

NOTICE OF ANNUAL MEETING OF THE STOCKHOLDERS

Notice is hereby given that the annual meeting of the stockholders of **SSI GROUP, INC.** for the year 2020 will be held and conducted via virtual meeting on Thursday, 10 September 2020 at 9:00 A.M. via <https://livenow.ph/SSIGroupASM2020>.

The Agenda for the meeting shall be as follows:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of Minutes of the Annual Meeting held on 26 June 2019
4. Approval of Annual Report for the Year 2019
5. General ratification of all acts of the Board of Directors and management from the date of the last annual meeting up to the date of this meeting
6. Election of Directors for 2020-2021
7. Appointment of External Auditors
8. Other Matters
9. Adjournment

The minutes of the 2019 Annual Meeting of Stockholders is available at the website of the Company, <https://www.ssigroup.com.ph>.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange on 14 August 2020 as the Record Date for the determination of stockholders entitled to notice of and vote at such meeting.

Given the current circumstances, and to ensure the safety and welfare of the Company's stockholders, the Company will dispense with the physical attendance of stockholders at the meeting and will allow attendance only by remote communication and voting *in absentia*, or by appointing the Chairman of the meeting.

Stockholders who intend to participate in the meeting should register on or before 4 September 2020 via <https://livenow.ph/SSIGroupASM2020>. All registrations shall be validated by the Corporate Secretary in coordination with the Stock and Transfer Agent. Successful registrants will receive an e-mail with instructions on how to access an online web address which will allow them to join the meeting and cast votes *in absentia* or by proxy in favor of the Chairman of the Meeting.

Stockholders who intend to appoint the Chairman of the Meeting as their proxy should submit duly accomplished proxy forms on or before 31 August 2020 at the Office of the Corporate Secretary at 6F Midland Buendia Bldg., 403 Sen. Gil Puyat Ave., Makati City and/or by email to corporatesecretary@rgoc.com.ph.

The procedures for participating in the meeting through remote communication and for casting their votes in absentia are set forth in the Information Statement.

4 August 2020, Makati City.



MA. ALICIA G. PICAZO-SAN JUAN
Corporate Secretary

PROXY

Stockholders who would like to be represented thereat by a proxy may choose to execute and send a proxy form to the Office of the Corporate Secretary (Atty. Ma. Alicia G. Picazo-San Juan) at 6F Midland Buendia Bldg., 403 Sen. Gil Puyat Ave., Makati City, on or before 31 August 2020. A sample proxy form is provided below. Stockholders may likewise email a copy of the accomplished proxy form to corporatesecretary@rgoc.com.ph.

The undersigned stockholder of **SSI GROUP, INC.** (the "Company") hereby appoints the Chairman of the meeting, as attorney-in-fact or proxy, with power of substitution, to represent and vote _____ shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Stockholders' Meeting of the Company on 10 September 2020 at 9:00 a.m. and at any adjournment thereof for the purpose of acting on the following matters:

1. Approval of Minutes of the Annual Meeting held on 26 June 2019
 Yes No Abstain
2. Approval of Annual Report for the Year 2019
 Yes No Abstain
3. General ratification of all acts of the Board of Directors and management from the date of the last annual meeting up to the date of this meeting
 Yes No Abstain
4. Election of Directors for 2020-2021
5. Re-appointment of SyCip Gorres Velayo & Co. as external auditor
 Yes No Abstain

	No. of Votes	
Zenaida R. Tantoco	_____	
Anthony T. Huang	_____	
Ma. Teresa R. Tantoco	_____	
Ma. Elena R. Tantoco	_____	Printed Name and Signature of the Stockholder
Bienvenido V. Tantoco III	_____	
Eduardo T. Lopez III	_____	
Edgardo Luis Pedro T. Pineda	_____	
Carlo L. Katigbak (Independent Director)	_____	Date
Jose Teodoro K. Limcaoco (Independent Director)	_____	

This proxy should be received by the Corporate Secretary on or before 31 August 2020, the deadline for submission of proxies.

This proxy when properly executed will be voted in the manner as directed herein by the stockholder(s). If no direction is made, this proxy will be voted for the election of all nominees and for the approval of the matters stated above and for such other matters as may properly come before the meeting in the manner described in the Information Statement.

A stockholder giving a proxy has the power to revoke it at any time before the right granted is exercised.

Notarization of this proxy is not required.

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) 8890 8034**
8. Date, time and place of the meeting of security holders : **September 10, 2020**
9:00 A.M.
Via remote communication
Stockholders are required to register at
<https://livenow.ph/SSIGroupASM2020>
9. Approximate date on which the Information Statement is first
to be sent or given to security holders : **August 18, 2020**
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 June 30, 2020)
Common Shares	3,298,408,430

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

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

A. GENERAL INFORMATION

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

- a) Date : September 10, 2020
Time : 9:00 A.M.
Online web addresses / URLs : For participation by remote communication and for voting *in absentia*:
<https://livenow.ph/SSIGroupASM2020>
- 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: : August 18, 2020

The requirements and procedure for participating and voting are set forth in **Annex "A"** to the Information Statement.

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 3,298,408,430 outstanding common shares as of June 30, 2020. 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 August 14, 2020 are entitled to notice and to vote at the Company's annual stockholders' meeting.
- c. Foreign equity ownership as of June 30, 2020 is 432,410,234 shares or 13.11% of the total issued and outstanding shares.
- d. Manner of Voting and Election of Directors (Cumulative Voting) – A stockholder may vote *in absentia* 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 sent to the Office of the Corporate Secretary at 6F Midland Buendia Building, 403 Sen. Gil Puyat Ave., Makati City and/or by email to corporatesecretary@rgoc.com.ph no later than 31 August 2020. Validation of proxies shall be held on 4 September 2020. 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.
- e. 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 August 14, 2020 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.

f. Security ownership of certain record and beneficial owners and management

i. Security ownership of record and beneficial owners (of more than 5%)

As of June 30, 2020, 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	PCD Nominee Corporation (Filipino) ¹ 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	605,823,945	18.3672%
Common	Wellborn Holdings, Inc. ² 4th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City (stockholder)	Wellborn Holdings, Inc.	Filipino	467,043,679	14.1597%
Common	Marjorisca, Inc. ³ 25B Tamarind Road, South Forbes Park (stockholder)	Marjorisca, Inc.	Filipino	434,440,400	13.1712%

¹ 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 owns 5% or more shares of the Company.

² 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.

Title of Class	Names and addresses of record owners and relationship with the Company	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% to Total Outstanding Shares
Common	Birdseyeview, Inc.⁴ 25B Tamarind Rd. South Forbes Park, Makati City (stockholder)	Birdseyeview, Inc.	Filipino	434,412,500	13.1704%
Common	PCD Nominee Corporation (Non-Filipino)⁵ 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	432,410,234	13.1097%
Common	Educar Holdings Corp.⁶ 2nd Floor Urban Bldg., 405 Sen. Gil Puyat Avenue, Makati City (stockholder)	Educar Holdings Corp.	Filipino	415,753,800	12.6047%
Common	Bordeaux Holdings, Inc.⁷ 19th Floor BDO Plaza, 8737 Paseo de Roxas, Makati City (stockholder)	Bordeaux Holdings, Inc.	Filipino	414,967,821	12.5809%

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

⁴ Birdseyeview, Inc. is wholly and beneficially owned by Ma. Teresa R. Tantoco. 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.

⁵ 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 owns 5% or more shares of the Company.

⁶ 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.

⁷ 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.

ii. Security ownership of directors and management as of June 30, 2020

Title of Class	Name of beneficial owner	Position	Amount and Nature of Beneficial Ownership (shares)	Citizenship	% to Total Outstanding Shares
Named Executive Officers					
Common	Zenaida R. Tantoco	Chairman and CEO	872,500 (direct)	Filipino	0.0265%
Common	Anthony T. Huang	Director and President	9,200,294 (direct)	Filipino	0.2789%
Common	Ma. Teresa R. Tantoco	Director and Treasurer	471,280,931 (direct and indirect)	Filipino	14.2881%
Common	Elizabeth T. Quiambao	Executive Vice President	4,919,419 (direct)	Filipino	0.1491%
Common	Rossellina J. Escoto	Vice President - Finance	404,961 (direct)	Filipino	0.0123%
Other Executive Officers and Directors					
Common	Ma. Elena R. Tantoco	Director	32,054,979 (direct)	Filipino	0.9718%
Common	Bienvenido V. Tantoco III	Director	200 (direct and indirect)	Filipino	0.0000%
Common	Eduardo T. Lopez III	Director	790,100 (direct)	Filipino	0.0240%
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 June 30, 2020.

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 June 30, 2020, 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 “Overallotment Option”).

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

On November 7, 2014, the Offer Shares commenced trading in the Philippine Stock Exchange while the Overallotment Option was fully exercised on November 13, 2014. The total amount raised by the company was ₱5.2 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 Overallotment Option. As of June 30, 2020, SSI Group, Inc. was 28.98% 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	74	Filipino	Since 2007
Anthony T. Huang	49	Filipino	Since 2007
Ma. Teresa R. Tantoco	55	Filipino	Since 2008
Ma. Elena R. Tantoco	61	Filipino	Since 2008
Bienvenido V. Tantoco III	54	Filipino	Since 2007
Eduardo T. Lopez III	52	Filipino	Since 2008
Edgardo Luis Pedro T. Pineda	48	Filipino	Since 2014
Carlo L. Katigbak	50	Filipino	Since 2014
Jose Teodoro K. Limcaoco	58	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, 74, 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, 49, 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, 55, 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, 61, 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, 54, 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, 52, 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, 48, 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, 50, 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 was named as the ING-Finex CFO of the Year in 2018. 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:

Name	Position	Age	Citizenship	Period during which individual has served as such⁸
Zenaida R. Tantoco	Chief Executive Officer	74	Filipino	Since June 2019
Anthony T. Huang	President	49	Filipino	Since June 2019
Ma. Teresa R. Tantoco	Treasurer	55	Filipino	Since June 2019
Elizabeth T. Quiambao	Executive Vice President	68	Filipino	Since June 2019
Rossellina J. Escoto	Vice President - Finance	67	Filipino	Since June 2019
Ma. Margarita A. Atienza	Vice President - Investor Relations & Corporate Planning and Compliance Officer	47	Filipino	Since June 2019
Ma. Alicia Picazo-San Juan	Corporate Secretary	49	Filipino	Since June 2019

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 “C”**.

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.

	Audit Committee	Nomination Committee	Remuneration Committee
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*

⁸The 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 (Independent Director)
9. JOSE TEODORO K. LIMCAOCO (Independent Director)

Mr. Carlo L. Katigbak and Mr. Jose Teodoro K. Limcaoco were duly nominated as independent directors by Ms. Ethellene C. King, 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 2019 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.

Name	Position
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 other officers and Directors as a group, for the years ended December 31, 2017, 2018 and 2019 and projected for the year 2020.

	Year	Total (In ₱ millions)
CEO and the four (4) most highly compensated executive officers named in the previous page	2017	19.2
	2018	23.8
	2019	29.2
	2020 (estimated)	29.2
Aggregate compensation paid to all other officers and Directors as a group unnamed	2017	5.0
	2018	5.5
	2019	7.0
	2020 (estimated)	7.0

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 2020 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.

Year	Audit fees (in ₱ millions)
2019	5.7
2018	5.2
2017	5.0

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)(ix) of the Revised Securities Regulation Code Rule 68, which provides for the requirement on the rotation of the external auditor.

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, 2019 and unaudited interim financial statements as of March 31, 2020 and as of June 30, 2020, 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 "B"**.

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 26 June 2019;
- (b) President's Report based on the Annual Report and 2019 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 and distribute its votes in accordance with the Corporation Code of the Philippines.

The votes of the stockholders registered as present in the online meeting remotely or by proxy, or voting *in absentia*, shall be counted electronically, and the Chairperson will announce the result of the voting. Stockholders participating in the online meeting are given an electronic ballot which will allow them to vote on all items in the agenda presented for voting in the meeting. The ballots will be filled up electronically by stockholders and submitted electronically to the Corporate Secretary or her duly authorized representative/s. The valid votes will be counted by the Corporate Secretary. The Chairman will then announce the result after the counting

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:

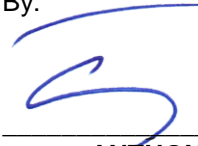
**ATTENTION: MA. MARGARITA A. ATIENZA
VICE PRESIDENT—INVESTOR RELATIONS AND CORPORATE PLANNING
6TH FLOOR, MIDLAND BUENDIA BUILDING
403 SEN. GIL PUYAT AVENUE, MAKATI CITY**

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 14th day of August 2020.

SSI GROUP, INC.

By:

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke at the top.

ANTHONY T. HUANG
President

Annex “A”

**REQUIREMENTS AND PROCEDURE FOR
PARTICIPATION BY REMOTE COMMUNICATION
AND VOTING *IN ABSENTIA***

1. The platform for participation through remote communication and voting *in absentia* for the 2020 Annual Stockholders’ Virtual Meeting of SSI Group, Inc. (the “Meeting”) can be found online at <https://livenow.ph/SSIGroupASM2020> (the “Platform”).
2. Only stockholders as of record date, August 14, 2020, (the “Stockholders”) may use the Platform to participate in the Meeting through remote communication and to vote *in absentia* on the matters in the Agenda, provided the Stockholder has (1) complied with the registration requirement, and (2) such registration has passed the validation process.
3. Registration to participate in the Meeting is from **9:00am on August 18, 2020 until 6:00pm on September 4, 2020**, provided, that for shareholders who will appoint a proxy, a duly accomplished proxy must be submitted on or before **6:00 p.m. on August 31, 2020**. SSI will request for consent to process sensitive personal information pursuant to the Data Privacy Act.
4. **REGISTRATION REQUIREMENTS:**

a. **Voting In Absentia**

To register for the Platform, log on to <https://livenow.ph/SSIGroupASM2020>. Stockholders should complete the online registration form and submit the same for validation. Stockholders will be asked to provide the information and documents listed below (the total size of the files should be no larger than 1MB).

i. **For Individual Stockholders:**

1. Full name
2. Number of shares held and stock certificate number
3. Address
4. Valid and email address
5. Valid and active contact number (landline or mobile)
6. A scanned copy of the front and back portions of the Stockholder’s valid government-issued photo ID, preferably with residential address. Valid types of government-issued photo IDs include the following: Driver’s License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID
7. For account holders with joint accounts, a scanned copy of an authorization letter signed by all Stockholders, identifying who among them is authorized to cast the vote for the account.

ii. **For Corporate / Organizational Stockholders:**

1. Company name
2. Full name
3. Number of shares held and stock certificate number
4. Address
5. Valid and active email address
6. Valid and active contact number (landline or mobile)
7. A scanned copy of a Secretary’s Certificate attesting to the authority of the representative to vote for and on behalf of the Stockholder
8. A scanned copy of the front and back portions of the valid government-issued photo ID of the Stockholder’s representative. Valid types of government-issued photo IDs include the following: Driver’s License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID

- iii. For Stockholders under Broker Accounts:
 - 1. Full name
 - 2. Number of shares held and stock certificate number
 - 3. Address
 - 4. Valid and active email address
 - 5. Valid and active contact number (landline or mobile)
 - 6. A scanned copy of the broker's certificate on the Stockholder's number of shareholdings
 - 7. A scanned copy of the front and back portions of the Stockholder's valid government-issued photo ID, preferably with residential address. Valid types of government-issued photo IDs include the following: Driver's License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID and Senior Citizen ID

b. **Stockholder Registration via Proxy**

To register for the Platform, log on to <https://livenow.ph/SSIGroupASM2020>. Stockholders should complete the online registration form and submit the same for validation. Stockholders will be asked to provide the information and documents listed below (the total size of the files should be no larger than 1MB).

Information to be filled out will include:

- 1. Full name
- 2. Company name
- 3. Number of shares held and stock certificate number
- 4. Valid and active email address
- 5. Valid and active contact number
- 6. Scanned copy of a valid government-issued ID of the certificated Individual Stockholder or Corporate Secretary's Certificate showing authority of the person accomplishing the proxy for Corporate Stockholders.
- 7. Accomplished Proxy form. **Stock brokerage firms may upload their own form with voting instructions.**

Stockholders who cannot or opt not to use the Platform will be allowed to vote through a proxy with instructions to the Chairman of the Meeting. Please submit the proxy with voting instructions (together with documents required for stockholders submitting a proxy) to the Office of the Corporate Secretary by email to corporatesecretary@rgoc.com.ph **on or before 6:00 p.m. on August 31, 2020**. SSI reserves the right to request additional information, and original signed copies of the documents forming part of the registration requirements at a later time.

SSI will validate the registration requirements provided above. The registration of a Stockholder who provides incomplete or inconsistent information will be denied.

Stockholders are advised to register as early as possible.

5. Validation of Registration

- a. Only Stockholders with submitted registration and validated registration may use the Platform to participate in the Meeting.
- b. Registration shall be validated by the Office of the Corporate Secretary in coordination with the Stock Transfer Agent of the Corporation. After passing the validation process, the Stockholder will receive an email confirmation on their successful and validated registration and a link to participate in the Meeting through remote communication.
- c. The registered Stockholder may then proceed to log into the voting website and cast their votes.

6. Voting

All agenda items indicated in the Notice of the Meeting will be set out in the digital absentee ballot and the registered Stockholder may vote as follows:

- a. For all items, except for the Election of Directors, the registered Stockholder has the option to vote: For, Against, or Abstain. The vote is considered cast for all the registered Stockholder's shares.
- b. For the Election of Directors, a Stockholder entitled to vote: (i) may vote such number of shares owned by it for as many persons as there are Directors to be elected; or (ii) may cumulate said shares and give one candidate as many votes as the number of Directors to be elected multiplied by the number of their shares; or (iii) may distribute them on the same principle among as many candidates as may be seen fit.
- c. The Office of the Corporate Secretary and the Corporation's Stock Transfer Agent will tabulate all votes received and will validate the results.

7. Participation at the Virtual Meeting

- a. Stockholders may attend the Meeting on September 10, 2020 at 9:00 a.m. via the link sent to the email address indicated by the Stockholder on the registration form.
- b. For purposes of quorum, only the following Stockholders shall be counted as present:
 - i. Stockholders who have registered and voted on the Platform for voting *in absentia* by September 4, 2020;
 - ii. Stockholders who have sent their proxies via the Platform by August 31, 2020; and
 - iii. Stockholders who have submitted their proxies together with documents required for stockholders submitting a proxy to the Office of the Corporate Secretary by email to corporatesecretary@rgoc.com.ph.
- c. Questions on the registration process, items in the Agenda, and Information Statement may be sent to corporatesecretary@rgoc.com.ph. Questions received on or before September 4, 2020 may be responded to during the Meeting. Any questions not answered during the Meeting shall be answered via email. Stockholders are advised to send in their questions as early as possible.

Annex “B”

MANAGEMENT REPORT

RESULTS OF OPERATIONS

For the years ended December 31, 2019, 2018 and 2017

Key Performance Indicators <i>PhP MM except where indicated</i>	For the years ended December 31		
	2019	2018	2017
Net Sales	22,366	20,230	18,460
Gross Profit – for merchandise sold	10,080	9,312	9,419
Operating Income	1,701	1,270	1,318
Net Income	815	608	275
Gross Selling Space (sq.m.)	118,922	120,305	129,486
Decrease in Gross Selling Space (%)	1.1%	7.1%	6.7%

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

Net sales	Sales, net of VAT, minus sales returns and allowances and sales discounts
Gross profit – merchandise	Net sales minus cost of merchandise sold
Operating income (loss)	Gross profit minus operating expenses
Net income (loss)	Operating income (loss) minus other charges and provision for income tax
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 years ended December 31		
	2019	2018	2017
Key Financial Data			
Net Sales*	22,366	20,230	18,460
Luxury & Bridge	6,588	5,149	4,059
Casual	3,140	2,778	2,359
Fast Fashion	6,853	6,943	6,792
Footwear, Accessories & Luggage	2,405	2,498	2,500
Others	3,379	2,862	2,751
Gross Profit - merchandise*	10,080	9,312	9,419
Gross Profit Margin -merchandise (%)*	45.1%	46.0%	51.0%
Operating Income	1,701	1,270	1,318
Operating Income Margin (%)	7.6%	6.3%	7.1%
Other Income (Charges)	(469)	(360)	(771)
Net Income	815	608	275
Net Income Margin (%)	3.6%	3.0%	1.5%
Core Net Income ⁹	920	727	652
Core Net Income Margin (%)	4.1%	3.6%	3.5%
Total Debt ¹⁰	4,477	5,419	6,194
Net Debt ¹¹	1,984	3,058	4,505
Key Operating Data			
Specialty Retailing			
Number of Brands	95	90	108
Number of Stores	593	596	638
Gross Selling Space (sq.m.)	118,922	120,305	129,486
Decrease in Gross Selling Space (%)	1.1%	7.1%	6.7%
Convenience Stores			
Number of Stores	-	-	67
Gross Selling Space (sq.m.)	-	-	7,871
Decrease in Gross Selling Space (%)	-	-	32.3%

* Includes revenues and costs from sale of merchandise only

2019 vs. 2018

Revenues

Net sales

SSI Group, Inc. (“SSI”, the “Company”, or the “Group”) generated net sales of ₱22.4 billion for the year ended December 31, 2019, an increase of 10.6% over the same period last year. For the fourth quarter alone, sales increased by 16.2% to ₱7.6 billion driven by the strong performances of its luxury, bridge, casual, fast fashion, home and food brands. The Group also posted strong same-store sales growth (SSSG) during the fourth quarter at 8.1% with full year SSSG at 7.2%.

⁹ 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)

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

¹¹ Calculated as Total Debt minus Cash.

The Group's store network included 593 stores nationwide covering a total of approximately 118,922 square meters at the end of 2019. During the fourth quarter, the Group opened 15 stores covering 1,381 square meters, which include the opening of the second Shake Shack restaurant at SM Megamall and the opening of a number of stores in Powerplant Mall, City of Dreams and Solaire. The Group closed four (4) stores covering 717 square meters during the same period.

As of December 31, 2019, the Group's brand portfolio included 95 brands as the Group added Hogan, Pazzion and Laura Mercier during the fourth quarter of 2019.

The following table sets out the Group's number of stores and gross selling space for the years ended December 31, 2019, 2018, and 2017.

Store Network	For the years ended December 31		
	2019	2018	2017
Number of Stores	593	596	638
Luxury & Bridge	147	134	140
Casual	76	74	86
Fast Fashion	58	69	72
Footwear, Accessories & Luggage	158	168	189
Others	154	151	151
Gross Selling Space (sq.m.)	118,922	120,305	129,486
Luxury & Bridge	13,705	13,076	14,203
Casual	12,721	12,954	15,012
Fast Fashion	50,862	51,756	55,655
Footwear, Accessories & Luggage	21,529	22,319	24,236
Others	20,107	20,201	20,381

* Number of Stores for the period excludes stores located in Guam. As of December 31, 2019, the Group operated 1 store in Guam which contributed de minimis sales to the Group's net sales for the period.

Rental income

The Group booked rental income of ₱76.1 million during the year. Rental income relates to the leasing out of certain store spaces at Central Square, the sub-lease of store spaces at NAIA Terminal 3 as well as income derived from parking spaces at Central Square.

Gross Profit

Total gross profit for the year ended December 31, 2019 amounted to ₱10.1 billion, an increase of 8.1% over the same period last year. Gross profit margin for merchandise sold in 2019 was 45.1% as compared to 46.0% over the same period last year.

Operating Expenses

For the year ended December 31, 2019, the Group incurred total operating expenses of ₱8.4 billion, an increase over ₱8.1 billion over the same period last year. As a percentage of sales, total operating expenses decreased by 230 basis points to 37.4% for year ended December 31, 2019. The Group continued to control the increases in total operating expenses reflecting the strategies implemented by the Group to rationalize costs and the Group's efforts to improve its day-to-day operating efficiencies.

Selling and distribution expenses amounted to ₱7.1 billion, a 4.0% increase over the same period last year. The increase was primarily due to increases in credit card charges, supplies and maintenance, taxes and licenses, and the impact of PFRS 16 adoption in rent and depreciation expense, which totaled ₱3.8 billion for the year. As a percentage of net sales, selling and distribution expenses improved to 31.6% in 2019 as compared to 33.6% in 2018.

General and administrative expenses were at ₱1.3 billion. This is a 4.1% increase as compared to 2018 which reflects increases in personnel costs, advertising, and the impact of PFRS 16 adoption in rent and depreciation amounting to a total net increase of ₱48.9 million. General and administrative expenses were stable at 5.8% of net sales in 2019.

As a result of the Group's adoption of PFRS 16, the Group recognized total depreciation and amortization expense related to its right-of-use assets under operating expenses of ₱1.2 billion.

As a result of the foregoing, operating income increased by 33.9% to ₱1.7 billion in 2019 as compared to ₱1.3 billion in 2018.

Other Income (Charges)

Other charges for the year 2019 totaled ₱469.2 million, an increase of 30.3% over the same period last year. The increase was significantly due to the interest expense on lease liability amounting to ₱222.5 million which the Group recognized as a result of the adoption of PFRS 16.

The Group's interest expense related to its loans increased by 4.5% to ₱327.3 million in 2019. The Group also recognized its share in the net earnings of Samsonite Philippines, Inc. (SPI) and of its joint ventures with MUJI Philippines Corp. (MPC) and LMS which totaled ₱106.3 million during the year.

Provision for Income Tax

Provision for income tax in 2019 amounted to ₱416.0 million. This translates to an effective tax rate of 33.8% which reflects the impact of the Group's nontaxable income (for tax purposes) such as its share in the net earnings of its joint ventures and associate as well as nondeductible expenses related to the Group's leases and retirement benefit obligation.

The Group wrote off expiring net loss carry-overs ("NOLCO") amounting to ₱62.1 million during the year.

Net Income

As a result of the foregoing, net income for the year ended December 31, 2019 amounted to ₱815.5 million, an increase of 34.0% as compared to the same period last year. Net income for the fourth quarter of 2019 amounted to ₱294.1 million, an increase of 22.4% 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 ₱919.9 million in 2019, a 26.5% increase as compared to the same period last year. Recurring net income for the fourth quarter of 2019 was ₱353.8 million, a 21.0% increase over the same period last year.

FINANCIAL CONDITION

As of December 31, 2019, the Group had consolidated assets of ₱22.1 billion, an increase of 20.9% as compared to December 31, 2018. The increase is mainly due to the Company's adoption of PFRS 16, *Leases*, which was reflected in Property and Equipment in 2019.

Current Assets

Cash

As of December 31, 2019, cash was at ₱2.5 billion, a 5.6% increase as compared to end 2018. The increase in cash was mainly due to an increase in the operating cash flows of the Group (excluding PFRS 16 impact) by 23.4% to ₱2.6 billion. The Group also made payments of its loans and the related interest expense, net of loan availments, capital expenditures, and dividends amounting to ₱1.3 billion, ₱961. million and ₱50.0 million, respectively.

