱5,208,538,864**	₱4,680,064,601
Interests in joint ventures (see Note 10)	**1,054,465,557**	479,455,513
Investment in an associate (see Note 9)	**54,913,723**	49,117,530

Estimating Retirement Benefits
The cost of defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of returns on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. These assumptions are discussed in Note 22 of the consolidated financial statements.

As of December 31, 2015 and 2014, the Group's retirement benefit obligation amounted to ₱330.56 million and ₱306.19 million, respectively (see Note 22). The Group recognized retirement expense amounting to ₱47.90 million, ₱36.14 million and ₱36.79 million in 2015, 2014 and 2013, respectively (see Notes 19 and 22).

Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Temporary differences for which deferred tax assets are not recognized are disclosed in Note 23 to the consolidated financial statements. As of December 31, 2015 and 2014, deferred tax assets recognized amounted to ₱261.70 million and ₱267.91 million, respectively (see Note 23).

4. Reorganization Involving Entities Under Common Control

As discussed in Notes 1 and 2, as a result of the sale and purchase of shares transactions among the Company, SSI and the members of the Tantoco Family, the Company became the holding company of the Group. The reorganization was accounted for by the Company similar to pooling-of-interests method.

Under the pooling-of-interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the reorganization;
- No 'new' goodwill is recognized as a result of the reorganization;
- Any difference between the consideration transferred and the net assets acquired is reflected within equity under "Equity reserve";
- The income statement in the year of reorganization reflects the results of the combining entities for the full year, irrespective of when the reorganization took place; and
- Comparatives are presented as if the entities had always been combined only for the period that the entities were under common control.

The equity reserve recognized in the statements of changes in equity as of December 31, 2014 represents the difference between the total consideration paid by the Company for its acquisition of SSI and the capital stock of SSI as shown below:

Capital stock of SSI	₱705,014,815
Capital stock of SGI	(2,242,162,541)
Equity reserve	(₱1,537,147,726)

Prior to the reorganization (i.e. as of December 31, 2013) the balance of the equity reserve represents the difference between the legal capital of the Company and SSI.

Below is the summary of the movements of the "Equity reserve" account of the Group for the years ended December 31, 2014 and 2013:

Legal capital as at January 1, 2013		
SSI		(₱94,985,185)
SGI		200,000,000
		(₱294,985,185)
Balance at January 1, 2013		(₱294,985,185)
Conversion of deposit for future stock subscriptions to capital stock by SSI	₱600,000,000	
Issuance of capital stock by SSI	195,419,680	795,419,680
Balance at January 1, 2014		500,434,495
Difference between investment of the Company in SSI and the capital stock of the Company	(2,042,162,221)	
Receipt of subscriptions receivable by SSI	4,580,000	(2,037,582,221)
Closed-out of equity reserve to APIC	–	1,537,147,726
Balance at December 31, 2014		**₱–**

The restructuring in 2014 resulted to equity reserve that was closed to "Additional paid-in capital" account, amounting to ₱1,537.15 million.

5. Cash and Cash Equivalents

	2015	2014
Cash on hand	**₱102,192,410**	₱76,104,404
Cash in banks	**1,202,769,931**	1,650,479,361
Short-term investments	**–**	801,244,444
	₱1,304,962,341	₱2,527,828,209

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest earned from cash in banks and short-term investments for the years ended December 31, 2015, 2014 and 2013 amounted to ₱3.38 million, ₱4.47 million and ₱3.89 million, respectively.

6. Trade and Other Receivables

	2015	2014
Trade receivables	**₱220,936,098**	₱244,248,603
Nontrade receivables	**151,706,373**	182,755,203
Advances to officers and employees	**112,893,788**	97,062,879
Receivables from related parties (see Note 21)	**104,823,661**	54,798,851
Others	**4,272,911**	6,007,112
	₱594,632,831	₱584,872,648

Trade receivables are due from credit card companies and normally settled on three days' terms. Nontrade receivables, advances to officers and employees and receivables from related parties are usually settled within one year."Others" generally include receivables from contractors for professional services.

7. Merchandise Inventory

	2015	2014
At cost		
On hand	**₱9,167,904,410**	₱7,437,886,515
In transit	**512,090,978**	542,183,584
	₱9,679,995,388	₱7,980,070,099

Inventories in transit include items not yet received but ownership or title to the goods has already passed to the Group. There are no merchandise inventories pledged as security for liabilities.

The cost of inventories recognized as expense and presented in "Costs of goods sold" amounted to ₱7,475.41 million, ₱6,119.52 million and ₱6,109.19 million for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 16).

8. Prepayments and Other Current Assets

	2015	2014
Advances to suppliers	**₱436,010,318**	₱18,821,475
Input VAT	**277,171,328**	211,196,273
Supplies inventory	**321,134,504**	103,590,564
Current portion of prepaid rent (see Notes 12 and 27)	**43,413,949**	61,502,482
Deferred input VAT	**63,419,431**	39,770,839
Prepaid tax	**23,183,441**	33,360,716
Prepaid advertising	**65,815,593**	18,780,843
Prepaid insurance	**15,476,014**	11,288,664
Prepaid guarantee	**11,637,084**	2,790,533
Current portion of security deposits (see Note 27)	**5,428,931**	10,185,026
Creditable withholding tax	**5,575,049**	5,841,444
Others	**83,371,015**	73,210,879
	₱1,351,636,657	₱590,339,738

Advances to suppliers pertain to advance payments to principals and suppliers for inventory purchases.

Miscellaneous deposits pertain to deposits with contractors for the construction of leasehold improvements of stores. Input VAT will be applied against output VAT.

"Others" include advances payments for non-merchandise purchases arising from transactions made by the Group with its foreign suppliers.

9. Investment in an Associate

	2015	2014
Acquisition cost	**₱24,640,000**	₱24,640,000
Accumulated equity in net earnings:		
Balances at beginning of year	**24,477,530**	18,297,695
Share in net earnings	**29,796,193**	24,179,835
Dividends received	**(24,000,000)**	(18,000,000)
Balances at end of year	**30,273,723**	24,477,530
	₱54,913,723	₱49,117,530

SPI, a company incorporated in the Philippines on September 9, 2008, was established primarily to engage in the importation, distribution, marketing and sale, both wholesale and retail, of all types of luggage and bags, including but not limited to suitcases, garment bags, brief cases, computer bags, backpacks, casual bags, hand bags, travel accessories and such other products of similar nature.

As of December 31, 2015 and 2014, SPI is 40% owned by the Group and 60% owned by Samsonite Corporation, its ultimate parent and an entity incorporated under the laws of the United States of America.

The following table sets out the financial information of SPI as of and for the years ended December 31, 2015 and 2014:

	2015	2014
Assets	**₱182,355,838**	₱271,462,826
Liabilities	**45,680,950**	149,252,084
Equity	**136,674,888**	122,210,742
Revenues	**425,972,705**	323,225,584
Net income	**74,490,483**	60,449,588

10. Interests in Joint Ventures

The Group's interests in joint ventures pertain to the following:

Joint venture	Joint venture partner	Project description	Income sharing arrangement
SCRI[1]	Varejo Corporation	Open and operate convenience stores directly owned and/or franchised in the Philippines	50:50
SSRI[2]	Varejo Corporation	Investment in and operation of mid-market department stores	50:50
LMS[3]	Regent Asia Group, Ltd. (Regent) and Prime (Duty Free Distributors) Ltd. (Prime)	Investment in and operation of travel retail stores in the Philippines	50:50

1 SCRI has started commercial operations in April 2013.
2 SSRI has started commercial operations in March 2014.
3 LMS has existing operations prior to the acquisition in 2015.

On August 12, 2015, SKL, a wholly owned subsidiary of SSI, executed agreements to effect the acquisition of a 50% equity stake in LMS from its two existing shareholders Regent and Prime. Regent and Prime will continue to own 50% ownership in LMS following the entry of SKL. LMS is a company specializing in travel retail concepts and has existing supply and management agreements with travel retail stores in the Philippines.

A summary of the movements in carrying values of interests in joint ventures are set out below:

	2015	2014
SCRI	**₱262,721,435**	₱146,194,230
SSRI	**417,063,488**	333,261,283
LMS	**374,680,634**	–
	₱1,054,465,557	₱479,455,513

SCRI (50% take up through SII)

	2015	2014
Cost:		
Balances at beginning of year	**₱223,850,000**	₱180,600,000
Additional investment	**196,500,000**	43,250,000
Balances at end of year	**420,350,000**	223,850,000
Accumulated equity in net earnings:		
Balances at beginning of year	**(77,655,770)**	(20,275,285)
Share in net loss	**(79,972,795)**	(57,380,485)
Balances at end of year	**(157,628,565)**	(77,655,770)
	₱262,721,435	₱146,194,230

Key financial information of SCRI are as follows:

	2015 (Unaudited)	2014
Assets	**₱566,592,336**	₱329,963,214
Liabilities	**46,294,701**	42,250
Equity	**520,297,635**	329,920,964
Revenues	**167,155,021**	110,592,057
Net loss	**(159,945,590)**	(114,760,970)

SSRI (50% take up through SII)

	2015	2014
Cost:		
Balances at beginning of year	**₱420,750,000**	₱208,750,000
Additional investment	**231,500,000**	212,000,000
Balances at end of year	**652,250,000**	420,750,000
Accumulated equity in net earnings:		
Balances at beginning of year	**(87,488,717)**	–
Share in net loss	**(147,697,795)**	(87,488,717)
Balances at end of year	**(235,186,512)**	(87,488,717)
	₱417,063,488	₱333,261,283

Key financial information of SSRI are as follows:

	2015	2014
Assets	**₱1,028,807,177**	₱738,666,726
Liabilities	**193,869,970**	528,230,628
Equity	**834,937,207**	210,436,098
Revenues	**309,117,739**	166,996,668
Net loss	**(295,395,590)**	(174,977,434)

LMS (50% take up through SKL)

	2015
Acquisition cost	₱375,296,454
Accumulated equity in net earnings:	
Balances at beginning of period	–
Share in net loss	(615,820)
Balances at end of period	(615,820)
	₱374,680,634

Key financial information of LMS is as follows:

	2015
Assets	₱539,847,573
Liabilities	108,685,588
Equity	431,161,985
Revenues (August 13 to December 31, 2015)	263,150,411
Net income (August 13 to December 31, 2015)	1,018,108

The acquisition cost includes the consideration for goodwill amounting to ₱121.75 million and intangible asset amounting to ₱29.90 million. The intangible asset pertains to the concession agreement with Duty Free and is being amortized over 10.7 years. Amortization expense, which is included in the share in net loss of LMS, amounted to ₱1.12 million in 2015.

The joint ventures have no contingent liabilities or capital commitments as of December 31, 2015 and 2014.

11. Property and Equipment

The composition and movements of this account are as follows:

December 31, 2015	**Leasehold Improvements**	**Store, Office, Warehouse Furniture and Fixtures**	**Building**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost:						
Balances at beginning of year	**₱6,340,315,432**	**₱1,872,078,320**	**₱736,966,441**	**₱243,614,203**	**₱101,973,187**	**₱9,294,947,583**
Additions	**1,478,595,321**	**355,537,411**	**115,175,072**	**13,168,070**	**79,394,323**	**2,041,870,197**
Disposals	**(109,791,710)**	**(24,742,952)**	**–**	**(345,535)**	**–**	**(134,880,197)**
Reclassifications	**42,840,327**	**–**	**–**	**–**	**(42,840,327)**	**–**
Balances at end of year	**7,751,959,370**	**2,202,872,779**	**852,141,513**	**256,436,738**	**138,527,183**	**11,201,937,583**
Accumulated depreciation:						
Balances at beginning of year	**3,378,403,168**	**1,131,996,960**	**62,985,677**	**41,497,177**	**–**	**4,614,882,982**
Depreciation (see Note 20)	**1,173,670,224**	**259,867,486**	**40,539,038**	**21,713,313**	**–**	**1,495,790,061**
Disposals	**(93,166,802)**	**(23,761,987)**	**–**	**(345,535)**	**–**	**(117,274,324)**
Balances at end of year	**4,458,906,590**	**1,368,102,459**	**103,524,715**	**62,864,955**	**–**	**5,993,398,719**
Net book values	**₱3,293,052,780**	**₱834,770,320**	**₱748,616,798**	**₱193,571,783**	**₱138,527,183**	**₱5,208,538,864**

December 31, 2014	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	Total
Cost:						
Balances at beginning of year	₱4,185,621,829	₱1,367,468,612	₱58,326,550	₱228,272,062	₱400,380,187	₱6,240,069,240
Additions	2,200,779,247	509,626,706	–	16,359,998	417,099,098	3,143,865,049
Disposals	(82,951,851)	(5,016,998)	–	(1,017,857)	–	(88,986,706)
Reclassifications	36,866,207	–	678,639,891	–	(715,506,098)	–
Balances at end of year	6,340,315,432	1,872,078,320	736,966,441	243,614,203	101,973,187	9,294,947,583
Accumulated depreciation:						
Balances at beginning of year	2,642,537,431	938,835,542	43,279,720	22,716,040	–	3,647,368,733
Depreciation (see Note 20)	803,206,745	195,622,278	19,705,957	19,035,601	–	1,037,570,581
Disposals	(67,341,008)	(2,460,860)	–	(254,464)	–	(70,056,332)
Balances at end of year	3,378,403,168	1,131,996,960	62,985,677	41,497,177	–	4,614,882,982
Net book values	₱2,961,912,264	₱740,081,360	₱673,980,764	₱202,117,026	₱101,973,187	₱4,680,064,601

Additions to leasehold improvements in 2015 and 2014 pertain to improvements and construction of newly opened and renovated stores during the year. Construction in progress in 2014 mainly pertains to the construction of the Group's Central Square building in Taguig City which was completed in June 2014. Borrowing costs capitalized as cost of building amounted to nil, ₱9.30 million and ₱10.80 million in 2015, 2014 and 2013, respectively.

Disposals for the years ended December 31, 2015 and 2014 mainly pertain to leasehold improvements and store furniture and fixtures derecognized on closed or renovated stores during the year.

Fully depreciated property and equipment still in use amounted to ₱1.60 billion and ₱1.29 billion as of December 31, 2015 and 2014, respectively.

No property and equipment were pledged nor treated as security to the outstanding liabilities as of December 31, 2015 and 2014.

12. **Other Noncurrent Assets**

	2015	2014
Franchise fee (net of accumulated amortization of ₱4.98 million and ₱3.17 million, as of December 31, 2015 and 2014, respectively)	**₱51,060,289**	₱14,146,743
Miscellaneous deposits	**30,776,868**	70,053,842
Prepaid rent - net of current portion (see Note 27)	**6,571,715**	6,011,528
Software costs (net of accumulated amortization of ₱1.09 million and ₱0.2 million, as of December 31, 2015 and 2014, respectively)	**1,775,246**	1,397,495
Others	**6,325,418**	7,981,777
	₱96,509,536	₱99,591,385

Miscellaneous deposits pertain to advance payments to contractors for the construction and renovation of stores.

Amortization expense of software costs amounted to ₱904,141, nil, and ₱341,194 for the years ended December 31, 2015 and 2014, 2013, respectively (see Note 20).

13. Trade and Other Payables

	2015	2014
Trade payables	**₱994,450,553**	₱1,599,830,624
Nontrade payables	**825,981,870**	948,693,341
Accrued expenses	**294,270,621**	430,413,494
Retention payable	**152,750,762**	107,308,393
Output VAT	**32,524,573**	37,809,812
Payables to related parties (see Note 21)	**1,590,289**	7,240,136
Others	**73,602,597**	116,825,116
	₱2,375,171,265	₱3,248,120,916

Trade payables are noninterest-bearing and are normally settled on 30 to 90 days' terms.

Nontrade payables represent statutory payables such as withholding taxes, SSS premiums and other liabilities to government agencies, rent payable, payable to contractors and suppliers of services, among others.

Accrued expenses pertain to accrued salaries, leaves and bonuses, security and safety, utilities and repairs and maintenance and accruals of royalties to be paid to foreign principals, among others.

Other payables mainly pertain to payables to non-trade suppliers and payable to advertising agencies.

Nontrade payables, accrued expenses and other payables are generally paid within 12 months from balance sheet date.

14. Short-term Loans Payable

	2015	2014
Banks:		
Bank of Philippine Islands (BPI)	**₱1,600,000,000**	₱1,000,000,000
China Banking Corporation (CBC)	**1,000,000,000**	400,000,000
Security Bank Corporation (SBC)	**990,000,000**	416,750,000
Banco de Oro (BDO)	**700,000,000**	370,000,000
Rizal Commercial Banking Corporation (RCBC)	**435,000,000**	755,000,000
Hongkong and Shanghai Banking Corporation Limited (HSBC)	**400,000,000**	654,885,490
	₱5,125,000,000	₱3,596,635,490

The Group's outstanding short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 2.75% to 3.13% and 3.00% to 4.75% in 2015 and 2014, respectively.

Interest expense related to short-term loans recognized in the consolidated statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013 amounted to ₱230.54 million, ₱173.87 million and ₱72.57 million, respectively.

