

**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) 896 9591**
8. Date, time and place of the meeting of security holders : **June 15, 2017  
9:00 A.M.  
Turf Room, Manila Polo Club  
McKinley Road, Forbes Park  
Makati City, Philippines**
9. Approximate date on which the Information Statement is first to be sent or given to security holders : **May 24, 2017**
10. In case of Proxy Solicitations:  
 Name of Person Filing the Statement/Solicitor: : Not applicable  
 Address and Telephone No. : Not applicable

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

Title of each class	Number of Common Stock Outstanding or Amount of Debt Outstanding (as of April 30, 2017)
<b>Common Shares</b>	<b>3,312,864,430</b>

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

Yes  No

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

**The Common Shares of SSI Group, Inc. are listed on the Philippine Stock Exchange.**

## INFORMATION STATEMENT

### A. GENERAL INFORMATION

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

- a) Date : June 15, 2017  
Time : 9:00 A.M.  
Place : Turf Room, Manila Polo Club  
McKinley Road, Forbes Park  
Makati City, Philippines.

Complete mailing address of the principal office of the Company : 6th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City

- b) Approximate date when the Information Statement is first to be sent out to stockholders of record: : May 24, 2017



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

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

In accordance with Section 81 of the Corporation Code and Article 6(A)(vi) of the Company's 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 Corporation Code; and
3. In case of merger or consolidation.

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 3,312,864,430 outstanding common shares as of April 30, 2017. Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.
- b. All stockholders of record as of May 16, 2017 are entitled to notice and to vote at the Company's annual stockholders' meeting.
- c. Foreign equity ownership as of April 30, 2017 is 257,642,793 shares or 7.78% of the total issued and outstanding shares.
- d. Manner of Voting and Election of Directors (Cumulative Voting) – In accordance with Section 7 Article II of the By-laws, at all meetings of stockholders, a stockholder may vote in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary not later than ten (10) days before the date set for the meeting. Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary at least five (5) days prior to a scheduled meeting or by their personal presence at the meeting. The decision of the Secretary on the validity of the proxies shall be final and binding until and unless set aside by a court of competent jurisdiction.

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

Each common share of the Company owned by a shareholder as of 16 May 2017 is entitled to one (1) vote (each, a "Voting Share") except in the election of directors where one share is entitled to as many votes as there are Directors to be elected. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as there are to be elected as Directors, or he may cumulate or give to one candidate as many votes as the number of directors to be

elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. Thus, since there are nine (9) directors to be elected, each Voting Share is entitled to nine (9) votes.

The shareholder holding Voting Share/s may nominate directors and vote in person or by proxy. If he chooses to vote through proxy, the Company's By-Laws require the submission of a proxy form to the Corporate Secretary no later than 5:30 P.M. on 5 June 2017 at the Office of the Corporate Secretary at the 6th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City.

A forum for the validation of proxies, chaired by the Corporate Secretary or Assistant Corporate Secretary and attended by the Company's stock transfer agent, shall be convened on June 6 2017 at 3:00 P.M. at the 6th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be resolved by the Corporate Secretary at that forum. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the meeting.

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

As of April 30, 2017, 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.

<b>Title of Class</b>	<b>Names and addresses of record owners and relationship with the Company</b>	<b>Name of beneficial owner and relationship with record owner</b>	<b>Citizenship</b>	<b>Number of shares held</b>	<b>% to Total Outstanding Shares</b>
Common	<b>PCD Nominee Corporation (Filipino)</b> <sup>1</sup> 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (stockholder)	PCD participants acting for themselves or for their customers	Filipino	794,850,486	23.9928%
Common	<b>Wellborn Trading &amp; Investments, Inc.</b> <sup>2</sup> 4th Floor Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City (stockholder)	Wellborn Trading & Investments, Inc.	Filipino	467,043,679	14.0979%

<sup>1</sup> PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depository, Inc. (PCD), a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, the PCD shall execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. No single PCD participant or their customer owns 5% or more shares of SSI Group, Inc.

<sup>2</sup> Wellborn Trading & Investments, Inc. is beneficially owned by Zenaida R. Tantoco, Anthony T. Huang, Michael T. Huang, and Catherine T. Huang as to 19.9%, 26.7%, 26.7%, and 26.7%, respectively. Zenaida R. Tantoco has been authorized to represent Wellborn Trading & Investments, Inc. and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<b>Title of Class</b>	<b>Names and addresses of record owners and relationship with the Company</b>	<b>Name of beneficial owner and relationship with record owner</b>	<b>Citizenship</b>	<b>Number of shares held</b>	<b>% to Total Outstanding Shares</b>
Common	<b>Marjorisca Incorporated</b> <sup>3</sup> 25B Tamarind Rd. South Forbes Park, Makati City (stockholder)	Marjorisca Incorporated	Filipino	434,440,400	13.1137%
Common	<b>Birdseyeview, Inc.</b> <sup>4</sup> 25B Tamarind Rd. South Forbes Park, Makati City (stockholder)	Birdseyeview, Inc.	Filipino	434,412,500	13.1129%
Common	<b>Educar Holdings Corporation</b> <sup>5</sup> 2nd Floor Urban Bldg., 405 Sen. Gil Puyat Avenue, Makati City (stockholder)	Educar Holdings Corporation	Filipino	415,753,800	12.5497%
Common	<b>Bordeaux Holdings, Inc.</b> <sup>6</sup> 19th Floor BDO Plaza, 8737 Paseo de Roxas, Makati City (stockholder)	Bordeaux Holdings, Inc.	Filipino	414,967,821	12.5260%
Common	<b>PCD Nominee Corporation (Non-Filipino)</b> <sup>7</sup> 37th Floor Tower 1, The Enterprise Center, Ayala Avenue cor. Paseo de Roxas, Makati City (stockholder)	PCD participants acting for themselves or for their customers	Various	257,642,793	7.7778%

<sup>3</sup> Marjorisca Incorporated. is beneficially owned by Ma. Elena T. Valbuena, Christopher James Tantoco and Jose Miguel Tantoco as to 40%, 30% and 30%, respectively. Jose Miguel Tantoco has been authorized to represent Marjorisca, Inc. and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<sup>4</sup> Birdseyeview, Inc. is wholly and beneficially owned by Ma. Teresa R. Tantoco. Ma. Teresa R. Tantoco directly and indirectly owns 467,736,931 common shares of the Company equivalent to 14.12% of outstanding shares. Bienvenido V. Tantoco III has been authorized to represent Birdseyeview, Inc. and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

<sup>5</sup> Educar Holdings Corporation. is beneficially owned by seven members of the Lopez family, Eduardo S. Lopez, Jr., Ma. Carmencita T. Lopez, Eduardo T. Lopez III, Ma. Margarita L. De Jesus, Ma. Carmencita L. Tiangco, Emmanuel T. Lopez and Enrique Antonio T. Lopez, each of whom holds an equal shareholding interest of 14.3%. Eduardo T. Lopez III has been authorized to represent Educar Holdings Corporation and to vote the latter's shares at the Annual Stockholders' Meeting of the Company.

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

<sup>7</sup> PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depository, Inc. (PCD), a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, the PCD shall execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. No single PCD participant or their customer owns 5% or more shares of SSI Group, Inc.



ii. Security ownership of directors and management as of April 30, 2017

Title of Class	Name of beneficial owner	Position	Amount and Nature of Beneficial Ownership (shares)	Citizenship	% to Total Outstanding Shares
<b>Named Executive Officers</b>					
Common	Zenaida R. Tantoco	Chairman and CEO	872,500 (direct)	Filipino	0.0263%
Common	Anthony T. Huang	President	5,415,100 (direct)	Filipino	0.1635%
Common	Ma. Teresa R. Tantoco	Treasurer	467,736,931 (direct and indirect)	Filipino	14.1188%
Common	Elizabeth T. Quiambao	Executive Vice President	3,334,000 (direct)	Filipino	0.1006%
Common	Rossellina J. Escoto	Vice President - Finance	133,500 (direct)	Filipino	0.0040%
<b>Other Executive Officers and Directors</b>					
Common	Ma. Elena T. Valbuena	Director	32,054,979 (direct)	Filipino	0.9676%
Common	Bienvenido V. Tantoco III	Director	856,200 (direct and indirect)	Filipino	0.0258%
Common	Edgardo Luis Pedro T. Pineda, Jr.	Director	100 (direct)	Filipino	0.0000%
Common	Eduardo T. Lopez III	Director	790,100 (direct)	Filipino	0.0238%
Common	Jose Teodoro K. Limcaoco	Independent Director	10,000 (direct)	Filipino	0.0003%
Common	Carlo L. Katigbak	Independent Director	305,001 (direct)	Filipino	0.0092%
Common	Cheryl Anne M. Berioso	Head of Corporate Planning	20,000 (direct)	Filipino	0.0006%

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

iii. Voting trust holders of 5% or more

The Company knows of no persons holding more than 5% of a class of shares under a voting trust or similar agreement as of April 30, 2017.

iv. Changes in control

Aside from the corporate restructuring detailed below, there has been no change in the control of the Company since it was formed on April 16, 2007. As of April 30, 2017, there are no arrangements that may result in a change in the control of the Company.

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

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

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

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

On June 18, 2014, certain resolutions were approved by the Board and shareholders of CCSI in preparation for the Initial Public Offering and Listing of the Group, including, among others: (1) change in its corporate name from "Casual Clothing Specialists, Inc." to "SSI Group, Inc."; (2) change in its primary purpose as a retail company to that of a holding company; (3) increase in its authorized capital stock from ₱3.0 billion to ₱5.0 billion; (4) reduction of par value of its shares from ₱100.00 per share to ₱1.00 per share; and (5) increase in the number of members of its board of directors from five to nine. These changes, including the appropriate amendments to its articles of incorporation, were submitted to the Philippine SEC on July 30, 2014 and approved on August 29, 2014. As of April 30, 2016, the Company has an authorized capital stock of ₱5,000,000,000 divided into 5,000,000,000 Shares with a par value of ₱1.00 per share, and 3,312,864,430 shares are outstanding.

#### *Public Offer and Listing in November 2014*

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

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

On November 7, 2014, the Offer Shares commenced trading in the Philippine Stock Exchange while the 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 April 30, 2017, SSI Group, Inc. was 29.55% 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	70	Filipino	Since 2007
Anthony T. Huang	45	Filipino	Since 2007
Ma. Teresa R. Tantoco	52	Filipino	Since 2008
Ma. Elena T. Valbuena	58	Filipino	Since 2008
Bienvenido V. Tantoco III	50	Filipino	Since 2007
Eduardo T. Lopez III	48	Filipino	Since 2008
Edgardo Luis Pedro T. