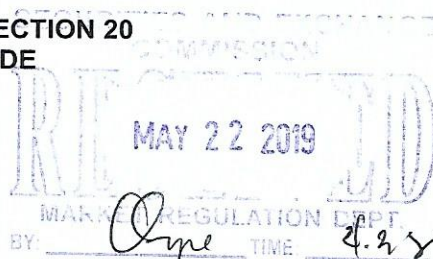


SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE



1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Registrant as specified in its charter : **SSI Group, Inc.  
("SSI" or the "Company")**
3. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**
4. SEC Identification Number : **CS200705607**
5. BIR Tax Identification Number : **006-710-876**
6. Address of Principal Office : **6th Floor Midland Buendia Building,  
403 Sen. Gil Puyat Avenue, Makati  
City**
- Postal Code : **1200**
7. Registrant's telephone number, including area code : **(632) 890 8034**
8. Date, time and place of the meeting of security holders : **June 26, 2019  
9:00 A.M.  
Rigodon Ballroom  
The Peninsula Manila  
Ayala Avenue corner Makati Avenue  
1226 Makati City, Metro Manila**

9. Approximate date on which the Information Statement is first to be sent or given to security holders : **May 30, 2019**

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor: : Not applicable

Address and Telephone No. : Not applicable

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of each class	Number of Common Stock Outstanding or Amount of Debt Outstanding (as of April 30, 2019)
<b>Common Shares</b>	<b>3,308,429,430</b>

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

Yes  No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein.

**Philippine Stock Exchange / Common shares**

## **INFORMATION STATEMENT**

### **A. GENERAL INFORMATION**

#### **Item 1. Date, time and place of meeting of security holders**

- a) Date : June 26, 2019  
Time : 9:00 A.M.  
Place : Rigodon Ballroom  
The Peninsula Manila  
Ayala Avenue corner Makati Avenue  
1226 Makati City, Metro Manila
- Complete mailing address of the principal office of the Company : 6th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City
- b) Approximate date when the Information Statement is first to be sent out to stockholders of record: : May 30, 2019

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

#### **Item 2. Dissenter's Right of Appraisal**

In accordance with Section 80 of the Revised Corporation Code and Article 11(a)(vi) of the Company's Revised Manual on Corporate Governance, any stockholder shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Revised Corporation Code;
3. In case of merger or consolidation; and
4. In case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

- (a) A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.
- (b) The dissenting stockholder shall make a written demand on the Company within thirty (30) days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30-day period shall be deemed a waiver on his appraisal right.
- (c) If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within ten (10) days after demanding payment for his shares, the fair value of the shareholder's shares in the Company as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger, if such be the corporate action involved. Failure by

the dissenting shareholder to surrender his shares within said 10-day period shall, at the option of the Company, terminate his appraisal rights.

- (d) If within sixty (60) days from the date the corporate action was approved by the stockholders, the dissenting stockholder and the Company cannot agree on the fair value of the shares, it shall be appraised and determined by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company and the third by the two thus chosen.
- (e) The findings of a majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.
- (f) Upon payment of the agreed or awarded price, the stockholder shall transfer his shares to the Company.

There are no actions or matters to be discussed in the Annual Stockholders' Meeting which would give rise to the exercise of the dissenter's right of appraisal.

### **Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

None of the following persons have any substantial interest, direct or indirect in any matter to be acted upon other than election to office:

- i. Directors or officers of the Company at any time since the beginning of the last fiscal year;
- ii. Nominees for election as directors of the Company;
- iii. Associate of any of the foregoing persons.

No director or nominee for election as director has informed the Company of his opposition to any matter to be acted upon at the annual stockholders meeting.

## **B. CONTROL AND COMPENSATION INFORMATION**

### **Item 4. Voting Securities and Principal Holders Thereof**

- a. The Company has 3,308,429,430 outstanding common shares as of April 30, 2019. Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.
- b. All stockholders of record as of May 15, 2019 are entitled to notice and to vote at the Company's annual stockholders' meeting.
- c. Foreign equity ownership as of April 30, 2019 is 279,531,385 shares or 8.45% of the total issued and outstanding shares.
- d. Manner of Voting and Election of Directors (Cumulative Voting) – In accordance with Section 7 Article II of the By-laws, at all meetings of stockholders, a stockholder may vote in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary not later than ten (10) days before the date set for the meeting. Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary at least five (5) days prior to a scheduled meeting or by their personal presence at the meeting. The decision of the Secretary on the validity of the proxies shall be final and binding until and unless set aside by a court of competent jurisdiction.

The Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Revised Corporation Code.

Each common share of the Company owned by a shareholder as of May 15, 2019 is entitled to one (1) vote (each, a “Voting Share”) except in the election of directors where one share is entitled to as many votes as there are Directors to be elected. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as there are to be elected as Directors, or he may cumulate or give to one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. Thus, since there are nine (9) directors to be elected, each Voting Share is entitled to nine (9) votes.

The shareholder holding Voting Share/s may nominate directors and vote in person or by proxy. If he chooses to vote through proxy, the Company’s By-Laws require the submission of a proxy form to the Corporate Secretary no later than 5:30 P.M. on June 14, 2019 at the Office of the Corporate Secretary at the 6th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City.

A forum for the validation of proxies, chaired by the Corporate Secretary and attended by the Company’s stock transfer agent, shall be convened on June 17, 2019 at 3:00 P.M. at the 6th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be resolved by the Corporate Secretary at that forum. The Corporate Secretary’s decision shall be final and binding on the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the meeting.

- e. Security ownership of certain record and beneficial owners and management
  - i. Security ownership of record and beneficial owners (of more than 5%)

As of April 30, 2019, the Company knows no one who beneficially owns in excess of 5% of the Company’s common stock except those 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	<b>PCD Nominee Corporation (Filipino)</b> <sup>1</sup> 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	769,402,394	23.2558%
Common	<b>Wellborn Holdings, Inc.</b> <sup>2</sup> 4th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City (stockholder)	Wellborn Holdings, Inc.	Filipino	467,043,679	14.1168%

<sup>1</sup> PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depository, 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 or their customer owns 5% or more shares of SSI Group, Inc.

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	<b>Marjorisca, Inc.</b> <sup>3</sup> 25B Tamarind Rd. South Forbes Park, Makati City (stockholder)	Marjorisca, Inc.	Filipino	434,440,400	13.1313%
Common	<b>Birdseyeview, Inc.</b> <sup>4</sup> 25B Tamarind Rd. South Forbes Park, Makati City (stockholder)	Birdseyeview, Inc.	Filipino	434,412,500	13.1305%
Common	<b>Educar Holdings Corp.</b> <sup>5</sup> 2nd Floor Urban Bldg., 405 Sen. Gil Puyat Avenue, Makati City (stockholder)	Educar Holdings Corp.	Filipino	415,753,800	12.5665%
Common	<b>Bordeaux Holdings, Inc.</b> <sup>6</sup> 19th Floor BDO Plaza, 8737 Paseo de Roxas, Makati City (stockholder)	Bordeaux Holdings, Inc.	Filipino	414,967,821	12.5427%
Common	<b>PCD Nominee Corporation (Non-Filipino)</b> <sup>7</sup> 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	Various	279,531,385	8.4491%

<sup>2</sup> Wellborn Holdings, 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. Anthony T. Huang has been authorized to represent Wellborn Holdings, Inc. and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<sup>3</sup> Marjorisca, Inc. is beneficially owned by Ma. Elena R. Tantoco, Christopher James Tantoco and Jose Miguel Tantoco as to 40%, 30% and 30%, respectively. Jose Miguel Tantoco has been authorized to represent Marjorisca, Inc. and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<sup>4</sup> Birdseyeview, Inc. is wholly and beneficially owned by Ma. Teresa R. Tantoco. Ma. Teresa R. Tantoco directly and indirectly owns 471,280,931 common shares of the Company equivalent to 14.23% of outstanding shares. Bienvenido V. Tantoco III has been authorized to represent Birdseyeview, Inc. and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<sup>5</sup> 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%. Eduardo T. Lopez III has been authorized to represent Educar Holdings Corporation and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<sup>6</sup> Bordeaux Holdings, Inc. is equally beneficially owned by Jaime T. Pineda and Emmanuel T. Pineda. Edgardo Luis Pedro T. Pineda has been authorized to represent Bordeaux Holdings, Inc. and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<sup>7</sup> PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depository, 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 or their customer owns 5% or more shares of SSI Group, Inc.

ii. Security ownership of directors and management as of April 30, 2019

Title of Class	Name of beneficial owner	Position	Amount and Nature of Beneficial Ownership (shares)	Citizenship	% to Total Outstanding Shares
<b>Named Executive Officers</b>					
Common	Zenaida R. Tantoco	Chairman and CEO	872,500 (direct)	Filipino	0.0264%
Common	Anthony T. Huang	Director and President	9,200,294 (direct)	Filipino	0.2781%
Common	Ma. Teresa R. Tantoco	Director and Treasurer	471,280,931 (direct and indirect)	Filipino	14.2449%
Common	Elizabeth T. Quiambao	Executive Vice President	4,919,419 (direct)	Filipino	0.1487%
Common	Rossellina J. Escoto	Vice President - Finance	404,961 (direct)	Filipino	0.0122%
<b>Other Executive Officers and Directors</b>					
Common	Ma. Elena R. Tantoco	Director	32,054,979 (direct)	Filipino	0.9689%
Common	Bienvenido V. Tantoco III	Director	856,200 (direct and indirect)	Filipino	0.0259%
Common	Eduardo T. Lopez III	Director	790,100 (direct)	Filipino	0.0239%
Common	Edgardo Luis Pedro T. Pineda	Director	100 (direct)	Filipino	0.0000%
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	231,235 (direct)	Filipino	0.0070%
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.

iii. Voting trust holders of 5% or more

The Company knows of no persons holding more than 5% of a class of shares under a voting trust or similar agreement as of April 30, 2019.

iv. Changes in control

Aside from the corporate restructuring detailed below, there has been no change in the control of the Company since it was formed on April 16, 2007. As of April 30, 2019, there are no arrangements that may result in a change in the control of the Company.

*(a) 2014 Corporate Restructuring in relation to the Company's initial public offering*

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 April 30, 2016, 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 "Over-allotment 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 Over-allotment Option was fully exercised on November 13, 2014. The total amount raised by the company was ₱5.2 billion gross of relevant expenses while the selling shareholders received an aggregate of ₱2.2 billion gross of relevant expenses for the secondary offer and the Over-allotment Option. As of April 30, 2019, SSI Group, Inc. was 29.17% owned by the public.

#### Item 5. Directors and Executive Officers

The following are the names, ages, citizenship and periods of service of the incumbent directors/independent directors of the Company, who have been nominated for re-election at the Annual Stockholders' Meeting:

Name	Age	Citizenship	Period during which individual has served as such
Zenaida R. Tantoco	72	Filipino	Since 2007
Anthony T. Huang	47	Filipino	Since 2007
Ma. Teresa R. Tantoco	54	Filipino	Since 2008
Ma. Elena R. Tantoco	60	Filipino	Since 2008
Bienvenido V. Tantoco III	52	Filipino	Since 2007
Eduardo T. Lopez III	51	Filipino	Since 2008
Edgardo Luis Pedro T. Pineda	47	Filipino	Since 2014
Carlo L. Katigbak	49	Filipino	Since 2014
Jose Teodoro K. Limcaoco	57	Filipino	Since 2015

The business experience of each of the directors of the Company for the last five (5) years is as follows:

**Zenaida R. Tantoco**, 72, 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**, 47, 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 23 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 MUJI Philippines Corp. and Landmark Management Services, Ltd. 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**, 54, 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 Concepts Inc., Specialty Food Retailers, Inc., International



Specialty Retailers, Inc., International Specialty Wear, Inc., Footwear Specialty Retailers, Inc., International Specialty Fashions, Inc. and Specialty Lifestyle Concepts, Inc. In addition, she serves as the Treasurer and a director of Rustan Marketing Corporation and RPG Distribution Services, Inc., 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 R. Tantoco**, 60, 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 Apparel, 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**, 52, 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 served as 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**, 51, 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**, 47, 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**, 49, 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 over 20 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 and Play Innovations, Inc. Mr. Katigbak is also a member of the Board of Trustees of Knowledge Channel Foundation and a member of the Board of Advisers of 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., Integrated Microelectronics Inc., and Bank of the Philippine Islands (elected 20 February 2019). He is the Chairman of Darong Agricultural and Development Corporation and Zapfam, Inc. He is the President and CEO of AC Ventures Holding Corp., AYC Finance Limited, Bestfull Holdings Limited, and Purefoods International Limited. 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., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation, AC Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC

Industrial Technology Holdings, Inc., 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.

### **Officers**

The following are the names, ages, positions, citizenship and periods of service of the incumbent officers of the Company:

<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Citizenship</b>	<b>Period during which individual has served as such<sup>8</sup></b>
Zenaida R. Tantoco	Chief Executive Officer	72	Filipino	Since June 2018
Anthony T. Huang	President	47	Filipino	Since June 2018
Ma. Teresa R. Tantoco	Treasurer	54	Filipino	Since June 2018
Elizabeth T. Quiambao	Executive Vice President	67	Filipino	Since June 2018
Rossellina J. Escoto	Vice President - Finance	66	Filipino	Since June 2018
Ma. Margarita A. Atienza	Vice President - Investor Relations & Corporate Planning and Compliance Officer	44	Filipino	Since June 2018
Ma. Alicia Picazo-San Juan	Corporate Secretary	48	Filipino	Since June 2018

The business experience of each of the officers and executives of the Company for the last five (5) years is attached to this Information Statement as Annex "B".

Article III Section 4 of the Company's By-laws provides:

Section 4 — The Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified.

The Board has established committees to assist in exercising its authority in monitoring the performance of the business of the Company. The committees, as detailed below, provide specific and focused means for the Board to address relevant issues including those related to corporate governance.

	<b>Audit Committee</b>	<b>Nomination Committee</b>	<b>Remuneration Committee</b>
Zenaida R. Tantoco		M	C
Anthony T. Huang	M	M	M
Ma. Teresa R. Tantoco			
Ma. Elena R. Tantoco*			
Bienvenido V. Tantoco III*	M		
Eduardo T. Lopez III*			
Edgardo Luis Pedro T. Pineda*		M	
Carlo L. Katigbak**		C	M
Jose Teodoro K. Limcaoco**	C		

*C-Chairman  
M-Member*

*\*Non-executive Director  
\*\*Independent Director*

<sup>8</sup>The most recent date when Executive Officers were appointed as officers of SSI Group, Inc.

## **Information required of directors and executive officers:**

### **a. Directors and executive officers**

As of the date of this Information Statement, the following persons have been nominated to the Board for election at the annual stockholders' meeting and have accepted their nomination:

1. ZENAIDA R. TANTOCO
2. ANTHONY T. HUANG
3. MA. TERESA R. TANTOCO
4. MA. ELENA R. TANTOCO
5. BIENVENIDO V. TANTOCO III
6. EDUARDO T. LOPEZ III
7. EDGARDO LUIS PEDRO T. PINEDA
8. CARLO L. KATIGBAK
9. JOSE TEODORO K. LIMCAOCO

Mr. Carlo L. Katigbak and Mr. Jose Teodoro K. Limcaoco were duly nominated as independent directors by Ms. Elizabeth G. Carlos, a registered stockholder of the Company who is not a director, officer, or substantial shareholder of the Company and who is not related to either of the nominees. The Nominations Committee of the Company is composed of Mr. Carlo L. Katigbak as Chairperson, and Ms. Zenaida R. Tantoco, Mr. Anthony T. Huang and Mr. Edgardo Luis Pedro T. Pineda as members.

The qualifications of all nominated directors including the nominated independent directors, have been pre-screened in accordance with the Revised Manual on Corporate Governance and the By-laws of the Company. Only the nominees whose names shall appear on the final list of candidates are eligible for election as directors (independent or otherwise), in accordance with the procedure set forth in the By-laws of the Company. No other nominations will be entertained after the preparation of the final list of candidates and no further nominations shall be entertained or allowed during the annual stockholders' meeting.

### **b. Significant employees**

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

### **c. 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 R. Tantoco, Ma. Lourdes T. Pineda and Ma. Teresa R. Tantoco (collectively, the "Second Generation").

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

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

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

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

Ma. Elena R. Tantoco, 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.

**d. 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.

**e. 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.

**f. Resignation of directors**

No director has resigned from, or declined to stand for re-election to the Board since the date of the 2018 annual stockholders' meeting due to any disagreement with the Company relative to its operations, policies and practices.

**Item 6. Compensation of Directors and Executive Officers**

**a. Executive Compensation**

The following table sets out the Company's chief executive officer ("CEO") and the four (4) most highly compensated executive officers for the last three (3) years.

<b>Name</b>	<b>Position</b>
Zenaida R. Tantoco	Chairman and CEO
Anthony T. Huang	President
Ma. 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 (4) most highly compensated executive officers, as well as the aggregate

compensation paid to all officers and Directors as a group, for each of the past three years and projected in 2019:

	Year	Total (In ₱ millions)
CEO and the four (4) most highly compensated executive officers named in the previous page	2016	18.5
	2017	19.2
	2018	20.2
	2019 (estimated)	21.2
Aggregate compensation paid to all other officers and Directors as a group unnamed	2016	5.2
	2017	5.0
	2018	5.5
	2019 (estimated)	6.1

**b. Compensation of Directors and Executive Officers**

Article III, Section 10 of the By-laws of the Company provides:

Section 10 — By resolution of the board, each director, shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

i. Standard arrangement

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.

ii. Other arrangement

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 were issued to the eligible employees of the Corporation in 2018.

**c. Employment contracts and termination of employment and change-in-control arrangements**

Executive Officers are subject to existing Company's policies, rules, regulations and labor laws. Their employment may be terminated for just or authorized cause as provided by the Labor Code of the Philippines.

The executive officers are entitled to receive retirement benefits in accordance with the terms and conditions of the Company's retirement plan and other benefits prescribed by labor laws.

There is no arrangement with any executive officer to receive any compensation or benefit in case of change-in-control of the Company or change in the officer's responsibilities following such change-in-control.

**d. Warrants and options outstanding**

Not applicable.

**Item 7. Independent Public Accountants**

- a. The external auditor of the Company is the accounting firm of SyCip Gorres Velayo & Co. (“SGV & Co.”). The Board, upon the recommendation of the Company’s Audit Committee, approved the reappointment of SGV & Co. as the Company’s independent auditor for 2019 based on their performance and qualifications.

The reappointment of SGV & Co., will be presented to the stockholders for their approval at the annual stockholders’ meeting.

- b. Representatives of SGV & Co., for the current year and for the most recently completed fiscal year are expected to be present at the annual stockholders’ meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

**c. Changes in and disagreements with accountants on accounting and financial disclosure**

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There were no disagreements with SGV & Co. on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedure.

**d. Audit and audit-related fees**

The following table sets out the aggregate fees billed to SSI Group, Inc. for the last three (3) fiscal years for professional services rendered by SGV & Co.

<b>Year</b>	<b>Audit fees (in ₱ millions)</b>
2018	5.2
2017	5.0
2016	4.8

The Company’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.

The Company will comply with paragraph (3)(b)(iv) of Securities Regulation Code Rule 68, as Amended, which provides that the external auditor should be rotated, or the handling partner changed, every five (5) years or earlier.

**Item 8. Compensation Plans**

There is no action to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

There is no action to be taken with respect to the authorization or issuance of any securities.

### **Item 10. Modification or Exchange of Securities**

There is no action to be taken with respect to the modification of any class of securities of the Company, or the issuance or authorization for issuance of one (1) class of securities of the Company in exchange for outstanding securities of another class.

### **Item 11. Financial and Other Information**

The audited financial statements as of December 31, 2018, the Management's Discussion and Analysis, market price of shares and dividends and other data related to the Company's financial information are attached hereto as Annex "A".

### **Item 12. Mergers, Consolidation, Acquisitions and Similar Matters**

There is no action to be taken with respect to mergers, consolidations, acquisitions, sales or other transfers of all or any substantial part of the assets of the Company, liquidation or dissolution of the Company, and similar matters.

### **Item 13. Acquisition or Disposition of Property**

There is no action to be taken with respect to the acquisition or disposition of any significant Company property.

### **Item 14. Restatement of Accounts**

There is no action to be taken with respect to the restatement of any asset, capital, or surplus account of the Company.

## **D. OTHER MATTERS**

### **Item 15. Action with Respect to Reports**

The following are to be submitted for approval during the Annual Stockholders' Meeting:

- (a) Minutes of the annual meeting of stockholders held on 18 June 2018;
- (b) President's Report based on the Annual Report and 2018 Audited Consolidated Financial Statements of the Company; and
- (c) General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting, which include the following:
  - (i) Approval of projects;
  - (ii) Treasury matters related to opening of accounts and transactions with banks;
  - (iii) Appointments of signatories and amendments thereof.

### **Item 16. Matters Not Required to be Submitted**

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

### **Item 17. Amendment of Charter, By-laws or Other Documents**

There is no action to be taken with respect to any amendment of the Company's charter, By-laws or other documents.

### **Item 18. Other Proposed Action**

- a. Election of the members of the Board of Directors, including independent directors, for the ensuing calendar year
- b. Reappointment of external auditors

### **Item 19. Voting Procedures**

#### *Vote required for approval*

The vote required for the election of directors is majority of the outstanding capital stock.

Matters subject to shareholder vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. All matters to be brought for approval of the shareholders of SSI Group, Inc. at this year's Annual Stockholders' Meeting require for approval only a majority of the stockholders present or by proxy provided a quorum is present.

#### *Methods by which votes will be counted*

SSI Group, Inc.'s By-Laws does not prescribe a method of voting. However, election of directors will be conducted by ballot as requested by voting shareholders. In the election of directors, the shareholders are entitled to cumulate their votes as discussed in Part B, Item 4(c) of this Information Statement. SSI Group, Inc.'s Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the shareholders. The Company shall appoint an independent entity before the scheduled date of the annual stockholders' meeting to assist in the validation of ballots.

**UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY UNDERTAKES TO FURNISH SAID STOCKHOLDER A COPY OF SEC FORM 17-A FREE OF CHARGE, EXCEPT FOR EXHIBITS ATTACHED THERETO WHICH SHALL BE CHARGED AT COST. ANY WRITTEN REQUEST FOR A COPY OF SEC FORM 17-A SHALL BE ADDRESSED AS FOLLOWS:**

**ATTENTION: MA. MARGARITA A. ATIENZA  
VICE PRESIDENT—INVESTOR RELATIONS AND CORPORATE PLANNING  
6TH FLOOR, MIDLAND BUENDIA BUILDING  
403 SEN. GIL PUYAT AVENUE, MAKATI CITY**

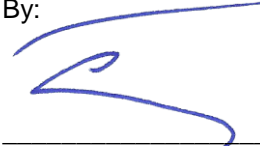


**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Report is true, complete and correct. This Report is signed in the City of Makati on the 22nd day of May 2019.