15. **Long-term Debt**

On May 8, 2013, the SSI entered into a credit facility for the ₱2.00 billion syndicated term loan facility with BPI, SBC, CBC, MBTC and RCBC. The purpose of the loan is to finance the Group's capital expenditures related to the construction of the Central Square and other corporate purposes. Principal repayments are due quarterly starting August 20, 2014. The loan carries an interest of a fixed base rate plus an interest spread of 150 basis points per annum or a 5.50% per annum floor rate. Principal repayments are due quarterly starting August 20, 2014. The syndicated term loan will mature on February 20, 2020.

On September 14, 2015, SSI entered into a long-term loan agreement with BPI amounting to ₱1.00 billion. Principal repayments are due quarterly starting September 14, 2016. The loan carries a fixed interest rate of 3.85%. The loan will mature on September 15, 2018. Also on October 15, 2015, SSI entered into another long-term loan agreement with BPI amounting to ₱400.00 million that carries a fixed interest rate of 3.85%. Principal repayments are due quarterly starting October 15, 2016 until October 15, 2018. The purpose of these loans is to solely refinance its existing short term loans.

Prior to maturity, the Group may prepay, in whole or in part, the loan starting at the end of the grace period or on any interest payment date falling thereafter. The accrued interest on the principal amount of the loan being prepaid plus the higher of the principal amount of the loan being redeemed or the amount calculated as the present value of the remaining principal repayment amounts and the interest payments of the loan to be prepaid, discounted at the comparable benchmark tenor as provided in the loan agreement.

Under the syndicated loan agreement, the Company has to maintain the following financial ratios:
- Debt to equity ratio shall not at any time exceed 2.00; and
- Debt service coverage ratio shall not exceed 1.50.

The details of the Group's long term debt (net of unamortized transaction costs) are as follows:

	2015	2014
BPI	**₱1,790,626,729**	₱484,214,163
SBC	**396,927,572**	484,214,163
CBC	**273,820,337**	334,034,958
MBTC	**273,820,337**	334,034,958
RCBC	**150,713,101**	183,855,754
Total	**2,885,908,076**	1,820,353,996
Less: current portion	**467,607,681**	328,514,924
Noncurrent portion	**₱2,418,300,395**	₱1,491,839,072

A rollforward analysis of unamortized transaction costs in 2015 and 2014 follows:

	2015	2014
Balances at beginning of period	**₱12,979,337**	₱17,169,480
Transaction costs recognized during the period	**7,000,000**	3,500,000
Amortization	**(5,887,414)**	(7,690,143)
Balances at end of period	**₱14,091,923**	₱12,979,337

Interest expense relating to long-term debt recognized in the consolidated statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013 amounted to ₱84.71 million, ₱107.71 million and ₱19.65 million, respectively.

Loan Covenants
The loan covenants covering the Group's outstanding debts include, among others, maintenance of certain level of current, debt-to-equity and debt-service coverage ratios. As of December 31, 2015 and 2014, the Group is in compliance with the loan covenants of all their respective outstanding debts.

16. **Costs of Goods Sold**

	2015	2014	2013
Cost of merchandise sold	**₱7,473,601,159**	₱6,119,520,507	₱6,109,189,837
Personnel costs (see Notes 19 and 22)	**214,129,486**	180,237,387	86,919,485
Advertising	**145,020,513**	162,641,469	149,465,083
Royalty fees	**77,173,640**	83,460,981	47,728,817
Travel and transportation	**56,360,309**	45,556,239	31,880,439
Rent (see Notes 21 and 27)	**38,837,004**	33,588,866	26,036,041
Depreciation and amortization (see Notes 11, 12 and 20)	**25,018,865**	19,889,501	12,856,742
Utilities	**16,344,131**	11,105,076	8,374,478
Security and safety	**14,755,820**	10,192,718	2,502,001
Repairs and maintenance	**11,555,703**	7,183,052	4,411,945
Insurance	**3,298,680**	1,843,788	1,104,727
Supplies and maintenance	**1,160,259**	1,463,570	976,024
Taxes and licenses	**401,227**	404,564	144,913
Others	**18,912,208**	3,757,734	13,993,156
	₱8,096,569,004	₱6,680,845,452	₱6,495,583,688

Cost of merchandise sold:

	2015	2014	2013
Merchandise inventory, beginning	**₱7,980,070,099**	₱5,898,907,758	₱5,394,140,577
Net purchases	**9,173,526,448**	8,200,682,848	6,613,957,018
Cost of merchandise available for sale	**17,153,596,547**	14,099,590,606	12,008,097,595
Less merchandise inventory, ending	**(9,679,995,388)**	(7,980,070,099)	(5,898,907,758)
	₱7,473,601,159	₱6,119,520,507	₱6,109,189,837

Net purchases include cost of inventory, freight charges, insurance and customs duties.

Costs of goods sold represents cost of merchandise inventory sold and the costs that are considered to have functions as part of cost of merchandise sold.

17. **Selling and Distribution Expenses**

	2015	2014	2013
Rent (see Notes 21 and 27)	**₱1,960,838,136**	₱1,705,386,223	₱1,418,371,779
Depreciation and amortization (see Notes 11, 12 and 20)	**1,359,783,041**	917,892,527	553,875,321
Personnel costs (see Notes 19 and 22)	**1,109,838,508**	1,019,935,414	943,124,768
Utilities	**630,893,893**	554,521,919	435,557,082
Credit card charges	**302,028,033**	270,505,097	143,186,687
Supplies and maintenance	**209,932,975**	250,089,287	234,295,289
Taxes and licenses	**180,489,705**	162,454,489	134,221,490
Security services	**166,692,701**	170,587,881	137,423,007
Advertising	**122,797,197**	100,531,934	134,895,271
Global marketing contribution fee	**121,495,238**	93,987,925	71,234,407
Repairs and maintenance	**84,109,980**	69,897,861	45,984,020
Travel and transportation	**46,073,361**	53,590,474	35,494,763
Insurance	**44,196,189**	27,006,452	18,221,544
Communication	**35,101,560**	28,954,612	38,554,785
Delivery and freight charges	**31,916,547**	41,313,876	39,595,133
Professional fees	**28,162,911**	6,533,482	30,594,218
Outside services	**12,045,930**	8,559,742	25,758,158
Entertainment, amusement and recreation (EAR)	**9,611,020**	11,501,434	5,936,966
Telegraphic transfer	**2,736,193**	3,073,835	2,265,146
Others	**34,316,738**	33,909,596	135,265,367
	₱6,493,059,856	₱5,530,234,060	₱4,583,855,201

18. **General and Administrative Expenses**

	2015	2014	2013
Personnel costs (see Notes 19 and 22)	**₱462,822,713**	₱425,607,374	₱362,322,982
Rent (see Note 27)	**122,974,608**	106,907,950	65,846,124
Depreciation and amortization (see Notes 11, 12 and 20)	**113,699,389**	101,522,369	66,943,776
Advertising	**54,445,317**	86,054,909	53,500,578
Supplies and maintenance	**49,577,494**	41,212,235	30,340,899
Utilities	**39,157,883**	39,101,467	24,828,452
Security services	**31,802,773**	23,660,394	11,075,933
Repairs and maintenance	**31,377,152**	22,031,820	16,084,053
Taxes and licenses	**29,188,913**	106,709,144	30,250,242
Travel and transportation	**24,259,108**	34,863,630	24,802,366
Communication	**21,358,928**	12,344,058	17,148,386
Insurance	**15,978,008**	14,390,334	10,561,476
Professional fees	**14,142,612**	36,561,512	14,719,591
EAR	**8,727,771**	9,516,353	8,655,315
Others	**41,159,128**	60,276,527	53,990,001
	₱1,060,671,797	₱1,120,760,076	₱791,070,174

19. **Personnel Costs**

Personnel costs charged to operations are as follows:

	2015	2014	2013
Salaries, wages and bonuses	**₱1,570,737,881**	₱1,453,193,177	₱1,123,412,780
Retirement benefit expense (see Note 22)	**47,899,539**	36,143,485	36,786,875
Other employee benefits	**168,153,287**	136,443,513	232,167,580
	₱1,786,790,707	₱1,625,780,175	₱1,392,367,235

Personnel expenses were distributed as follows:

	2015	2014	2013
Cost of goods sold (see Note 16)	**₱214,129,486**	₱180,237,387	₱86,919,485
Selling and distribution (see Note 17)	**1,109,838,508**	1,019,935,414	943,124,768
General and administrative (see Note 18)	**462,822,713**	425,607,374	362,322,982
	₱1,786,790,707	₱1,625,780,175	₱1,392,367,235

20. **Depreciation and Amortization Expense**

	2015	2014	2013
Property and equipment (see Note 11)	**₱1,495,790,061**	₱1,037,570,581	₱631,667,635
Franchise fee (see Note 12)	**1,807,093**	1,733,816	1,667,010
Software cost (see Note 12)	**904,141**	–	341,194
	₱1,498,501,295	₱1,039,304,397	₱633,675,839

Depreciation and amortization were distributed as follows:

	2015	2014	2013
Cost of goods sold (see Note 16)	**₱25,018,865**	₱19,889,501	₱12,856,742
Selling and distribution (see Note 17)	**1,359,783,041**	917,892,527	553,875,321
General and administrative (see Note 18)	**113,699,389**	101,522,369	66,942,776
	₱1,498,501,295	₱1,039,304,397	₱633,674,839

21. **Related Party Disclosures**

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

The Group, transacts with the following related parties:

a. Rustan Commercial Corporation (RCC) and Rustan Marketing Corporation (RMK) are controlled by certain key management personnel of the Group.

b. SCRI and SPI are joint venture and associate, respectively, of the Group.

c. Philippine Family Mart CVS, Inc. (PFM) is a subsidiary of SSRI.

The Group, in the normal course of business, entered into the following transactions with related parties:

a. Lease of the Group's store outlet spaces from RCC (see Notes 16, 17 and 27). Related rent expense amounted to ₱102.90 million, ₱131.30 million and ₱125.50 million for the years ended December 31, 2015, 2014 and 2013, respectively;

b. The Group reimburses related parties for its expenses paid by the related parties in behalf of the Group;

c. Sales through the use of related parties' gift certificates from RCC. Total value of the related parties' gift certificates used amounted to ₱13.50 million, ₱10.30 million and ₱5.20 million in 2015, 2014 and 2013, respectively;

d. Short-term noninterest-bearing cash advances to/from RCC, RMK, PFM, SCRI and SPI; and

e. Others include advances from stockholders which are noninterest-bearing and have no fixed repayment dates but are due and demandable any time.

f. Compensation of the Company's key management personnel are as follows (in millions):

	2015	2014	2013
Short-term employee benefits	**₱37**	₱36	₱35
Post-employment benefits	**5**	5	4
	₱42	₱41	₱39

As of December 31, 2015 and 2014 transactions with related parties are as follows:

			Outstanding balances			
Related Parties	Year	Transactions for the period	Receivables from related parties (see Note 6)	Payable to related parties (see Note 13)	Amounts owed by related parties	Amounts owed to related parties
Affiliates						
RCC	**2015**	**₱39,057,728**	**₱81,234,863**	**₱–**	**₱2,165,406**	**₱–**
	2014	₱39,679,219	₱41,625,999	₱3,493,757	₱1,050,116	₱–
RMK	**2015**	**4,154,707**	**5,859,980**	**1,590,289**	**1,045**	**477,105**
	2014	10,809,463	2,794,036	3,746,379	20,436	24,220
Joint ventures						
PFM	**2015**	**1,495,754**	**7,868,002**	**–**	**4,393,186**	**–**
	2014	10,808,962	6,422,911	–	4,386,552	–
SCRI	**2015**	**30,865,780**	**9,631,976**	**–**	**23,125,000**	**–**
	2014	3,400,878	3,450,939	–	–	–
Associate						
SPI	**2015**	**271,018**	**228,840**	**–**	**1,488,155**	**26,990**
	2014	504,967	504,966	–	1,484,654	–
	2015	**₱75,844,987**	**₱104,823,661**	**₱1,590,289**	**₱31,172,792**	**₱504,095**
	2014	₱65,203,489	₱54,798,851	₱7,240,136	₱6,941,758	₱24,220

The related party balances as of December 31, 2015 and 2014 are due and demandable, non-interest bearing, unsecured and with no impairment.

22. **Retirement Benefit Plan**

Entities in the Group have a funded, noncontributory defined benefit retirement plan which covers all of its regular employees. The benefits are based on years of service and compensation on the last year of employment. Normal retirement benefits are equal to the employee's retirement pay as defined in Republic Act (RA) No. 7641 multiplied by the years of service. Normal retirement date is the attainment of age sixty (60) and completion of at least five (5) years of service.

Retirement benefit expense recognized in the consolidated statements of comprehensive income is as follows:

	2015	2014	2013
Current service cost	**₱33,541,229**	₱23,369,802	₱25,553,705
Net interest cost	**14,358,310**	12,773,683	11,233,170
Retirement benefit expense	**₱47,899,539**	₱36,143,485	₱36,786,875

As at December 31, 2015 and 2014, the amounts recognized in the consolidated balance sheets as retirement benefit obligation are as follows:

	2015	2014
Present value of obligations	**₱379,381,032**	₱355,111,516
Fair value of plan assets	**(48,818,200)**	(48,925,696)
Retirement benefit obligation	**₱330,562,832**	₱306,185,820

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

	2015	2014
Opening present value of obligation	**₱355,111,516**	₱276,404,872
Interest cost	**16,657,818**	15,546,837
Current service cost	**33,541,229**	23,369,802
Benefits paid	**(6,040,728)**	(11,219,820)
Benefits paid directly by the Group	**(2,054,022)**	(2,599,131)
Actuarial losses (gains) arising from:		
Deviations of experience from assumptions	**(1,216,263)**	21,228,709
Changes in financial assumptions	**(20,140,556)**	42,892,983
Changes in demographic assumptions	**3,522,038**	(10,512,736)
Closing present value of obligation	**₱379,381,032**	₱355,111,516

Changes in fair value of plan assets are as follows:

	2015	2014
Opening fair value of plan assets	**₱48,925,696**	₱50,959,141
Contributions	**4,500,000**	7,930,640
Interest income	**2,299,508**	2,773,154
Benefits paid	**(6,040,728)**	(11,219,820)
Return on plan assets, excluding amounts included in interest income	**(866,276)**	(1,517,419)
Closing fair value of plan assets	**₱48,818,200**	₱48,925,696

Plan assets are invested mostly in time deposits. The Group expects to contribute ₱4.00 million to the retirement plan in 2016.