Trade and Other Receivables

Trade and other receivables amounted to ₱785.7 million at the end of 2019 as compared to ₱678.0 million at end 2018. The increase is primarily attributable to an increase in trade receivables to ₱366.4 million, which consists of receivables from credit card companies. The Group also recognized a dividend receivable of ₱25.2 million from SPI.

Merchandise Inventory

Merchandise inventory as of December 31, 2019 amounted to ₱9.8 billion. This is an increase from ₱9.2 billion in 2018 as a result of higher sales levels during the year as compared to 2018.

Prepayments and other Current Assets

At the end of 2019, prepayments and other current assets were at ₱1.2 billion as compared to ₱1.1 billion in 2018. The increase is due to the increase in advances to suppliers to ₱383.8 million and supplies inventory to ₱476.2 million.

Non-Current Assets

Investment in an Associate

As of December 31, 2019, investment in an associate was at ₱86.8 million as compared ₱54.6 million at the end of 2018. The Group recognized its share in the net income of SPI amounting to ₱57.4 million and received dividends of ₱25.2 million during the year.

Interests in Joint Ventures

Interests in joint ventures amounted to ₱568.9 million, an increase of 9.4% as compared 2018. The increase was due to the Group's share in the net earnings of MPC and LMS during the year totaling ₱49.0 million.

Property and Equipment

As of December 31, 2019, property and equipment were at ₱5.6 billion as compared to ₱2.8 billion at end 2018. The increase was significantly due to the Group's adoption of the new accounting standard for leases which requires the recognition of right-of-use (ROU) assets for finance leases. ROU assets, less the related accumulated depreciation, amounted to ₱2.8 billion at the end of 2019.

During the year, the Group made capital expenditures of ₱961.0 million for new store openings and renovations of existing store, and recognized additional depreciation expense (excluding PFRS 16 impact) of ₱867.5 million.

Deferred Tax Assets

Deferred tax assets as of December 31, 2019 amounted to ₱334.3 million as compared to ₱318.7 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 December 31, 2019, other noncurrent assets amounted to ₱182.4 million as compared to ₱203.1 million. The decline was due to a decrease in miscellaneous deposits to ₱69.3 million, which include advance payments to contractors for the construction and renovation of stores, and a decrease in prepaid rent to nil.

Current Liabilities

As of December 31, 2019, the Group had consolidated current liabilities of ₱8.0 billion, as compared to ₱6.7 billion at the end of 2018. The increase is mainly due to the Company's adoption of PFRS 16, *Leases*, which was reflected in Lease Liabilities in 2019.

Trade and Other Payables

Trade and other payables at the end of 2019 were at ₱2.5 billion as compared to ₱1.5 billion at the end of 2018. The increase was due to increases in trade payables to ₱1.3 billion, reflecting the terms of merchandise deliveries during the year, and nontrade payables to ₱713.8 million, which includes payables to contractors and suppliers of services.

Short-term Loans Payable

Short-term loans payable as of December 31, 2019 amounted to ₱4.1 billion as compared to ₱4.6 billion as the Group reduced its debt levels during the year.

Non- Current Liabilities

Long-term Debt

As of December 31, 2019, the Group's total long-term debt amounted to ₱401.5 million as compared to ₱851.3 million as of end 2018. The decrease reflects the periodic repayments made by the Group on the ₱2.0 billion and ₱500.0 million term loan facilities.

Principal repayments due within the next 12 months are classified as current while those due beyond 12 months are classified as noncurrent. As of December 31, 2019, the current portion amounted to ₱284.0 million while noncurrent was at ₱117.6 million.

Retirement Benefit Obligation

Retirement benefit obligation amounted to ₱600.7 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. The increase in 2019 was significantly due to an increase in the discount rate used in calculating the actuarial valuations. A total of ₱13.2 million in retirement benefits were paid out during the year.

Lease Liabilities

As of December 31, 2019, total lease liabilities amounted to ₱2.8 billion as a result of the Groups adoption of PFRS 16, *Leases*, effective January 1, 2019. Under the new accounting standard, a lease

liability is recognized at the commencement of lease measured at the present value of lease payments to be made over the lease term, discounted using the Company's incremental borrowing rate at the date of initial application. The lease liability is amortized over the life of the lease and is remeasured if there is any modification to the lease terms (e.g. change in lease period, rental rate, etc.)

Lease payments to be made over the next 12 months, less the related interest expense, are classified as current while those to be paid beyond the next 12 months are classified as noncurrent. As of December 31, 2019, the current portion of the Group's lease liabilities amounted to ₱980.1 million while noncurrent portion was at ₱1.9 billion.

Equity

Total equity amounted to ₱11.4 billion, an increase from ₱10.8 billion at the end of 2018. The increase was mainly due to the Group's consolidated net income recognized during the period amounting to ₱815.5 million. In addition, SSI paid dividends in 2019 amounting to ₱50.0 million and recognized other comprehensive losses of ₱148.6 million due to the remeasurement of the Group's retirement benefit obligation.

CASH FLOWS

In 2019, SSI generated operating cash flows of ₱3.8 billion, an increase of 79.0% from the previous year. The ₱3.8 billion of operating cash flows includes the impact of the Group's adoption of PFRS 16. Excluding the impact of the new lease standard, operating cash flows grew by 12.9% to ₱2.4 billion.

Cash flows used in investing activities during the year totaled ₱1.0 billion. This reflects capital expenditures in 2019 for new stores and renovations of existing stores totaling ₱961.0 million. Free cash flows for the year (calculated as operating cash flow, excluding PFRS 16 impact, less capital expenditures) was at ₱1.6 billion.

Net financing cash used in 2019 were at ₱2.6 billion as compared to ₱1.2 billion in 2018. This reflects payments of loans, including related interest, totaling ₱1.3 billion as well as the impact of PFRS 16 amounting to ₱1.3 billion.

2018 vs. 2017

Revenues

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%.

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 year.

Rental income

The Group booked rental income of ₱92.6 million during the year as compared to ₱59.0 million in 2018. Rental income relates to the leasing out of certain store spaces at Central Square, the sub-lease of store spaces at NAIA Terminal 3 as well as income derived from parking spaces at Central Square.

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 expense 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 carryovers (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 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 decrease 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.

RESULTS OF OPERATIONS

For the three months ended March 31, 2020 and 2019

Key Performance Indicators	For the three months ended March 31	
<i>PhP MM except where indicated</i>	2020	2019
Net Sales	4,283	4,921
Gross Profit – merchandise	1,975	2,228
Operating Income	155	306
Net Income	110	171
Gross Selling Space (sq.m.)	118,922	119,754
Decrease in Gross Selling Space (%)	1.1%	5.4%

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

Net sales	Sales, net of VAT, minus sales returns and allowances and sales discounts
Gross profit – merchandise	Net sales minus cost of merchandise sold
Operating income (loss)	Gross profit minus operating expenses
Net income (loss)	Operating income (loss) minus other charges and provision for income tax
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	
	2020	2019
Key Financial Data		
Net Sales	4,283	4,921
Luxury & Bridge	1,282	1,376
Casual	570	637
Fast Fashion	1,439	1,622
Footwear, Accessories & Luggage	378	558
Others	614	729
Gross Profit - merchandise*	1,975	2,228
Gross Profit Margin -merchandise (%)*	46.1%	45.3%
Operating Income	155	306
Operating Income Margin (%)	3.6%	6.2%
Other Income (Charges)	(16)	(58)
Net Income	110	171
Net Income Margin (%)	2.6%	3.5%
Recurring Net Income ¹²	120	184
Recurring Income Margin (%)	2.8%	3.7%
Total Debt ¹³	4,489	4,831
Net Debt ¹⁴	2,917	2,954
Key Operating Data		
Number of Stores	593	594
Gross Selling Space (sq.m.)	118,922	119,754
Decrease in Gross Selling Space (%)	1.1%	5.4%

* Includes revenues and costs from sale of merchandise only

Revenues

Net sales

SSI Group, Inc. ("SSI," the "Company" or the "Group") generated sales of ₱4.3 billion, a decrease of 13.0% as compared to the same period last year. During the first quarter, the Group's operations were impacted by the COVID-19 pandemic and the declaration of an Enhanced Community Quarantine (ECQ) which resulted in the temporary closure of all stores beginning March 17, 2020. As a consequence, the Company saw a steep decline in March 2020 sales.

However, sales in January and February remained healthy with growth of 11.0% as compared to the same period last year. Sales growth of 11.0% during the first two (2) months of the year was achieved despite low mall foot traffic during the period of the Taal volcano eruption in January, and the general public's concerns regarding COVID-19, with awareness of COVID-19 becoming widespread at the end of January.

In compliance with government regulations, the Group reopened its two (2) Shake Shack restaurants on April 16, 2020. The balance of the Group's stores reopened on June 1, 2020.

¹² 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

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

¹⁴ Calculated as Total Debt minus Cash

As of March 31, 2020, the Group's store network included 593 stores nationwide covering approximately 118,447 square meters. During the first three months of 2020, the Group opened six (6) stores covering 454 square meters and permanently closed six (6) stores covering 929 square meters.

As of March 31, 2020, the Group had 95 brands in its brand portfolio, with no brands added or discontinued during the first quarter of 2020.

The following table sets out the Group's number of stores and gross selling space for the periods ended March 31, 2020 and 2019 and for the year ended December 31, 2019.

Store Network	March 31		December 31
	2020	2019	2019
Number of Stores*	593	594	593
Luxury & Bridge	148	134	147
Casual	76	75	76
Fast Fashion	58	65	58
Footwear, Accessories & Luggage	158	166	158
Others	153	154	154
Gross Selling Space (sq.m.)	118,447	119,754	118,922
Luxury & Bridge	13,852	12,959	13,705
Casual	12,721	13,110	12,721
Fast Fashion	50,862	50,656	50,862
Footwear, Accessories & Luggage	21,100	22,429	21,529
Others	19,913	20,601	20,107

* Number of stores for the period excludes the store located in Guam. As of March 31, 2020, the Group operated one (1) store in Guam which contributed de minimis sales to the Group's net sales for the period.

Rental income

The Group booked rental income of ₱13.3 million during the first quarter of 2020. Rental income relates to the leasing out of certain store spaces at Central Square, the sub-lease of store spaces at NAIA Terminal 3 as well as income derived from parking spaces at Central Square.

Gross Profit

Gross profit for the first three months of the year amounted to ₱2.0 billion, a decrease of 11.6% over the same period in 2019. The decrease was mainly a function of the decrease in sales due to the temporary closure of stores nationwide during the last two weeks of the quarter.

Gross profit margin for merchandise sold during the three-month period was 46.1% as compared to 45.3% during the same period last year.

Operating Expenses

During the first three months of 2020, the Group incurred total operating expenses of ₱1.8 billion, a 5.6% decrease over ₱1.9 billion incurred in 2019. As a percentage of net sales, however, total operating expenses increased to 42.7% of net sales as compared to 39.4% during the same period last year. The increase in the opex to net sales ratio reflects the impact of the temporary closure of the Group's stores beginning March 17, 2020.

Selling and distribution expenses during the first quarter of 2019 were at ₱1.5 billion which is a decrease of 6.8% over ₱1.6 billion during the same period in 2019. The decrease was primarily due to decreases in rent expense to ₱410.5 million, utilities to ₱102.4 million, and credit card charges to ₱81.4 million. As a percentage of net sales, selling and distribution expenses were at 35.5% during the period ended March 31, 2020 as compared to 33.1% during the same period last year. The decrease in rental expense, utilities expense and credit card charges are all attributable to the temporary closure of the Group's stores beginning March 17.

General and administrative expenses during the period were at ₱311.1 million as compared ₱309.5 million during the same quarter last year. The 0.5% increase was primarily attributable to an increase in personnel costs to ₱170.7 million.

As a result of the foregoing, operating income for the first three months of 2020 amounted to ₱155.3 million as compared to ₱306.0 million during the same period last year.

Other Income (Charges)

The Group incurred other charges of ₱16.0 million during the first quarter of 2020 as compared to ₱58.2 million during the same period last year. The decrease was mainly due to lower interest expense incurred reflecting lower average debt levels and lower average interest rates during the period.

Provision for Income Tax

Provision for income tax for the three months March 31, 2020 amounted to ₱29.4 million, which translates to an effective tax rate of 21.1%.

Net Income

As a result of the foregoing, net income for the first quarter of 2020 amounted to ₱109.9 million, a decrease of 35.6% as compared to the same period last year.

FINANCIAL CONDITION

As of March 31, 2020, the Group had consolidated assets of ₱21.8 billion, a 1.4% decrease as compared to ₱22.1 billion as of December 31, 2019.

Current Assets

As of March 31, 2020, the Group had consolidated current assets of ₱14.0 billion, as compared to ₱14.3 billion as of December 31, 2019.

Cash

As of March 31, 2020, cash amounted to ₱1.6 billion as compared to ₱2.5 billion at the end of 2019. The decrease was primarily due to cash flows used in operating activities amounting to ₱637.4 million. payment of capital expenditures amounting to ₱156.0 million, and the Group's payment of its loans and related interest, net of availments, amounting to ₱111.2 million.

Merchandise Inventory

As of March 31, 2020, merchandise inventory amounted to ₱10.4 billion as compared to ₱9.8 billion at the end of 2019. Higher inventory levels are a result of reduced sales due to temporary store closures.

Prepayments and other Current Assets

As of March 31, 2020, prepayments and other current assets amounted to ₱1.3 billion as compared to ₱1.2 billion at the end of 2019. The increase was mainly because of increases in prepaid tax to ₱96.8 million, advances to suppliers to ₱437.3 million, and deferred input VAT to ₱40.3 million.

Non-Current Assets

Investment in an Associate

As of March 31, 2020, investment in an associate amounted to ₱105.1 million as compared to ₱86.8 million at the end of 2019. The increase reflects the Group's share in the net earnings of SPI during the period amounting to ₱18.4 million.

Deferred Tax Assets

As of March 31, 2020, deferred tax assets amounted to ₱376.0 million as compared to ₱334.3 million at the end of 2019. 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, 2020, other noncurrent assets amounted to ₱193.8 million as compared to ₱182.4 million at the end of 2019. The 6.2% increase was mainly due to an increase in miscellaneous deposits to ₱88.9 million, which include advance payments to contractors for the construction and renovation of stores.

Current Liabilities

As of March 31, 2020, the Group's total consolidated current liabilities amounted to ₱ 7.8 billion as compared to ₱8.1 billion at the end of 2019.

Trade and Other Payables

As of March 31, 2020, trade and other payables amounted to ₱2.1 billion as compared to ₱2.5 billion at the end of 2019. The 17.4% decrease primarily reflects decreases in nontrade payables, accrued expenses and output VAT, which decreased by a total of ₱361.0 million. Trade payables increased to ₱1.5 billion during the first quarter of 2020, from ₱1.3 billion, reflecting payment terms during the period.

Non- Current Liabilities

Long-term Debt

As of March 31, 2020, the Group's total long-term debt amounted to ₱288.8 million as compared to ₱401.5 million at the end of 2019. The decrease reflects the Group's quarterly repayments on the ₱2.0 billion and ₱500.0 million term loan facilities. Principal repayments due within the next 12 months are classified as current while those due beyond 12 months are classified as noncurrent. As of March 31, 2020, current portion amounted to ₱284.0 million while noncurrent was at ₱4.8 million.

Equity

As of March 31, 2020, equity amounted to ₱11.5 billion as compared to ₱11.4 billion at the end of 2019. The increase reflects the Group's net income for the first quarter of 2019 amounting to ₱109.9

million. SSI also bought additional treasury shares out of its unrestricted retained earnings during the period amounting to ₱12.8 million.

CASH FLOWS

The Group generated operating cash flows before working capital changes of ₱477.0 million during the first quarter of 2020. However, an increase in merchandise inventories and a decrease in trade and other payables totaling ₱1.1 billion contributed to the net decrease, bringing the cash from operating activities to the amount of ₱637.4 million.

Cash flows used in investing activities amounted to ₱158.8 million reflecting the Group's payments for capital expenditures during the period.

During the first three months of 2020, the Group made repayments of its loans and the related interest, net of availments, amounting to ₱111.2 million and purchased treasury shares worth ₱12.8 million.

RESULTS OF OPERATIONS

For the six months ended June 30, 2020 and 2019

Key Performance Indicators	For the six months ended June 30	
<i>PhP MM except where indicated</i>	2020	2019
Net Sales	5,021	9,851
Gross Profit – merchandise	2,299	4,531
Operating Income (Loss)	(403)	668
Net Income (Loss)	(476)	346
Gross Selling Space (sq.m.)	116,596	116,345
Increase (Decrease) in Gross Selling Space (%)	0.2%	(6.4%)

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

Net sales	Sales, net of VAT, minus sales returns and allowances and sales discounts
Gross profit – merchandise	Net sales minus cost of merchandise sold
Operating income (loss)	Gross profit minus operating expenses
Net income (loss)	Operating income (loss) minus other charges and provision for income tax
Gross selling space	Sum of floor area of all stores of the Group

Key Financial and Operating Data	For the six months ended June 30	
<i>PhP MM except where indicated</i>	2020	2019
Key Financial Data		
Net Sales	5,021	9,851
Luxury & Bridge	1,527	2,813
Casual	652	1,271
Fast Fashion	1,662	3,090
Footwear, Accessories & Luggage	430	1,174
Others	750	1,503
Gross Profit – merchandise ¹⁵	2,299	4,531
Gross Profit Margin – merchandise (%)	45.8%	46.0%
Operating Income (Loss)	(403)	668
Operating Income Margin (%)	(8.0%)	6.8%
Other Income (Charges)	(223)	(165)
Net Income (Loss)	(476)	346
Net Income Margin (%)	(9.5%)	3.5%
Total Debt ¹⁶	7,286	5,128
Net Debt ¹⁷	4,289	3,357
Key Operating Data		
Number of Brands	95	90
Number of Stores	583	593
Gross Selling Space (sq.m.)	116,596	116,345
Increase (Decrease) in Gross Selling Space (%)	0.2%	(6.4%)

Revenues

Net sales

SSI Group, Inc. (“SSI,” the “Company” or the “Group”) generated sales of ₱5.0 billion, a decrease of 49.0% as compared to the same period last year. The Group’s operations were heavily affected by the COVID-19 pandemic and the declaration of the Enhanced Community Quarantine (ECQ) which mandated the temporary closure of all of the Group’s brick and mortar stores from March 17, 2020 to May 15, 2020. On May 16, following the declaration of a Modified Enhanced Community Quarantine (MECQ), the Group reopened around 10% of its store network.

The Group was able to reopen substantially all of its store network on June 1, 2020 following the declaration of a General Community Quarantine (GCQ).

In compliance with government regulations, the Group reopened its two (2) Shake Shack restaurants for delivery on April 16, 2020, and for delivery and dine in from June 1, 2020. The Group’s SaladStop! restaurants also reopened for delivery and dine in on June 1, 2020. The Group reopened two (2) Marks & Spencer food stores on April 16, 2020.

The Group’s nine (9) e-commerce sites, bananarepublic.com.ph, beautybar.com.ph, dunelondon.ph, gap.com.ph, lacoste.com.ph, lush.com.ph, payless.com.ph, superga.ph and zara.com/ph continued to accept orders through the ECQ period. However, in compliance with government directives, orders

¹⁵ Calculated as Net Sales minus Cost of Merchandise Sold

¹⁶ Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt

¹⁷ Calculated as Total Debt minus Cash

could only be fulfilled beginning April 7 for the Lush and Beauty Bar websites, and beginning May 15 for the rest of the Group's e-commerce sites.

The Group opened the digital flagship for Marks & Spencer on May 16, 2020. This can be found at marksandspencer.com.ph, and apart from clothing and fashion items, it also carries personal care and food items.

On May 21, 2020 the Group launched "The Specialist," an At Home concierge service that provides customers with the ability to shop across the entire range of the Group's brands via a dedicated personal shopper.

As of June 30, 2020, the Group had 95 brands in its portfolio, with no brands added or discontinued during the second quarter of the year.

The following table sets out the Group's number of stores and gross selling space for the periods ended June 30, 2020 and 2019 and for the year ended December 31, 2019.

Store Network	June 30		December 31
	2020	2019	2019
Number of Stores*	583	593	593
Luxury & Bridge	146	140	147
Casual	74	75	76
Fast Fashion	57	56	58
Footwear, Accessories & Luggage	156	163	158
Others	150	159	154
Gross Selling Space (sq.m.)	116,596	116,345	118,922
Luxury & Bridge	13,711	13,261	13,705
Casual	12,273	12,814	12,721
Fast Fashion	50,074	46,671	50,862
Footwear, Accessories & Luggage	20,980	22,192	21,529
Others	19,558	21,407	20,107

* Number of stores for the period excludes the store located in Guam. As of June 30, 2020, the Group operated one (1) store in Guam which contributed de minimis sales to the Group's net sales for the period.

Rental income

The Group booked rental income of ₱18.2 million during the first half of 2020. Rental income relates to the leasing out of certain store spaces at Central Square, the sub-lease of store spaces at NAIA Terminal 3 as well as income derived from parking spaces at Central Square.

Gross Profit

Gross profit for the first six months of the year amounted to ₱2.3 billion, a 49.3% decrease as compared to the same period last year. The decrease was mainly a function of the decrease in net sales as a result of the temporary store closures during the period.

Gross profit margin for merchandise sold during the six-month period was 45.8% as compared to 46.0% during the same period last year.

Operating Expenses

During the first half of the year, the Group incurred total operating expenses of ₱2.7 billion, a 30.2% decrease as compared to the same period last year. However, as a percentage of net sales, total operating expenses were at 54.1% of net sales as compared to 39.5% during the same period in 2019. The increase in opex to net sales ratio reflects the temporary closure of almost all stores from March 17 to May 31 this year.

Selling and distribution expenses were at ₱2.2 billion during the first half of 2020, 32.3% decrease as compared to the same period last year. The decrease was linked to the closure of the Group's stores which resulted in decreases in utilities, personnel costs, credit card charges, global marketing contribution fee, supplies and rent (net of increase in depreciation expense) by a total of ₱925.4 million. As a percentage of net sales, selling and distribution expenses were at 43.5% as compared to 32.8% during the same period last year.

General and administrative expenses amounted to ₱528.1 million for the period ended June 30, 2020. This is a 20.4% decrease as compared to the same period last year reflecting decreases in personnel costs, utilities, travel and transportation, and repairs and maintenance, which decreased by a total of - ₱96.6 million. General and administrative expenses were at 10.5% of net sales for the six months ended June 30, 2020 as compared to 6.7% during the same period last year.

As a result of the foregoing, the Group incurred an operating loss of ₱403.0 million during the first half of 2020.

Other Income (Charges)

The Group incurred other charges of ₱223.2 million during the first half of the year, an increase of 35.0% as compared to same period last year. The increase is primarily due to the impact of the Group's adoption of PFRS 16, *Leases*, which resulted to additional interest expense on lease liabilities recognized amounting to ₱89.6 million during the period.

Provision for Income Tax

Benefit from income tax for the six months ended June 30, 2020 amounted to ₱149.9 million, which translates to an effective tax rate of 23.9%.

Net Income

As a result of the foregoing, the Group's net loss for the first half of 2020 amounted to ₱476.3 million as compared to ₱345.9 million net income during the same period last year.

FINANCIAL CONDITION

As of June 30, 2020, the Group had consolidated assets of ₱23.1 billion as compared to ₱22.1 billion as of December 31, 2019.

Current Assets

As of June 30, 2020, the Group had consolidated current assets of ₱15.9 billion, as compared to ₱14.3 billion as of December 31, 2019.

Cash

As of June 30, 2020, cash amounted to ₱3.0 billion as compared to ₱2.5 billion at the end of 2019. During the first six months of year, the Group availed additional loans amounting to ₱3.0 billion and received dividends of ₱25.2 million from Samsonite Philippines, Inc. (SPI). The Group used ₱1.3

billion in its operations, repaid its existing loans, including related interest, amounting to ₱388.2 million, and used ₱255.2 million for capital expenditures during the period.

Trade and Other Receivables

As of June 30, 2020, trade and other receivables amounted to ₱713.8 million as compared to ₱785.7 million at the end of 2019. The decrease is mainly attributable to a decrease in trade receivables to ₱336.5 million, which consist primarily of receivables from credit card companies, and the collection of dividends from SPI during the period.

Merchandise Inventory

As of June 30, 2020, merchandise inventory amounted to ₱10.9 billion as compared to ₱9.8 billion at the end of 2019 and ₱10.1 billion at the end of June 2019. The increase was a result of lower sales levels due to the temporary store closures during the period.

Non-Current Assets

Investment in an Associate

As of June 30, 2020, investment in an associate amounted to ₱102.3 million as compared to ₱86.8 million at the end of 2019. The increase reflects the Group's share in the net earnings of SPI amounting to ₱15.6 million.

Property and Equipment

As of June 30, 2020, property and equipment amounted to ₱4.9 billion as compared to ₱5.6 billion at the end of 2019. The decrease is primarily attributable to additional depreciation expense recognized during the period amounting to ₱954.0 million. The Group also made capital expenditures amounting to ₱255.2 million during the first half of the year.

Deferred Tax Assets

As of June 30, 2020, deferred tax assets amounted to ₱492.9 million as compared to ₱334.3 million at the end of 2019. 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 June 30, 2020, other noncurrent assets amounted to ₱172.5 million as compared to ₱182.4 million at the end of 2019. The decrease was mainly due to the decrease in deferred input VAT to nil during the period.

Current Liabilities

As of June 30, 2020, the Group's total consolidated current liabilities amounted to ₱9.9 billion as compared to ₱8.1 billion at the end of 2019.

Trade and Other Payables

As of June 30, 2020, trade and other payables amounted to ₱1.9 billion as compared to ₱2.5 billion at the end of 2019. The decrease is due to decreases in nontrade payables, accrued expenses, output VAT and tenant deposits which decreased by a total of ₱628.4 million. Trade payables increased to ₱1.3 billion as the Group negotiated with brand principals for lengthened payment terms during the period.

Short-term Loans Payable

As of June 30, 2020, short-term loans payable amounted to ₱7.1 billion as compared to ₱4.1 billion at the end of 2019. The Group drew on additional lines to increase its cash reserves during the period.

Non- Current Liabilities

Long-term Debt

As of June 30, 2020, total long-term debt amounted to ₱176.1 million as compared ₱401.5 million at the end of 2019. The decrease reflects quarterly repayments of the ₱500.0 million long-term loan and the full repayment of the Group's syndicated term loan facility during the period. As of the end of June 2020, current portion of long-term debt, or principal repayments due within the next 12 months, amounted to ₱171.2 million, while the noncurrent portion of the long-term debt was at ₱4.8 million.

Equity

As of June 30, 2020, total equity amounted to ₱10.9 billion as compared to ₱11.4 billion at the end of 2019. The decrease is largely attributable to the net loss incurred by the Group amounting to ₱476.3 million.

CASH FLOWS

The Group generated operating cash flows before working capital changes of ₱609.4 million during the first six months of 2020. However, an increase in merchandise inventories and a decrease in trade and other payables totaling ₱1.8 billion contributed to the net decrease, bringing the cash used in operating activities to ₱1.3 billion.

Cash flows used in investing activities amounted to ₱252.3 million primarily reflecting the Group's payments for capital expenditures during the period.

During the first half of 2020, the Group drew on additional lines to increase cash reserves amounting to ₱2.6 billion (net of loan and interest payments.)

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) The closure of substantially all of the Group's stores from March 17, 2020 to May 31, 2020 are expected to have a material impact on the Group's revenues in 2020.
- (vi) There were no significant elements of income or loss that did not arise from continuing operations.
- (vii) The Group usually 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, 2019, SSI’s retail network consists of 593 stores located within approximately 86 major malls across the Philippines, including Metro Manila, Luzon, Visayas and Mindanao, with a total gross selling space of approximately 118,922 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 and second quarters of 2020 and for the years 2019 and 2018:

	<u>High</u>	<u>Low</u>
<u>2020</u>		
1st Quarter	2.82	0.93
2nd Quarter	1.39	1.06
<u>2019</u>		
1st Quarter	2.53	2.09
2nd Quarter	3.60	2.41
3rd Quarter	3.56	2.68
4th Quarter	2.86	2.43
<u>2018</u>		
1st Quarter	3.40	2.60
2nd Quarter	2.75	1.82
3rd Quarter	2.40	1.81
4th Quarter	2.84	2.21

The market capitalization of SSI Group, Inc.'s common shares as of December 31, 2019, based on the closing price of ₱2.78 per share, was approximately ₱9.2 billion.

The stock price of SSI Group, Inc.'s common shares as of August 13, 2020 is ₱1.05 per share translating to a market capitalization of approximately ₱3.5 billion.

HOLDERS

The number of registered shareholders as of June 30, 2020 was 48. Outstanding common shares as of June 30, 2020 were 3,298,408,430.

The following are the top 20 registered holders of SSI Group, Inc.'s common shares as of June 30, 2020:

No.	Name of Shareholder	Number of Common Shares Held	Percent to Total Outstanding Common Shares
1	PCD Nominee Corporation (Filipino)	605,823,945	18.3672%
2	Wellborn Holdings, Inc.	467,043,679	14.1597%
3	Marjorisca Incorporated	434,440,400	13.1712%
4	Birdseyeview, Inc.	434,412,500	13.1704%
5	PCD Nominee Corporation (Non-Filipino)	432,410,234	13.1097%
6	Educar Holdings Corporation	415,753,800	12.6047%
7	Bordeaux Holdings, Inc.	414,967,821	12.5809%
8	Valbuena, Maria Elena T.	31,603,479	0.9581%
9	Tantoco, Maria Teresa Rustia	31,601,431	0.9581%
10	Lopez, Maria Carmencita T.	30,244,090	0.9169%

No.	Name of Shareholder	Number of Common Shares Held	Percent to Total Outstanding Common Shares
11	Edgardo M. Pineda	600,000	0.0182%
12	Iyo, Sarah Bismark	265,000	0.0080%
13	Goldclass Inc.	75,000	0.0023%
14	Natalya Ann I. Lagdameo	66,000	0.0020%
15	Salvador E. Lagdameo	34,000	0.0010%
16	Go, Giselle Karen Y.	10,000	0.0003%
17	Joselito C. Herrera	7,000	0.0002%
18	Tacub, Pacifico B.	7,000	0.0002%
19	Stephen T. Teo &/Or Teresita R. Teo	6,000	0.0002%
20	Wee, Joseph	5,000	0.0002%

DIVIDENDS

The Board of Directors of SSI Group, Inc. approved the declaration of cash dividends from the unrestricted retained earnings as follows:

	2018	2019
Dividend per share	₱0.013	₱0.0151
Record Date	06 July 2018	10 July 2019
Payment Date	01 August 2018	05 August 2019

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.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **SSI Group, Inc. and its Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, 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 not realistic alternative but 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 or members.

SyCip Gorres Velayo & Co., the independent auditors 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 or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature 
ZENALDA R. TANTOCO – Chairman of the Board

Signature 
ZENALDA R. TANTOCO – Chief Executive Officer

Signature 
ANTHONY T. HUANG - President

Signature 
MA. TERESA R. TANTOCO - Treasurer

SUBSCRIBED AND SWORN to before me this JUN 30 2020 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

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Series of 2020.


RUBEN T.M. RAMIREZ
Notary Public for Makati City
Until Decemeber 31, 2021
2086 E. Pasqua St., Makati City
IBP O.R. No. 097071/ December 10, 2019
Roll No. 28947/MCLE No. VI-0020246.
PTR No. MKT 8117044/1-02-2020
Appointment No. M-158

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 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.



Adoption of PFRS 16

Effective on January 1, 2019, the Group adopted PFRS 16 *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases, specifically those formerly classified as operating lease arrangements where the Group is the lessee. The Group's adoption of PFRS 16 is significant to our audit because the Group has several lease agreements with recorded amounts that are material to the consolidated financial statements; the adoption involves the application of significant judgment and estimation in determining the incremental borrowing rates and the lease term, including evaluating whether the extension option is enforceable, and whether the Group is reasonably certain to exercise the option to extend or terminate the lease. The Group recognized right of use assets of ₱3,340.15 million and lease liabilities of ₱3,343.22 million as of January 1, 2019, and depreciation expense and interest expense totaling ₱1,172.59 million and ₱222.54 million, respectively, for the year ended December 31, 2019. The Group also recognized variable lease payments and rent expense relating to short-term leases amounting to ₱927.29 million and ₱13.93 million, respectively, in 2019. The disclosures related to the adoption of PFRS 16 applied by the Group are included in Notes 2 and 26 to the consolidated financial statements.

Audit Response

We obtained an understanding and evaluated the Group's implementation process, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low-value lease exemption, the selection of the transition approach and any election of available practical expedients. We tested the population of lease agreements by tracing the lease agreements to the lease contracts database of the Group. On a test basis, we inspected lease agreements, identified and traced the contractual terms and conditions to the lease calculations prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments. For selected lease contracts with renewal and/or termination options, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We tested the lease calculation prepared by management on a sample basis, including the transition adjustments. We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and Philippine Accounting Standard 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Existence and Completeness of Merchandise Inventories

The merchandise inventories balance as at December 31, 2019 amounting to ₱9.82 billion represents 44.50% of the consolidated assets. The Group operates 593 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. The test counts were selected by considering the value and the risk related to the inventory. 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 by verifying the movement through vouching of the selected samples.

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 the out-of-season, damaged or soiled inventories are properly tagged as such. We reviewed the list of damaged and soiled inventories as of December 31, 2019 and inquired from management about its sales plan on these inventories. We also reviewed through vouching 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 Taxes

As of December 31, 2019, deferred tax assets on net operating loss carry over (NOLCO) of certain subsidiaries that were in tax loss positions in the past years amounted to ₱99.71 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 forecast and tax strategies. We evaluated management's forecast by comparing it with the historical performance and by considering management's plan and strategies for the next 3 years. 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, 2019, 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, 2019 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. 8125318, January 7, 2020, Makati City

June 26, 2020



SSI GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash (Note 4)	₱2,492,459,933	₱2,360,460,924
Trade and other receivables (Note 5)	785,743,181	678,035,439
Merchandise inventories (Note 6)	9,818,880,088	9,245,189,954
Prepayments and other current assets (Note 7)	1,167,736,212	1,065,252,880
Total Current Assets	14,264,819,414	13,348,939,197
Noncurrent Assets		
Investment in an associate (Note 8)	86,776,792	54,594,522
Interests in joint ventures (Note 9)	568,859,842	519,849,166
Property and equipment (Note 10)	5,592,880,009	2,806,005,348
Deferred tax assets - net (Note 22)	334,276,084	302,802,810
Security deposits and construction bonds (Note 26)	1,035,414,362	1,018,278,699
Other noncurrent assets (Note 11)	182,435,276	203,088,344
Total Noncurrent Assets	7,800,642,365	4,904,618,889
TOTAL ASSETS	₱22,065,461,779	₱18,253,558,086
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱2,531,640,071	₱1,523,808,064
Short-term loans payable (Note 13)	4,075,000,000	4,567,500,000
Current portion of long-term debt (Note 13)	283,986,981	449,848,015
Current portion of lease liabilities (Note 26)	980,470,908	-
Deferred revenue	20,991,291	21,289,644
Income tax payable	162,001,413	102,659,616
Total Current Liabilities	8,054,090,664	6,665,105,339
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 13)	117,554,404	401,418,108
Retirement benefit obligation (Note 21)	600,692,107	335,528,882
Lease liabilities - net of current portion (Note 26)	1,851,991,876	-
Tenant deposits (Note 26)	19,864,451	33,770,004
Total Noncurrent Liabilities	2,590,102,838	770,716,994
Total Liabilities	10,644,193,502	7,435,822,333
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
Treasury shares	(18,103,900)	(7,558,440)
Retained earnings		
Appropriated	1,100,000,000	1,100,000,000
Unappropriated	4,664,505,311	3,901,797,763
Cumulative translation adjustment	(2,169,584)	(2,123,272)
Other comprehensive loss	(155,137,693)	(6,554,441)
Total Equity	11,421,268,277	10,817,735,753
TOTAL LIABILITIES AND EQUITY	₱22,065,461,779	₱18,253,558,086

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2019	2018	2017
REVENUES			
Revenue from contracts with customers - net sales (Note 14)	₱22,365,831,939	₱20,230,229,985	₱18,460,229,561
Rental income (Note 26)	76,070,748	92,646,476	59,012,060
	22,441,902,687	20,322,876,461	18,519,241,621
COSTS OF GOODS SOLD AND SERVICES (Note 15)	(12,346,225,569)	(10,980,770,953)	(9,086,696,966)
GROSS PROFIT	10,095,677,118	9,342,105,508	9,432,544,655
OPERATING EXPENSES			
Selling and distribution (Note 16)	7,095,912,730	6,823,505,764	6,894,116,141
General and administrative (Note 17)	1,299,092,427	1,248,201,475	1,220,364,546
	8,395,005,157	8,071,707,239	8,114,480,687
OTHER INCOME (CHARGES)			
Interest expense (Notes 13 and 26)	(549,866,677)	(313,179,531)	(290,511,398)
Loss on stores closures and disposals of property and equipment (Note 10)	(60,403,364)	(116,801,723)	(280,497,714)
Share in net earnings of associate (Note 8)	57,382,270	43,293,160	35,547,906
Share in net earnings (losses) of joint ventures (Note 9)	49,010,676	34,474,641	(100,024,150)
Foreign exchange losses - net	(16,786,745)	(23,523,139)	(37,245,889)
Interest income (Notes 4, 5 and 26)	20,469,580	13,169,002	13,086,497
Impairment losses on interest in joint ventures and amounts owed by related parties (Notes 9 and 20)	-	-	(76,120,907)
Others - net	31,025,242	2,386,197	(34,784,901)
	(469,169,018)	(360,181,393)	(770,550,556)
INCOME BEFORE INCOME TAX	1,231,502,943	910,216,876	547,513,412
PROVISION FOR (BENEFIT FROM) INCOME TAX			
(Note 22)			
Current	392,469,642	327,502,013	330,069,837
Deferred	23,542,684	(25,719,597)	(57,818,729)
	416,012,326	301,782,416	272,251,108
NET INCOME	815,490,617	608,434,460	275,262,304
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Cumulative translation adjustment on foreign operations	(46,312)	580,368	(99,653)
<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)	(148,583,252)	63,378,575	(3,510,539)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(148,629,564)	63,958,943	(3,610,192)
TOTAL COMPREHENSIVE INCOME	₱666,861,053	₱672,393,403	₱271,652,112
BASIC/DILUTED EARNINGS PER SHARE (Note 23)	₱0.25	₱0.18	₱0.08

See accompanying Notes to Consolidated Financial Statements.



SSI GROUP, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**

	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, 2017	₱3,312,864,430	₱2,519,309,713	₱33,640,983	₱-	₱1,115,000,000	₱3,054,450,420	(₱2,603,987)	(₱66,422,477)	₱9,966,239,082
Net income	-	-	-	-	-	275,262,304	-	-	275,262,304
Other comprehensive loss	-	-	-	-	-	-	-	(3,510,539)	(3,510,539)
Exchange differences on translation	-	-	-	-	-	-	(99,653)	-	(99,653)
Total comprehensive income (loss) for the year	-	-	-	-	-	275,262,304	(99,653)	(3,510,539)	271,652,112
Reversal of appropriation of retained earnings (Note 28)	-	-	-	-	(1,115,000,000)	1,115,000,000	-	-	-
Additional appropriation of retained earnings (Note 28)	-	-	-	-	1,402,500,000	(1,402,500,000)	-	-	-
Treasury shares (Note 28)	-	-	-	(457,280)	-	-	-	-	(457,280)
Balances at December 31, 2017	₱3,312,864,430	₱2,519,309,713	₱33,640,983	(₱457,280)	₱1,402,500,000	₱3,042,212,724	(₱2,703,640)	(₱69,933,016)	₱10,237,433,914
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	-	-	-	-	-	(12,776,500)	-	-	(12,776,500)
Balances at January 1, 2018, as adjusted	3,312,864,430	2,519,309,713	33,640,983	(457,280)	1,402,500,000	3,029,436,224	(2,703,640)	(69,933,016)	10,224,657,414
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)
Balances at December 31, 2018	₱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

(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, 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
Effect of adoption of new accounting standards (Note 2)	-	-	-	-	-	(2,825,785)	-	-	(2,825,785)
Balances at January 1, 2019, as adjusted	3,312,864,430	2,519,309,713	-	(7,558,440)	1,100,000,000	3,898,971,978	(2,123,272)	(6,554,441)	10,814,909,968
Net income	-	-	-	-	-	815,490,617	-	-	815,490,617
Other comprehensive income	-	-	-	-	-	-	-	(148,583,252)	(148,583,252)
Exchange differences on translation	-	-	-	-	-	-	(46,312)	-	(46,312)
Total comprehensive income for the year	-	-	-	-	-	815,490,617	(46,312)	(148,583,252)	666,861,053
Dividend payment (Note 28)	-	-	-	-	-	(49,957,284)	-	-	(49,957,284)
Treasury shares (Note 28)	-	-	-	(10,545,460)	-	-	-	-	(10,545,460)
Balances at December 31, 2019	₱3,312,864,430	₱2,519,309,713	₱-	(₱18,103,900)	₱1,100,000,000	₱4,664,505,311	(₱2,169,584)	(₱155,137,693)	₱11,421,268,277



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

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱1,231,502,943	₱910,216,876	₱547,513,412
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Notes 10, 11 and 19)	2,051,127,090	870,440,240	1,102,399,859
Interest expense (Note 13)	549,866,677	313,179,531	290,511,398
Loss on stores closures and disposals of property and equipment (Note 10)	60,403,364	116,801,723	280,497,714
Movement in retirement benefit obligation	52,901,437	47,040,436	28,679,703
Loss on derecognition of franchise cost (Note 11)	7,056,917	-	-
Unrealized foreign exchange losses - net	3,759,307	9,962,116	1,407,517
Share in net earnings of associate (Note 8)	(57,382,270)	(43,293,160)	(35,547,906)
Share in net losses (earnings) of joint ventures (Note 9)	(49,010,676)	(34,474,641)	100,024,150
Interest accretion on refundable deposits (Note 26)	(12,412,182)	(8,813,071)	(10,180,158)
Interest income (Notes 4 and 26)	(8,057,398)	(4,355,931)	(2,906,339)
Impairment losses on interest in joint ventures and amounts owed by related parties (Notes 9 and 20)	-	-	76,120,907
Operating income before working capital changes	3,829,755,209	2,176,704,119	2,378,520,257
Decrease (increase) in:			
Trade and other receivables	(81,553,440)	112,339,661	15,961,093
Merchandise inventories	(573,690,134)	178,676,689	71,811,690
Prepayments and other current assets	(114,273,856)	283,214,524	(194,836,635)
Increase (decrease) in:			
Trade and other payables	1,054,946,814	(304,446,839)	64,818,465
Deferred revenue	(298,353)	(4,855,288)	1,810,832
Tenant deposits	(13,905,553)	(1,008,740)	26,006
Net cash generated from operations	4,100,980,687	2,440,624,126	2,338,111,708
Interest received	8,057,398	4,355,931	2,906,339
Income taxes paid, including creditable withholding tax	(333,127,845)	(335,917,519)	(377,344,608)
Net cash flows provided by operating activities	3,775,910,240	2,109,062,538	1,963,673,439
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Notes 10 and 29)	(960,963,076)	(434,409,417)	(376,372,698)
Payment of franchise cost and software	(16,161,936)	-	-
Decrease (increase) in amounts owed by related parties	-	196,132,537	(86,551,892)
Decrease (increase) in:			
Security deposits and construction bonds	(4,723,481)	10,373,156	14,369,970
Other noncurrent assets	(19,422,410)	(114,409,690)	(287,484)
Dividends received from investment in an associate (Note 8)	-	76,000,000	26,000,000
Return of capital from SSRI (Note 9)	-	-	140,072,217
Additional interests in joint ventures (Note 9)	-	-	(89,250,000)
Proceeds from insurance claims	-	-	65,000,000
Net cash flows used in investing activities	(1,001,270,903)	(266,313,414)	(307,019,887)

(Forward)



	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term loans payable (Note 13)	₱5,162,500,000	₱7,975,000,000	₱2,050,000,000
Payments of:			
Short-term loans payable (Note 13)	(5,655,000,000)	(7,602,500,000)	(1,867,000,000)
Principal portion of lease liabilities (Note 26)	(1,088,308,169)	–	–
Long-term debt (Note 13)	(450,973,334)	(1,150,215,216)	(922,743,334)
Interest (Notes 26 and 29)	(548,618,081)	(310,837,042)	(270,636,763)
Dividends payment (Note 28)	(49,957,284)	(43,045,424)	–
Stock grant settlement	–	(29,168,480)	–
Purchase of treasury shares (Note 28)	(10,545,460)	(7,101,160)	(457,280)
Net cash flows used in financing activities	(2,640,902,328)	(1,167,867,322)	(1,010,837,377)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,738,000)	(3,902,582)	(3,799,063)
NET INCREASE IN CASH	131,999,009	670,979,220	642,017,112
CASH AT BEGINNING OF YEAR	2,360,460,924	1,689,481,704	1,047,464,592
CASH AT END OF YEAR (Note 4)	₱2,492,459,933	₱2,360,460,924	₱1,689,481,704

See accompanying Notes to Consolidated Financial Statements.



SSI GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

On November 7, 2014, SSI Group, Inc. listed its 695,701,530 common shares with the Philippine Stock Exchange (PSE).

The registered office and principal place of business of the Company is 6th Floor, Midland Buendia Building, 403 Sen. 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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, 2018 and 2017 were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on June 26, 2020. The same consolidated financial statements were approved and authorized for issuance by the BOD on June 26, 2020.

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					
	2019		2018		2017	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Stores Specialists, Inc. (SSI)	100	–	100	–	100	–
Rustan Marketing Specialists, Inc. (RMSI)	–	100	–	100	–	100
International Specialty Concepts, Inc. (ISCI)	–	100	–	100	–	100
Rustan Specialty Concepts, Inc. (RSCI)	–	100	–	100	–	100
Specialty Office Concepts, Inc. (SOCI)	–	100	–	100	–	100
Specialty Investments, Inc. (SII)	–	100	–	100	–	100

(Forward)



	Percentage ownership					
	2019		2018		2017	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Luxury Concepts, Inc. (LCI) ¹	–	–	–	100	–	100
International Specialty Fashions, Inc. (ISFI)	–	100	–	100	–	100
Footwear Specialty Retailers, Inc. (FSRI)	–	100	–	100	–	100
Global Specialty Retailers, Inc. (GSRI)	–	100	–	100	–	100
Specialty Food Retailers, Inc. (SFRI)	–	100	–	100	–	100
International Specialty Retailers, Inc. (ISRI)	–	100	–	100	–	100
International Specialty Wears, Inc. (ISWI)	–	100	–	100	–	100
Fastravel Specialists Holdings, Inc. (FSHI)	–	100	–	100	–	100
International Specialty Apparels, Inc. (ISAI)	–	100	–	100	–	100
Specialty Lifestyles Concepts, Inc. (SLCI), formerly Casual Clothing Retailers, Inc. (CCRI) ¹	–	100	–	100	–	100
SKL International, Ltd. (SKL) ²	–	100	–	100	–	100

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

²On 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, 2019. The following new and amended standards have no significant impact to the consolidated financial statements of the Group, unless otherwise indicated.

• **PFRS 16, Leases**

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the consolidated balance sheet.

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. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective approach in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Group therefore did not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effect of adoption PFRS 16 as at 1 January 2019 is as follows:

	Increase (decrease)
Assets	
Property and equipment (Right-of-use assets)	P3,340,148,107
Trade and other receivables (Lease receivables)	26,154,302
Prepayments and other current assets (Prepaid rent)	(11,790,524)
Other noncurrent assets (Prepaid rent)	(29,435,680)
Deferred tax assets	(6,369,370)
	P3,318,706,835
Liabilities	
Lease liabilities	P3,343,221,838
Trade and other payables (Accrued expenses)	(21,689,218)
	P3,321,532,620
Equity	
Retained earnings	(P2,825,785)

The Group has lease contracts for offices, parking, stores and warehouses. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease.



Under the modified retrospective approach, the Group applied PFRS 16 with cumulative effect of initial application recognized in retained earnings and did not restate any comparative information. Under this approach, the Group recognized lease liability at date of initial application at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at date of initial application. At the same time, the Group recognized right-of-use asset equal to lease liability at date of initial application adjusted by the amount of prepaid lease payments and accrued obligations relating to the leases recognized in the consolidated balance sheets immediately before the date of initial application on some leases. Also on some leases, the Group recognized right-of-use assets for all leases based on the carrying amounts as if the standard had always been applied.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Property and equipment were recognized amounting to ₱3,283.66 million representing the amount of right-of-use assets set up on transition date.
- Additional lease liabilities of ₱3,286.74 million were recognized.
- Prepayments and other current assets and other noncurrent assets of ₱41.23 million and Trade and other payables of ₱21.69 million related to previous operating leases arising from straight lining under PAS 17 were derecognized.
- Deferred tax asset - net decreased by ₱6.37 million because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings by ₱2.83 million



The lease liability at as 1 January 2019 as can be reconciled to the operating lease commitments as of 31 December 2018 follows:

Operating lease commitments as at 31 December 2018	₱3,723,516,320
Less: Commitments relating to short term leases	(93,925,129)
	3,629,591,191
Weighted average incremental borrowing rate at 1 January 2019	4.41%-9.71%
Discounted operating lease commitments at 1 January 2019	2,612,806,617
Add: Payments in optional extension periods not recognized at December 31, 2018 (discounted at IBR)	730,415,221
Lease liabilities recognized at 1 January 2019	₱3,343,221,838

Due to the adoption of PFRS 16, the Group's operating profit in 2019 has improved, while its interest expense and depreciation expense increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

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

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

The interpretation specifically addresses the following:

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

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

The Group applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance and assessment, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

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

- **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 the net income. 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 had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- **Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures***
- **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***

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. The Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 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 June 1, 2020:

- Amendments to PFRS 16, *Covid -19 Related Rent Concessions*

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*
- Amendments to PFRS 3, *Business Combination - Reference to the Conceptual Framework*

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.

Revenue from contract with customers

Revenue from contract with customers pertains to 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.

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 statement of comprehensive income.

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

Rental 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 statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

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 classified its 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 FVPL, transaction costs. Trade and other 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 statement of comprehensive income when the asset is derecognized, modified or impaired. This accounting policy relates to the Group’s “Cash”, “Trade and other receivables” excluding advances to officers and employees, “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 statement of comprehensive income.

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 EIR.

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 statement of comprehensive income 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" excluding advances to officers and employees, "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 statement of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the 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 statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

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 statement of comprehensive income.

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 statement of comprehensive income reflects the Group's share in 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 in net earnings of an associate and joint ventures is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax.

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 losses on interest in joint ventures and amounts owed by related parties" in the consolidated statement of comprehensive income.

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 statement of comprehensive income.

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, prepaid advertising, 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, insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of comprehensive income 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 statement of comprehensive income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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

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

Building	10-20 years
Transportation equipment	3-15 years
Store, office, warehouse furniture and fixtures	3-10 years
Leasehold improvements	2-10 years
Right-of-use assets	2-10 years

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

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

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

Effective January 1, 2019, it is the Group's policy to classify right-of-use asset as part of property and equipment. Prior to that date, all of the Company's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the consolidated balance sheet. The Group recognizes right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability. The initial cost of right-of-use asset includes the amount of lease liability recognized, initial direct costs



incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use asset is subject to impairment for nonfinancial assets.

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 lessor Effective after January 1, 2019

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

- *Lease receivables.* At the commencement date of the lease, the Group recognizes assets held under a finance lease and present them as a receivable at an amount equal to the net investment in the lease. The net investment in the lease is the gross investment in the lease discounted using the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The gross investment in the lease is the sum of the lease payments receivable by the Group under the finance lease. Subsequently, the carrying amount of the lease receivables is increased to reflect the accretion of interest and reduced for the lease collections made.

Operating leases - Group as a lessee - Effective after January 1, 2019

- *Right-of-use assets (presented under as "Property and equipment")*
- *Lease liabilities.* At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts



expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit on the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term leases.* The Group applies the short-term lease recognition exemption to its short-term leases of office, stores and warehouses (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).
- *Variable Rent.* The Group recognizes additional variable lease payments. These variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. The additional variable lease payments are linked to future sales and, thus, do not meet the definition of lease payments. Consequently, these payments are not included in the measurement of the asset and liability.

Operating leases - Group as a lessee - Effective before January 1, 2019

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

Operating leases - Group as lessor - Effective before January 1, 2019

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is recorded as rental income in the consolidated statements of comprehensive income.

Accounting for leases where the Group is the lessor prior to and effective January 1, 2019 is substantially the same.

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



statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income 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 statement of comprehensive income in the expense category consistent with the function of the software costs.

Impairment of Nonfinancial Assets

Investment in an associate, interests in joint ventures, property and equipment and right-of-use asset 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 statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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



Capital Stock and Additional Paid-in Capital

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

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 statement of comprehensive income 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 statement of comprehensive income. 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 statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are



not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

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.

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 statement of comprehensive income.

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 statement of comprehensive income.



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.

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.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All



differences are taken to consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Events After the Reporting Date

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with 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 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*.

Determination of lease term of contracts with renewal and termination options - Group as a lessee

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group included the renewal period as part of the lease term for leases of office, stores and warehouses with shorter non-cancellable period. The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of office, stores and warehouses with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.



Refer to Note 26 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

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. The Group owns 40% and holds voting power in SPI that represents significant influence. The parties have no contract or arrangement that indicates joint control. 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.

Leases - Estimating the incremental borrowing rates

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the. The Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates. The Company's lease liabilities amounted to ₱2,832.46 million as of December 31, 2019 (see Note 26).



Provision for expected credit losses (ECL) of trade and other receivables and amounts owed by related parties

The Group maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The Group uses simplified approach to calculate ECLs on trade and other receivables and general approach on other 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, 2019 and 2018, allowance for doubtful accounts for trade and other receivables, and amounts owed by related parties amounted to ₱31.96 million and ₱58.86 million, respectively. Trade and other receivables amounted to ₱785.74 million and ₱678.04 million, respectively (see Notes 5 and 20).

Assessing NRV of merchandise inventories

The Group sells good that are subject to changing consumer demands and fashion trends. Thus, assessing the recoverability of the Group's inventories requires significant management judgement which includes management's expectations for future sales and inventory liquidation plans. The Group maintains allowance for merchandise inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV of inventories are assessed regularly based on the prevailing selling prices of inventories less the estimated cost necessary to sell. In addition, the Company considered those inventories that are out-of-season, damaged and soiled in assessing the NRV of inventories. Increase in the NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs. As of December 31, 2019 and 2018, the Group has no allowance for inventory losses. Merchandise inventories amounted to ₱9,818.88 million and ₱9,245.19 million as of December 31, 2019 and 2018, respectively (see Note 6).

Estimating useful lives of property and equipment, franchise cost 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.

There was no change in the estimated useful lives of the Group's property, plant and equipment in 2018 and 2019. As of December 31, 2019 and 2018, the aggregate depreciable net book values of property and equipment (including ROU), franchise fee and software costs presented under "Other noncurrent assets" amounted to ₱5,603.34 million and ₱2,837.58 million, respectively (see Notes 10 and 11). The Group recognized depreciation and amortization expense amounting to ₱2,051.13 million, ₱870.44 million and ₱1,102.40 million for the years ended December 31, 2019, 2018 and 2017, 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, 2019 and 2018.

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

	2019	2018
Property and equipment (Note 10)	₱5,592,880,009	₱2,806,005,348
Interests in joint ventures (Note 9)	568,859,842	519,849,166
Investment in an associate (Note 8)	86,776,792	54,594,522

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, 2019 and 2018, the Group's retirement benefit obligation amounted to ₱600.69 million and ₱335.53 million, respectively (see Note 21). The Group recognized retirement expense amounting to ₱65.91 million, ₱61.12 million and ₱53.46 million in 2019, 2018 and 2017, 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, 2019 and 2018, deferred tax assets amounted to ₱1,169.51 million and ₱307.20 million, respectively. 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 were not recognized (see Note 22).



4. Cash

	2019	2018
Cash on hand	₱61,720,680	₱36,310,930
Cash in banks	2,372,029,222	2,224,149,994
Short-term investments	58,710,031	100,000,000
	₱2,492,459,933	₱2,360,460,924

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 and short-term investments for the years ended December 31, 2019, 2018 and 2017 amounted to ₱4.54 million, ₱4.36 million, and ₱2.91 million, respectively.

5. Trade and Other Receivables

	2019	2018
Trade receivables	₱366,360,017	₱268,038,636
Nontrade receivables	215,673,361	272,280,314
Receivables from related parties (Note 20)	111,794,889	71,228,195
Advances to officers and employees	67,961,679	84,217,489
Dividend receivable (Note 8)	25,200,000	-
Others	7,080,051	-
	794,069,997	695,764,634
Less allowance for ECL on nontrade receivables	8,326,816	17,729,195
	₱785,743,181	₱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 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. SSI's advances to officers and employees are subject to 12% annual interest and are payable within 3-6 months through salary deduction. Interest income earned related to employee loans under "Advances to officers and employees" amounted to ₱0.90 million 2019.

"Others" generally includes lease receivables amounting to ₱7.01 million in 2019 (see Note 26).

6. Merchandise Inventories

	2019	2018
At cost:		
On hand	₱9,040,507,891	₱8,519,776,129
In transit	778,372,197	725,413,825
	₱9,818,880,088	₱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.

The cost of inventories recognized as expense and presented in “Costs of goods sold” amounted to ₱12,285.71 million, ₱10,918.35 million and ₱9,041.11 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 15).

7. Prepayments and Other Current Assets

	2019	2018
Supplies	₱476,229,580	₱381,205,401
Advances to suppliers	383,811,622	256,463,505
Input VAT	106,951,795	197,534,537
Creditable withholding tax	46,721,136	58,311,116
Current portion of prepaid rent (Notes 11 and 26)	35,563,482	36,293,203
Security deposits (Note 26)	24,144,925	5,246,363
Prepaid insurance	23,844,210	16,200,060
Deferred input VAT	8,778,465	25,724,677
Prepaid advertising	9,386,640	43,701,792
Others	52,304,357	44,572,226
	₱1,167,736,212	₱1,065,252,880

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

	2019	2018
Acquisition cost	₱24,640,000	₱24,640,000
Accumulated equity in net earnings:		
Balances at beginning of year	29,954,522	22,661,362
Share in net earnings	57,382,270	43,293,160
Dividends (Note 5)	(25,200,000)	(36,000,000)
Balances at end of year	62,136,792	29,954,522
	₱86,776,792	₱54,594,522

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, 2019 and 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.



The following table sets out the financial information of SPI as of and for the years ended December 31, 2019 and 2018:

	2019	2018
Statements of Financial Position:		
Current assets	₱278,762,645	₱215,064,434
Noncurrent assets	22,263,131	16,465,202
Current liabilities	109,964,786	92,945,026
Noncurrent liabilities	1,294,944	1,366,059
Equity	189,766,047	137,218,551
Statements of Comprehensive Income:		
Revenue	611,782,316	513,588,194
Cost and expenses	468,326,640	450,344,402
Net income	143,455,676	108,232,901

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, 2019

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and 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	32,527,710	22,775,002	(407,344,383)	(420,350,000)	(772,391,671)
Share in net earnings	12,268,370	36,742,306	-	-	49,010,676
Balances at end of year	44,796,080	59,517,308	(407,344,383)	(420,350,000)	(723,380,995)
	₱420,092,534	₱148,767,308	₱-	₱-	₱568,859,842



December 31, 2018

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and 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	15,519,812	5,308,259	(407,344,383)	(420,350,000)	(806,866,312)
Share in net earnings	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)
	₱407,824,164	₱112,025,002	₱-	₱-	₱519,849,166

In 2017, the Group received ₱140.07 million as return of investment in SSRI. The remaining carrying value of the investment, after the share in net losses, amounting to ₱27.16 million is fully provided with impairment loss.

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 in 2019 and 2018, respectively. Key financial information of LMS is as follows:

	2019	2018
Statements of Financial Position:		
Current assets	₱551,659,094	₱552,312,771
Noncurrent assets	79,635,869	67,267,707
Current liabilities	(70,097,399)	(88,044,881)
Equity	561,197,564	531,535,597
Group's share in equity - 50% (2018: 50%)	280,598,782	265,767,799
Goodwill	121,750,000	121,750,000
Intangible asset	17,743,752	20,306,365
Group's carrying amount of the investment	₱420,092,534	₱407,824,164
Statements of Comprehensive Income:		
Revenues	₱926,463,471	₱758,494,779
Cost and expenses	897,484,869	718,836,556
Net income	28,978,602	39,658,223



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 is as follows:

	2019	2018
<u>Statement of Financial Position:</u>		
Current assets	₱318,738,191	₱254,929,620
Noncurrent assets	149,851,976	58,097,009
Current liabilities	(110,200,164)	(92,592,724)
Noncurrent liabilities	(66,689,399)	(777,038)
Equity	291,700,604	219,656,867
Group's share in equity - 51% (2018: 51%)	148,767,308	112,025,002
Goodwill	-	-
<u>Group's carrying amount of the investment</u>	₱148,767,308	₱112,025,002
 <u>Statement of Comprehensive Income:</u>		
Revenues	₱489,266,868	₱286,665,556
Cost and expenses	417,223,131	252,417,041
Net income	72,043,737	34,248,515



10. Property and Equipment

The composition and movements of this account are as follows:

December 31, 2019

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Right-of-Use Asset - Store and Equipment (Note 26)	Right-of-Use Asset - Warehouse (Note 26)	Right-of-Use Asset - Office and parking (Note 26)	Right-of-Use Asset - Land (Note 26)	Construction in Progress	Total
Cost:										
Balances at beginning of year	₱7,256,246,129	₱2,211,690,435	₱898,080,680	₱279,203,655	₱-	₱-	₱-	₱-	₱68,097,610	₱10,713,318,509
Effect of adoption of PFRS 16 (Note 2)	-	-	-	-	2,764,472,159	217,379,186	132,294,745	226,002,017	-	3,340,147,107
Additions	520,665,564	320,817,625	549,290	28,572,032	437,641,121	2,795,634	24,020,093	-	90,358,565	1,425,419,924
Disposals and retirement	(589,402,062)	(26,799,896)	-	(3,042,300)	-	-	-	-	-	(619,244,258)
Remeasurement	-	-	-	-	122,285,361	(463,827)	-	-	-	121,821,534
Reclassifications	68,125,046	8,670,104	(5,640,718)	-	-	-	-	-	(71,154,432)	-
Balances at end of year	7,255,634,677	2,514,378,268	892,989,252	304,733,387	3,324,398,641	219,710,993	156,314,838	226,002,017	87,301,743	14,981,463,816
Accumulated Depreciation and Amortization:										
Balances at beginning of year	5,704,592,695	1,822,463,913	249,056,739	131,199,814	-	-	-	-	-	7,907,313,161
Depreciation and amortization (Note 19)	597,569,611	199,964,018	44,734,442	25,250,343	1,014,619,490	83,155,014	59,751,821	15,066,801	-	2,040,111,540
Disposals and retirement	(528,942,366)	(27,214,542)	-	(2,683,986)	-	-	-	-	-	(558,840,894)
Reclassifications	-	3,278,112	(3,278,112)	-	-	-	-	-	-	-
Balances at end of year	5,773,219,940	1,998,491,501	290,513,069	153,766,171	1,014,619,490	83,155,014	59,751,821	15,066,801	-	9,388,583,807
Net book values	₱1,482,414,737	₱515,886,767	₱602,476,183	₱150,967,216	₱2,309,779,151	₱136,555,979	₱96,563,017	₱210,935,216	₱87,301,743	₱5,592,880,009



December 31, 2018

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

Additions to leasehold improvements and construction in progress in 2019 and 2018 pertain to improvements and construction of newly opened and renovated stores during the year.

Disposals and retirement for the years ended December 31, 2019 and 2018 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 ₱60.40 million, ₱116.80 million and ₱194.73 million in 2019, 2018 and 2017, respectively.

In 2019, the Group has various lease modification in its contracts including changes in lease term and lease payments during the year. The effect of the lease modification resulted to remeasurement in right-of-use asset and lease liability amounting to ₱121.82 million.

No property and equipment were pledged or treated as security to the outstanding liabilities as of December 31, 2019 and 2018.

The Group has no purchase commitments related to property, plant and equipment as of December 31, 2019 and 2018, respectively.



11. Other Noncurrent Assets

	2019	2018
Franchise fee (net of accumulated amortization of ₱26.76 million and ₱33.39 million as of December 31, 2019 and 2018, respectively)	₱94,484,273	₱98,804,487
Miscellaneous deposits	69,287,541	83,915,471
Prepaid rent - net of current portion (Notes 7 and 26)	–	5,981,459
Deferred input VAT - net of current portion (Note 7)	15,381,911	4,985,095
Software costs (net of accumulated amortization of ₱6.09 million and ₱4.16 million as of December 31, 2019 and 2018, respectively)	3,278,569	868,888
Others	2,982	8,532,944
	₱182,435,276	₱203,088,344

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

Franchise fees pertain to initial fees paid by the Group to the principals to operate newly acquired brands. In 2019, 2018 and 2017, the Group recognized amortization expenses on franchise cost amounting to ₱9.08 million, ₱9.93 million and ₱2.33 million, respectively (see Note 19). Loss on derecognition of franchise fee amounted to ₱7.06 million in 2019, presented as “Others - net” in the consolidated statements of comprehensive income. Amortization expense of software costs amounted to ₱1.93 million, ₱1.29 million and ₱1.17 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 19).

12. Trade and Other Payables

	2019	2018
Trade payables	₱1,312,044,432	₱640,440,497
Nontrade payables	713,833,266	503,729,923
Accrued expenses	274,736,642	170,089,235
Output VAT	100,067,225	131,887,802
Retention payable	56,514,419	35,020,805
Tenant deposit (Note 26)	39,956,757	21,498,899
Payables to related parties (Note 20)	1,354,050	822,238
Others	33,133,280	20,318,665
	₱2,531,640,071	₱1,523,808,064

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

	2019	2018
Bank of Philippine Islands (BPI)	₱2,325,000,000	₱2,605,000,000
Bank of Commerce (BOC)	600,000,000	–
Metropolitan Bank & Trust Co. (MBTC)	500,000,000	500,000,000
Banco de Oro (BDO)	350,000,000	1,062,500,000
China Banking Corporation (CBC)	300,000,000	–
Philippine National Bank (PNB)	–	400,000,000
	₱4,075,000,000	₱4,567,500,000

The Group's outstanding unsecured short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 3.00% to 6.88% and 5.50% to 6.00% in 2019 and 2018, respectively. Interest expense related to short-term loans for the years ended December 31, 2019, 2018 and 2017 amounted to ₱266.78 million, ₱167.73 million and ₱169.80 million, respectively.

Long-term Debt

Syndicated Term Loan

The Group entered into a credit facility for the ₱2,000.00 million syndicated term loan facility with Bank of the Philippines Island (BPI), Security Banking Corporation, Chinabank Banking Corporation, Metropolitan Bank and Trust Company and Rizal Commercial Banking Corporation. This loan is unsecured and bears annual interest of a fixed base rate plus an interest spread of 150 basis points per annum or a 5.50% per annum floor rate. 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. The syndicated term loan was settled on February 20, 2020.

Under the syndicated loan agreement, the Group has to maintain the following financial ratios:

- debt to equity ratio not exceeding 2.00, and
- debt service coverage ratio of at least 1.20

Midterm Loans

The Group entered into a 3-year unsecured loan agreement with BPI amounting to ₱1,500.00 million. The midterm loan carries interest on each interest payment date at a fixed rate per annum equivalent to the higher of the benchmark rate plus a spread per annum of 0.75% or 3.75%. The purpose of the loan is solely to finance the Group's existing short-term loans or their renewals. These loans from BPI were fully paid in 2018.

The Group entered into a 5-year unsecured loan agreement with BPI amounting to ₱1,000.00 million. The loan carries interest on each interest payment date at a fixed rate per annum of 4% for borrowings made on or before October 17, 2017 and the higher of (a) the benchmark rate plus a spread per annum of 0.75% or (b) 3.50% for borrowings made after October 17, 2017. The purpose of the loan is solely



to refinance the Company's existing short-term loans, for permanent working capital, capital expenditures and other general corporate purposes.

Under the loan agreements on the midterm loans, Group, on its consolidated balances has to maintain the following ratios:

- debt to equity ratio not exceeding 2.0, and
- current ratio not falling below 1.0

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

	2019	2018
BPI	₱279,280,156	₱484,938,663
SBC	44,304,426	132,753,496
CBC	30,563,391	91,579,948
MBTC	30,563,391	91,579,948
RCBC	16,830,021	50,414,068
Total	401,541,385	851,266,123
Less current portion	283,986,981	449,848,015
Noncurrent portion	₱117,554,404	₱401,418,108

A rollforward analysis of unamortized transaction costs in 2019 and 2018 follows:

	2019	2018
Balances at beginning of year	₱1,683,876	₱4,784,481
Amortization	(1,248,596)	(3,100,605)
Balances at end of year	₱435,280	₱1,683,876

Interest expense relating to long-term debt for the years ended December 31, 2019, 2018 and 2017 amounted to ₱60.54 million, ₱145.45 million and ₱120.71 million, respectively.

Loan Covenants

The loan covenants covering the Group's outstanding debts include, among others, maintenance of certain level of current, debt-to-equity and debt-service coverage ratios. As of December 31, 2019 and 2018, the Group is in compliance with the loan covenants of all their respective outstanding debts.

14. Revenue from Contracts with Customers

All of the Group's revenue from contracts with customers are net sales 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 as follows

	2019	2018	2017
<i>Sale of major goods</i>			
General merchandise	₱21,603,337,034	₱19,738,060,712	₱18,014,524,562
Food retail	762,494,905	492,169,273	445,704,999
	₱22,365,831,939	₱20,230,229,985	₱18,460,229,561



15. Costs of Goods Sold and Services

	2019	2018	2017
Cost of merchandise sold (Note 6)	₱12,285,711,760	₱10,918,350,969	₱9,041,113,143
Depreciation and amortization (Notes 10, 11 and 19)	24,695,040	19,290,450	16,754,739
Utilities	19,546,123	26,747,632	14,600,568
Rent (Notes 20 and 26)	8,162,347	8,213,951	7,134,235
Outside services	6,037,755	5,336,219	4,634,778
Others	2,072,544	2,831,732	2,459,503
	₱12,346,225,569	₱10,980,770,953	₱9,086,696,966

Depreciation and amortization pertains to depreciation of leasehold improvements and furniture and fixtures of the leased spaces. Utilities, rent, security and safety expenses pertain to cost incurred in the operation of leased spaces.

Cost of merchandise sold:

	2019	2018	2017
Merchandise inventories, beginning	₱9,245,189,954	₱9,423,866,643	₱9,559,675,482
Net purchases	12,859,401,894	10,739,674,280	8,905,304,304
Cost of merchandise available for sale	22,104,591,848	20,163,540,923	18,464,979,786
Less merchandise inventories, ending	(9,818,880,088)	(9,245,189,954)	(9,423,866,643)
	₱12,285,711,760	₱10,918,350,969	₱9,041,113,143

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

16. Selling and Distribution Expenses

	2019	2018	2017
Depreciation and amortization (Notes 10, 11 and 19)	₱1,853,175,971	₱727,626,693	₱968,067,886
Personnel costs (Note 18)	1,261,301,143	1,244,264,135	1,193,720,023
Rent (Notes 20 and 26)	911,310,376	2,045,359,230	2,067,615,655
Utilities	572,659,165	558,050,672	601,034,614
Credit card charges	421,013,009	382,506,247	335,472,606
Royalty fees	328,819,969	272,635,697	260,484,299
Supplies and maintenance	318,545,514	283,579,234	290,376,879
Advertising	318,230,794	299,801,486	281,779,147
Taxes and licenses	249,218,421	225,277,300	210,184,524
Global marketing contribution fee	177,482,331	156,467,033	131,240,154
Security services	171,448,295	170,206,321	153,928,541
Travel and transportation	99,545,809	75,403,717	84,873,140
Delivery and freight charges	86,481,333	88,856,065	33,520,878
Repairs and maintenance	80,699,728	80,613,381	81,300,863
Insurance	54,516,546	40,368,257	43,983,285

(Forward)



Communication	₱33,524,819	₱27,539,929	₱32,106,867
Outside services	19,425,321	18,768,516	14,223,089
Professional fees	11,805,595	13,412,941	12,835,452
Entertainment, amusement and recreation (EAR)	8,570,949	5,212,189	4,539,851
Telegraphic transfer	2,220,885	2,259,431	1,747,134
Others	115,916,757	105,297,290	91,081,254
	₱7,095,912,730	₱6,823,505,764	₱6,894,116,141

17. General and Administrative Expenses

	2019	2018	2017
Personnel costs (Note 18)	₱680,250,646	₱605,872,495	₱637,155,401
Depreciation and amortization (Notes 10, 11 and 19)	173,256,079	123,523,097	117,577,234
Utilities	59,860,085	47,614,560	43,524,900
Rent (Note 26)	46,867,155	141,067,431	110,213,480
Travel and transportation	48,161,737	44,408,060	27,704,186
Advertising	42,213,685	23,233,611	26,751,589
Taxes and licenses	41,161,949	53,319,854	43,879,885
Supplies and maintenance	39,687,576	39,665,078	33,290,606
Repairs and maintenance	38,585,901	35,507,031	34,613,527
Security services	28,129,865	35,994,188	36,176,494
Communication	19,833,027	19,462,949	24,462,476
Insurance	16,554,237	18,103,874	13,782,632
Professional fees	11,363,046	14,365,864	14,605,534
EAR	6,244,417	7,252,873	7,862,123
Others	46,923,022	38,810,510	48,764,479
	₱1,299,092,427	₱1,248,201,475	₱1,220,364,546

18. Personnel Costs

Personnel costs charged to operations are as follows:

	2019	2018	2017
Salaries, wages and bonuses	₱1,673,291,681	₱1,663,785,557	₱1,626,965,286
Retirement benefit expense (Note 21)	65,911,077	61,119,902	53,462,197
Other employee benefits	202,349,031	125,231,171	150,447,941
	₱1,941,551,789	₱1,850,136,630	₱1,830,875,424

Personnel costs were distributed as follows:

	2019	2018	2017
Selling and distribution (Note 16)	₱1,261,301,143	₱1,244,264,135	₱1,193,720,023
General and administrative (Note 17)	680,250,646	605,872,495	637,155,401
	₱1,941,551,789	₱1,850,136,630	₱1,830,875,424



19. Depreciation and Amortization Expense

	2019	2018	2017
Property and equipment (Note 10)	₱2,040,111,540	₱859,215,982	₱1,098,901,251
Franchise fee (Note 11)	9,084,310	9,931,083	2,325,494
Software cost (Note 11)	1,931,240	1,293,175	1,173,114
	₱2,051,127,090	₱870,440,240	₱1,102,399,859

Depreciation and amortization were distributed as follows:

	2019	2018	2017
Cost of goods sold (Note 15)	₱24,695,040	₱19,290,450	₱16,754,739
Selling and distribution (Note 16)	1,853,175,971	727,626,693	968,067,886
General and administrative (Note 17)	173,256,079	123,523,097	117,577,234
	₱2,051,127,090	₱870,440,240	₱1,102,399,859

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 and ₱81.19 million for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2019, the related right-of-use of assets and lease liabilities amounted to ₱31.18 million and ₱31.76 million, respectively. During the year, the Group recognizes depreciation and interest expense amounting to ₱13.55 million and ₱1.66 million, respectively. For the short-term leases to RCC, the Group recognizes rent expense totaling ₱10.06 million as of December 31, 2019.
- 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 ₱27.34 million, ₱30.75 million, ₱30.97 million in 2019, 2018 and 2017, 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 ₱20.06 million and ₱18.38 million in 2019 and 2018, respectively. The service fee is presented under "Others – net" in the statement of comprehensive income. In addition, SSI sold inventories and property and equipment totaling ₱9.14 million and ₱8.25 million, respectively, in 2019 and 2018, 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):

	2019	2018	2017
Short-term employee benefits	₱43	₱39	₱38
Post-employment benefits	6	5	5
	₱49	₱44	₱43

As of December 31, 2019 and 2018, transactions with related parties are as follows:

Related Parties	Year	Transactions for the year	Outstanding balances	
			Receivables from related parties (Note 5)	Payable to related parties (Note 12)
<i>Under common control</i>				
RCC	2019	₱15,317,660	₱34,220,435	₱709,594
	2018	₱28,817,767	₱20,055,700	₱244,293
RMK	2019	11,087,521	39,384,773	644,456
	2018	(8,635,512)	31,800,873	463,938
Others	2019	–	6,380	–
	2018	(25,826)	139,833	114,007
<i>Joint ventures</i>				
PFM	2019	7,838	18,481,052	–
	2018	17,690,793	–	–
SCRI	2019	–	–	–
	2018	191,738,649	–	–
MPC	2019	6,247,633	17,285,247	–
	2018	10,065,775	17,057,698	–
<i>Associate</i>				
SPI	2019	223,034	2,417,002	–
	2018	(74,531)	2,174,091	–
	2019		₱111,794,889	₱1,354,050
	2018		₱71,228,195	₱822,238

The related party balances as of December 31, 2019 and 2018 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting ₱23.63 million and ₱41.13 million as of December 31, 2019 and 2018, respectively, all receivables from related parties are not impaired. In 2017, the Group recognized provision for impairment losses on amounts owed by related parties amounting to ₱48.96 million,



presented as “Impairment losses on interests in joint ventures and amounts owed by related parties” in the consolidated statements of comprehensive income. 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:

	2019	2018	2017
Current service cost	₱39,079,037	₱38,723,348	₱34,792,817
Net interest cost	26,996,098	22,396,554	17,547,820
Curtailment gain	(164,058)	–	–
Past service cost	–	–	1,121,560
Retirement benefit expense	₱65,911,077	₱61,119,902	₱53,462,197

As of December 31, 2019 and 2018, the amounts recognized in the consolidated balance sheets as retirement benefit obligation are as follows:

	2019	2018
Present value of obligations	₱655,475,443	₱387,822,573
Fair value of plan assets	(54,783,336)	(52,293,691)
Retirement benefit obligation	₱600,692,107	₱335,528,882

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

	2019	2018
Opening present value of obligation	₱387,822,573	₱435,989,821
Recognized in profit or loss:		
Current service cost	39,079,037	38,723,348
Interest cost	30,973,376	25,701,736
Curtailment gain	(164,058)	–
Profit or loss	69,888,355	64,425,084
Benefits paid	(10,115,737)	(14,406,436)
Benefits paid directly by the Group	(3,056,183)	(5,279,466)
Net transfer out	(68,457)	–
Recognized in other comprehensive loss (income)		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	₱150,541,246	(₱78,652,953)
Changes in demographic assumptions	40,321,689	499,765
Deviations of experience from assumptions	20,141,957	(14,753,242)
Other comprehensive loss (income)	211,004,892	(92,906,430)
Closing present value of obligation	₱655,475,443	₱387,822,573



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:

	2019	2018
Opening fair value of plan assets	₱52,293,691	₱56,960,554
Contributions	9,885,000	8,800,000
Interest income	3,977,278	3,305,182
Benefits paid	(10,115,737)	(14,406,436)
Return on plan assets, excluding amounts included in interest income	(1,256,896)	(2,365,609)
Closing fair value of plan assets	₱54,783,336	₱52,293,691

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

	2019	2018
Cash and cash equivalents	₱1,924,731	₱49,249,031
Government securities	3,699,186	561,417
Fixed income	599,761	599,685
Mutual funds	48,491,158	228,748
Other assets	70,138	1,656,438
Trade and other payables	(1,638)	(1,628)
	₱54,783,336	₱52,293,691

The movements in the retirement benefit obligation are as follows:

	2019	2018
At January 1	₱335,528,882	₱379,029,267
Retirement benefits expense	65,911,077	61,119,902
Actuarial losses (gains)	212,261,788	(90,540,821)
Contributions	(9,885,000)	(8,800,000)
Benefits paid directly by the Group	(3,056,183)	(5,279,466)
Net transfer out	(68,457)	-
At December 31	₱600,692,107	₱335,528,882

The principal actuarial assumptions used as of December 31, 2019 and 2018 in determining retirement benefit obligations for the Group's retirement plan are as follows:

	2019	2018
Discount rate	5.1% -5.5%	7.3% - 7.6%
Salary increase rate	3.0%	3.0%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension obligations as of December 31, 2019 and 2018, assuming all other assumptions were held constant:



	Increase/(Decrease)	Increase (Decrease) in Present Value of Defined Benefit Obligation	
		2019	2018
Discount rate	+1%	(P239,907,451)	(P292,757,632)
	-1%	301,997,748	367,070,550
Future salary increase rate	+1%	310,399,427	368,629,148
	-1%	(245,574,318)	(291,035,260)

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 15.0 to 22.9 years and 14.2 to 22.0 years in 2019 and 2018, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2019 and 2018:

	2019	2018
1 year or less	P22,141,033	P59,336,746
More than 1 year to 5 years	61,522,085	81,210,773
More than 5 years	3,513,989,511	3,408,581,816

22. Income Taxes

- 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, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Provision for income tax at statutory tax rate of 30%	P369,450,883	P273,065,063	P164,254,024
Additions to (reductions from) income tax resulting from:			
Movement in unrecognized deferred tax assets	35,230,514	(966,833)	40,628,569
Nondeductible expenses	12,338,051	27,035,272	21,023,193
Interest income subjected to final tax	(P1,366,727)	(P908,357)	(P730,760)
Share in net losses (earnings) of an associate and joint ventures	(31,917,884)	(23,330,340)	19,342,873
Expiration of NOLCO and MCIT	7,918,965	26,214,095	20,711,729
Others	24,358,524	673,516	7,021,480
	P416,012,326	P301,782,416	P272,251,108



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

	2019	2018
Deferred tax assets:		
Lease liabilities	₱849,738,835	₱-
Retirement benefit obligation	113,119,915	97,635,546
NOLCO	99,706,546	172,082,246
MCIT	14,738,330	14,918,346
Deferred revenue	6,919,971	6,386,893
Customer deposits	3,225,283	-
Unrealized foreign exchange losses	6,186,759	3,535,346
Allowance for impairment	2,666,703	4,910,504
Accrued rent	-	4,708,941
Others	6,715,823	75,104
	1,103,018,165	304,252,926
Deferred tax liabilities:		
Right-of-use assets	(826,026,572)	-
Unrealized foreign exchange gains	(5,058,967)	(846,710)
Carrying value of capitalized rent expense	(1,911,300)	(2,596,226)
Unamortized prepayments	(130,584)	(505,163)
Others	(2,102,245)	(448,753)
	(835,229,668)	(4,396,852)
Deferred tax asset related to retirement benefit obligation recognized under other comprehensive loss	66,487,587	2,946,736
Net deferred tax assets	₱334,276,084	₱302,802,810

Deferred tax asset as of January 1, 2019 decreased by ₱6.37 million upon adoption of PFRS 16 (see Note 2).

- 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 these deferred tax assets arising from NOLCO and certain deductible temporary differences. The temporary differences for which deferred tax assets have not been recognized pertain to the following:

	2019	2018
NOLCO	₱258,779,627	₱172,401,483
MCIT	50,772,184	15,720,095
Retirement benefits	2,000,440	254,608



- d. As of December 31, 2019, 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
2016	2017 - 2019	₱289,998,120	(₱81,601,915)	(₱208,396,205)	₱-
2017	2018 - 2020	278,117,234	-	(92,279,723)	185,837,511
2018	2019 - 2021	180,842,607	-	-	180,842,607
2019	2020-2022	224,454,662	-	-	224,454,662
		₱973,412,623	(₱81,601,915)	(₱300,675,928)	₱591,134,780

- e. As of December 31, 2019, the MCIT that can be claimed as tax credits follows:

Year incurred	Year of availment	Amount	Expired	Applied	Balance
2015	2016 – 2018	₱1,021,890	(₱1,021,890)	₱-	₱-
2016	2017 - 2019	5,766,054	(1,415,896)	(4,350,158)	-
2017	2018 - 2020	11,121,090	-	(5,462,082)	5,659,008
2018	2019 - 2021	25,728,963	-	(4,871,435)	20,857,528
2019	2020-2022	38,993,978	-	-	38,993,978
		₱82,631,975	(₱2,437,786)	(₱14,683,675)	₱65,510,514

23. Basic/Diluted Earnings Per Share

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

	2019	2018	2017
Net income	₱815,490,617	₱608,434,460	₱275,262,304
Divided by weighted average number of common shares	3,308,319,263	3,310,962,656	3,312,826,323
	₱0.25	₱0.18	₱0.08

There were no potentially dilutive common shares for the years ended December 31, 2019, 2018 and 2017.

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.

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 Group to credit risk:

	2019	2018
Cash	₱2,430,739,253	₱2,324,149,994
Trade and other receivables		
Trade receivables	366,360,017	268,038,636
Nontrade receivables	215,673,361	272,280,314
Receivables from related parties	111,794,889	71,228,195
Dividend receivable	25,200,000	-
Others	7,080,051	-
Security deposits and construction bonds	1,059,559,287	1,023,525,062
	₱4,216,406,858	₱3,959,222,201

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, 2019 and 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 ₱23.63 million and ₱41.13 million which are classified as credit impaired.
- 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 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, 2019 and 2018, nontrade receivables from principals amounting to ₱8.34 million and ₱17.73 million, respectively, are classified as credit impaired.



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

December 31, 2019

	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	₱2,430,739,253	₱2,430,739,253	₱-	₱-	₱-	₱-	₱-
Trade and other receivables							
Trade receivables	366,360,017	258,508,168	66,900,115	16,939,126	11,727,087	12,285,521	-
Nontrade receivables	215,673,361	154,493,724	42,324,674	10,528,147	-	-	8,326,816
Receivables from related parties	111,794,889	26,703,381	61,466,508	-	-	-	23,625,000
Dividend receivable	25,200,000	25,200,000	-	-	-	-	-
Others	7,080,051	7,080,051	-	-	-	-	-
Security deposits and construction bonds ¹	1,059,559,287	1,059,446,820	-	-	-	-	112,467
Total	₱4,216,406,858	₱3,962,171,397	₱170,691,297	₱27,467,273	₱11,727,087	₱12,285,521	₱32,064,283

¹ Includes "Security deposits and construction bonds" 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	₱2,324,149,994	₱2,324,149,994	₱-	₱-	₱-	₱-	₱-
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	25,557,867	401,187	256,246	128,658	3,759,237	41,125,000
Security deposits and construction bonds ¹	1,023,525,062	1,023,525,062	-	-	-	-	-
Total	₱3,959,222,201	₱3,870,055,102	₱12,566,533	₱1,457,954	₱8,749,042	₱7,539,375	₱58,854,195

¹ Includes "Security deposits and construction bonds" presented under "Prepayments and other current assets"

The credit rating of financial assets that were neither past due nor impaired is 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

Foreign 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, 2019 and 2018. 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, 2019

	USD ¹	EUR ²	HKD ³	Total Peso Equivalent
<i>Financial assets</i>				
Cash in banks	\$917,533	€178,718	\$40,606	₱56,725,203
<i>Financial liabilities</i>				
Trade and other payables	(3,625,372)	(4,736,929)	-	(445,410,111)
Net Financial Assets (Liabilities)	(\$2,707,839)	(€4,558,211)	\$40,606	(₱388,684,908)

¹\$1 = 49.93

²€1 = 59.61

³HK\$1 = 6.39



December 31, 2018

	USD ¹	EUR ²	HKD ³	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)
Net Financial Assets (Liabilities)	\$655,869	(€2,979,814)	\$3,914	(₱145,203,612)

¹\$1 = ₱52.58

²€1 = ₱60.31

³HK\$1 = ₱6.73

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.

	2019		2018	
	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax
US Dollar	+5%	(₱8,746,430)	+5%	₱1,724,280
	-5%	8,746,430	-5%	(1,724,280)
Euro	+5%	(14,443,560)	+5%	(8,985,778)
	-5%	14,443,560	-5%	8,985,778
HK Dollar	+5%	12,973	+5%	1,318
	-5%	(12,973)	-5%	(1,318)

There is no other impact on the Group's equity other than those already affecting the profit or loss.

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, 2019

	Contractual undiscounted payments				
	Total	On demand	Within 1 year	>1 to 5 years	> 5 years
<i>Financial Liabilities</i>					
Trade payables and other payables*	₱2,431,572,846	₱-	₱1,770,459,793	₱661,113,053	₱-
Lease liabilities	2,832,462,784	-	980,470,908	1,851,991,876	-
Short-term loans payable**	4,118,718,107	-	4,118,718,107	-	-
Long-term debt**	416,381,431	-	295,730,001	120,651,430	-
Tenant deposits	59,821,208	-	39,956,757	19,864,451	-
Total Undiscounted Financial Liabilities	₱9,858,956,376	₱-	₱7,205,335,566	₱2,653,620,810	₱-

* Excluding statutory liabilities

** Including interest payable

December 31, 2018

	Contractual undiscounted payments				
	Total	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	55,268,903	-	21,498,899	33,770,004	-
Total Undiscounted Financial Liabilities	₱7,253,688,743	₱-	₱5,944,311,713	₱1,309,377,030	₱-

* Excluding statutory liabilities

** Including interest payable

The Company's financial assets amounting to ₱4,195.4242 million and ₱3,959.22 million can be used to meet the Group's liquidity needs as of December 31, 2019 and 2018, 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, 2019 and 2018. 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, 2019.



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:

	2019		2018	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
<i>Loans and receivables</i>				
Security deposits and construction bonds	₱1,059,559,287	₱1,065,804,462	₱1,018,278,699	₱1,050,086,063
Financial Liabilities				
<i>Other financial liabilities</i>				
Long-term debt* <i>Includes interest to maturity.</i>	401,541,385	422,323,130	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, 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 3.03% to 8.31% and 5.41% to 7.29% were used in calculating the fair value of the Group's refundable deposits as of December 31, 2019 and 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 5.23% to 7.03% and 5.78% to 6.98% were used in calculating the fair value of the Group's long-term debt as of December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 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.



26. Contracts and Commitments

Group as a Lessee

The Group has various leases of its warehouse and office space and certain store outlets used in its operations for lease terms ranging from three to ten 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. The Group also has certain leases of stores, office and warehouse space with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The following are the amounts recognized in the consolidated statement of comprehensive income for the year ended December 31, 2019:

Depreciation expense of right-of-use assets included in property and equipment (included in selling and distribution expenses)	₱1,112,841,305
Depreciation expense of right-of-use assets included in property and equipment (included in general and administrative expenses)	59,751,821
Variable lease payments (Notes 16, and 17)	927,289,181
Interest expense on lease liabilities	222,544,637
Rent expense relating to short-term leases (Notes 16, and 17)	13,928,424
Total amount recognized in the consolidated statement of comprehensive income	₱2,336,355,368

The rollforward analysis of right-of-use assets and lease liabilities follows:

	Right-of-use assets (Note 10)	Lease liabilities
Balances at beginning of the year	₱–	₱–
Effect of adoption of PFRS 16 (Note 2)	3,340,148,107	3,343,221,838
Balances at beginning of the year, as restated	3,340,148,107	3,343,221,838
Additions	464,456,848	455,974,025
Interest expense	–	222,544,637
Depreciation expense	(1,172,593,126)	–
Remeasurement	121,821,534	121,575,090
Payments	–	(1,310,852,806)
Balances at end of the year	2,753,833,363	2,832,462,784
Less current portion	–	980,470,908
Balances at end of the year	₱2,753,833,363	₱1,851,991,876

The Group classifies payment of interest related to accretion of lease liability as financing activities in the statements of cash flows. Total lease payments can be referred to statement of cash flows in 2019 as follows:

Payment of principal portion of lease liabilities	₱1,088,308,169
Payment of interest	222,544,637
	₱1,310,852,806



Shown below is the maturity analysis of the undiscounted lease payments (in millions):

	2019	2018
Within one year	₱1,088	₱94
After one year but not more than five years	1,680	2,580
Later than five years	617	1,049

The Group has paid security deposits and construction bonds for the store outlets and office spaces with carrying amounts of ₱1,059.56 million and ₱1,023.53 million (including current portion in “Prepayments and other current assets”) as of December 31, 2019 and 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 3.56% to 6.89% and from 2.00% to 5.20% in 2019 and 2018, respectively. Interest income recognized from these security deposits amounted to ₱12.41 million, ₱8.81 million and ₱10.18 million for the years ended December 31, 2019, 2018 and 2017, respectively.

In 2019, the Group had various lease modification in its contracts including changes in lease term, pre-termination of lease and changes in lease payments during the year. The effect of the lease modifications resulted to remeasurement in right-of-use asset and lease liability amounting to ₱121.82 and ₱121.58 million, 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 ₱59.82 million and ₱55.27 million (including current portion in “Trade and other payables”) as of December 31, 2019 and 2018, 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. Rental income for the lease of these store spaces amounted to ₱76.07 million, ₱92.65 million and ₱59.01 million in 2019, 2018 and 2017, respectively.

Upon the adoption of PFRS 16, the Group reassessed the classification of the ongoing subleases that were classified as operating leases under PAS 17 and determined that the subleases qualify as finance lease under the new standard. The assessment was made on the basis of the remaining contractual terms and conditions of the head lease and sublease. The Group accounted for the subleases as new finance leases entered into at the date of initial application. As a result, the Group recognized lease receivables amounting to ₱26.15 million on January 1, 2019.

The following table shows the movements in the lease receivables for the year ended December 31, 2019:

Balances at beginning of the year	₱-
Effect of adoption of PFRS 16 (Note 2)	26,154,302
Balances at beginning of the year, as restated	26,154,302
Interest income	2,613,963
Collection of lease receivables	(21,760,782)
Balances at end of the year	₱7,007,483



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

	2019	2018
Within one year	₱38	₱31

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, 2019, 2018 and 2017 (amounts in millions):

	2019	2018	2017
Net Sales			
Fast fashion	₱6,853	₱6,943	₱6,792
Luxury and bridge	6,588	5,149	4,059
Casual	3,140	2,778	2,359
Footwear, accessories and luggage	2,405	2,498	2,500
Personal care, home and others	3,380	2,862	2,750
	₱22,366	₱20,230	₱18,460

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).

	2019	2018	2017
Philippines	₱22,303	₱20,165	₱18,395
Guam	63	65	65
	₱22,366	₱20,230	₱18,460

28. Equity

a. Common Shares

The Company's authorized and issued capital stock as of December 31, 2019, 2018 and 2017 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:

	2019		2018	
	Shares	Amount	Shares	Amount
Balances at beginning of year	3,309,586,430	₱3,305,305,990	3,312,714,430	₱3,312,407,150
Treasury shares	(4,293,000)	(10,545,460)	(3,128,000)	(7,101,160)
Balances at end of year	3,305,293,430	₱3,294,760,530	3,309,586,430	₱3,305,305,990

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, 2019 and 2018, the Company has 47 and 45 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, 2019 and 2018 amounted to ₱18.10 million and ₱7.56 million, respectively. This is equivalent to 7,381,000 shares and 3,278,000 shares as of December 31, 2019 and 2018, respectively.

c. Stock Grants

In September 2018, the Company settled the 2014 stock grant by paying the executive officers ₱29.17 million. As of December 31, 2019 and 2018, outstanding balance of stock grants presented in the consolidated balance sheets is nil.

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.

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

	2019	2018
SSI	₱800,000,000	₱800,000,000
ISCI	300,000,000	300,000,000
	₱1,100,000,000	₱1,100,000,000

The amount of appropriations above will be used by the Group to fund future expansion and renovations in store outlets and operations. The said expansions are expected to be completed within two years from December 31, 2018.

As of December 31, 2019 and 2018, the total unrestricted retained earnings available for dividend declaration amounted to ₱1,037.89 million and ₱1,021.13 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. On June 26, 2019, Group's BOD approved the cash declaration of ₱0.0151 per share out of its unrestricted retained earnings for stockholders of records as of December 31, 2018 in proportion to their respective shares as of July 10, 2019. On August 5, 2019, cash dividend paid amounting to ₱49.96 million.

29. Notes to Consolidated Statements of Cash Flows

Right-of-use asset of the Group increased by ₱464.46 million and ₱121.82 million as additions and remeasurement, respectively (see Note 10). These are noncash investing activities.

The following tables show the changes in cash flows and non-cash changes in the liabilities arising from financing activities in 2019 and 2018:

December 31, 2019

	Short-term loans payable	Long-term debt	Lease liabilities (Note 26)	Interest payable	Total
Balances at beginning of year	₱4,567,500,000	₱851,266,123	₱-	₱-	₱5,418,766,123
Cash movements:					
Availment	5,162,500,000	-	-	-	5,162,500,000
Settlement	(5,655,000,000)	(450,973,334)	(1,310,852,806)	(326,073,444)	(7,742,899,584)
Noncash movements:					
Effect of adoption of PFRS 16	-	-	3,343,221,838	-	3,343,221,838
Additions and remeasurements	-	-	577,549,115	-	577,549,115
Accretion of interest	-	-	222,544,637	327,322,040	549,866,677
Amortization of debt issue cost	-	1,248,596	-	(1,248,596)	-
Balances at end of year	₱4,075,000,000	₱401,541,385	₱2,832,462,784	₱-	₱7,309,004,169

December 31, 2018

	Short-term loans payable	Long-term debt	Interest payable	Total
Beginning balance at beginning of year	₱4,195,000,000	₱1,999,138,850	₱-	₱6,194,138,850
Cash movements:				
Availment	7,975,000,000	-	-	7,975,000,000
Settlement	(7,602,500,000)	(1,150,215,216)	(310,837,042)	(9,063,552,258)
Noncash movements:				
Accrual of interest	-	-	313,179,531	313,179,531
Amortization of debt issue cost	-	2,342,489	(2,342,489)	-
Balances at end of year	₱4,567,500,000	₱851,266,123	₱-	₱5,418,766,123



30. Subsequent Events

In a move to contain the Coronavirus Disease-2019 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 13, 2020, unless earlier lifted or extended. On April 7, 2020, the President of the Philippines has authorized the extension of the lockdown in Luzon until April 30, 2020. On April 24, 2020, the President of the Philippines has authorized to further extend the lockdown in high-risk areas until May 15, 2020. On May 12, 2020, the President of the Philippines has authorized the implementation of modified ECQ from May 16 to May 31, 2020 on certain areas including the National Capital Region. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. Various advisories were issued by the government agencies such as a 30-day moratorium on lease rentals thus, a potential delay in collection by the lessors.

On May 30, 2020, the President of the Philippines has authorized the implementation of General Community Quarantine (GCQ) on Metro Manila, along with other areas in the country, starting June 1, 2020 up to June 15, 2020. On June 15, 2020, the President of the Philippines has approved and extended the GCQ in Metro Manila, along with other areas in the country, until June 30, 2020.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact the consolidated financial statements as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on Group's 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to the consolidated balance sheet, consolidated statement of comprehensive income and consolidated cash flows. The Group will continue to monitor the situation.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
SSI Group, Inc.
6th Floor, Midland Buendia Building
403 Sen. 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, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, included in this Form 17-A and have issued our report thereon dated June 26, 2020. 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 Revised Securities Regulation Code Rule 68, 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. 8125318, January 7, 2020, Makati City

June 26, 2020



SSI GROUP, INC. AND SUBSIDIARIES

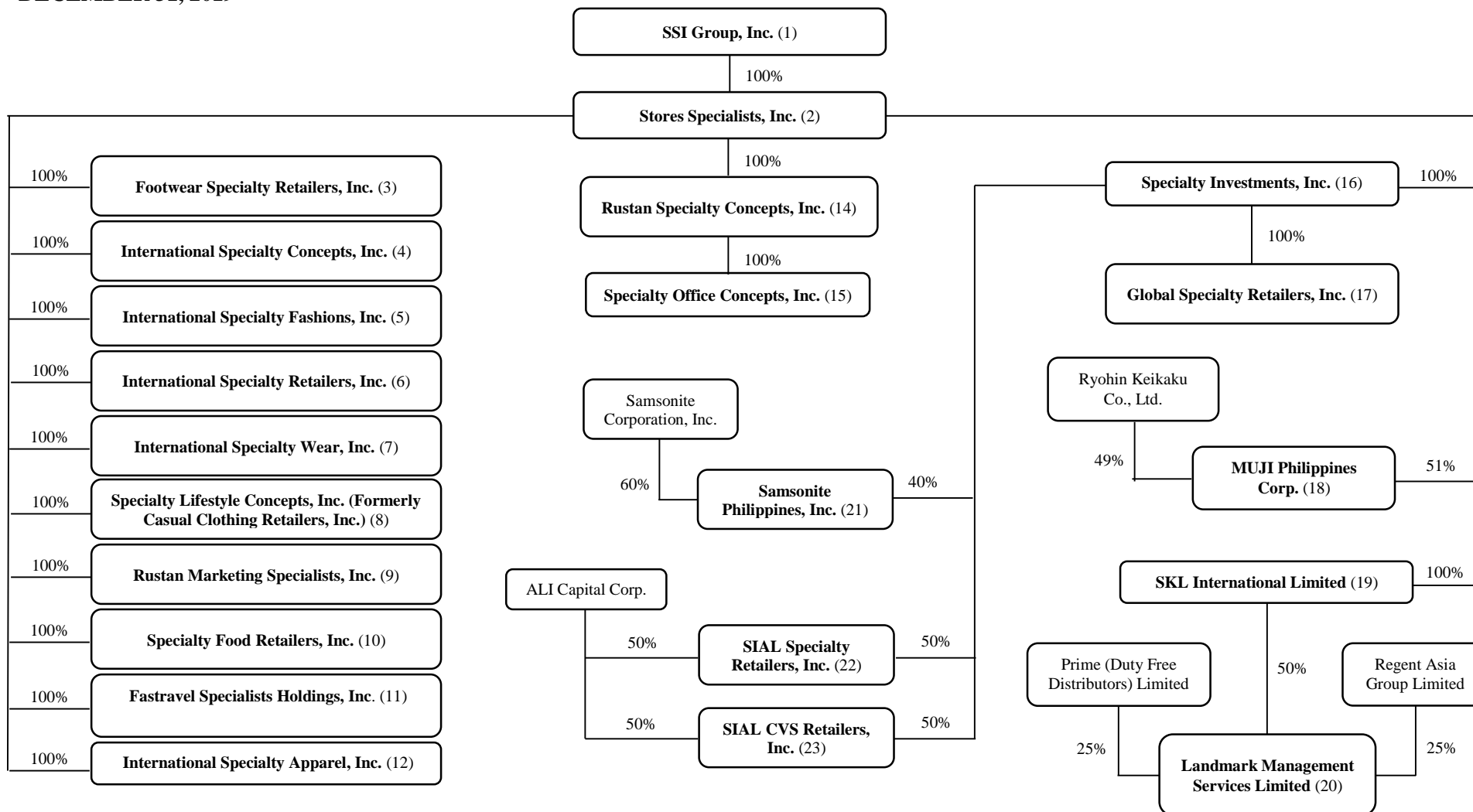
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2019

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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, 2019



SSI GROUP, INC.

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
DECEMBER 31, 2019**

Unappropriated retained earnings, beginning		₱1,021,132,238
Cumulative prior year adjustments:		
Interest income from accretion of the discount on security deposits	(3,973,046)	
Provision for deferred tax	6,032	(3,967,014)
Unappropriated retained earnings, as adjusted, beginning		1,017,165,224
Effects of adoption of PFRS 16		(2,515,050)
Unappropriated retained earnings, as restated, beginning		1,014,650,174
Net income during the period closed to retained earnings	22,576,090	
Interest income from accretion of the discount on security deposits	(1,208,265)	
Benefit from deferred tax	(2,477,420)	
Interest expense from accretion of lease liabilities	6,959,520	
Interest income on lease receivable	(2,613,963)	23,235,962
Retained earnings available for dividend declaration		<u>₱1,037,886,136</u>

SCHEDULE A

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2019

	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	₱2,430,739,253	₱2,430,739,253	₱4,539,174
Trade and other receivables				
Trade receivables	N/A	366,360,017	366,360,017	–
Nontrade receivables	N/A	215,673,361	215,673,361	–
Receivables from related parties	N/A	111,794,889	111,794,889	–
Dividend receivable	N/A	25,200,000	25,200,000	–
Other receivables	N/A	7,080,051	7,080,051	–
Security deposits and construction bonds	N/A	1,059,559,287	1,059,559,287	–
		₱4,216,406,858	₱4,216,406,858	₱4,539,174

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, 2019**
**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	₱20,055	₱49,864	(₱35,699)	₱34,220	₱–	₱34,220
PFM	–	22,883	(4,402)	18,481	–	18,481
RMK	31,801	7,588	(4)	39,385	–	39,385
SPI	2,174	1,747	(1,504)	2,417	–	2,417
MPC	17,058	20,973	(20,746)	17,285	–	17,285
Others	140	–	(133)	7	–	7
Advances to officers and employees	84,217	87,503	(103,758)	67,962	–	67,962
	₱155,445	₱190,558	(₱166,246)	₱179,757	₱–	₱179,757

Amounts owed by Related Parties (*in thousands*)

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Non- Current	Balance at the end of the period
SCRI*	₱41,125	₱2,500	(₱20,000)	₱23,625	–	₱23,625

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

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, 2019**

**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	₱157,322,354	₱1,465,930	(₱158,786,741)	₱-	₱1,543	₱-	₱1,543
SSI	1,544,498	326,671	(111,740)	-	1,759,429	-	1,759,429
RMSI	279,314,715	26,998,344	(18,043,932)	-	288,269,127	-	288,269,127
ISCI	104,219,491	41,204,130	(126,981,649)	-	18,441,971	-	18,441,971
RSCI	12,583,414	3,028,322	(95,771)	-	15,515,965	-	15,515,965
SOCI	135,296,470	12,855	(135,296,469)	-	12,856	-	12,856
SII	400		(400)	-	-	-	-
ISFI	111,010	244,090	(355,100)	-	-	-	-
FSRI	8,022,974	11,821,961	(10,428,518)	-	9,416,417	-	9,416,417
GSRI	12,691,885	56,427,685	(68,921,284)	-	198,286	-	198,286
SFRI	261,410,126	41,330,088	(17,764,322)	-	284,975,892	-	284,975,892
ISRI	982,719	617,522	(687,912)	-	912,329	-	912,329
ISWI	1,119,587	270,371	(679,030)	-	710,928	-	710,928
ISAI	1,027,059	900,869	(1,036,816)	-	891,112	-	891,112
SLCI	212,806,553	49,466,422	(249,595,672)	-	12,677,303	-	30,610,749
FSHI	33,148,719	32,339,680	(34,877,650)	-	30,610,749	-	12,677,303
	₱1,221,601,974	₱266,454,940	(₱823,663,006)	₱-	₱664,393,908	₱-	₱664,393,908

*Net of allowance for ECL amounting to ₱237,366,475.

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	
SGI	₱161,592,751	₱206,470	₱-	₱-	₱161,799,221	₱-	₱161,799,221
SSI	206,817,046	280,202,808	(147,923,548)	-	339,096,306	-	339,096,306
RMSI	92,455,512	23,452,021	(10,636,955)	-	105,270,578	-	105,270,578
ISCI	17,081,053	34,583,646	(23,922,836)	-	27,741,863	-	27,741,863
RSCI	20,099,389	3,174,738	(999,238)	-	22,274,889	-	22,274,889
ISFI	109,209,761	13,547,077	(42,546,688)	-	80,210,150	-	80,210,150
FSRI	5,816,152	18,083,677	(18,635,772)	-	5,264,057	-	5,264,057
GSRI	145,024,177	7,681,319	(60,721,244)	-	91,984,252	-	91,984,252
SFRI	18,803,765	7,801,419	(8,343,721)	-	18,261,463	-	18,261,463
ISRI	23,985,173	50,520,858	(32,806,875)	-	41,699,156	-	41,699,156
ISWI	88,846,803	61,481,310	(57,182,181)	-	93,145,932	-	93,145,932
ISAI	94,083,970	2,572,650	(21,834,530)	-	74,822,090	-	74,822,090
SLCI	98,479,137	21,353,456	(101,982,730)	-	17,849,863	-	17,849,863
	₱1,082,294,689	₱524,661,449	(₱527,536,318)	₱-	₱1,079,419,820	₱-	₱1,079,419,820

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS

AS AT DECEMBER 31, 2019

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.

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT

AS AT DECEMBER 31, 2019

Long-term Debt			
Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
Long-term loan	P401,976,667	P284,306,666	P117,670,000
Less: Transaction costs	(435,281)	(319,685)	(115,595)
	P401,541,386	P283,986,981	P117,554,405
			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, 2019

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, 2019

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**

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
AS AT DECEMBER 31, 2019**Capital Stock**

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by directors, officers and employees	Others
Common shares	5,000,000,000	3,305,293,430	–	–	520,925,720	–

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders
SSI Group, Inc.
6th Floor, Midland Buendia Building
403 Sen. 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, 2019 and 2018, and for each of the three years in the period ended December 31, 2019 and have issued our report thereon dated June 26, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and no material exceptions were noted.

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. 8125318, January 7, 2020, Makati City

June 26, 2020

SSI GROUP, INC.**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**

Ratios	Formula	December 31, 2019	December 31, 2018
(i) Current Ratio	Current Assets/Current Liabilities	1.77	2.00
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.39	0.50
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.17	0.28
(iii) Asset to Equity Ratio	Total Assets/Total Equity	1.93	1.69
(iv) Interest Cover Ratio	EBITDA/Interest Expense	6.97	6.69
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	44.99%	45.97%
Net Profit Margin	Net Income/Revenues	3.63%	3.01%
EBITDA Margin	EBITDA/Revenues	17.08%	9.33%
Return on Assets	Net Income/Total Assets	3.70%	3.33%
Return on Equity	Net Income/Total Equity	7.14%	5.62%

*EBITDA = Earnings before interest, taxes and depreciation and amortization

SSI Group, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
As of March 31, 2020 *(With Comparative Audited Figures as of
December 31, 2019)*
and For the Three-Month Periods Ended March 31, 2020 and 2019

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As of March 31, 2020

(With Comparative Audited Figures as of December 31, 2019)

	March 31	December 31
	2020	2019
	(Unaudited)	(Audited)
ASSETS		
Current Assets		
Cash (Note 3)	P1,572,233,942	P2,492,459,933
Trade and other receivables (Note 4)	749,626,290	785,743,181
Merchandise inventories (Note 5)	10,449,600,482	9,818,880,088
Prepayments and other current assets (Note 6)	1,251,385,922	1,167,736,212
Total Current Assets	14,022,846,636	14,264,819,414
Noncurrent Assets		
Investment in an associate (Note 7)	105,127,963	86,776,792
Interests in joint ventures (Note 8)	573,935,040	568,859,842
Property and equipment (Note 9)	5,463,461,205	5,592,880,009
Deferred tax assets - net	375,952,652	334,276,084
Security deposits and construction bonds (Note 23)	1,027,596,877	1,035,414,362
Other noncurrent assets (Note 10)	193,774,437	182,435,276
Total Noncurrent Assets	7,739,848,174	7,800,642,365
TOTAL ASSETS	P21,762,694,810	P22,065,461,779
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	P2,091,315,639	P2,531,640,071
Short-term loans payable (Note 12)	4,200,000,000	4,075,000,000
Current portion of long-term debt (Note 13)	283,986,981	283,986,981
Current portion of lease liabilities (Note 23)	941,164,285	980,470,908
Deferred revenue	20,991,291	20,991,291
Income tax payable	225,065,198	162,001,413
Total Current Liabilities	7,762,523,394	8,054,090,664
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 13)	4,811,071	117,554,404
Retirement benefit obligation	613,456,415	600,692,107
Lease liabilities - net of current portion (Note 23)	1,828,147,449	1,851,991,876
Tenant deposits (Note 23)	36,976,735	19,864,451
Total Noncurrent Liabilities	2,483,391,670	2,590,102,838
Total Liabilities	10,245,915,064	10,644,193,502
Equity		
Capital stock	3,312,864,430	3,312,864,430
Additional paid-in capital	2,519,309,713	2,519,309,713
Treasury shares	(30,893,010)	(18,103,900)
Retained earnings		
Appropriated	1,100,000,000	1,100,000,000
Unappropriated	4,774,416,276	4,664,505,311
Cumulative translation adjustment	(2,169,584)	(2,169,584)
Other comprehensive loss	(156,748,079)	(155,137,693)
Total Equity	11,516,779,746	11,421,268,277
TOTAL LIABILITIES AND EQUITY	P21,762,694,810	P22,065,461,779

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

	For the Three-Month Periods Ended March 31	
	2020	2019
	(Unaudited)	(Unaudited)
REVENUES		
Revenue from contract with customers - net sales	₱4,282,894,697	₱4,921,393,289
Rental income (Note 23)	13,312,327	19,592,247
	4,296,207,024	4,940,985,536
COST OF GOODS SOLD AND SERVICES (Note 14)	2,311,609,303	2,697,008,901
GROSS PROFIT	1,984,597,721	2,243,976,635
OPERATING EXPENSES		
Selling and distribution (Note 15)	1,518,183,879	1,628,428,862
General and administrative (Note 16)	311,143,183	309,514,765
	1,829,327,062	1,937,943,627
OTHER INCOME (CHARGES)		
Interest expense (Notes 12 and 13)	(60,342,065)	(77,365,110)
Loss on disposal of property and equipment (Note 9)	(15,049,070)	(16,491,551)
Share in net earnings of an associate (Note 7)	18,351,171	12,616,450
Share in net losses of joint ventures (Note 8)	5,075,197	9,424,812
Interest income (Note 3)	857,248	1,853,114
Foreign exchange gains - net	(6,815,958)	(962,612)
Interest accretion on security deposits (Note 23)	836,068	638,987
Others – net	41,117,421	12,045,856
	(15,969,988)	(58,240,054)
INCOME BEFORE INCOME TAX	139,300,671	247,792,954
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	76,993,733	90,838,710
Deferred	(47,587,587)	(13,663,698)
	29,406,146	77,175,012
NET INCOME	109,894,525	170,617,942
OTHER COMPREHENSIVE INCOME		
<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	–	16,210
<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	(1,610,386)	(11,409,202)
TOTAL COMPREHENSIVE INCOME	₱108,284,139	₱159,224,950
BASIC/DILUTED EARNINGS PER SHARE (Note 20)	₱0.03	₱0.05

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, 2020 AND 2019**

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Retained Earnings		Cumulative Translation Adjustment	Other Comprehensive Income	Total
				Appropriated	Unappropriated			
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)
Balances at March 31, 2019	₱3,312,864,430	₱2,519,309,713	(₱10,202,720)	₱1,100,000,000	₱4,072,415,705	(₱2,107,062)	(₱17,963,643)	₱10,974,316,423
Balances at January 1, 2020	₱3,312,864,430	₱2,519,309,713	(₱18,103,900)	₱1,100,000,000	₱4,664,521,751	(₱2,169,584)	(₱155,137,693)	₱11,421,284,717
Net income	–	–	–	–	109,894,525	–	–	109,894,525
Other comprehensive income	–	–	–	–	–	–	(1,610,386)	(1,610,386)
Total comprehensive income for the period	–	–	–	–	109,894,525	–	(1,610,386)	108,284,139
Treasury shares	–	–	(12,789,110)	–	–	–	–	(12,789,110)
Balances at March 31, 2020	₱3,312,864,430	₱2,519,309,713	(₱30,893,010)	₱1,100,000,000	₱4,774,416,276	(₱2,169,584)	(₱156,748,079)	₱11,516,779,746

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	
	2020 (Unaudited)	2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱139,300,671	₱247,792,954
Adjustments for:		
Depreciation and amortization (Notes 9, 10 and 18)	270,376,053	202,356,072
Interest expense (Note 12 and 13)	60,342,065	77,365,110
Loss on disposal of property and equipment (Note 9)	15,049,070	16,491,551
Share in net earnings of an associate (Note 7)	(18,351,171)	(12,616,450)
Share in net losses (income) of joint ventures (Note 8)	(5,075,197)	(9,424,812)
Unrealized foreign exchange losses	6,617,563	2,702,486
Interest income (Note 3)	(857,248)	(1,853,114)
Interest accretion on security deposits (Note 23)	(836,068)	(638,987)
Movement in retirement benefit obligation	10,463,756	1,339,787
Operating income before working capital changes	477,029,494	523,514,596
Decrease (increase) in:		
Trade and other receivables	36,116,890	41,825,986
Merchandise inventory	(630,720,394)	(379,816,262)
Prepayments and other current assets	(83,505,777)	(75,922,440)
Amounts owed by related parties	-	(6,905,464)
Increase (decrease) in:		
Trade and other payables	(440,324,484)	315,444,433
Tenant deposits	17,112,284	(136,875)
Deferred revenue	-	935,350
Amounts owed to related parties	-	173,893
Net cash used in operations	(624,291,986)	419,113,218
Interest received	857,248	1,853,114
Income taxes paid	(13,929,948)	(25,668,105)
Net cash flows used in operating activities	(637,364,686)	395,298,227
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 9)	(156,006,317)	(84,855,524)
Decrease (increase) in:		
Security deposits and construction bonds	8,509,620	(32,832,001)
Other noncurrent assets	(11,339,050)	(93,619,635)
Net cash flows used in investing activities	(158,835,747)	(211,307,160)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of short-term loans payable	125,000,000	-
Payments of:		
Short-term loans payable	-	(475,000,000)
Long-term debt	(112,743,333)	(112,743,333)
Lease liability	(63,151,050)	-
Interest	(60,342,065)	(77,365,110)
Purchase of treasury shares	(12,789,110)	(2,644,280)
Net cash flows from (used in) financing activities	(124,025,558)	(667,752,723)
NET INCREASE (DECREASE) IN CASH	(920,225,991)	(483,761,656)
CASH AT BEGINNING OF PERIOD	2,492,459,933	2,360,460,924
CASH AT END OF PERIOD (Note 3)	₱1,572,233,942	₱1,876,699,268

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

The interim condensed consolidated financial statements were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on June 26, 2020. The same interim condensed consolidated financial statements were approved and authorized by the BOD on the same date.

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, 2020 and for the three-month periods ended March 31, 2020 and 2019 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, 2019.

Basis of Consolidation

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

	Percentage ownership			
	March 31, 2020		December 31, 2019	
	Direct	Indirect	Direct	Indirect
Stores Specialists, Inc. (SSI)	100	–	100	–
Rustan Marketing Specialists, Inc. (RMSI)	–	100	–	100
International Specialty Concepts, Inc. (ISCI)	–	100	–	100
Rustan Specialty Concepts, Inc. (RSCI)	–	100	–	100
Specialty Office Concepts, Inc. (SOCI)	–	100	–	100
Specialty Investments, Inc. (SII)	–	100	–	100
International Specialty Fashions, Inc. (ISFI)	–	100	–	100
Footwear Specialty Retailers, Inc. (FSRI)	–	100	–	100
Global Specialty Retailers, Inc. (GSRI)	–	100	–	100
Specialty Food Retailers, Inc. (SFRI)	–	100	–	100
International Specialty Retailers, Inc. (ISRI)	–	100	–	100
International Specialty Wears, Inc. (ISWI)	–	100	–	100
Fastravel Specialists Holdings, Inc. (FSHI)	–	100	–	100
International Specialty Apparels, Inc. (ISAI)	–	100	–	100
Specialty Lifestyle Concepts, Inc. (<i>former Casual Clothing Retailers, Inc.</i>) (SLCI)	–	100	–	100
SKL International, Ltd. (SKL)	–	100	–	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, 2020 and for the three months ended March 31, 2020 and 2019. 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:

- 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 June 1, 2020:

- Amendments to PFRS 16, *Covid -19 Related Rent Concessions*

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*
- Amendments to PFRS 3, *Business Combination - Reference to the Conceptual Framework*

3. Cash

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash on hand	₱41,185,700	₱61,720,680
Cash in banks	1,531,048,242	2,372,029,222
Short-term investments	–	58,710,031
	₱1,572,233,942	₱2,492,459,933

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the three months ended March 31, 2020 and 2019 amounted to ₱857,248 and ₱1,853,114, respectively.

4. Trade and Other Receivables

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade receivables	₱318,323,633	₱366,360,017
Nontrade receivables	260,896,110	215,673,361
Receivables from related parties (see Note 19)	104,302,737	111,794,889
Advances to officers and employees	66,645,041	67,961,679
Dividend receivable	–	25,200,000
Others	7,785,585	7,080,051
	757,953,106	794,069,997
Less allowance for ECL on nontrade receivables	8,326,816	8,326,816
	₱749,626,290	₱785,743,181

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

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
At cost		
On hand	P10,332,355,516	P9,040,507,891
In transit	117,244,966	778,372,197
	P10,449,600,482	P9,818,880,088

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 P2,307,885,513 and P2,692,918,116, for the three months ended March 31, 2020 and 2019, respectively (see Note 14).

6. Prepayments and Other Current Assets

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Advances to suppliers	P437,290,873	P383,811,622
Supplies	366,048,230	476,229,580
Input VAT	126,174,556	106,951,795
Prepaid advertising	47,380,055	9,386,640
Creditable withholding tax	15,275,185	46,721,136
Prepaid tax	96,776,418	–
Deferred input VAT	40,309,034	8,778,465
Current portion of prepaid rent (see Notes 10 and 23)	32,359,950	35,563,482
Prepaid insurance	11,114,470	23,844,210
Current portion of security deposits (see Note 23)	21,231,049	24,144,925
Prepaid guarantee	5,584,881	5,090,418
Others	51,841,221	47,213,939
	P1,251,385,922	P1,167,736,212

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.

7. Investment in an Associate

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Acquisition cost	₱24,640,000	₱24,640,000
Accumulated equity in net earnings:		
Balance at beginning of year	62,136,792	29,954,522
Share in net earnings	18,351,171	57,382,270
Dividends received	–	(25,200,000)
Balance at end of year	80,487,963	62,136,792
	₱105,127,963	₱86,776,792

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, 2020 and December 31, 2019, 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.

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, 2020

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and end of period	₱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	44,796,081	59,517,308	(407,344,383)	(420,350,000)	(723,380,994)
Share in net income		5,075,197			5,075,197
Balances at end of year	44,796,081	64,592,504	(407,344,383)	(420,350,000)	(718,305,797)
	₱420,092,535	₱153,842,504	₱-	₱-	₱573,935,040

December 31, 2019 (Audited)

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and 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	32,527,710	22,775,002	(407,344,383)	(420,350,000)	(772,391,671)
Share in net earnings	12,268,370	36,742,306			49,010,676
Balances at end of year	44,796,080	59,517,308	(407,344,383)	(420,350,000)	(723,380,995)
	₱420,092,534	₱148,767,308	₱-	₱-	₱568,859,842

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 ₱nil million and ₱0.62 million for the three months ended March 31, 2020 and 2019, 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, 2020.

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, 2020 and December 31, 2019.

9. Property and Equipment

The composition and movements of this account are as follows:

March 31, 2020 (Unaudited)

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Right of use Asset	Construction in Progress	Total
Cost:							
Balances at beginning of year	7,255,634,677	2,514,378,268	892,989,252	304,733,387	3,926,426,489	87,301,743	14,981,463,816
Additions	100,868,787	25,486,531	–	–	–	29,651,001	156,006,320
Disposals	(40,288,736)	–	–	–	–	–	(40,288,736)
Reclassifications	19,941,487	–	–	–	–	(19,941,487)	–
Balances at end of year	7,336,156,216	2,539,864,799	892,989,252	304,733,387	3,926,426,489	97,011,257	15,097,181,400
Accumulated depreciation and amortization:							
Balances at beginning of year	5,773,219,940	1,998,491,501	290,513,069	153,766,171	1,172,593,126	–	9,388,583,807
Depreciation (see Note 18)	142,066,755	44,850,849	11,079,229	6,184,973	66,194,247	–	270,376,053
Disposals	(25,239,665)	–	–	–	–	–	(25,239,665)
Balances at end of year	5,890,047,030	2,043,342,350	301,592,298	159,951,144	1,238,787,373	–	9,633,720,195
Net book values	₱1,446,109,186	₱496,522,449	₱591,396,954	₱144,782,243	₱2,687,639,116	₱97,011,257	₱5,463,461,205

December 31, 2019 (Audited)

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Right-of-Use Asset	Construction in Progress	Total
Cost:							
Balances at beginning of year	₱7,256,246,129	₱2,211,690,435	₱898,080,680	₱279,203,655	₱–	₱68,097,610	₱10,713,318,509
Effect of adoption of PFRS 16 (Note 2)	–	–	–	–	3,340,147,107	–	3,340,148,16
Additions	520,665,564	320,817,625	549,290	28,572,032	464,456,848	90,358,565	1,425,419,924
Disposals and retirement	(589,402,062)	(26,799,896)	–	(3,042,300)	–	–	(619,244,258)
Remeasurement	–	–	–	–	121,821,534	–	121,821,534
Reclassifications	68,125,046	8,670,104	(5,640,718)	–	–	(71,154,432)	–
Balances at end of year	7,255,634,677	2,514,378,268	892,989,252	304,733,387	3,926,426,489	87,301,743	14,981,463,816
Accumulated Depreciation and Amortization:							
Balances at beginning of year	5,704,592,695	1,822,463,913	249,056,739	131,199,814	–	–	7,907,313,161
Depreciation and amortization (Note 19)	597,569,611	199,964,018	44,734,442	25,250,343	1,172,593,126	–	2,040,111,540
Disposals and retirement	(528,942,366)	(27,214,542)	–	(2,683,986)	–	–	(558,840,894)
Reclassifications	–	3,278,112	(3,278,112)	–	–	–	–
Balances at end of year	5,773,219,940	1,998,491,501	290,513,069	153,766,171	1,172,593,126	–	9,388,583,807
Net book values	₱1,482,414,737	₱515,886,767	₱602,476,183	₱150,967,216	₱2,753,833,363	₱87,301,743	₱5,592,880,009

Additions to leasehold improvements and construction in progress in 2020 and 2019 pertain to improvements and construction of newly opened and renovated stores during the year.

Disposals and retirement for the period ended March 31, 2020 and December 31, 2019 mainly pertain to leasehold improvements and store furniture and fixtures derecognized on closed or renovated stores.

No property and equipment were pledged or treated as security to the outstanding liabilities as of March 31, 2020 and December 31, 2019.

The Group has no purchase commitments related to property, plant and equipment as of March 31, 2020 and December 31, 2019, respectively.

10. Other Noncurrent Assets

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Franchise fee	₱100,481,165	₱94,484,273
Miscellaneous deposits	88,913,694	42,534,120
Software costs	3,454,405	3,278,569
Deferred Input VAT	–	42,135,332
Others	925,073	2,982
	₱193,774,337	₱182,435,276

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

11. Trade and Other Payables

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade payables	₱1,543,215,086	₱1,312,044,432
Nontrade payables	358,403,190	713,833,266
Accrued expenses	138,079,479	274,736,642
Retention payable	43,370,061	56,514,419
Payable to related parties (see Note 19)	1,877,935	1,354,050
Output VAT	–	100,067,225
Tenant deposit	–	39,956,757
Others	6,369,888	33,133,280
	₱2,091,315,639	₱2,531,640,071

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.

12. Short-term Loans Payable

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Banks:		
Bank of Philippine Islands (BPI)	₱2,400,000,000	2,325,000,000
Bank of Commerce (BOC)	600,000,000	600,000,000
Metropolitan Bank & Trust Co. (MBTC)	500,000,000	500,000,000
Banco de Oro (BDO)	350,000,000	350,000,000
China Banking Corporation (CBC)	300,000,000	300,000,000
Rizal Commercial Banking Corporation (RCBC)	50,000,000	
	₱4,200,000,000	4,075,000,000

The Group's outstanding short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 4.50% to 5.00% and 5.50% to 6.25% for the three months ended 2020 and 2019, respectively.

Interest expense recognized in the consolidated statements of comprehensive income for the three months ended March 31, 2020 and 2019 amounted to ₱55,486,867 and ₱66,489,682, respectively.

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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
BPI	₱227,950,882	₱279,280,156
SBC	22,050,882	44,304,426
CBC	15,211,793	30,563,391
MBTC	15,211,793	30,563,391
RCBC	8,372,703	16,830,021
Total	288,798,053	401,541,385
Less: current portion	283,986,982	283,986,981
Noncurrent portion	₱4,811,071	₱117,554,404

Interest expense recognized in the consolidated statements of comprehensive income for the three months ended March 31, 2020 and 2019 amounted to ₱4,855,198 and ₱10,875,428, 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, 2020 and December 31, 2019, the Group is in compliance with the loan covenants of all their respective outstanding debts.

14. Cost of Goods Sold

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Cost of merchandise sold (Note 5)	₱2,307,885,512	₱2,692,918,116
Depreciation and amortization (Notes 9 and 18)	1,013,487	1,020,951
Utilities	849,626	1,019,144
Rent (Note 23)	964,696	729,169
Outside services	240,093	322,230
Others	655,889	999,291
	₱2,311,609,303	₱2,697,008,901

Depreciation and amortization pertains to depreciation of leasehold improvements and furniture and fixtures of the leased spaces. Utilities, rent, security and safety expenses pertain to cost incurred in the operation of leased spaces.

Cost of merchandise sold:

	March 31, 20 (Unaudited)	March 31, 2019 (Unaudited)
Merchandise inventory, beginning	₱9,818,880,088	₱9,245,189,954
Net purchases	2,938,605,906	3,072,734,378
Cost of merchandise available for sale	12,757,485,994	12,317,924,332
Less merchandise inventory, ending	10,449,600,482	9,625,006,216
	₱2,307,885,512	₱2,692,918,116

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

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Rent (see Notes 19 and 23)	₱410,503,618	₱532,064,594
Personnel costs (see Note 17)	311,683,374	286,327,900
Depreciation and amortization (see Notes 9, 10 and 18)	232,171,844	171,963,102
Utilities	102,400,126	144,259,572
Credit card charges	81,418,867	93,592,253
Taxes and licenses	68,940,796	89,885,394
Supplies and maintenance	44,131,976	43,402,667
Global marketing contribution fee	64,720,489	72,720,356
Security services	40,099,172	40,066,731
Delivery and freight charges	14,246,503	23,168,856
Advertising	62,331,914	47,597,076
Repairs and maintenance	16,369,570	17,997,863
Travel and transportation	17,109,028	23,243,854
Insurance	17,524,884	9,069,266
Communication	5,945,122	6,471,896
Outside services	4,306,629	7,012,952
Entertainment, amusement and recreation (EAR)	1,350,444	697,865
Telegraphic transfer	547,430	398,674
Others	22,382,093	18,487,991
	₱1,518,183,879	₱1,628,428,862

16. General and Administrative Expenses

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Personnel costs (see Note 17)	₱170,717,015	₱147,084,093
Rent (see Notes 19 and 23)	30,295,725	33,027,889
Depreciation and amortization (see Notes 9, 10 and 18)	37,364,340	29,372,019
Taxes and licenses	16,641,349	18,050,270
Utilities	9,029,050	16,483,055
Travel and transportation	6,531,587	15,571,271
Repairs and maintenance	5,720,580	8,804,627
Supplies and maintenance	9,380,331	6,214,082
Security services	5,735,387	6,874,804
Communication	4,106,219	4,699,527
Professional fees	4,052,052	3,163,626
Advertising	719,231	2,653,122
Insurance	3,035,289	2,619,036
EAR	987,934	1,606,158
Outside service	303,770	143,943
Others	6,523,324	13,147,243
	₱311,143,183	₱309,514,765

17. Personnel Costs

Personnel costs were charged to operations as follows:

	March 31, 2020	March 31, 2019
	(Unaudited)	(Unaudited)
Salaries, wages and bonuses	₱424,238,481	₱371,337,886
Retirement benefit expense	17,286,419	13,087,174
Other employee benefits	40,875,489	48,986,935
	₱482,400,389	₱433,411,995

Personnel costs were distributed as follows:

	March 31, 2020	March 31, 2019
	(Unaudited)	(Unaudited)
Selling and distribution (see Note 15)	₱311,683,374	₱286,327,900
General and administrative (see Note 16)	170,717,015	147,084,093
	₱482,400,389	₱433,411,994

18. Depreciation and Amortization Expense

	March 31, 2020	March 31, 2019
	(Unaudited)	(Unaudited)
Property and equipment (see Note 9)	₱270,376,053	₱201,666,615
Franchise fee (see Note 10)	–	494,510
Software costs (see Note 10)	173,618	194,947
	₱270,549,671	₱202,356,072

Depreciation and amortization were distributed as follows:

	March 31, 2020	March 31, 2019
	(Unaudited)	(Unaudited)
Cost of services (Note 14)	₱1,013,487	₱1,020,951
Selling and distribution (see Note 16)	232,171,844	171,963,102
General and administrative (see Note 17)	37,364,340	29,372,019
	₱270,549,671	₱202,356,072

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:

- Lease of the Group's store outlet spaces from a related party (see Note 23). Related rent expense amounted to ₱14.4 million and ₱18.5 million, for the three months in the period ended March 31, 2020 and 2019, respectively;
- The Group reimburses related parties for its expenses paid by the related parties in behalf of the Group;
- Sales through the use of related parties' gift certificates. Total value of the related parties' gift certificates used amounted to ₱6.6 million and ₱8.0 million for the three months ended March 31, 2020 and 2019, respectively;
- Short-term noninterest-bearing cash advances to/from related parties; and
- Compensation of the Company's key management personnel comprised of short-term employee benefits amounting to ₱9.4 million, ₱9.5 million for the three months in the period ended March 31, 2020 and 2019, respectively, and post-employment benefits amounting to ₱1.4 million and ₱1.3 million for the three months in the period ended March 31, 2020 and 2019, respectively.

As of March 31, 2020 and December 31, 2019, transactions with related parties are as follows:

Related Parties	Periods ended	Transactions for the year	Outstanding balances	
			Receivables from related parties (Note 5)	Payable to related parties (Note 12)
<i>Under common control</i>				
RCC	March 31, 2020	(₱6,711,273)	₱26,272,304	₱709,594
	December 31, 2019	₱15,317,660	₱34,220,435	₱709,594
RMK	March 31, 2020	847,133	40,263,255	1,168,341
	December 31, 2019	11,087,521	39,384,773	644,456
Others	March 31, 2020	–	–	–
	December 31, 2019	–	6,380	–
<i>Joint ventures</i>				
PFM	March 31, 2020	–	18,481,052	–
	December 31, 2019	7,838	18,481,052	–
MPC	March 31, 2020	(413,213)	16,864,185	–
	December 31, 2019	6,247,633	17,285,247	–
<i>Associate</i>				
SPI	March 31, 2020	4,939	2,421,941	–
	December 31, 2019	223,034	2,417,002	–
	March 31, 2020		₱104,302,737	₱1,877,935
	December 31, 2019		₱111,794,889	₱1,354,050

The related party balances as of March 31, 2020 and December 31, 2019 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting ₱23.63 million, all receivables from related parties are not impaired. All related party balances are settled in cash.

20. Earnings Per Share (EPS)

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

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Net income	₱109,894,525	₱170,617,942
Divided by weighted average number of common shares	3,306,761,285	3,310,841,731
	₱0.03	₱0.05

There were no potential dilutive common shares for the three months ended March 31, 2020 and 2019.

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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash	₱1,531,048,242	₱2,430,739,253
Trade and other receivables		
Trade receivables	318,323,633	366,360,017
Nontrade receivables	260,896,110	215,673,361
Receivables from related parties	104,302,737	111,794,889
Dividend receivable	–	25,200,000
Others	7,785,589	7,080,051
Security deposits and construction bonds	1,048,827,926	1,059,559,287
	₱3,271,184,237	₱4,216,406,858

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, 2020 (Unaudited)

	Total	Neither past due nor impaired	Past due but not impaired				Impaired
			<30 days	30 - 60 days	60 - 90 days	> 90 days	
Cash	₱1,531,048,242	₱1,531,048,242	p–	p–	p–	p–	p–
Trade and other receivables							
Trade receivables	318,323,633	277,168,367	28,295,370	5,091,588	735,791	7,032,516	–
Nontrade receivables	260,896,110	107,273,075	35,813,914	24,852,544	14,661,040	69,968,720	8,326,816
Receivables from related parties	104,302,737	1,077,519	36,460,944	12,739,011	5,639,989	48,385,274	–
Dividend receivable	–	–	–	–	–	–	–
Others	7,785,589	7,372,666	205,539	–	207,384	–	–
Security deposits and construction bonds	1,048,827,926	1,048,827,926	–	–	–	–	–
Total	₱3,271,184,237	₱2,972,767,795	₱100,775,768	₱42,683,143	₱21,244,204	₱125,386,510	₱8,326,816

December 31, 2019

	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	₱2,430,739,253	₱2,430,739,253	p–	p–	p–	p–	p–
Trade and other receivables							
Trade receivables	366,360,017	258,508,168	66,900,115	16,939,126	11,727,087	12,285,521	–
Nontrade receivables	215,673,361	154,493,724	42,324,674	10,528,147	–	–	8,326,816
Receivables from related parties	111,794,889	26,703,381	61,466,508	–	–	–	23,625,000
Dividend receivable	25,200,000	25,200,000	–	–	–	–	–
Others	7,080,051	7,080,051	–	–	–	–	–
Security deposits and construction bonds ¹	1,059,559,287	1,059,446,820	–	–	–	–	112,467
Total	₱4,216,406,858	₱3,962,171,397	₱170,691,297	₱27,467,273	₱11,727,087	₱12,285,521	₱32,064,283

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, 2020 and December 31, 2019, there has been no increase in credit risk of these financial assets since initial recognition except for amounts owed by related parties amounting to ₱23.63 million which are classified as credit impaired as of March 31, 2020 and December 31, 2019.
- 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 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, 2020 and December 31, 2019, nontrade receivables from principals amounting to ₱8.34 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, 2020 and year ended December 31, 2019. 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, 2020.

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, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
<i>Loans and receivables</i>				
Security deposits and construction bonds	₱1,048,827,926	₱1,044,588,180	₱1,018,278,699	₱1,050,086,063
Financial Liabilities				
<i>Other financial liabilities</i>				
Long-term debt	₱288,798,052	₱288,798,052	₱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 5.50% to 7.56% were used in calculating the fair value of the Group's refundable deposits as of March 31, 2020 and December 31, 2019, 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 5.23% to 7.03% were used in calculating the fair value of the Group's long-term debt as of March 31, 2020 and December 31, 2019, 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, 2020 and December 31, 2019 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, 2020 and years ended December 31, 2019, 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.

23. Contracts and Commitments

Group as a Lessee

The Group has various leases of its warehouse and office space and certain store outlets used in its operations for lease terms ranging from three to ten 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. The Group also has certain leases of stores, office and warehouse space with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of right-of-use assets and lease liabilities follows:

	Right-of-use assets	Lease liabilities
Balances at beginning of the year	P–	P–
Effect of adoption of PFRS 16	3,340,148,107	3,343,221,838
Balances at beginning of the year, as restated	3,340,148,107	3,343,221,838
Additions	464,456,848	455,974,025
Interest expense	–	222,544,637
Depreciation expense	(1,172,593,126)	–
Remeasurement	121,821,534	121,575,090
Payments	–	(1,310,852,806)
Balances at end of the year	2,753,833,363	2,832,462,784
Less current portion	–	980,470,908
Balances at end of the year	₱2,753,833,363	₱1,851,991,876

The Group has paid security deposits for the store outlets and office spaces with carrying amounts of ₱1,048.83 million and ₱1,059.56 million as of March 31, 2020 and December 31, 2019, 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 3.56% to 6.89%. Interest income recognized from these security deposits amounted to ₱0.8 million and ₱0.6 million, for the three months ended March 31, 2020 and 2019, 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 ₱36.98 million and ₱59.82 million as of March 31, 2020 and December 31, 2019, 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 to five years. 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 ₱13.3 million and ₱19.6 million, for the three months ended March 31, 2020 and 2019, respectively.

Upon the adoption of PFRS 16, the Group reassessed the classification of the ongoing subleases that were classified as operating leases under PAS 17 and determined that the subleases qualify as finance lease under the new standard. The assessment was made on the basis of the remaining contractual terms and conditions of the head lease and sublease. The Group accounted for the subleases as new finance leases entered into at the date of initial application. As a result, the Group recognized lease receivables amounting to ₱26.15 million on January 1, 2019.

The following table shows the movements in the lease receivables for the year ended December 31, 2019:

	2019
Balances at beginning of the year	P–
Effect of adoption of PFRS 16 (Note 2)	26,154,302
Balances at beginning of the year, as restated	26,154,302
Interest income	2,613,963
Collection of lease receivables	(21,760,782)
Balances at end of the year	₱7,007,483

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. This information is 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, 2020 and 2019 (amounts in millions):

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Net Sales		
Luxury and Bridge	₱1,282	₱1,376
Casual	570	637
Fast Fashion	1,439	1,622
Footwear, Accessories and Luggage	378	558
Other	614	729
	₱4,283	₱4,922

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).

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Philippines	₱4,273	₱4,905
Guam	10	17
	₱4,283	₱4,922

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, 2020**

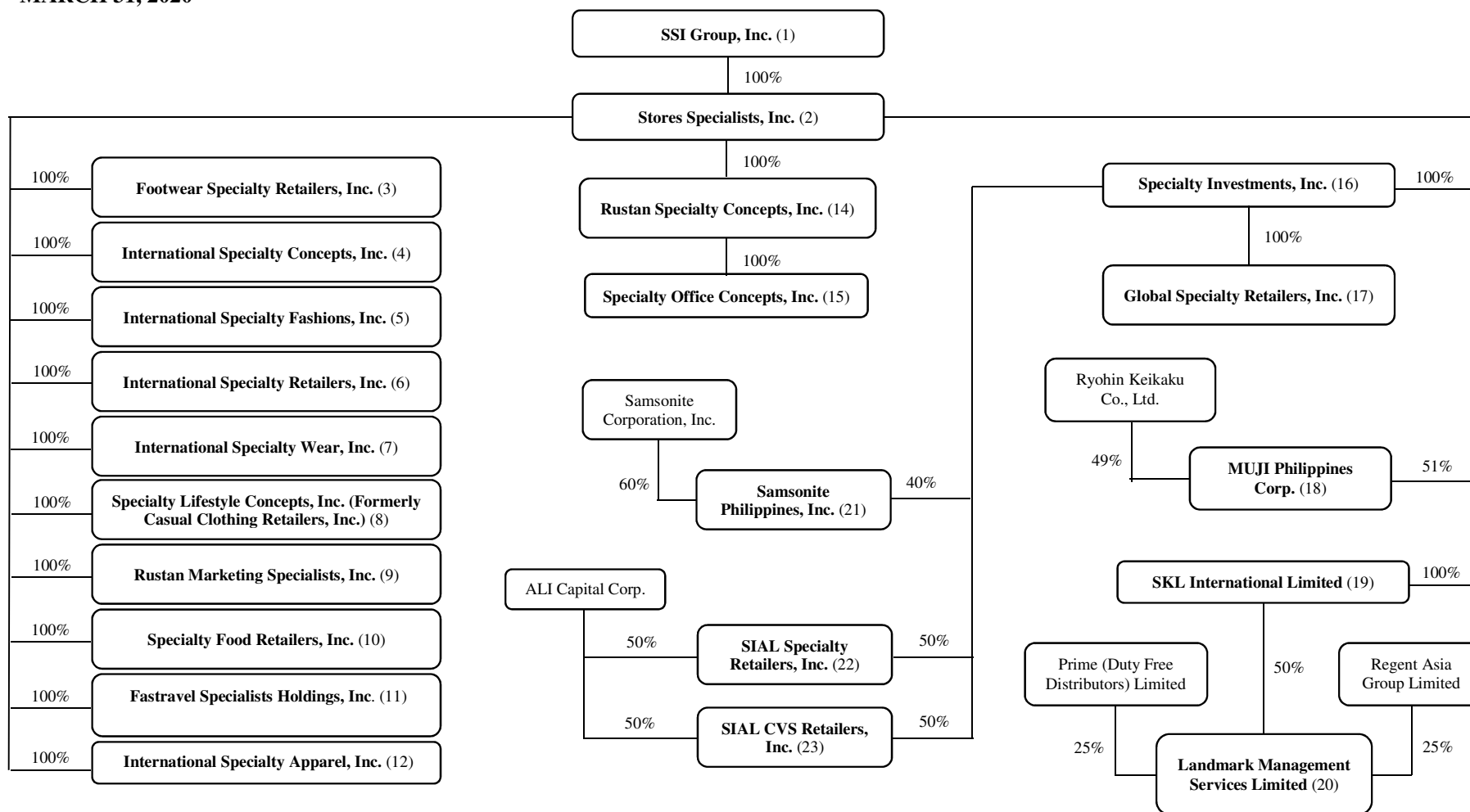


Exhibit II**SSI GROUP, INC.****RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION****March 31, 2020**

Unappropriated retained earnings, as adjusted, beginning		¥1,037,886,136
Net loss during the period closed to retained earnings	(2,812,055)	
Less: Other realized gains related to accretion of income from security deposits	261,562	
Deferred tax asset recognized during the year	<u>—</u>	
Net loss during the period		(2,550,492)
Retained earnings available for dividend declaration		<u>¥1,035,335,644</u>

Exhibit III

SSI GROUP, INC.

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratios	Formula	March 31, 2020	December 31, 2019	March 31, 2019
(i) Current Ratio	Current Assets/Current Liabilities	1.81	1.77	2.02
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.39	0.39	0.44
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.25	0.17	0.27
(iii) Asset to Equity Ratio	Total Assets/Total Equity	1.89	1.93	1.66
(iv) Interest Cover Ratio	EBITDA/Interest Expense	7.79	6.97	6.82
(v) Profitability Ratios				
GP Margin	Gross Profit/Revenues	46.34%	44.99%	45.60%
Net Profit Margin	Net Income/Revenues	2.57%	3.63%	3.47%
EBITDA Margin	EBITDA/Revenues	10.97%	17.08%	10.72%
Return on Assets	Net Income /Total Assets	0.50%	3.70%	0.94%
Return on Equity	Net Income /Total Equity	0.95%	7.14%	1.55%

*EBITDA = Earnings before interest, taxes and depreciation and amortization

SSI Group, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
As of June 30, 2020 *(With Comparative Audited Figures as of December
31, 2019)*
and For the Six-Month Periods Ended June 30, 2020 and 2019

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As of June 30, 2020

(With Comparative Audited Figures as of December 31, 2019)

	June 30 2020 (Unaudited)	December 31 2019 (Audited)
ASSETS		
Current Assets		
Cash (Note 3)	P2,996,956,824	P2,492,459,933
Trade and other receivables (Note 4)	713,843,979	785,743,181
Merchandise inventories (Note 5)	10,934,548,513	9,818,880,088
Prepayments and other current assets (Note 6)	1,213,142,126	1,167,736,212
Total Current Assets	15,858,491,442	14,264,819,414
Noncurrent Assets		
Investment in an associate (Note 7)	102,335,471	86,776,792
Interests in joint ventures (Note 8)	564,546,550	568,859,842
Property and equipment (Note 9)	4,877,262,372	5,592,880,009
Deferred tax assets - net	492,930,222	334,276,084
Security deposits and construction bonds (Note 23)	1,018,815,147	1,035,414,362
Other noncurrent assets (Note 10)	172,489,433	182,435,276
Total Noncurrent Assets	7,228,379,195	7,800,642,365
TOTAL ASSETS	P23,086,870,637	P22,065,461,779
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	P1,899,210,308	P2,531,640,071
Short-term loans payable (Note 12)	7,110,000,000	4,075,000,000
Current portion of long-term debt (Note 13)	171,243,648	283,986,981
Current portion of lease liabilities (Note 23)	691,645,037	980,470,908
Deferred revenue	20,991,291	20,991,291
Income tax payable	13,983,568	162,001,413
Total Current Liabilities	9,907,073,852	8,054,090,664
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 13)	4,811,071	117,554,404
Retirement benefit obligation	625,264,380	600,692,107
Lease liabilities - net of current portion (Note 23)	1,598,531,517	1,851,991,876
Tenant deposits (Note 23)	20,037,850	19,864,451
Total Noncurrent Liabilities	2,248,644,818	2,590,102,838
Total Liabilities	12,155,718,670	10,644,193,502
Equity		
Capital stock	3,312,864,430	3,312,864,430
Additional paid-in capital	2,519,309,713	2,519,309,713
Treasury shares	(30,893,010)	(18,103,900)
Retained earnings		
Appropriated	1,100,000,000	1,100,000,000
Unappropriated	4,188,227,869	4,664,505,311
Cumulative translation adjustment	(2,169,584)	(2,169,584)
Other comprehensive loss	(156,187,451)	(155,137,693)
Total Equity	10,931,151,967	11,421,268,277
TOTAL LIABILITIES AND EQUITY	P23,086,870,637	P22,065,461,779

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three-Month Periods Ended June 30		Six-Month Periods Ended June 30	
	2020	2019	2020	2019
REVENUE				
Revenue from contract with customers - net sales	₱737,890,731	₱4,929,605,880	₱5,020,785,428	₱9,850,999,169
Rental income (Note 23)	4,890,604	16,857,380	18,202,931	36,449,627
	742,781,335	4,946,463,260	5,038,988,359	9,887,448,796
COST OF GOODS SOLD AND SERVICES (Note 14)				
	415,785,759	2,631,332,322	2,727,395,062	5,328,341,223
GROSS PROFIT	326,995,576	2,315,130,938	2,311,593,297	4,559,107,573
OPERATING EXPENSES				
Selling and distribution (Note 15)	668,354,027	1,599,594,338	2,186,537,906	3,228,023,200
General and administrative (Note 16)	216,935,652	353,592,734	528,078,835	663,107,499
	885,289,679	1,953,187,072	2,714,616,741	3,891,130,699
OTHER INCOME (CHARGES)				
Share in net earnings of an associate (Note 7)	(2,792,492)	12,489,840	15,558,679	25,106,290
Interest accretion on security deposits (Note 24)	1,055,945	589,278	1,892,013	1,228,265
Interest income (Note 3)	1,458,028	979,970	2,315,276	2,833,084
Interest expense (Notes 12 and 13)	(191,949,676)	(83,498,302)	(252,291,741)	(160,863,412)
Share in net income of joint ventures (Note 8)	(9,388,490)	4,462,915	(4,313,293)	13,887,727
Loss on disposal of property and equipment (Note 9)	(1,818,049)	(17,722,624)	(16,867,119)	(34,214,175)
Foreign exchange gains (losses) - net	1,092,703	(1,110,490)	(5,723,255)	(2,073,102)
Others - net	(4,904,142)	(23,297,773)	36,213,279	(11,251,917)
	(207,246,173)	(107,107,186)	(223,216,161)	(165,347,240)
INCOME BEFORE INCOME TAX	(765,540,276)	254,836,680	(626,239,605)	502,629,634
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	(68,301,698)	94,742,248	8,692,035	185,580,958
Deferred	(111,050,171)	(15,229,730)	(158,637,758)	(28,893,428)
	(179,351,869)	79,512,518	(149,945,723)	156,687,530
NET INCOME	(586,188,407)	175,324,162	(476,293,882)	345,942,104
OTHER COMPREHENSIVE INCOME				
<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	-	-	-	16,210
<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	560,628	-	(1,049,758)	(11,409,202)
TOTAL COMPREHENSIVE INCOME	(₱585,627,779)	₱175,324,162	(₱477,343,640)	₱334,549,112
BASIC/DILUTED EARNINGS PER SHARE				
(Note 20)	(₱0.18)	₱0.05	(₱0.14)	₱0.10

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 SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND 2019**

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Retained Earnings		Cumulative Translation Adjustment	Other Comprehensive Income	Total
				Appropriated	Unappropriated			
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	–	–	–	–	345,942,104	–	–	345,942,104
Other comprehensive income	–	–	–	–	–	–	(11,409,202)	(11,409,202)
Exchange differences on translation	–	–	–	–	–	16,210	–	16,210
Total comprehensive income for the period	–	–	–	–	345,942,104	16,210	(11,409,202)	334,549,112
Treasury shares	–	–	(2,644,280)	–	–	–	–	(2,644,280)
Balances at June 30, 2019	₱3,312,864,430	₱2,519,309,713	(₱10,202,720)	₱1,100,000,000	₱4,247,739,867	(₱2,107,062)	(₱17,963,643)	₱11,149,640,585
Balances at January 1, 2020	₱3,312,864,430	₱2,519,309,713	(₱18,103,900)	₱1,100,000,000	₱4,664,521,751	(₱2,169,584)	(₱155,137,693)	₱11,421,284,717
Net income	–	–	–	–	(476,293,882)	–	–	(476,293,882)
Other comprehensive income	–	–	–	–	–	–	(1,049,758)	(1,049,758)
Total comprehensive income for the period	–	–	–	–	(476,293,882)	–	(1,049,758)	(477,343,640)
Treasury shares	–	–	(12,789,110)	–	–	–	–	(12,789,110)
Balances at June 30, 2020	₱3,312,864,430	₱2,519,309,713	(₱30,893,010)	₱1,100,000,000	₱4,188,227,869	(₱2,169,584)	(₱156,187,451)	₱10,931,151,967

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

	For the Six-Month Periods Ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	(₱626,239,605)	₱502,629,634
Adjustments for:		
Depreciation and amortization (Notes 9, 10 and 18)	958,450,187	417,454,713
Interest expense (Note 12 and 13)	252,291,741	160,863,412
Loss on disposal of property and equipment (Note 9)	16,867,119	34,214,175
Share in net earnings of an associate (Note 7)	(15,558,679)	(25,106,290)
Share in net losses (income) of joint ventures (Note 8)	4,313,293	(13,887,727)
Unrealized foreign exchange losses	449,897	1,335,237
Interest income (Note 3)	(2,315,276)	(2,833,084)
Interest accretion on security deposits (Note 23)	(1,892,013)	(1,228,265)
Movement in retirement benefit obligation	23,072,618	5,639,343
Operating income before working capital changes	609,439,282	1,079,081,149
Decrease (increase) in:		
Trade and other receivables	71,899,202	(47,942,858)
Merchandise inventory	(1,115,668,425)	(899,174,046)
Prepayments and other current assets	34,237,673	(103,642,864)
Increase (decrease) in:		
Trade and other payables	(708,022,719)	400,859,981
Tenant deposits	173,399	(106,875)
Deferred revenue	–	494,385
Net cash used in operations	(1,107,941,588)	429,568,872
Interest received	2,315,276	2,833,084
Income taxes paid	(156,709,880)	(172,347,188)
Net cash flows used in operating activities	(1,262,336,192)	260,054,768
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 9)	(255,201,762)	(360,578,796)
Decrease (increase) in:		
Security deposits and construction bonds	(2,498,316)	(38,997,976)
Other noncurrent assets	5,448,047	5,905,516
Net cash flows used in investing activities	(252,252,031)	(393,671,256)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of short-term loans payable	3,035,000,000	500,000,000
Payments of:		
Short-term loans payable	–	(565,000,000)
Long-term debt	(225,486,666)	(225,486,666)
Lease liability	(525,347,369)	–
Interest	(252,291,741)	(160,863,412)
Purchase of treasury shares	(12,789,110)	(2,644,280)
Net cash flows from (used in) financing activities	2,019,085,114	(453,994,358)
NET INCREASE (DECREASE) IN CASH	504,496,891	(587,610,847)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	–	(1,335,237)
CASH AT BEGINNING OF PERIOD	2,492,459,933	2,360,460,924
CASH AT END OF PERIOD (Note 3)	₱2,996,956,824	₱1,771,514,840

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

The interim condensed consolidated financial statements were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on June 26, 2020. The same interim condensed consolidated financial statements were approved and authorized by the BOD on the same date.

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 June 30, 2020 and for the six-month periods ended June 30, 2020 and 2019 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, 2019.

Basis of Consolidation

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

	Percentage ownership			
	June 30, 2020		December 31, 2019	
	Direct	Indirect	Direct	Indirect
Stores Specialists, Inc. (SSI)	100	–	100	–
Rustan Marketing Specialists, Inc. (RMSI)	–	100	–	100
International Specialty Concepts, Inc. (ISCI)	–	100	–	100
Rustan Specialty Concepts, Inc. (RSCI)	–	100	–	100
Specialty Office Concepts, Inc. (SOCI)	–	100	–	100
Specialty Investments, Inc. (SII)	–	100	–	100
International Specialty Fashions, Inc. (ISFI)	–	100	–	100
Footwear Specialty Retailers, Inc. (FSRI)	–	100	–	100
Global Specialty Retailers, Inc. (GSRI)	–	100	–	100
Specialty Food Retailers, Inc. (SFRI)	–	100	–	100
International Specialty Retailers, Inc. (ISRI)	–	100	–	100
International Specialty Wears, Inc. (ISWI)	–	100	–	100
Fastravel Specialists Holdings, Inc. (FSHI)	–	100	–	100
International Specialty Apparels, Inc. (ISAI)	–	100	–	100
Specialty Lifestyle Concepts, Inc. (<i>former Casual Clothing Retailers, Inc.</i>) (SLCI)	–	100	–	100
SKL International, Ltd. (SKL)	–	100	–	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 June 30, 2020 and for the six months ended June 30, 2020 and 2019. 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-interest 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:

- 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 June 1, 2020:

- Amendments to PFRS 16, *Covid -19 Related Rent Concessions*

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*
- Amendments to PFRS 3, *Business Combination - Reference to the Conceptual Framework*

3. Cash

	June 30, 2020	December 31, 2019
	(Unaudited)	(Audited)
Cash on hand	₱24,688,244	₱61,720,680
Cash in banks	2,172,268,580	2,372,029,222
Short-term investments	800,000,000	58,710,031
	₱2,996,956,824	₱2,492,459,933

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the six months ended June 30, 2020 and 2019 amounted to ₱2,315,276 and ₱2,833,084, respectively.

4. Trade and Other Receivables

	June 30, 2020	December 31, 2019
	(Unaudited)	(Audited)
Trade receivables	₱336,535,642	₱366,360,017
Nontrade receivables	232,264,114	215,673,361
Receivables from related parties (see Note 19)	93,890,644	111,794,889
Advances to officers and employees	59,473,853	67,961,679
Dividend receivable	-	25,200,000
Others	6,542	7,080,051
	722,170,795	794,069,997
Less allowance for ECL on nontrade receivables	8,326,816	8,326,816
	₱713,843,979	₱785,743,181

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
At cost		
On hand	₱10,797,085,862	₱9,040,507,891
In transit	137,462,651	778,372,197
	₱10,934,548,513	₱9,818,880,088

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 ₱2,721,335,203 and ₱5,320,198,184, for the six months ended June 30, 2020 and 2019, respectively (see Note 14).

6. Prepayments and Other Current Assets

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Supplies	₱384,285,594	₱476,229,580
Advances to suppliers	350,935,187	383,811,622
Input VAT	177,940,731	106,951,795
Prepaid tax	82,947,515	–
Prepaid advertising	46,535,382	9,386,640
Current portion of security deposits (see Note 23)	42,076,660	24,144,925
Deferred input VAT	37,599,511	8,778,465
Creditable withholding tax	15,242,739	46,721,136
Prepaid insurance	4,934,536	23,844,210
Current portion of prepaid rent (see Notes 10 and 23)	2,710,476	35,563,482
Prepaid guarantee	2,689,243	5,090,418
Others	65,244,552	47,213,939
	₱1,213,142,126	₱1,167,736,212

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.

7. Investment in an Associate

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Acquisition cost	₱24,640,000	₱24,640,000
Accumulated equity in net earnings:		
Balance at beginning of year	62,136,792	29,954,522
Share in net earnings	15,558,679	57,382,270
Dividends received	–	(25,200,000)
Balance at end of year	77,695,471	62,136,792
	₱102,335,471	₱86,776,792

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 June 30, 2020 and December 31, 2019, 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.

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:

June 30, 2020

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and end of period	₱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	44,796,081	59,517,308	(407,344,383)	(420,350,000)	(723,380,994)
Share in net income	(8,109,075)	3,795,782	-	-	5,075,197
Balances at end of year	36,687,006	63,313,090	(407,344,383)	(420,350,000)	(718,305,797)
	₱411,983,460	₱152,563,090	₱-	₱-	₱564,546,550

December 31, 2019 (Audited)

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning and 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	32,527,710	22,775,002	(407,344,383)	(420,350,000)	(772,391,671)
Share in net earnings	12,268,370	36,742,306	-	-	49,010,676
Balances at end of year	44,796,080	59,517,308	(407,344,383)	(420,350,000)	(723,380,995)
	₱420,092,534	₱148,767,308	₱-	₱-	₱568,859,842

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 ₱1.28 million and ₱1.28 million for the six months ended June 30, 2020 and 2019, 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 June 30, 2020.

