COVER SHEET

C	S	2	0	0	7	0	5	6	0	7

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

Total Amount of Borrowings

38

Total No. of Stockholders as of 31 December 2017

₱6,194 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 ____________

SSI Group, Inc.
(Company's Full Name)

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

(632) 890-8034
(Telephone Number)

December 31, 2017
(Fiscal Year Ending)
(Month & Day)

SEC FORM 17-A
(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, *AS AMENDED*

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, 2017**
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) 890-80-34**
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	**3,312,714,430**

Amount of consolidated debt outstanding debt as of December 31, 2017: ₱6,194.1 million

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

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 ₱2.56 billion (based on the closing price of SSI Group, Inc. common shares as of April 11, 2018 and outstanding shares owned by the public as of December 31, 2017).

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:

    2017 Consolidated Financial Statements of SSI Group, Inc. and Subsidiaries.

TABLE OF CONTENTS

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, 2017, SSI's retail network consists of 638 stores located within approximately 92 major malls across the Philippines, including Metro Manila, Luzon, Visayas and Mindanao, with a total gross selling space of approximately 129,486 square meters.

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 108 brands as of December 31, 2017. 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, Pull&Bear, and Old Navy for popular fast fashion, Lacoste and GAP for casual wear, TWG Tea and SaladStop! for high-quality food and beverage selections, Samsonite for stylish travel and luggage offerings, Payless ShoeSource for value-priced trendy footwear, and MUJI and Pottery Barn for modern home furnishings and accessories. 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.

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 638 directly-operated stores spread across approximately 92 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.

Broad 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 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," "MakeRoom," and "Good Eats", in the personal care home solutions, and food and beverage categories, respectively, to carry both its own and also third-party brands, many of which are exclusive to it in the Philippine market. 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, 2017, the Group's specialty store network of international brands was the largest in the country, with approximately 638 stores, representing a total gross selling space of 129,486 square meters. 502 stores are located in Metro Manila, 62 in Luzon (excluding Metro Manila), 35 in Visayas and 39 in Mindanao. SSI stores are located in prime retail space where consumer traffic is generally the most concentrated and brand visibility is the highest. 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

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. He has been instrumental to the growth of the Group over the past two decades. The Group's Executive Vice President and 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.

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, 2017, 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 Exchange 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, 2017, SSI Group, Inc. was 29.54% 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, 2017, SSI managed 108 brands through a nationwide retail footprint of approximately 638 stores. In 2013, SSI entered into a 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.

In December 2017, 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 convenience store business through the sale of its investment in Philippine FamilyMart CVS, Inc. The sale was completed on January 11, 2018 after the approval of the Philippine Competition Commission.

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.

The Group also has a growing e-commerce presence and currently operates six (6) e-commerce websites, namely: (1) www.payless.ph, (2) lacoste.com.ph, (3) beautybar.com.ph, (4) superga.ph, (5) 158db.com.ph and (6) ssilife.com.ph.

Specialty retailing accounts for all of the Group's revenues while gains and losses from its joint ventures are recorded under "Share in net earnings (losses) of joint ventures". Please refer to the attached financial statements of the Group as of December 31, 2017 and 2016 and for each of the three years ended December 31, 2017 for more information.

The following table sets out the Company's subsidiaries as of December 31, 2017 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, Pull&Bear Marks & Spencer and Old Navy.	Apparel, footwear and accessories
Footwear, Accessories and Luggage	Brands that focus only on collections of shoes, accessories, and luggage. Examples are Payless ShoeSource, Steve Madden, and Samsonite.	Footwear, accessories and luggage
Others	Include: ***Home*** - Brands that cater to home furnishings and accessories, and interior design items. Examples are Pottery Barn, West Elm and MakeRoom. ***Food -*** Food brands such as TWG Tea and SaladStop!. ***Personal Care*** - Brands which manufacture products dedicated to health and beauty, including perfume, sunscreen, nails hair and skin care products and cosmetics. Examples are, L'Occitane, Lush, Beauty Bar and MAC Cosmetics.	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, 2015, 2016 and 2017.

In PhP Millions	**For the years ended December 31**					
	2015	**(%)**	**2016**	**(%)**	**2017**	**(%)**
Luxury and Bridge	3,556	20.4	3,848	20.9	4,059	22.0
Casual Wear	2,695	15.5	2,616	14.2	2,359	12.8
Fast Fashion	6,232	35.8	6,569	35.6	6,792	36.8
Footwear, Accessories and Luggage	2,533	14.5	2,686	14.6	2,500	13.5
Others	2,405	13.8	2,723	14.8	2,751	14.9
Total Revenues	**17,421**		**18,442**		**18,460**	

FOREIGN SALES

As of December 31, 2017, 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, 2017, SSI registered 29 trademarks in the Philippines as enumerated in the following table. SSI is also the owner of seven (7) domain names, including: www.ssigroup.com.ph, ssilife.com.ph, beautybar.com.ph, 158db.com.ph, www.payless.ph, lacoste.com.ph, and superga.ph.

Name of Trademark	Logo/Symbol	Expiry Date
"MAKEROOM" (4201400013426)	MakeRoom The Storage and Organization Specialist	January 15, 2025
"MAKEROOM" (4201400013427)	MakeRoom The Storage and Organization Specialist	January 15, 2025
"MAKEROOM" (4201400013428)	MakeRoom The Storage and Organization Specialist	January 15, 2025
"MAKEROOM" (4201400013429)	MakeRoom The Storage and Organization Specialist	January 15, 2025
"MAKEROOM" (4201400013430)	MakeRoom The Storage and Organization Specialist	January 15, 2025
"MAKEROOM" (4201400013431)	MakeRoom The Storage and Organization Specialist	January 15, 2025
"KISS AND FLY WORD MARK" (42014012250)	**KISS AND FLY**	March 12, 2025
"BEAUTY BAR WORD MARK" (4201400013228)	Beauty bar	January 14, 2026
"THEXCHANGE (WITH COLOR)" (42015013295)	thexchange	April 15, 2026
"THEXCHANGE (PLAIN ONLY)" (42015013294)	thexchange	April 15, 2026

Name of Trademark	Logo/Symbol	Expiry Date
"158 DESIGNERS BLVD. WORD MARK" (42015013290)	158 Designers Blvd.	March 3, 2026
"TUTTO MODA WORD MARK" (42015013293)	Tutto Moda	August 25, 2026
"RED TAG WORD MARK" (42015013291)	Red Tag	July 7, 2026
"SOLES WORD MARK" (4201600013212)	SOLES	February 16, 2027
"GREEN WANDERER ROUND" (42017010771) (42017010773) (42017010774) (42017010775) (42017010776)		Pending application approval
"GREEN WANDERER RECTANGLE" (42017010778) (42017010779) (42017010780) (42017010783) (42017010784)		Pending application approval
"GREEN WANDERER WORD MARK" (42017019130)	**GREEN WANDERER**	Pending application approval
"SSI WORD MARK AND LOGO (WITH COLOR)" (42017017229)	Stores Specialists, Inc.	Pending application approval

Name of Trademark	Logo/Symbol	Expiry Date
"SSI GROUP, INC. WORD MARK AND LOGO (WITH COLOR)" (42014010950)	SSIGROUP, Inc	Pending application approval
"GOOD EATS BY SFRI WORD MARK" (042017020712)	**GOOD EATS BY SFRI**	Pending application approval
"SFRI WORD MARK" (042017020713)	**SFRI**	Pending application approval

DISTRIBUTION METHODS OF THE PRODUCTS OR SERVICES

The Group's products are distributed to its clients through its specialty store network and its e-commerce websites.

As of December 31, 2017, the Group's specialty retail footprint consisted of approximately 638 stores in Metro Manila and other major cities in the Philippines, as well as one store in Guam. SSI stores are located primarily in major malls in premium shopping districts with well-established customer traffic.

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, 2015, 2016 and 2017.

	As of December 31		
	2015	**2016**	**2017**
Number of Brands	116	114	108
Number of Stores	792	708	638
Gross selling space	147,145	138,852	129,486
Growth (Decrease) in Gross Selling Space (%)	10.1	(5.6)	(6.7)

The following table sets out SSI's store footprint by region as of December 31, 2015, 2016 and 2017:

	As of December 31		
	2015	**2016**	**2017**
Metro Manila	610	558	502
Luzon (Excluding Metro Manila)	70	64	62
Visayas	45	41	35
Mindanao	67	45	39

SSI currently has 14 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, 2017, 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

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.

SUPPLIERS

The following table sets out, in chronological order, the brands SSI represented as of December 31, 2017, including SSI's own "Beauty Bar," "MakeRoom," and "Good Eats" concept brands, and the year each of these brands were added to the Group's portfolio.

Lacoste	1990	Dunhill	2007	Nars	2013
Marks & Spencer	1990	Ermenegildo Zegna	2007	Stradivarius	2013
Salvatore Ferragamo	1991	GAP	2007	Swarovski	2013
Bass	1994	Michael Kors	2007	Women's Secret	2013
Anne Klein	1995	Aerosoles	2008	A2 by Aerosoles	2014
MCS	1995	Banana Republic	2008	Acca Kappa	2014
Charriol	1996	L'Occitane	2008	Alexander McQueen	2014
Nine West	1996	Marc by Marc Jacobs	2008	Clarins	2014
Polo Ralph Lauren	1996	Oka-B	2008	Cortefiel	2014
CK Jeans	1997	Samsonite	2008	Diptyque	2014
Armani Exchange	1998	Sinéquanone	2008	Eden Park	2014
Beauty Bar	1998	Steve Madden	2008	F&F	2014
CK Underwear	1998	Superga	2008	Givenchy	2014
Jessica	1998	Hermès	2009	Hamley's	2014
Prada	1999	Jimmy Choo	2009	Isaac Mizrahi	2014
Kenneth Cole	2000	MAC Cosmetics	2009	Longchamp	2014
Bally	2001	Massimo Dutti	2009	MBT	2014
DKNY	2001	Tory Burch	2009	Old Navy	2014
Lush	2001	MUJI	2010	Oliviers & Co	2014
Make Room	2001	Payless ShoeSource	2010	Pottery Barn	2014
Diesel	2002	Stride Rite	2010	Pull&Bear	2014
Bottega Veneta	2003	Essences	2011	Reiss	2014
Burberry	2003	Le Sportsac	2011	SaladStop!	2014
Gucci	2003	Replay	2011	Saville Row	2014
Kate Spade	2003	Vince Camuto	2011	West Elm	2014
Lacoste Accessories	2003	Bobbi Brown	2012	Charming Charlie	2015
Saint Laurent	2003	Clinique	2012	Coach	2015
Springfield	2003	Hackett	2012	Joe Fresh	2015
Tod's	2003	Superdry	2012	Kurt Geiger	2015
Dashing Diva	2005	Tommy Hilfiger	2012	Lipault	2015
Debenhams	2005	TWG	2012	Makeup Factory	2015
Hugo Boss	2005	Aéropostale	2013	Max & Co	2015
Zara	2005	American Tourister	2013	Radley	2015
Ecco	2006	Bershka	2013	Montblanc	2016
Furla	2006	Brooks Brothers	2013	Estée Lauder	2017
Cartier	2007	Dune	2013	Good Eats	2017

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 2015 to 2017.

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, 2017, SSI's specialty store operations employed a total of approximately 6,452 employees, of which approximately 66% are store-based.

The following table provides the Group's employees by function as of December 31, 2017.

Function	**Number of Employees**
Executive and Managerial	1,006
Administrative and head office staff	1,173
Store personnel	4,273
Total	**6,452**

Hiring policy for the next 12 months will remain in line with 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, 2017, 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 changes in the operating or financial position of brand principals abroad, 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 expanding its store network.

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.

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, Bangkok and Tokyo, 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 29-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, 2017, 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 ("FBDC") 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 638 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, fluctuations in exchange rates, 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, 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, 2017, own approximately 70.46% 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, 2017, 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 FBDC. 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, 2017, 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 129,486 square meters gross selling area as of December 31, 2017. 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 Notes 10 and 26 of the accompanying Notes to the Consolidated Financial Statements for further details on property and equipment and lease agreements, respectively.

Item 3. Legal Proceedings

As of December 31, 2017, 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 first quarter of 2018 and for the years 2017 and 2016:

	High	Low
2018		
1st Quarter	3.40	2.60
2017		
1st Quarter	2.80	2.08
2nd Quarter	4.16	2.19
3rd Quarter	5.06	4.09
4th Quarter	4.32	3.02
2016		
1st Quarter	3.75	2.43
2nd Quarter	4.15	2.65
3rd Quarter	3.73	2.85
4th Quarter	2.93	2.50

The market capitalization of SSI Group, Inc.'s common shares as of December 31, 2017, based on the closing price of ₱3.30 per share, was approximately ₱10.9 billion.

The stock price of SSI Group, Inc.'s common shares as of April 11, 2018 is ₱2.62 per share translating to a market capitalization of approximately ₱8.7 billion**.**

HOLDERS

The number of registered shareholders as of March 31, 2018 was 38. Outstanding common shares as of March 31, 2018 were 3,312,564,430.

The following are the top 20 registered holders of SSI Group, Inc.'s securities as of March 31, 2018:

No.	Name of Shareholder	Number of Shares Held	Percent to Total Outstanding Shares
1	PCD Nominee Corporation (Filipino)	862,756,594	26.0450%
2	Wellborn Trading & Investments, Inc.	466,043,679	14.0690%
3	Marjorisca Incorporated	434,440,400	13.1149%
4	Birdseyeview, Inc.	434,412,500	13.1141%
5	Educar Holdings Corporation	415,753,800	12.5508%
6	Bordeaux Holdings, Inc.	414,967,821	12.5271%

No.	Name of Shareholder	Number of Shares Held	Percent to Total Outstanding Shares
7	PCD Nominee Corporation (Non-Filipino)	190,726,185	5.7577%
8	Valbuena, Maria Elena T.	31,603,479	0.9540%
9	Tantoco, Maria Teresa Rustia	31,601,431	0.9540%
10	Lopez, Maria Carmencita T.	30,244,090	0.9130%
11	Iyo, Sarah Bismark	265,000	0.0080%
12	Go, Giselle Karen Y.	10,000	0.0003%
13	Tacub, Pacifico B.	7,000	0.0002%
14	Stephen T. Teo &/Or Teresita R. Teo	6,000	0.0002%
15	Wee, Joseph	5,000	0.0002%
16	Oscar M. Rayos del Sol	2,000	0.0001%
17	Quimpo, Celeste Virginia C. Ylagan And/Or Ma	2,000	0.0001%
18	Michael Vincent Y. Yap	1,500	0.0000%
19	Go, Frederick D.	1,500	0.0000%
20	Tingzon, Gina B.	1,000	0.0000%

DIVIDENDS

No dividends were declared by the Company during 2017 and 2016.

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

RESULTS OF OPERATIONS

For the years ended December 31, 2017, 2016 and 2015

Key Performance Indicators *PhP MM except where indicated*	**For the years ended December 31** **2017**	**2016**	**2015**
Net Sales	18,460	18,442	17,421
Gross Profit	8,668	9,154	9,324
Operating Income	1,259	1,249	1,770
Net Income	275	232	811
Gross Selling Space (sq.m.)	129,486	138,852	147,145
Growth (Decrease) in Gross Selling Space (%)	(6.7%)	(5.6%)	10.1%

The manner by which the Company calculates the key performance indicators above is as follows:

Net sales	Sales, net of VAT, less sales returns and allowances and sales discounts
Gross profit	Net sales less cost of sales
Operating income	Gross profit less operating expenses
Net income	Operating income less other charges
Gross selling space	Sum of floor area of all stores of the Group

Key Financial and Operating Data	For the years ended December 31		
PhP MM except where indicated	2017	2016	2015
Key Financial Data			
Net Sales	18,460	18,442	17,421
Luxury & Bridge	4,059	3,848	3,556
Casual	2,359	2,616	2,695
Fast Fashion	6,792	6,569	6,232
Footwear, Accessories & Luggage	2,500	2,686	2,533
Others	2,751	2,723	2,405
Gross Profit	8,668	9,154	9,324
Gross Profit Margin (%)	47.0%	49.6%	53.5%
Operating Income	1,259	1,249	1,770
Operating Income Margin (%)	6.8%	6.8%	10.2%
Other Income (Charges)	(712)	(666)	(475)
Net Income	275	232	811
Net Income Margin (%)	1.5%	1.3%	4.7%
Core Net Income[1]	652	581	842
Core Net Income Margin (%)	3.5%	3.2%	4.8%
Total Debt[2]	6,194	6,928	8,011
Net Debt[3]	4,505	5,881	6,706
Key Operating Data			
Specialty Retailing			
Number of Brands	108	114	116
Number of Stores	638	708	792
Gross Selling Space (sq.m.)	129,486	138,852	147,145
Growth (Decrease) in Gross Selling Space (%)	(6.7%)	(5.6%)	10.1%
Convenience Stores			
Number of Stores	67	98	112
Gross Selling Space (sq.m.)	7,871	11,631	13,037
Growth (Decrease) in Gross Selling Space (%)	(32.3%)	(10.8%)	35%

2017 vs. 2016

Net Sales

SSI Group, Inc. ("SSI", the "Company", or the "Group") generated net sales of ₱18.5 billion for the year ended December 31, 2017, an increase of 0.1% compared to the year ago period. During the second half of the year alone, SSI saw an increase of 1.9% in net sales driven by the performances of its brands under luxury and bridge, fast fashion, and others categories.

The year-to-date increase of 0.1% was better than expected given the fact that SSI was operating within a highly competitive environment, within a period of a weakening peso, and that the Group's total selling area declined by 6.7% during the year. This also reflects the impact of the Group's store rationalization

[1] Core Net Income is derived by excluding the effect of non-recurring write-offs due to store closures and other one-time write-offs from the Group's net income
[2] Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt.
[3] Calculated as Total Debt minus Cash.

program, which seeks to improve the overall sales quality and operating efficiency of the Group's store network. The rationalization program also seeks to strengthen the Group's dominant position in high productivity, central locations.

SSI's store network consisted of 638 stores covering 129,486 square meters. This is a year-on-year net decline of 9,366 square meters, or a decrease of 6.7%, as compared to the year ago period. During the fourth quarter, the Group opened 12 new stores covering 664 square meters while at the same time closing 26 stores covering 3,064 square meters.

As of December 31, 2017, the Group's brand portfolio consisted of 108 brands, with Estée Lauder and Good Eats added to the Group's portfolio and eight (8) brands discontinued during the year.

The following table sets out the Group's number of stores and gross selling space for the years ended December 31, 2017, 2016 and 2015.

Store Network	**For the years ended December 31**		
	2017	**2016**	**2015**
Number of Stores	638	708	792
Luxury & Bridge	140	159	165
Casual	86	98	138
Fast Fashion	72	76	97
Footwear, Accessories & Luggage	189	217	234
Others	151	158	158
Gross Selling Space (sq.m.)	129,486	138,852	147,145
Luxury & Bridge	14,203	16,715	17,544
Casual	15,012	16,484	19,129
Fast Fashion	55,655	56,702	60,941
Footwear, Accessories & Luggage	24,236	25,889	26,209
Others	20,381	23,061	23,322

*Number of Stores for the period excludes stores located in Guam.
As of December 31, 2017, the Group operated 1 store in Guam which contributed de minimis sales to the Group's net sales for the period.

Gross Profit

Gross profit for the year ended December 31, 2017 amounted to ₱8.7 billion, a decrease of 5.3% compared to the year ago period. Gross profit margin for the year was at 47.0% compared to 49.6% in 2016. The decrease in gross profit margin reflects among others, the highly competitive environment within which the Group continues to operate and the impact of the weaker peso in 2017.

Operating Expenses

The Group realized benefits from operational efficiencies during the year with total operating expenses of ₱7.4 billion, a decline of 6.3% as compared to the same period last year. The decrease reflects the impact of SSI's store consolidation program as well as the Group's focus on maximizing scale and cost efficiencies.

Total operating expenses as a percentage of net sales was at 40.1% for the period ended December 31, 2017, an improvement over 42.9% during the same period last year.

Selling and distribution expenses for the year amounted to ₱6.2 billion, a decrease of 8.6% compared to the same period last year. The overall decrease was primarily driven by reductions in the following: (a) depreciation and amortization expense, which decreased 31.5% to ₱939.0 million; (b) rent expense, which decreased 5.4% to ₱2.0 billion, (c) personnel costs, which declined 6.1% to ₱1.1 billion; and (d) utilities expense, which declined to ₱603.0 million, a 5.8% decrease year-on-year.

As a result, selling and distribution expenses were at 33.5% of revenues, a significant improvement over 36.7% during the same period last year.

General and administrative expenses amounted to ₱1.2 billion, an increase of 7.5% over the same period last year. The overall increase was driven mainly by an increase in personnel costs amounting to ₱637.2 million, which was offset by decreases in rent and advertising expenses amounting to ₱110.2 million and ₱26.8 million, respectively.

As a result of the foregoing, SSI's operating income for the year amounted to ₱1.3 billion, an increase of 0.8% versus the same period last year. This translated to an operating income margin of 6.82% as compared to 6.77% last year.

Other Income (Charges)

For the year ended December 31, 2017, the Group incurred other charges of ₱711.5 million as compared to ₱666.4 million in 2016. The increase was largely attributable to the impairment losses recognized on the Group's investments in the FamilyMart and Wellworth joint ventures amounting to ₱49.0 million and ₱27.1 million, respectively, as well as an increase in write-offs related to the Group's store rationalization program to₱280.5 million, ₱158.4 million of which were recognized during the last quarter of the year.

However, the Group's share in the net losses of its joint ventures decreased to ₱100.0 million in 2017 as compared to ₱286.3 million in 2016. The decrease was a result of FamilyMart losses amounting to ₱116.9 million, a 19.8% decrease from last year. The Group also booked its share in the net income of Landmark Management Services, Ltd. ("LMS") and MUJI Philippines Corp. ("MPC") amounting to ₱11.6 million and ₱5.3 million, respectively.

SSI also incurred lower interest expense amounting to ₱290.5 million in 2017. This represents a decrease of 14.8% as a result of a decrease in the average debt levels of the Group during the year.

Provision for Income Tax

For the year ended December 31, 2017, provision for income tax amounted to ₱272.3 million, which translates to an effective tax rate of 49.7%. This reflects the effect of nontaxable income such as the interest accretion on security deposits and nondeductible tax expenses such as the Company's share in the net income or net losses of its joint ventures. The Group also wrote-off expiring net operating loss carry overs (NOLCO) amounting to ₱21.9 million during the year.

Net Income

As a result of the foregoing, net income in 2017 was at ₱275.3 million as compared to ₱231.6 million in 2016, an increase of 18.8%.

Core net income, or net income excluding write-offs related to the Group's store rationalization program, impairment losses related to the FamilyMart and Wellworth businesses, and write-offs of expiring NOLCO, was at ₱652.2 million, an increase of 12.3% versus the year ago period.

As a result of the write-offs booked during the 4th quarter of the year, the Group booked a net loss of ₱69.1 million during the period.

However, excluding these write-offs, core net income during the 4th quarter of 2017 was ₱205.2 million, which represents an increase of 10.0% as compared to the 4th quarter of 2016.

FINANCIAL CONDITION

As of December 31, 2017, the Group had consolidated assets of ₱18.8 billion, a decrease of 2.0% as compared to December 31, 2016.

Current Assets

Cash

Cash amounted to ₱1.7 billion as of December 31, 2017. This was a 61.3% increase from ₱1.0 billion at the end of 2016. The increase was largely attributable to operating cash flows generated during the year amounting to ₱2.0 billion, a 9.3% increase as compared to last year's ₱1.8 billion. In addition, the Company received a return of capital in SIAL Specialty Retailers, Inc. ("SSRI") and dividends from SPI amounting to ₱140.0 million and ₱26.0 million, respectively.

Prepayments and other Current Assets

As of December 31, 2017, prepayments and other current assets were at ₱1.3 billion, an increase of 10.0% from ₱1.2 billion at the end of 2016. The increase was mainly attributable to increases in supplies inventory to ₱532.9 million and advances to suppliers of merchandise to ₱361.5 million.

Non-Current Assets

Investment in an Associate

As of December 31, 2017, investment in an associate amounted to ₱47.3 million as compared to ₱77.8 million in 2016. The net decrease reflects the share in the net earnings of Samsonite Philippines, Inc. ("SPI") as well as dividends received from SPI.

Interests in Joint Ventures

As of December 31, 2017, interests in joint ventures were at ₱485.4 million as compared to ₱663.4 million at the end of 2016. The decrease was largely attributable to the Group's share in net losses of SIAL CVS Retailers, Inc. ("SCRI") amounting to ₱116.9 million, and impairment losses recognized on the investments in SCRI and SSRI amounting to a total of ₱76.1 million. As a result, the balance of the investments in SCRI and SSRI at the end of 2017 was zero.

During the year, the Group invested in MUJI Philippines Corp. ("MPC"), a joint venture between Stores Specialists, Inc. ("SSI") and Ryohin Keikaku Co., Ltd., with SSI owning 51% of MPC. The Group paid ₱89.3 million as capital investment to MPC and also recorded its share in MPC's earnings during the year amounting to ₱5.3 million.

The Group also booked its share in the 2017 net income of Landmark Managements Services, Ltd. amounting to ₱11.6 million.

Property and Equipment

Property and equipment amounted to ₱3.3 billion as of December 31, 2017. This is a decrease from ₱4.3 billion at the end 2016, reflecting the selective opening of new stores, the write-off of fixed assets in relation to the Group's store rationalization program, and the depreciation expense recognized during the year.

Deferred Tax Assets

As of December 31, 2017, deferred tax assets amounted to ₱300.1 million as compared to ₱240.8 billion as of 2016. The Group recognizes deferred tax assets on all deductible temporary differences, carryforward benefits of unused minimum corporate income tax, and NOLCO to the extent that it is probable that future taxable profits will be available against which these can be utilized. DTA recognized on additional NOLCO and MCIT during the year mainly contributed to the increase.

Current Liabilities

As of December 31, 2017, the Group had consolidated current liabilities of ₱7.3 billion, as compared to ₱6.8 billion at the end of 2016.

Current Portion of Long-Term Debt

As of December 31, 2017, current portion of long-term debt increased to ₱1.1 billion from ₱917.7 million at the end of 2016. The increase reflects quarterly payments due within the next 12 months on the ₱500.0 million term loan facility entered into by the Group on October 14, 2016.

Non- Current Liabilities

Long-term Debt

The Group's long-term debt was at ₱851.0 million as of December 31, 2017 compared to ₱2.0 billion at the end of 2016. The decrease reflects quarterly repayments on the Group's term loan facilities.

Retirement Benefit Obligation

As of December 31, 2017, retirement benefit obligation was at ₱379.0 million from ₱345.3 million at the end of 2016. 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 2017, a total of ₱18.7 million in retirement benefits were paid out.

Equity

Total equity amounted to ₱10.2 billion as of December 31, 2017. This is an increase of 2.7% compared to 2016, which significantly pertains to an increase in retained earnings, reflecting the net income earned by the Group during the year.

2016 vs. 2015

Net Sales

For the year ended December 31, 2016, the Group generated net sales of ₱18.4 billion, an increase of 5.9%, as compared to the year ago period. The growth in net sales was driven by same- store sales growth as well as sales of stores open for less than 24 months. Given its diversified brand portfolio and its strategically located store network, the Group continues to benefit from increasing consumer demand and interest in international specialty brands.

As of December 31, 2016, the Group's store network consisted of 708 stores covering 138,852 square meters. This represents a 10.6% decline in the number of stores and a 5.6% decline in the number of square meters operated by the Group, as compared to year end 2015. In line with the Group's focus on improving operating efficiencies in 2016, the Group closed 142 stores covering 13,818 square meters while at the same time opening 58 stores covering 5,525 square meters for strong brands in central locations.

As of December 31, 2016, the Group's brand portfolio consisted of 114 brands, with Montblanc added to the Group's portfolio during the year. There were no new brands added and no brands discontinued during the 4th quarter of 2016.

Gross Profit

For the year ended December 31, 2016, the Group's gross profit was ₱9.2 billion, a decrease of 1.8% as compared to the year ago period. Gross profit margin in 2016 was at 49.6% as compared to 53.5% in 2015. The decrease in gross profit margin reflects increased discounting and promotional activities as the Group faced a more competitive operating environment in 2016 as compared to 2015. Gross profit margin during the 4th quarter of 2016 was at 49.9% as compared to 48.2% during the 3rd quarter of 2016.

Operating Expenses

For the year ended December 31, 2016, the Group's operating expenses amounted to ₱7.9 billion, an increase of 4.6% as compared to the year ago period. Total operating expenses as a percentage of revenue declined to 42.9% as compared to 43.4% in 2015. Operating expenses excluding depreciation and amortization were stable at 34.8% of revenues as compared to 34.9% at the end of 2015.

Selling and distribution expenses increased 4.3% to ₱6.8 billion. The moderate rate of increase in selling and distribution expenses was driven by an increase in rental expense which grew by 8.6% to ₱2.1 billion, offset by increases in personnel expense, depreciation and utilities expense of just 1.1% to a total of ₱3.1 billion. The moderate rate of increase of selling and distribution expenses reflects the impact of the Group's store rationalization program as well as the Group's focus on maximizing scale and cost efficiencies.

General and administrative expenses increased 7.0% to ₱1.1 billion. Increases in general and administrative expenses were driven by increases in personnel expenses which grew by 8.0% to ₱502.7 million and rental expense which increased by 6.1% to ₱130.5 million. These expenses increased in line with new head office spaces and positions added in 2016 in order to service the Group's store network.

As a result of the foregoing, operating income for the period was at ₱1.2 billion as compared to ₱1.8 billion in 2015.

Other Income (Charges)

For the year ended December 31, 2016, the Group incurred other charges of ₱666.4 million as compared to ₱474.7 million in 2015. The increase in other charges is attributable to one-time store closure write-offs related to the Group's store rationalization program of ₱142.7 million, booked under Loss on stores closures and disposals of property and equipment.

The Group's share in net losses of joint ventures also increased to ₱286.3 million from ₱228.3 million in 2015. Share in net losses of joint ventures included one-time write-offs related to both the Wellworth and FamilyMart joint ventures. The Group's share in the losses of Philippine FamilyMart CVS, Inc. was ₱145.8 million as compared to ₱80.0 million in 2015. However, losses in 2016 included one-time write-offs related to store and inventory rationalization of ₱60.8 million.

The Group's share in the losses of Wellworth department stores was ₱145.0 million as compared to ₱147.7 million in 2015. However, losses in 2016 included one-time write-offs related to the sale of Wellworth's operating assets in March 2016 of ₱112.1 million.

Landmark Management Services generated income of ₱4.5 million as compared to a loss of ₱615 thousand in 2015.

Net of one-time write offs, share in the operating losses of joint ventures was ₱113.3 million as compared to ₱228.3 million in 2015.

Provision for Income Tax

For the year ended December 31, 2016, provision for income tax was ₱350.9 million. Increases in provision for income tax were a result of non tax-deductible expenses such as the Group's share in the net losses of the FamilyMart and Wellworth joint ventures as well as write-offs of expiring net operating loss carry overs (NOLCO) of ₱76.6 million.

Net Income

As a result of the foregoing, net income in 2016 was at ₱231.6 million as compared to ₱810.7 million in 2015.

Core net income, or net income excluding write-offs related to the Group's store rationalization program, write-offs related to the FamilyMart and Wellworth businesses and write-offs of expiring NOLCO was at ₱581.0 million.

As a result of the write-offs booked during the 4th quarter of the year, the Group booked a net loss of ₱73.6 million during the period.

However, excluding write-offs, core net income during the 4th quarter of 2016 was ₱186.4 million. This represents an increase of ₱74.0 million or 66% as compared to core net income during the 4th quarter of 2015.

EBITDA

As a result of the foregoing, EBITDA in 2016 was ₱2.8 billion as compared to ₱3.3 billion in 2015.

FINANCIAL CONDITION

As of December 31, 2016 the Group had consolidated assets of ₱19.1 billion, a decrease of 7.1% as compared to December 31, 2015.

Current Assets

Cash

As of December 31, 2016, cash was at ₱1.0 billion as compared to ₱1.3 billion at the end of 2015. The decrease in cash balance reflects the use of cash to support operations and pay down debt in 2016.

Trade and Other Receivables

As of December 31, 2016 trade and other receivables were at ₱825.1 million as compared to ₱594.6 million at the end of 2015. The increase in receivables was due primarily to an increase in nontrade receivables to ₱356.3 million driven by advertising and marketing support from the principals and landlords Trade receivables were at ₱277.7 million as compared to ₱220.9 million at the end of 2015. Trade receivables consist primarily of receivables from credit card companies.

Prepayments and other Current Assets

As of December 31, 2016, prepayments and other current assets were at ₱1.2 billion from ₱1.4 billion at the end of 2015. The decrease in prepayments and other current assets was due primarily to a decrease in advances to suppliers to ₱337.6 million, representing advance payments for merchandise inventory, and a decrease in deferred input VAT to ₱15.9 million which was offset by an increase in input VAT to ₱288.2 million

Non-Current Assets

Interests in Joint Ventures

As of December 31, 2016, interests in joint ventures were at ₱663.4 million, from ₱1.1 billion at the end of 2015. During the year the Group booked its share of SCRI losses of ₱145.8 million. The Group also booked its share of SIAL Specialty Retailers, Inc. (SSRI) losses of ₱145.0 million, while at the same time booking a return of capital of ₱104.8 million, with both transactions related to the sale of the Wellworth department store operating assets in March 2016.

Property and Equipment

As of December 31, 2016, property and equipment was at ₱4.3 billion, as compared to ₱5.2 billion at the end of 2015. The decrease in Property and Equipment reflects the Group’s store consolidation program as well as the selective opening of new stores undertaken in 2016.

Other Noncurrent Assets

As of December 31, 2016 other noncurrent assets were at ₱103.1 million as compared to ₱96.5 million in 2015. The increase in other noncurrent assets is due primarily to an increase in capitalized software costs to ₱4.6 million.

Current Liabilities

As of December 31, 2016, the Group had consolidated current liabilities of ₱6.8 billion, as compared to ₱8.1 billion at the end of 2015.

Trade and Other Payables

As of December 31, 2016, trade and other payables were at ₱1.7 billion as compared to ₱2.4 billion at the end of 2015. 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, 2016, short-term loans payable were at ₱4.0 billion, as compared to ₱5.1 billion at the end of 2015. The Group was able to retire short term debt using free cash flows of ₱1.2 billion generated during the year.

Current Portion of Long-Term Debt

As of December 31, 2016, Current portion of long-term debt was ₱917.7 million, as compared to ₱467.6 million at the end of 2015. 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 a ₱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, 2016, long-term debt was at ₱2.0 billion from ₱2.4 billion at the end of 2015. The change in long-term debt reflects repayments of long term debt due within the next 12 months as well as a ₱500.0 million five-year term loan entered into on October 14, 2016.

Retirement Benefit Obligation

As of December 31, 2016, retirement benefit obligation was at ₱345.3 million from ₱330.6 million at the end of 2015. 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 2016, a total of ₱12.0 million in retirement benefits were paid out.

Tenant Deposits

As of December 31, 2016, tenant deposits were at ₱34.8 million from ₱21.3 million in 2015. These primarily represent deposits on spaces rented out at Central Square in Bonifacio High Street.

Equity

As of December 31, 2016, total equity was at ₱10.0 billion as compared to ₱9.7 billion at the end of 2015. The increase in total equity was due primarily to an increase in retained earnings, reflecting net income generated in 2016.

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.

(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.").

Year	**Audit fees** (*in PhpM*)
2017	5.0
2016	4.8
2015	4.7

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 Revised 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 of Directors and executive officers. All members of the Board of Directors and executive officers listed below are citizens of the Philippines.

Name	Position
Zenaida R. Tantoco	Chairman and Chief Executive Officer
Anthony T. Huang	Director and President
Ma. Teresa R. Tantoco	Director and Treasurer
Ma. Elena T. Valbuena	Director
Bienvenido V. Tantoco III	Director
Eduardo T. Lopez III	Director
Edgardo Luis Pedro T. Pineda	Director
Carlo L. Katigbak	Independent Director
Jose Teodoro K. Limcaoco	Independent Director
Elizabeth T. Quiambao	Executive Vice President
Rossellina J. Escoto	Vice President - Finance
Ma. Margarita A. Atienza	Vice President - Investor Relations & Corporate Planning and Compliance Officer
Ma. Alicia G. Picazo-San Juan	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, 71, 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 Chairman and Chief Executive Officer 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, 46, Director of the Company since 2007. 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 President of Rustan Marketing Corporation, Executive Vice President of Rustan Commercial Corporation, and the Chairman of the Board of Landmark Management Services, Ltd. and MUJI Philippines Corp. He is a member of the board of directors of Sta. Elena Properties, Inc and Commonwealth Foods, Inc. Mr. Huang has been recognized as a Cavaliere of the Order of Merit of the Italian Republic and as a Chevalier de le Legion D' Honneur of France for his contributions to strengthening the economic ties between the Philippines and Italy and France and for improving local accessibility to the products of these two countries. Mr. Huang graduated from the University of Asia and the Pacific with a Bachelor of Arts degree in Humanities.

Ma. Teresa R. Tantoco, 53, 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, 59, Director of the Company since 2008. Ms. Tantoco is also a member of the board of directors of several of the 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 for Home Merchandising and Buying. In addition, she is a member of the board of directors of Rustan Coffee Corporation, Rustan Marketing Corporation and RPG Distribution Services, Inc. Ms. Tantoco graduated from the Assumption College with a Bachelor of Science degree in Entrepreneurship.

Bienvenido V. Tantoco III, 51, Director of the Company since 2007. Mr. Tantoco is also a director of the Group's companies, including Stores Specialists, Inc., Rustan Marketing Specialists, Inc., International Specialty Concepts, Inc. and Footwear Specialty Retailers, Inc. He was the Vice President for Corporate Planning of Rustan Commercial Corporation prior to his appointment as its President. 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, 49, Director of the Company since 2008. Mr. Lopez is also a director of the Group's companies. In addition, he serves as the General Manager and Vice President of Finance and Administration of Superstar Security Agency, Inc., the President of Nightside Security Agency, the General Manager of Topflight Inc., the Assistant to the President of Unilogix, Inc., and an owner of Secondo Time and Pieces. He is also a member of the board of directors of Rustan Marketing Corporation. Mr. Lopez attended Ateneo De Manila University and Santa Clara University and graduated with a Bachelor of Science degree in Economics, and Stanford University with a Master of Science degree in Management.

Edgardo Luis Pedro T. Pineda, 46, Director of the Company since 2014. Mr. Pineda is also a director of the Group's companies, including Stores Specialists, Inc., Rustan Marketing Specialists, Inc., International Specialty Concepts, Inc. and Footwear Specialty Retailers, Inc. In addition, he is a member of the board of directors of Rustan Commercial Corporation and Rustan Marketing Corporation. 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.

Carlo L. Katigbak, 47, Independent Director of the Company since 2014. Mr. Katigbak is the President and Chief Executive Officer of ABS-CBN Corporation, the Philippines' leading information and entertainment multimedia conglomerate. He has 22 years of experience in business, spanning financial management, business operations, corporate planning and general management. He is a member of the board of directors of Skycable Corporation, ABS-CBN Convergence and Play Innovations, Inc. Mr. Katigbak is also a member of the Board of Trustees of Knowledge Channel Foundation and ABS-CBN Lingkod, Kapamilya Foundation,. He holds a degree in Bachelor of Science in Management Engineering from the Ateneo de Manila University, and completed the Advanced Management Program at Harvard Business School in 2009.

Jose Teodoro K. Limcaoco, Filipino, born April 1962, has been an independent director of the Company since 2015. He also holds the following positions in publicly listed companies: Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer and Finance Group Head of Ayala Corporation, Director of Globe Telecom, Inc. and of Integrated Microelectronics Inc. He is the Chairman of Darong Agricultural and Development Corporation, Zapfam, Inc., Arlington Mariveles Philippine GP Corporation, He is the President and CEO of AC Ventures Holding Corp. He is the Vice Chairman of Lagdigan Land Corporation. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Ayala Aviation Corporation, AC Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., Kauswagan Power GP Corp., A.C.S.T Business Holdings, Inc., LICA Management Inc., and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc. He joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance, Inc. and Ayala Plans, Inc., Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He served as the President of the Chamber of Thrift Banks from 2013-2015. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

<u>EXECUTIVE OFFICERS</u>

Elizabeth T. Quiambao, 66, is the Executive Vice President of the Company. Mrs. Quiambao is also the Executive Vice President and General Manager of all of the Group's companies, except for Rustan Marketing Specialists, Inc, Rustan Specialty Concepts, Inc. and Specialty Food Retailers, Inc. She is also a member of the board of directors of Landmark Management Services, Ltd. and MUJI Philippines, Corp. 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.

Rossellina J Escoto, 64, is the Vice President of Finance for the Company. Mrs. Escoto is also the Finance Manager of the Group companies, Stores Specialists, Inc., Footwear Specialty Retailers, Inc., International Specialty Concepts, Inc., International Specialty Fashions, Inc. International Specialty Retailers, Inc., International Specialty Wear, Inc., International Specialty Apparel, Inc., Luxury Concepts, Inc., Casual Clothing Retailers, Inc., Specialty Investments, Inc. and Fastravel Specialists Holdings, 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.

Ma. Margarita A. Atienza, 43, is the Vice President of Investor Relations & Corporate Planning, and Compliance Officer for the Company. In addition, she serves as the Chief Financial Officer of Landmark

Management Services, Ltd. and is a member of the board of directors of MUJI Philippines Corp. 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.

Ma. Alicia G. Picazo-San Juan, 47, is the Corporate Secretary for the Company. Atty. Picazo-San Juan is a practicing lawyer and a Partner of Picazo Buyco Tan Fider & Santos Law Offices. She serves as the Corporate Secretary of various Philippine companies, including Max's Group, Inc., Yellow Cab Food Corporation, Pancake House Products, Inc. The Real American Doughnut Co., Inc., Max's Bakeshop, Inc., AsianLife and General Assurance Corporation, ATR Kim Eng Asset Management, Inc., ATRAM Investment Management Partners Corp., Seedbox Technologies, Inc., Inspired Fitness Ventures, Inc., Adknowledge Asia Philippines, Inc., Medcheck E-commerce, 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 of the Board and Chief Executive Officer of the Company.

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

Ma. Teresa R. Tantoco, is a Director and 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, 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.

Name	Position
Zenaida R. Tantoco	Chairman and CEO
Anthony T. Huang	President
Maria Teresa R. Tantoco	Treasurer
Elizabeth T. Quiambao	Executive Vice President
Rossellina J. Escoto	Vice President - Finance

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 other officers and Directors as a group, for the years ended December 31, 2015, 2016 and 2017, and projected for the year 2018.

	Year	Total (In ₱ millions)
CEO and the four most highly compensated executive officers named above	2015	19.0
	2016	18.5
	2017	19.2
	2018 (estimated)	23.5
Aggregate compensation paid to all other officers and Directors as a group unnamed	2015	3.7
	2016	5.2
	2017	5.0
	2018 (estimated)	5.7

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 2018.

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, 2018

As of March 31, 2018, 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	**PCD Nominee Corporation (Filipino)**[4] 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (*stockholder*)	PCD participants acting for themselves or for their customers	Filipino	862,756,594	26.0450%
Common	**Wellborn Trading & Investments, Inc.**[5] 4th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City (*stockholder*)	Wellborn Trading & Investments, Inc.	Filipino	467,043,679	14.0992%
Common	**Marjorisca, Inc.**[6] 25B Tamarind Road, South Forbes Park (*stockholder*)	Marjorisca, Inc.	Filipino	434,440,400	13.1149%

[4] *PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depositary, Inc. (PCD), a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, the PCD shall execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. No single PCD participant owns 5% or more shares of the Company.*

[5] *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.*

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

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	**Birdseyeview, Inc.**[7] 25B Tamarind Rd. South Forbes Park, Makati City (*stockholder*)	Birdseyeview, Inc.	Filipino	434,412,500	13.1141%
Common	**Educar Holdings Corp.**[8] 2nd Floor Urban Bldg., 405 Sen. Gil Puyat Avenue, Makati City (*stockholder*)	Educar Holdings Corp.	Filipino	415,753,800	12.5508%
Common	**Bordeaux Holdings, Inc.**[9] 19th Floor BDO Plaza, 8737 Paseo de Roxas, Makati City (*stockholder*)	Bordeaux Holdings, Inc.	Filipino	414,967,821	12.5271%
Common	**PCD Nominee Corporation (Non-Filipino)**[10] 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (*stockholder*)	PCD participants acting for themselves or for their customers	Filipino	190,726,185	5.7577%

[7] *Birdseyeview, Inc. is wholly and beneficially owned by Ma. Teresa R. Tantoco.*

[8] *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, Emmanuel T. Lopez and Enrique Antonio T. Lopez, each of whom holds an equal shareholding interest of 14.3%.*

[9] *Bordeaux Holdings, Inc. is equally beneficially owned by Jaime T. Pineda and Emmanuel T. Pineda.*

[10] *PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depositary, Inc. (PCD), a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, the PCD shall execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. No single PCD participant owns 5% or more shares of the Company.*

SECURITY OWNERSHIP OF MANAGEMENT AS OF MARCH 31, 2018

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	Director and President	5,692,100 (direct)	Filipino	0.1718%
Common	Ma. Teresa R. Tantoco	Director and Treasurer	467,736,931 (direct and indirect)	Filipino	14.1201%
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%
Other Executive Officers and Directors					
Common	Ma. Elena T. Valbuena	Director	32,054,979 (direct)	Filipino	0.9677%
Common	Bienvenido V. Tantoco III	Director	856, 200 (direct and indirect)	Filipino	0.0258%
Common	Edgardo Luis Pedro T. Pineda	Director	100 (direct)	Filipino	0.0000%
Common	Eduardo T. Lopez III	Director	790,100 (direct)	Filipino	0.0238%
Common	Carlo L. Katigbak	Independent Director	305,001 (direct)	Filipino	0.0092%
Common	Jose Teodoro K. Limcaoco	Independent Director	10,000 (direct)	Filipino	0.0003%
Common	Ma. Margarita A. Atienza	Vice President – Investor Relations & Corporate Planning and Compliance Officer	-	Filipino	-
Common	Ma. Alicia G. Picazo-San Juan	Corporate Secretary	-	Filipino	-

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, 2018.

CHANGES IN CONTROL

Except for the corporate restructuring, as described on page 10 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, 2017, 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 20 (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

The Board approved the Company's Revised Manual on Corporate Governance (the "Manual") on May 10, 2017 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, 2017, 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 and posted in the Company's website.

Committees of the Board

In accordance with the Company's By-Laws and Revised Manual on Corporate Governance, the Board has the following committees:

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 the following functions:

(a) Recommend the approval the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;

(b) Through the Internal Audit (IA) Department, monitor and evaluate the adequacy and effectiveness of the Corporation’s internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (i) safeguard the Corporation’s resources and ensure their effective utilization, (ii) prevent occurrence of fraud and other irregularities, (iii) protect the accuracy and reliability of the Corporation’s financial data, and (iv) ensure compliance with applicable laws and regulations;

(c) Oversee the IA Department, and recommend the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive (CAE). The Audit Committee should also approve the terms and conditions for outsourcing internal audit services;

(d) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. For this purpose, he should directly report to the Audit Committee;

(e) Review and monitor Management’s responsiveness to the Internal Auditor’s findings and recommendations;

(f) Prior to the commencement of the audit, discuss with the External Auditor the nature, scope, and expenses of the audit, and ensure the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

(g) Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the Corporation’s overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his 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 and Annual Corporate Governance Report;

(h) Review and approve the Interim and Annual Financial Statements before their submission to the Board with particular focus on the following matters:

- Any change/s in accounting policies and practices
- Areas where a significant amount of judgment has been exercised
- Significant adjustments resulting from the audit
- Going concern assumptions
- Compliance with accounting standards
- Compliance with tax, legal and regulatory requirements;

(i) Review the disposition of the recommendations in the External Auditor's management letter;

(j) Perform oversight functions over the Corporation’s Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

(k) Coordinate, monitor, and facilitate compliance with laws, rules and regulations;

(l) Recommend to the Board the appointment, reappointment, removal, and fees of the External Auditor, duly accredited by the SEC, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; and

(m) Meet with the Board at least every quarter without the presence of the CEO or other management team members, and periodically meet with the head of the internal audit.

The audit committee is comprised of three members, all of whom have accounting, audit, and finance backgrounds. The members of the committee include one independent director, who serves as the chairman of the committee, and another with audit experience.

Remuneration and Compensation Committee

The Company's remuneration and compensation committee is responsible for objectively recommending a formal and transparent procedure for developing a polity on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates. 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 three 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 2017, the Company filed, among others, unstructured disclosures involving the following:

Date	Description
January 20, 2017	Joint Ventures: Execution of a Joint Venture Agreement between Stores Specialists, Inc and Ryohin Keikaku Co. Ltd. (RKJ)
April 12, 2017	Press release: SSI Group FY2016 Revenues Increase 6% to ₱18.4B, with Core Recurring 4Q Income Increasing 66% to ₱186 million
April 27, 2017	Notice and Agenda of the 2017 Annual Stockholders' Meeting
May 10, 2017	Material Information/Transaction: Buy Back of SSI Shares
May 12, 2017	Reply to Exchange’s Query: Response to the PSE's letter dated May 10, 2017 requesting additional information regarding the approval by the Company's Board of Directors of the buy-back of the Company's shares.
May 15, 2017	Press release: SSI Group 1Q Core Recurring Income Increases 21% to ₱157 million
May 22, 2017	Notice and Agenda of the 2017 Annual Stockholders' Meeting (Amendment)
June 9, 2017	Change in Shareholdings of Directors and Principal Officers (Anthony T. Huang)
June 15, 2017	Results of SSI Group, Inc. Annual Stockholders' Meeting
June 15, 2017	Results of the Organizational Meeting of the Board of Directors of SSI Group, Inc.
June 16, 2017	Clarification of news article "SSI to Spend ₱500 Million This Year to Open New Stores, Shut Down Existing Ones"
August 14, 2017	Press release: SSI Group 1H Net Income Increases 14% to ₱274 million.
October 9, 2017	Clarification of news article "FamilyMart Chain for Sale"
October 9, 2017	Clarification of news article "FamilyMart Chain for Sale" (Amendment)
October 30, 2017	Material Information/Transaction: SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation entered into a Memorandum of Agreement to sell 100% of the outstanding shares of Philippine FamilyMart CVS, Inc. to P-H-O-E-N-I-X Petroleum Philippines, Inc.
November 16, 2017	Press release: SSI Group 9 Months 2017 Net Income increases 12% to ₱342m
December 8, 2017	Share Buy-Back Transactions on 7 December 2017
December 11, 2017	Share Buy-Back Transactions on 8 December 2017

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 APR 1 3 2018, 2018.

By:

ANTHONY T. HUANG
President

ROSSELLINA J. ESCOTO
Vice President – Finance

ATTY. MA. ALICIA PICAZO-SAN JUAN
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 1 3 2018 of April 2018, 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. E2876712	December 1, 2014	DFA Manila
Rossellina J. Escoto	Philippine Passport No. EC3798613	March 26, 2015	DFA Manila
Atty. Ma. Alicia Picazo-San Juan	Philippine Passport No. EC0001334	January 15, 2014	DFA Manila

ROSE ANN JOY V. GONZALES NOTARY PUBLIC
Appointment No. M-221
Notary Public for Makati City
Until December 31, 2019
Liberty Center-Picazo Law
104 H.V. dela Costa Street, Makati City
Roll No. 68583
PTR No. 6619649/Makati City/01-05-2018
IBP No. 020681/Isabela/01-03-2018

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SSIGROUP, Inc

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **SSI Group, Inc. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

ZENAIDA R. TANTOCO
Chairman of the Board

ZENAIDA R. TANTOCO
Chief Executive Officer

ANTHONY T. HUANG
President

MA. TERESA R. TANTOCO
Treasurer

Signed this 11th day of April 2018

6/F Midland Buendia Bldg., 403 Sen. Gil Puyat Ave., Makati City 1200 Philippines
INFO@SSIGROUP.COM.PH. TEL: +632.890.9402 FAX: +632.890.4441

SUBSCRIBED AND SWORN to before me this APR 1 1 2018 at Makati City, affiants exhibiting to me their respective Passports, as follows:

Name	Passport No.	Date and Place of Issue
Zenaida R. Tantoco	P1938015A	15 Feb 2017 | DFA Manila
Anthony T. Huang	EC2876712	01 Dec 2014 | DFA Manila
Ma. Teresa R. Tantoco	EC8123289	24 Jun 2016 | DFA Manila

Doc. No.: 498
Page No.: 101
Book No.: 308
Series of 2018.

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-88
UNTIL DECEMBER 31, 2018
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016333/4-10-2013
IBP O.R No.705762-LIFETIME MEMBER JAN. 29, 2007
PTR No. 6607619- JAN 03, 2018
EXECUTIVE BLDG. CENTER
MAKATI AVE., COR., JUPITER

SSI Group, Inc. and Subsidiaries

Consolidated Financial Statements
As of December 31, 2017 and 2016
and for the Years Ended December 31, 2017,
2016 and 2015

and

Independent Auditor's Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

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 AUDITOR'S REPORT

The Board of Directors and Stockholders
SSI Group, Inc.

Opinion

We have audited the consolidated financial statements of SSI Group, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Existence and Completeness of Merchandise Inventories

The merchandise inventories balance as at December 31, 2017 amounting to ₱9.42 billion represent 50% of the total consolidated assets. The Group operates in 638 stores and 14 warehouses. We focused on the existence and completeness of inventories since inventories are material to the consolidated financial statements and are located in various sites across the country.

The disclosures in relation to inventories are included in Note 6 to the consolidated financial statements.

Audit Response

We obtained an understanding of the inventory management process and inventory count procedures. We tested the relevant controls in selected stores and warehouses. We observed the inventory count procedures at selected stores and warehouses, and performed test counts. We traced the results of our test counts to the inventory compilation to determine if the inventory compilation reflects actual inventory count results. In addition, we reviewed the reconciliation of the valued physical inventory compilation with the general ledger account balances and tested reconciling items. On a sampling basis, we reviewed the rollforward and rollbackward procedures on inventory quantities from the date of the inventory count to the reporting date.

Valuation of Merchandise Inventories

The Group's merchandise inventories are carried at lower of cost and net realizable value. The Group sells goods that are subject to changing consumer demands and fashion trends. Thus, assessing the net realizable value of the Group's inventories requires significant management judgment. Such judgment includes management's expectations for future sales and inventory liquidation plans.

The disclosures on the significant judgment in assessing the valuation of inventories are included in Notes 3 and 6 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in identifying out-of-season, damaged and soiled inventories as well as tested the relevant controls. We physically inspected sample inventories during the inventory count to check if there are any damaged inventories. We reviewed the list of damaged and soiled inventories as of December 31, 2017 and inquired from management about its sales plan on these inventories. We also reviewed the revised selling price of such inventories subsequent to year-end and the cost to sell and compared this against the cost of inventories.

Recoverability of Deferred Tax Assets

As of December 31, 2017, deferred tax assets on NOLCO of certain subsidiaries that were in tax loss position in the past years amounted to ₱148.04 million. Management's assessment of the recoverability of deferred tax assets involves significant judgment that are affected by expected future market or economic conditions and the expected performance of these subsidiaries.

The details of deferred income taxes are disclosed in Note 22 to the consolidated financial statements.

Audit Response

We reviewed management's assessment of the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing it with the historical performance and by considering management's plan and strategies for the next 3 years, over which period the NOLCO will expire. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Change in the Estimated Useful Life of Certain Leasehold Improvements and Store Furniture and Fixtures

Under PFRS, the Group is required to review the estimated useful life of property and equipment at least at each financial year-end. In 2017, the Group changed the estimated useful life of certain leasehold improvements and store furniture and fixtures in view of its recent discussion with the franchisor of certain brands. Given that the change in the estimated useful life involves significant management judgment and estimate, we considered this as a key audit matter.

The disclosures on the estimated useful life of the property and equipment are included in Notes 3 and 10 to the consolidated financial statements.

Audit Response

Our audit procedures included obtaining an understanding of management's basis for the change in the estimated useful life of certain leasehold improvements and store furniture and fixtures. We reviewed management's internal memorandum on the results of the inspection conducted on the relevant depreciable assets in the specific stores involved. We compared the estimated useful life of certain leasehold improvements and store furniture and fixture with the estimated useful life being used by the franchisor of certain brands. We tested the computation of depreciation and amortization expense based on the revised useful life. We also reviewed the Group's disclosures regarding the change in the estimated useful life of leasehold improvements and store furniture and fixtures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is John T. Villa.

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. 08-001998-76-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621342, January 9, 2018, Makati City

April 4, 2018

SSI GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash (Note 4)	**₱1,689,481,704**	₱1,047,464,592
Trade and other receivables (Note 5)	**848,104,295**	825,068,239
Merchandise inventories (Note 6)	**9,423,866,643**	9,559,675,482
Amounts owed by related parties (Note 20)	**196,132,537**	158,540,308
Prepayments and other current assets (Note 7)	**1,319,587,551**	1,199,787,061
Total Current Assets	**13,477,172,730**	12,790,535,682
Noncurrent Assets		
Investment in an associate (Note 8)	**47,301,362**	77,753,456
Interests in joint ventures (Note 9)	**485,374,525**	663,382,136
Property and equipment (Note 10)	**3,347,613,636**	4,264,877,137
Deferred tax assets - net (Note 22)	**300,083,923**	240,760,677
Security deposits and construction bonds (Note 26)	**1,019,838,784**	1,024,028,596
Other noncurrent assets (Note 11)	**99,902,912**	103,114,036
Total Noncurrent Assets	**5,300,115,142**	6,373,916,038
TOTAL ASSETS	**₱18,777,287,872**	₱19,164,451,720
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	**₱1,823,566,896**	₱1,746,608,783
Short-term loans payable (Note 13)	**4,195,000,000**	4,012,000,000
Current portion of long-term debt (Note 14)	**1,148,120,568**	917,698,579
Deferred revenue	**26,144,932**	24,334,100
Income tax payable	**82,195,269**	118,743,420
Total Current Liabilities	**7,275,027,665**	6,819,384,882
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 14)	**851,018,282**	1,998,740,511
Retirement benefit obligation (Note 21)	**379,029,267**	345,334,507
Tenant deposits (Note 26)	**34,778,744**	34,752,738
Total Noncurrent Liabilities	**1,264,826,293**	2,378,827,756
Total Liabilities	**8,539,853,958**	9,198,212,638
Equity (Note 28)		
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**	33,640,983
Treasury shares	**(457,280)**	–
Retained earnings		
Appropriated	**1,402,500,000**	1,115,000,000
Unappropriated	**3,042,212,724**	3,054,450,420
Cumulative translation adjustment	**(2,703,640)**	(2,603,987)
Other comprehensive loss	**(69,933,016)**	(66,422,477)
Total Equity	**10,237,433,914**	9,966,239,082
TOTAL LIABILITIES AND EQUITY	**₱18,777,287,872**	₱19,164,451,720

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2017	2016	2015
NET SALES	**₱18,460,229,561**	₱18,441,681,746	₱17,420,769,116
COSTS OF GOODS SOLD (Note 15)	**9,792,183,906**	9,288,120,323	8,096,569,004
GROSS PROFIT	**8,668,045,655**	9,153,561,423	9,324,200,112
OPERATING EXPENSES			
Selling and distribution (Note 16)	**6,188,629,201**	6,769,824,340	6,493,059,856
General and administrative (Note 17)	**1,220,364,546**	1,134,883,350	1,060,671,797
	7,408,993,747	7,904,707,690	7,553,731,653
OTHER INCOME (CHARGES)			
Interest expense (Notes 13 and 14)	**(290,511,398)**	(340,901,875)	(315,250,994)
Loss on stores closures and disposals of property and equipment (Note 10)	**(280,497,714)**	(142,719,741)	(17,605,873)
Share in net losses of joint ventures (Note 9)	**(100,024,150)**	(286,250,021)	(228,286,410)
Impairment loss on interests and advances on joint ventures (Notes 9 and 20)	**(76,120,907)**	–	–
Rent income (Note 26)	**59,012,060**	44,410,482	42,480,546
Foreign exchange losses - net	**(37,245,889)**	(19,063,414)	(15,268,860)
Share in net earnings of an associate (Note 8)	**35,547,906**	28,839,733	29,796,193
Interest accretion on security deposits (Note 26)	**10,180,158**	10,504,123	6,516,760
Interest income (Note 4)	**2,906,339**	2,940,318	3,379,270
Others - net	**(34,784,901)**	35,866,808	19,497,093
	(711,538,496)	(666,373,587)	(474,742,275)
INCOME BEFORE INCOME TAX	**547,513,412**	582,480,146	1,295,726,184
PROVISION FOR INCOME TAX (Note 22)			
Current	**330,069,837**	351,694,701	483,286,043
Deferred	**(57,818,729)**	(830,315)	1,773,820
	272,251,108	350,864,386	485,059,863
NET INCOME	**275,262,304**	231,615,760	810,666,321
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustment on foreign operations	**(99,653)**	(146,733)	(6,973,333)
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 (Note 21)	**(3,510,539)**	17,903,262	11,877,952
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(3,610,192)**	17,756,529	4,904,619
TOTAL COMPREHENSIVE INCOME	**₱271,652,112**	₱249,372,289	₱815,570,940
BASIC/DILUTED EARNINGS PER SHARE (Note 23)	**₱0.08**	₱0.07	₱0.24

See accompanying Notes to Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Capital Stock (Note 28)	Additional Paid-in Capital (APIC)	Stock Grants (Note 28)	Treasury Shares (Note 28)	Retained Earnings (Note 28)		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 (loss) 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 28)	–	–	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**
Balances at January 1, 2016	₱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
Net income	–	–	–	–	–	231,615,760	–	–	231,615,760
Other comprehensive income	–	–	–	–	–	–	–	17,903,262	17,903,262
Exchange differences on translation	–	–	–	–	–	–	(146,733)	–	(146,733)
Total comprehensive income (loss) for the year	–	–	–	–	–	231,615,760	(146,733)	17,903,262	249,372,289
Reversal of appropriation of retained earnings (Note 28)	–	–	–	–	(925,000,000)	925,000,000	–	–	–
Additional appropriation of retained earnings (Note 28)	–	–	–	–	1,115,000,000	(1,115,000,000)	–	–	–
Balances at December 31, 2016	**₱3,312,864,430**	**₱2,519,309,713**	**₱33,640,983**	**₱–**	**₱1,115,000,000**	**₱3,054,450,420**	**(₱2,603,987)**	**(₱66,422,477)**	**₱9,966,239,082**
Balances at January 1, 2017	₱3,312,864,430	₱2,519,309,713	₱33,640,983	₱–	₱1,115,000,000	₱3,054,450,420	(₱2,603,987)	(₱66,422,477)	₱9,966,239,082
Net income	–	–	–	–	–	275,262,304	–	–	275,262,304
Other comprehensive loss	–	–	–	–	–	–	–	(3,510,539)	(3,510,539)
Exchange differences on translation	–	–	–	–	–	–	(99,653)	–	(99,653)
Total comprehensive income (loss) for the year	–	–	–	–	–	275,262,304	(99,653)	(3,510,539)	271,652,112
Reversal of appropriation of retained earnings (Note 28)	–	–	–	–	(1,115,000,000)	1,115,000,000	–	–	–
Additional appropriation of retained earnings (Note 28)	–	–	–	–	1,402,500,000	(1,402,500,000)	–	–	–
Treasury shares (Note 28)	–	–	–	(457,280)	–	–	–	–	(457,280)
Balances at December 31, 2017	**₱3,312,864,430**	**₱2,519,309,713**	**₱33,640,983**	**(₱457,280)**	**₱1,402,500,000**	**₱3,042,212,724**	**(₱2,703,640)**	**(₱69,933,016)**	**₱10,237,433,914**

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

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱547,513,412**	₱582,480,146	₱1,295,726,184
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Notes 10, 11 and 19)	**1,102,399,859**	1,521,041,877	1,498,501,295
Interest expense (Notes 13 and 14)	**290,511,398**	340,901,875	315,250,994
Loss on stores closures and disposals of property and equipment (Note 10)	**280,497,714**	142,719,741	17,605,873
Share in net losses of joint ventures (Note 9)	**100,024,150**	286,250,021	228,286,410
Impairment loss on interests and advances on joint ventures (Notes 9 and 20)	**76,120,907**	–	–
Movement in retirement benefit obligation	**28,679,703**	40,347,759	41,345,515
Share in net earnings of an associate (Note 8)	**(35,547,906)**	(28,839,733)	(29,796,193)
Interest accretion on refundable deposits (Note 26)	**(10,180,158)**	(10,504,123)	(6,516,760)
Unrealized foreign exchange losses (gains) - net	**1,407,517**	(1,262,810)	(7,571,974)
Interest income (Note 4)	**(2,906,339)**	(2,940,318)	(3,379,270)
Stock grants (Note 28)	**–**	–	29,435,860
Operating income before working capital changes	**2,378,520,257**	2,870,194,435	3,378,887,934
Decrease (increase) in:			
Trade and other receivables	**15,961,093**	(331,463,896)	(9,760,183)
Merchandise inventories	**71,811,690**	120,319,906	(1,699,925,289)
Prepayments and other current assets	**(194,836,635)**	155,735,118	(766,053,020)
Increase (decrease) in:			
Trade and other payables	**64,818,465**	(627,070,736)	(872,949,651)
Deferred revenue	**1,810,832**	3,231,087	(2,997,032)
Tenant deposits	**26,006**	13,484,840	21,267,898
Net cash generated from operations	**2,338,111,708**	2,204,430,754	48,470,657
Interest received	**2,906,339**	2,940,318	3,379,270
Income taxes paid, including creditable withholding tax	**(377,344,608)**	(384,332,078)	(524,365,581)
Net cash flows provided by (used in) operating activities	**1,963,673,439**	1,823,038,994	(472,515,654)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 10)	**(376,372,698)**	(710,402,438)	(2,041,870,197)
Return of capital from SSRI (Note 9)	**140,072,217**	104,833,400	–
Additional interests in joint ventures (Note 8)	**(89,250,000)**	–	(803,296,454)
Proceeds from insurance claims	**65,000,000**	–	–
Dividends received from investment in an associate (Note 8)	**26,000,000**	6,000,000	24,000,000
Decrease (increase) in:			
Security deposits and construction bonds	**14,369,970**	(14,099,214)	(185,069,258)
Other noncurrent assets	**(287,484)**	(16,301,953)	370,615
Increase in amounts owed by related parties	**(86,551,892)**	(26,339,028)	(24,231,034)
Net cash flows used in investing activities	**(307,019,887)**	(656,309,233)	(3,030,096,328)

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term loans payable (Note 13)	**₱2,050,000,000**	₱2,805,000,000	₱7,695,500,000
Long-term debt (Note 14)	–	497,500,000	1,398,887,415
Payments of:			
Short-term loans payable (Note 13)	**(1,867,000,000)**	(3,918,000,000)	(6,167,135,490)
Long-term debt (Note 14)	**(922,743,334)**	(473,333,334)	(339,220,747)
Interest	**(270,636,763)**	(334,537,527)	(309,363,580)
Purchase of treasury shares (Note 28)	**(457,280)**	–	–
Increase (decrease) in amounts owed to related parties	–	(347,712)	479,875
Net cash flows from (used in) financing activities	**(1,010,837,377)**	(1,423,718,573)	2,279,147,473
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(3,799,063)**	(508,937)	598,641
NET INCREASE (DECREASE) IN CASH	**642,017,112**	(257,497,749)	(1,222,865,868)
CASH AT BEGINNING OF YEAR	**1,047,464,592**	1,304,962,341	2,527,828,209
CASH AT END OF YEAR (Note 4)	**₱1,689,481,704**	₱1,047,464,592	₱1,304,962,341

See accompanying Notes to Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES
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).

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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on April 4, 2018. The same consolidated financial statements were approved and authorized for issuance by the BOD on April 4, 2018.

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

Basis of Preparation and Statement of Compliance

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

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 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.

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

	Percentage ownership					
	2017		2016		2015	
	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)	–	**100**	–	100	–	100
Specialty Food Retailers, Inc. (SFRI)	–	**100**	–	100	–	100
International Specialty Retailers, Inc. (ISRI)	–	**100**	–	100	–	100
International Specialty Wears, Inc. (ISWI)	–	**100**	–	100	–	100
Fastravel Specialists Holdings, Inc. (FSHI)	–	**100**	–	100	–	100
International Specialty Apparels, Inc. (ISAI)	–	**100**	–	100	–	100
Casual Clothing Retailers, Inc. (CCRI)	–	**100**	–	100	–	100
SKL International, Ltd. (SKL)[1]	–	**100**	–	100	–	–

[1] 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 FSHI, SII and SKL, are in the retail business and hold exclusive distributorship of certain brands.

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 results 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; and
- 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.

Common Control Business Combinations and Group Reorganizations
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 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.

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.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows*, *Disclosure Initiatives.* The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 29 to the financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

The following new and amended PFRS and PAS were also adopted on January 1, 2017. The adoption of these amendments are not relevant to or have no impact on the Company's financial statements:

- Amendment to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2017
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

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

The Group is currently assessing the potential impact of adopting PFRS 9 in 2018.

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

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

  The Group is currently assessing the potential impact of adopting PFRS 15 in 2018.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases.* PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16 in 2019.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures.* The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments.* The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - How an entity considers changes in facts and circumstances.

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

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Deferred effectivity

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

The Company continues to assess the impact of the above new and amended accounting standards effective subsequent to 2017 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below.

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 profit or loss.

RMSI operates Marks and Spencer Loyalty Program and RSCI operates Debenhams Loyalty Program which allow 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.

Rent income

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

Interest income

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

Costs of Goods Sold

Costs of goods sold include the purchase price of the merchandise sold, as well as costs that are considered to have functions as part of the cost of merchandise sold. Vendor returns, discounts and allowances are generally deducted from the costs 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 services are used or the expenses are incurred.

Cash
Cash consists of cash on hand and in banks. Cash in banks earn interest at a regular deposit rate.

Financial Instruments
Financial instruments are recognized in the consolidated balance sheet 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 fair value through profit or loss (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 available-for-sale (AFS) investments or designated as at FVPL. This accounting policy relates to the Group's "Cash", "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 profit or loss. The losses arising from impairment of loans and receivables are recognized in the consolidated profit or loss. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability 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 loans payable", "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 the 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 consolidated balance sheet 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.

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

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

The principal or the most advantageous market must be accessible 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 profit or loss. 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 profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

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 profit or loss. 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 is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated profit or loss, 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.

Derecognition of Financial Assets and Liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired;
- the Group retains the rights 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.

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 profit or loss.

Merchandise Inventories
Merchandise inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. 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 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 investment in an associate and interests in joint ventures are initially recognized at cost. The carrying amounts of the investment 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 profit or loss 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 profit or loss outside operating profit and represents profit or loss after tax.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in an 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 profit or loss.

When the share of losses exceeds the Group's investment in an associate and interests in joint ventures, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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 the consolidated 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.

Prepayments and Other Current Assets

This account comprises advances to suppliers, supplies inventory, prepaid advertising, rentals, insurance premiums and other prepaid items and creditable withholding tax. Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepaid advertising, rentals, insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated profit or loss when incurred creditable withholding tax is deducted from income tax payable.

Property and Equipment

Property and equipment are stated at cost, excluding the cost of day to day servicing, less accumulated depreciation and amortization 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 profit or loss 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	3-10
Store, office, warehouse furniture and fixtures	3-10
Leasehold improvements	2-10

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 profit or loss in the year the asset is derecognized.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any 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 of 5 years 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 pattern 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. The amortization expense on intangible assets is recognized in the consolidated profit or loss 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 profit or loss when the asset is derecognized.

Software Costs

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, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the consolidated profit or loss in the expense category consistent with the function of the software costs.

Impairment of Nonfinancial Assets

Investment in an associate, interests in joint ventures and property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset 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.

Impairment losses are recognized in the consolidated profit or loss 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 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 profit or loss 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.

Treasury Shares
Treasury shares are own equity instruments which are reacquired and are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained Earnings
Retained earnings consist of appropriated and unappropriated balances. Appropriated retained earnings are restricted for specific purposes and/or are not available for dividend declaration. Unappropriated retained earnings are not restricted and include the cumulative balance of net income or loss, any dividend distributions, prior period adjustments and effects of any change in accounting policy. 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.

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 the consolidated 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 consolidated profit or loss.

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.

Plan assets comprise of assets held by long-term employee benefit fund. The fair value of plan assets is deducted from the present value of the defined benefit obligation in determining the net defined benefit liability or asset. This excludes unpaid contributions due from the Group to the fund, as well as any non-transferable financial instruments issued by the Group and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

Share-based Payment Transactions

Officers and management of the Group 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, performance conditions is not taken into account.

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 Group'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 rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated profit or loss on a straight-line basis over the lease term.

Operating leases - 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 profit or loss 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. All other borrowing costs are recognized in the consolidated profit or loss 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 consolidated 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 sufficient 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 sufficient 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 consolidated 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.

<u>Value-added Tax (VAT)</u>
Revenues, expenses and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated balance sheet to the extent of the recoverable amount.

The net amount of VAT recoverable from, or payable, to the taxation authority is included as part of “Prepayments and other current assets”, or “Trade and other payables”, in the consolidated balance sheet.

Input VAT on the purchase of assets classified as capital assets exceeding a certain threshold as provided by the taxing authority is recognized as “Deferred input VAT” and is amortized within the life of the asset or 60 months, whichever is shorter. These are included as part of noncurrent assets except those amounts which will be amortized within 12 months from the balance sheet date.

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 profit or loss 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.

Contingencies
Contingent liabilities are not recognized but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefit is probable.

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 27 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 common 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.

Foreign Currency Translation and Transactions
The consolidated financial statements are presented in Philippine Peso, which is the functional 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 other 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 profit or loss.

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 profit or loss. 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 PFRSs 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 is the Philippine peso.

Determination of operating segment
The Group has determined that it is operating as one operating segment (see Note 27). 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 a lessee
The Group has various lease agreements in respect of certain properties. The Group evaluates whether significant risks and rewards of ownership of the leased properties are transferred (finance lease) or retained by the lessor (operating lease). The Group has determined, based on an evaluation of the terms and conditions of the arrangements that all the significant risks and rewards of ownership

over the leased properties are retained by the lessor. The leases are, therefore, accounted for as operating leases.

Classification of investment in Samsonite Philippines, Inc. 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 Landmark Management Services, Ltd. (LMS), Muji Philippines, Corp. (MPC), SIAL CSV Retailers, Inc. (SCRI) and SIAL Specialty Retailers, Inc.(SSRI) 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. In 2017, SSI entered into a joint venture agreement with another company for the 51% ownership interest in MPC.

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 LMS, MPC, SCRI and SSRI as 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 LMS, MPC, SCRI and SSRI as joint ventures (see Note 9).

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.

In 2017, the Group recognized provision for impairment losses on amounts owed by related parties amounting to ₱48.96 million. No provision for impairment losses was recognized in 2016 and 2015. Trade and other receivables and amounts owed by related parties amounted to ₱1,044.24 million and ₱983.61 million as of December 31, 2017 and 2016, respectively (see Notes 5 and 20).

Assessing NRV of merchandise inventories
The Group sells good that are subject to changing consumer demands and fashion trends. Thus, assessing the recoverability of the Group's inventories requires significant management judgement which includes management's expectations for future sales and inventory liquidation plans. 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. In addition, the Company considered those inventories that are out-of-season, damaged and soiled in assessing the NRV of inventories. 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, 2017 and 2016, the Group has no allowance for inventory losses. Merchandise inventories amounted to ₱9,423.87 million and ₱9,559.68 million as of December 31, 2017 and 2016, respectively (see Note 6).

Estimating useful lives of property and equipment, franchise fee and software costs
The Group estimates the useful lives of its property and equipment, franchise fee 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, franchise fee and software costs based on factors that include asset utilization, internal technical evaluation, technological changes and 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, franchise fee and software costs would increase depreciation and amortization expense and decrease noncurrent assets.

In 2017, the Group's management reassessed the remaining useful lives of CCRI's leasehold improvement and store furniture and fixtures considering the recent discussion and agreement with the franchisor of certain brands, among others. As a result, the Group determined that the estimated useful life of the leasehold improvement and store furniture and fixtures should be increased from 5 to 10 years. The effect of the change in estimate is recognized prospectively beginning January 1, 2017. Accordingly, the Group's depreciation and amortization expense in 2017 decreased by seventy three million five hundred seventy thousand pesos. The related depreciation and amortization expense for each of the remaining years of the said property and equipment is expected to be similarly affected by this change in accounting estimate. There was no change in the estimated useful lives of the Group's property, plant and equipment in 2016.

As of December 31, 2017 and 2016, the aggregate net book values of property and equipment, franchise fee and software costs presented under "Other noncurrent assets" amounted to ₱3,393.61 million and ₱4,321.47 million, respectively (see Notes 10 and 11).

The Group recognized depreciation and amortization expense amounting to ₱1,102.40 million, ₱1,521.04 million and ₱1,498.50 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 19).

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.

In 2017, the Group recognized an impairment loss on interests in joint venture amounting to ₱27.16 million (see Note 9). For other nonfinancial assets such as property and equipment and investment in associate, no indication of impairment was noted as of December 31, 2017 and 2016.

The carrying values of the Group's nonfinancial assets as of December 31 are as follows:

	2017	2016
Property and equipment (Note 10)	**₱3,347,613,636**	₱4,264,877,137
Interests in joint ventures (Note 9)	**485,374,525**	663,382,136
Investment in an associate (Note 8)	**47,301,362**	77,753,456

Estimating retirement benefits
The cost of defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, 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 21 to the consolidated financial statements.

As of December 31, 2017 and 2016, the Group's retirement benefit obligation amounted to ₱379.03 million and ₱345.33 million, respectively (see Note 21). The Group recognized retirement expense amounting to ₱53.46 million, ₱51.83 million and ₱47.90 million in 2017, 2016 and 2015, respectively (see Notes 18 and 21).

Recoverability of deferred tax assets
Management's assessment of the deferred tax assets to be recognized involves significant judgments and is based on assumptions regarding the future results of the subsidiaries. Management judgments and estimation is required to determine the amount of deferred tax assets that can be recognized based on the forecasted level of future taxable profits and the related tax strategies.

As of December 31, 2017, deferred tax assets amounted to ₱300.08 million. Of this amount, ₱148.04 million relates to NOLCO of certain subsidiaries that were in tax loss position in the past years. Management has determined that there is sufficient future taxable profit against which these recognized deferred tax assets will be realized. The Group also has temporary differences for which deferred tax assets are not recognized (see Note 22).

As of December 31, 2017 and 2016, deferred tax assets recognized amounted to ₱307.32 million and ₱253.43 million, respectively (see Note 22).

4. Cash

	2017	2016
Cash on hand	**₱81,415,158**	₱85,514,004
Cash in banks	**1,608,066,546**	961,950,588
	₱1,689,481,704	₱1,047,464,592

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the years ended December 31, 2017, 2016 and 2015 amounted to ₱2.91 million, ₱2.94 million and ₱3.38 million, respectively.

5. Trade and Other Receivables

	2017	2016
Trade receivables	**₱251,200,355**	₱277,721,936
Nontrade receivables	**356,001,339**	356,329,207
Receivables from related parties (Note 20)	**126,957,038**	119,774,192
Advances to officers and employees	**73,141,017**	69,970,079
Dividend receivable (Note 8)	**40,000,000**	–
Others	**804,546**	1,272,825
	₱848,104,295	₱825,068,239

Trade receivables primarily pertains to receivables from credit card companies which are normally settled on three days' terms.

Nontrade receivables mainly include receivables charged to customers for the repair of damaged merchandise and banks for tie-up sale and promotional activities.

Nontrade receivables, advances to officers and employees and receivables from related parties are usually settled within one year.

Dividend receivable pertains to the dividends declared by SPI on November 16, 2017 which remains outstanding as of December 31, 2017.

"Others" generally include receivables from third parties that are not trade related and are generally due within one year.

6. Merchandise Inventories

	2017	2016
At cost:		
On hand	**₱8,800,455,694**	₱8,992,350,579
In transit	**623,410,949**	567,324,903
	₱9,423,866,643	₱9,559,675,482

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 ₱9,041.11 million, ₱8,614.74 million and ₱7,473.60 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 15).

7. Prepayments and Other Current Assets

	2017	2016
Supplies inventory	**₱532,858,763**	₱344,162,960
Advances to suppliers	**361,492,605**	337,563,365
Input VAT	**207,140,763**	288,220,106
Prepaid advertising	**63,476,427**	90,379,099
Current portion of prepaid rent (Notes 11 and 26)	**34,356,983**	30,384,059
Creditable withholding tax	**29,431,263**	18,704,643
Deferred input VAT	**17,131,409**	15,935,051
Prepaid insurance	**17,067,990**	18,307,563
Security deposits (Note 26)	**10,032,977**	9,314,453
Prepaid guarantee	**5,642,659**	4,268,845
Others	**40,955,712**	42,546,917
	₱1,319,587,551	₱1,199,787,061

Supplies inventory are composed of packaging materials, office and store supplies, and employees uniform inventory.

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

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.

8. Investment in an Associate

	2017	2016
Acquisition cost	**₱24,640,000**	₱24,640,000
Accumulated equity in net earnings:		
Balances at beginning of year	**53,113,456**	30,273,723
Share in net earnings	**35,547,906**	28,839,733
Dividends (Note 5)	**(66,000,000)**	(6,000,000)
Balances at end of year	**22,661,362**	53,113,456
	₱47,301,362	₱77,753,456

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, 2017 and 2016, 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 unaudited financial information of SPI as of and for the years ended December 31, 2017 and 2016:

	2017	2016
Statements of Financial Position:		
Current assets	**₱219,851,911**	₱397,731,549
Noncurrent assets	**13,251,940**	15,262,306
Current liabilities	**110,598,295**	50,209,849
Noncurrent liabilities	**4,683,190**	168,673,141
Equity	**117,822,366**	194,110,864
Statements of Comprehensive Income:		
Revenue	**₱428,474,020**	₱397,794,228
Cost and expenses	**339,604,256**	325,694,896
Net income	**88,869,764**	72,099,332

9. Interests in Joint Ventures

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

Joint venture	Project description	Income sharing arrangement
MPC	Operation of retail stores in the Philippines	51:49
SCRI	Open and operate convenience stores directly owned and/or franchised in the Philippines	50:50
SSRI	Investment in and operation of mid-market department stores	50:50
LMS	Investment in and operation of travel retail stores in the Philippines	50:50

The movements in the carrying values of interest in joint ventures are as follows:

<u>December 31, 2017</u>

	LMS	**MPC**	**SSRI**	**SCRI**	**Total**
Cost:					
Balances at beginning of year	**₱375,296,454**	**₱–**	**₱547,416,600**	**₱420,350,000**	**₱1,343,063,054**
Investment during the year	**–**	**89,250,000**	**–**	**–**	**89,250,000**
Return of investment	**–**	**–**	**(140,072,217)**	**–**	**(140,072,217)**
Balances at end of year	**375,296,454**	**89,250,000**	**407,344,383**	**420,350,000**	**1,292,240,837**
Accumulated equity in net earnings (losses):					
Balances at beginning of year	**3,928,806**	**–**	**(380,183,139)**	**(303,426,585)**	**(679,680,918)**
Share in net income (loss)	**11,591,006**	**5,308,259**	**–**	**(116,923,415)**	**(100,024,150)**
Balances at end of year	**15,519,812**	**5,308,259**	**(380,183,139)**	**(420,350,000)**	**(779,705,068)**
Impairment loss	**–**	**–**	**(27,161,244)**	**–**	**(27,161,244)**
	₱390,816,266	**₱94,558,259**	**₱–**	**₱–**	**₱485,374,525**

December 31, 2016

	LMS	SSRI	SCRI	Total
Cost:				
Balances at beginning of year	₱375,296,454	₱652,250,000	₱420,350,000	₱1,447,896,454
Return of investment	–	(104,833,400)	–	(104,833,400)
Balances at end of year	375,296,454	547,416,600	420,350,000	1,343,063,054
Accumulated equity in net earnings (losses):				
Balances at beginning of year	(615,820)	(235,186,512)	(157,628,565)	(393,430,897)
Share in net income (loss)	4,544,626	(144,996,627)	(145,798,020)	(286,250,021)
Balances at end of year	3,928,806	(380,183,139)	(303,426,585)	(679,680,918)
	₱379,225,260	₱167,233,461	₱116,923,415	₱663,382,136

Investment in LMS
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.

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 income of LMS, amounted to ₱2.46 million and ₱2.41 million in 2017 and 2016, respectively.

Key financial information of LMS is as follows:

	2017	2016
Statements of Financial Position:		
Current assets	**₱541,756,428**	₱476,966,706
Noncurrent assets	**58,843,803**	74,891,349
Current liabilities	**71,003,905**	59,673,941
Equity	**529,596,326**	492,184,113
Statements of Comprehensive Income:		
Revenues	**₱668,386,747**	₱623,249,164
Cost and expenses	**640,276,632**	609,330,377
Net income	**28,110,115**	13,918,787

Investment in MPC
On January 20, 2017, SSI and Ryohin Keikaku Co., Ltd. entered into a Joint Venture Agreement wherein the parties agreed to form MPC. SSI contributed ₱89.25 million for the 51% ownership interest in MPC. The Joint Venture Agreement provides for unanimous votes of both parties in so far as most key and relevant operating activities are concerned.

Key financial information of MPC as of December 31, 2017 and for the period April 1, 2017 to December 31, 2017 is as follows:

Statement of Financial Position:	
Current assets	₱216,638,136
Noncurrent assets	15,261,655
Current liabilities	(46,429,143)
Equity	185,470,648
Statement of Comprehensive Income:	
Revenues	₱165,354,911
Cost and expenses	154,946,561
Net income	10,408,350

Investment in SSRI

The Group (through SII) has 50% ownership interest in SSRI which is engaged in the operation of mid-market department stores. In March 2016, SSRI sold the fixed assets in the department stores. The proceeds from the sale are distributed to the joint venturers. In 2017 and 2016, the Group received ₱140.07 million and ₱104.83 million, respectively, as return of investment. The remaining carrying value of the investment, after the share in net losses, amounting to ₱27.16 million is fully provided with impairment loss. SSRI has no commercial operations as at December 31, 2017.

Key unaudited financial information of SSRI are as follows:

	2017	2016
Statements of Financial Position:		
Current assets	**₱51,433,595**	₱347,562,106
Noncurrent assets	**–**	2,000,000
Current liabilities	**467,867**	17,307,285
Equity	**50,965,728**	332,254,822
Statements of Comprehensive Income:		
Revenues	**₱–**	₱114,001,258
Cost and expenses	**–**	403,994,512
Net loss	**–**	289,993,254

Investment in SCRI

The Group (through SII) has 50% ownership interest in SCRI which has an investment in Philippine FamilyMart CVS, Inc. (PFM) that is engaged in the operation of convenience stores. On October 30, 2017, SCRI entered into a Memorandum of Agreement for the sale of its shares in PFM. The sale was concluded on January 11, 2018.

Key unaudited financial information of SCRI are as follows:

	2017	2016
Statements of Financial Position:		
Current assets	**₱284,223,816**	₱107,739,917
Noncurrent assets	**172,240,647**	792,440,858
Current liabilities	**505,731,544**	326,451,985
Equity (Capital deficiency)	**(49,267,081)**	573,690,509

	2017	2016
Statements of Comprehensive Income:		
Revenues	**₱6,243,847**	₱290,248,033
Cost and expenses	**886,160,578**	581,844,073
Net loss	**879,916,731**	291,596,040

The joint ventures have no contingent liabilities or capital commitments as of December 31, 2017 and 2016.

10. **Property and Equipment**

The composition and movements of this account are as follows:

December 31, 2017

	Leasehold Improvements	**Store, Office, Warehouse Furniture and Fixtures**	**Building**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost:						
Balances at beginning of year	**₱7,859,264,624**	**₱2,140,414,229**	**₱874,797,537**	**₱259,497,420**	**₱82,611,796**	**₱11,216,585,606**
Additions	**218,847,085**	**87,483,615**	**–**	**16,424,003**	**53,617,995**	**376,372,698**
Disposals and retirement	**(793,037,190)**	**(64,292,489)**	**–**	**(1,175,000)**	**–**	**(858,504,679)**
Reclassifications	**83,056,240**	**–**	**–**	**–**	**(83,056,240)**	**–**
Balances at end of year	**7,368,130,759**	**2,163,605,355**	**874,797,537**	**274,746,423**	**53,173,551**	**10,734,453,625**
Accumulated Depreciation and Amortization:						
Balances at beginning of year	**5,246,576,934**	**1,474,302,956**	**147,559,377**	**83,269,202**	**–**	**6,951,708,469**
Depreciation and amortization (Note 19)	**808,908,130**	**221,514,759**	**44,343,454**	**24,134,908**	**–**	**1,098,901,251**
Disposals and retirement	**(614,870,081)**	**(48,782,150)**	**–**	**(117,500)**	**–**	**(663,769,731)**
Balances at end of year	**5,440,614,983**	**1,647,035,565**	**191,902,831**	**107,286,610**	**–**	**7,386,839,989**
Net book values	**₱1,927,515,776**	**₱516,569,790**	**₱682,894,706**	**₱167,459,813**	**₱53,173,551**	**₱3,347,613,636**

December 31, 2016

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	Total
Cost:						
Balances at beginning of year	₱7,751,959,370	₱2,202,872,779	₱852,141,513	₱256,436,738	₱138,527,183	₱11,201,937,583
Additions	519,280,731	111,419,660	22,656,024	4,848,181	52,197,842	710,402,438
Disposals and retirement	(519,865,491)	(174,101,425)	–	(1,787,499)	–	(695,754,415)
Reclassifications	107,890,014	223,215	–	–	(108,113,229)	–
Balances at end of year	7,859,264,624	2,140,414,229	874,797,537	259,497,420	82,611,796	11,216,585,606
Accumulated Depreciation and Amortization:						
Balances at beginning of year	4,458,906,590	1,368,102,459	103,524,715	62,864,955	–	5,993,398,719
Depreciation and amortization (Note 19)	1,177,201,386	267,916,630	44,034,662	22,191,746	–	1,511,344,424
Disposals and retirement	(389,531,042)	(161,716,133)	–	(1,787,499)	–	(553,034,674)
Balances at end of year	5,246,576,934	1,474,302,956	147,559,377	83,269,202	–	6,951,708,469
Net book values	₱2,612,687,690	₱666,111,273	₱727,238,160	₱176,228,218	₱82,611,796	₱4,264,877,137

Additions to leasehold improvements and construction in progress in 2017 and 2016 pertain to improvements and construction of newly opened and renovated stores during the year.

Disposals and retirement for the years ended December 31, 2017 and 2016 mainly pertain to leasehold improvements and store furniture and fixtures derecognized on closed or renovated stores.

Loss on store closures arising from the disposal or retirement of property and equipment amounted to ₱194.73 million, ₱142.72 million and ₱17.61 million in 2017, 2016 and 2015, respectively.

No property and equipment were pledged or treated as security to the outstanding liabilities as of December 31, 2017 and 2016.

11. Other Noncurrent Assets

	2017	2016
Franchise fee (net of accumulated amortization of ₱15.57 million and ₱13.24 million as of December 31, 2017 and 2016, respectively)	**₱44,436,554**	₱52,018,462
Miscellaneous deposits	**40,486,110**	37,932,037
Prepaid rent - net of current portion (Notes 7 and 26)	**8,733,502**	5,700,219
Software costs (net of accumulated amortization of ₱3.70 million and ₱2.53 million as of December 31, 2017 and 2016, respectively)	**1,558,148**	4,577,197
Others	**4,688,598**	2,886,121
	₱99,902,912	₱103,114,036

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

Amortization expense of software costs amounted to ₱1.17 million, ₱1.44 million and ₱0.90 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 19).

12. Trade and Other Payables

	2017	2016
Trade payables	**₱980,700,326**	₱824,095,807
Nontrade payables	**412,308,745**	535,192,116
Accrued expenses	**274,789,107**	240,668,448
Output VAT	**90,367,395**	87,871,774
Retention payable	**39,337,730**	36,785,633
Payables to related parties (Note 20)	**8,712,615**	1,919,308
Others	**17,350,978**	20,075,697
	₱1,823,566,896	₱1,746,608,783

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 retention payable and customer deposits.

Trade and other payables are generally paid within 12 months from balance sheet date.

13. **Short-term Loans Payable**

	2017	2016
Banks:		
Bank of Philippine Islands (BPI)	**₱2,370,000,000**	₱2,112,000,000
Banco de Oro (BDO)	**725,000,000**	800,000,000
Metropolitan Bank & Trust Co. (MBTC)	**500,000,000**	500,000,000
Security Bank Corporation (SBC)	**500,000,000**	–
China Banking Corporation (CBC)	**100,000,000**	100,000,000
Hongkong and Shanghai Banking Corporation Limited (HSBC)	–	400,000,000
Rizal Commercial Banking Corporation (RCBC)	–	100,000,000
	₱4,195,000,000	₱4,012,000,000

The Group's outstanding unsecured short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 2.5% to 3.75% and 2.5% to 3.5% in 2017 and 2016, respectively.

Interest expense related to short-term loans for the years ended December 31, 2017, 2016 and 2015 amounted to ₱169.80 million, ₱197.78 million and ₱230.54 million, respectively.

14. **Long-term Debt**

On May 8, 2013, 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 is unsecured and 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 is unsecured and 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.

On October 14, 2016, SSI entered into another unsecured long-term loan with BPI amounting to ₱500.00 million that carries a fixed interest rate of 4.00%. Principal repayments are due quarterly starting October 14, 2017 until October 14, 2021.

The purpose of these loans is to solely refinance its existing short term loans.

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:

	2017	2016
BPI	**₱1,389,305,266**	₱2,063,626,587
SBC	**220,999,581**	309,054,613
CBC	**152,456,481**	213,201,210
MBTC	**152,456,481**	213,201,210
RCBC	**83,921,041**	117,355,470
Total	**1,999,138,850**	2,916,439,090
Less current portion	**1,148,120,568**	917,698,579
Noncurrent portion	**₱851,018,282**	₱1,998,740,511

A rollforward analysis of unamortized transaction costs in 2017 and 2016 follows:

	2017	2016
Balances at beginning of year	**₱10,227,575**	₱14,091,923
Transaction costs recognized during the year	**–**	2,500,000
Amortization	**(5,443,094)**	(6,364,348)
Balances at end of year	**₱4,784,481**	₱10,227,575

Interest expense relating to long-term debt for the years ended December 31, 2017, 2016 and 2015 amounted to ₱120.71 million, ₱143.12 million and ₱84.71 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, 2017 and 2016, the Group is in compliance with the loan covenants of all their respective outstanding debts.

15. Costs of Goods Sold

	2017	2016	2015
Cost of merchandise sold (Note 6)	**₱9,041,113,143**	₱8,614,736,000	₱7,473,601,159
Royalty fees	**260,484,299**	205,781,450	77,173,640
Personnel costs (Note 18)	**134,966,026**	133,784,116	214,129,486
Rent (Notes 20 and 26)	**59,308,986**	55,374,265	38,837,004
Depreciation and amortization (Notes 10, 11 and 19)	**45,780,357**	31,695,468	25,018,865
Travel and transportation	**45,389,473**	45,667,194	56,360,309
Security and safety	**20,444,037**	12,487,380	14,755,820
Utilities	**12,608,614**	17,069,154	16,344,131
Repairs and maintenance	**8,086,715**	12,216,295	11,555,703
Supplies and maintenance	**6,933,723**	2,420,812	1,160,259
Insurance	**3,844,640**	3,120,939	3,298,680
Taxes and licenses	**427,296**	412,355	401,227
Others	**152,796,597**	153,354,895	163,932,721
	₱9,792,183,906	₱9,288,120,323	₱8,096,569,004

Cost of merchandise sold:

	2017	2016	2015
Merchandise inventories, beginning	**₱9,559,675,482**	₱9,679,995,388	₱7,980,070,099
Net purchases	**8,905,304,304**	8,494,416,094	9,173,526,448
Cost of merchandise available for sale	**18,464,979,786**	18,174,411,482	17,153,596,547
Less merchandise inventories, ending	**(9,423,866,643)**	(9,559,675,482)	(9,679,995,388)
	₱9,041,113,143	₱8,614,736,000	₱7,473,601,159

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 the cost of merchandise sold.

16. Selling and Distribution Expenses

	2017	2016	2015
Rent (Notes 20 and 26)	**₱2,015,440,904**	₱2,130,852,260	₱1,960,838,136
Personnel costs (Note 18)	**1,058,753,997**	1,127,897,645	1,109,838,508
Depreciation and amortization (Notes 10, 11 and 19)	**939,042,268**	1,370,244,867	1,359,783,041
Utilities	**603,026,568**	640,057,372	630,893,893
Credit card charges	**335,472,606**	335,256,130	302,028,033
Supplies and maintenance	**283,443,156**	253,904,621	209,932,975
Taxes and licenses	**209,757,228**	202,635,290	180,489,705
Advertising	**157,253,183**	124,678,663	122,797,197
Security services	**138,119,282**	128,285,517	166,692,701
Global marketing contribution fee	**131,240,154**	137,383,982	121,495,238
Repairs and maintenance	**73,214,148**	97,322,744	84,109,980
Insurance	**40,138,645**	42,640,301	44,196,189
Travel and transportation	**39,483,667**	37,704,160	46,073,361
Delivery and freight charges	**33,520,878**	23,580,295	31,916,547
Communication	**32,106,867**	35,363,049	35,101,560
Outside services	**14,223,089**	11,276,356	12,045,930
Professional fees	**12,835,452**	10,990,827	28,162,911
Entertainment, amusement and recreation (EAR)	**4,539,851**	12,344,662	9,611,020
Telegraphic transfer	**1,747,134**	1,978,162	2,736,193
Others	**65,270,124**	45,427,437	34,316,738
	₱6,188,629,201	₱6,769,824,340	₱6,493,059,856

17. General and Administrative Expenses

	2017	2016	2015
Personnel costs (Note 18)	**₱637,155,401**	₱502,704,189	₱462,822,713
Depreciation and amortization (Notes 10, 11 and 19)	**117,577,234**	119,101,542	113,699,389
Rent (Note 26)	**110,213,480**	130,517,395	122,974,608
Taxes and licenses	**43,879,885**	36,022,536	29,188,913
Utilities	**43,524,900**	39,672,861	39,157,883

(Forward)

	2017	2016	2015
Security services	**₱36,176,494**	₱32,346,466	₱31,802,773
Repairs and maintenance	**34,613,527**	35,752,632	31,377,152
Supplies and maintenance	**33,290,606**	43,974,624	49,577,494
Travel and transportation	**27,704,186**	35,024,428	24,259,108
Advertising	**26,751,589**	63,269,096	54,445,317
Communication	**24,462,476**	22,324,347	21,358,928
Professional fees	**14,605,534**	16,015,986	14,142,612
Insurance	**13,782,632**	13,056,639	15,978,008
EAR	**7,862,123**	7,500,432	8,727,771
Others	**48,764,479**	37,600,177	41,159,128
	₱1,220,364,546	₱1,134,883,350	₱1,060,671,797

18. **Personnel Costs**

Personnel costs charged to operations are as follows:

	2017	2016	2015
Salaries, wages and bonuses	**₱1,626,965,286**	₱1,563,123,571	₱1,570,737,881
Retirement benefit expense (Note 21)	**53,462,197**	51,827,906	47,899,539
Other employee benefits	**150,447,941**	149,434,473	168,153,287
	₱1,830,875,424	₱1,764,385,950	₱1,786,790,707

Personnel costs were distributed as follows:

	2017	2016	2015
Cost of goods sold (Note 15)	**₱134,966,026**	₱133,784,116	₱214,129,486
Selling and distribution (Note 16)	**1,058,753,997**	1,127,897,645	1,109,838,508
General and administrative (Note 17)	**637,155,401**	502,704,189	462,822,713
	₱1,830,875,424	₱1,764,385,950	₱1,786,790,707

19. **Depreciation and Amortization Expense**

	2017	2016	2015
Property and equipment (Note 10)	**₱1,098,901,251**	₱1,511,344,424	₱1,495,790,061
Franchise fee (Note 11)	**2,325,494**	8,261,827	1,807,093
Software cost (Note 11)	**1,173,114**	1,435,626	904,141
	₱1,102,399,859	₱1,521,041,877	₱1,498,501,295

Depreciation and amortization were distributed as follows:

	2017	2016	2015
Cost of goods sold (Note 15)	**₱45,780,357**	₱31,695,468	₱25,018,865
Selling and distribution (Note 16)	**939,042,268**	1,370,244,867	1,359,783,041
General and administrative (Note 17)	**117,577,234**	119,101,542	113,699,389
	₱1,102,399,859	₱1,521,041,877	₱1,498,501,295

20. 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 MPC are joint ventures while SPI is an associate of the Group.

c. PFM is a subsidiary of SCRI.

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 15, 16 and 26). Related rent expense amounted to ₱81.19 million, ₱100.23 million and ₱102.90 million for the years ended December 31, 2017, 2016 and 2015, respectively;

b. The Group reimburses related parties for its expenses paid by the related parties on 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 ₱30.97 million, ₱14.10 million and ₱13.50 million in 2017, 2016 and 2015, respectively;

d. Service fee charged by SSI to MPC as allocation on the service cost in SSI's centralized processes (i.e. Accounting, Human Resource, Information Technology, etc.) amounting to ₱10.32 million in 2017. In addition, SSI sold inventories and property and equipment amounting to ₱131.80 million and ₱11.00 million, respectively, in 2017.

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

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

	2017	2016	2015
Short-term employee benefits	**₱38**	₱37	₱37
Post-employment benefits	**5**	6	5
	₱43	₱43	₱42

As of December 31, 2017 and 2016 transactions with related parties are as follows:

			Outstanding balances		
Related Parties	Year	Transactions for the period	Receivables from related parties (see Note 5)	Payable to related parties (see Note 12)	Amounts owed by related parties
Affiliates					
RCC	**2017**	**₱24,071,179**	**₱51,550,863**	**₱2,921,689**	**₱–**
	2016	₱24,900,185	₱85,044,895	₱–	₱–
RMK	**2017**	**5,429,868**	**23,696,413**	**994,990**	**–**
	2016	12,947,589	18,353,595	1,919,308	–
Joint ventures					
PFM	**2017**	**3,351,736**	**17,690,793**	**–**	**–**
	2016	1,249,280	14,336,199	–	–
SCRI	**2017**	**90,967,200**	**–**	**–**	**196,132,537**
	2016	25,000,000	–	–	158,540,308
MPC	**2017**	**36,715,345**	**31,919,409**	**4,795,936**	**–**
	2016	–	–	–	–
Associate					
SPI	**2017**	**135,536**	**2,099,560**	**–**	**–**
	2016	312,740	2,039,503	–	–
	2017	**₱160,670,864**	**₱126,957,038**	**₱8,712,615**	**₱196,132,537**
	2016	₱64,409,794	₱119,774,192	₱1,919,308	₱158,540,308

The related party balances as of December 31, 2017 and 2016 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting ₱48.96 million, all receivables from related parties are not impaired. All related party balances are settled in cash.

21. 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 are as follows:

	2017	2016	2015
Current service cost	**₱34,792,817**	₱34,990,969	₱33,541,229
Net interest cost	**17,547,820**	16,836,937	14,358,310
Past service cost	**1,121,560**	–	–
Retirement benefit expense	**₱53,462,197**	₱51,827,906	₱47,899,539

As at December 31, 2017 and 2016, the amounts recognized in the consolidated balance sheets as retirement benefit obligation are as follows:

	2017	2016
Present value of obligations	**₱435,989,821**	₱394,846,938
Fair value of plan assets	**(56,960,554)**	(49,512,431)
Retirement benefit obligation	**₱379,029,267**	₱345,334,507

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

	2017	2016
Opening present value of obligation	**₱394,846,938**	₱379,381,032
Recognized in profit or loss:		
Current service cost	**34,792,817**	34,990,969
Interest cost	**20,180,724**	19,326,664
Past service cost	**1,121,560**	–
Profit or loss	**56,095,101**	54,317,633
Benefits paid	**(14,349,656)**	(7,919,226)
Benefits paid directly by the Group	**(4,361,594)**	(4,080,147)
Recognized in other comprehensive income		
Actuarial losses (gains) arising from:		
Deviations of experience from assumptions	**24,046,443**	(11,228,971)
Changes in financial assumptions	**(20,287,411)**	(13,643,521)
Changes in demographic assumptions	–	(1,979,862)
Other comprehensive income	**3,759,032**	(26,852,354)
Closing present value of obligation	**₱435,989,821**	₱394,846,938

The retirement fund is managed by a trustee bank as appointed by the BOD. There are no unusual or significant risks to which the Plan exposes the Group.

Changes in fair value of plan assets are as follows:

	2017	2016
Opening fair value of plan assets	**₱49,512,431**	₱48,818,200
Contributions	**20,420,900**	7,400,000
Interest income	**2,632,904**	2,489,727
Benefits paid	**(14,349,656)**	(7,919,226)
Return on plan assets, excluding amounts included in interest income	**(1,256,025)**	(1,276,270)
Closing fair value of plan assets	**₱56,960,554**	₱49,512,431

The fair value of plan assets by each class as at the end of the reporting period is as follows:

	2017	2016
Cash and cash equivalents	**₱54,358,381**	₱46,960,239
Government securities	**602,137**	630,414
Fixed income	**610,631**	627,695
Mutual funds	**248,842**	255,556
Other assets	**1,193,028**	1,188,518
Trade and other payables	**(52,465)**	(149,991)
	₱56,960,554	₱49,512,431

The movements in the retirement benefit obligation are as follows:

	2017	2016
At January 1	**₱345,334,507**	₱330,562,832
Retirement benefits expense	**53,462,197**	51,827,906
Actuarial losses (gains)	**5,015,057**	(25,576,084)
Contributions	**(20,420,900)**	(7,400,000)
Benefits paid directly by the Group	**(4,361,594)**	(4,080,147)
At December 31	**₱379,029,267**	₱345,334,507

The principal actuarial assumptions used as of December 31, 2017 and 2016 in determining retirement benefit obligations for the Group's retirement plan are as follows:

	2017	2016
Discount rate	**5.6% - 5.9%**	5.2% - 6.0%
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, 2017 and 2016, assuming all other assumptions were held constant:

		Effect on Present Value of Defined Benefit Obligation	
	Increase/(Decrease)	2017	2016
Discount rate	+1%	**(₱49,048,099)**	(₱46,381,180)
	-1%	**59,317,374**	56,092,079
Future salary increase rate	+1%	**58,637,753**	56,929,886
	-1%	**(49,220,156)**	(47,786,559)

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The average duration of the defined benefit obligation at the end of the reporting date is from 10.00 to 24.90 years and from 10.20 to 28 years in 2017 and 2016, respectively.

The Group expects to contribute ₱10.00 million to the retirement plan in 2018.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016:

	2017	2016
1 year or less	**₱60,167,032**	₱49,782,348
More than 1 year to 5 years	**72,372,953**	68,411,041
More than 5 years	**2,943,588,965**	2,595,837,608

22. Income Taxes

a. A reconciliation of income tax expense applicable to income before income tax at the statutory income tax rate to the provision for income tax for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Provision for income tax at statutory tax rate of 30%	**₱164,254,024**	₱174,744,044	₱388,717,855
Additions to (reductions from) income tax resulting from:			
Movement in unrecognized deferred tax assets	**40,628,569**	42,352,945	11,155,637
Nondeductible expenses	**20,834,292**	20,088,553	488,569
Expiration of NOLCO and MCIT	**20,711,729**	31,825,281	18,953,055
Share in net losses of an associate and joint ventures	**19,342,873**	77,223,086	59,547,065
Interest income subjected to final tax	**(730,760)**	(657,374)	(873,032)
Nondeductible interest expense	**188,901**	195,528	322,370
Others	**7,021,480**	5,092,323	6,748,344
	₱272,251,108	₱350,864,386	₱485,059,863

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

	2017	2016
Deferred tax assets:		
NOLCO	**₱148,044,835**	₱103,019,184
Retirement benefit obligation	**78,885,458**	75,244,814
MCIT	**30,007,234**	25,918,144
Deferred revenue	**7,843,480**	7,300,230
Accrued rent	**7,839,827**	8,761,003
Unrealized foreign exchange losses	**231,792**	423,519
Unamortized past service cost	**200,626**	78,030
Others	**4,564,935**	4,487,348
	277,618,187	225,232,272
Deferred tax liabilities:		
Carrying value of capitalized rent expense	**(4,549,848)**	(8,214,521)
Unamortized prepayments	**(1,435,344)**	(3,068,273)
Unrealized foreign exchange gains	**(1,251,883)**	(1,387,095)
	(7,237,075)	(12,669,889)
Deferred tax asset related to retirement benefit obligation recognized under other comprehensive loss	**29,702,811**	28,198,294
Net deferred tax assets	**₱300,083,923**	₱240,760,677

c. 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:

	2017	2016
NOLCO	**₱225,511,062**	₱323,382,635
Retirement benefits	**17,068,369**	524,147
MCIT	**13,399,816**	4,309,131
Unrealized foreign exchange loss	**178,964**	–
Accrued rent	**–**	76,648

d. As of December 31, 2017, 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
2014	2015 - 2017	₱226,032,775	(₱218,237,711)	(₱7,795,064)	₱–
2015	2016 - 2018	136,972,354	–	–	136,972,354
2016	2017 - 2019	303,774,786	–	–	303,774,786
2017	2018 - 2020	278,246,705	–	–	278,246,705
		₱945,026,620	(₱218,237,711)	(₱7,795,064)	₱718,993,845

As of December 31, 2017, the MCIT that can be claimed as tax credits follows:

Year incurred	Year of availment	Amount	Expired	Applied	Balance
2014	2015 - 2017	₱10,358,335	(₱2,188,353)	(₱8,169,982)	₱–
2015	2016 - 2018	7,937,721	–	(1,552,790)	6,384,931
2016	2017 - 2019	12,129,749	–	–	12,129,749
2017	2018 - 2020	24,892,370	–	–	24,892,370
		₱55,318,175	(₱2,188,353)	(9,722,772)	₱43,407,050

e. Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

23. Basic/Diluted Earnings Per Share

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

	2017	2016	2015
Net income	**₱275,262,304**	₱231,615,760	₱810,666,321
Divided by weighted average number of common shares	**3,312,826,323**	3,312,864,430	3,312,864,430
	₱0.08	₱0.07	₱0.24

There were no potential dilutive common shares for the years ended December 31, 2017, 2016 and 2015.

24. Risk Management Objectives and Policies

The principal financial instruments of the Group are cash 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 trade 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, 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, 2017

	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	**₱1,608,066,546**	**₱1,608,066,546**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Trade and other receivables							
Trade receivables	**251,200,355**	**248,909,906**	**419,434**	**101,969**	**1,769,046**	**–**	**–**
Nontrade receivables	**356,001,339**	**27,156,883**	**137,066,079**	**18,016,682**	**6,575,694**	**167,186,001**	**–**
Receivables from related parties	**126,957,038**	**126,957,038**	**–**	**–**	**–**	**–**	**–**
Advances to officers and employees	**73,141,017**	**70,358,537**	**2,330,447**	**5,901**	**331,009**	**115,123**	**–**
Other receivables	**804,546**	**–**	**804,546**	**–**	**–**	**–**	**–**
Amounts owed by related parties	**245,092,200**	**196,132,537**	**–**	**–**	**–**	**–**	**48,959,663**
Security deposits[1]	**10,032,977**	**10,032,977**	**–**	**–**	**–**	**–**	**–**
Security deposits and construction bonds	**1,019,838,784**	**1,019,838,784**	**–**	**–**	**–**	**–**	**–**
Total	**₱3,691,134,803**	**₱3,307,453,209**	**₱140,620,506**	**₱18,124,552**	**₱8,675,749**	**₱167,301,124**	**₱48,959,663**

1 Presented under "Prepayments and other current assets"

December 31, 2016

	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	₱961,950,588	₱961,950,588	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	277,721,936	271,922,635	3,152,076	788,208	1,859,017	–	–
Nontrade receivables	356,329,207	69,657,910	148,412,796	6,580,999	21,192,946	110,484,556	–
Receivables from related parties	119,774,192	119,774,192	–	–	–	–	–
Advances to officers and employees	69,970,079	69,081,755	66,336	97,130	485,472	239,386	–
Other receivables	1,272,825	1,272,825	–	–	–	–	–
Amounts owed by related parties	158,540,308	158,540,308	–	–	–	–	–
Security deposits[1]	9,314,453	9,314,453	–	–	–	–	–
Security deposits and construction bonds	1,024,028,596	1,024,028,596	–	–	–	–	–
Total	₱2,978,902,184	₱2,685,543,262	₱151,631,208	₱7,466,337	₱23,537,435	₱110,723,942	₱–

1 Presented under "Prepayments and other current assets"

The credit quality of financial assets that were neither past due nor impaired are classified as high grade. High grade loans and receivable pertain to financial assets with counterparties with good favorable standing. The counterparties have remote likelihood of default and have consistently exhibited good paying habits.

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 and trade and other payables as of December 31, 2017 and 2016. 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, 2017

	USD[1]	**EUR[2]**	**HKD[3]**	**JPY**	**GPB**	**Total Peso Equivalent**
Financial assets						
Cash in banks	**$3,702,800**	**€57,978**	**$3,826**	**¥–**	**£–**	**₱188,361,338**
Financial liabilities						
Trade and other payables	**(1,238,426)**	**(2,946,542)**	–	–	–	**(237,477,969)**
Net Financial Assets (Liabilities)	**$2,464,374**	**(€2,888,564)**	**$3,826**	**¥–**	**£–**	**(₱49,116,631)**

[1]$1 = ₱49.93
[2]€1 = ₱59.61
[3]HK$1 = ₱6.39

December 31, 2016

	USD[1]	EUR[2]	HKD[3]	JPY[4]	GPB[5]	Total Peso Equivalent
Financial assets						
Cash in banks	$1,864,615	€58,690	$3,921	¥–	£–	₱95,776,333
Financial liabilities						
Trade and other payables	(1,468,400)	(3,500,179)	–	(37,712,955)	(18,547)	(271,803,665)
Net Financial Assets (Liabilities)	$396,215	(€3,441,489)	$3,921	(¥37,712,955)	(£18,547)	(₱176,027,332)

[1]$1 = ₱47.06
[2]€1 = ₱51.74
[3]HK$1 = ₱6.09
[4]JPY = ₱0.43
[5]GBP = ₱60.87

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.

	2017		2016	
	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax
US Dollar	+5%	**₱6,152,310**	+5%	₱984,990
	-5%	**(6,152,310)**	-5%	(984,990)
Euro	+5%	**(8,609,365)**	+5%	(8,920,339)
	-5%	**8,609,365**	-5%	8,920,339
HK Dollar	+5%	**1,222**	+5%	1,259
	-5%	**(1,222)**	-5%	(1,259)
Great Britain Pound	+5%	–	+5%	(56,448)
	-5%	–	-5%	56,448
Japan Yen	+5%	–	+5%	(810,829)
	-5%	–	-5%	810,829

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 Group 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 tables below summarize the maturity analysis of the Group's financial liabilities based on contractual undiscounted payments:

December 31, 2017

		Contractual undiscounted payments			
	Total	**On demand**	**Within 1 year**	**>1 to 5 years**	**> 5 years**
Financial Liabilities					
Trade payables and other payables*	**₱1,656,687,236**	**₱754,637,649**	**₱902,049,587**	**₱–**	**₱–**
Short-term loans payable**	**4,278,109,521**	–	**4,278,109,521**	–	–
Long-term debt**	**2,013,186,962**	–	**1,162,168,678**	**851,018,284**	–
Tenant deposits	**34,778,744**	–	–	**34,778,744**	–
Total Undiscounted Financial Liabilities	**₱7,982,762,463**	**₱754,637,649**	**₱6,342,327,786**	**₱885,797,028**	**₱–**

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

December 31, 2016

		Contractual undiscounted payments			
	Total	On demand	Within 1 year	>1 to 5 years	> 5 years
Financial Liabilities					
Trade payables and other payables*	₱1,696,216,673	₱1,445,621,787	₱250,594,886	₱–	₱–
Short-term loans payable**	4,017,793,589	5,793,589	4,012,000,000	–	–
Long-term debt**	3,265,077,908	12,353,975	596,916,374	2,655,807,559	–
Tenant deposits	34,752,738	–	–	34,752,738	–
Total Undiscounted Financial Liabilities	₱9,013,840,908	₱1,463,769,351	₱4,859,511,260	₱2,690,560,297	₱–

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

The Company's financial assets amounting to ₱3,691.13 million and ₱2,978.90 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 the years ended December 31, 2017 and 2016. Capital includes equity as shown in the consolidated balance sheet.

As disclosed in Note 14, 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, 2017.

25. 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:

	2017		2016	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets				
Loans and receivables				
Security deposits and construction bonds	**₱1,029,871,761**	**₱1,004,948,318**	₱1,033,343,049	₱983,845,061
Financial Liabilities				
Other financial liabilities				
Long-term debt	**₱1,999,138,850**	**₱2,029,562,933**	₱2,916,439,090	₱3,172,151,885

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

Cash, 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 1.91% to 5.00% and 2.38% to 3.98% were used in calculating the fair value of the Group's refundable deposits as of December 31, 2017 and 2016, 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 4.08% to 6.36% and 3.67% to 4.29% were used in calculating the fair value of the Group's long-term debt as of December 31, 2017 and 2016, respectively.

Fair Value Hierarchy
The fair value of the Group's security deposits and construction bonds and long-term debt are classified as Level 3.

As at December 31, 2017 and 2016, the Group does not have financial instruments with fair values determined using inputs that are classified under Levels 1 and 2. For the years ended December 31, 2017 and 2016, 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.

26. **Contracts and Commitments**

Group as a 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.

	2017	2016	2015
Fixed rent	**₱1,849**	₱2,050	₱1,875
Contingent rent	**208**	266	248
	₱2,057	₱2,316	₱2,123

Contingent rent of some stores is based on percentage ranging from 3% to 6% of total merchandise sales in 2017, 2016 and 2015.

Future minimum rentals payable under these leases are as follows as of December 31, 2017 and 2016 (in millions):

	2017	2016
Within one year	**₱904**	₱931
After one year but not more than five years	**850**	1,616
Later than five years	**254**	303

The Group has paid security deposits and construction bonds for the store outlets and office spaces with carrying amounts of ₱1,029.87 million and ₱1,033.34 million (including current portion in "Prepayments and other current assets") as of December 31, 2017 and 2016, 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 1.91% to 5.00% and from 1.24% to 7.15% in 2017 and 2016, respectively. Interest income recognized from these security deposits amounted to ₱10.18 million, ₱10.50 million and ₱6.52 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Group as a 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 ₱34.78 million and ₱34.75 million as of December 31, 2017 and 2016, respectively. The Group subleased its leased space in NAIA Terminal 3 for a lease term of one year to five years. 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 (in millions):

	2017	2016
Within one year	**₱59**	₱60
After one year but not more than five years	**1**	1

27. **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, 2017, 2016 and 2015 (amounts in millions):

	2017	2016	2015
Net Sales			
Fast fashion	**₱6,792**	₱6,569	₱6,232
Luxury and bridge	**4,059**	3,848	3,556
Footwear, accessories and luggage	**2,500**	2,686	2,533
Casual	**2,359**	2,616	2,695
Other	**2,750**	2,723	2,405
	₱18,460	₱18,442	₱17,421

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).

	2017	2016	2015
Philippines	**₱18,395**	₱18,367	₱17,308
Guam	**65**	75	113
	₱18,460	₱18,442	₱17,421

28. **Equity**

a. Common Shares

The Company's authorized and issued capital stock as of December 31, 2017, 2016 and 2015 are as follows:

	Number of Shares		
	2017	2016	2015
Authorized capital stock, ₱1 par value	**5,000,000,000**	5,000,000,000	5,000,000,000
Issued capital stock	**3,312,864,430**	3,312,864,430	3,312,864,430

Below is a summary of the Company's track record of registration of securities.

	Number of shares registered	Issue/ offer price	Date of approval
Authorized capital stock, ₱1 par value	695,701,530	₱7.50	November 7, 2014

As of December 31, 2017 and 2016, the Company has 38 and 37 stockholders, respectively.

b. Appropriation of Retained Earnings
On December 1, 2017, the BOD approved the reversal of prior years' appropriations amounting to ₱1,115.00 million. On the same date, the BOD approved the appropriation of retained earning amounting to ₱1,402.50 million

On December 2, 2016, the BOD approved the reversal of prior years' appropriations amounting to ₱925.00 million. On the same date, the BOD approved the appropriation of retained earning amounting to ₱1,115.00 million.

Details of the appropriated retained earnings as of December are as allows:

	2017	2016
RMSI	**₱310,000,000**	₱480,000,000
ISCI	**562,500,000**	300,000,000
LCI	**500,000,000**	300,000,000
RSCI	**30,000,000**	35,000,000
	₱1,402,500,000	₱1,115,000,000

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.

As of December 31, 2017, the total unrestricted retained earnings available for dividend declaration amounted to ₱999.29 million. This excludes undistributed net earnings of subsidiaries, accumulated equity in net earnings of associates and joint ventures accounted under the equity method and unrealized gains recognized on assets and liabilities currency translations.

c. Treasury Shares
On May 10, 2017, the Board of Directors approved the repurchase of its shares from the open market. The amount that has been allocated for the buy-back program is ₱200.00 million.

In December 2017, the BOD approved the repurchase of 150,000 shares amounting to ₱0.05 million from the Philippine equities market.

d. Stock Grants
On August 4, 2014, the Board and stockholders of the Company 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 Company, 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, 2017 and 2016 is 3,889,131. 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.

Outstanding balance of stock grants presented in the consolidated balance sheets amounted to ₱33.64 million as of December 31, 2017 and 2016.

29. Changes in Liabilities arising from Financing Activities

The following table below shows the changes in cash flows and non-cash changes in the liabilities arising from financing activities in 2017:

	Short-term loans payable	Long-term debt	Total
Beginning balance	₱4,012,000,000	₱2,916,439,090	₱6,928,439,090
Cash movement:			
Availment of additional debt	2,050,000,000	–	2,050,000,000
Settlement of debt	(1,867,000,000)	(922,743,334)	(2,789,743,334)
Noncash movement:			
Amortization of debt issue cost	–	5,443,094	5,443,094
	₱4,195,000,000	₱1,999,138,850	₱6,194,138,850

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 AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
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 (the Group) as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, included in this Form 17-A and have issued our report thereon dated April 4, 2018. 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 Group'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 basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic 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 basic 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. 08-001998-76-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621342, January 9, 2018, Makati City

April 4, 2018

SSI GROUP, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT I

SSI GROUP, INC.

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

DECEMBER 31, 2017

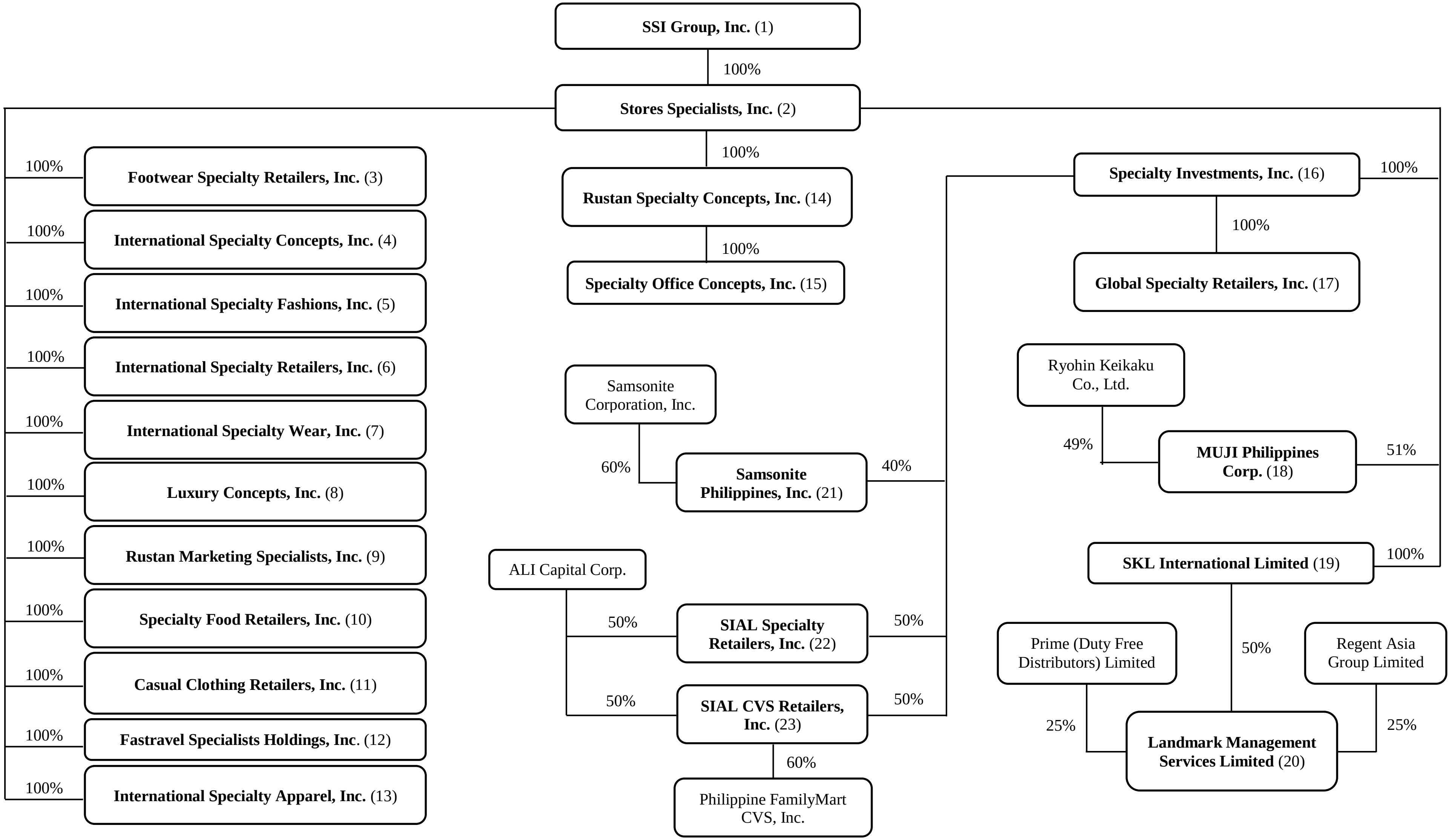

Exhibit II

SSI GROUP, INC.

SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2017**		**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			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions	✓		
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			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	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	✓		
	Amendments to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Segregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments		✓	
	PFRS 9, Financial Instruments (2014 or final version)		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	✓		
	Investment Entities (Amendments to PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 27, Separate Financial Statements)			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interest in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Clarification of Scope of the Standard	✓		
PFRS 13	Fair Value Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 13: Portfolio Exceptions			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓	
PFRS 16	Leases		✓	
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	✓		
	Amendments to PAS 7: Statement of Cash Flows – Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12, Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16: Bearer Plants			✓
	Amendments to PAS 16: Revaluation Method- Proportionate Restatement of Accumulated Depreciation and Amortization			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate			✓
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	✓		
	Amendments to PAS 24: Related Party Disclosures - Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendment to PAS 27: Equity Method in Separate Financial Statements			✓
	Amendment to PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity and Associate			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	✓		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
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	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36 (Amended)	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 38: Revaluation Method: Proportionate Restatement of Accumulated Depreciation and 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			✓
	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 PFRS 9, PFRS 7 and PAS 39 (2013 version): Hedge Accounting			✓
PAS 40	Investment Property			✓
	Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC2	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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
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	Agreement 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			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓	
IFRIC 23	Uncertainty over Income Tax Treatments		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
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 Group did not early adopt these standards, interpretations and amendments*

Exhibit III

SSI GROUP, INC. AND SUBSIDIARIES

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2017

Unappropriated Retained Earnings, beginning			₱980,914,539
Less:	Other realized gains related to accretion of income from security deposits	(1,691,179)	
	Benefit from deferred tax	(2,394,166)	(4,085,345)
Unappropriated Retained Earnings, as adjusted, beginning			976,829,194
Net income during the period closed to Retained Earnings		23,582,420	
Less:	Other realized gains related to accretion of income from security deposits	(1,119,060)	
Net income actually earned during the period			22,463,360
Retained earnings available for dividend declaration			₱999,292,554

Exhibit IV

SSI GROUP, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2017

Ratios	Formula	December 31, 2017	December 31, 2016
(i) Current Ratio	Current Assets/Current Liabilities	1.85	1.87
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.61	0.70
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.44	0.59
(iii) Asset to Equity Ratio	Total Assets/Total Equity	1.83	1.92
(iv) Interest Cover Ratio	EBITDA/Interest Expense	8.19	8.42
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	46.96%	49.64%
Net Profit Margin	Net Income/Revenues	1.49%	1.26%
EBITDA Margin	EBITDA/Revenues	12.88%	14.99%
Return on Assets	Net Income/Total Assets	1.47%	1.21%
Return on Equity	Net Income/Total Equity	2.69%	2.32%

*EBITDA = Operating income before working capital changes

SCHEDULE A

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

	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	N/A	₱1,689,481,704	₱1,689,481,704	₱2,906,339
Trade and other receivables				
Trade receivables	N/A	251,200,355	251,200,355	–
Nontrade receivables	N/A	356,001,339	356,001,339	–
Receivables from related parties	N/A	126,957,038	126,957,038	–
Advances to officers and employees	N/A	73,141,017	73,141,017	–
Dividend receivable	N/A	40,000,000	40,000,000	
Other receivables	N/A	804,546	804,546	–
Amounts owed by related parties	N/A	196,132,537	196,132,537	–
Current portion of security Deposits (presented under “Prepayments and other current assets”)	N/A	10,032,977	10,032,977	–
Security deposits and construction bonds	N/A	1,019,838,784	1,019,838,784	–
		₱3,763,590,297	₱3,763,590,297	₱2,906,339

SCHEDULE B

SSI GROUP, 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, 2017

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	₱85,045	₱75,658	(₱109,153)	₱51,550	₱–	₱51,550
PFM	14,336	3,375	(21)	17,690	–	17,690
RMK	18,353	7,229	(1,886)	23,696	–	23,696
SPI	2,039	150	(89)	2,100	–	2,100
MPC	–	31,919	–	31,919		31,919
Advances to officers and employees	69,970	97,089	(93,918)	73,141	–	73,408
	₱189,743	₱215,420	(₱205,067)	₱200,096	₱–	₱200,363

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
SCRI	₱158,540	₱37,593	₱–	₱196,133	₱–	₱196,133

SSI GROUP, 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, 2017

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	₱122,709,729	₱4,187,806	(₱611,663)	₱–	₱126,285,872	₱–	₱126,285,872
SSI	1,562,235	2,949,157	(674,473)	–	3,836,919	–	3,836,919
RMSI	240,354,754	27,081,782	(9,420,860)	–	258,015,676	–	258,015,676
ISCI	122,625,261	22,263,341	(1,224,943)	–	143,663,659	–	143,663,659
RSCI	12,017,304	615,645	(35,219)	–	12,597,730	–	12,597,730
SOCI	137,883,270	13,505	(73,920)	–	137,822,855	–	137,822,855
SII	4,898,391	–	–	–	4,898,391	–	4,898,391
LCI	4,047,012	36,298,355	(36,123,425)	–	4,221,942	–	4,221,942
ISFI	170,330	250,067	(159,697)	–	260,700	–	260,700
FSRI	8,757,431	26,761,236	(3,594,077)	–	31,924,590	–	31,924,590
GSRI	14,891,263	89,428		–	14,980,691	–	14,980,691
SFRI	681,570,447	39,536,161	(632,807,727)	–	88,298,881	–	88,298,881
ISRI	538,481	281,286	(93,810)	–	725,957	–	725,957
ISWI	659,381	239,019	(54,424)	–	843,976	–	843,976
ISAI	601,443	209,779	(37,592)	–	773,630	–	773,630
CCRI	146,810,663	82,126,367	(53,517,542)	–	175,419,488	–	175,419,488
FSHI	–	68,220,060	(50,488,740)		17,731,320		17,731,320
	₱1,500,097,395	₱311,122,994	(₱788,918,112)	₱–	₱1,022,302,277	₱–	₱1,022,302,277

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	₱155,408,906	₱7,875	(₱2,358,949)	₱–	₱153,057,832	₱–	₱153,057,832
SSI	249,207,438	150,778,860	(141,347,749)	–	258,638,549	–	258,638,549
RMSI	50,410,892	20,872,662	(79,391)	–	71,204,163	–	71,204,163
ISCI	563,219,736	199,481,070	(731,659,904)	–	31,040,902	–	31,040,902
RSCI	12,960,997	3,655,102	(1,184)	–	16,614,915	–	16,614,915
ISFI	125,997,175	8,146,836	(78,440,475)	–	55,703,536	–	55,703,536
FSRI	42,422,534	19,987,467	(11,935,386)	–	50,474,616	–	50,474,616
GSRI	144,847,469	2,455,951	–	–	147,303,420	–	147,303,420
SFRI	9,627,711	539,474,771	(95,799)	–	549,006,683	–	549,006,683
ISRI	156,874,390	5,511,856	(121,697,931)	–	40,688,316	–	40,688,316
ISWI	155,837,993	31,302,352	(98,377,280)	–	88,763,065	–	88,763,065
ISAI	175,602,428	34,110,306	(107,842,027)	–	101,870,708	–	101,870,708
LCI	1,253,837	7,277,795	(7,650,373)	–	881,258	–	881,258
CCRI	26,725,365	5,095,547	(9,971,052)	–	21,849,859	–	21,849,859
	₱1,870,396,871	₱1,028,158,450	(₱1,311,457,500)	₱–	₱1,587,097,822	₱–	₱1,587,097,822

SCHEDULE D

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS

AS AT DECEMBER 31, 2017

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 balance sheets.						

SCHEDULE E

SSI GROUP, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
AS AT DECEMBER 31, 2017

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	₱2,003,923,333	₱1,150,973,333	₱852,950,000
Less: Transaction costs	(4,784,483)	(2,852,765)	(1,931,718)
	₱1,999,138,850	₱1,148,120,568	₱851,018,282

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.

SCHEDULE F

SSI GROUP, INC. AND SUBSIDIARIES

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

AS AT DECEMBER 31, 2017

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.

SCHEDULE G

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS

AS AT DECEMBER 31, 2017

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.

SCHEDULE H

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK

AS AT DECEMBER 31, 2017

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	3,312,714,430	–	–	511,785,411	–