The principal actuarial assumptions used as of December 31, 2015 and 2014 in determining retirement obligations for the Group's retirement plan are as follows:

	2015	2014
Discount rate	**4.6% - 5.1%**	4.5% - 4.7%
Salary increase rate	**3.0%**	3.0%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension obligations as of December 31, 2015 and 2014, assuming all other assumptions were held constant:

		Effect on Present Value of Defined Benefit Obligation	
	Increase/(Decrease)	**2015**	2014
Discount rate	+1%	**(₱45,162,544)**	(₱39,338,394)
	-1%	**56,830,487**	61,490,607
Future salary increase rate	+1%	**57,409,327**	61,898,369
	-1%	**(46,371,971)**	(40,417,188)

The average duration of the defined benefit obligation at the end of the reporting date is 25 years. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2015 and 2014:

	2015	2014
1 year or less	**₱51,110,786**	₱46,436,426
More than 1 year to 5 years	**50,325,172**	43,716,426
More than 5 years	**2,027,596,226**	2,288,142,885

23. Income Taxes

A reconciliation of income tax expense applicable to income before income tax at the statutory income tax rate to provision for income tax at the Group's effective income tax rates for the years ended December 31, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Provision for income tax at statutory tax rate of 30%	**₱388,717,855**	₱449,000,663	₱270,448,745
Additions to (reductions from) income tax resulting from:			
Share in net earnings of an associate and joint ventures	**59,547,065**	36,206,810	794,111
Expiration of NOLCO	**18,953,055**	11,209,013	7,866,643
Movement in unrecognized deferred tax assets	**8,954,498**	3,174,924	2,095,118

(Forward)

	2015	2014	2013
Derecognized deferred tax assets on NOLCO	**₱2,201,139**	₱–	₱7,388,754
Nondeductible expenses	**488,569**	1,126,663	317,940
Nondeductible interest expense	**322,370**	502,682	172,598
Interest income subjected to final tax	**(873,032)**	(1,290,236)	(1,123,600)
Others	**6,748,344**	(1,544,540)	(207,585)
	₱485,059,863	₱498,385,979	₱287,752,724

The components of the net deferred tax assets of the Group are as follows:

	2015	2014
Deferred tax assets:		
NOLCO	**₱120,586,086**	₱132,965,657
Retirement benefit obligation	**62,341,754**	50,440,824
Accrued rent	**17,945,561**	22,112,945
MCIT	**14,062,857**	9,699,110
Deferred revenue	**6,330,904**	7,230,006
Unrealized foreign exchange losses	**1,307,510**	2,161,724
Unamortized past service cost	**130,048**	130,048
Others	**2,851,257**	1,937,365
	225,555,977	226,677,679
Deferred tax liabilities:		
Carrying value of capitalized rent expense	**(11,530,373)**	(10,794,678)
Unamortized prepayments	**(18,833)**	(1,247,127)
Unrealized foreign exchange gains	**(2,514,963)**	(1,138,877)
Others	**(5,111)**	–
	(14,069,280)	(13,180,682)
	211,486,697	213,496,997
Deferred tax asset related to retirement benefit obligation recognized under other comprehensive loss	**36,139,602**	41,230,153
Net deferred tax assets	**₱247,626,299**	₱254,727,150

The components of the net deferred tax liabilities of the Group are as follows:

	2015	2014
Deferred tax assets:		
Accrued rent	**₱–**	₱1,509,630
Unrealized foreign exchange losses	**–**	157,232
	–	1,666,862
Deferred tax liability:		
Unrealized foreign exchange gains	**–**	(1,903,346)
Net deferred tax liability	**₱–**	(₱236,484)

As of December 31, 2015, the Group has NOLCO that can be claimed as deduction from future taxable income as follows:

Year incurred	Year of availment	Amount	Expired	Applied	Balance
2012	2013 - 2015	₱63,396,324	₱63,176,850	₱219,474	₱–
2013	2014 – 2016	218,896,419	–	588,020	218,308,399
2014	2015 – 2017	385,892,521	–	63,462,066	322,430,455
2015	2016 - 2018	109,684,430	–	–	109,684,430
		₱777,869,694	₱63,176,850	₱64,269,560	₱650,423,284

As of December 31, 2015, the MCIT that can be claimed as tax credits follows:

Year incurred	Year of availment	Amount	Expired	Applied	Balance
2012	2013 - 2015	₱692,610	₱692,610	₱–	₱–
2013	2014 - 2016	2,255,507	–	–	2,255,507
2014	2015 - 2017	9,665,724	–	–	9,665,724
2015	2016 - 2018	7,464,522	–	–	7,464,522
		₱20,078,363	₱692,610	₱–	₱19,385,753

The Group has recognized deferred tax assets on certain subsidiaries only to the extent of their expected future taxable profit and deferred tax liabilities since management believes that it will not be able to derive the benefits of the deferred tax assets on certain NOLCO and other deductible temporary differences. The temporary differences for which deferred tax assets have not been recognized pertain to the following:

	2015	2014
NOLCO	**₱248,469,665**	₱226,013,303
MCIT	**4,630,286**	2,914,731
Retirement benefits	**2,291,647**	615,897
Unrealized foreign exchange loss	**–**	2,303

A portion of unrecognized NOLCO amounting to ₱94.54 million pertains to certain stock issuance costs charged against APIC in connection with the Company's initial public offering of its common shares in November 2014 (see Note 1).

24. Basic/Diluted Earnings Per Share

The basic/dilutive earnings per share were computed as follows:

	2015	2014	2013
Net income	**₱810,666,321**	₱998,282,897	₱613,743,093
Divided by weighted average number of common shares	**3,312,864,430**	2,399,779,822	2,073,412,900
	₱0.24	₱0.42	₱0.30

There were no potential dilutive common shares for the years ended December 31, 2015, 2014 and 2013.

25. **Risk Management Objectives and Policies**

The principal financial instruments of the Group are cash and cash equivalents and short-term and long-term loans. The main purpose of these financial instruments is to anticipate future fund requirements of the Group. The Group has various other financial assets and liabilities such as trade and other receivables, trade and other payables, short-term loan payable and long-term debt, amounts owed to/by related parties, tenants' deposits and security deposits and construction bonds which arise directly from its operations.

The main risks arising from the financial instruments of the Group are credit risk, foreign currency risk and liquidity risk. The Group's management reviews and approves policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments. The magnitudes of these risks that have arisen over the year are discussed below.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognized, creditworthy third parties, mostly with credit card companies. Trade receivables from third parties are monitored on an on-going basis with the result that the exposure of the Group to bad debts is not significant. There is no allowance for impairment of receivables since the Group expects to fully realize its receivables from its debtors. With respect to credit risk from other financial assets of the Group, which is mainly comprised of cash in banks, short-term investments, amounts owed by related parties, trade and other receivables and security deposits and construction bonds, the exposure of the Group to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

There is no significant concentration of credit risk in the Group.

The aging analyses of financial assets that are past due but not impaired are as follows:

December 31, 2015

		Neither past	Past due but not impaired				
	Total	due nor impaired	<30 days	30 - 60 days	60 - 90 days	> 90 days	Impaired
Cash in banks and cash equivalents	**₱1,202,769,931**	₱1,202,769,931	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	**220,936,098**	71,110,356	138,739,956	4,722,207	2,053,069	4,310,510	–
Nontrade receivables	**151,706,373**	29,746,601	63,139,878	2,799,782	9,016,204	47,003,908	–
Receivables from related parties	**104,823,661**	4,656,357	21,578,233	414,805	1,106,232	77,068,034	–
Advances to officers and employees	**112,893,788**	111,460,516	107,030	156,715	783,288	386,239	–
Other receivables	**4,272,911**	4,272,911	–	–	–	–	–
Amounts owed by related parties	**31,172,792**	25,302,086	–	1,215,843	885,584	3,769,279	–
Current portion of security deposits[1]	**5,428,931**	5,428,931	–	–	–	–	–
Security deposits and construction bonds	**1,003,310,781**	359,780,317	–	–	–	643,530,464	–
Total	**₱2,837,315,266**	**₱1,814,528,006**	**₱223,565,097**	**₱9,309,352**	**₱13,844,377**	**₱776,068,434**	**₱–**

1 Presented under "Prepayments and other current assets"

December 31, 2014

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30 - 60 days	60 - 90 days	> 90 days	Impaired
Cash in banks and cash equivalents	₱2,451,723,805	₱2,451,723,805	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	244,052,902	231,204,212	5,060,711	3,727,175	2,613,184	1,447,620	–
Nontrade receivables	182,755,203	99,594,691	29,462,458	10,395,954	4,056,416	39,245,684	–
Receivables from related parties	54,798,851	54,798,851	–	–	–	–	–
Advances to officers and employees	97,062,879	95,503,410	1,559,469	–	–	–	–
Other receivables	6,007,112	6,007,112	–	–	–	–	–
Amounts owed by related parties	6,941,758	6,941,758	–	–	–	–	–
Current portion of security deposits[1]	10,185,026	10,185,026	–	–	–	–	–
Security deposits and construction bonds	806,968,668	806,968,668	–	–	–	–	–
Total	₱3,860,496,204	₱3,762,927,533	₱36,082,638	₱14,123,129	₱6,669,600	₱40,693,304	₱–

1 Presented under "Prepayments and other current assets"

The credit quality per class of financial assets that are neither past due nor impaired are as follows:

December 31, 2015

	Neither past due nor impaired High grade	Standard grade	Substandard grade	Total
Cash in banks and cash equivalents	**₱1,202,769,931**	**₱–**	**₱–**	**₱1,202,769,931**
Trade and other receivables:				
Trade receivables	**220,936,098**	**–**	**–**	**220,936,098**
Nontrade receivables	**151,706,373**	**–**	**–**	**151,706,373**
Receivables from related parties	**104,823,661**	**–**	**–**	**104,823,661**
Advances to officers and employees	**112,893,788**	**–**	**–**	**112,893,788**
Other receivables	**4,272,911**	**–**	**–**	**4,272,911**
Amounts owed by related parties	**31,172,792**	**–**	**–**	**31,172,792**
Current portion of security deposits[1]	**5,428,931**	**–**	**–**	**5,428,931**
Security deposits and construction bonds	**1,003,310,781**	**–**	**–**	**1,003,310,781**
Total	**₱2,837,315,266**	**₱–**	**₱–**	**₱2,837,315,266**

1 Presented under "Prepayments and other current assets"

December 31, 2014

	Neither past due nor impaired High grade	Standard grade	Substandard grade	Total
Cash in banks and cash equivalents	₱2,451,723,805	₱–	₱–	₱2,451,723,805
Trade and other receivables:				
Trade receivables	231,204,212	–	–	231,204,212
Nontrade receivables	99,594,691	–	–	99,594,691
Receivables from related parties	54,798,851	–	–	54,798,851
Advances to officers and employees	95,503,410	–	–	95,503,410
Other receivables	6,007,112	–	–	6,007,112
Amounts owed by related parties	6,941,758	–	–	6,941,758
Current portion of security deposits[1]	10,185,026	–	–	10,185,026
Security deposits and construction bonds	806,968,668	–	–	806,968,668
Total	₱3,762,927,533	₱–	₱–	₱3,762,927,533

1 Presented under "Prepayments and other current assets"

High - These pertain to receivables from counterparties with good favorable standing. The counterparties have remote likelihood of default and have consistently exhibited good paying habits.

Standard - These pertain to financial assets with counterparties who settle their obligation with tolerable delays.

Substandard - These accounts show probability of being impaired based on historical experience.

Foreign currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group takes an exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows. This arises from foreign currency denominated cash in banks, trade and other payables and short term loans payable as of December 31, 2015 and 2014. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks.

The Group's foreign currency-denominated financial assets and liabilities (translated in Philippine Peso) are as follows:

December 31, 2015

	USD[1]	**EUR[2]**	**HKD[3]**	**Total Peso Equivalent**
Financial assets				
Cash in banks and cash equivalents	**\$2,570,046**	**€48,010**	**\$36,776**	**₱123,654,368**
Financial liabilities				
Trade and other payables	**(420,402)**	**(6,623,084)**	**–**	**(362,469,484)**
Net financial assets (liabilities)	**\$2,149,644**	**(€6,575,074)**	**\$36,776**	**(₱238,815,116)**

[1]\$1 = ₱47.06
[2]€1 = ₱51.74
[3]HK\$1 = ₱6.09

December 31, 2014

	USD[1]	EUR[2]	HKD[3]	Total Peso Equivalent
Financial assets				
Cash in banks and cash equivalents	\$956,706	€43,340	\$13,648	₱45,217,368
Financial liabilities				
Trade and other payables	(116,360)	(177,259)	–	(14,835,484)
Net financial assets (liabilities)	\$840,346	(€133,919)	\$13,648	₱30,381,884

[1]\$1 = ₱44.72
[2]€1 = ₱54.34
[3]HK\$1 = ₱5.75

The following table demonstrates the sensitivity to a reasonably possible change in the USD, Euro and HK Dollar exchange rates, with all other variables held constant, of the Group's income before income tax.

	2015		2014	
	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax
US Dollar	**+5%**	**₱5,058,112**	+5%	₱1,879,014
	-5%	**(5,058,112)**	-5%	(1,879,014)
Euro	**+5%**	**(17,010,076)**	+5%	(363,858)
	-5%	**17,010,076**	-5%	363,858
HK Dollar	**+5%**	**11,198**	+5%	3,924
	-5%	**(11,198)**	-5%	(3,924)

There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Liquidity risk
Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial institutions. The objective of the Group is to maintain a balance between continuity of funding and flexibility. The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical figures and experiences and forecasts of its collections and disbursements.

Also, the Group only places funds in money market instruments which exceed the Group's requirements. Placements are strictly made based on cash planning assumptions and cover only a short period of time.

The table below summarizes the maturity analysis of the Group's financial liabilities based on contractual undiscounted payments:

December 31, 2015

		Contractual undiscounted payments			
	Total	**On demand**	**Within 1 year**	**>1 to 5 years**	**> 5 years**
Financial Liabilities					
Trade payables and other payables*	**₱2,323,545,625**	**₱1,980,239,049**	**₱343,306,576**	**₱–**	**₱–**
Amounts owed to related parties	**504,085**	**165,555**	**338,530**	**–**	**–**
Short-term loans payable**	**5,132,400,833**	**7,400,833**	**5,125,000,000**	**–**	**–**
Long-term debt**	**3,230,673,228**	**12,223,799**	**590,626,565**	**2,627,822,864**	**–**
Tenant deposits	**21,267,898**	**–**	**–**	**21,267,898**	**–**
Total Undiscounted Financial Liabilities	**₱10,708,391,669**	**₱2,000,029,236**	**₱6,059,271,671**	**₱2,649,090,762**	**₱–**

* *Excluding statutory liabilities*
** *Including interest payable*

December 31, 2014

		Contractual undiscounted payments			
	Total	On demand	Within 1 year	>1 to 5 years	> 5 years
Financial Liabilities					
Trade payables and other payables*	₱3,168,309,770	₱2,688,609,094	₱479,700,676	₱–	₱–
Amounts owed to related parties	24,220	24,220	–	–	–
Short-term loans payable**	3,600,328,857	3,693,367	3,596,635,490	–	–
Long-term debt**	2,138,742,188	11,524,113	419,317,972	1,707,900,103	–
Total Undiscounted Financial Liabilities	₱8,907,405,035	₱2,703,850,794	₱4,495,654,138	₱1,707,900,103	₱–

* *Excluding statutory liabilities*
** *Including interest payable*

The Company's financial assets amounting to ₱2,939.51 million and ₱3,944.39 million can be used to meet the Group's liquidity needs.

Capital Management
The primary objective of the Group is to maintain a strong credit rating and healthy capital ratios to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it based on changes in economic and business conditions. To maintain or adjust the capital structure, the Group may consider paying dividends to stockholders, returning capital to stockholders, or issuing new shares of stocks. No major changes were made on the objectives, policies, or processes during theyears ended December 31, 2014 and 2013. Capital includes equity as shown in the consolidated balance sheet.

As disclosed in Note 15, the Group is required by their creditors to maintain a debt-to-equity ratio and debt-service coverage ratio. The Group, thus, monitors capital on the basis of debt-to-equity ratio which is calculated as total liabilities divided by total equity. The Company includes within debt all interest-bearing short-term and long-term liabilities. These externally imposed capital requirements have been complied with as of December 31, 2014.

26. Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments:

	2015		2014	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets				
Loans and receivables				
Security deposits and construction bonds	**₱1,008,739,712**	**₱959,973,152**	₱817,153,694	₱785,727,709
Financial Liabilities				
Other financial liabilities				
Long-term debt	**₱2,885,908,076**	**₱3,021,591,397**	₱1,820,353,996	₱1,878,917,252

The following method and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade and other receivables, amounts owed by/to related parties, current portion of security deposits (presented under prepayments and other current assets), tenants' deposits, trade and other payables and short-term loans
The carrying values of these financial instruments approximate their fair values due to the short-term maturity, ranging from one to twelve months.

Security deposits and construction bonds
The fair values of security deposits are based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 2.38% to 3.98% and 2.10% to 4.89% were used in calculating the fair value of the Group's refundable deposits as of December 31, 2015 and 2014, respectively.

Long-term debt
The fair value of long-term debt is based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 3.67% to 4.29% were used in calculating the fair value of the Group's long-term debt as of December 31, 2015.

Fair Value Hierarchy
The Group uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group's security deposits and construction bonds and long-term debt are classified as Level 3.

As at December 31, 2015 and 2014, the Group does not have financial instruments with fair values determined using inputs that are classified under Levels 1 and 3. For years ended December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

27. Contracts and Commitments

Group as Lessee
The Group leases its office space and certain store outlets used in its operations for lease terms ranging from two to three years. Rental payments on certain outlets are based on a fixed basic monthly rate plus a certain percentage of gross sales, while other store outlets and office spaces are based on fixed monthly rates. Rentals charged to operations are as follows (see Notes 16, 17, and 18; in millions):

	2015	2014	2013
Fixed rent	**₱1,875**	₱1,479	₱1,409
Contingent rent	**248**	367	101
	₱2,123	₱1,846	₱1,510

Contingent rent of some stores is based on percentage ranging from 3% to 6% of total merchandise sales in 2015, 2014 and 2013.

Future minimum rentals payable under these leases are as follows as of December 31, 2015 and 2014 (in millions):

	2015	2014
Within one year	**₱956**	₱780
After one year but not more than five years	**1,535**	879
Later than five years	**305**	330

The Group has paid security deposits and construction bonds for the store outlets and office spaces with carrying amounts of ₱1,008.74 million and ₱817.15 million (including current portion in "Prepayments and other current assets") as of December 31, 2015 and 2014, respectively, which are refundable upon complete turnover of the leased area. The present value of these deposits was computed using the discount rates prevailing at the inception date of the lease, ranging from 1.24% to 7.15%. Interest income recognized from these security deposits amounted to ₱6.52 million, ₱8.51 million and ₱6.17 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Group as lessor
In 2014, the Group leased out portions of the store spaces and parking space in Central Square for a lease term ranging from one to three years. Rental income on these spaces is based on a fixed

basic monthly rate plus a certain percentage of gross sales. Deposits received from tenants amounted to ₱21.27 million pertaining to deposits on the leased space.
In 2015, the Group subleased its leased space in NAIA Terminal 3 for a lease term of one year or less. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales.