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 June 30, 2020 and December 31, 2019.

9. Property and Equipment

The composition and movements of this account are as follows:

June 30, 2020 (Unaudited)

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Right of use Asset	Construction in Progress	Total
Cost:							
Balances at beginning of year	7,255,634,677	2,514,378,268	892,989,252	304,733,387	3,926,426,489	87,301,743	14,981,463,816
Additions	155,009,193	35,414,173	364,637	164,577	27,867,131	36,382,050	255,201,761
Disposals	(39,144,024)	(1,144,711)	–	–	–	–	(40,288,735)
Reclassifications	23,770,955	–	–	–	–	(23,770,955)	–
Balances at end of year	7,395,270,801	2,548,647,730	893,353,889	304,897,964	3,954,293,620	99,912,838	15,196,376,842
Accumulated depreciation and amortization:							
Balances at beginning of year	5,773,219,940	1,998,491,501	290,513,069	153,766,171	1,172,593,126	–	9,388,583,807
Depreciation (see Note 18)	276,636,100	84,534,234	21,861,245	12,353,969	558,566,731	–	953,952,279
Disposals	(22,671,856)	(749,760)	–	–	–	–	(23,421,616)
Balances at end of year	6,027,184,184	2,082,275,975	312,374,314	166,120,140	1,731,159,857	–	10,319,114,470
Net book values	₱1,368,086,617	₱466,371,755	₱580,979,575	₱138,777,824	₱2,223,133,763	₱90,971,678	₱4,877,262,372

December 31, 2019 (Audited)

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Right-of-Use Asset	Construction in Progress	Total
Cost:							
Balances at beginning of year	₱7,256,246,129	₱2,211,690,435	₱898,080,680	₱279,203,655	₱-	₱68,097,610	₱10,713,318,509
Effect of adoption of PFRS 16 (Note 2)	-	-	-	-	3,340,147,107	-	3,340,148,16
Additions	520,665,564	320,817,625	549,290	28,572,032	464,456,848	90,358,565	1,425,419,924
Disposals and retirement	(589,402,062)	(26,799,896)	-	(3,042,300)	-	-	(619,244,258)
Remeasurement	-	-	-	-	121,821,534	-	121,821,534
Reclassifications	68,125,046	8,670,104	(5,640,718)	-	-	(71,154,432)	-
Balances at end of year	7,255,634,677	2,514,378,268	892,989,252	304,733,387	3,926,426,489	87,301,743	14,981,463,816
Accumulated Depreciation and Amortization:							
Balances at beginning of year	5,704,592,695	1,822,463,913	249,056,739	131,199,814	-	-	7,907,313,161
Depreciation and amortization (Note 19)	597,569,611	199,964,018	44,734,442	25,250,343	1,172,593,126	-	2,040,111,540
Disposals and retirement	(528,942,366)	(27,214,542)	-	(2,683,986)	-	-	(558,840,894)
Reclassifications	-	3,278,112	(3,278,112)	-	-	-	-
Balances at end of year	5,773,219,940	1,998,491,501	290,513,069	153,766,171	1,172,593,126	-	9,388,583,807
Net book values	₱1,482,414,737	₱515,886,767	₱602,476,183	₱150,967,216	₱2,753,833,363	₱87,301,743	₱5,592,880,009

Additions to leasehold improvements and construction in progress in 2020 and 2019 pertain to improvements and construction of newly opened and renovated stores during the year.

Disposals and retirement for the period ended June 30, 2020 and December 31, 2019 mainly pertain to leasehold improvements and store furniture and fixtures derecognized on closed or renovated stores.

No property and equipment were pledged or treated as security to the outstanding liabilities as of June 30, 2020 and December 31, 2019.

The Group has no purchase commitments related to property, plant and equipment as of June 30, 2020 and December 31, 2019, respectively.

10. Other Noncurrent Assets

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Franchise fee	₱92,362,179	₱94,484,273
Miscellaneous deposits	76,011,744	42,534,120
Software costs	2,810,011	3,278,569
Deferred Input VAT	–	42,135,332
Others	1,305,399	2,982
	₱172,489,333	₱182,435,276

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

11. Trade and Other Payables

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade payables	₱1,331,311,854	₱1,312,044,432
Nontrade payables	344,667,874	713,833,266
Accrued expenses	143,412,783	274,736,642
Retention payable	43,417,940	56,514,419
Tenant deposit	16,938,885	39,956,757
Output VAT	12,150,516	100,067,225
Payable to related parties (see Note 19)	256,918	1,354,050
Others	7,053,538	33,133,280
	₱1,899,210,308	₱2,531,640,071

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.

12. Short-term Loans Payable

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Banks:		
Bank of Philippine Islands (BPI)	₱2,710,000,000	2,325,000,000
Rizal Commercial Banking Corporation (RCBC)	1,440,000,000	–
Banco de Oro (BDO)	960,000,000	350,000,000
Bank of Commerce (BOC)	700,000,000	600,000,000
Metropolitan Bank & Trust Co. (MBTC)	500,000,000	500,000,000
Security Bank Corporation (SBC)	500,000,000	–
China Banking Corporation (CBC)	300,000,000	300,000,000
	₱7,110,000,000	4,075,000,000

The Group's outstanding short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 4.75% to 6.00% and 5.80% to 6.25% for the six months ended 2020 and 2019, respectively.

Interest expense recognized in the consolidated statements of comprehensive income for the six months ended June 30, 2020 and 2019 amounted to ₱154,565,100 and ₱140,883,492, respectively.

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 May 20, 2020.

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:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
BPI	₱176,054,719	₱279,280,156
SBC	–	44,304,426
CBC	–	30,563,391
MBTC	–	30,563,391
RCBC	–	16,830,021
Total	176,054,719	401,541,385
Less: current portion	171,243,648	283,986,981
Noncurrent portion	₱4,811,071	₱117,554,404

Interest expense recognized in the consolidated statements of comprehensive income for the six months ended June 30, 2020 and 2019 amounted to ₱8,135,351 and ₱19,979,920, 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 June 30, 2020 and December 31, 2019, the Group is in compliance with the loan covenants of all their respective outstanding debts.

14. Cost of Goods Sold

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Cost of merchandise sold (Note 5)	₱2,721,335,203	₱5,320,198,184
Depreciation and amortization (Notes 9 and 18)	2,000,574	2,042,324
Utilities	1,114,764	1,977,443
Rent (Note 23)	1,708,018	1,472,491
Outside services	240,093	933,945
Others	996,410	1,716,836
	₱2,727,395,062	₱5,328,341,223

Depreciation and amortization pertains to depreciation of leasehold improvements and furniture and fixtures of the leased spaces. Utilities, rent, security and safety expenses pertain to cost incurred in the operation of leased spaces.

Cost of merchandise sold:

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Merchandise inventory, beginning	₱9,818,880,088	₱9,245,189,954
Net purchases	3,837,003,628	6,219,372,230
Cost of merchandise available for sale	13,655,883,716	15,464,562,184
Less merchandise inventory, ending	10,934,548,513	(10,144,364,000)
	₱2,721,335,203	₱5,320,198,184

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

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Depreciation and amortization (see Notes 9, 10 and 18)	₱848,152,770	₱354,726,720
Personnel costs (see Note 17)	492,900,394	614,815,766
Utilities	160,254,907	283,335,443
Taxes and licenses	141,423,983	138,928,947
Credit card charges	92,489,731	180,131,126
Advertising	86,249,114	112,524,982
Supplies and maintenance	63,927,161	106,175,015
Security services	57,775,746	74,873,513
Global marketing contribution fee	44,915,546	93,799,012
Professional fees	33,830,770	35,326,728
Insurance	33,544,441	16,501,645
Delivery and freight charges	28,849,457	47,075,963
Travel and transportation	19,230,402	45,665,685
Repairs and maintenance	18,033,803	32,418,289
Outside services	13,750,105	13,824,344
Rent (see Notes 19 and 23)	11,451,773	1,006,466,122
Communication	8,749,606	15,451,940
Entertainment, amusement and recreation (EAR)	1,496,058	3,823,058
Telegraphic transfer	649,755	950,567
Others	28,862,384	51,208,335
	₱2,186,537,906	₱3,228,023,200

16. General and Administrative Expenses

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Personnel costs (see Note 17)	₱270,575,443	₱324,886,956
Depreciation and amortization (see Notes 9, 10 and 18)	108,296,839	60,685,667
Taxes and licenses	23,647,188	24,935,367
Supplies and maintenance	19,549,751	18,716,942
Utilities	19,317,887	33,892,127
Rent (see Notes 19 and 23)	16,523,793	64,919,909
Travel and transportation	11,461,189	28,139,240
Repairs and maintenance	9,235,892	20,226,673
Security services	7,849,202	15,112,359
Professional fees	6,783,243	9,081,445
Communication	6,439,272	10,150,186
Advertising	4,548,602	9,179,094
Insurance	4,267,422	5,234,608
EAR	1,238,750	2,661,721
Outside service	724,261	380,305
Others	17,620,101	34,904,900
	₱528,078,835	₱663,107,499

17. Personnel Costs

Personnel costs were charged to operations as follows:

	June 30, 2020	June 30, 2019
	(Unaudited)	(Unaudited)
Salaries, wages and bonuses	₱675,930,414	₱808,109,443
Retirement benefit expense	32,279,822	27,104,270
Other employee benefits	55,265,602	104,489,009
	₱763,475,837	₱939,702,722

Personnel costs were distributed as follows:

	June 30, 2020	June 30, 2019
	(Unaudited)	(Unaudited)
Selling and distribution (see Note 15)	₱492,900,394	₱614,815,766
General and administrative (see Note 16)	270,575,443	324,886,956
	₱763,475,837	₱939,702,722

18. Depreciation and Amortization Expense

	June 30, 2020	June 30, 2019
	(Unaudited)	(Unaudited)
Property and equipment (see Note 9)	₱953,952,279	₱414,970,875
Franchise fee (see Note 10)	4,162,831	2,024,491
Software costs (see Note 10)	335,073	459,347
	₱958,450,183	₱417,454,713

Depreciation and amortization were distributed as follows:

	June 30, 2020	June 30, 2019
	(Unaudited)	(Unaudited)
Cost of services (Note 14)	₱2,000,574	₱2,042,324
Selling and distribution (see Note 16)	848,152,772	354,726,720
General and administrative (see Note 17)	108,296,837	60,685,669
	₱958,450,183	₱417,454,713

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:

- Lease of the Group's store outlet spaces from a related party (see Note 23). Related rent expense amounted to ₱19.7 million and ₱40.4 million, for the six months in the period ended June 30, 2020 and 2019, respectively;
- The Group reimburses related parties for its expenses paid by the related parties in behalf of the Group;
- Sales through the use of related parties' gift certificates. Total value of the related parties' gift certificates used amounted to ₱7.1 million and ₱13.6 million for the six months ended June 30, 2020 and 2019, respectively;
- Short-term noninterest-bearing cash advances to/from related parties; and
- Compensation of the Company's key management personnel comprised of short-term employee benefits amounting to ₱18.6 million, ₱18.8 million for the six months in the period ended June 30, 2020 and 2019, respectively, and post-employment benefits amounting to ₱2.6 million and ₱2.8 million for the six months in the period ended June 30, 2020 and 2019, respectively.

As of June 30, 2020 and December 31, 2019, transactions with related parties are as follows:

Related Parties	Periods ended	Transactions for the year	Outstanding balances	
			Receivables from related parties (Note 5)	Payable to related parties (Note 12)
<i>Under common control</i>				
RCC	June 30, 2020	(₱4,991,265)	₱28,902,091	₱228,012
	December 31, 2019	₱15,317,660	₱34,220,435	₱709,594
RMK	June 30, 2020	5,769,305	44,083,780	28,906
	December 31, 2019	11,087,521	39,384,773	644,456
Others	June 30, 2020	–	–	–
	December 31, 2019	–	6,380	–
<i>Joint ventures</i>				
PFM	June 30, 2020	–	18,481,052	–
	December 31, 2019	7,838	18,481,052	–
MPC	June 30, 2020	(413,213)	1,780	–
	December 31, 2019	6,247,633	17,285,247	–
<i>Associate</i>				
SPI	June 30, 2020	4,939	2,421,941	–
	December 31, 2019	223,034	2,417,002	–
	June 30, 2020		₱93,890,644	₱256,918
	December 31, 2019		₱111,794,889	₱1,354,050

The related party balances as of June 30, 2020 and December 31, 2019 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting ₱23.63 million, all receivables from related parties are not impaired. All related party balances are settled in cash.

20. Earnings Per Share (EPS)

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

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Net income (loss)	(₱476,293,882)	₱345,942,104
Divided by weighted average number of common shares	3,304,262,898	3,309,880,951
	(₱0.14)	₱0.10

There were no potential dilutive common shares for the six months ended June 30, 2020 and 2019.

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:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash	₱2,972,268,580	₱2,430,739,253
Trade and other receivables		
Trade receivables	336,535,642	366,360,017
Nontrade receivables	232,264,114	215,673,361
Receivables from related parties	93,890,644	111,794,889
Dividend receivable	–	25,200,000
Others	6,541	7,080,051
Security deposits and construction bonds	1,060,891,807	1,059,559,287
	₱4,687,530,512	₱4,216,406,858

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:

June 30, 2020 (Unaudited)

	Total	Neither past due nor impaired	Past due but not impaired				Impaired
			<30 days	30 - 60 days	60 - 90 days	> 90 days	
Cash	₱2,972,268,580	₱2,972,268,580	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	336,535,642	272,639,308	16,047,513	3,335,721	3,547,883	40,965,217	–
Nontrade receivables	232,264,114	118,430,209	2,490,592	22,544,471	19,012,149	61,459,876	8,326,816
Receivables from related parties	93,890,644	695,758	3,447,297	18,040,630	27,578,373	44,128,586	–
Others	6,541	6,541	–	–	–	–	–
Security deposits and construction bonds	1,060,891,807	1,060,891,807	–	–	–	–	–
Total	₱4,755,328,899	₱4,466,831,288	₱22,112,608	₱46,139,204	₱51,164,664	₱160,754,319	₱8,326,816

December 31, 2019

	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	₱2,430,739,253	₱2,430,739,253	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	366,360,017	258,508,168	66,900,115	16,939,126	11,727,087	12,285,521	–
Nontrade receivables	215,673,361	154,493,724	42,324,674	10,528,147	–	–	8,326,816
Receivables from related parties	111,794,889	26,703,381	61,466,508	–	–	–	23,625,000
Dividend receivable	25,200,000	25,200,000	–	–	–	–	–
Others	7,080,051	7,080,051	–	–	–	–	–
Security deposits and construction bonds ¹	1,059,559,287	1,059,446,820	–	–	–	–	112,467
Total	₱4,216,406,858	₱3,962,171,397	₱170,691,297	₱27,467,273	₱11,727,087	₱12,285,521	₱32,064,283

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 June 30, 2020 and December 31, 2019, there has been no increase in credit risk of these financial assets since initial recognition except for amounts owed by related parties amounting to ₱23.63 million which are classified as credit impaired as of June 30, 2020 and December 31, 2019.
- 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 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 June 30, 2020 and December 31, 2019, nontrade receivables from principals amounting to P8.34 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 six months ended June 30, 2020 and year ended December 31, 2019. 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 June 30, 2020.

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:

	June 30, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
<i>Loans and receivables</i>				
Security deposits and construction bonds	P1,060,891,807	P1,044,588,180	P1,018,278,699	P1,050,086,063
Financial Liabilities				
<i>Other financial liabilities</i>				
Long-term debt	P176,054,719	P288,798,052	P851,266,123	P975,414,968

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 5.50% to 7.56% were used in calculating the fair value of the Group's refundable deposits as of June 30, 2020 and December 31, 2019, 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 5.23% to 7.03% were used in calculating the fair value of the Group's long-term debt as of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019 the Group does not have financial instruments with fair values determined using inputs that are classified under Level 1 and 3.

For the six months ended June 30, 2020 and years ended December 31, 2019, 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.

23. Contracts and Commitments

Group as a Lessee

The Group has various leases of its warehouse and office space and certain store outlets used in its operations for lease terms ranging from three to ten 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. The Group also has certain leases of stores, office and warehouse space with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of right-of-use assets and lease liabilities follows:

	Right-of-use assets	Lease liabilities
Balances at beginning of the year	₱2,753,833,363	₱2,832,462,784
Additions	27,867,131	–
Interest expense	–	89,591,291
Depreciation expense	(558,566,731)	–
Payments	–	(631,877,521)
Balances at end of the year	2,223,133,763	2,290,176,554
Less current portion	–	691,645,037
Balances at end of the year	₱2,223,133,763	₱1,598,531,517

The Group has paid security deposits for the store outlets and office spaces with carrying amounts of ₱1,060.89 million and ₱1,059.56 million as of June 30, 2020 and December 31, 2019, 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 3.56% to 6.89%. Interest income recognized from these security deposits amounted to ₱1.9 million and ₱1.2 million, for the six months ended June 30, 2020 and 2019, 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 ₱20.04 million and ₱59.82 million as of June 30, 2020 and December 31, 2019, 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 to five years. 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 ₱18.2 million and ₱36.4 million, for the six months ended June 30, 2020 and 2019, respectively.

Upon the adoption of PFRS 16, the Group reassessed the classification of the ongoing subleases that were classified as operating leases under PAS 17 and determined that the subleases qualify as finance lease under the new standard. The assessment was made on the basis of the remaining contractual terms and conditions of the head lease and sublease. The Group accounted for the subleases as new finance leases entered into at the date of initial application. As a result, the Group recognized lease receivables amounting to ₱26.15 million on January 1, 2019.

The following table shows the movements in the lease receivables as of June 30, 2020:

	2020
Balances at beginning of the year	₱7,007,483
Interest income	246,111
Collection of lease receivables	(7,253,594)
Balances at end of the year	₱–

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. This information is 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 six months ended June 30, 2020 and 2019 (amounts in millions):

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Net Sales		
Luxury and Bridge	₱1,527	₱2,813
Casual	652	1,271
Fast Fashion	1,662	3,090
Footwear, Accessories and Luggage	430	1,174
Other	750	1,503
	₱5,021	₱9,851

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).

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Philippines	₱5,009	₱9,820
Guam	12	31
	₱5,021	₱9,851

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
JUNE 30, 2020**

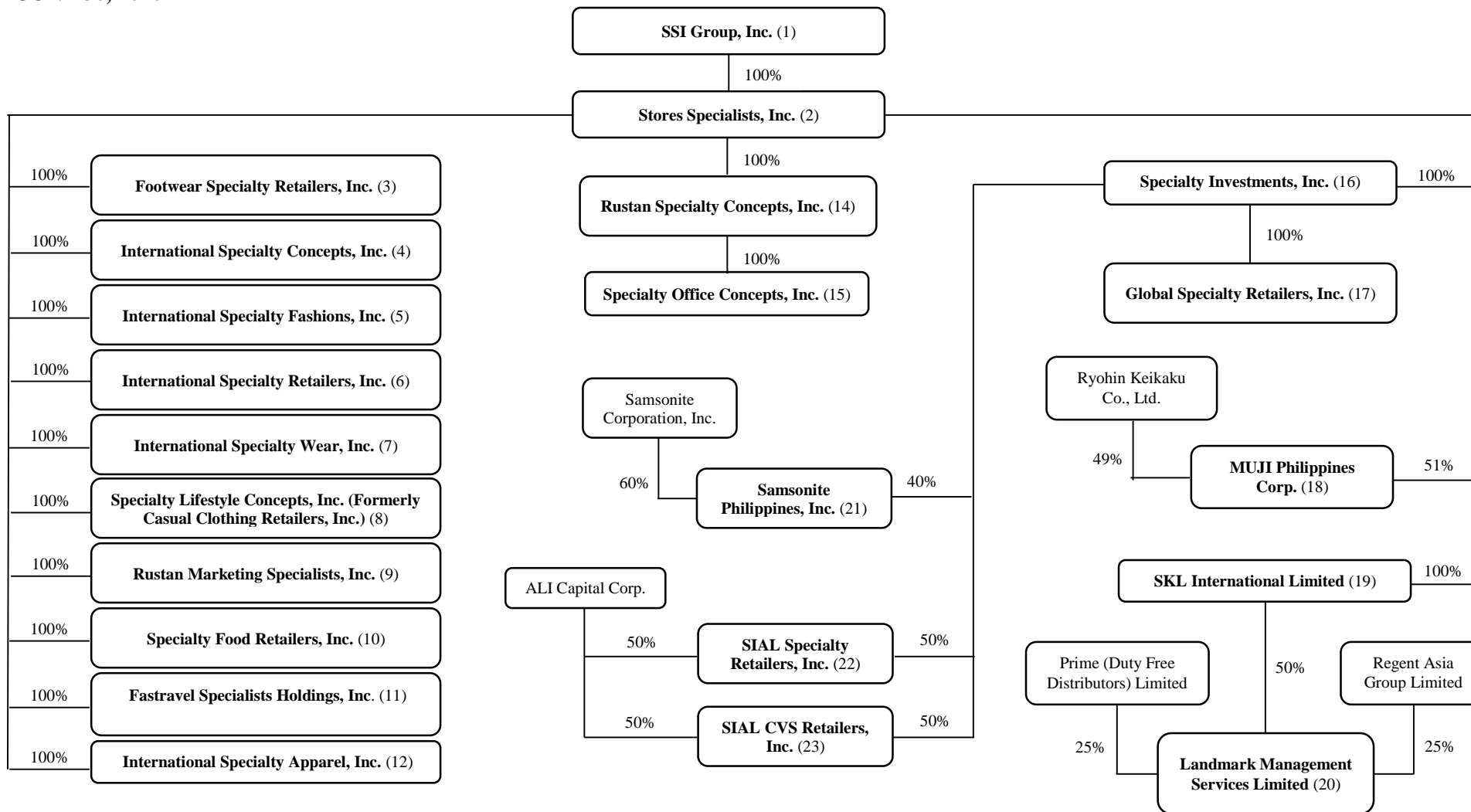


Exhibit II**SSI GROUP, INC.**

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
JUNE 30, 2020**

Unappropriated retained earnings, as adjusted, beginning		₱1,037,886,136
Net loss during the period closed to retained earnings	(9,884,839)	
Less: Other realized gains related to accretion of income from security deposits	523,125	
Deferred tax asset recognized during the year	<u>4,236,360</u>	
Net loss during the period		(14,644,323)
Retained earnings available for dividend declaration		<u><u>₱1,023,241,813</u></u>

Exhibit III

SSI GROUP, INC.

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratios	Formula	June 30, 2020	December 31, 2019	June 30, 2019
(i) Current Ratio	Current Assets/Current Liabilities	1.60	1.77	1.97
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.67	0.39	0.46
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.39	0.17	0.30
(iii) Asset to Equity Ratio	Total Assets/Total Equity	2.11	1.93	1.68
(iv) Interest Cover Ratio	EBITDA/Interest Expense	3.04	6.97	6.72
(v) Profitability Ratios				
GP Margin	Gross Profit/Revenues	45.87%	44.99%	46.11%
Net Profit (Loss) Margin	Net Income (Loss) /Revenues	-9.45%	3.63%	3.51%
EBITDA Margin	EBITDA/Revenues	9.82%	17.08%	10.97%
Return on Assets	Net Income (Loss) /Total Assets	-2.06%	3.70%	1.85%
Return on Equity	Net Income (Loss) /Total Equity	-4.36%	7.14%	3.10%

*EBITDA = Earnings before interest, taxes and depreciation and amortization

Annex “C”

EXECUTIVE OFFICERS

Elizabeth T. Quiambao, 68, 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, 67, 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, 47, 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, 49, 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, 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 **AUG 03 2020** day of **MAKATI CITY**, at _____.

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

SUBSCRIBED AND SWORN to before me this **AUG 03 2020** day of **MAKATI CITY**, affiant personally appeared before me and exhibited to me his Passport No. P6682433A issued at DFA Manila on 05 April 2018.

Doc. No. 96 ;
 Page No. 21 ;
 Book No. 69 ;
 Series of 2020.

Rubén T. M. Ramirez
RUBEN T.M. RAMIREZ
 Notary Public for Makati City
 Until December 31, 2021
 2086 E. Pasqua St., Makati City
 IBP CR No. 097071/ December 10, 2019
 Roll No. 28947/MCLE No. VI-0020246
 PCR No. MKT 8117044/1-02-2020
 Appointment No. M-158

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):

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

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 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

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 AUG 03 2020 day of MAKATI CITY, at _____.

Carlo L. Katigbak
Carlo L. Katigbak
 Independent Director

AUG 03 2020

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. 97 ;
 Page No. 21 ;
 Book No. 69 ;
 Series of 2020.

Rubén M. Ramirez
RUBEN M. RAMIREZ
 Notary Public for Makati City
 Until December 31, 2021
 2086 E. Paseta St., Makati City
 IBP O.R. No. 097071/ December 10, 2019,
 Roll No. 28947/MCLE No. VI-0020246,
 *TE No. MKT 8117044/I-02-2020
 Appointment No. M-158

Annex "E"

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

SECRETARY'S CERTIFICATE

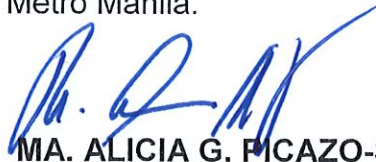
I, **MA. ALICIA G. PICAZO-SAN JUAN**, Filipino, of legal age, with business address at the Penthouse, Liberty Center, 104 H.V. Dela Costa Street, Salcedo Village, Makati City, being duly sworn in accordance with law, hereby certify that:

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 6th 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 -
_____ in Makati City, Metro Manila.

AUG 03 2020



MA. ALICIA G. PICAZO-SAN JUAN
Corporate Secretary

SUBSCRIBED AND SWORN to before me this AUG 03 2020 at Makati City. Affiant exhibited to me her Passport No. P7431608A issued on 4 June 2018 by DFA-Manila.

Doc. No. 329 ;
Page No. 67 ;
Book No. I ;
Series of 2020.



NADINE PATRIZIAH D. AGUSTIN
Appointment No. M-236
Notary Public for Makati City
Until December 31, 2021
Liberty Center-Picazo Law
104 H.V. Dela Costa Street, Makati City
Roll of Attorney's No. 73956
PTR No. 8148381/Makati City/01-20-2020
IBP No. 101866/Makati City/ 01-07-2020
MCLE Exempted-Admitted to the bar in 2019



Cultural Center of the Philippines
SENTRONG PANGKULTURA NG PILIPINAS

July 15, 2020

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

17 July 2020

Sir:

This is to confirm that Ms. Maria 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 her position as an honorary consular officer of the Philippines does not preclude her from accepting or holding any appointed or elected 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