**SSI GROUP, INC.**

By:



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**ANTHONY T. HUANG**  
President

## Annex "A"

### MANAGEMENT REPORT

#### RESULTS OF OPERATIONS

For the years ended December 31, 2018, 2017 and 2016

<b>Key Performance Indicators</b> <i>PhP MM except where indicated</i>	<b>For the years ended December 31</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net Sales	20,230	18,460	18,442
Gross Profit	8,496	8,668	9,154
Operating Income	1,178	1,259	1,249
Net Income	608	275	232
Gross Selling Space (sq.m.)	120,305	129,486	138,852
Decrease in Gross Selling Space (%)	7.1%	6.7%	5.6%

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

<b>Key Financial and Operating Data</b> <i>PhP MM except where indicated</i>	<b>For the years ended December 31</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Key Financial Data</b>			
Net Sales	20,230	18,460	18,442
Luxury & Bridge	5,149	4,059	3,848
Casual	2,778	2,359	2,616
Fast Fashion	6,943	6,792	6,569
Footwear, Accessories & Luggage	2,498	2,500	2,686
Others	2,862	2,751	2,723
Gross Profit	8,496	8,668	9,154
Gross Profit Margin (%)	42.0%	47.0%	49.6%
Operating Income	1,178	1,259	1,249
Operating Income Margin (%)	5.8%	6.8%	6.8%
Other Income (Charges)	(268)	(712)	(666)
Net Income	608	275	232
Net Income Margin (%)	3.0%	1.5%	1.3%
Core Net Income <sup>9</sup>	725	652	581
Core Net Income Margin (%)	3.6%	3.5%	3.2%
Total Debt <sup>10</sup>	5,419	6,194	6,928
Net Debt <sup>11</sup>	3,058	4,505	5,881
<b>Key Operating Data</b>			
<b>Specialty Retailing</b>			
Number of Brands	90	108	114
Number of Stores	596	638	708
Gross Selling Space (sq.m.)	120,305	129,486	138,852
Decrease in Gross Selling Space (%)	7.1%	6.7%	5.6%
<b>Convenience Stores</b>			
Number of Stores	-	67	98
Gross Selling Space (sq.m.)	-	7,871	11,631
Decrease in Gross Selling Space (%)	-	32.3%	10.8%

## 2018 vs. 2017

### Net Sales

SSI Group, Inc. (“SSI”, the “Company”, or the “Group”) generated net sales of ₱20.2 billion for the year ended December 31, 2018, an increase of 9.6% over ₱18.5 billion in 2017. SSI continued to post healthy sales growth driven by the strong performances of its luxury and bridge, casual, and fast fashion categories. This increase was achieved despite a 7.1% year-on-year decline in its total selling space and the closure for renovation of several stores at the SM Mall of Asia during the second half of the year.

The Group also posted strong same-store sales growth (SSSG) all throughout the year with 4th quarter SSSG of 11.9% and full year SSSG of 12.0%.

<sup>9</sup> Core Net Income is derived by excluding the effect of non-recurring write-offs due to store closures and write-offs of expiring net operating loss carry-overs (NOLCO)

<sup>10</sup> Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt.

<sup>11</sup> Calculated as Total Debt minus Cash.

As of December 31, 2018, the Group's store network consisted of 596 stores nationwide covering approximately 120,305 square meters. During the 4th quarter, SSI opened eight (8) stores covering 286 square meters and closed 14 stores covering 1,885 square meters. As a result, total openings in 2018 were 2,579 square meters while total closures were 11,759 square meters.

The Group's brand portfolio at the end of 2018 included 90 brands after the Group acquired Shake Shack and Loewe, and discontinued some of its developmental brands.

The following table sets out the Group's number of stores and gross selling space for the years ended December 31, 2018, 2017 and 2016.

Store Network	For the years ended December 31		
	2018	2017	2016
Number of Stores	596	638	708
Luxury & Bridge	134	140	159
Casual	74	86	98
Fast Fashion	69	72	76
Footwear, Accessories & Luggage	168	189	217
Others	151	151	158
Gross Selling Space (sq.m.)	120,305	129,486	138,852
Luxury & Bridge	13,076	14,203	16,715
Casual	12,954	15,012	16,484
Fast Fashion	51,756	55,655	56,702
Footwear, Accessories & Luggage	22,319	24,236	25,889
Others	20,201	20,381	23,061

*\*Number of Stores for the period excludes stores located in Guam.*

*As of December 31, 2018, 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, 2018 amounted to ₱8.5 billion, a decrease of 2.0% year-on-year. Gross profit margin for the year was at 42.0% compared to 47.0% in 2017. The decrease in gross profit margin reflects among others, the impact of the weaker peso, especially during the first half of 2018. The Group also took advantage of strong consumer demand and a lower operating expense base and took the opportunity to aggressively reduce inventory levels during the latter part of 2018.

### Operating Expenses

For the year ended December 31, 2018, the Group incurred total operating expenses of ₱7.3 billion, a 1.2% decrease over last year's ₱7.4 billion. This translates to an operating expenses to net sales ratio of 36.2%, an improvement of 390 basis points over the same period last year. The continued improvements in opex to net sales ratio reflects the impact of the Group's store rationalization program and its focus on maximizing scale and improving day-to-day cost efficiencies.

Selling and distribution expenses for the year amounted to ₱6.1 billion, a decrease of 1.9% over last year's ₱6.2 billion. The decrease is primarily due to decreases in depreciation and amortization, utilities, and rent expenses to ₱700.6 million, ₱567.2 million and ₱1.99 billion, respectively. Delivery

and freight charges, credit card charges and personnel costs, however, increased by a total of ₱145.7 million.

As a result, selling and distribution expenses as a percentage of net sales in 2018 improved to 30.0% from 33.5% in 2017.

General and administrative expenses in 2018 increased marginally to ₱1.25 billion from ₱1.22 billion in 2017. The 2.3% increase is attributable mainly to increases in rent, taxes and licenses, and travel and transportation expenses which grew by a total of ₱57.0 million. However, as a percentage of net sales, general and administrative expenses were stable at 6.2% of net sales.

As a result of the foregoing, operating income for the year was at ₱1.18 billion as compared to ₱1.26 billion in 2017.

However, operating income for the 4th quarter amounted to ₱444.7 million, a 27.3% increase over 4Q 2017.

### **Other Income (Charges)**

The Group incurred other charges of ₱267.5 million in 2018, a 62.4% decrease over the same period last year. This decrease reflects the impact of the divestment of the FamilyMart business in January 2018 as well as lower write-offs related to store closures in 2018, as compared to 2017.

In addition, the Group recognized its share in the net income of its joint ventures, MUJI Philippines Corp. and Landmark Management Services Ltd., amounting to ₱34.5 million. SSI also booked rental income of ₱92.6 million during the year, which pertains to the leasing of retail spaces at Central Square, subleasing of store spaces at Kiss and Fly in NAIA Terminal 3, and parking fees at Central Square.

### **Provision for Income Tax**

For the year ended December 31, 2018, provision for income tax amounted to ₱301.8 million. This translates to an effective tax rate of 33.2%, reflecting the impact of the Group's nontaxable income such as the share in net earnings of its remaining joint ventures and associate as well as interest income on the accretion of security deposits.

The Group's 33.2% effective tax rate is a significant improvement over the Group's 49.7% effective tax rate in 2017. This reflects the absence of joint venture losses, which are non-deductible expenses, as well as tax efficiencies realized following the merger of Luxury Concepts, Inc. and Specialty Lifestyle Concepts, Inc. in August 2018. The Group also wrote-off expiring net operating loss carry-overs (NOLCO) amounting to ₱17.4 million during the year.

### **Net Income**

As a result of the foregoing, the Group's consolidated net income amounted to ₱608.4 million in 2018, a 121.0% increase over ₱275.3 million earned in 2017. Net income for the 4th quarter of 2018 increased by 361.7% to ₱240.4 million.

Recurring net income, or net income, excluding write-offs related to store closures and write-offs of expiring NOLCO, amounted to ₱725.3 million in 2018, an 11.2% increase over 2017. Recurring net income for the 4th quarter of 2018 was ₱292.5 million, a 40.7% increase.

## **FINANCIAL CONDITION**

As of December 31, 2018, the Group had consolidated assets of ₱18.3 billion, a decrease of 2.8% as compared to December 31, 2017.

### **Current Assets**

#### **Cash**

Cash at the end of 2018 increased by 39.7% to ₱2.4 billion from ₱1.7 billion as of end 2017. The ₱671.0 million increase reflects the Group's strong 2018 operating cash flows which amounted to ₱2.1 billion. In 2018, the Group also received dividends from Samsonite Philippines, Inc. ("SPI") amounting to ₱76.0 million. The Group also made payments of its loans and related interest (net of availments), capital expenditures for store constructions and renovations, and dividends to its stockholders amounting to ₱1.1 billion, ₱434.4 million, and ₱43.0 million, respectively.

#### **Trade and Other Receivables**

As of December 31, 2018, trade and other receivables amounted to ₱678.0 million, a 20.1% decrease from ₱848.1 million as of end 2017. The decrease is primarily attributable to a decrease in nontrade receivables to ₱272.3 million, which includes receivables charged to customers for the repair of damaged merchandise, and bank tie-ups for sale and promotional activities, and the payment of the dividends declared by SPI in 2017 amounting to ₱40.0 million.

#### **Amounts Owed by Related Parties**

Amounts owed by related parties amounted to zero at the end of 2018 as compared to ₱196.1 million as of end 2017. The decrease is due to the repayment by SIAL CVS Retailers, Inc., a joint venture with A` LI Capital Corp., of advances made by the Group in the past.

#### **Prepayments and other Current Assets**

As of December 31, 2018, prepayments and other current assets were at ₱1.1 billion which decreased from ₱1.3 billion as of end 2017. The decrease was mainly due to decreases in supplies inventory to ₱381.2 million and advances to suppliers to ₱256.5 million.

### **Non-Current Assets**

#### **Investment in an Associate**

Investment in an associate amounted to ₱54.6 million, an increase of 15.4% over ₱47.3 million as of end 2017. The net increase reflects the Group's share in the net earnings of SPI amounting to ₱43.3 million as well as dividends declared by SPI in 2018 amounting to ₱36.0 million.

#### **Interests in Joint Ventures**

As of December 31, 2018, interests in joint ventures increased by 7.1% to ₱519.8 million from ₱485.4 million at the end of 2017. The increase was due to the Group's share in the net income of MUJI Philippines Corp. and Landmark Management Services Ltd. amounting to ₱17.5 million and ₱17.0 million, respectively.

#### **Property and Equipment**

As of end 2018, property and equipment amounted to ₱2.8 billion. This is a decrease from ₱3.3 billion at the end 2017, reflecting the depreciation expense recognized during the year, the write-offs of the net book values of leasehold improvements related to store closures, and the selective opening of new stores.

### **Other Noncurrent Assets**

Other noncurrent assets as of December 31, 2018 were at ₱203.1 million as compared to ₱99.9 million as of end 2017. The increase was primarily due to an increase in franchise fees to ₱98.8 million, which reflects additional franchise fees paid during the year for new brands, and an increase in miscellaneous deposits to ₱83.9 million, which includes deposits to contractors for the construction and renovation of stores.

### **Current Liabilities**

As of December 31, 2018, the Group had consolidated current liabilities of ₱6.7 billion, as compared to ₱7.3 billion at the end of 2017.

### **Trade and Other Payables**

As of December 31, 2018, trade and other payables amounted to ₱1.5 billion from ₱1.8 billion as of end 2017. The movement was mainly due to a decrease in trade payables to ₱640.4 million, reflecting terms of merchandise deliveries during the year, and a decrease in accrued expenses to ₱170.1 million, as a result of payments of expenses recognized at the end of 2017.

### **Short-term Loans Payable**

As of December 31, 2018, short-term loans payable was at ₱4.6 billion as compared to ₱4.2 billion at the end of 2017. The increase reflects additional loans availed by the Group primarily to fund additional working capital requirements.

### **Current Portion of Long-Term Debt**

Current portion of long-term debt amounted to ₱449.8 million from ₱1.1 billion as of end 2017. The decrease reflects full repayments during the year of the ₱1.0 billion and ₱400.0 million term loan facilities entered into by the Group in 2015.

### **Non- Current Liabilities**

#### **Long-term Debt**

As of December 31, 2018, the Group's consolidated long-term debt amounted to ₱401.4 million as compared to ₱851.0 million as of end 2017. The decrease reflects the periodic repayments made by the Group on the ₱2.0 billion and ₱500.0 million term loan facilities, and the last quarterly repayments on the ₱1.0 billion and ₱400.0 million term loan facilities.

#### **Retirement Benefit Obligation**

Retirement benefit obligation amounted to ₱335.5 million from ₱379.0 million at the end of 2017. This represents the difference between the present value of the Group's retirement plan obligations and the fair value of the Group's plan assets. A total of ₱19.7 million in retirement benefits were paid out during the year.

### **Equity**

As of December 31, 2018, total equity was at ₱10.8 billion. This is an increase of 5.7% compared to end 2017, which is mainly attributable to an increase in retained earnings reflecting the net income earned during the year of ₱608.4 million and the payment of dividends to stockholders of ₱43.0 million.

## **CASH FLOWS**

The Group generated operating cash flows of ₱2.1 billion in 2018, an increase of 7.4% as compared to 2017.

Cash flows used in investing activities totaled ₱266.3 million, inclusive of a ₱114.4 million increase in noncurrent assets. Capital expenditures in 2018 totaled ₱434.4 million. Free cash flow for the period (calculated as operating cash flow less capital expenditures) was at ₱1.7 billion.

Net financing cash used were at ₱1.2 billion as the Group reduced debt levels and paid out ₱43.0 million in dividends.

## **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 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.

### **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.

### **CASH FLOWS**

The Group generated operating cash flows of ₱1.96 billion in 2017, an increase of 7.7% as compared to 2016.

Cash flows used in investing activities totaled ₱307.0 million, inclusive of a ₱89.3 million outflow which was invested in the MUJI joint venture. Capital expenditures in 2017 totaled ₱376.3 million. Free cash flow for the period (calculated as operating cash flow less capital expenditures) was at ₱1.6 billion.

Net financing cash used were at ₱1.0 billion as the Group reduced debt levels.

## 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.

## **RESULTS OF OPERATIONS**

For the three months ended March 31, 2019 and 2018

<b>Key Performance Indicators</b>	<b>For the three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<i>PhP MM except where indicated</i>		
Net Sales	4,921	4,589
Gross Profit	2,086	1,930
Operating Income	286	224
Net Income	171	133
Gross Selling Space (sq.m.)	119,754	126,575
Decrease in Gross Selling Space (%)	5.4%	7.4%

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 <i>PhP MM except where indicated</i>	For the three months ended March 31	
	2019	2018
<b>Key Financial Data</b>		
Net Sales	4,921	4,859
Luxury & Bridge	1,376	1,099
Casual	637	537
Fast Fashion	1,622	1,688
Footwear, Accessories & Luggage	558	580
Others	729	685
Gross Profit	2,086	1,930
Gross Profit Margin (%)	42.4%	42.1%
Operating Income	286	224
Operating Income Margin (%)	5.8%	4.9%
Other Income (Charges)	(39)	(18)
Net Income	171	133
Net Income Margin (%)	3.5%	2.9%
Recurring Net Income <sup>12</sup>	184	136
Recurring Income Margin (%)	3.7%	3.0%
Total Debt <sup>13</sup>	4,831	6,151
Net Debt <sup>14</sup>	2,954	4,685
<b>Key Operating Data</b>		
Number of Stores	594	626
Gross Selling Space (sq.m.)	119,754	126,575
Decrease in Gross Selling Space (%)	5.4%	7.4%

### Net Sales

SSI Group, Inc. (“SSI,” the “Company” or the “Group”) generated net sales of ₱4.9 billion during the first three months of the year. This is a 7.2% increase compared to ₱4.6 billion during the same period last year. SSI continued to experience healthy sales growth during the period driven by the performances of its luxury and bridge, and casual categories. The Group also posted strong same-store sales growth during the period of 8.6%.

The 7.2% increase was achieved by the Group despite a 5.4 % year-on-year decline in its total selling space and the closure for renovation of several stores at the SM Mall of Asia during the second half of 2018.

As of March 31, 2019, SSI’s total floor area covered approximately 119,754 square meters over 594 stores nationwide. During the first quarter, the Group opened seven (7) stores covering 833 square meters and closed nine (9) stores covering 1,384 square meters.

The Group had a total of 90 brands in its portfolio as of March 31, 2019, with no brands added or discontinued during the period.

The following table sets out the Group’s number of stores and gross selling space for the periods ended March 31, 2019 and 2018 and for the year ended December 31, 2018.

<sup>12</sup> Recurring Net Income is derived by excluding the effect of non-recurring write-offs related to store closures and write-offs of expiring NOLCO from the Group’s net income

<sup>13</sup> Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt

<sup>14</sup> Calculated as Total Debt minus Cash

Store Network	March 31		December 31
	2019	2018	2018
Number of Stores*	594	626	596
Luxury & Bridge	134	135	134
Casual	75	83	74
Fast Fashion	65	72	69
Footwear, Accessories & Luggage	166	189	168
Others	154	147	151
Gross Selling Space (sq.m.)	119,754	126,575	120,305
Luxury & Bridge	12,959	13,329	13,076
Casual	13,110	14,563	12,954
Fast Fashion	50,656	54,714	51,756
Footwear, Accessories & Luggage	22,429	24,221	22,319
Others	20,601	19,748	20,201

\*Number of stores for the period excludes the store located in Guam.

As of March 31, 2019, the Group operated one (1) store in Guam which contributed de minimis sales to the Group's net sales for the period

### Gross Profit

For the first quarter of 2019, gross profit amounted to ₱2.1 billion, an 8.1% increase over the same period last year. This translates to a gross profit margin of 42.4%, an improvement over 42.1% during the same period last year.

### Operating Expenses

Total operating expenses for the three months ended March 31, 2019 amounted to ₱1.8 billion, a 5.5% increase as compared to ₱1.7 billion. However, as a percentage of net sales, operating expenses improved by 60 basis points to 36.6%. Continued improvements in operating efficiencies reflects the impact of the Group's store rationalization program and its focus on maximizing scale and improving day-to-day cost efficiencies.

Selling and distribution expenses for the first quarter of the year amounted to ₱1.5 billion, an increase of 5.4% over the same period last year. The increase is primarily attributable to increases in taxes and licenses to ₱88.3 million and in rent expense to ₱516.4 million.

General and administrative expenses amounted to ₱309.5 million, a 5.8% increase year-on-year. The increase was due to increases in travel and transportation to ₱15.6 million and in personnel costs to ₱147.1 million.

As a result, selling and distribution expenses, and general and administrative expenses during the period were stable at 30.3% and 6.3% of net sales, respectively.

Operating income for the first quarter of the year amounted to ₱286.4 million, a 27.7% increase over ₱224.4 million during the same period last year. This translates to an operating income margin of 5.8%, a 90 basis point improvement over 4.9% during the same period last year.

**Other Income (Charges)**

For the period ended March 31, 2019, the Group incurred other charges of ₱38.6 million, a 117.8% increase over the same period last year. The increase is attributable mainly to higher interest expense incurred during the period and higher write-offs of undepreciated leasehold improvements related to store closures amounting to ₱77.4 million and ₱16.5 million, respectively.

The Group also booked rent income of ₱19.6 million during the period, a 6.5% increase over the same period last year. This pertains to the leasing of retail spaces at Central Square, subleasing of store spaces at Kiss and Fly in NAIA Terminal 3, and parking fees at Central Square.

**Provision for Income Tax**

For the first three months of the year, provision for income tax amounted to ₱77.2 million, which translates to a 31.1% effective tax rate. This is an improvement over 35.7% during the same period last year primarily reflecting tax efficiencies realized following the merger of Luxury Concepts, Inc. and Specialty Lifestyle Concepts, Inc. in August 2018.

The effective tax rate is impacted by the Group's nontaxable income such as the share in net earnings of its remaining joint ventures and associate as well as interest income on the accretion of security deposits. The Group also wrote off expiring net operating loss carry-overs (NOLCO) during the period amounting to ₱2.0 million.

**Net Income**

As a result of the foregoing, net income for the first three months of the year amounted to ₱170.6 million, a 28.4% increase over the same period last year.

Recurring net income, or net income, excluding write-offs related to store closures and write-offs of expiring NOLCO, amounted to ₱184.1 million, a 35.5% increase over 1Q 2018.



## **FINANCIAL CONDITION**

The Group had consolidated assets of ₱18.22 billion as of March 31, 2019, a decrease of 0.2% from ₱18.25 billion as of December 31, 2018.

### **Current Assets**

As of March 31, 2019, the Group had consolidated current assets of ₱13.29 billion, as compared to ₱13.35 billion as of December 31, 2018.

#### **Cash**

Cash amounted to ₱1.9 billion at the end of March 2019. This is a 20.5% decrease as compared to end 2018 primarily reflecting repayments made by the Group on its loans and the related interest expense amounting to a total of ₱665.1 million as well as capital expenditures amounting to ₱84.9 million. The Group also generated positive operating cash flows of ₱395.3 million during the period.

#### **Trade and Other Receivables**

As of March 31, 2019, trade and other receivables were at ₱636.2 million as compared to ₱678.0 million at the end of 2018. The decrease is attributable to a decrease in trade receivable, which consist primarily of receivables from credit card companies

#### **Prepayments and other Current Assets**

Prepayments and other current assets amounted to ₱1.15 billion as of end March 2019, as compared to ₱1.07 billion at the end of 2018. The increase was primarily due to increases in prepaid advertising to ₱87.2 million, and supplies inventory to ₱415.6 million.

### **Non-Current Assets**

#### **Investment in an Associate**

As of March 31, 2019, investment in an associate increased to ₱67.2 million, a 23.1% increase. This reflects the Group's share in the net income of Samsonite Philippines, Inc. amounting to ₱12.6 million.

#### **Property and Equipment**

Property and equipment was at ₱2.7 billion as of March 31, 2019. This is a 4.8% decrease as compared to end 2018 reflecting the depreciation expense recognized, the write-offs of the net book values of leasehold improvements related to store closures, and opening of new stores during the first three months of 2019.

#### **Deferred Tax Assets**

As of March 31, 2019, deferred tax assets amounted to ₱318.7 million as compared to ₱302.8 million at the end of 2018. These pertain to tax assets recognized for the Group's deductible temporary differences, carryforward benefits of unused minimum corporate income tax (MCIT), and 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.

#### **Other Noncurrent Assets**

As of March 31, 2019, other noncurrent assets amounted to ₱296.0 million as compared to ₱203.1 million at the end of 2018. The increase is significantly due to an increase in miscellaneous deposits to ₱166.2 million which include deposits with contractors for the construction and renovation of stores.

### **Current Liabilities**

The Group had consolidated current liabilities of ₱6.57 billion as of March 31, 2019, as compared to ₱6.67 billion at the end of 2017.

#### **Trade and Other Payables**

Trade and other payables were at ₱1.8 billion as compared to ₱1.5 billion at the end of 2018. The increase is primarily due to increases in trade payables to ₱915.5 million, reflecting terms of merchandise deliveries during the year, and nontrade payables to ₱697.2 million which includes payables to contractors and suppliers of services.

#### **Short-term Loans Payable**

As of March 31, 2019, short-term loans payable amounted to ₱4.1 billion as compared to ₱4.6 billion at the end of 2018. The decrease reflects payments of the Group's short-term loans during the first three months of the year.

### **Non- Current Liabilities**

#### **Long-term Debt**

Long-term debt was at ₱288.7 million as of March 31, 2019. This is a decrease of 112.7 million from end 2018, reflecting quarterly repayments on the Group's ₱2.0 billion and ₱500.0 million term loan facilities.

#### **Retirement Benefit Obligation**

Retirement benefit obligation amounted to ₱353.2 million from ₱335.5 million at the end of 2018. This represents the difference between the present value of the Group's retirement plan obligations and the fair value of the Group's plan assets.

### **Equity**

As of March 31, 2019, total equity grew to ₱11.0 billion from ₱10.8 billion as of end 2018. The increase is attributable to the net increase in retained earnings reflecting the net income earned by the Company additional SSI shares bought back during the first three months of the year amounting to ₱170.6 million and ₱2.6 million, respectively.

### **CASH FLOWS**

Net cash flows generated from the Group's operating activities increased to ₱395.3 million during the period. This is as compared to net cash used in operating activities amounting to ₱32.2 million same period last year.