Future minimum rental receivables under these leases are as follows as of December 31 follow (in millions):

	2015	2014
Within one year	**₱25**	₱13
After one year but not more than five years	**18**	4

28. Segment Reporting

The Group has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Group meets the qualifications of an operating segment as defined by PFRS 8.

The Company's store operations is its only income generating activity and such is the measure used by the chief operating decision maker in allocating resources.

The Company derives its primary income from the sales of merchandise to external customers and is the only basis for segment reporting purposes. Sales are reported on an entity-wide basis. These information are measured using the same accounting policies and estimates as the Group's consolidated financial statements.

The table below sets out revenue from external customers by category for the years ended December 31, 2015, 2014 and 2013 (amounts in millions):

	2015	2014	2013
Net Sales			
Luxury and Bridge	**₱3,556**	₱3,334	₱2,907
Casual	**2,695**	2,443	2,306
Fast Fashion	**6,232**	5,433	4,213
Footwear, Accessories and Luggage	**2,533**	2,134	1,746
Other	**2,405**	1,869	1,616
	₱17,421	₱15,213	₱12,788

The Group's customers are located in the Philippines and Guam, with bulk of the revenues being contributed by local customers. Following shows the revenue contribution by geographical areas (amounts in millions).

	2015	2014	2013
Philippines	**₱17,308**	₱15,067	₱12,643
Guam	**113**	146	145
	₱17,421	₱15,213	₱12,788

29. **Equity**

a. Common Shares

The Company's authorized and issued capital stock as of December 31, 2015 and 2014 follows:

	Number of Shares	
	2015	2014
Authorized capital stock, ₱1 par value	**5,000,000,000**	5,000,000,000

	Number of Shares	
	2015	2014
Issued capital stock:		
Balance at beginning of year	**3,312,864,430**	2,000,000
Issued during the period	–	19,171,629
Balance before stock split	**3,312,864,430**	21,171,629
Effect of stock split	–	2,095,991,271
Balance after stock split	**3,312,864,430**	2,117,162,900
Issued during the period	–	1,195,701,530
Balance at end of year	**3,312,864,430**	3,312,864,430

	Capital Stock	
	2015	2014
Issued capital stock:		
Balance at beginning of year	**₱3,312,864,430**	₱200,000,000
Issued during the year	–	3,112,864,430
Balance at end of year	**₱3,312,864,430**	₱3,312,864,430

At the special meeting held on March 5, 2014, the BOD and stockholders approved the increase of authorized capital stock of the Company to ₱3,000,000,000 divided into 30,000,000 common shares at its par value of ₱100 per share. Of the increase in the authorized capital stock of ₱2,800,000,000, the amount of ₱700,000,000 representing 7,000,000 shares of stock, has been fully subscribed and the amount of ₱175,000,000 representing 1,750,000 shares of stock has been fully paid by way of cash to and in favor of the Company.

The SEC approved the Company's application for the increase in authorized capital stock on April 3, 2014.

On April 9, 2014, all the outstanding shares of stock of the Company were acquired by the principal stockholders of SSI in order to implement the restructuring of the Group (see Note 1).

Also, on April 10, 2014, the aforementioned principal stockholders of SSI furthermore subscribed to new shares out of the authorized but unissued capital of the Company amounting to ₱1,217,162,900 representing 12,171,629 shares of stock. All subscriptions were subsequently fully paid on April 15, 2014.

On June 18, 2014, the BOD and stockholders approved the increase of authorized capital stock of the Company to ₱5,000,000,000 divided into 5,000,000,000 common shares at its par value of ₱1 per share. Of the increase in the authorized capital stock of ₱2,000,000,000, the amount of ₱500,000,000 representing 500,000,000 common shares has been fully subscribed and paid by way of cash to and in favor of the Company.

On August 29, 2014, the Philippine SEC approved the application of the Company for a stock split. As a result, par value of the Company's common shares changed from ₱100 per share to ₱1 per share.

On November 7, 2014, the Company listed with the PSE its 695,701,530 common shares at an issue price of ₱7.50 per share. Total proceeds from the issuance of common shares amounted to ₱5,217.8 million. The Company incurred transaction costs incidental to the IPO amounting to ₱465.6 million which is charged against "Additional paid-in capital" in the consolidated balance sheet.

b. Appropriation of Retained Earnings
In 2015, the BOD approved the reversal of the 2014 appropriations and the appropriation of the following balances from unappropriated retained earnings.

	2015	2014
RMSI	**₱480,000,000**	₱300,000,000
ISCI	**200,000,000**	100,000,000
LCI	**220,000,000**	100,000,000
RSCI	**25,000,000**	10,000,000
	₱925,000,000	₱510,000,000

The amount of appropriations above will be used by the group to fund future expansion and renovations in store outlets and operations. The said expansions are expected to be completed within two years from the balance sheet date.

c. Stock Grants
On August 4, 2014, the Board and stockholders of SSI Group, Inc. approved a stock grant to reward and compensate the key executive officers for services rendered in 2014. As approved by the Board and stockholders of the Corporation, total number of shares to be issued through this stock grant is 3,889,131 shares. The total amount of the stock grant shall be given in 2 separate tranches: (i) the first tranche shall be given six months from award date and (ii) the second tranche shall be given one year from award date. The total number of vested shares to be issued through the grant as of December 31 is as follows:

	2015	2014
Balances at beginning of year	**1,944,565**	–
Vested grants	**1,944,566**	1,944,565
Balances at end of year	**3,889,131**	1,944,565

The fair value of the grant is based on the market price of the Company's shares on the grant date. Market price of the shares on this date is at ₱8.65 per share. Stock grants expense recorded as part of "Others - net" in the statements of comprehensive income amounted to ₱29.44 million and ₱4.21 million in 2015 and 2014, respectively.

Outstanding balance of stock grants presented in the balance sheets amounted to ₱33.64 million and ₱4.21 million as of December 31, 2015 and 2014, respectively.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
SSI Group, Inc.
6/F Midland Buendia Building
403 Senator Gil Puyat Avenue
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SSI Group, Inc. and its Subsidiaries as at December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, included in this Form 17-A and have issued our report thereon dated April 13, 2016. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

John T. Villa

John T. Villa
Partner
CPA Certificate No. 94065
SEC Accreditation No. 0783-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 901-617-005
BIR Accreditation No. 08-001998-76-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321708, January 4, 2016, Makati City

April 13, 2016

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2015

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Supplementary Schedules	
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties and Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
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G	Guarantees of Securities of Other Issuers
H	Capital Stock

EXHIBIT I

SSI GROUP, INC.
(Formerly Casual Clothing Specialists, Inc.)

MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES
DECEMBER 31, 2015

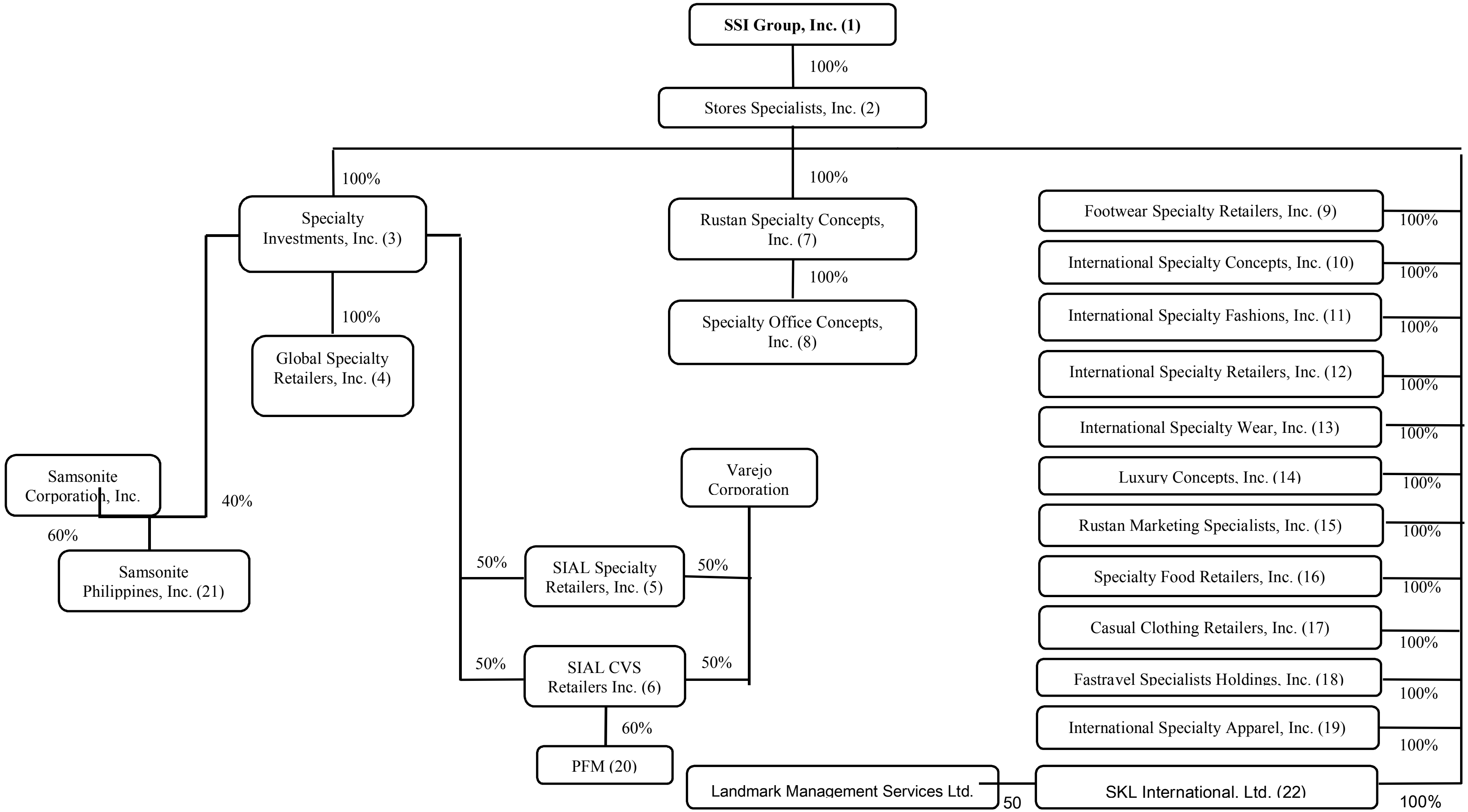

Exhibit II

SSI GROUP, INC.

(Formerly Casual Clothing Specialists, Inc.)

SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2015

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of 'Effective PFRSs'			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendment to PFRS 2: Definition of Vesting Condition	✓		
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2015**		**Adopted**	**Not Adopted**	**Not Applicable**
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segment's Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets	✓		
	Financial Instruments: Classification and Measurement of Financial Liabilities	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓*	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables			✓
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1 (Revised): Disclosure Initiative		✓*	
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 14	Segment Reporting			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS19: Defined Benefit Plans - Employee Contributions			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Revised)	Amendments to PAS 27 (Amended): Investment Entities			✓
	Amendments to PAS 27 (Revised): Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
PAS 27	Separate Financial Statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
(Amended)	Amendments to PAS 27 (Amended): Investment Entities			✓
	Amendments to PAS 27 (Amended): Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 41: Bearer Plants			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*	✓		
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

** The Company did not early adopt these standards, interpretations and amendments*

Exhibit III

SSI GROUP, INC.
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2015

Unappropriated Retained Earnings, beginning		₱840,979,508
Less: Non-actual/unrealized income net of tax		
Benefit from deferred tax		–
Unappropriated Retained Earnings, as adjusted, beginning		840,979,508
Net income during the period closed to Retained Earnings	49,794,843	
Less: Other realized gains related to accretion of income from security deposits	–	
Benefit from deferred tax recognized during the year	–	
Net income actually earned during the period		49,794,843
Retained earnings available for dividend declaration		₱890,774,351

Exhibit IV

SSI GROUP, INC.
(Formerly Casual Clothing Specialists, Inc.)

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratios	Formula	December 31, 2015	December 31, 2014
(i) Current Ratio	Current Assets/Current Liabilities	1.59	1.58
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.82	0.61
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.69	0.33
(iii) Asset to Equity Ratio	Total Assets/Total Equity	2.12	2.04
(iv) Interest Cover Ratio	EBITDA/Interest Expense	10.37	10.54
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	53.52%	56.09%
Net Profit Margin	Net Income/Revenues	4.65%	6.56%
EBITDA Margin	EBITDA/Revenues	18.76%	19.52%
Return on Assets	Net Income/Total Assets	3.93%	5.53%
Return on Equity	Net Income/Total Equity	8.34%	11.25%

*EBITDA = Operating income before working capital changes

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2015

	Name of Issuing entity and association of each issue	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash and cash equivalents	N/A	₱1,304,962,341	₱1,304,962,341	₱3,379,270
Trade and other receivables				
Trade receivables	N/A	220,936,098	220,936,098	–
Nontrade receivables	N/A	151,706,373	151,706,373	–
Receivables from related parties	N/A	104,823,661	104,823,661	–
Advances to officers and employees	N/A	112,893,788	112,893,788	–
Other receivables	N/A	4,272,911	4,272,911	–
Amounts owed by related parties	N/A	31,172,792	31,172,792	–
Current portion of security Deposits (presented under "Prepayments and other current assets")	N/A	5,428,931	5,428,931	–
Security deposits and construction bonds	N/A	1,003,310,781	1,003,310,781	–
		₱2,939,507,676	₱2,939,507,676	₱3,379,270

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2015

Amounts Receivable from Officers, Employees and Related Parties under Trade and other receivables *(in thousands)*

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Non-Current	Balance at the end of the period
RCC	41,626	₱48,863	(₱9,254)	₱81,235	₱–	₱81,235
PFM	6,423	1,445	–	7,868	–	7,868
RMK	2,794	4,012	(946)	5,860	–	5,860
SCRI	3,451	36,204	(30,023)	9,632	–	9,632
SPI	505	248	(524)	229	–	229
Advances to officers and employees	97,063	169,891	(154,060)	112,894	–	112,894
	₱151,862	₱260,663	(₱194,807)	₱217,718	₱–	₱217,718

Amounts owed by Related Parties *(in thousands)*

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Non-Current	Balance at the end of the period
RMK	₱20	₱–	(₱19)	₱1	₱–	₱1
RCC	1,050	1,578	(463)	2,165	–	2,165
PFM	4,387	7	–	4,394	–	4,394
SCRI	–	23,125	–	23,125	–	23,125
SPI	1,485	4	–	1,489	–	1,489
	₱6,942	₱24,714	(₱482)	₱31,174	₱–	₱31,174

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2015

Receivables from related parties which are eliminated during the consolidation (under Trade and other receivables)

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Noncurrent	Balance at end of period
SGI	₱45,830	₱185,541,706	(₱597,389)	₱–	₱184,990,147	₱–	₱184,990,147
SSI	17,538,069	10,821,242	(9,053,935)	–	19,305,376	–	19,305,376
RMSI	2,803,692	153,908,820	(1,411,611)	–	155,300,901	–	155,300,901
ISCI	286,241,912	3,426,254	(174,404,681)	–	115,263,485	–	115,263,485
RSCI	26,743,379	3,587,001	(16,086,586)	–	14,243,794	–	14,243,794
SOCI	143,464,869	500,000	(5,593,991)	–	138,370,878	–	138,370,878
SII	6,630,046	758,046	(2,500,000)	–	4,888,092	–	4,888,092
LCI	6,586,690	19,026,526	(18,179,984)	–	7,433,232	–	7,433,232
ISFI	–	924		–	924	–	924
FSRI	18,686,900	4,839,945	(963,631)	–	22,563,214	–	22,563,214
GSRI	14,681,570	108,939	–	–	14,790,509	–	14,790,509
SFRI	504,140,853	129,226,903	(3,719,816)	–	629,647,940	–	629,647,940
ISRI	200,207	329,368	(195,520)	–	334,055	–	334,055
ISWI	204,799	461,137	(200,112)	–	465,824	–	465,824
ISAI	206,911	465,823	(194,859)	–	477,875	–	477,875
FSHI	987	–	(987)	–	–	–	–
CCRI	57,359,615	86,174,313	(18,272,353)	–	125,261,575	–	125,261,575
	₱1,085,536,329	₱599,176,947	(₱251,375,455)	₱–	₱1,433,337,821	₱–	₱1,433,337,821

Amounts owed by related parties which are eliminated during the consolidation

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Noncurrent	Balance at end of period
CCSI	₱548,311,246	₱318,690,793	(₱758,063,841)	₱–	₱108,938,198	₱–	₱108,938,198
SSI	1,485,935	411,172,641	(230,079,146)	–	182,579,430	–	182,579,430
RMSI	10,961	28,063,979	(6,381)	–	28,068,559	–	28,068,559
ISCI	130,425,307	217,164,018	(15,658,880)	–	331,930,445	–	331,930,445
RSCI	1,014,543	6,111,344	(4,715)	–	7,121,172	–	7,121,172
SOCI	4,785	–	(4,785)	–	–	–	–
ISFI	381,479,906	74,586,771	(394,041,594)	–	62,025,083	–	62,025,083
FSRI	25,200,320	26,116,066	(33,683,311)	–	17,633,075	–	17,633,075
GSRI	142,366,561	5,267,373	(4,409,802)	–	143,224,132	–	143,224,132
SFRI	576,489	3,818,960	–	–	4,395,449	–	4,395,449
ISRI	106,521,807	99,857,462	(162,761,525)	–	43,617,744	–	43,617,744
ISWI	147,297,453	120,457,404	(240,605,117)	–	27,149,740	–	27,149,740
ISAI	26,292,327	91,323,457	(30,163,502)	–	87,452,282	–	87,452,282
LCI	–	7,447,636	(5,167,766)	–	2,279,870	–	2,279,870
CCRI	601,170,233	854,605,145	(1,455,589,489)	–	185,889	–	185,889
	₱2,112,157,873	₱2,264,683,049	(₱3,330,239,854)	₱–	₱1,046,601,068	₱–	₱1,046,601,068

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS

AS AT DECEMBER 31, 2015

Intangible Assets - Other Assets						
Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Not Applicable						
The Group does not have intangible assets in its consolidated statements of financial position.						

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT

AS AT DECEMBER 31, 2015

Long-term Debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
Long-term loan	₱2,900,000,000	₱473,333,333	₱2,426,666,667
Less: Transaction costs	(14,091,924)	(5,725,652)	(8,366,272)
	₱2,885,908,076	₱ 467,607,681	₱2,418,300,395
			Twenty-four (24) consecutive equal quarterly principal installments commencing on August 20, 2014 and will mature on February 20, 2020. The loan carries an interest of a fixed base rate plus an interest spread of 150 basis points per annum or a 5.50% per annum floor rate.

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

AS AT DECEMBER 31, 2015

Indebtedness to related parties (Long-term loans from related companies)		
Name of related party	Balance at beginning of period	Balance at end of period
	Not Applicable	

The Group does not have long-term loans from related companies in its consolidated statements of financial position and the indebtedness to related parties does not exceed 5% of the total current liabilities.

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS

AS AT DECEMBER 31, 2015

Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee

Not Applicable

The Group does not have any guarantees of securities of other issuing entities by the issuer for which the consolidated financial statement is filed.

SSI GROUP, INC. (Formerly Casual Clothing Specialists, Inc.) AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
AS AT DECEMBER 31, 2015

	Capital Stock					
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by directors, officers and employees	Others
Common shares	5,000,000,000	3,312,864,430	–	–	586,162,622	–

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year **2015**

2. Exact Name of Registrant as Specified in its Charter: **SSI Group, Inc.**

3. **6th Floor Midland Buendia Building, 403 Senator Gil Puyat Avenue, Makati City**
   Address of Principal Office

   Postal Code: **1200**

4. SEC Identification Number: **CS200705607**

5. (SEC Use Only)
   Industry Classification Code

6. BIR Tax Identification Number: **006-710-876**

7. Issuer's Telephone number, including area code: **(632) 896-95-91**

8. Former name or former address, if changed from the last report: **N/A**

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DISCLAIMER: As prescribed under SEC Memorandum Circular No. 3, series of 2015, the full and complete Annual Corporate Governance Report ("ACGR") shall be submitted by the Company to the Philippine Stock Exchange ("PSE") and the Securities and Exchange Commission ("SEC") and shall also be made available on the Company's website on or before the prescribed deadline which is on May 30, 2016. Nonetheless, for purposes of complying with the SEC Advisory requiring all publicly-listed companies to submit their 2015 ACGR as an attachment to the Annual Report, the Company submits herewith the ACGR with information available to the Company as of the date hereof.

BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	Nine (9)

Actual number of Directors for the year	Nine (9)

(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)[1]	Elected when (Annual /Special Meeting)	No. of years served as director
Zenaida R. Tantoco	ED	N/A	Joseph C. Romero	2007	June 2015	Annual Meeting	8
Anthony T. Huang	ED	N/A	Joseph C. Romero	2007	June 2015	Annual Meeting	8
Ma. Teresa R. Tantoco	ED	N/A	Joseph C. Romero	2008	June 2015	Annual Meeting	7
Ma. Elena T. Valbuena	NED	N/A	Joseph C. Romero	2008	June 2015	Annual Meeting	7
Bienvenido V. Tantoco III	NED	N/A	Joseph C. Romero	2007	June 2015	Annual Meeting	8
Eduardo T. Lopez III	NED	N/A	Joseph C. Romero	2008	June 2015	Annual Meeting	7
Edgardo Luis Pedro T. Pineda, Jr.	NED	N/A	Joseph C. Romero	2014	June 2015	Annual Meeting	1
Jose Teodoro K. Limcaoco	ID	N/A	Joseph C. Romero (Not related)	2015	June 2015	Annual Meeting	0.5
Carlo L. Katigbak	ID	N/A	Joseph C. Romero (Not related)	2014	June 2015	Annual Meeting	1

(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

Per the Company's Manual on Corporate Governance (the "Manual") duly filed with the SEC, the Board of Directors (the "Board") is primarily responsible for the governance of the Corporation. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.

[1] Reckoned from the election immediately following January 2, 2012.

(c) How often does the Board review and approve the vision and mission?

As often as necessary taking into account competitive, governance and market conditions.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[2]

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Zenaida R. Tantoco	SSI Group Companies*	Executive, Chairman
	SIAL CVS Retailers, Inc.	Executive
	SIAL Specialty Retailers, Inc.	Executive
	SKL International, Ltd.	Non-Executive, Chairman
Anthony T. Huang	SSI Group Companies*	Executive
	SIAL CVS Retailers, Inc.	Executive
	SIAL Specialty Retailers, Inc.	Executive
	SKL International, Ltd.	Executive
	Landmark Management Services, Ltd.	Executive
Ma. Teresa R. Tantoco	SSI Group Companies*	Executive
Ma. Elena T. Valbuena	SSI Group Companies*	Non-Executive
Bienvenido V. Tantoco III	SSI Group Companies*	Non-Executive
Eduardo T. Lopez III	SSI Group Companies*	Non-Executive
Edgardo Luis Pedro T. Pineda, Jr.	Stores Specialists, Inc.	Non-Executive

*SSI Group Companies are defined as: Stores Specialists, Inc., Rustan Marketing Specialists, Inc., International Specialty Concepts, Inc., Rustan Specialty Concepts, Inc., Specialty Office Concepts, Inc., Specialty Investments, Inc., Luxury Concepts, Inc., International Specialty Fashions, Inc., Footwear Specialty Retailers, Inc., Global Specialty Retailers, Inc., Specialty Food Retailers, Inc., International Specialty Retailers, Inc., International Specialty Wear, Inc., Fastravel Specialists Holdings, Inc., International Specialty Apparel, Inc., Casual Clothing Retailers, Inc.

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Carlo L. Katigbak	ABS-CBN Corporation	Executive

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Bienvenido Tantoco, Sr. is the patriarch of the Tantoco Family, and together with his wife, the late Gliceria R. Tantoco, are the founders of the Rustan's Group. They have six children, Bienvenido R. Tantoco, Jr., Zenaida R. Tantoco, Ma. Carmencita T. Lopez, Ma. Elena T. Valbuena, Ma. Lourdes T. Pineda and Ma. Teresa R. Tantoco (collectively, the "Second Generation").

As set out below, the Board is comprised of several members of the Second Generation, as well as several

[2] The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

of their children:

Zenaida R. Tantoco, is the Chairman and Chief Executive Officer of the Company.
Anthony T. Huang, is the President of the Company and the son of Zenaida R. Tantoco.

Wellborn Trading and Investments, Inc. is beneficially owned by Zenaida R. Tantoco, Anthony T. Huang, Michael T. Huang and Catherine T. Huang as to 19.9%, 26.7%, 26.7% and 26.7% respectively.

Ma. Teresa R. Tantoco, is the Treasurer of the Company.
Birdseyeview, Inc. is wholly and beneficially owned by Ma. Teresa R. Tantoco. Ma. Teresa R. Tantoco directly and indirectly owns 467,736,931 common shares of the company equivalent to 14.12% of outstanding shares.

Ma. Elena T. Valbuena, is a Director of the Company.
Marjorisca Incorporated is beneficially owned by Ma. Elena T. Valbuena, Christopher James Tantoco and Jose Miguel Tantoco as to 40%, 30% and 30%, respectively.

Bienvenido V. Tantoco III, is a Director of the Company and the son of Bienvenido R. Tantoco, Jr.

Eduardo T. Lopez III, is a Director of the Company and the son of Ma. Carmencita T. Lopez.
Educar Holdings, Corp. is beneficially owned by seven members of the Lopez family, Eduardo S. Lopez, Jr. Ma. Carmencita T. Lopez, Eduardo T. Lopez III, Ma. Margarita L. De Jesus, Ma. Carmencita L. Tiangco, and Enrique Antonio T. Lopez, each of whom holds an equal shareholding interest of 14.3%.

Edgardo Luis Pedro T. Pineda, Jr, is a Director of the Company and the son of Ma. Lourdes T. Pineda.
Bordeaux Holdings, Inc. is wholly and beneficially owned by Ma. Lourdes T. Pineda.

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

Per the Company's Manual, other than directorships in the Company's subsidiaries and affiliates, the members of the Board shall limit directorships in other stock and non-stock corporations to no more than five (5).

(e) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Zenaida R. Tantoco	872,500	–	0.0263%
Anthony T. Huang	4,875,100	–	0.1472%
Ma. Teresa R. Tantoco	32,736,431	435,000,500 (Through Birdseyeview, Inc.)	14.1188%
Ma. Elena T. Valbuena	32,054,979	–	0.9676%
Bienvenido V. Tantoco III	100	856,100 (Through spouse)	0.0258%
Eduardo T. Lopez III	790,100	–	0.0238%
Edgardo Luis T. Pineda, Jr.	100	–	0.0000%
Jose Teodoro K. Limcaoco	10,000	–	0.0003%
Carlo L. Katigbak	305,001	–	0.0092%
TOTAL	**71,644,311**	**435,856,600**	**15.3191%**

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☐ No ☑

Per the Company's Manual, the role of the CEO is performed by the President. In the case of the Company, the Presidency is held by Anthony T. Huang, a different person from the Chairman and CEO, Zenaida R. Tantoco. Furthermore, dissenting and contrary independent views are encouraged during board meetings.

Identify the Chair and CEO:

Chairman of the Board	Zenaida R. Tantoco
CEO / President	Zenaida R. Tantoco (CEO) Anthony T. Huang (President)

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	Chairman	Chief Executive Officer / President
Role Accountabilities Deliverables	Per the Company's Manual, the duties and responsibilities of the Chair in relation to the Board may include, among others, the following: a) Ensure that the meetings of the Board are held in accordance with the By-laws or as the Chair may deem necessary; b) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the President, Management and the directors; and c) Maintain qualitative and timely lines of communication and information between the Board and Management.	Per the Company's By-Laws, the CEO/President shall exercise the following functions: a) To preside at the meetings of the stockholders; b) To initiate and develop corporate objectives and policies and formulate long range projects, plans and programs for the approval of the Board of Directors, including those for executive training, development and compensation; c) To supervise and manage the business affairs of the corporation upon the direction of the Board of Directors; d) To implement the administrative and operational policies of the corporation under his supervision and control; e) To appoint, remove, suspend, or discipline employees of the corporation, prescribe their duties, and determine their salaries; f) To oversee the preparation of the budgets and the statements of accounts of the corporation;

		g) To represent the corporation at all functions and proceedings; h) To execute on behalf of the corporation all contracts, agreements and other instruments affecting the interests of the corporation which require the approval of the Board of Directors; i) To make reports to the Board of Directors and stockholders; j) To sign certificates of stock; and k) To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?

Performance reviews are conducted annually to assess potential senior officers. An employee who has shown exceptional talent and/or potential to handle higher responsibility will be considered for promotion and developmental training. This aims to prepare qualified candidates to fulfill more significant duties and responsibilities in the future.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. Per the Company's Manual, the membership of the Board may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process. Furthermore, part of the Company's qualification for directors is a practical understanding of the Company's business as well as prior business experience.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Part of the qualifications for directors is business experience and an understanding of the Company. All of the Company's non-executive directors have extensive experience in the retail industry.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

Per the Company's By-Laws, the Board of Directors (including all executive and non-executive directors as well as independent directors) shall also have the following powers:

a) From time to time, to make and change rules and regulations not inconsistent with these by-laws for the management of the corporation's business and affairs;

b) To purchase, receive, take or otherwise acquire for and in the name of the corporation, any all properties, rights, or privileges, including securities and bonds of other corporations, for such consideration and upon such terms and conditions as the Board may deem proper or convenient;

c) To invest the funds of the corporation in other corporations or for purposes other than those for which the corporation was organized, subject to such stockholders' approval as may be required by law;

d) To incur such indebtedness as the Board may deem necessary, to issue evidence of indebtedness including without limitation, notes, deeds of trust, bonds, debentures, or securities, subject to such stockholders approval as may be required by law, and/or pledge, mortgage, or otherwise encumber all or part of the properties of the corporation;

e) To establish pension, retirement, bonus, or other types of incentives or compensation plans for the employees, including officers and directors of the corporation;

f) To prosecute, maintain, defend, compromise or abandon any lawsuit in which the corporation or its officer are either plaintiffs or defendants in connection with the business of the corporation;

g) To delegate, from time to time, any of the powers of the Board which may lawfully be delegated in the course of the current business of the corporation to any standing or special committee or to any officer or agent and to appoint any person to be agent of the corporation with such powers and upon such terms as may be deemed fit;

h) To implement these by-laws and to act on any matter not covered by these by-laws, provided such matter does not require the approval or consent of the stockholders under the Corporation Code.

The Company's Manual also provides that non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

Provide the company's definition of "independence" and describe the company's compliance to the definition.

The Company defines an Independent Director as a person who, apart from fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgement in carrying out his responsibilities as director.

The Company is not aware of any material conflicts of interests applicable to any of its independent directors.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Company shall comply with the provisions of the SEC Memorandum Circular No. 9, Series of 2011, which states that independent directors shall serve as such for five (5) consecutive years, followed by a cooling off period of two (2) years.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
Baltazar N. Endriga	Independent Director	June 15, 2015	To concentrate on other businesses

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Qualifications, Selection/Appointment and Re-Election

Per the Company's By-Laws, any person having at least one share of stock registered in his name in the books of the Corporation may be nominated and elected to the Board of Directors, provided, however that no person shall qualify or be eligible for nomination or election to the Board of Directors if he is engaged in any business which competes with or is antagonistic to that of the Corporation or any of its subsidiaries or affiliates. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged:

(i) If he is an officer, manager or controlling person of, or the owner (either of record or beneficial) of 10% or more of any outstanding class of shares of any corporation (other than the one in which this Corporation owns at least 30% of the capital stock) engaged in business which the Board, by at least two-thirds (2/3) vote, determines to be competitive or antagonistic to that of the Corporation or any of its subsidiaries or affiliates;

(ii) If he is an officer, manager or controlling person of, or the owner (either of record or beneficial) of 10% or more of any outstanding class of shares of, any corporation or entity engaged in any line of business of the Corporation or any of its subsidiaries or affiliates, when in the judgment of the Board, by at least two-thirds (2/3) vote, the law against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or

(iii) If the Board, in the exercise of its judgment in good faith, determines by at least two-thirds (2/3) vote that he is the nominee or any person set forth in (i) or (ii).

In determining whether or not a person is a controlling person, beneficial owner or nominee of another, the Board may take into account such factors as business and family relationships.

The Company's Manual also provides that in addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, a director of the Company must have the following minimum qualifications:

(i) College graduate with a bachelor's degree (or equivalent academic degree following a four-year college education);

(ii) (ii) Practical understanding of the business of the Corporation; and

(iii) Previous business experience.

For the proper implementation of the foregoing, all nominations for election of the directors by the stockholders shall be submitted in writing to the Board of Directors and shall be received at the Corporation's principal place of business at least thirty (30) days prior to the date of the regular or special meeting of stockholders for the purpose of electing directors. Nominations which are not submitted within such nomination period shall not be valid.

Furthermore, the independent directors shall have all the qualifications and none of the disqualifications set forth in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations, as the same may be amended from time to time.

Disqualifications, Removal and Suspension

The Company's Manual provides that:

The following shall be grounds for the permanent disqualification of a director:

(i) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;

(ii) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if such person is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the SEC or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

(iii) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

(iv) Any person who has been adjudged by final judgment or order of the SEC, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or any of its rule, regulation or order;

(v) Any person earlier elected as independent director who becomes an officer, employee or consultant of the Corporation;

(vi) Any person judicially declared as insolvent;

(vii) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (i) to (v) above;

(viii) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.

Temporary Disqualification

The Board may provide for the temporary disqualification of a director for any of the following reasons:

(i) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.

(ii) Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.

(iii) Dismissal or termination for cause as director of any corporation covered by the Revised Code of Corporate Governance. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.

(iv) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.