Cash flows used in investing activities totaled ₱211.3 million, inclusive of a ₱126.5 million increase in noncurrent assets. Capital expenditures during the first quarter of 2019 amounted to ₱84.9 million. Free cash flow for the period (calculated as operating cash flows less capital expenditures) was at ₱310.4 million.

Cash flows used in financing activities during the period amounted to at ₱667.8 million representing repayments of the Group's loans and related interest expense.

## 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.

## **NATURE AND SCOPE OF BUSINESS**

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, 2018, SSI’s retail network consists of 596 stores located within approximately 90 major malls across the Philippines, including Metro Manila, Luzon, Visayas and Mindanao, with a total gross selling space of approximately 120,305 square meters.

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, Cartier 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, SaladStop!, and Shake Shack for high-quality food and beverage selections, Samsonite for stylish travel and luggage offerings, Payless ShoeSource for value-priced trendy footwear, and MUJI, Pottery Barn and West Elm 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.

## 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 2019 and for the years 2018 and 2017:

	<u>High</u>	<u>Low</u>
<b><u>2019</u></b>		
1st Quarter	2.53	2.09
<b><u>2018</u></b>		
1st Quarter	3.40	2.60
2nd Quarter	1.82	2.75
3rd Quarter	1.81	2.40
4th Quarter	2.21	2.84
<b><u>2017</u></b>		
1st Quarter	2.80	2.08
2nd Quarter	4.16	2.19
3rd Quarter	5.06	4.09
4th Quarter	4.32	3.02

The market capitalization of SSI Group, Inc.'s common shares as of December 31, 2018, based on the closing price of ₱2.38 per share, was approximately ₱7.9 billion.

The stock price of SSI Group, Inc.'s common shares as of May 20, 2019 is ₱3.29 per share translating to a market capitalization of approximately ₱10.9 billion.

### HOLDERS

The number of registered shareholders as of April 30, 2019 was 45. Outstanding common shares as of April 30, 2019 were 3,308,429,430.

The following are the top 20 registered holders of SSI Group, Inc.'s common shares as of April 30, 2019:

<b>No.</b>	<b>Name of Shareholder</b>	<b>Number of Common Shares Held</b>	<b>Percent to Total Outstanding Common Shares</b>
1	PCD Nominee Corporation (Filipino)	769,402,394	23.2558%
2	Wellborn Holdings, Inc.	466,043,679	14.0866%
3	Marjorisca Incorporated	434,440,400	13.1313%
4	Birdseyeview, Inc.	434,412,500	13.1305%
5	Educar Holdings Corporation	415,753,800	12.5665%
6	Bordeaux Holdings, Inc.	414,967,821	12.5427%
7	PCD Nominee Corporation (Non-Filipino)	279,531,385	8.4491%
8	Valbuena, Maria Elena T.	31,603,479	0.9552%
9	Tantoco, Maria Teresa Rustia	31,601,431	0.9552%
10	Lopez, Maria Carmencita T.	30,244,090	0.9142%
11	Iyo, Sarah Bismark	265,000	0.0080%

<b>No.</b>	<b>Name of Shareholder</b>	<b>Number of Common Shares Held</b>	<b>Percent to Total Outstanding Common Shares</b>
12	Natalya Ann I. Lagdameo	66,000	0.0020%
13	Salvador E. Lagdameo	34,000	0.0010%
14	Go, Giselle Karen Y.	10,000	0.0003%
15	Tacub, Pacifico B.	7,000	0.0002%
16	Joselito C. Herrera	7,000	0.0002%
17	Stephen T. Teo &/Or Teresita R. Teo	6,000	0.0002%
18	Wee, Joseph	5,000	0.0002%
19	Rene H. Dilan	3,000	0.0001%
20	Gabrielle Claudia F. Herrera	2,000	0.0001%

## **DIVIDENDS**

In 2018, the Board of Directors of SSI Group, Inc. approved the declaration of a cash dividend in the amount of ₱0.013 per share from the unrestricted retained earnings of the Company as of December 31, 2017, to all stockholders of record as of July 6, 2018. These cash dividends were paid to the stockholders on August 1, 2018.

No dividends were declared by the Company in 2017.

## **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 Revised 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.

## **CORPORATE GOVERNANCE**

The Company submitted its Revised Manual on Corporate Governance (the "Manual") in compliance with Philippine SEC Memorandum Circular No. 19, series of 2016. The Company and its respective directors, officers and employees have complied with the best practices and principles on good corporate governance as embodied in the Company's Manual. The Manual also sets forth the various evaluation systems established by the Company to measure or determine the level of compliance of the Board of Directors and top level management with corporate governance.

## **SSI Group, Inc. and Subsidiaries**

Consolidated Financial Statements  
As of December 31, 2018 and 2017  
and for the Years Ended December 31, 2018,  
2017 and 2016

and

Independent Auditor's Report



**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, 2018, 2017 and 2016, 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.

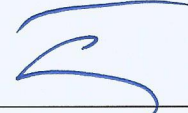
The Board of Directors is responsible for overseeing the Company's financial reporting process.


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 \_\_\_\_ day of \_\_\_\_\_ 2019



APR 10 2019

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at Makati City, affiants exhibiting to me their respective Passports, as follows:

<u>Name</u>	<u>Passport No.</u>	<u>Date and Place of Issue</u>
Zenaida R. Tantoco	P1938015A	15 Feb 2017   DFA Manila
Anthony T. Huang	P3061336A	16 May 2017   DFA Manila
Ma. Teresa R. Tantoco	EC8123289	24 Jun 2016   DFA Manila

Doc. No.: 522  
Page No.: 106  
Book No.: 26  
Series of 2019.

**ATTY. VIRGILIO R. BATALLA**  
NOTARY PUBLIC FOR MAKATI CITY  
APPT. NO. M-37- UN PL DEC. 31, 2020  
ROLL OF ATTY. NO. 48348  
MCLE COMPLIANCE NO. V-0026676/4-11-2018  
IBP O.R No. 706762-LIFETIME MEMBER JAN. 29, 2007  
PTR No. 733020- JAN 03, 2019- MAKATI CITY  
EXECUTIVE BLDG. CENTER MAKATI AVE., COR., JUNIPER ST  
MAKATI CITY

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
SSI Group, Inc.

### Report on the Audit of the Consolidated Financial Statements

#### 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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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, 2018 amounting to ₱9.2 billion represents 50.65% of the consolidated assets. The Group operates 596 stores and has 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 rollback 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, 2018 and inquired from management about its sales plan on these inventories. We also reviewed the revised selling price of such inventories, including out-of-season 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, 2018, deferred tax assets on net operating loss carry over (NOLCO) of certain subsidiaries that were in tax loss position in the past years amounted to ₱172.1 million. Management's assessment of the recoverability of deferred tax assets involves significant judgment that is 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 forecasts. We evaluated management's forecasts 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.

#### **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, 2018, 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, 2018 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.
- 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

Partner

CPA Certificate No. 94065

SEC Accreditation No. 1729-A (Group A),  
December 18, 2018, valid until December 17, 2021

Tax Identification No. 901-617-005

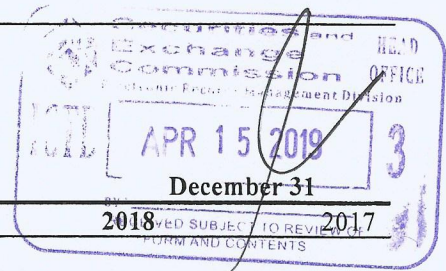
BIR Accreditation No. 08-001998-76-2018,  
February 26, 2018, valid until February 25, 2021

PTR No. 7332628, January 3, 2019, Makati City

April 12, 2019



**SSI GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**



**ASSETS**

**Current Assets**

Cash (Note 4)	₱2,360,460,924	₱1,689,481,704
Trade and other receivables (Note 5)	678,035,439	848,104,295
Merchandise inventories (Note 6)	9,245,189,954	9,423,866,643
Amounts owed by related parties (Note 20)	-	196,132,537
Prepayments and other current assets (Note 7)	1,065,252,880	1,319,587,551
<b>Total Current Assets</b>	<b>13,348,939,197</b>	<b>13,477,172,730</b>

**Noncurrent Assets**

Investment in an associate (Note 8)	54,594,522	47,301,362
Interests in joint ventures (Note 9)	519,849,166	485,374,525
Property and equipment (Note 10)	2,806,005,348	3,347,613,636
Deferred tax assets - net (Note 22)	302,802,810	300,083,923
Security deposits and construction bonds (Note 26)	1,018,278,699	1,019,838,784
Other noncurrent assets (Note 11)	203,088,344	99,902,912
<b>Total Noncurrent Assets</b>	<b>4,904,618,889</b>	<b>5,300,115,142</b>

<b>TOTAL ASSETS</b>	<b>₱18,253,558,086</b>	<b>₱18,777,287,872</b>
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**LIABILITIES AND EQUITY**

**Current Liabilities**

Trade and other payables (Note 12)	₱1,523,808,064	₱1,823,566,896
Short-term loans payable (Note 13)	4,567,500,000	4,195,000,000
Current portion of long-term debt (Note 13)	449,848,015	1,148,120,568
Deferred revenue	21,289,644	26,144,932
Income tax payable	102,659,616	82,195,269
<b>Total Current Liabilities</b>	<b>6,665,105,339</b>	<b>7,275,027,665</b>

**Noncurrent Liabilities**

Long-term debt - net of current portion (Note 13)	401,418,108	851,018,282
Retirement benefit obligation (Note 21)	335,528,882	379,029,267
Tenant deposits (Note 26)	33,770,004	34,778,744
<b>Total Noncurrent Liabilities</b>	<b>770,716,994</b>	<b>1,264,826,293</b>

<b>Total Liabilities</b>	<b>7,435,822,333</b>	<b>8,539,853,958</b>
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**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
Treasury shares	(7,558,440)	(457,280)
Retained earnings		
Appropriated	1,100,000,000	1,402,500,000
Unappropriated	3,901,797,763	3,042,212,724
Cumulative translation adjustment	(2,123,272)	(2,703,640)
Other comprehensive loss	(6,554,441)	(69,933,016)
<b>Total Equity</b>	<b>10,817,735,753</b>	<b>10,237,433,914</b>

<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱18,253,558,086</b>	<b>₱18,777,287,872</b>
-------------------------------------	------------------------	------------------------

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2018	2017	2016
<b>NET SALES</b> (Note 14)	<b>₱20,230,229,985</b>	₱18,460,229,561	₱18,441,681,746
<b>COSTS OF GOODS SOLD</b> (Note 15)	<b>11,733,990,543</b>	9,792,183,906	9,288,120,323
<b>GROSS PROFIT</b>	<b>8,496,239,442</b>	8,668,045,655	9,153,561,423
<b>OPERATING EXPENSES</b>			
Selling and distribution (Note 16)	<b>6,070,286,174</b>	6,188,629,201	6,769,824,340
General and administrative (Note 17)	<b>1,248,201,475</b>	1,220,364,546	1,134,883,350
	<b>7,318,487,649</b>	7,408,993,747	7,904,707,690
<b>OTHER INCOME (CHARGES)</b>			
Interest expense (Note 13)	<b>(313,179,531)</b>	(290,511,398)	(340,901,875)
Loss on stores closures and disposals of property and equipment (Note 10)	<b>(116,801,723)</b>	(280,497,714)	(142,719,741)
Rent income (Note 26)	<b>92,646,476</b>	59,012,060	44,410,482
Share in net earnings of associate (Note 8)	<b>43,293,160</b>	35,547,906	28,839,733
Share in net earnings (losses) of joint ventures (Note 9)	<b>34,474,641</b>	(100,024,150)	(286,250,021)
Foreign exchange losses - net	<b>(23,523,139)</b>	(37,245,889)	(19,063,414)
Interest accretion on security deposits (Note 26)	<b>8,813,071</b>	10,180,158	10,504,123
Interest income (Note 4)	<b>4,355,931</b>	2,906,339	2,940,318
Impairment loss on interests and advances on joint ventures (Notes 9 and 20)	-	(76,120,907)	-
Others - net	<b>2,386,197</b>	(34,784,901)	35,866,808
	<b>(267,534,917)</b>	(711,538,496)	(666,373,587)
<b>INCOME BEFORE INCOME TAX</b>	<b>910,216,876</b>	547,513,412	582,480,146
<b>PROVISION FOR INCOME TAX</b> (Note 22)			
Current	<b>327,502,013</b>	330,069,837	351,694,701
Deferred	<b>(25,719,597)</b>	(57,818,729)	(830,315)
	<b>301,782,416</b>	272,251,108	350,864,386
<b>NET INCOME</b>	<b>608,434,460</b>	275,262,304	231,615,760
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Cumulative translation adjustment on foreign operations	<b>580,368</b>	(99,653)	(146,733)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gain (loss) on retirement benefit, net of deferred tax (Note 21)	<b>63,378,575</b>	(3,510,539)	17,903,262
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>63,958,943</b>	(3,610,192)	17,756,529
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱672,393,403</b>	₱271,652,112	₱249,372,289
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 23)	<b>₱0.18</b>	₱0.08	₱0.07

See accompanying Notes to Consolidated Financial Statements.





**SSI GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

	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, 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)	-	-	-
<b>Balances at December 31, 2016</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱33,640,983</b>	<b>₱-</b>	<b>₱1,115,000,000</b>	<b>₱3,054,450,420</b>	<b>(₱2,603,987)</b>	<b>(₱66,422,477)</b>	<b>₱9,966,239,082</b>
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)
<b>Balances at December 31, 2017</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱33,640,983</b>	<b>(₱457,280)</b>	<b>₱1,402,500,000</b>	<b>₱3,042,212,724</b>	<b>(₱2,703,640)</b>	<b>(₱69,933,016)</b>	<b>₱10,237,433,914</b>

(Forward)



	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, 2018	₱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
Effect of adoption of new accounting standards (Note 2)	-	-	-	-	-	(12,776,500)	-	-	(12,776,500)
<b>Balances at January 1, 2018, as adjusted</b>	<b>3,312,864,430</b>	<b>2,519,309,713</b>	<b>33,640,983</b>	<b>(457,280)</b>	<b>1,402,500,000</b>	<b>3,029,436,224</b>	<b>(2,703,640)</b>	<b>(69,933,016)</b>	<b>10,224,657,414</b>
Net income	-	-	-	-	-	608,434,460	-	-	608,434,460
Other comprehensive income	-	-	-	-	-	-	-	63,378,575	63,378,575
Exchange differences on translation	-	-	-	-	-	-	580,368	-	580,368
Total comprehensive income for the year	-	-	-	-	-	608,434,460	580,368	63,378,575	672,393,403
Additional appropriation of retained earnings (Note 28)	-	-	-	-	1,100,000,000	(1,100,000,000)	-	-	-
Reversal of appropriation of retained earnings (Note 28)	-	-	-	-	(1,402,500,000)	1,402,500,000	-	-	-
Dividend payment	-	-	-	-	-	(43,045,424)	-	-	(43,045,424)
Treasury shares (Note 28)	-	-	-	(7,101,160)	-	-	-	-	(7,101,160)
Stock grants settlement (Note 28)	-	-	(33,640,983)	-	-	4,472,503	-	-	(29,168,480)
<b>Balances at December 31, 2018</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱-</b>	<b>(₱7,558,440)</b>	<b>₱1,100,000,000</b>	<b>₱3,901,797,763</b>	<b>(₱2,123,272)</b>	<b>(₱6,554,441)</b>	<b>₱10,817,735,753</b>



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

	Years Ended December 31		
	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱910,216,876</b>	₱547,513,412	₱582,480,146
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Notes 10, 11 and 19)	<b>870,440,240</b>	1,102,399,859	1,521,041,877
Interest expense (Note 13)	<b>313,179,531</b>	290,511,398	340,901,875
Loss on stores closures and disposals of property and equipment (Note 10)	<b>116,801,723</b>	280,497,714	142,719,741
Movement in retirement benefit obligation	<b>47,040,436</b>	28,679,703	40,347,759
Share in net earnings of associate (Note 8)	<b>(43,293,160)</b>	(35,547,906)	(28,839,733)
Share in net losses (earnings) of joint ventures (Note 9)	<b>(34,474,641)</b>	100,024,150	286,250,021
Interest accretion on refundable deposits (Note 26)	<b>(8,813,071)</b>	(10,180,158)	(10,504,123)
Unrealized foreign exchange losses (gains) - net	<b>9,962,116</b>	1,407,517	(1,262,810)
Interest income (Note 4)	<b>(4,355,931)</b>	(2,906,339)	(2,940,318)
Impairment loss on interests and advances on joint ventures (Notes 9 and 20)	-	76,120,907	-
Operating income before working capital changes	<b>2,176,704,119</b>	2,378,520,257	2,870,194,435
Decrease (increase) in:			
Trade and other receivables	<b>112,339,661</b>	15,961,093	(331,463,896)
Merchandise inventories	<b>178,676,689</b>	71,811,690	120,319,906
Prepayments and other current assets	<b>283,214,524</b>	(194,836,635)	155,735,118
Increase (decrease) in:			
Trade and other payables	<b>(304,446,839)</b>	64,818,465	(627,070,736)
Deferred revenue	<b>(4,855,288)</b>	1,810,832	3,231,087
Tenant deposits	<b>(1,008,740)</b>	26,006	13,484,840
Net cash generated from operations	<b>2,440,624,126</b>	2,338,111,708	2,204,430,754
Interest received	<b>4,355,931</b>	2,906,339	2,940,318
Income taxes paid, including creditable withholding tax	<b>(335,917,519)</b>	(377,344,608)	(384,332,078)
Net cash flows provided by operating activities	<b>2,109,062,538</b>	1,963,673,439	1,823,038,994
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment (Note 10)	<b>(434,409,417)</b>	(376,372,698)	(710,402,438)
Decrease (increase) in amounts owed by related parties	<b>196,132,537</b>	(86,551,892)	(26,339,028)
Decrease (increase) in:			
Security deposits and construction bonds	<b>10,373,156</b>	14,369,970	(14,099,214)
Other noncurrent assets	<b>(114,409,690)</b>	(287,484)	(16,301,953)
Dividends received from investment in an associate (Note 8)	<b>76,000,000</b>	26,000,000	6,000,000
Return of capital from SSRI (Note 9)	-	140,072,217	104,833,400
Additional interests in joint ventures (Note 9)	-	(89,250,000)	-
Proceeds from insurance claims	-	65,000,000	-
Net cash flows used in investing activities	<b>(266,313,414)</b>	(307,019,887)	(656,309,233)

(Forward)



	Years Ended December 31		
	2018	2017	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of:			
Short-term loans payable (Note 13)	<b>₱23,672,500,000</b>	₱2,050,000,000	₱2,805,000,000
Long-term debt (Note 13)	-	-	497,500,000
Payments of:			
Short-term loans payable (Note 13)	<b>(23,300,000,000)</b>	(1,867,000,000)	(3,918,000,000)
Long-term debt (Note 13)	<b>(1,150,215,216)</b>	(922,743,334)	(473,333,334)
Interest	<b>(310,837,042)</b>	(270,636,763)	(334,537,527)
Dividends payment (Note 28)	<b>(43,045,424)</b>	-	-
Stock grant settlement	<b>(29,168,480)</b>	-	-
Purchase of treasury shares (Note 28)	<b>(7,101,160)</b>	(457,280)	-
Decrease in amounts owed to related parties	-	-	(347,712)
Net cash flows used in financing activities	<b>(1,167,867,322)</b>	(1,010,837,377)	(1,423,718,573)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(3,902,582)</b>	(3,799,063)	(508,937)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>670,979,220</b>	642,017,112	(257,497,749)
<b>CASH AT BEGINNING OF YEAR</b>	<b>1,689,481,704</b>	1,047,464,592	1,304,962,341
<b>CASH AT END OF YEAR (Note 4)</b>	<b>₱2,360,460,924</b>	₱1,689,481,704	₱1,047,464,592

See accompanying Notes to Consolidated Financial Statements.



# SSI GROUP, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 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).

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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on April 12, 2019. The same consolidated financial statements were approved and authorized for issuance by the BOD on April 12, 2019.

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

#### Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis and are presented in Philippine peso (₱), which is the Company’s presentation and 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.

#### Statement of Compliance

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



### Basis of Consolidation

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

	Percentage ownership					
	2018		2017		2016	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Stores Specialists, Inc. (SSI)	<b>100</b>	–	100	–	100	–
Rustan Marketing Specialists, Inc. (RMSI)	–	<b>100</b>	–	100	–	100
International Specialty Concepts, Inc. (ISCI)	–	<b>100</b>	–	100	–	100
Rustan Specialty Concepts, Inc. (RSCI)	–	<b>100</b>	–	100	–	100
Specialty Office Concepts, Inc. (SOCI)	–	<b>100</b>	–	100	–	100
Specialty Investments, Inc. (SII)	–	<b>100</b>	–	100	–	100
Luxury Concepts, Inc. (LCI) <sup>1</sup>	–	–	–	100	–	100
International Specialty Fashions, Inc. (ISFI)	–	<b>100</b>	–	100	–	100
Footwear Specialty Retailers, Inc. (FSRI)	–	<b>100</b>	–	100	–	100
Global Specialty Retailers, Inc. (GSRI)	–	<b>100</b>	–	100	–	100
Specialty Food Retailers, Inc. (SFRI)	–	<b>100</b>	–	100	–	100
International Specialty Retailers, Inc. (ISRI)	–	<b>100</b>	–	100	–	100
International Specialty Wears, Inc. (ISWI)	–	<b>100</b>	–	100	–	100
Fastravel Specialists Holdings, Inc. (FSHI)	–	<b>100</b>	–	100	–	100
International Specialty Apparels, Inc. (ISAI)	–	<b>100</b>	–	100	–	100
Specialty Lifestyles Concepts, Inc. (SLCI), formerly Casual Clothing Retailers, Inc. (CCRI) <sup>1</sup>	–	<b>100</b>	–	100	–	100
SKL International, Ltd. (SKL) <sup>2</sup>	–	<b>100</b>	–	100	–	100

<sup>1</sup>Effective August 1, 2018, LCI (absorbed entity) was merged with SLCI (surviving entity).

<sup>2</sup>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.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group adopted the new accounting pronouncements starting January 1, 2018. The following new and amended standards have no significant impact to the consolidated financial position and performance of the Group, unless otherwise indicated.

- PFRS 9, *Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied PFRS 9 using a modified retrospective method of adoption, with the initial application date of January 1, 2018 and without restating the comparative information for the period beginning January 1, 2017.

The effect of adopting PFRS 9 as of January 1, 2018 are as follows:

	Note	December 31, 2017, as previously reported	Increase (Decrease)	January 1, 2018, as adjusted
Trade and other receivables	(b)	₱848,104,295	(₱17,729,195)	₱830,375,100
<b>Total Current Assets</b>		<b>13,477,172,730</b>	<b>(17,729,195)</b>	<b>13,459,443,535</b>
Deferred income tax assets - net	(b)	300,083,923	4,952,695	305,036,618
<b>Total Noncurrent Assets</b>		<b>5,300,115,142</b>	<b>4,952,695</b>	<b>5,305,067,837</b>
<b>TOTAL ASSETS</b>		<b>18,777,287,872</b>	<b>(12,776,500)</b>	<b>18,764,511,372</b>
Retained earnings	(b)	3,042,212,724	(12,776,500)	3,029,436,224
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>18,777,287,872</b>	<b>(12,776,500)</b>	<b>18,764,511,372</b>



The nature of these adjustments is described below:

(a) *Classification and measurement.* Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent “solely payments of principal and interest” on the principal amount outstanding.

The assessment of the Group’s business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. The Group continued measuring at amortized cost all financial assets previously carried at amortized cost under PAS 39.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group’s financial liabilities.

In summary, upon adoption of PFRS 9, the Group had the following required or elected reclassifications as of January 1, 2018:

	PAS 39 Measurement Category	PFRS 9 Measurement Category
	Loans and Receivables	Amortized Cost
Cash in banks	₱1,608,066,546	₱1,608,066,546
Trade and other receivables*	774,963,278	757,234,083
Amounts owed by related parties	196,132,537	196,132,537
Security deposits and construction bonds	1,019,838,784	1,019,838,784
	<u>₱3,599,001,145</u>	<u>₱3,581,271,950</u>

\*Excludes advances to officers and employees. The change in carrying amount is a result of additional impairment loss recognized upon adoption of PFRS 9. See discussion on impairment below.

(b) *Impairment.* The adoption of PFRS 9 has fundamentally changed the Group’s accounting for impairment losses for financial assets by replacing PAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss.

Upon the adoption of PFRS 9, the Group recognized additional impairment loss on the Group’s receivables of ₱17.73 million, which resulted in a decrease in retained earnings and increase in deferred income tax assets of ₱12.78 million and ₱4.95 million, respectively, as of January 1, 2018.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18, *Revenue*, and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for 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.





PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption. The Group elected to apply the modified retrospective method only to contract that was not completed at the date of initial application which is January 1, 2018. The Group did not apply any of the other available optional practical expedients.

With the adoption of PFRS 15, the Company assessed that the loyalty points and gift cards give rise to separate performance obligations because they provide a material right to the customer and portion of the transaction price was allocated to these performance obligations. However, the change did not have a material impact on the consolidated financial statements. Accordingly, no adjustments in the consolidated financial statements were made as of January 1, 2018.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, 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*
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC)-22, *Foreign Currency Transactions and Advance Consideration*

#### Future Changes in Accounting Policies

The Group will adopt the following new and amended standards and Philippine Interpretations of IFRIC enumerated below when these become effective. The Group does not expect the adoption of these new and amended PFRS, and Philippine Interpretations to have significant impact on the Group's consolidated financial statements, unless otherwise stated.

#### *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.

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.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*



*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

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

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 Effective January 1, 2018

The Group is in a retail business. The Group recognized revenue from sale of goods to customers, including the related loyalty program. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

*Sale of goods*

Revenue from the sale of goods is recognized at a point in time when control of the goods passes to the customer, at the point the customer purchases the goods at the store. Payment of the transaction price is due immediately at the point the customer purchases the goods..

*Sale of loyalty points and gift cards*

The Group operates a loyalty program where customers accumulate points for purchases made at the Group's stores that can be redeemed against any future purchases at any of the Group's stores, subject to a minimum number of points obtained. The Group also sells gift cards which can be used to redeem goods.

The Group allocates the consideration received to loyalty points and gift cards. This allocation is based on the relative stand-alone selling prices. The stand-alone selling price is estimated based on the equivalent value given when the points are redeemed by the customer and the likelihood of redemption, as evidenced by the Group's historical experience. The amount allocated to these items is deferred and is recognized as revenue when redeemed or the likelihood of the customer redeeming becomes remote.

Revenue Recognition Prior to January 1, 2018

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.

Other Income

*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.

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.

#### Current and Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheets based on current / noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.



A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

### Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### Financial Asset - Initial Recognition, Subsequent Measurement and Impairment Effective January 1, 2018

#### *Initial recognition*

The Group classifies financial assets, at initial recognition, and subsequently measured at amortized cost, FVOCI, or FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Except for trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

For a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### *Subsequent measurement of financial assets*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL



*Financial assets at amortized cost (debt instruments)*

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognized in the consolidated profit or loss when the asset is derecognized, modified or impaired. This accounting policy relates to the Company's "Cash", "Trade and other receivables", "Amounts owed by related parties" and "Security deposits and construction bonds".

*Impairment of financial assets*

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its



contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of “investment grade” as per globally understood definition.

#### *Definition of default*

The Group considers that default has occurred when a financial asset is more than 90 days past due and when an internally developed information indicate that the debtor is unlikely to pay the Group in full unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in the consolidated profit or loss.

#### *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets’ gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognizes an impairment gain or loss in the consolidated profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

#### Financial Asset - Initial Recognition, Subsequent Measurement and Impairment Prior to January 1, 2018

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, the initial measurement of financial assets includes transaction costs.

The Group’s financial assets are of the nature of loans and receivables.





### *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.

### *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.

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.

#### Financial Liabilities - Initial Recognition and Subsequent Measurement Prior to and upon the Adoption of PFRS 9

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".

#### 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### 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.

#### Cash

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

#### 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 "Impairment loss on investment in an associate and interests in 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, 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:

<u>Category</u>	<u>Estimated useful lives (in years)</u>
Building	10-20
Transportation equipment	3-15
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.

### 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.

#### Value-added Tax (VAT)

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 Group as of balance sheet date.

### Foreign Currency Translation and Transactions

The consolidated financial statements are presented in Philippine Peso, which is the functional currency of the Group. 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 "Cumulation translation adjustments of foreign operations" in the consolidated other comprehensive income and "Cumulative translation adjustment on foreign operations" 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.

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### 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 (see Note 8).



*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.

#### *Provision for expected credit losses (ECL) of trade and other receivables and amounts owed by related parties (effective January 1, 2018)*

The Group maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The Group uses simplified or general approach to calculate ECLs of financial assets. The Group performs a regular review of the age and status of these accounts, designed to identify accounts for impairment. The assessment of the correlation between historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions.

As of December 31, 2018, allowance for doubtful accounts for trade and other receivables, and amounts owed by related parties amounted to ₱17.73 million and ₱41.13 million, respectively. In 2018, no additional provision for doubtful accounts was recognized. Trade and other receivables and amounts owed by related parties amounted to ₱678.04 million (see Notes 5 and 20).

#### *Estimating impairment of trade and other receivables and amounts owed by related parties (effective prior to January 1, 2018)*

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 and 2016, the Group recognized provision for impairment losses on amounts owed by related parties amounting to ₱48.96 million and nil, respectively. Trade and other receivables and amounts owed by related parties amounted to ₱1,044.24 million as of December 31, 2017 (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, 2018 and 2017, the Group has no allowance for inventory losses. Merchandise inventories amounted to ₱9,245.19 million and ₱9,423.87 million as of December 31, 2018 and 2017, 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. There was no change in the estimated useful lives of the Group's property, plant and equipment in 2018 and 2016.

As of December 31, 2018 and 2017, the aggregate net book values of property and equipment, franchise fee and software costs presented under "Other noncurrent assets" amounted to ₱2,905.68 million and ₱3,393.61 million, respectively (see Notes 10 and 11).

The Group recognized depreciation and amortization expense amounting to ₱870.44 million, ₱1,102.40 million and ₱1,521.04 million for the years ended December 31, 2018, 2017 and 2016, 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, 2018 and 2017.

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

	<b>2018</b>	2017
Property and equipment (Note 10)	<b>₱2,806,005,348</b>	₱3,347,613,636
Interests in joint ventures (Note 9)	<b>519,849,166</b>	485,374,525
Investment in an associate (Note 8)	<b>54,594,522</b>	47,301,362

#### *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, 2018 and 2017, the Group's retirement benefit obligation amounted to ₱335.53 million and ₱379.03 million, respectively (see Note 21). The Group recognized retirement expense amounting to ₱61.12 million, ₱53.46 million and ₱51.83 million in 2018, 2017 and 2016, respectively (see Note 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, 2018 and 2017, deferred tax assets amounted to ₱307.20 million and ₱307.32 million, respectively. Of these amounts, ₱172.08 million and ₱148.04 million, as of December 31, 2018 and 2017, respectively, 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).

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#### 4. Cash

	<b>2018</b>	2017
Cash on hand	<b>₱36,310,930</b>	₱81,415,158
Cash in banks	<b>2,224,149,994</b>	1,608,066,546
Short-term investments	<b>100,000,000</b>	—
	<b>₱2,360,460,924</b>	₱1,689,481,704



Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of between 60 to 90 days depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest earned from cash in banks for the years ended December 31, 2018, 2017 and 2016 amounted to ₱4.36 million, ₱2.91 million and ₱2.94 million, respectively.

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## 5. Trade and Other Receivables

	2018	2017
Trade receivables	<b>₱268,038,636</b>	₱251,200,355
Nontrade receivables	<b>272,280,314</b>	356,001,339
Advances to officers and employees	<b>84,217,489</b>	73,141,017
Receivables from related parties (Note 20)	<b>71,228,195</b>	126,957,038
Dividend receivable (Note 8)	–	40,000,000
Others	–	804,546
	<b>695,764,634</b>	848,104,295
Less allowance for doubtful accounts	<b>17,729,195</b>	–
	<b>₱678,035,439</b>	₱848,104,295

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

Nontrade receivables mainly include receivables from banks for tie-up sale and promotional activities, and principals for their share in marketing expense.

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 and was collected in 2018.

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

Upon the adoption of PFRS 9, the Group recognized allowance for doubtful accounts for nontrade receivables amounting to ₱17.73 million (see Note 24).

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## 6. Merchandise Inventories

	2018	2017
At cost:		
On hand	<b>₱8,519,776,129</b>	₱8,800,455,694
In transit	<b>725,413,825</b>	623,410,949
	<b>₱9,245,189,954</b>	₱9,423,866,643

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 ₱10,918.35 million, ₱9,041.11 million and ₱8,614.74 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 15).

## 7. Prepayments and Other Current Assets

	2018	2017
Supplies	₱381,205,401	₱532,858,763
Advances to suppliers	256,463,505	361,492,605
Input VAT	197,534,537	207,140,763
Creditable withholding tax	58,311,116	29,431,263
Prepaid advertising	43,701,792	63,476,427
Current portion of prepaid rent (Notes 11 and 26)	36,293,203	34,356,983
Deferred input VAT	25,724,677	17,131,409
Prepaid insurance	16,200,060	17,067,990
Prepaid guarantee	6,550,082	5,642,659
Security deposits (Note 26)	5,246,363	10,032,977
Others	38,022,144	40,955,712
	<b>₱1,065,252,880</b>	<b>₱1,319,587,551</b>

Supplies 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.

## 8. Investment in an Associate

	2018	2017
Acquisition cost	₱24,640,000	₱24,640,000
Accumulated equity in net earnings:		
Balances at beginning of year	22,661,362	53,113,456
Share in net earnings	43,293,160	35,547,906
Dividends (Note 5)	(36,000,000)	(66,000,000)
Balances at end of year	29,954,522	22,661,362
	<b>₱54,594,522</b>	<b>₱47,301,362</b>

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, 2018 and 2017, SPI is 40% owned by the Group and 60% owned by Samsonite Corporation, its ultimate parent and an entity incorporated under the laws of the United States of America.





The following table sets out the financial information of SPI as of and for the years ended December 31, 2018 and 2017:

	2018	2017
Statements of Financial Position:		
Current assets	<b>₱215,064,434</b>	₱219,851,911
Noncurrent assets	<b>16,465,202</b>	13,251,940
Current liabilities	<b>92,945,026</b>	110,598,295
Noncurrent liabilities	<b>1,366,059</b>	4,683,190
Equity	<b>137,218,551</b>	117,822,366
Statements of Comprehensive Income:		
Revenue	<b>₱513,588,194</b>	₱428,474,020
Cost and expenses	<b>450,344,402</b>	339,604,256
Net income	<b>108,232,901</b>	88,869,764

## 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 interests in joint ventures are as follows:

### December 31, 2018

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and end of year	<b>₱375,296,454</b>	<b>₱89,250,000</b>	<b>₱407,344,383</b>	<b>₱420,350,000</b>	<b>₱1,292,240,837</b>
Accumulated equity in net earnings (losses) and impairment loss:					
Balances at beginning of year	<b>15,519,812</b>	<b>5,308,259</b>	<b>(407,344,383)</b>	<b>(420,350,000)</b>	<b>(806,866,312)</b>
Share in net earnings	<b>17,007,898</b>	<b>17,466,743</b>	-	-	<b>34,474,641</b>
Balances at end of year	<b>32,527,710</b>	<b>22,775,002</b>	<b>(407,344,383)</b>	<b>(420,350,000)</b>	<b>(772,391,671)</b>
	<b>₱407,824,164</b>	<b>₱112,025,002</b>	<b>₱-</b>	<b>₱-</b>	<b>₱519,849,166</b>

### December 31, 2017

	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) and impairment loss:					
Balances at beginning of year	3,928,806	-	(380,183,139)	(303,426,585)	(679,680,918)
Share in net earnings (loss)	11,591,006	5,308,259	-	(116,923,415)	(100,024,150)
Impairment loss	-	-	(27,161,244)	-	(27,161,244)
Balances at end of year	15,519,812	5,308,259	(407,344,383)	(420,350,000)	(806,866,312)
	<b>₱390,816,266</b>	<b>₱94,558,259</b>	<b>₱-</b>	<b>₱-</b>	<b>₱485,374,525</b>



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 earnings of LMS, amounted to ₱2.56 million and ₱2.46 million in 2018 and 2017, respectively.

Key financial information of LMS is as follows:

	2018	2017
<b>Statements of Financial Position:</b>		
Current assets	<b>₱616,225,362</b>	₱515,778,684
Noncurrent assets	<b>67,267,707</b>	57,888,148
Current liabilities	<b>88,044,881</b>	45,811,790
Equity	<b>595,448,188</b>	527,855,042
<b>Statements of Comprehensive Income:</b>		
Revenues	<b>₱758,494,779</b>	₱668,386,747
Cost and expenses	<b>718,836,556</b>	645,204,735
Net income	<b>39,658,223</b>	23,182,012

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, 2018 and 2017 and for the year ended December 31, 2018 and the period April 1, 2017 to December 31, 2017 is as follows:

	2018	2017
<b>Statement of Financial Position:</b>		
Current assets	<b>₱254,929,620</b>	₱215,871,484
Noncurrent assets	<b>58,097,009</b>	21,865,879
Current liabilities	<b>92,592,724</b>	52,329,013
Noncurrent liabilities	<b>777,038</b>	-
Equity	<b>219,656,867</b>	185,408,350
<b>Statement of Comprehensive Income:</b>		
Revenues	<b>₱286,665,556</b>	₱165,354,911
Cost and expenses	<b>252,417,041</b>	154,946,561
Net income	<b>34,248,515</b>	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, the Group received ₱140.07 million 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, 2018.

Key financial information of SSRI are as follows:

	<b>2018</b>	2017
<u>Statements of Financial Position:</u>		
Current assets	<b>₱49,435,993</b>	₱51,433,595
Current liabilities	<b>3,828,240</b>	467,867
Equity	<b>45,607,753</b>	50,965,728
<u>Statements of Comprehensive Income:</u>		
Revenues	<b>₱-</b>	₱-
Cost and expenses	<b>969,494</b>	-
Net loss	<b>969,494</b>	-

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 financial information of SCRI are as follows:

	<b>2018</b>	2017
<u>Statements of Financial Position:</u>		
Current assets	<b>₱8,448,541</b>	₱284,223,816
Noncurrent assets	-	172,240,647
Current liabilities	<b>50,772,929</b>	505,731,544
Capital deficiency	<b>42,324,388</b>	49,267,081
<u>Statements of Comprehensive Income:</u>		
Revenues	<b>₱7,571,459</b>	₱6,243,847
Cost and expenses	<b>504,138</b>	886,160,578
Net income (loss)	<b>7,067,321</b>	(879,916,731)

The joint ventures have no contingent liabilities or capital commitments as of December 31, 2018 and 2017.



## 10. Property and Equipment

The composition and movements of this account are as follows:

### December 31, 2018

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	Total
<b>Cost:</b>						
Balances at beginning of year	₱7,368,130,759	₱2,163,605,355	₱874,797,537	₱274,746,423	₱53,173,551	₱10,734,453,625
Additions	250,345,949	78,219,347	5,035,248	4,457,232	96,351,641	434,409,417
Disposals and retirement	(427,866,210)	(27,179,820)	–	–	(498,503)	(455,544,533)
Reclassifications	65,635,631	(2,954,447)	18,247,895	–	(80,929,079)	–
Balances at end of year	7,256,246,129	2,211,690,435	898,080,680	279,203,655	68,097,610	10,713,318,509
<b>Accumulated Depreciation and Amortization:</b>						
Balances at beginning of year	5,440,614,983	1,647,035,565	191,902,831	107,286,610	–	7,386,839,989
Depreciation and amortization (Note 19)	589,230,915	198,216,264	47,855,599	23,913,204	–	859,215,982
Disposals and retirement	(318,233,856)	(20,508,954)	–	–	–	(338,742,810)
Reclassifications	(7,019,347)	(2,278,962)	9,298,309	–	–	–
Balances at end of year	5,704,592,695	1,822,463,913	249,056,739	131,199,814	–	7,907,313,161
Net book values	₱1,551,653,434	₱389,226,522	₱649,023,941	₱148,003,841	₱68,097,610	₱2,806,005,348

### December 31, 2017

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	Total
<b>Cost:</b>						
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
<b>Accumulated Depreciation and Amortization:</b>						
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

Additions to leasehold improvements and construction in progress in 2018 and 2017 pertain to improvements and construction of newly opened and renovated stores during the year.

Disposals and retirement for the years ended December 31, 2018 and 2017 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 ₱116.80 million, ₱194.73 million and ₱142.72 million in 2018, 2017 and 2016, respectively.

No property and equipment were pledged or treated as security to the outstanding liabilities as of December 31, 2018 and 2017.



## 11. Other Noncurrent Assets

	2018	2017
Franchise fee (net of accumulated amortization of ₱33.39 million and ₱23.46 million as of December 31, 2018 and 2017, respectively)	<b>₱98,804,487</b>	₱44,436,554
Miscellaneous deposits	<b>83,915,471</b>	40,486,110
Prepaid rent - net of current portion (Notes 7 and 26)	<b>5,981,459</b>	8,733,502
Deferred input VAT - net of current portion (Note 7)	<b>4,985,095</b>	4,138,339
Software costs (net of accumulated amortization of ₱4.16 million and ₱2.87 million as of December 31, 2018 and 2017, respectively)	<b>868,888</b>	1,558,148
Others	<b>8,532,944</b>	550,259
	<b>₱203,088,344</b>	₱99,902,912

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

Amortization expense of software costs amounted to ₱1.29 million, ₱1.17 million and ₱1.44 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 19).

## 12. Trade and Other Payables

	2018	2017
Trade payables	<b>₱640,440,497</b>	₱980,700,326
Nontrade payables	<b>525,228,822</b>	412,308,745
Accrued expenses	<b>170,089,235</b>	274,789,107
Output VAT	<b>131,887,802</b>	90,367,395
Retention payable	<b>35,020,805</b>	39,337,730
Payables to related parties (Note 20)	<b>822,238</b>	8,712,615
Others	<b>20,318,665</b>	17,350,978
	<b>₱1,523,808,064</b>	₱1,823,566,896

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 and Long-term Debt

#### Short-term Loans Payable

	2018	2017
Bank of Philippine Islands (BPI)	<b>₱2,605,000,000</b>	₱2,370,000,000
Banco de Oro (BDO)	<b>1,062,500,000</b>	725,000,000
Metropolitan Bank & Trust Co. (MBTC)	<b>500,000,000</b>	500,000,000
Philippine National Bank (PNB)	<b>400,000,000</b>	–
Security Bank Corporation (SBC)	–	500,000,000
China Banking Corporation (CBC)	–	100,000,000
	<b>₱4,567,500,000</b>	₱4,195,000,000

The Group's outstanding unsecured short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 5.50% to 6.00% and 2.50% to 3.75% in 2018 and 2017, respectively.

Interest expense related to short-term loans for the years ended December 31, 2018, 2017 and 2016 amounted to ₱167.73 million, ₱169.80 million and ₱197.78 million, respectively.

#### 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%. 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. These loans from BPI were fully paid in 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.

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

Under the syndicated loan agreement, the Group 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:

	2018	2017
BPI	<b>₱484,938,663</b>	₱1,389,305,266
SBC	<b>132,753,496</b>	220,999,581
CBC	<b>91,579,948</b>	152,456,481
MBTC	<b>91,579,948</b>	152,456,481
RCBC	<b>50,414,068</b>	83,921,041
Total	<b>851,266,123</b>	1,999,138,850
Less current portion	<b>449,848,015</b>	1,148,120,568
Noncurrent portion	<b>₱401,418,108</b>	₱851,018,282

A rollforward analysis of unamortized transaction costs in 2018 and 2017 follows:

	2018	2017
Balances at beginning of year	<b>₱4,784,481</b>	₱10,227,575
Amortization	<b>(3,100,605)</b>	(5,443,094)
Balances at end of year	<b>₱1,683,876</b>	₱4,784,481

Interest expense relating to long-term debt for the years ended December 31, 2018, 2017 and 2016 amounted to ₱145.45 million, ₱120.71 million and ₱143.12 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, 2018 and 2017, the Group is in compliance with the loan covenants of all their respective outstanding debts.

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#### 14. Net Sales

All of the Group's net sales are revenue from contracts with customers recognized at a point in time or when it transfers control of a product to a customer. The following table disaggregates the revenue by major goods for the year ended December 31, 2018:

<i>Major goods</i>	
General merchandise	₱19,738,060,712
Food retail	492,169,273
	<b>₱20,230,229,985</b>

The comparative information has not been presented as it continues to be reported under the accounting standards in effect for those periods.



## 15. Costs of Goods Sold

	2018	2017	2016
Cost of merchandise sold (Note 6)	<b>₱10,918,350,969</b>	₱9,041,113,143	₱8,614,736,000
Personnel costs (Note 18)	<b>142,178,047</b>	134,966,026	133,784,116
Royalty fees	<b>272,635,697</b>	260,484,299	205,781,450
Rent (Notes 20 and 26)	<b>64,308,488</b>	59,308,986	55,374,265
Depreciation and amortization (Notes 10, 11 and 19)	<b>46,364,045</b>	45,780,357	31,695,468
Travel and transportation	<b>36,745,617</b>	45,389,473	45,667,194
Utilities	<b>17,568,362</b>	12,608,614	17,069,154
Security and safety	<b>17,282,690</b>	20,444,037	12,487,380
Supplies and maintenance	<b>7,054,239</b>	6,933,723	2,420,812
Repairs and maintenance	<b>6,349,216</b>	8,086,715	12,216,295
Insurance	<b>3,062,623</b>	3,844,640	3,120,939
Taxes and licenses	<b>1,343,723</b>	427,296	412,355
Others	<b>200,746,827</b>	152,796,597	153,354,895
	<b>₱11,733,990,543</b>	₱9,792,183,906	₱9,288,120,323

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.

Cost of merchandise sold:

	2018	2017	2016
Merchandise inventories, beginning	<b>₱9,423,866,643</b>	₱9,559,675,482	₱9,679,995,388
Net purchases	<b>10,739,674,280</b>	8,905,304,304	8,494,416,094
Cost of merchandise available for sale	<b>20,163,540,923</b>	18,464,979,786	18,174,411,482
Less merchandise inventories, ending	<b>(9,245,189,954)</b>	(9,423,866,643)	(9,559,675,482)
	<b>₱10,918,350,969</b>	₱9,041,113,143	₱8,614,736,000

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

## 16. Selling and Distribution Expenses

	2018	2017	2016
Rent (Notes 20 and 26)	<b>₱1,989,264,693</b>	₱2,015,440,904	₱2,130,852,260
Personnel costs (Note 18)	<b>1,102,086,088</b>	1,058,753,997	1,127,897,645
Depreciation and amortization (Notes 10, 11 and 19)	<b>700,553,098</b>	939,042,268	1,370,244,867
Utilities	<b>567,229,942</b>	603,026,568	640,057,372
Credit card charges	<b>382,506,247</b>	335,472,606	335,256,130
Supplies and maintenance	<b>276,524,995</b>	283,443,156	253,904,621
Taxes and licenses	<b>223,933,577</b>	209,757,228	202,635,290
Security services	<b>158,259,850</b>	138,119,282	128,285,517
Global marketing contribution fee	<b>156,467,033</b>	131,240,154	137,383,982
Advertising	<b>136,197,108</b>	157,253,183	124,678,663
Delivery and freight charges	<b>88,856,065</b>	33,520,878	23,580,295
Repairs and maintenance	<b>74,264,165</b>	73,214,148	97,322,744
Insurance	<b>37,305,634</b>	40,138,645	42,640,301
Travel and transportation	<b>38,658,100</b>	39,483,667	37,704,160

(Forward)





	2018	2017	2016
Communication	₱27,539,929	₱32,106,867	₱35,363,049
Outside services	18,768,516	14,223,089	11,276,356
Professional fees	13,412,941	12,835,452	10,990,827
Entertainment, amusement and recreation (EAR)	5,212,189	4,539,851	12,344,662
Telegraphic transfer	2,259,431	1,747,134	1,978,162
Others	70,986,573	65,270,124	45,427,437
	<b>₱6,070,286,174</b>	<b>₱6,188,629,201</b>	<b>₱6,769,824,340</b>

## 17. General and Administrative Expenses

	2018	2017	2016
Personnel costs (Note 18)	₱605,872,495	₱637,155,401	₱502,704,189
Depreciation and amortization (Notes 10, 11 and 19)	123,523,097	117,577,234	119,101,542
Rent (Note 26)	141,067,431	110,213,480	130,517,395
Taxes and licenses	53,319,854	43,879,885	36,022,536
Utilities	47,614,560	43,524,900	39,672,861
Supplies and maintenance	39,665,078	33,290,606	43,974,624
Security services	35,994,188	36,176,494	32,346,466
Repairs and maintenance	35,507,031	34,613,527	35,752,632
Travel and transportation	44,408,060	27,704,186	35,024,428
Advertising	23,233,611	26,751,589	63,269,096
Communication	19,462,949	24,462,476	22,324,347
Professional fees	14,365,864	14,605,534	16,015,986
Insurance	18,103,874	13,782,632	13,056,639
EAR	7,252,873	7,862,123	7,500,432
Others	38,810,510	48,764,479	37,600,177
	<b>₱1,248,201,475</b>	<b>₱1,220,364,546</b>	<b>₱1,134,883,350</b>

## 18. Personnel Costs

Personnel costs charged to operations are as follows:

	2018	2017	2016
Salaries, wages and bonuses	₱1,663,785,557	₱1,626,965,286	₱1,563,123,571
Retirement benefit expense (Note 21)	61,119,902	53,462,197	51,827,906
Other employee benefits	125,231,171	150,447,941	149,434,473
	<b>₱1,850,136,630</b>	<b>₱1,830,875,424</b>	<b>₱1,764,385,950</b>

Personnel costs were distributed as follows:

	2018	2017	2016
Cost of goods sold (Note 15)	₱142,178,047	₱134,966,026	₱133,784,116
Selling and distribution (Note 16)	1,102,086,088	1,058,753,997	1,127,897,645
General and administrative (Note 17)	605,872,495	637,155,401	502,704,189
	<b>₱1,850,136,630</b>	<b>₱1,830,875,424</b>	<b>₱1,764,385,950</b>



## 19. Depreciation and Amortization Expense

	2018	2017	2016
Property and equipment (Note 10)	₱859,215,982	₱1,098,901,251	₱1,511,344,424
Franchise fee (Note 11)	9,931,083	2,325,494	8,261,827
Software cost (Note 11)	1,293,175	1,173,114	1,435,626
	<b>₱870,440,240</b>	<b>₱1,102,399,859</b>	<b>₱1,521,041,877</b>

Depreciation and amortization were distributed as follows:

	2018	2017	2016
Cost of goods sold (Note 15)	₱46,364,045	₱45,780,357	₱31,695,468
Selling and distribution (Note 16)	700,553,098	939,042,268	1,370,244,867
General and administrative (Note 17)	123,523,097	117,577,234	119,101,542
	<b>₱870,440,240</b>	<b>₱1,102,399,859</b>	<b>₱1,521,041,877</b>

## 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 ₱110.56 million, ₱81.19 million and ₱100.23 million for the years ended December 31, 2018, 2017 and 2016, respectively;
- b. The Group reimburses related parties for the 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 ₱30.75 million, ₱30.97 million and ₱14.10 million in 2018, 2017 and 2016, 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.) amounted to



₱18.38 million and ₱10.32 million in 2018 and 2017, respectively. In addition, SSI sold inventories and property and equipment totaling ₱8.25 million and ₱142.80 million, respectively, in 2018 and 2017, respectively.

- 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):

	<b>2018</b>	2017	2016
Short-term employee benefits	<b>₱39</b>	₱38	₱37
Post-employment benefits	<b>5</b>	5	6
	<b>₱44</b>	₱43	₱43



As of December 31, 2018 and 2017, transactions with related parties are as follows:

Related Parties	Year	Transactions for the year	Outstanding balances		Amounts owed by related parties
			Receivables from related parties (Note 5)	Payable to related parties (Note 12)	
<i>Affiliates</i>					
RCC	<b>2018</b>	<b>₱28,817,767</b>	<b>₱20,055,700</b>	<b>₱244,293</b>	<b>₱-</b>
	2017	₱24,071,179	₱51,550,863	₱2,921,689	₱-
RMK	<b>2018</b>	<b>(8,635,512)</b>	<b>31,800,873</b>	<b>463,938</b>	-
	2017	5,429,868	23,696,413	994,990	-
Others	<b>2018</b>	<b>(25,826)</b>	<b>139,833</b>	<b>114,007</b>	-
	2017	-	-	-	-
<i>Joint ventures</i>					
PFM	<b>2018</b>	<b>17,690,793</b>	-	-	-
	2017	3,351,736	17,690,793	-	-
SCRI	<b>2018</b>	<b>191,738,649</b>	-	-	-
	2017	90,967,200	-	-	196,132,537
MPC	<b>2018</b>	<b>10,065,775</b>	<b>17,057,698</b>	-	-
	2017	36,715,345	31,919,409	4,795,936	-
<i>Associate</i>					
SPI	<b>2018</b>	<b>(74,531)</b>	<b>2,174,091</b>	-	-
	2017	135,536	2,099,560	-	-
	<b>2018</b>		<b>₱71,228,195</b>	<b>₱822,238</b>	<b>₱-</b>
	2017		₱126,957,038	₱8,712,615	₱196,132,537



The related party balances as of December 31, 2018 and 2017 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting ₱41.13 million and ₱48.96 million as of December 31, 2018 and 2017, respectively, 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:

	2018	2017	2016
Current service cost	<b>₱38,723,348</b>	₱34,792,817	₱34,990,969
Net interest cost	<b>22,396,554</b>	17,547,820	16,836,937
Past service cost	-	1,121,560	-
<b>Retirement benefit expense</b>	<b>₱61,119,902</b>	₱53,462,197	₱51,827,906

As of December 31, 2018 and 2017, the amounts recognized in the consolidated balance sheets as retirement benefit obligation are as follows:

	2018	2017
Present value of obligations	<b>₱387,822,573</b>	₱435,989,821
Fair value of plan assets	<b>(52,293,691)</b>	(56,960,554)
<b>Retirement benefit obligation</b>	<b>₱335,528,882</b>	₱379,029,267

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

	2018	2017
Opening present value of obligation	<b>₱435,989,821</b>	₱394,846,938
Recognized in profit or loss:		
Current service cost	<b>38,723,348</b>	34,792,817
Interest cost	<b>25,701,736</b>	20,180,724
Past service cost	-	1,121,560
Profit or loss	<b>64,425,084</b>	56,095,101
Benefits paid	<b>(14,406,436)</b>	(14,349,656)
Benefits paid directly by the Group	<b>(5,279,466)</b>	(4,361,594)
Recognized in other comprehensive income		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	<b>(78,652,953)</b>	(20,287,411)
Deviations of experience from assumptions	<b>(14,753,242)</b>	24,046,443
Changes in demographic assumptions	<b>499,765</b>	-
Other comprehensive loss (income)	<b>(92,906,430)</b>	3,759,032
<b>Closing present value of obligation</b>	<b>₱387,822,573</b>	₱435,989,821



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:

	2018	2017
Opening fair value of plan assets	<b>₱56,960,554</b>	₱49,512,431
Contributions	<b>8,800,000</b>	20,420,900
Interest income	<b>3,305,182</b>	2,632,904
Benefits paid	<b>(14,406,436)</b>	(14,349,656)
Return on plan assets, excluding amounts included in interest income	<b>(2,365,609)</b>	(1,256,025)
Closing fair value of plan assets	<b>₱52,293,691</b>	₱56,960,554

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

	2018	2017
Cash and cash equivalents	<b>₱49,249,031</b>	₱54,358,381
Government securities	<b>561,417</b>	602,137
Fixed income	<b>599,685</b>	610,631
Mutual funds	<b>228,748</b>	248,842
Other assets	<b>1,656,438</b>	1,193,028
Trade and other payables	<b>(1,628)</b>	(52,465)
	<b>₱52,293,691</b>	₱56,960,554

The movements in the retirement benefit obligation are as follows:

	2018	2017
At January 1	<b>₱379,029,267</b>	₱345,334,507
Retirement benefits expense	<b>61,119,902</b>	53,462,197
Actuarial losses (gains)	<b>(90,540,821)</b>	5,015,057
Contributions	<b>(8,800,000)</b>	(20,420,900)
Benefits paid directly by the Group	<b>(5,279,466)</b>	(4,361,594)
At December 31	<b>₱335,528,882</b>	₱379,029,267

The principal actuarial assumptions used as of December 31, 2018 and 2017 in determining retirement benefit obligations for the Group's retirement plan are as follows:

	2018	2017
Discount rate	<b>7.3% - 7.6%</b>	5.6% - 5.9%
Salary increase rate	<b>3.0%</b>	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, 2018 and 2017, assuming all other assumptions were held constant:

	Increase/(Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligation	
		2018	2017
Discount rate	+1%	<b>(P292,757,632)</b>	(P49,048,099)
	-1%	<b>367,070,550</b>	59,317,374
Future salary increase rate	+1%	<b>368,629,148</b>	58,637,753
	-1%	<b>(291,035,260)</b>	(49,220,156)

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 14.20 to 22.00 years and 10.00 to 24.90 years in 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 and 2017:

	2018	2017
1 year or less	<b>P59,336,746</b>	P60,167,032
More than 1 year to 5 years	<b>81,210,773</b>	72,372,953
More than 5 years	<b>3,408,581,816</b>	2,943,588,965

## 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, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Provision for income tax at statutory tax rate of 30%	<b>P273,065,063</b>	P164,254,024	P174,744,044
Additions to (reductions from) income tax resulting from:			
Nondeductible expenses	<b>26,508,917</b>	20,834,292	20,088,553
Expiration of NOLCO and MCIT	<b>26,214,095</b>	20,711,729	31,825,281
Share in net losses (earnings) of an associate and joint ventures	<b>(23,330,340)</b>	19,342,873	77,223,086
Movement in unrecognized deferred tax assets	<b>(966,833)</b>	40,628,569	42,352,945
Interest income subjected to final tax	<b>(908,357)</b>	(730,760)	(657,374)
Nondeductible interest expense	<b>526,355</b>	188,901	195,528
Others	<b>673,516</b>	7,021,480	5,092,323
	<b>P301,782,416</b>	P272,251,108	P350,864,386



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

	2018	2017
Deferred tax assets:		
NOLCO	P172,082,246	P148,044,835
Retirement benefit obligation	97,635,546	78,885,458
MCIT	14,918,346	30,007,234
Deferred revenue	6,386,893	7,843,480
Allowance for doubtful account	4,910,504	-
Accrued rent	4,708,941	7,839,827
Unrealized foreign exchange losses	3,535,346	231,792
Unamortized past service cost	-	200,626
Others	75,104	4,564,935
	<b>304,252,926</b>	<b>277,618,187</b>
Deferred tax liabilities:		
Carrying value of capitalized rent expense	(2,596,226)	(4,549,848)
Unrealized foreign exchange gains	(846,710)	(1,251,883)
Unamortized prepayments	(505,163)	(1,435,344)
Others	(448,753)	-
	<b>(4,396,852)</b>	<b>(7,237,075)</b>
Deferred tax asset related to retirement benefit obligation recognized under other comprehensive loss		
	2,946,736	29,702,811
<b>Net deferred tax assets</b>	<b>P302,802,810</b>	<b>P300,083,923</b>

- 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:

	2018	2017
NOLCO	P172,401,483	P225,511,062
MCIT	15,720,095	13,399,816
Retirement benefits	254,608	17,068,369
Unrealized foreign exchange loss	-	178,964

- d. As of December 31, 2018, 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
2015	2016 - 2018	P136,970,033	(P130,415,921)	(P6,554,112)	P-
2016	2017 - 2019	303,184,818	-	(12,280,088)	290,904,730
2017	2018 - 2020	280,680,941	-	(1,626,049)	279,054,892
2018	2019 - 2021	176,049,348	-	-	176,049,348
		<b>P896,885,140</b>	<b>(P130,415,921)</b>	<b>(P20,460,249)</b>	<b>P746,008,970</b>





As of December 31, 2018, the MCIT that can be claimed as tax credits follows:

Year incurred	Year of availment	Amount	Expired	Applied	Balance
2015	2016 - 2018	₱5,548,412	(₱1,022,956)	(₱3,503,566)	₱1,021,890
2016	2017 - 2019	12,129,749	–	(6,363,695)	5,766,054
2017	2018 - 2020	11,888,804	–	(767,714)	11,121,090
2018	2019 - 2021	12,729,407	–	–	12,729,407
		<b>₱42,296,372</b>	<b>(₱1,022,956)</b>	<b>(₱10,634,975)</b>	<b>₱30,638,441</b>

### 23. Basic/Diluted Earnings Per Share

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

	2018	2017	2016
Net income	<b>₱608,434,460</b>	₱275,262,304	₱231,615,760
Divided by weighted average number of common shares	<b>3,310,962,656</b>	3,312,826,323	3,312,864,430
	<b>₱0.18</b>	₱0.08	₱0.07

There were no potential dilutive common shares for the years ended December 31, 2018, 2017 and 2016.

### 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 debtors.



The table below shows the maximum exposure of the Company to credit risk:

	2018	2017
Cash	₱2,324,149,994	₱1,608,066,546
Trade and other receivables		
Trade receivables	268,038,636	251,200,355
Nontrade receivables	272,280,314	356,001,339
Receivables from related parties	71,228,195	126,957,038
Dividend receivable	-	40,000,000
Others	-	804,546
Amounts owed by related parties	-	196,132,537
Security deposits and construction bonds	1,023,525,062	1,029,871,761
	<b>₱3,959,222,201</b>	<b>₱3,609,034,122</b>

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

#### *Impairment of financial assets*

The following financial assets are subject to expected credit loss model effective January 1, 2018:

- a. Cash, nontrade receivables (except those related to principals), amounts owed by related parties and security deposits and construction bonds

The Group uses general approach in assessing impairment of these financial assets. The credit risk of these financial asset is presumed to increase when the contractual payments are more than 30 days past due. As of December 31, 2018, there has been no increase in credit risk of these financial assets since initial recognition except for amounts owed by related parties amounting to ₱41.13 million which are classified as credit impaired as of December 31, 2018.

- b. Trade receivables

For these financial assets, the Group uses simplified approach. An impairment analysis is performed at each reporting date to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The identified impairment losses on these financial assets were immaterial.

- c. Nontrade receivables amounting to ₱39.03 million pertain to receivables from principals. The credit risk of these financial assets is presumed to increase when the contractual payments are more than 90 days past due. As of December 31, 2018, nontrade receivables from principals amounting to ₱17.73 million are classified as credit impaired.

Prior to the adoption of PFRS 9, the Group analyzes its financial assets based on deficiency and past due information. The table presented below shows the credit quality of neither past due nor impaired financial assets and aging analysis of past due but not impaired accounts as of December 31, 2017:

	Total	Neither past due nor impaired	Past due but not impaired				Impaired
			<30 days	30 - 60 days	60 - 90 days	> 90 days	
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	-	-	-	-	-
Dividend receivables	40,000,000	40,000,000	-	-	-	-	-
Other receivables	804,546	-	804,546	-	-	-	-
Amounts owed by related parties	245,092,200	196,132,537	-	-	-	-	48,959,663
Security deposits <sup>1</sup>	10,032,977	10,032,977	-	-	-	-	-
Security deposits and construction bonds	1,019,838,784	1,019,838,784	-	-	-	-	-
<b>Total</b>	<b>₱3,657,993,785</b>	<b>₱3,277,094,671</b>	<b>₱138,290,059</b>	<b>₱18,118,651</b>	<b>₱8,344,740</b>	<b>₱167,186,001</b>	<b>₱48,959,663</b>

<sup>1</sup> 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, 2018 and 2017. 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, 2018

	USD <sup>1</sup>	EUR <sup>2</sup>	HKD <sup>3</sup>	Total Peso Equivalent
<i>Financial assets</i>				
Cash in banks	\$1,967,301	€227,907	\$3,914	₱117,212,344
<i>Financial liabilities</i>				
Trade and other payables	(1,311,432)	(3,207,721)	–	(262,415,956)
<b>Net Financial Assets (Liabilities)</b>	<b>\$655,869</b>	<b>(€2,979,814)</b>	<b>\$3,914</b>	<b>(₱145,203,612)</b>

<sup>1</sup>\$1 = ₱52.58

<sup>2</sup>€1 = ₱60.31

<sup>3</sup>HK\$1 = ₱6.73

December 31, 2017

	USD <sup>1</sup>	EUR <sup>2</sup>	HKD <sup>3</sup>	Total Peso Equivalent
<i>Financial assets</i>				
Cash in banks	\$3,702,800	€57,978	\$3,826	₱188,361,338
<i>Financial liabilities</i>				
Trade and other payables	(1,238,426)	(2,946,542)	–	(237,477,969)
<b>Net Financial Assets (Liabilities)</b>	<b>\$2,464,374</b>	<b>(€2,888,564)</b>	<b>\$3,826</b>	<b>(₱49,116,631)</b>

<sup>1</sup>\$1 = ₱49.93

<sup>2</sup>€1 = ₱59.61

<sup>3</sup>HK\$1 = ₱6.39

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.

	2018		2017	
	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax
	US Dollar	+5%	<b>₱1,724,280</b>	+5%
	-5%	<b>(1,724,280)</b>	-5%	(6,152,310)
Euro	+5%	<b>(8,985,778)</b>	+5%	(8,609,365)
	-5%	<b>8,985,778</b>	-5%	8,609,365
HK Dollar	+5%	<b>1,318</b>	+5%	1,222
	-5%	<b>(1,318)</b>	-5%	(1,222)



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, 2018

	Total	Contractual undiscounted payments			
		On demand	Within 1 year	>1 to 5 years	> 5 years
<i>Financial Liabilities</i>					
Trade payables and other payables*	₱1,386,490,486	₱527,264,891	₱859,225,595	₱-	₱-
Short-term loans payable**	4,910,202,765	4,910,202,765	-	-	-
Long-term debt**	901,726,589	-	485,345,158	416,381,431	-
Tenant deposits	33,770,004	-	-	33,770,004	-
<b>Total Undiscounted Financial Liabilities</b>	<b>₱7,232,189,844</b>	<b>₱5,437,467,656</b>	<b>₱1,344,570,753</b>	<b>₱450,151,435</b>	<b>₱-</b>

\* Excluding statutory liabilities

\*\* Including interest payable

December 31, 2017

	Total	Contractual undiscounted payments			
		On demand	Within 1 year	>1 to 5 years	> 5 years
<i>Financial Liabilities</i>					
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	-
<b>Total Undiscounted Financial Liabilities</b>	<b>₱7,982,762,463</b>	<b>₱754,637,649</b>	<b>₱6,342,327,786</b>	<b>₱885,797,028</b>	<b>₱-</b>

\* Excluding statutory liabilities

\*\* Including interest payable

The Company's financial assets amounting to ₱3,959.22 million and ₱3,609.03 million can be used to meet the Group's liquidity needs as of December 31, 2018 and 2017, respectively.

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, 2018 and 2017. Capital includes equity as shown in the consolidated balance sheet.



As disclosed in Note 13, 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 Group 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, 2018.

## 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:

	2018		2017	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Assets</b>				
<i>Loans and receivables</i>				
Security deposits and construction bonds	₱1,018,278,699	₱1,050,086,063	₱1,019,838,784	₱1,004,948,318
<b>Financial Liabilities</b>				
<i>Other financial liabilities</i>				
Long-term debt* <i>Includes interest to maturity.</i>	₱851,266,123	₱975,414,968	₱1,999,138,850	₱2,029,562,933

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 5.41% to 7.29% and 1.91% to 5.00% were used in calculating the fair value of the Group's refundable deposits as of December 31, 2018 and 2017, 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 5.78% to 6.98% and 4.08% to 6.36% were used in calculating the fair value of the Group's long-term debt as of December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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.

	<b>2018</b>	2017	2016
Fixed rent	<b>₱1,725</b>	₱1,849	₱2,050
Contingent rent	<b>293</b>	208	266
	<b>₱2,018</b>	₱2,057	₱2,316

Contingent rent of some stores is based on percentage ranging from 3% to 6% of total merchandise sales in 2018, 2017 and 2016.

Future minimum rentals payable under these leases are as follows as of December 31, 2018 and 2017 (in millions):

	<b>2018</b>	2017
Within one year	<b>₱728</b>	₱904
After one year but not more than five years	<b>497</b>	850
Later than five years	<b>254</b>	254

The Group has paid security deposits and construction bonds for the store outlets and office spaces with carrying amounts of ₱1,023.53 million and ₱1,029.87 million (including current portion in “Prepayments and other current assets”) as of December 31, 2018 and 2017, 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 2.00% to 5.20% and from 1.91% to 5.00% in 2018 and 2017, respectively. Interest income recognized from these security deposits amounted to ₱8.81 million, ₱10.18 million and ₱10.50 million for the years ended December 31, 2018, 2017 and 2016, 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 ₱33.77 million and ₱34.78 million as of December 31, 2018 and 2017, 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):

	<b>2018</b>	2017
Within one year	<b>₱31</b>	₱59
After one year but not more than five years	-	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, 2018, 2017 and 2016 (amounts in millions):

	2018	2017	2016
Net Sales			
Fast fashion	<b>₱6,943</b>	₱6,792	₱6,569
Luxury and bridge	<b>5,149</b>	4,059	3,848
Casual	<b>2,778</b>	2,359	2,616
Footwear, accessories and luggage	<b>2,498</b>	2,500	2,686
Other	<b>2,862</b>	2,750	2,723
	<b>₱20,230</b>	₱18,460	₱18,442

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

	2018	2017	2016
Philippines	<b>₱20,165</b>	₱18,395	₱18,367
Guam	<b>65</b>	65	75
	<b>₱20,230</b>	₱18,460	₱18,442

## 28. Equity

### a. Common Shares

The Company's authorized and issued capital stock as of December 31, 2018, 2017 and 2016 are as follows:

Authorized capital stock, ₱1 par value	5,000,000,000
Issued capital stock	3,312,864,430

Movements of outstanding shares are as follows:

	2018		2017	
	Shares	Amount	Shares	Amount
Balances at beginning of year	<b>3,312,714,430</b>	<b>₱3,312,407,150</b>	3,312,864,430	₱3,312,864,430
Treasury shares	<b>(3,128,000)</b>	<b>(7,101,160)</b>	(150,000)	(457,280)
Balances at end of year	<b>3,309,586,430</b>	<b>₱3,305,305,990</b>	3,312,714,430	₱3,312,407,150



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, 2018 and 2017, the Company has 45 and 38 stockholders, respectively.

b. 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. Outstanding balance of treasury shares as of December 31, 2018 and 2017 amounted to ₱7.56 million and ₱0.46 million, respectively. This is equivalent to 3,278,000 shares and 150,000 shares as of December 31, 2018 and 2017, respectively.

c. Stock Grants

In September 2018, the Company settled the 2014 stock grant by paying the executive officers ₱29.17 million. Outstanding balance of stock grants presented in the consolidated balance sheets amounted to nil and ₱33.64 million as of December 31, 2018 and 2017, respectively.

d. Appropriation of Retained Earnings

On December 10, 2018, the BOD approved the reversal of prior years' appropriations amounting to ₱1,402.50 million. On the same date, the BOD approved the appropriation of retained earnings amounting to ₱1,110.00 million.

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 earnings amounting to ₱1,402.50 million.

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

	2018	2017
SSI	<b>₱800,000,000</b>	₱-
ISCI	<b>300,000,000</b>	562,500,000
RMSI	-	310,000,000
LCI	-	500,000,000
RSCI	-	30,000,000
	<b>₱1,100,000,000</b>	<b>₱1,402,500,000</b>

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, 2018, the total unrestricted retained earnings available for dividend declaration amounted to ₱1,023.61 million. This excludes undistributed net earnings of subsidiaries, accumulated equity in net earnings of associate and joint ventures accounted under the equity method and unrealized gains recognized on assets and liabilities currency translations.





- e. On June 14, 2018, Group's BOD approved the cash declaration of ₱0.013 per share out of its unrestricted retained earnings for stockholders of records as of July 6, 2018 in proportion to their respective shares. On August 1, 2018, cash dividend paid amounting to ₱43.05 million.

## 29. Changes in Liabilities Arising from Financing Activities

The following tables show the changes in cash flows and non-cash changes in the liabilities arising from financing activities in 2018 and 2017:

### December 31, 2018

	Short-term loans payable	Long-term debt	Total
Beginning balance	₱4,195,000,000	₱1,999,138,850	₱6,194,138,850
Cash movement:			
Availment of additional debt	23,672,500,000	-	23,672,500,000
Settlement of debt	(23,300,000,000)	(1,150,215,216)	(24,450,215,216)
Noncash movement:			
Amortization of debt issue cost	-	2,342,489	2,342,489
	<b>₱4,567,500,000</b>	<b>₱851,266,123</b>	<b>₱5,418,766,123</b>

### December 31, 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
	<b>₱4,195,000,000</b>	<b>₱1,999,138,850</b>	<b>₱6,194,138,850</b>





SyCip Gorres Velayo & Co.  
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ey.com/ph

BOA/PRC Reg. No. 0001,  
October 4, 2018, valid until August 24, 2021  
SEC Accreditation No. 0012-FR-5 (Group A),  
November 6, 2018, valid until November 5, 2021

## 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, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, included in this Form 17-A and have issued our report thereon dated April 12, 2019. 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  
Partner  
CPA Certificate No. 94065  
SEC Accreditation No. 1729-A (Group A),  
December 18, 2018, valid until December 17, 2021  
Tax Identification No. 901-617-005  
BIR Accreditation No. 08-001998-76-2018,  
February 26, 2018, valid until February 25, 2021  
PTR No. 7332628, January 3, 2019, Makati City

April 12, 2019



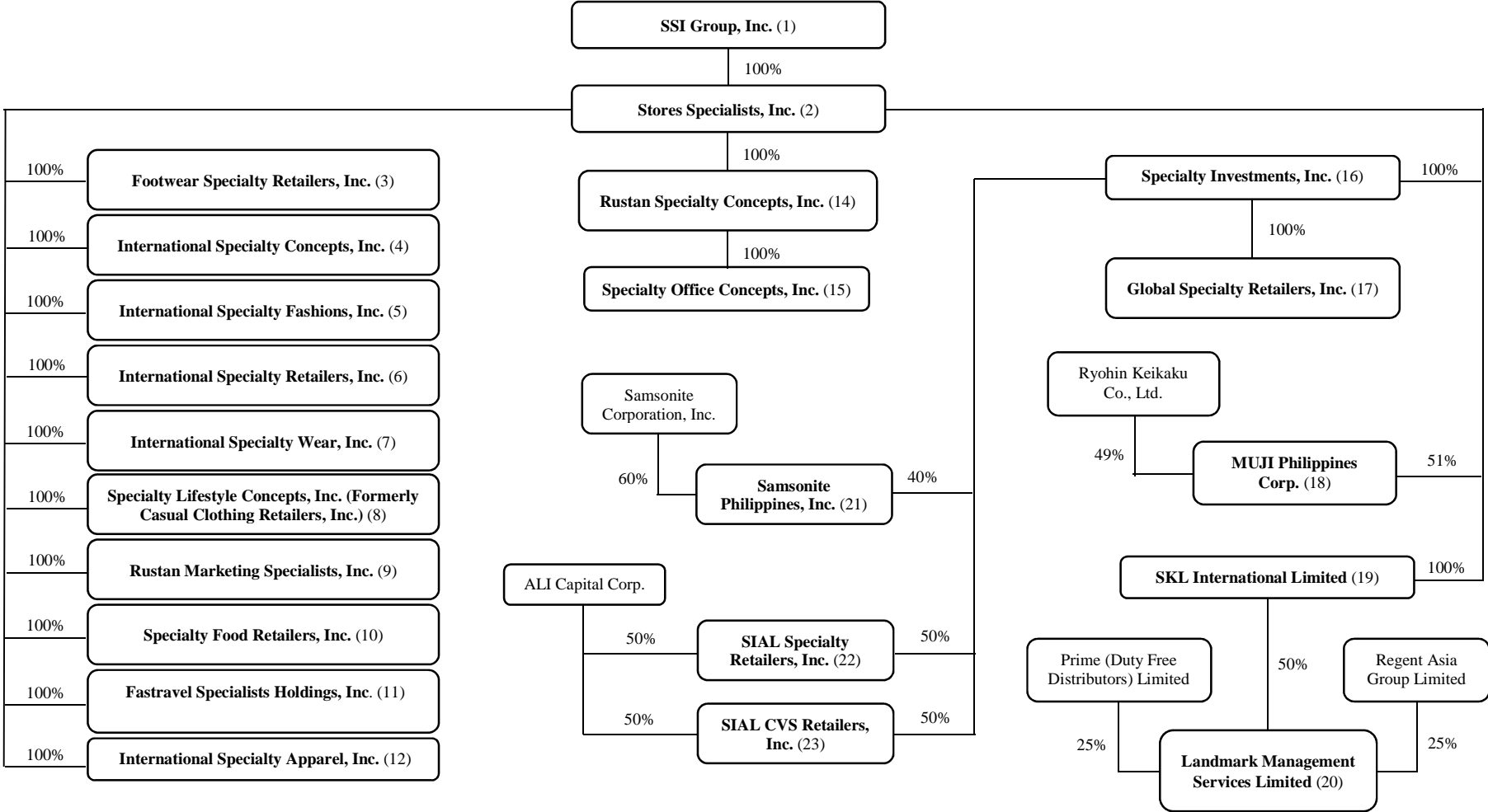
**SSI GROUP, INC. AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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C	Amounts Receivable from Related Parties and Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
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E	Long-Term Debt
F	Indebtedness to Related Parties
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**SSI GROUP, INC.**

**MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES  
DECEMBER 31, 2018**



**SSI GROUP, INC.**

**SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS  
AND INTERPRETATIONS  
DECEMBER 31, 2018**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓



**Exhibit III****SSI GROUP, INC.**

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**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION  
DECEMBER 31, 2018**

Unappropriated Retained Earnings, beginning		₱1,000,411,614
Less: Other realized gains related to accretion of income from security deposits	(1,119,060)	
Benefit from deferred tax	–	(1,119,060)
Unappropriated Retained Earnings, as adjusted, beginning		<u>999,292,554</u>
Net income during the period closed to Retained Earnings	25,478,608	
Less: Other realized gains related to accretion of income from security deposits	<u>(1,162,807)</u>	
Net income actually earned during the period		24,315,801
Retained earnings available for dividend declaration		<u><u>₱1,023,608,355</u></u>

**SSI GROUP, INC.**

**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**

<b>Ratios</b>	<b>Formula</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	Current Assets/Current		
(i) Current Ratio	Liabilities	2.00	1.85
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.50	0.61
	Bank Debts-Cash &		
(iii) Net Debt/Equity Ratio	Equivalents/Total Equity	0.28	0.44
(iii) Asset to Equity Ratio	Total Assets/Total Equity	1.69	1.83
(iv) Interest Cover Ratio	EBITDA/Interest Expense	6.95	8.19
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	42.00%	46.96%
Net Profit Margin	Net Income/Revenues	3.01%	1.49%
EBITDA Margin	EBITDA/Revenues	10.76%	12.88%
Return on Assets	Net Income/Total Assets	3.33%	1.47%
Return on Equity	Net Income/Total Equity	5.62	2.69%

\*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, 2018**

	Name of Issuing entity and association of each issue	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash and cash equivalents	Various	₱2,360,460,924	₱2,360,460,924	₱4,355,931
Trade and other receivables				
Trade receivables	N/A	268,038,636	268,038,636	–
Nontrade receivables	N/A	272,280,314	272,280,314	–
Receivables from related parties	N/A	71,228,195	71,228,195	–
Advances to officers and employees	N/A	84,217,491	84,217,491	–
Current portion of security Deposits (presented under “Prepayments and other current assets”)	N/A	5,246,363	5,246,363	–
Security deposits and construction bonds	N/A	1,018,278,699	1,018,278,699	–
		<b>₱4,079,750,622</b>	<b>₱4,079,750,622</b>	<b>₱4,355,931</b>

**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, 2018**

**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	P49,541	P22,676	(P53,090)	P19,127	P-	P19,127
PFM	13,296	791	-	14,087	-	14,087
RMK	23,696	24,654	(16,560)	31,790	-	31,790
SCRI	110,415	-	(110,415)	-	-	-
SPI	615	112	(37)	690	-	690
MPC	31,743	44,697	(59,383)	17,057	-	17,057
Advances to officers and employees	73,408	130,818	(119,744)	84,482	-	84,482
	<b>P302,714</b>	<b>P223,748</b>	<b>(P359,229)</b>	<b>P167,233</b>	<b>P-</b>	<b>P270,971</b>

**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
RCC	P2,007	P2,452	(P3,394)	P1,063	P-	P1,063
PFM	4,388	-	-	4,388	-	4,388
SCRI	90,133	-	(49,008)	41,125*	-	41,125*
SPI	1,485	-	-	1,485	-	1,485
MPC	170	15	(182)	3	-	3
	<b>P98,183</b>	<b>P2,467</b>	<b>(P52,584)</b>	<b>48,064</b>	<b>P-</b>	<b>P48,064</b>

\*With allowance for impairment loss amounting to the full balance of the receivable.

**SCHEDULE C**

**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, 2018**

**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			Balance at end of period
					Current	Noncurrent	
SGI	₱126,285,872	31,036,482	₱-	₱-	₱157,322,354	₱-	₱157,322,354
SSI	3,836,919	2,825,716	(5,118,137)	-	1,544,498	-	1,544,498
RMSI	258,015,676	40,199,491	(18,900,452)	-	279,314,715	-	279,314,715
ISCI	143,663,659	21,889,576	(61,333,745)	-	104,219,491	-	104,219,491
RSCI	12,597,730	282,503	(296,818)	-	12,583,414	-	12,583,414
SOCI	137,822,855		(2,526,385)	-	135,296,470	-	135,296,470
SII	4,898,391	400	(4,898,391)	-	400	-	400
LCI	4,221,942	38,992,024	(31,496,540)	-	11,717,426	-	11,717,426
ISFI	260,700	272,303	(421,993)	-	111,010	-	111,010
FSRI	31,924,590	23,122,242	(47,023,858)	-	8,022,974	-	8,022,974
GSRI	14,980,691	53,338	(2,342,144)	-	12,691,885	-	12,691,885
SFRI	88,298,881	258,888,083	(85,776,838)	-	261,410,126	-	261,410,126
ISRI	725,957	286,784	(30,023)	-	982,719	-	982,719
ISWI	843,976	305,820	(30,209)	-	1,119,587	-	1,119,587
ISAI	773,630	266,549	(13,120)	-	1,027,059	-	1,027,059
CCRI	175,419,488	17,031,950	(1,614,551)	-	33,148,719	-	33,148,719
FSHI	17,731,320	63,628,699	(37,959,060)	-	201,089,127	-	201,089,127
	<b>₱1,022,302,277</b>	<b>₱499,081,960</b>	<b>(₱299,782,264)</b>	<b>₱-</b>	<b>₱1,221,601,974</b>	<b>₱-</b>	<b>₱1,221,601,974</b>

**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			Balance at end of period
					Current	Noncurrent	
CCSI	₱153,057,832	₱8,537,418	(₱2,500)	₱-	₱161,592,751	₱-	₱161,592,751
SSI	258,638,549	181,362,270	(233,183,771)	-	206,817,046	-	206,817,046
RMSI	71,204,163	21,306,787	(55,437)	-	92,455,512	-	92,455,512
ISCI	31,040,902	30,288,863	(44,248,712)	-	17,081,053	-	17,081,053
RSCI	16,614,915	3,484,474	-	-	20,099,389	-	20,099,389
ISFI	55,703,536	365,472,626	(311,966,400)	-	109,209,761	-	109,209,761
FSRI	50,474,616	19,079,721	(63,738,191)	-	5,816,152	-	5,816,152
GSRI	147,303,420	901,441	(3,180,685)	-	145,024,177	-	145,024,177
SFRI	549,006,683	4,849,620	(535,052,531)	-	18,803,765	-	18,803,765
ISRI	40,688,316	116,540,144	(133,243,287)	-	23,985,173	-	23,985,173
ISWI	88,763,065	75,981,387	(75,897,649)	-	88,846,803	-	88,846,803
ISAI	101,870,708	64,792,546	(72,579,283)	-	94,083,970	-	94,083,970
LCI	881,258	8,765,898	(7,858,027)	-	1,789,130	-	1,789,130
CCRI	21,849,859	117,715,993	(42,875,845)	-	96,690,007	-	96,690,007
	<b>₱1,587,097,822</b>	<b>₱1,019,079,188</b>	<b>(₱1,523,882,318)</b>	<b>₱-</b>	<b>₱1,082,294,689</b>	<b>₱-</b>	<b>₱1,082,294,689</b>

**SSI GROUP, INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER  
ASSETS**

AS AT DECEMBER 31, 2018

**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
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**Not Applicable***The Group does not have intangible assets in its consolidated statements of financial position.*

**SCHEDULE E****SSI GROUP, INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT****AS AT DECEMBER 31, 2018**

<b>Long-term Debt</b>			
<b>Title of Issue and type of obligation</b>	<b>Amount authorized by indenture</b>	<b>Amount shown under caption "current portion of long-term" in related balance sheet</b>	<b>Amount shown under caption "long-term debt" in related balance sheet</b>
Long-term loan	₱852,904,999	₱450,973,333	₱401,976,666
Less: Transaction costs	(1,638,876)	(1,125,318)	(558,558)
	₱851,266,123	₱449,848,015	₱401,418,108
			Twenty-four (24) consecutive equal quarterly principal installments commencing on August 20, 2014 and will mature on February 20, 2020. The loan carries an interest of a fixed base rate plus an interest spread of 150 basis points per annum or a 5.50% per annum floor rate.

**SSI GROUP, INC. AND SUBSIDIARIES**

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

AS AT DECEMBER 31, 2018

**Indebtedness to related parties (Long-term loans from related companies)**

Name of related party	Balance at beginning of period	Balance at end of period
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**Not Applicable**

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



**SSI GROUP, INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF  
OTHER ISSUERS**

AS AT DECEMBER 31, 2018

**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
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**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**

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**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**  
**AS AT DECEMBER 31, 2018****Capital Stock**

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<b>Title of Issue</b>	<b>Number of shares authorized</b>	<b>Number of shares issued and outstanding as shown under related balance sheet caption</b>	<b>Number of shares reserved for options warrants, conversion and other rights</b>	<b>Number of shares held by related parties</b>	<b>Number of shares held by directors, officers and employees</b>	<b>Others</b>
Common shares	5,000,000,000	3,312,864,430	–	–	520,925,720	–

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## SSI Group, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements  
As of March 31, 2019 (*With Comparative Audited Figures as of  
December 31, 2018*)  
and For the Three-Month Periods Ended March 31, 2019 and 2018

**SSI GROUP, INC. AND SUBSIDIARIES****UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS**

As of March 31, 2019

(With Comparative Audited Figures as of December 31, 2018)

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 3)	P1,876,699,268	P2,360,460,924
Trade and other receivables (Note 4)	636,209,453	678,035,439
Merchandise inventory (Note 5)	9,625,006,216	9,245,189,954
Amounts owed by related parties (Note 19)	6,905,464	–
Prepayments and other current assets (Note 6)	1,148,299,153	1,065,252,880
<b>Total Current Assets</b>	<b>13,293,119,554</b>	<b>13,348,939,197</b>
<b>Noncurrent Assets</b>		
Investment in an associate (Note 7)	67,210,972	54,594,522
Interests in joint ventures (Note 8)	529,273,978	519,849,166
Property and equipment (Note 9)	2,672,702,706	2,806,005,348
Deferred tax assets	318,675,924	302,802,810
Security deposits and construction bonds (Note 23)	1,044,625,854	1,018,278,699
Other noncurrent assets (Note 10)	296,018,521	203,088,344
<b>Total Noncurrent Assets</b>	<b>4,928,507,955</b>	<b>4,904,618,889</b>
<b>TOTAL ASSETS</b>	<b>P18,221,627,509</b>	<b>P18,253,558,086</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 11)	P1,839,252,497	P1,523,808,064
Short-term loans payable (Note 12)	4,092,500,000	4,567,500,000
Current portion of long-term debt (Note 13)	449,848,015	449,848,015
Amounts owed to related parties (Note 19)	173,893	–
Deferred revenue	22,224,994	21,289,644
Income tax payable	167,830,221	102,659,616
<b>Total Current Liabilities</b>	<b>6,571,829,620</b>	<b>6,665,105,339</b>
<b>Noncurrent Liabilities</b>		
Long-term debt (Note 13)	288,674,775	401,418,108
Retirement benefit obligation	353,167,530	335,528,882
Tenant deposits (Note 23)	33,633,129	33,770,004
Deferred tax liability	6,032	–
<b>Total Noncurrent Liabilities</b>	<b>675,481,466</b>	<b>770,716,994</b>
<b>Equity</b>		
Capital stock - P1 par value	3,312,864,430	3,312,864,430
Additional paid-in capital	2,519,309,713	2,519,309,713
Treasury shares	(10,202,720)	(7,558,440)
Retained earnings		
Appropriated	1,100,000,000	1,100,000,000
Unappropriated	4,072,415,705	3,901,797,763
Cumulative translation adjustment	(2,107,062)	(2,123,272)
Other comprehensive income	(17,963,643)	(6,554,441)
<b>Total Equity</b>	<b>10,974,316,423</b>	<b>10,817,735,753</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P18,221,627,509</b>	<b>P18,253,558,086</b>

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

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

	<b>For the Three-Month Periods Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>NET SALES</b>	<b>₱4,921,393,289</b>	₱4,589,420,812
<b>COST OF GOODS SOLD</b> (Note 14)	<b>2,834,961,599</b>	2,659,137,719
<b>GROSS PROFIT</b>	<b>2,086,431,690</b>	1,930,283,093
<b>OPERATING EXPENSES</b>		
Selling and distribution (Note 15)	<b>1,490,476,164</b>	1,413,447,290
General and administrative (Note 16)	<b>309,514,765</b>	292,442,669
	<b>1,799,990,929</b>	1,705,889,959
<b>OTHER INCOME (CHARGES)</b>		
Interest expense (Notes 12 and 13)	<b>(77,365,110)</b>	(49,576,417)
Rental income (Note 23)	<b>19,592,247</b>	18,397,935
Loss on disposal of property and equipment (Note 9)	<b>(16,491,551)</b>	(2,120,961)
Share in net earnings of an associate (Note 7)	<b>12,616,450</b>	10,889,389
Share in net losses of joint ventures (Note 8)	<b>9,424,812</b>	7,673,312
Interest income (Note 3)	<b>1,853,114</b>	646,608
Foreign exchange gains - net	<b>(962,612)</b>	(5,383,126)
Interest accretion on security deposits (Note 23)	<b>638,987</b>	930,007
Others - net	<b>12,045,856</b>	799,672
	<b>(38,647,807)</b>	(17,743,581)
<b>INCOME BEFORE INCOME TAX</b>	<b>247,792,954</b>	206,649,553
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>		
Current	<b>90,838,710</b>	88,072,037
Deferred	<b>(13,663,698)</b>	(14,274,876)
	<b>77,175,012</b>	73,797,161
<b>NET INCOME</b>	<b>170,617,942</b>	132,852,392
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Cumulative translation adjustment on foreign operations, net of deferred tax	<b>16,210</b>	3,748
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Re-measurement gain (loss) on retirement benefit, net of deferred tax	<b>(11,409,202)</b>	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱159,224,950</b>	₱132,856,140
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 20)	<b>₱0.05</b>	₱0.04

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

## SSI GROUP, INC. AND SUBSIDIARIES

### UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

	For the Three-Month Periods Ended March 31, 2019 and 2018								
	Capital Stock	Additional Paid-in Capital	Stock Grants	Treasury Shares	Retained Earnings		Cumulative Translation Adjustment	Other Comprehensive Income	Total
					Appropriated	Unappropriated			
Balances at January 1, 2018	₱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
Net income	-	-	-	-	-	132,852,392	-	-	132,852,392
Exchange differences on translation	-	-	-	-	-	-	3,748	-	3,748
Total comprehensive income for the period	-	-	-	-	-	132,852,392	3,748	-	132,856,140
Reversal of appropriation of retained earnings	-	-	-	-	(262,500,000)	262,500,000	-	-	-
Treasury shares	-	-	-	(566,600)	-	-	-	-	(566,600)
<b>Balances at March 31, 2018</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱33,640,983</b>	<b>(₱1,023,880)</b>	<b>₱1,140,000,000</b>	<b>₱3,437,565,116</b>	<b>(₱2,699,892)</b>	<b>(₱69,933,016)</b>	<b>₱10,369,723,454</b>
Balances at January 1, 2019	₱3,312,864,430	₱2,519,309,713	₱-	(₱7,558,440)	₱1,100,000,000	₱3,901,797,763	(₱2,123,272)	(₱6,554,441)	₱10,817,735,753
Net income	-	-	-	-	-	170,617,942	-	-	170,617,942
Other comprehensive income	-	-	-	-	-	-	-	(11,409,202)	(11,409,202)
Exchange differences on translation	-	-	-	-	-	-	16,210	-	16,210
Total comprehensive income for the period	-	-	-	-	-	170,617,942	16,210	(11,409,202)	159,224,950
Treasury shares	-	-	-	(2,644,280)	-	-	-	-	(2,644,280)
<b>Balances at March 31, 2019</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱-</b>	<b>(₱10,202,720)</b>	<b>₱1,100,000,000</b>	<b>₱4,072,415,705</b>	<b>(₱2,107,062)</b>	<b>(₱17,963,643)</b>	<b>₱10,974,316,423</b>

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

	For the Three-Month Periods Ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	₱247,792,954	₱206,649,553
Adjustments for:		
Depreciation and amortization (Notes 9, 10 and 18)	202,356,072	227,519,928
Interest expense (Note 12 and 13)	77,365,110	49,576,417
Loss on disposal of property and equipment (Note 9)	16,491,551	2,120,961
Share in net earnings of an associate (Note 7)	(12,616,450)	(10,889,389)
Share in net losses (income) of joint ventures (Note 8)	(9,424,812)	(7,673,312)
Unrealized foreign exchange gains	2,702,486	4,492,616
Interest income (Note 3)	(1,853,114)	(646,608)
Interest accretion on security deposits (Note 23)	(638,987)	(930,007)
Operating income before working capital changes	522,174,810	470,220,159
Decrease (increase) in:		
Trade and other receivables	41,825,986	133,687,111
Merchandise inventory	(379,816,262)	(76,603,899)
Amounts owed by related parties	(6,905,464)	120,522,073
Prepayments and other current assets	(75,922,440)	(223,269,493)
Increase (decrease) in:		
Trade and other payables	315,444,433	(449,295,734)
Deferred revenue	935,350	(615,617)
Amounts owed to related parties	173,893	318,226
Retirement benefit obligation	1,339,787	5,586,582
Tenant deposits	(136,875)	(997,500)
Net cash used in operations	419,113,218	(20,448,092)
Interest received	1,853,114	646,608
Income taxes paid	(25,668,105)	(12,368,292)
Net cash flows used in operating activities	395,298,227	(32,169,776)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment (Note 9)	(84,855,524)	(110,739,275)
Decrease (increase) in:		
Security deposits and construction bonds	(32,832,001)	(9,964,495)
Other noncurrent assets	(93,619,635)	21,844,269
Net cash flows used in investing activities	(211,307,160)	(98,859,501)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from availment of short-term loans payable	–	860,000,000
Payments of:		
Short-term loans payable	(475,000,000)	(650,000,000)
Long-term debt	(112,743,333)	(253,285,797)
Interest	(77,365,110)	(49,576,417)
Purchase of treasury shares	(2,644,280)	(566,600)
Net cash flows from (used in) financing activities	(667,752,723)	(93,428,814)
<b>NET INCREASE (DECREASE) IN CASH</b>	(483,761,656)	(224,458,091)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	–	1,192,790
<b>CASH AT BEGINNING OF PERIOD</b>	2,360,460,924	1,689,481,704
<b>CASH AT END OF PERIOD (Note 3)</b>	₱1,876,699,268	₱1,466,216,403

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

## **SSI GROUP, INC. AND SUBSIDIARIES**

### **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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 interim condensed consolidated financial statements were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on May 10, 2019. The same interim condensed consolidated financial statements were approved and authorized by the BOD on the same date.

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#### **2. Basis of Presentation, Preparation and Consolidation and Summary of Significant Accounting Policies**

##### Basis of Presentation

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



Basis of Preparation

The unaudited interim condensed consolidated financial statements as of March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2018.

Basis of Consolidation

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

	<b>Percentage ownership</b>			
	<b>March 31, 2019</b>		December 31, 2018	
	<b>Direct</b>	<b>Indirect</b>	Direct	Indirect
Stores Specialists, Inc. (SSI)	<b>100</b>	–	100	–
Rustan Marketing Specialists, Inc. (RMSI)	–	<b>100</b>	–	100
International Specialty Concepts, Inc. (ISCI)	–	<b>100</b>	–	100
Rustan Specialty Concepts, Inc. (RSCI)	–	<b>100</b>	–	100
Specialty Office Concepts, Inc. (SOCI)	–	<b>100</b>	–	100
Specialty Investments, Inc. (SII)	–	<b>100</b>	–	100
International Specialty Fashions, Inc. (ISFI)	–	<b>100</b>	–	100
Footwear Specialty Retailers, Inc. (FSRI)	–	<b>100</b>	–	100
Global Specialty Retailers, Inc. (GSRI)	–	<b>100</b>	–	100
Specialty Food Retailers, Inc. (SFRI)	–	<b>100</b>	–	100
International Specialty Retailers, Inc. (ISRI)	–	<b>100</b>	–	100
International Specialty Wears, Inc. (ISWI)	–	<b>100</b>	–	100
Fastravel Specialists Holdings, Inc. (FSHI)	–	<b>100</b>	–	100
International Specialty Apparels, Inc. (ISAI)	–	<b>100</b>	–	100
Specialty Lifestyle Concepts, Inc. ( <i>former Casual Clothing Retailers, Inc.</i> ) (SLCI)	–	<b>100</b>	–	100
SKL International, Ltd. (SKL)	–	<b>100</b>	–	100

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

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of March 31, 2019 and for the three months ended March 31, 2019 and 2018. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

#### 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 a pooling-of-interests method. The assets and liabilities of the acquired entities and that of the Company are reflected at their carrying values at the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction without loss of control, the difference in the amount recognized and the fair value of consideration received, is also accounted for as an equity transaction.

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

#### Changes in Accounting Policies and Disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2019. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the Group's financial statements.

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

#### *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.

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.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

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### 3. Cash

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Cash on hand	<b>₱32,085,796</b>	₱36,310,930
Cash in banks	<b>1,844,613,472</b>	2,224,149,994
Short-term investments	–	100,000,000
	<b>₱1,876,699,268</b>	₱2,360,460,924

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the three months ended March 31, 2019 and 2018 amounted to ₱1,853,114 and ₱646,608, respectively.

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### 4. Trade and Other Receivables

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Trade receivables	<b>₱226,778,276</b>	₱268,038,636
Nontrade receivables	<b>261,227,569</b>	272,280,314
Receivables from related parties (see Note 19)	<b>77,952,459</b>	71,228,195
Advances to officers and employees	<b>87,980,344</b>	84,217,489
	<b>653,938,648</b>	695,764,634
Less allowance for doubtful accounts	<b>17,729,195</b>	17,729,195
	<b>₱636,209,453</b>	₱678,035,439

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

Nontrade receivables mainly include statutory claims, receivables charged to customers for the repair of damaged merchandise and advances to suppliers 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.

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

## 5. Merchandise Inventory

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
At cost		
On hand	<b>₱9,377,181,094</b>	₱8,519,776,129
In transit	<b>247,825,122</b>	725,413,825
	<b>₱9,625,006,216</b>	₱9,245,189,954

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. All inventories are presented at cost.

The cost of inventories recognized as expense and presented in “Cost of goods sold” amounted to ₱2,692,918,116 and ₱2,518,150,594, for the three months ended March 31, 2019 and 2018, respectively (see Note 14).

## 6. Prepayments and Other Current Assets

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Supplies inventory	<b>₱415,636,080</b>	₱381,205,401
Advances to suppliers	<b>256,463,505</b>	256,463,505
Input VAT	<b>175,093,464</b>	197,534,537
Prepaid advertising	<b>87,215,650</b>	43,701,792
Creditable withholding tax	<b>54,674,166</b>	58,311,116
Deferred input VAT	<b>29,522,954</b>	25,724,677
Current portion of prepaid rent (see Notes 10 and 23)	<b>28,406,811</b>	36,293,203
Prepaid insurance	<b>11,952,315</b>	16,200,060
Current portion of security deposits (see Note 23)	<b>7,123,833</b>	5,246,363
Prepaid guarantee	<b>6,525,695</b>	6,550,082
Others	<b>75,684,680</b>	38,022,144
	<b>₱1,148,299,153</b>	₱1,065,252,880

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.

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**7. Investment in an Associate**

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Acquisition cost	<b>₱24,640,000</b>	₱24,640,000
Accumulated equity in net earnings:		
Balance at beginning of year	<b>29,954,522</b>	22,661,362
Share in net earnings	<b>12,616,450</b>	43,293,160
Dividends received	–	(36,000,000)
Balance at end of year	<b>42,570,972</b>	29,954,522
	<b>₱67,210,972</b>	₱54,594,522

Samsonite Philippines, Inc. (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 March 31, 2019 and December 31, 2018, 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.

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**8. 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:

March 31, 2019

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and end of period	<b>₱375,296,454</b>	<b>₱89,250,000</b>	<b>₱407,344,383</b>	<b>₱420,350,000</b>	<b>₱1,292,240,837</b>
Accumulated equity in net earnings (losses):					
Balances at beginning of year	32,527,710	22,775,002	(407,344,383)	(420,350,000)	(772,391,671)
Share in net income	2,269,137	7,155,675	-	-	9,424,812
Balances at end of year	<b>34,796,847</b>	<b>29,930,677</b>	<b>(407,344,383)</b>	<b>(420,350,000)</b>	<b>(762,966,859)</b>
	<b>₱410,093,301</b>	<b>₱119,180,677</b>	<b>₱-</b>	<b>₱-</b>	<b>₱529,273,978</b>

December 31, 2018

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning of year	₱375,296,454	₱-	₱407,344,383	₱420,350,000	₱1,292,240,837
Investment during the year	-	89,250,000	-	-	-
Return of investment	-	-	-	-	-
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	15,519,812	5,308,259	(407,344,383)	(420,350,000)	(806,866,312)
Share in net income (loss)	17,007,898	17,466,743	-	-	34,474,641
Balances at end of year	32,527,710	22,775,002	(407,344,383)	(420,350,000)	(772,391,671)
Impairment loss	-	-	-	-	(27,161,244)
	<b>₱407,824,164</b>	<b>₱112,025,002</b>	<b>₱-</b>	<b>₱-</b>	<b>₱519,849,166</b>

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 ₱0.62 million and ₱0.62 million for the three months ended March 31, 2019 and 2018, respectively.

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.

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. 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 March 31, 2019.

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.

The joint ventures have no contingent liabilities or capital commitments as of March 31, 2019 and December 31, 2018.

**9. Property and Equipment**

The composition and movements of this account are as follows:

March 31, 2019 (Unaudited)

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	Total
<b>Cost:</b>						
Balances at beginning of year	₱7,256,246,129	₱2,211,690,435	₱898,080,680	₱279,203,655	₱68,097,610	<b>₱10,713,318,509</b>
Additions	44,672,219	14,749,377	—	691,964	24,741,964	<b>84,855,524</b>
Disposals	(106,037,478)	—	—	—	—	<b>(106,037,478)</b>
Reclassifications	32,594,251	—	—	—	(32,594,251)	—
Balances at end of year	7,227,475,121	2,226,439,812	898,080,680	279,895,619	60,245,323	<b>10,692,136,555</b>
<b>Accumulated depreciation and amortization:</b>						
Balances at beginning of year	5,704,592,695	1,822,463,913	249,056,739	131,199,814	—	<b>7,907,313,161</b>
Depreciation (see Note 18)	139,743,001	44,966,293	11,464,448	5,492,873	—	<b>201,666,615</b>
Disposals	(89,545,927)	—	—	—	—	<b>(89,545,927)</b>
Balances at end of year	5,754,789,769	1,867,430,206	260,521,187	136,692,687	—	<b>8,019,433,849</b>
<b>Net book values</b>	<b>₱1,472,685,352</b>	<b>₱359,009,606</b>	<b>₱637,559,493</b>	<b>₱143,202,932</b>	<b>₱60,245,323</b>	<b>₱2,672,702,706</b>

December 31, 2018

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	Total
<b>Cost:</b>						
Balances at beginning of year	₱7,368,130,759	₱2,163,605,355	₱874,797,537	₱274,746,423	₱53,173,551	₱10,734,453,625
Additions	250,345,949	78,219,347	5,035,248	4,457,232	96,351,641	434,409,417
Disposals and retirement	(427,866,210)	(27,179,820)	—	—	(498,503)	(455,544,533)
Reclassifications	65,635,631	(2,954,447)	18,247,895	—	(80,929,079)	—
Balances at end of year	7,256,246,129	2,211,690,435	898,080,680	279,203,655	68,097,610	10,713,318,509
<b>Accumulated Depreciation and Amortization:</b>						
Balances at beginning of year	5,440,614,983	1,647,035,565	191,902,831	107,286,610	—	7,386,839,989
Depreciation and amortization (Note 18)	589,230,915	198,216,264	47,855,599	23,913,204	—	859,215,982
Disposals and retirement	(318,233,856)	(20,508,954)	—	—	—	(338,742,810)
Reclassifications	(7,019,347)	(2,278,962)	9,298,309	—	—	—
Balances at end of year	5,704,592,695	1,822,463,913	249,056,739	131,199,814	—	7,907,313,161
<b>Net book values</b>	<b>₱1,551,653,434</b>	<b>₱389,226,522</b>	<b>₱649,023,941</b>	<b>₱148,003,841</b>	<b>₱68,097,610</b>	<b>₱2,806,005,348</b>



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**10. Other Noncurrent Assets**

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Franchise fee	<b>₱105,928,254</b>	₱98,804,487
Miscellaneous deposits	<b>166,230,201</b>	83,915,471
Prepaid rent - net of current portion (see Note 23)	<b>5,903,161</b>	5,981,459
Software costs	<b>673,941</b>	868,888
Deferred Input VAT	-	4,985,095
Others	<b>17,282,964</b>	8,532,944
	<b>₱296,018,521</b>	₱203,088,344

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

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**11. Trade and Other Payables**

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Trade payables	<b>₱915,502,144</b>	₱640,440,497
Nontrade payables	<b>697,206,715</b>	525,228,822
Accrued expenses	<b>167,565,900</b>	170,089,235
Retention payable	<b>34,294,073</b>	35,020,805
Output VAT	<b>6,420,696</b>	131,887,802
Payable to related parties (see Note 19)	<b>427,688</b>	822,238
Others	<b>17,835,281</b>	20,318,665
	<b>₱1,839,252,497</b>	₱1,523,808,064

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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, interest, utilities and repairs and maintenance and accruals of royalties to be paid to foreign principals, among others.

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

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

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## 12. Short-term Loans Payable

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
<b>Banks:</b>		
Bank of Philippine Islands (BPI)	<b>₱2,535,000,000</b>	₱2,605,000,000
Banco de Oro (BDO)	<b>657,500,000</b>	1,062,500,000
Metropolitan Bank & Trust Co. (MBTC)	<b>500,000,000</b>	500,000,000
Philippine National Bank (PNB)	<b>400,000,000</b>	400,000,000
	<b>₱4,092,500,000</b>	₱4,567,500,000

The Group's outstanding short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 5.85% to 6.25% and 3.50% to 4.00% for the three months ended 2019 and 2018, respectively.

Interest expense recognized in the consolidated statements of comprehensive income for the three months ended March 31, 2019 and 2018 amounted to ₱66,489,682 and ₱31,231,400, respectively.

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## 13. 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 carries an interest of a fixed base rate plus an interest spread of 150 basis points per annum or a 5.50% per annum floor rate. Principal repayments are due quarterly starting August 20, 2014. The syndicated term loan will mature on February 20, 2020.

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

On October 14, 2016, SSI entered into another 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.

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

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
BPI	<b>₱433,361,996</b>	₱484,938,663
SBC	<b>110,586,829</b>	132,753,496
CBC	<b>76,288,281</b>	91,579,948
MBTC	<b>76,288,281</b>	91,579,948
RCBC	<b>41,997,401</b>	50,414,068
Total	<b>738,522,788</b>	851,266,123
Less: current portion	<b>449,848,015</b>	449,848,015
Noncurrent portion	<b>₱288,674,775</b>	₱401,418,108

Interest expense recognized in the consolidated statements of comprehensive income for the three months ended March 31, 2019 and 2018 amounted to ₱10,875,428 and ₱18,345,017, 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 March 31, 2019 and December 31, 2018, the Group is in compliance with the loan covenants of all their respective outstanding debts.

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#### 14. Cost of Goods Sold

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Cost of merchandise sold	<b>₱2,692,918,116</b>	₱2,518,150,594
Royalty fees	<b>36,855,368</b>	30,257,769
Rent (see Notes 19 and 23)	<b>16,386,386</b>	15,018,780
Personnel costs (see Note 17)	<b>15,836,066</b>	26,868,736
Travel and transportation	<b>12,778,700</b>	7,911,547
Depreciation and amortization (see Notes 9, 10 and 18)	<b>9,662,534</b>	9,807,243
Security and safety	<b>4,635,883</b>	1,770,582
Utilities	<b>3,705,859</b>	3,564,707
Supplies and maintenance	<b>2,759,736</b>	1,241,187
Taxes and licenses	<b>1,615,944</b>	265,624
Repairs and maintenance	<b>1,006,984</b>	3,277,710
Insurance	<b>467,022</b>	767,407
Others	<b>36,333,001</b>	40,235,833
	<b>₱2,834,961,599</b>	₱2,659,137,719

Cost of merchandise sold:

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Merchandise inventory, beginning	<b>₱9,245,189,954</b>	₱9,423,866,643
Net purchases	<b>3,072,734,378</b>	2,594,754,493
Cost of merchandise available for sale	<b>12,317,924,332</b>	12,018,621,136
Less merchandise inventory, ending	<b>9,625,006,216</b>	9,500,470,542
	<b>₱2,692,918,116</b>	₱2,518,150,594

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

Cost of merchandise sold represents cost of merchandise inventory sold and the cost that are directly attributable to bringing the goods to its intended location.

#### 15. Selling and Distribution Expenses

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Rent (see Notes 19 and 23)	<b>₱516,407,377</b>	₱483,890,491
Personnel costs (see Note 17)	<b>270,491,835</b>	270,211,244
Depreciation and amortization (see Notes 9, 10 and 18)	<b>163,321,519</b>	187,849,165
Utilities	<b>141,572,857</b>	141,351,250
Credit card charges	<b>93,592,253</b>	85,147,520
Taxes and licenses	<b>88,269,450</b>	47,524,492
Supplies and maintenance	<b>40,642,931</b>	40,019,860
Global marketing contribution fee	<b>35,864,988</b>	30,432,032
Security services	<b>35,430,848</b>	21,202,283
Delivery and freight charges	<b>23,168,856</b>	20,552,557
Advertising	<b>18,443,846</b>	16,290,430
Repairs and maintenance	<b>16,990,879</b>	22,411,275
Travel and transportation	<b>10,465,154</b>	7,116,078
Insurance	<b>8,602,244</b>	8,698,915
Communication	<b>6,471,896</b>	7,275,507
Outside services	<b>4,393,691</b>	2,576,003
Entertainment, amusement and recreation (EAR)	<b>697,865</b>	647,276
Telegraphic transfer	<b>398,674</b>	681,995
Others	<b>15,249,001</b>	19,568,917
	<b>₱1,490,476,164</b>	₱1,413,447,290

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**16. General and Administrative Expenses**

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Personnel costs (see Note 17)	<b>₱147,084,093</b>	₱141,782,470
Rent (see Notes 19 and 23)	<b>33,027,889</b>	33,655,893
Depreciation and amortization (see Notes 9, 10 and 18)	<b>29,372,019</b>	29,863,520
Taxes and licenses	<b>18,050,270</b>	16,843,711
Utilities	<b>16,483,055</b>	12,025,238
Travel and transportation	<b>15,571,271</b>	7,171,085
Repairs and maintenance	<b>8,804,627</b>	6,684,370
Supplies and maintenance	<b>6,214,082</b>	6,601,832
Security services	<b>6,874,804</b>	5,245,944
Communication	<b>4,699,527</b>	4,909,777
Professional fees	<b>3,163,626</b>	4,456,207
Advertising	<b>2,653,122</b>	9,690,992
Insurance	<b>2,619,036</b>	2,645,426
EAR	<b>1,606,158</b>	1,071,673
Outside service	<b>143,943</b>	156,628
Others	<b>13,147,243</b>	9,637,903
	<b>₱309,514,765</b>	₱292,442,669

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**17. Personnel Costs**

Personnel costs were charged to operations as follows:

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Salaries, wages and bonuses	<b>₱371,337,886</b>	₱389,623,930
Retirement benefit expense	<b>13,087,174</b>	15,583,032
Other employee benefits	<b>48,986,935</b>	33,655,488
	<b>₱433,411,995</b>	₱438,862,450

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Personnel costs were distributed as follows:

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Cost of goods sold (see Note 14)	<b>₱15,836,066</b>	₱26,868,736
Selling and distribution (see Note 15)	<b>270,491,835</b>	270,211,244
General and administrative (see Note 16)	<b>147,084,093</b>	141,782,470
	<b>₱433,411,994</b>	₱438,862,450

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## 18. Depreciation and Amortization Expense

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Property and equipment (see Note 9)	<b>₱201,666,615</b>	₱227,282,325
Franchise fee (see Note 10)	<b>494,510</b>	–
Software costs (see Note 10)	<b>194,947</b>	237,603
	<b>₱202,356,072</b>	₱227,519,928

Depreciation and amortization were distributed as follows:

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Cost of goods sold (see Note 15)	<b>₱9,662,534</b>	₱9,807,243
Selling and distribution (see Note 16)	<b>163,321,519</b>	187,849,165
General and administrative (see Note 17)	<b>29,372,019</b>	29,863,520
	<b>₱202,356,072</b>	₱227,519,928

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## 19. 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, in the normal course of business, entered into the following transactions with related parties:

- a. Lease of the Group's store outlet spaces from a related party (see Note 23). Related rent expense amounted to ₱18.5 million and ₱21.7 million, for the three months in the period ended March 31, 2019 and 2018, respectively;
- b. The Group reimburses related parties for its expenses paid by the related parties in behalf of the Group;
- c. Sales through the use of related parties' gift certificates. Total value of the related parties' gift certificates used amounted to ₱8.0 million and ₱8.2 million for the three months ended March 31, 2019 and 2018, respectively;
- d. Short-term noninterest-bearing cash advances to/from related parties; and
- e. Compensation of the Company's key management personnel comprised of short-term employee benefits amounting to ₱9.5 million, ₱9.7 million for the three months in the period ended March 31, 2019 and 2018, respectively, and post-employment benefits amounting to ₱1.3 million and ₱1.3 million for the three months in the period ended March 31, 2019 and 2018, respectively;

As of March 31, 2019 and December 31, 2018, receivables from and payables to related parties are as follows:

<b>March 31, 2019 (Unaudited)</b>		Outstanding balances			
Related Parties	Transactions for the period	Receivables from related parties (see Note 4)	Payable to related parties (see Note 11)	Amounts owed by related parties	Amounts owed to related parties
<i>Affiliates</i>					
RCC	₱3,111,675	₱13,838,486	₱244,293	₱1,010,987	₱-
RMK	2,410,898	32,565,007	183,394	8,870	173,893
<i>Joint ventures</i>					
PFM		14,095,001	-	4,386,052	-
MPC	1,369,160	16,710,103	-	14,900	-
<i>Associate</i>					
SPI	23,483	743,862	-	1,484,655	-
	<b>₱6,915,216</b>	<b>₱77,952,459</b>	<b>₱427,687</b>	<b>₱6,905,464</b>	<b>₱173,893</b>
<hr/>					
<b>December 31, 2018 (Audited)</b>		Outstanding balances			
Related Parties	Transactions for the period	Receivables from related parties (see Note 4)	Payable to related parties (see Note 11)	Amounts owed by related parties	Amounts owed to related parties
<i>Affiliates</i>					
RCC	₱28,817,767	₱20,055,700	₱244,293	₱-	₱-
RMK	(8,635,512)	31,800,873	463,938	-	-
Others	(25,826)	139,833	114,007	-	-
<i>Joint ventures</i>					
PFM	17,690,793	-	-	-	-
SCRI	191,738,649	-	-	-	-
MPC	10,065,775	17,057,698	-	-	-
<i>Associate</i>					
SPI	(74,531)	2,174,091	-	-	-
	<b>₱160,670,864</b>	<b>₱71,228,195</b>	<b>₱822,238</b>	<b>₱-</b>	<b>₱-</b>

The related party balances as of March 31, 2019 and December 31, 2018 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting ₱41.13 million, all receivables from related parties are not impaired. All related party balances are settled in cash.

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## 20. Earnings Per Share (EPS)

The following tables reflect the net income and share data used in the basic/dilutive EPS computations:

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Net income	<b>₱170,617,942</b>	₱132,852,392
Divided by weighted average number of common shares	<b>3,310,841,731</b>	3,312,524,430
	<b>₱0.05</b>	₱0.04

There were no potential dilutive common shares for the three months ended March 31, 2019 and 2018.

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## 21. 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 debtors.

The table below shows the maximum exposure of the Company to credit risk:

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Cash	<b>₱1,844,613,472</b>	₱2,324,149,994
Trade and other receivables		
Trade receivables	<b>226,778,276</b>	268,038,636
Nontrade receivables	<b>261,227,569</b>	272,280,314
Receivables from related parties	<b>77,952,459</b>	71,228,195
Amounts owed by related parties	<b>6,905,464</b>	-
Security deposits and construction bonds	<b>1,051,749,687</b>	1,023,525,062
	<b>₱3,469,226,927</b>	₱3,959,222,201



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:

**March 31, 2019 (Unaudited)**

	Total	Neither past due nor impaired	Past due but not impaired				Impaired
			<30 days	30 - 60 days	60 - 90 days	> 90 days	
Cash in banks and cash equivalents	P1,844,613,472	P1,844,613,472	P-	P-	P-	P-	P-
Trade and other receivables							
Trade receivables	226,778,276	226,778,276	-	-	-	-	-
Nontrade receivables	261,227,569	91,326,670	34,578,382	47,166,296	65,662,607	4,764,419	17,729,195
Receivables from related parties	77,952,459	20,808,017	15,498,894	-	-	520,548	41,125,000
Amounts owed by related parties	6,905,464	6,905,464	-	-	-	-	-
Security deposits and construction bonds	1,051,749,687	1,051,749,687	-	-	-	-	-
<b>Total</b>	<b>P3,469,226,927</b>	<b>P3,242,181,586</b>	<b>P50,077,276</b>	<b>P47,166,296</b>	<b>P65,662,607</b>	<b>P5,284,967</b>	<b>P58,854,195</b>

*1 Presented under "Prepayments and other current assets"*

**December 31, 2018**

	Total	Neither past due nor impaired	Past due but not impaired				Impaired
			<30 days	30 - 60 days	60 - 90 days	> 90 days	
Cash in banks	P2,324,149,994	P2,324,149,994	P-	P-	P-	P-	P-
Trade and other receivables							
Trade receivables	268,038,636	250,917,590	12,165,346	830,728	344,834	3,780,138	-
Nontrade receivables	272,280,314	245,904,589	-	370,980	8,275,550	-	17,729,195
Receivables from related parties	71,228,195	25,557,868	401,187	256,246	128,658	3,759,237	41,125,000
Security deposits and construction bonds	1,023,525,062	1,023,525,062	-	-	-	-	-
<b>Total</b>	<b>P3,959,222,201</b>	<b>P3,870,055,103</b>	<b>P12,566,533</b>	<b>P1,457,954</b>	<b>P8,749,042</b>	<b>P7,539,375</b>	<b>P58,854,195</b>

*Impairment of financial assets*

The following financial assets are subject to expected credit loss model effective January 1, 2018:

- a. Cash, nontrade receivables (except those related to principals), amounts owed by related parties and security deposits and construction bonds  
The Group uses general approach in assessing impairment of these financial assets. The credit risk of these financial asset is presumed to increase when the contractual payments are more than 30 days past due. As of March 31, 2019 and December 31, 2018, there has been no increase in credit risk of these financial assets since initial recognition except for amounts owed by related parties amounting to P41.13 million which are classified as credit impaired as of March 31, 2019 and December 31, 2018.
- b. Trade receivables  
For these financial assets, the Group uses simplified approach. An impairment analysis is performed at each reporting date to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The identified impairment losses on these financial assets were immaterial.
- c. Nontrade receivables amounting to P39.03 million pertain to receivables from principals. The credit risk of these financial assets is presumed to increase when the contractual payments are more than 90 days past due. As of March 31, 2019 and December 31, 2018, nontrade receivables from principals amounting to P17.73 million are classified as credit impaired.

**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 three months ended March 31, 2019 and year ended December 31, 2018. 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 March 31, 2019.

## 22. 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:

	March 31, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Assets</b>				
<i>Loans and receivables</i>				
Security deposits and construction bonds	<b>₱1,051,749,687</b>	<b>₱1,044,588,180</b>	₱1,018,278,699	₱1,050,086,063
<b>Financial Liabilities</b>				
<i>Other financial liabilities</i>				
Long-term debt	<b>₱738,522,790</b>	<b>₱766,618,620</b>	₱851,266,123	₱975,414,968

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

*Cash and cash equivalents, trade and other receivables, amounts owed by/to related parties, current portion of security deposits (presented under prepayments and other current assets), tenants' deposits, trade and other payables and short-term loans*

The carrying values of these financial instruments approximate their fair values due to the short-term maturity, ranging from one to twelve months.

*Security deposits and construction bonds*

The fair values of security deposits are based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 5.80% to 6.10% and 5.41% to 7.29% were used in calculating the fair value of the Group's refundable deposits as of March 31, 2019 and December 31, 2018, 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 5.59% to 5.82% and 5.78% to 6.98% were used in calculating the fair value of the Group's long-term debt as of March 31, 2019 and December 31, 2018, respectively.

### Fair Value Hierarchy

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

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

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

As at March 31, 2019 and December 31, 2018 the Group does not have financial instruments with fair values determined using inputs that are classified under Level 1 and 3.

For the three months ended March 31, 2019 and years ended December 31, 2018, 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.

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## 23. Contracts and Commitments

### *Leases*

The Group leases its office space and certain store outlets used in its operations for lease terms ranging from two to three years. Rental payments on certain outlets are based on a fixed basic monthly rate plus a certain percentage of gross sales, while other store outlets and office spaces are based on fixed monthly rates. Rentals charged to operations amounted to ₱565.8 million and ₱532.6 million, for the three months ended March 31, 2019 and 2018, respectively (see Notes 14, 15 and 16).

Of the total rent expense, ₱129.9 million and ₱81.4 million for the three months ended March 31, 2019 and 2018, respectively, pertain to contingent rent of some stores based on percentage ranging from 3% to 6% of total merchandise sales.

The Group has paid security deposits for the store outlets and office spaces with carrying amounts of ₱1,051.75 million and ₱1,023.53 million as of March 31, 2019 and December 31, 2018, respectively, which are refundable upon complete turnover of the leased area. The present value of these deposits was computed using the discount rates prevailing at the inception date of the lease, ranging from 1.24% to 7.15%. Interest income recognized from these security deposits amounted to ₱0.6 million and ₱0.9 million, for the three months ended March 31, 2019 and 2018, respectively.

### *Group as lessor*

In 2014, the Group leased out portions of the store spaces and parking space in Central Square for a lease term ranging from one to three years. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales. Deposits received from tenants amounted to ₱33.63 million and ₱33.77 million as of March 31, 2019 and December 31, 2018, respectively, pertaining to deposits on the leased space.

In 2015, the Group subleased its leased space in NAIA Terminal 3 for a lease term of one year or less. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales.

Rental income recognized on these spaces amounted to ₱19.6 million and ₱18.4 million, for the three months ended March 31, 2019 and 2018, respectively.

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## 24. 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 three months ended March 31, 2019 and 2018 (amounts in millions):

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Net Sales		
Luxury and Bridge	<b>₱1,376</b>	₱1,099
Casual	<b>637</b>	537
Fast Fashion	<b>1,622</b>	1,688
Footwear, Accessories and Luggage	<b>558</b>	580
Other	<b>729</b>	685
	<b>₱4,922</b>	₱4,589

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).

	<b>March 31, 2019 (Unaudited)</b>	March 31, 2018 (Unaudited)
Philippines	<b>₱4,905</b>	₱4,572
Guam	<b>17</b>	17
	<b>₱4,922</b>	₱4,589

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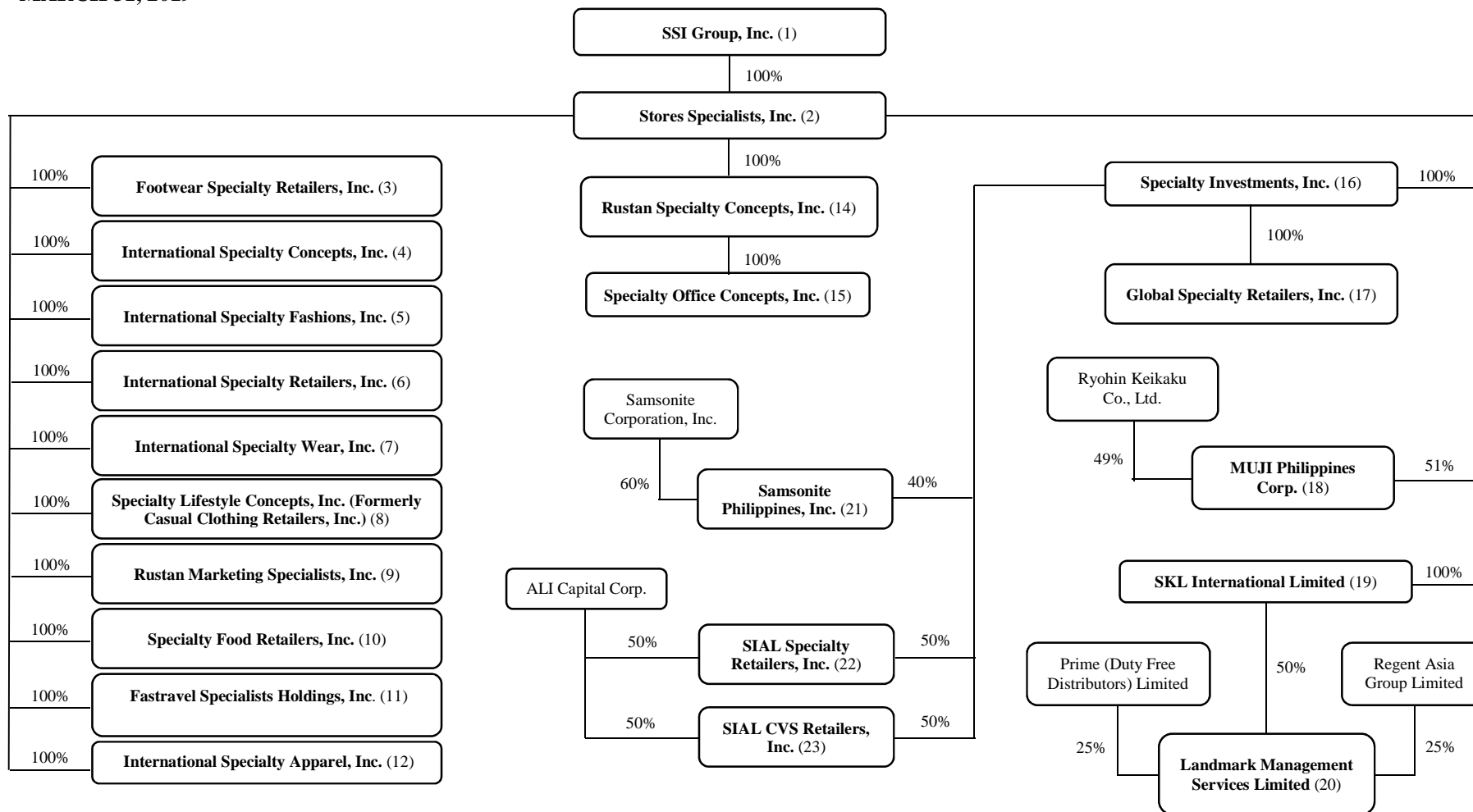
## 25. Seasonality of operations

The Group experiences seasonal fluctuations in its operations. The Group's sales typically peak during the fourth quarter of the year due to the increased sales attributable to the Christmas and New Year Holidays.

**EXHIBIT I**

**SSI GROUP, INC.**

**MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES  
MARCH 31, 2019**



## SSI GROUP, INC.

**SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS  
AND INTERPRETATIONS**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of March 31, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of March 31, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of March 31, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of March 31, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation SIC-15	Operating Leases - Incentives			✓
Philippine Interpretation SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets - Web Site Costs			✓

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

**Exhibit III**

**SSI GROUP, INC.**

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**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION**

**March 31, 2019**

Unappropriated retained earnings, as adjusted, beginning		₱1,023,608,355
Net income during the period closed to retained earnings	5,197,942	
Less: Other realized gains related to accretion of income from security deposits	302,066	
Deferred tax asset recognized during the year	<u>—</u>	
Net income actually earned during the period		4,895,876
Retained earnings available for dividend declaration		<u>₱1,028,504,231</u>

**SSI GROUP, INC.**

**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**

<b>Ratios</b>	<b>Formula</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>March 31, 2018</b>
(i) Current Ratio	Current Assets/Current Liabilities	2.02	2.00	1.87
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.44	0.50	0.59
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.27	0.28	0.45
(iii) Asset to Equity Ratio	Total Assets/Total Equity	1.66	1.69	1.78
(iv) Interest Cover Ratio	EBITDA/Interest Expense	6.32	6.95	9.12
(v) Profitability Ratios				
GP Margin	Gross Profit/Revenues	42.40%	42.00%	42.06%
Net Profit Margin	Net Income/Revenues	3.47%	3.01%	2.89%
EBITDA Margin	EBITDA/Revenues	9.93%	10.76%	9.85%
Return on Assets	Net Income /Total Assets	0.94%	3.33%	0.72%
Return on Equity	Net Income /Total Equity	1.55%	5.62%	1.28%

\*EBITDA = Operating income plus depreciation and amortization

## **Annex “B”**

### **EXECUTIVE OFFICERS**

**Elizabeth T. Quiambao**, 67, 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 MUJI Philippines Corp. and Landmark Management Services, Ltd. 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**, 66, is the Vice President of Finance of the Company. Mrs. Escoto is also the Finance Manager of the Group’s 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., Specialty Lifestyle Concepts, 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 Philippine Stock Exchange. 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**, 44, is the Vice President of Investor Relations & Corporate Planning, and the Compliance Officer of the Company. In addition, she serves as the Chief Financial Officer of Landmark Management Services, Ltd. and is the Treasurer and a member of the board of directors of MUJI Philippines Corp. Ms. Atienza is also the Data Privacy Officer of the Group. 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 was a Merit Scholar at the Ateneo de Manila University and graduated from the Ateneo with a Bachelors Degree in Social Sciences and the Asian Institute of Management with a Masters in Business Administration.

**Ma. Alicia Picazo-San Juan**, 48, is the Corporate Secretary of 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., ATR Kim Eng Asset Management, Inc., ATRAM Investment Management Partners Corp., Seedbox Technologies, Inc., IBM Global Financing Philippines, 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.

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, Carlo L. Katigbak, Filipino, of legal age and a resident of Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **SSI GROUP, INC.** ("SSI" or the "Corporation") and have been its independent director since 15 June 2014.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

	<b>COMPANY/ORGANIZATION</b>	<b>POSITION/RELATIONSHIP</b>	<b>PERIOD OF SERVICE</b>
1	ABS-CBN Corporation	President and CEO / Board of Directors	2016 - Present
2	Play Innovations, Inc.	Board of Directors	2016 - Present
3	A C J O Shopping Corporation	Board of Directors	2016 - Present
4	ABS-CBN Lingkod Kapamilya Foundation, Inc.	Board of Advisors	2016 - Present
5	ABS-CBN Studios, Inc.	Board of Directors	2015 - Present
6	Skycable Corporation	Board of Directors	2013 - Present
7	Iconnect Convergence, Inc.	Board of Directors	2013 - Present
8	ABS-CBN Convergence, Inc.	Board of Directors	2013 - Present
9	Sapientis Holdings Corporation	Board of Directors	2012 - Present
10	Columbus Technologies, Inc.	Board of Directors	2010 - Present
11	Sky Vision Corporation	Chief Operating Officer / Board of Directors	2004 - Present
12	Knowledge Channel Foundation	Board of Trustees	1999 - Present
13	Medianow Strategies, Inc.	Board of Directors	2015 - Present
14	ABS-CBN Shared Service Center Pte Ltd	Director	2016 - Present
15	Sarimanok News Network, Inc.	Director / Chairman	2016 - Present
16	Rosetta Holdings Corporation	Director	2016 - Present
17	71 Dreams Foundation, Inc.	Board of Trustees	2016 - Present
18	ABS-CBN Integrated and Strategic Property Holdings, Inc.	Board of Directors	2016 - Present
19	ABS-CBN Film Productions, Inc.	President / Board of Directors	2018 - Present
20	Cinescreen, Inc.	President / Board of Directors	2018 - Present

21	Tarsier Records, Inc.	President / Board of Directors	2018 – Present
22	ABS-CBN Themed Experiences, Inc.	Board of Directors	2018 – Present
23	Across The Border Shops Corp.	Board of Directors	2018 – Present

- I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SSI, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
- I am related to the following director/officer/substantial shareholder of SSI and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

NAME OF DIRECTOR / OFFICER / SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A	N/A	N/A

- To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
- I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
- I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five days (5) from its occurrence.

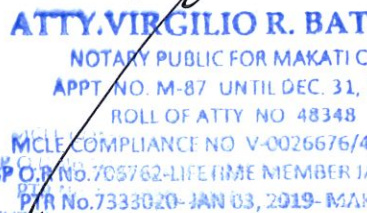
Done, this **APR 29 2019** day of \_\_\_\_\_, at **MAKATI CITY**

  
**Carlo L. Katigbak**  
 Independent Director

**APR 29 2019**

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_\_ at **MAKATI CITY**, affiant personally appeared before me and exhibited to me his Passport No. EC6618200 issued at DFA Manila on January 27, 2016.

Doc. No. 90 ;  
 Page No. 19 ;  
 Book No. 29 ;  
 Series of 2019.

  
**ATTY. VIRGILIO R. BATALLA**  
 NOTARY PUBLIC FOR MAKATI CITY  
 APPT. NO. M-87 UNTIL DEC. 31, 2020  
 ROLL OF ATTY NO 48348  
 MCLE COMPLIANCE NO V-0026676/4-11-2018  
 IBP O.R. NO. 705762-LIFE TIME MEMBER JAN 29 2007  
 PTR No. 7333020- JAN 03, 2019- MAKATI CITY  
 EXECUTIVE BLDG. CENTER MAKATI AVE., COR., JUPITER ST.  
**MAKATI CITY**

**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, Jose Teodoro K. Limcaoco, Filipino, of legal age and a resident of Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **SSI GROUP, INC.** ("SSI" or the "Corporation") and have been its independent director since 15 June 2015.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Ayala Corporation	Chief Finance Officer and Finance Group Head	Since April 10, 2015
	Managing Director	Since May 1, 1998
Globe Telecom, Inc.	Director	Since April 13, 2016
Integrated Micro-electronics, Inc.	Director	Since April 8, 2016
Bank of the Philippine Islands	Director	Since Feb. 20, 2019

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SSI, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of SSI and its subsidiaries and affiliates as provided under Rule 38.2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five days (5) from its occurrence.

Done, this APR 29 2019 day of \_\_\_\_\_, at MAKATICITY.

*Jose Teodoro K. Limcaoco*  
**Jose Teodoro K. Limcaoco**  
 Independent Director

SUBSCRIBED AND SWORN to before me this APR 29 2019 day of \_\_\_\_\_ at MAKATICITY, affiant personally appeared before me and exhibited to me his Passport No. P6682433A issued at DFA Manila on 05 April 2018.

Doc. No. 29;  
 Page No. 19;  
 Book No. 27;  
 Series of 2019.

**ATTY. VIRGILIO R. BATALLA**  
 NOTARY PUBLIC FOR MAKATI CITY  
 APPT NO. M-87 UNTIL DEC. 31, 2020  
 ROLL OF ATTY NO 48348  
 MCLE COMPLIANCE NO V-0026676/4-11-2018  
 IBP O.R. No. 906762-LIFETIME MEMBER JAN 29, 2007  
 PTR No. 73332020-JAN 03, 2019- MAKATI CITY  
 EXECUTIVE BLDG. CENTER MAKATI AVE., COR., JUPITER ST,  
 MAKATI CITY

REPUBLIC OF THE PHILIPPINES )  
MAKATI CITY, METRO MANILA ) S.S.


**SECRETARY'S CERTIFICATE**

I, **MA. ALICIA G. PICAZO-SAN JUAN**, Filipino, of legal age, with business address at the Penthouse, Liberty Center, 104 H.V. Dela Costa Street, Salcedo Village, Makati City, being duly sworn in accordance with law, hereby certify that:

1. I am the duly appointed and incumbent Corporate Secretary of **SSI GROUP, INC.** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at the 6<sup>th</sup> Floor, Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City, Metro Manila.


2. Based on the respective certifications of the directors and officers of the Corporation, as well as the records of the Corporation presently in my custody, except for Ms. Zenaida R. Tantoco (Member, Board of Trustees of the Cultural Center of the Philippines) and Ms. Ma. Elena R. Tantoco (Philippine Honorary Consul General in Casablanca, Morocco), none of the directors or officers of the Corporation holds any position in any capacity in any government agency or instrumentality. Attached herewith as Annex "A" and Annex "B", respectively, are the letters of consent from the Cultural Center of the Philippines and the Department of Foreign Affairs.

IN WITNESS WHEREOF, I have hereunto affixed my signature this MAY 07 2019  
in Makati City, Metro Manila.

  
**MA. ALICIA G. PICAZO-SAN JUAN**  
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this MAY 07 2019 in Makati City, Metro Manila, affiant exhibiting to me her Passport with Passport No. P7431608A issued on 04 June 2018 at DFA Manila, Philippines.

Doc. No. 120 :  
Page No. 25 :  
Book No. VIII :  
Series of 2019.

  
**JAMIE KATRINA F. CHAN**  
Appointment No. M-223  
Notary Public for Makati City  
Until December 31, 2019  
Liberty Center-Picazo Law  
104 H.V. Dela Costa Street, Makati City  
Roll No. 70089  
PTR No. 7339297/Makati City/01-06-2019  
IBP No. 060469/PPLM/01-03-2019





**Cultural Center of the Philippines**  
SENTRONG PANGKULTURA NG PILIPINAS

April 3, 2019

**SECURITIES AND EXCHANGE COMMISSION**

Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City  
Metro Manila

Attention: **MR. VICENTE GRACIANO P. FELIZMENIO, JR.**  
Director, Markets and Securities Regulation Department

Re: **Consent for Zenaida R. Tantoco to hold positions in private corporations**

Gentlemen:

We write to confirm that Ms. Zenaida R. Tantoco currently serves as a member of the Board of Trustees of the Cultural Center of the Philippines ("CCP"). We likewise confirm that this does not preclude her from being elected and from holding positions in private corporations.

Yours,

  
**Arsenio J. Lizaso**  
President/Trustee



DEPARTMENT OF FOREIGN AFFAIRS  
KAGAWARAN NG UGNAYANG PANLABAS

HUMAN RESOURCES MANAGEMENT OFFICE

16 April 2019

Dear Mr. Felizmenio,

This is to confirm that **Ms. Ma. Elena R. Tantoco** currently serves as Honorary Consul General of the Republic of the Philippines in Casablanca, Kingdom of Morocco. Given this position, Ms. Tantoco is performing her functions on a voluntary basis without salary or monetary compensation. This is to likewise confirm that this does not preclude her from being elected and from holding positions in private corporations.

Very truly yours,

  
RONALD M. JOVES  
Acting Director

**MR. VICENTE GRACIANO P. FELIZMENIO, JR.**

Director, Markets and Securities Regulations Department  
Securities and Exchange Commission  
SEC Building, EDSA Greenhills  
Mandaluyong City, Metro Manila