(v) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

Voting Result of the last Annual General Meeting

Name of Director	Votes Received (in favor)
Zenaida R. Tantoco	2,433,338,424
Anthony T. Huang	2,427,507,869
Ma. Teresa R. Tantoco	2,454,318,524
Ma. Elena T. Valbuena	2,433,338,424
Bienvenido V. Tantoco III	2,442,222,324
Eduardo T. Lopez III	2,433,338,424
Edgardo Luis Pedro T. Pineda, Jr.	2,433,338,424
Jose Teodoro K. Limcaoco	2,460,294,588
Carlo L. Katigbak	2,559,862,588

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

Currently, the Corporation does not have a formal orientation program for new directors. As a matter of practice, however, the President usually conducts an informal meeting / orientation for new directors to provide them an overview of the business, especially for independent directors. To better familiarize themselves to the business, the new directors are also given copies of the corporate records and files, upon request.

(b) State any in-house training and external courses attended by Directors and Senior Management[3] for the past three (3) years:

Corporate Governance Seminar by SyCip Gorres Velayo & Co.
Orientation Course for Corporate Governance by The Institute of Corporate Directors

[3] Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Zenaida R. Tantoco	December 2, 2015	Corporate Governance Seminar	SyCip Gorres Velayo & Co.
Anthony T. Huang			
Ma. Teresa R. Tantoco			
Ma. Elena T. Valbuena			
Bienvenido V. Tantoco III			
Eduardo T. Lopez III			
Edgardo Luis Pedro T. Pineda, Jr.			
Jose Teodoro K. Limcaoco	February 18, 2015	Orientation Course for Corporate Governance	The Institute of Corporate Directors
Carlo L. Katigbak	September 23, 2015	Corporate Governance Seminar	SyCip Gorres Velayo & Co.

B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

<table>
<tr><th>Business Conduct & Ethics</th><th>Directors</th><th>Senior Management</th><th>Employees</th></tr>
<tr><td>(a) Conflict of Interest</td><td colspan="3">Directors, executive officers and employees are expected to uphold the interest of the Company at the highest level possible. All employees shall exert all efforts to achieve and maintain the best interest of the Company.

It is the Company's policy that no director, executive officer, or employee should have any interest in any direct competitor of the Company. Such interest, regardless of whatever in fact affects the judgement or decision of the individual in question, creates an unfavorable impression and may raise a question of propriety.</td></tr>
<tr><td>(b) Conduct of Business and Fair Dealings</td><td colspan="3">All employees are expected to observe the proper conduct and attitude in the performance of personal and official affairs. They must maintain mutual respect, honesty and courtesy in all business and dealings.</td></tr>
<tr><td>(c) Receipt of gifts from third parties</td><td colspan="3">As a general rule, the Company's directors, executive officers and employees are prohibited from accepting any form of gift or token from any party that is doing business with the Company. However, in cases where the return of the gift is refused by the offering party, and it was not given with the purpose of securing favorable treatment from the employee, the gift may be accepted subject to the Company's guidelines on accepting gifts from third parties as outlined in the Gifts from Clients/Business Partners manual.</td></tr>
<tr><td>(d) Compliance with Laws & Regulations</td><td colspan="3">All directors, executive officers and employees are required to comply with laws and regulatory requirements relevant to their departments.

Directors must be knowledgeable with statutory and regulatory requirements, the rules and obligations of the Philippine Securities and Exchange Commission (SEC), and where applicable, the requirements of other regulatory agencies.</td></tr>
<tr><td>(e) Respect for Trade Secrets/Use of Non-</td><td colspan="3">The Company requires all employees to sign a Confidentiality agreement upon hiring. The Company also prohibits employees from disclosing any confidential Company</td></tr>
</table>

	public Information	information which are not intended to be made public.
(f)	Use of Company Funds, Assets and Information	All employees have the responsibility to protect and safeguard the Company's assets and to only use Company resources for legitimate and authorized business purposes.
(g)	Employment & Labor Laws & Policies	The Human Resources (HR) department ensures that the Company is compliant with all employment and labor laws and policies.
(h)	Disciplinary action	Disciplinary action is meted out when there is a violation of Company rules or regulations which may consist of warnings, reprimands, suspensions or demotions, among others.
(i)	Whistle Blower	Any employee may discuss or disclose in writing any concern on potential violation of the Employee Rules and Regulations with the HR department.
(j)	Conflict Resolution	The Company has established policies and procedures in resolving conflicts brought up by any employee. Immediate superiors should try, when possible, to resolve such conflicts at their level.

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

Yes.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

As part of the pre-employment process, employees are required to read and understand the Company's Employee Rules and Regulations ("Rules") and to confirm in writing that they have understood all the provisions in the Rules.

Immediate supervisors are tasked to monitor their subordinates' compliance with the Rules. An annual monitoring of all employees' compliance with the Rules is also made as part their annual evaluation. Moreover, regular and random audits of store operations are being made to ensure that store personnel are compliant with the Rukes.

4) Related Party Transactions

(a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

<table>
<tr><th>Related Party Transactions</th><th>Policies and Procedures</th></tr>
<tr><td>(1) Parent Company</td><td rowspan="8">Per the Company's Manual, related party transactions shall be entered into by the Corporation on an "arm's length basis," and under such terms that inure to the benefit and best interest of the Company and its shareholders as a whole. All such transactions shall be reviewed and approved by the appropriate approving authority, as may be determined by the Board of Directors (BOD). Material related party transactions shall be submitted for approval of at least a majority of the BOD.

If a transaction involves a Director or officer of the Corporation, or the Immediate Family Members of such Director/Officer, then in addition to the foregoing, such transaction shall be subject to the quorum, voting and other requirements of the Corporation Code.</td></tr>
<tr><td>(2) Joint Ventures</td></tr>
<tr><td>(3) Subsidiaries</td></tr>
<tr><td>(4) Entities Under Common Control</td></tr>
<tr><td>(5) Substantial Stockholders</td></tr>
<tr><td>(6) Officers including spouse/children/siblings/parents</td></tr>
<tr><td>(7) Directors including spouse/children/siblings/parents</td></tr>
<tr><td>(8) Interlocking director relationship of Board of Directors</td></tr>
</table>

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	None
Name of Officer/s	None
Name of Significant Shareholders	None

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	The Company requires all executives and employees to provide information on their existing relationships and business ownership and submit such to the Human Resource Management. All incoming executives and employees are briefed and oriented on the Company's policy on conflict of interest.
Group	

5) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[4] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
Details of Related Party Transactions are discussed under Note 21 of the Company's Audited Consolidated Financial Statements.		

(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
Details of Related Party Transactions are discussed under Note 21 of the Company's Audited Consolidated Financial Statements.		

(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction
None.		

[4] Family relationship up to the fourth civil degree either by consanguinity or affinity.

6) Alternative Dispute Resolution
Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

	Alternative Dispute Resolution System
Corporation & Stockholders	As of date, there are no disputes between the Company and any of its stockholders, third parties and regulatory authorities that would require adoption of an alternative dispute resolution system.
Corporation & Third Parties	
Corporation & Regulatory Authorities	

C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Meetings are scheduled at least two (2) months before the date of meeting.

2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Zenaida R. Tantoco	June 15, 2015	7	6	86%
Member	Anthony T. Huang	June 15, 2015	7	7	100%
Member	Ma. Teresa R. Tantoco	June 15, 2015	7	4	57%
Member	Ma. Elena T. Valbuena	June 15, 2015	7	3	43%
Member	Bienvenido V. Tantoco III	June 15, 2015	7	5	71%
Member	Eduardo T. Lopez III	June 15, 2015	7	7	100%
Member	Edgardo Luis Pedro T. Pineda, Jr.	June 15, 2015	7	6	86%
Independent	Carlo L. Katigbak	June 15, 2015	7	5	71%
Independent	Jose Teodoro K. Limcaoco*	June 15, 2015	4	3	75%

*Elected and assumed office on 15 June 2015

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

No.

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

Based on the Corporation's Amended By-Laws, a majority of the number of directors as fixed by the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, and every decision of at least a majority of the directors present at the meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

5) Access to Information

(a) How many days in advance are board papers[5] for board of directors meetings provided to the board?

Notice, agenda and board papers are given to the directors at least 5 days before the scheduled board meetings.

[5] Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

(b) Do board members have independent access to Management and the Corporate Secretary?

Yes. Based on the Company's Manual, the Company recognizes that reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members of the Board are given independent access to Management and the Corporate Secretary.

(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

Per Company's Manual, the Corporate Secretary shall, among other things, perform the following duties:

- If he is not at the same time the Corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- Inform the members of the Board, in accordance with the By-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval; and
- Ensure that all Board procedures, rules and regulations are strictly followed by the members;

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

Yes.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes ✓ No ☐

Committee	Details of the procedures
Executive	As a matter of policy for all committees of the Company, board meeting materials and other relevant information are provided to the members at least 5 days before the meeting. Should the Committee members need further information or assistance from external advisors or consultants, they may request for such through the Corporate Secretary or Management.
Audit	
Nomination	
Remuneration	
Others (specify)	

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
Per the Company's Manual, the directors, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the Corporation's expense. Thus, as a matter of practice, the necessity for such professional advice is taken up during board meetings.	

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
None.		

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	The Company's remuneration and compensation committee is responsible for objectively recommending a formal and transparent framework of remuneration and evaluation for the members of the Board and the Company's key executives to enable them to run the Company successfully.	
(2) Variable remuneration		
(3) Per diem allowance		
(4) Bonus		
(5) Stock Options and other financial instruments		

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	For Executive Directors, the Company's remuneration and compensation committee is responsible for objectively recommending a formal and transparent framework of remuneration and evaluation for the members of the Board and the Company's key executives to enable them to run the Company successfully. For all directors, the applicable per diem allowance is P20,000 per meeting.		
Non-Executive Directors			

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

Remuneration Scheme	Date of Stockholders' Approval
The Company's By-Laws provide that by resolution of the Board, each director, shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.	

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

Remuneration Item	Executive Directors	Non-Executive Directors	Independent Directors
(a) Fixed Remuneration	Please refer to table.	None	None
(b) Variable Remuneration	Please refer to table.	None	None
(c) Per diem Allowance	None	None	None
(d) Bonuses	None	None	None
(e) Stock Options and/or other financial instruments	None	None	None
(f) Others (Specify)	A per diem allowance of ₱20,000 is given to Directors per meeting.		
Total	Please refer to table.		

For Executive Directors, please refer to the table below:

	Year	Total (In ₱ millions)
CEO and the four most highly compensated executive officers named above	2013	15.6
	2014	16.1
	2015	19.0
	2016 (estimated)	20.9
Aggregate compensation paid to all other officers and Directors as a group unnamed	2013	3.1
	2014	3.4
	2015	3.7
	2016 (estimated)	4.1

Other customary benefits such as but not limited to healthcare and hospitalization plans, are provided to Executive Directors at levels consistent to market practice.

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Not applicable.

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
None.		

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Name	Position
Zenaida R. Tantoco	Chairman and CEO
Anthony T. Huang	President
Elizabeth T. Quiambao	Executive Vice President
Rossellina J. Escoto	Vice President—Finance
Reuben J. Ravago	Vice President—IT

	Year	Total (In ₱ millions)
CEO and the four most highly compensated executive officers named above	2013	15.6
	2014	16.1
	2015	19.0
	2016 (estimated)	20.9
Aggregate compensation paid to all other officers and Directors as a group unnamed	2013	3.1
	2014	3.4
	2015	3.7
	2016 (estimated)	4.1

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Audit	1	1	1	None yet	The Company's audit committee is responsible for assisting the Board in its fiduciary responsibilities by providing an independent and objective assurance to its management and shareholders of the continuous improvement of its risk management systems, business operations and the proper safeguarding and use of its resources and assets. The audit committee provides a general evaluation of and assistance in the overall improvement of its risk management, control and governance processes. The audit committee shall have functions and powers prescribed by the Board and in accordance with applicable laws and regulations, including, among others, assisting the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with laws, rules and regulations, oversight over the external auditors, the nature, scope and expenses of the audit, and evaluation and determination of any non-audit work and review of the non-audit fees paid to the external auditors.		
Nomination	2	1	–	None yet	The Company's nomination committee is responsible for providing the Company's shareholders with an independent and objective evaluation and assurance that the members of the Board are competent and will foster long-term success and competitiveness.		
Remuneration	2	–	1	None yet	The Company's remuneration and compensation committee is responsible for objectively recommending a formal and transparent framework of remuneration and evaluation for the members of the Board and the Company's key executives to enable them to run the Company successfully. The remuneration and compensation committee must comprise at least three members, including one independent director. The remuneration and compensation committee reports directly to the Board and is required to meet at least once a year.		

2) Committee Members

(a) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Jose Teodoro K. Limacaoco*	2015	2	2	100%	0.5 years.
Member (ED)	Anthony T. Huang	2014	3	3	100%	1.2 years
Member (NED)	Bienvenido V. Tantoco III	2014	3	2	67%	1.2 years

*Elected and assumed office on 15 June 2015

Disclose the profile or qualifications of the Audit Committee members.

Jose Teodoro K. Limcaoco, 53, Independent Director of the Company since 2015. Mr. Limcaoco is also the Chief Finance Officer and Finance Group Head of Ayala Corporation. Prior to assuming his current position, Mr. Limcaoco was the President of BPI Family Savings Bank. Prior to that, among other positions, he was the President of BPI Capital Corporation, Managing Director of BZW Asia, President of BZW Securities (Philippines) Inc., President of BPI Securities Corporation, and a Vice President – Emerging Asian Currency Derivatives at J.P. Morgan & Co., Singapore. He has served as the President of the Chamber of Thrift Banks, a Director of the Investment House Association of the Philippines, and a member of the PSE's Market Integrity Board. Mr. Limcaoco graduated from Stanford University with a Bachelor of Science degree in Mathematical Sciences (Honors Program), and the Wharton School, University of Pennsylvania with a Master of Business Administration degree, major in Finance and Investment Management.

Anthony T. Huang, 44, Director of the Company since 2007. He is the President of the Company. Mr. Huang is also the President and a director of all of the Group's companies. He joined the Group in 1995 and has over 22 years of experience in the retail business. He also serves as the Executive Vice President of Rustan Marketing Corporation. He is a member of the board of directors of Sta. Elena Properties, Inc., Rustan Supercenters, Inc. and Commonwealth Foods, Inc. Mr. Huang graduated from the University of Asia and the Pacific with a Bachelor of Arts degree in Humanities.

Bienvenido V. Tantoco III, 49, Director of the Company since 2007. Mr. Tantoco is the President of Rustan Supercenters, Inc. He was also the Executive Vice President and General Manager of Rustan Supercenters, Inc. prior to his appointment as the President. In addition, he served as the Vice President for Corporate Planning and later with the Office of the President, of Rustan Commercial Corporation. Mr. Tantoco graduated from Connecticut College with a Bachelor of Arts degree in Economics, and J.L Kellogg Graduate School of Management, Northwestern University with a Master of Management degree, majors in Marketing, Accounting, and Organizational Behavior.

Describe the Audit Committee's responsibility relative to the external auditor.

Per the Company's Manual, the Audit Committee shall have the following functions, in relation to the external auditor:

- Performs oversight functions over the Corporation's external auditors. It should ensure the independence of the external auditors and unrestricted access to all records, properties and personnel to enable the external auditors to perform their audit functions;
- Prior to the commencement of the external audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- Review the reports submitted by the external auditors;
- Evaluate the non-audit work, if any, of the external auditors, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and the Corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with this duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Corporation's annual report.

(b) Nomination Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Zenaida R. Tantoco	2014	–	–	–	1.2 years
Member (ED)	Anthony T. Huang	2014	–	–	–	1.2 years
Member (NED)	Edgardo T. Pineda, Jr.	2014	–	–	–	1.2 years

(c) Remuneration Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Zenaida R. Tantoco	2014	–	–	–	1.2 years
Member (ED)	Anthony T. Huang	2014	–	–	–	1.2 years
Member (NED)	Edgardo T. Pineda, Jr.	2014	–	–	–	1.2 years

3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Audit	Baltazar N. Endriga	To concentrate on other businesses

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Audit	• Review quarterly and annual financial results • Discuss external audit plan • Discuss internal audit findings	• Approval of financial statements • Areas of improvement • Areas of improvement
Nomination	None	None
Remuneration	None	None

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Audit	Monitor work of external and internal auditor	Areas of improvement
Nomination	Screening and evaluation of nominees for directors	Qualifications and disqualifications
Others (specify)	Screening and evaluation of candidates for promotion Review of executive compensation	Qualifications of candidates Adjustment of compensation

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

The Company's overall risk management objective is to maximize strategic and profitable business opportunities and minimize adverse results, thereby optimizing the shareholder value and ensuring sustainable growth.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Company's risk management system was presented and reviewed by the Board of Directors (BOD) and Audit Committee (AC).

The BOD and AC determined that the Company's risk management framework is adequately established and effectively working.

(c) Period covered by the review;

2015

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

An annual risk assessment exercise is conducted identifying the risks significant to the Company's mission and strategic objectives. The results of which are discussed by Management to the Board's Audit Committee.

The Internal Audit monitors the effectiveness of the risk mitigation controls and action taken by Management to address the identified risk.

The Board's criteria for assessing the effectiveness of the ERM framework:

1. Regular risk reviews to identify and assess significant current and emerging risk (opportunities) as to likelihood and their impact to the strategic goals and objectives;
2. Appropriate and practical risk management system to control such risk;
3. Established mitigating risk and processes are monitored regularly; and
4. Regular assurance reporting to the Top Management, and to Audit Committee and the Board when deemed necessary, that risk are indeed effectively managed within the approved risk appetite.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Operational risk This refers to: - customer service - loss of people/talent - business disruption	• The Company conducts trainings and regular refresher courses for all consultants and core personnel's. • Business Process Manuals, Policies and Procedures are properly disseminated	• To eliminate or reduce to a minimum level any risk that may result in personal injury, illness, property damage and to ensure safety, health and welfare of

risks (e.g. natural calamities, supply chain disruption)	and implemented. • Implementation of Business Continuity Plan. • Mitigating risks relating to Company's operations, manpower and fixed assets thru full insurance.	employees and stakeholders. • To ensure immediate business recovery and continuity of critical processes in the event of a disruption, with focus toward building organizational resilience.
Market risk This refers to the Group's dependence on consumers' preferences, impact of competition on pricing, and macroeconomic changes.	• Promote newness by updating collection and store ambiance • Regular "SALE" events. • Varying promo and discounts • Competitive pricing schemes with other brands	• To keep brands' images consistent with international standards. • To allow flexibility in selling to target customers while protecting target margins and maximum profits.
Investment risk This refers to capital allocation, equity investment and guarantees in subsidiaries (e.g. float risk, exchange rate risk).	To manage financial risks from 1) Liquidity risk - the Company maintains a level of cash sufficient to fund the Company's cash requirements. 2) Foreign currency risk - the Company matches collections and disbursements for merchandise purchased in the same currency and pays foreign suppliers on time. 3) Credit risk - the Company trades only with recognized, creditworthy third parties, mostly with credit card companies. The Company also monitors, on an on-going basis, trade receivables from third parties.	To enable efficient use, allocation and management of capital resources within the Company.
Reputation and Compliance risks These refer to environment, workplace, health and safety, regulatory compliance, community relations, loss of confidence or reputational damage, contractual obligations, etc.	• Compliance to legal and regulatory requirements, and Labor Code guidelines. • Regular and open communication with and disclosures to stakeholders through the Company's investor relations program.	• To protect and enhance shareholder value; • To ensure sustainability through partnership with key stakeholders.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Operational risk This refers to: - customer service - loss of people/talent - business disruption risks (e.g. natural calamities, supply chain disruption)	• The Company conducts trainings and regular refresher courses for all consultants and core personnel's. • Business Process manuals, policies and procedures are properly disseminated and implemented. • Implementation of Business Continuity Plan. • Mitigating risks relating to Company's	• To eliminate or reduce to a minimum level any risk that may result in personal injury, illness, property damage and to ensure safety, health and welfare of employees and stakeholders. • To ensure immediate business recovery and continuity of critical processes in the event of a

	operations, manpower and fixed assets thru full insurance.	disruption, with focus toward building organizational resilience.
Market risk This refers to the Group's dependence on consumers' preferences, impact of competition on pricing, and macroeconomic changes.	• Promote newness by updating collection and store ambiance • Regular "SALE" events. • Varying promo and discounts • Competitive pricing schemes with other brands	• To keep brands' images consistent with international standards. • To allow flexibility in selling to target customers while protecting target margins and maximum profits.
Investment risk This refers to capital allocation, equity investment and guarantees in subsidiaries (e.g. float risk, exchange rate risk).	To manage financial risks from 1) Liquidity risk - the Company maintains a level of cash sufficient to fund the Company's cash requirements. 2) Foreign currency risk - the Company matches collections and disbursements for merchandise purchased in the same currency and pays foreign suppliers on time. 3) Credit risk - the Company trades only with recognized, creditworthy third parties, mostly with credit card companies. The Company also monitors, on an on-going basis, trade receivables from third parties.	To enable efficient use, allocation and management of capital resources within the Company.
Reputation and Compliance risks These refer to environment, workplace, health and safety, regulatory compliance, community relations, loss of confidence or reputational damage, contractual obligations, etc.	• Compliance to legal and regulatory requirements, and Labor Code guidelines. • Regular and open communication with and disclosures to stakeholders through the Company's investor relations program.	• To protect and enhance shareholder value; • To ensure sustainability through partnership with key stakeholders.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
Due to statutory limitations on the obligations of majority shareholders with respect to minority shareholders, minority shareholders are subject to the risk of the exercise by the majority shareholders of their voting power. However, the Corporation Code provides for minority shareholders' protection in certain instances wherein a vote by the shareholders representing at least two-thirds of the Company's outstanding capital stock is required. The Corporation Code also grants shareholders an appraisal right, allowing a dissenting shareholder to require a corporation to purchase his shares in certain instances.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Operational risk This refers to: - customer service - loss of people/talent - business disruption risks (e.g. natural calamities, supply chain disruption)	• The risk assessment process requires quantifying and qualifying risks and how these risks are to be managed and controlled/treated. It involves determining the positive and negative consequences (impact) and the likelihood of occurrence (probability). Decisions are made in the context of the risk tolerance level determined by the Management. • Risk owners periodically monitor risk portfolios and performance measures. This enables early detection of potential risk issues that may result to material operational loss, and are elevated to Senior Management and to the Audit Committee, as appropriate.	• The Company ensures that Business Process Manuals are updated. Updated manuals serve as guide towards consistency of implementation within the Company, but allow flexibility for growth. • Business Continuity Management System • Information Technology Risk Management - The Company established its Information Technology (IT) Disaster Recovery Plan (DRP) to ensure early restoration of critical IT and communication services and systems with the most up-to-date data available for the Company's business continuity. The DRP includes detailed back-up and recovery procedures, responsibilities of a Disaster Recovery Team and emergency procurement, among others. The Company maintains two (2) back-up servers which are already available at the designated Disaster Recovery "Cold Site". The Company annually conducts a "mock" disaster recovery exercise to test the DRP and IT vulnerabilities, if any. • The establishment of an organizational structure with clear definition of responsibilities and empowerment of people.
Market risk This refers to the Group's dependence on consumers' preferences, impact of competition on pricing, and macroeconomic changes.	Same as above	• The Company ensures that all brand directives and international standards are properly executed at the store level. • The Company ensures that its customers' needs and requirements are met. • The Company has established procedures to ensure competitiveness and standardization of service levels.

Investment risk This refers to capital allocation, equity investment and guarantees in subsidiaries (e.g. float risk, exchange rate risk).	Same as above	Cash flow reports and forecasts relative to project funding activities are reviewed regularly to promptly address liquidity and return concerns.
Reputation and Compliance risks These refer to environment, workplace, health and safety, regulatory compliance, community relations, loss of confidence or reputational damage, contractual obligations, etc.	Same as above	• The Company has an established customer service manual. • All store personnel are properly being trained to ensure compliance with the Company's service standards. • The company has identified critical quality standards that form part of the Key Results Areas (KRAs) of its employees. These standards are periodically monitored and observed to achieve continuous improvement and prevent events which may lead to reputational damage. This includes KRAs to ensure compliance to applicable legal and other requirements to which the company subscribes. • Where appropriate, concerned risk owners elevate to senior management service quality reports for review and for proper and timely action, if necessary. **Compliance** • Compliance to legal and regulatory requirements is a prime consideration in ensuring soundness of operations. Each department/unit head is responsible for complying with the regulatory requirements applicable to his department. The Compliance Officer is appointed by the Board and designated to ensure adherence to corporate governance principles and best practices, as well as compliance to the Company's Manual on Corporate Governance. **Good Governance Program** The Group adopts a corporate governance framework with good governance program and policies aimed to foster a culture of compliance, and promote higher standards of performance,

		transparency and accountability within the organization and subsidiaries, and to enhance shareholder value.

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Operational risk This refers to: - customer service - loss of people/talent - business disruption risks (e.g. natural calamities, supply chain disruption)	• The risk assessment process requires quantifying and qualifying risks and how these risks are to be managed and controlled/treated. It involves determining the positive and negative consequences (impact) and the likelihood of occurrence (probability). Decisions are made in the context of the risk tolerance level determined by the Management. • Risk owners periodically monitor risk portfolios and performance measures. This enables early detection of potential risk issues that may result to material operational loss, and are elevated to Senior Management and to the Audit Committee, as appropriate.	• The Company ensures that Business Process Manuals are updated. Updated manuals serve as guide towards consistency of implementation within the Company, but allow flexibility for growth. • Business Continuity Management System • Information Technology Risk Management - The Company established its Information Technology (IT) Disaster Recovery Plan (DRP) to ensure early restoration of critical IT and communication services and systems with the most up-to-date data available for the Company's business continuity. The DRP includes detailed back-up and recovery procedures, responsibilities of a Disaster Recovery Team and emergency procurement, among others. The Company maintains two (2) back-up servers which are already available at the designated Disaster Recovery "Cold Site". The Company annually conducts a "mock" disaster recovery exercise to test the DRP and IT vulnerabilities, if any. • The establishment of an organizational structure with clear definition of responsibilities and empowerment of people.
Market risk This refers to the Group's dependence on consumers' preferences, impact of competition on pricing, and macroeconomic changes.	Same as above	• The Company ensures that all brand directives and international standards are properly executed at the store level. • The Company ensures that its customers' needs and requirements are met.

		• The Company has established procedures to ensure competitiveness and standardization of service levels.
Investment risk This refers to capital allocation, equity investment and guarantees in subsidiaries (e.g. float risk, exchange rate risk).	Same as above	Cash flow reports and forecasts relative to project funding activities are reviewed regularly to promptly address liquidity and return concerns.
Reputation and Compliance risks These refer to environment, workplace, health and safety, regulatory compliance, community relations, loss of confidence or reputational damage, contractual obligations, etc.	Same as above	• The Company has an established customer service manual. • All store personnel are properly being trained to ensure compliance with the Company's service standards. • The company has identified critical quality standards that form part of the Key Results Areas (KRAs) of its employees. These standards are periodically monitored and observed to achieve continuous improvement and prevent events which may lead to reputational damage. This includes KRAs to ensure compliance to applicable legal and other requirements to which the company subscribes. • Where appropriate, concerned risk owners elevate to senior management service quality reports for review and for proper and timely action, if necessary. **Compliance** • Compliance to legal and regulatory requirements is a prime consideration in ensuring soundness of operations. Each department/unit head is responsible for complying with the regulatory requirements applicable to his department. The Compliance Officer is appointed by the Board and designated to ensure adherence to corporate governance principles and best practices, as well as compliance to the Company's Manual on Corporate Governance. **Good Governance Program** The Group adopts a corporate

		governance framework with good governance program and policies aimed to foster a culture of compliance, and promote higher standards of performance, transparency and accountability within the organization and subsidiaries, and to enhance shareholder value.

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit Committee	Oversight of risk management that risk management practices are aligned with strategic business objectives, policies are followed, limits are respected and controls are established through regular assurance reporting by Management to the Audit Committee and the full Board of topmost significant risks and important changes in the Company's risk profile.	• Reviews adequacy and effectiveness of the Company's risk management policies and activities on risk identification, assessment, mitigation, control systems, reporting and monitoring. • Oversees Management's activities in managing credit, market, liquidity, foreign exchange, interest, operational, legal and other strategic risks of the Company; and • Promotes risk awareness in the organization.
Internal Audit Department	Independent assurance review and regular reporting of the Company's risk management, control and governance processes.	The Internal Audit's role in ERM includes evaluation, monitoring and reporting the effectiveness of risk management processes. The Internal Audit Plan and prioritization of audit engagements are developed using a risk-based methodology with focus on critical and high-priority risks and exposures having significant impact to the Company's strategic objectives.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

Internal control system refers to the framework under which internal controls are developed and implemented along with policies and procedures, to manage, and mitigate a particular risk or business activity, or combination of risks and business activities, to which the Corporation is exposed.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Board of Directors, through its Audit Committee, oversees the internal control environment including the reviews on adequacy and effectiveness of controls, systems and procedures by the Internal Audit and External Audit functions both for which report directly and regularly to the Audit Committee and the Board. Based on such reviews, discussions and assurance report by Internal Audit, the Board concludes that a sound internal audit, control and compliance system is in place and working effectively.

(c) Period covered by the review;

For the year 2015

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Regular reviews of internal controls during the year are conducted by the Internal Audit using a risk-based process audit approach. In assessing the effectiveness of the internal control system, the Board considers internal controls designed to provide reasonable assurance of the effectiveness and efficiency of its operations, the reliability of its financial reporting and faithful compliance with applicable laws, regulations, relations and internal rules.

(e) Where no review was conducted during the year, an explanation why not.

Not Applicable.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Evaluates and provides reasonable assurance that risk management control and governance processes/ systems are functioning as intended and will enable achievement of the organization's objectives and goals.	Corporation's risk management, control and governance processes.	In-house	Mrs. Teresita E. Lazo	Quarterly reporting to the Audit Committee and the Board of Directors.

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Yes, as stated in our Company Manual.

(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The Internal Audit functionally reports directly to the Audit Committee and has unrestricted access to the Audit Committee. The Board-approved Internal Audit Charter authorizes internal auditors to have full and reasonable access to all documents, records, assets, properties, plants, information systems, computers, personnel, etc.

(d) Resignation, Re-assignment and Reasons

Not Applicable.

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Progress Against Plans	The 2015 Audit Plan has been implemented.
Issues[6]	Findings and appropriate Management response or corrective/ preventive actions are continuously monitored by Internal Audit. Unresolved, pervasive and repetitive, if any, are highlighted and reported to the Audit Committee.
Findings[7]	Findings and appropriate Management response or corrective/preventive action are continuously monitored by the Internal Audit. Unresolved and recurring findings, if any, are highlighted and reported to the Audit Committee.
Examination Trends	Reviews, based on the audit plan, are improved from year-to-year to produce more value-adding Findings and recommendations.

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

1) Preparation of an audit plan inclusive of a timeline and milestones;
2) Conduct of examination based on the plan;
3) Evaluation of the progress in the implementation of the plan;
4) Documentation of issues and findings as a result of the examination;
5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

[6] "Issues" are compliance matters that arise from adopting different interpretations.
[7] "Findings" are those with concrete basis under the company's policies and rules.

Policies & Procedures	Implementation
Internal Audit Procedures include, but not limited to the following: a. Audit Strategic Planning b. Audit Engagement Planning c. Execution of the Audit d. Reporting of Results e. Monitoring of Agreed Action Plans	Done

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

<table>
<tr><th>Auditors
(Internal and External)</th><th>Financial Analysts</th><th>Investment Banks</th><th>Rating Agencies</th></tr>
<tr><td>Independence of the Internal Audit (IA) is achieved through the organizational status of the IA Department and adherence by internal auditors to IIA's Code of Ethics. IA directly and functionally reports to the Audit Committee on the planning, execution, and results of IA activities.</td><td rowspan="3">The Company maintains a policy of open and constant communication and disclosure of its activities, subject to insider information Guidelines. Equal access of company information is made available to financial/stock analyst.</td><td rowspan="3">The Company maintains a policy of open and constant communication and disclosure of its activities, subject to insider information Guidelines.</td><td rowspan="3">N/A</td></tr>
<tr><td>The Audit Committee's oversight duties of the internal audit function include its required approval of services to render by the Internal Audit and subsequent review thereof.</td></tr>
<tr><td>Oversight of external audit by the Audit Committee include its review of the performance and independence of the external auditor, and pre-approval of non-audit engagement, scope, fees and terms with the external auditor.</td></tr>
</table>

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Chairman of the Board, the CEO, the President and the Compliance Officer attest to the Company's full compliance with SEC's Code of Corporate Governance. All Directors, officers and employees have been properly advised of their respective duties as prescribed by the Code and that internal mechanisms are in place to ensure such compliance.

H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	The Company complies with the rules and guidelines set forth by the Consumer Act of the Philippines, the Department of Trade and Industry (DTI) and the Bureau of Internal Revenue (BIR) with respect to customer interaction.	• All items are properly tagged indicating product ingredients/materials and source of origin • All items clearly indicate the retail price • Receipts are issued for each transaction • Receipts are completely marked with the name of the store, transaction date, a description of the item(s) purchased, retail price, discount rate and VAT payment • The Return and Exchange policy is displayed in all stores and most are printed on the back of receipts. • Promotions are duly registered with the DTI • A customer service email has been activated, and a Customer Relationship Management team has been established to keep customers engaged
Supplier/contractor selection practice	Suppliers/contractors who wish to service the Company's requirements go through an accreditation process. For bigger contracts (e.g. construction, supply of uniform) and recurring requirements, a bid involving at least of the 3 accredited suppliers/contractors is convened. For smaller and non-recurring requirements, the Company requests for a quote from at least 3 accredited suppliers/contractors.	
Environmentally friendly value-chain	The Company ensures that it only works with suppliers that have complied with any applicable environmental permit imposed by any regulatory agency. As much as possible, it uses energy-efficient lighting fixtures in its stores and offices, recycled or recyclable paper bags as packaging for items bought from its stores, and sells only cruelty-free and natural beauty products. The Company likewise observes proper waste management and follows a strict policy on the disposal of chemicals and expired products.	
Community interaction	The Company encourages community interaction among its employees through programs and activities organized by its Employees' Council.	
Anti-corruption programmes and procedures?	The Company has policies that cover Conflict of Interest, Employee Rules and Regulations, Acceptance of Tips and Gifts from Clients/Business Partners, among others.	
Safeguarding creditors' rights	The Company abides with its financial and legal commitments to creditors.	

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

None.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

The Company provides adequate health benefits to its employees. On top of the statutory health provisions, all regular employees are covered by the Company's accredited Health Maintenance Organization (HMO) which given them access to annual medical and dental check-ups, regular consultation, and hospitalization benefits. All stores and offices are stocked with emergency medicine.

(b) Show data relating to health, safety and welfare of its employees.

No material accidents or physical injuries have occurred to employees in the conduct of their job within the Company's premises.

(c) State the company's training and development programmes for its employees. Show the data.

All new merchandising personnel undergo a standardized training on the use of the inventory management system, and a specialized training on brand management. Meanwhile, all new operations personnel are given training on basic salesmanship, customer relations, housekeeping, and cashiering. As soon as they are given their store assignment, they undergo brand-specific training on visual merchandising and merchandise handling. More senior operations personnel go through a coaching seminar. All these training are conducted in-house, and refresher trainings are arranged as necessary.

For support personnel, such as IT and Finance, department heads are encouraged to scout for and recommend seminars relating to their specific lines of work or requirements.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

The Company has adopted a compensation policy which we believe to be competitive with industry standards in the Philippines. The Company's employees are offered incentive-based compensation depending on their ability to meet certain incentive program's criteria, which include sales, profitability, inventory control and compliance with standard operating procedures. Furthermore, members of the staff also enjoy specific benefits particular to the Company's business such as employee discounts for purchases of merchandise from the brands that the Company represents, as well as special private sales held only for the employees. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new employees. Performance is reviewed annually and employees are rewarded based on the attainment of defined objectives.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

As a matter of practice, upon receipt of a written from an employee, Management conducts an investigation on its merit, subject to due process. Once proven, appropriate penalties and sanctions may be imposed thereafter. Further, policy provides that anyone who in good faith reports an incident shall not be retaliated upon or suffer harassment or adverse employment consequence.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

As of December 31, 2015:

Title of Class	Names and addresses of record owners and relationship with the Company	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% to total outstanding shares
Common	**Wellborn Trading & Investments, Inc.** [8] (*stockholder*)	**Wellborn Trading & Investments, Inc.** [8]	Filipino	467,043,679	14.0979%
Common	**PCD Nominee Corporation** 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (*stockholder*)	**Marjorisca, Inc.**[9] (*client of PDTC participant*)	Filipino	434,440,400	13.1137%
Common	**PCD Nominee Corporation** 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (*stockholder*)	**Birdseyeview, Inc.**[10] (*client of PDTC participant*)	Filipino	434,412,500	13.1129%
Common	**PCD Nominee Corporation** 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (*stockholder*)	**Educar Holdings, Corp.**[11] (*client of PDTC participant*)	Filipino	415,753,800	12.5497%

[8] *Wellborn Trading & Investments, Inc. is beneficially owned by Zenaida R. Tantoco, Anthony T. Huang, Michael T. Huang, and Catherine T. Huang as to 19.9%. 26.7%, 26.7%, and 26.7%, respectively.*

[9] *Marjorisca, Inc. is beneficially owned by Ma. Elena T. Valbuena, Christopher James Tantoco and Jose Miguel Tantoco as to 40%, 30% and 30%, respectively.*

[10] *Birdseyeview, Inc. is wholly and beneficially owned by Ma. Teresa R. Tantoco. Ma. Teresa R. Tantoco directly and indirectly owns 467,736,931 common shares of the Company equivalent to 14.12% of outstanding shares.*

[11] *Educar Holdings, Corp. is beneficially owned by seven members of the Lopez family, Eduardo S. Lopez, Jr., Ma. Carmencita T. Lopez, Eduardo T. Lopez III, Ma. Margarita L. De Jesus, Ma. Carmencita L. Tiangco, and Enrique Antonio T. Lopez, each of whom holds an equal shareholding interest of 14.3%*

Title of Class	Names and addresses of record owners and relationship with the Company	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% to total outstanding shares
Common	**PCD Nominee Corporation** 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (*stockholder*)	**Bordeaux Holdings, Inc.**[12] (*client of PDTC participant*)	Filipino	414,967,821	12.5260%

(b) Security ownership of Management as of December 31, 2015

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Zenaida R. Tantoco, *Chairman and CEO*	872,500	–	0.0263%
Anthony T. Huang, *President*	4,875,100	–	0.1472%
Ma. Teresa R. Tantoco, *Director and Treasurer*	32,736,431	435,000,500 (Through Birdseyeview, Inc.)	14.1188%
Ma. Elena T. Valbuena *Director*	32,054,979	–	0.9676%
Bienvenido V. Tantoco III, *Director*	100	856,100 (Through spouse)	0.0258%
Edgardo Luis Pedro T. Pineda, Jr., *Director*	790,100	–	0.0238%
Eduardo T. Lopez III, *Director*	100	–	0.0000%
Jose Teodoro K. Limcaoco, *Director*	10,000	–	0.0003%
Carlo L. Katigbak, *Director*	305,001	–	0.0092%
Elizabeth T. Quiambao, *Executive Vice President*	3,334,000	–	0.1006%
Rossellina J. Escoto, *Vice President – Finance*	133,500	–	0.0040%
Reuben J. Ravago, *Vice President – IT*	21,200	–	0.0006%
Cheryl Anne M. Berioso, *Head of Corporate Planning*	20,000	–	0.0006%
TOTAL	**75,153,011**	**435,856,600**	**15.4250%**

2) Does the Annual Report disclose the following:

Key risks	YES
Corporate objectives	YES
Financial performance indicators	YES
Non-financial performance indicators	YES
Dividend policy	YES
Details of whistle-blowing policy	No, circulated internally

[12] *Bordeaux Holdings, Inc. is wholly and beneficially owned by Ma. Lourdes T. Pineda.*

Training and/or continuing education programme attended by each director/commissioner	YES, through this ACGR which is attached to the Annual Report
Number of board of directors/commissioners meetings held during the year	
Attendance details of each director/commissioner in respect of meetings held	
Details of remuneration of the CEO and each member of the board of directors/commissioners	YES

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

3) External Auditor's fee

(in PhP Millions)	**Audit and Audit-related Fees**		**Tax Fees**	**Other Fees**	**Total**
	Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings	Professional Fees related to the Initial Public Offering			
2015	4.7	–	–	–	4.7
2014	4.6	11.0	-	–	14.6
2013	4.0	–	–	–	4.0

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

SEC disclosures, Press Releases, the PSE Edge system as well as news on the website

5) Date of release of audited financial report

April 15, 2015

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	YES
Financial statements/reports (current and prior years)	YES
Materials provided in briefings to analysts and media	NO
Shareholding structure	YES, included in disclosures
Group corporate structure	YES, included in disclosures
Downloadable annual report	YES
Notice of AGM and/or EGM	YES
Company's constitution (company's by-laws, memorandum and articles of association)	YES

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

7) **Disclosure of RPT**

RPT	Relationship	Nature	Value
Please refer to Note 21 of the Audited Consolidated Financial Statements for a discussion on related party transactions.			

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

The Company has controls in place to address relevant issues related to the above. Please refer to the Company's Manual on Corporate Governance.

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	Stockholders representing majority of the outstanding capital stock.

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	By vote of stockholders
Description	Corporate acts requiring stockholders' approval are approved by the vote of stockholders owning the majority of the stock issued and outstanding of the Company or 2/3 thereof, as may be required under the Philippine Corporation Code.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights <u>not</u> in The Corporation Code
• Right to vote on all matters that require their consent or approval; • Pre-emptive right to all stock issuances of the Corporation; • Right to inspect corporate books and records; • Right to information; • Right to dividends; and • Appraisal right	None.

Dividends

Declaration Date	Record Date	Payment Date

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
Notice of Meetings are provided to stockholders at least two (2) weeks prior to the date of the meeting. During the Meeting, the Chairman of the Board encourages the stockholders to raise questions and concerns during the open forum.	

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
   a. Amendments to the company's constitution

      This is subject to approval by the stockholders owning the majority of the stock issued and outstanding of the Company or 2/3 thereof, as provided in the Philippine Corporation Code.

   b. Authorization of additional shares

      This is generally subject to approval by the Board of Directors, as provided in the Philippine Corporation Code.

   c. Transfer of all or substantially all assets, which in effect results in the sale of the company

      This is subject to approval by the stockholders owning 2/3 of the stock issued and outstanding of the Company, as provided in the Philippine Corporation Code.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

   a. Date of sending out notices: June 1, 2015

   b. Date of the Annual/Special Stockholders' Meeting: June 15, 2015

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

   In the last annual stockholders' meeting, the Chairman opened the floor for comments and questions on matters that are relevant to the stockholders, after all the items in the agenda have been take up.

   A stockholder noted that most of the brands offered by the Corporation are foreign brands. He inquired on whether there are plans of selling Philippine made products as well. The President informed the stockholders that the Corporation actually owns and distributes some Philippine brands and products, through its subsidiaries which operate the Make Room and Wellworth stores. Other brands such as West Elm also carry Philippine made furniture and accessories. Another stockholder inquired on the relationship of the Starbucks Coffee brand with the Corporation. The President clarified that there are common owners within the Tantoco family but Starbucks is operated by a separate company and is not a subsidiary of the Corporation.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
Approval of the minutes of the annual stockholders' meeting held on June 18, 2014	2,570, 428,888	1,290,700	–
Approval of 2014 audited financial statements	2,568,429,888	1,290,700	1,999,400
Ratification of all acts of management of the preceding year	2,568,429,888	1,290,700	1,999,400
Election of Board of Directors	See table below	See table below	See table below
Approval of amendment of by-laws (re: date of annual meeting)	2,570, 428,888	1,290,700	–
Appointment of external auditor	2,565,177,088	6,542,500	–

Results of Election of Board of Directors:

Name of Director	Approving	Dissenting	Abstaining
Zenaida R. Tantoco	2,433,338,424	138,381,164	–
Anthony T. Huang	2,427,507,869	144,211,719	–
Ma. Teresa R. Tantoco	2,454,318,524	138,381,164	–
Ma. Elena T. Valbuena	2,433,338,424	117,401,064	–
Bienvenido V. Tantoco III	2,442,222,324	129,497,264	–
Eduardo T. Lopez III	2,433,338,424	138,381,164	–
Edgardo Luis Pedro T. Pineda, Jr.	2,433,338,424	138,381,164	–
Jose Teodoro K. Limcaoco	2,460,294,588	111,425,000	–
Carlo L. Katigbak	2,559,862,588	11,857,000	–

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

June 15, 2015

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	**Reason for Modification**
None.	

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Name of Director: Zenaida R. Tantoco Anthony T. Huang Bienvenido V. Tantoco III Eduardo T. Lopez III Carlo L. Katigbak Name of Officer: Elizabeth T. Quiambao Rossellina J. Escoto Margarita A. Atienza Cherryl Anne M. Berioso Reuben J. Ravago Rosanno P. Nisce	June 15, 2015	By poll	–	74.75%	74.75%
Special	N/A					

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

Yes, the stock transfer agent of the Company.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	At all meetings of stockholders, a stockholder may vote in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary not later than ten (10) days before the date set for the meeting. Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary at least five (5) days prior to a scheduled meeting or by their personal presence at the meeting. The decision of the Secretary on the validity of the proxies shall

	be final and binding until and unless set aside by a court of competent jurisdiction.
Notary	Not required.
Submission of Proxy	All proxies must be in the hands of the Secretary not later than ten (10) days before the date set for the meeting.
Several Proxies	Where a proxy is given to two or more persons in the alternative in one instrument, the proxy designated as an alternate can only act as proxy in the event of nonattendance of the other designated person. If the stockholder designates several proxies, the number of shares of stock to be represented by each proxy will be specifically indicated in the proxy form. Where the same stockholder gives two or more proxy forms, the latest one given is to be deemed to revoke all former proxies.
Validity of Proxy	Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary.
Proxies executed abroad	Proxies executed abroad should be authenticated by the Philippine Embassy or Consular Office.
Invalidated Proxy Validation of Proxy Violation of Proxy	Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary at least five (5) days prior to a scheduled meeting or by their personal presence at the meeting. The decision of the Secretary on the validity of the proxies shall be final and binding until and unless set aside by a court of competent jurisdiction.

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
Per the Company's By-Laws, notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery or by mail at least 15 business days prior to the date of the meeting to each stockholder of record at his last known address or by publication in a newspaper of general circulation. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called. In case of special meetings, only matters stated in the notice can be the subject of motions or deliberations at such meeting. Notice of any meeting may be waived, expressly or impliedly, by any stockholder, in person or by proxy, before or after the meeting. When the meeting of stockholders in adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.	

(i) Definitive Information Statements and Management Report

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	All stockholders on record
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	June 1, 2015

Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	June 1, 2015
State whether CD format or hard copies were distributed	CD format and hard copies
If yes, indicate whether requesting stockholders were provided hard copies	YES

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	YES
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	YES
The auditors to be appointed or re-appointed.	YES
An explanation of the dividend policy, if any dividend is to be declared.	N/A
The amount payable for final dividends.	N/A
Documents required for proxy vote.	YES

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
Minority stockholders are given the same protection and rights under the Philippine Corporation Code.	The Company observes the procedure provided under the Philippine Corporation Code including, without limit, the exercise of appraisal rights.

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes. Under the Company's By-Laws and Manual on Corporate Governance, all stockholders have the right to nominate candidates to the Board.

K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

The Investor Relations Office (IRO) is responsible for ensuring that shareholders have timely and uniform access to official announcements, disclosures and market-sensitive information relating to the Company. As our officially designated spokesperson, the IRO is responsible for receiving and responding to investor and shareholder queries. In addition, the IRO oversees most aspects of the Company's shareholder meetings, press conferences, investor briefings, management of the investor relations portion of the Company's website and the preparation of annual reports. The IRO is also responsible for conveying information such as our policy on corporate governance and corporate social responsibility, as well as other qualitative aspects of our operations and performance.

2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	To foster shareholder participation and build shareholder trust and confidence, thereby facilitating the Company's continued access to the capital market.
(2) Principles	Achieve fair company valuation through timely communication of accurate information to all stakeholders.
(3) Modes of Communications	E-mail, written correspondence and telephone
(4) Investors Relations Officer	**Ma. Margarita A. Atienza** Vice President - Investor Relations Email: MAAtienza@rgoc.com.ph Tel: (632) 8901142

3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

Due diligence, benchmarking, market dynamics, long-term sustainability of the business, synergies with the whole group, cost implications, core competency, board approval, regulatory approvals, in all cases, as consistent with applicable law.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

N/A

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

None for now.

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors	The Board may create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided for in the Revised Code of Corporate Governance. The creation and implementation of such self-rating system, including its salient features, may be disclosed in the corporation's annual report.	
Board Committees	None.	None.
Individual Directors	None	None
CEO/President	None	None

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
As provided in the Company's Manual, to avoid non-compliance and to strictly observe the provisions of this Manual, the Board of Directors may impose appropriate sanctions, penalty or corrective measures, after due notice and hearing, on the erring directors, officers and employees. Sanction or penalty may include censure, suspension and removal from office depending on the gravity of the offense, the resulting damage, as well as the frequency of the violation. The commission of a grave violation of this Manual by any member of the Board of Directors shall be sufficient cause for removal from directorship.	

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on April 13, 2015.

SIGNATURES

ANTHONY T. HUANG President	**MA. MARGARITA A. ATIENZA** Compliance Officer

MAKATI CITY APR 13 2016

SUBSCRIBED AND SWORN to before me this 13th day of April 2015, affiant(s) exhibiting to me their identification documents, as follows:

NAMES	ID NUMBER	DATE OF ISSUE	PLACE OF ISSUE
ANTHONY T. HUANG	Philippine Passport EB5215003	April 23, 2012	DFA Manila
MA. MARGARITA A. ATIENZA	Philippine Passport EB4253351	December 12, 2011	DFA Manila

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-52 **NOTARY PUBLIC**
UNTIL DECEMBER 31, 2016
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016333/4-10-2013
IBP O.R No.706762-LIFETIME MEMBER JAN. 29,2007
PTR No. 532-35-05- JAN 04,2016 MAKATI CITY
EXECUTIVE BLDG. CENTER
MAKATI AVE., COR., JUPITER

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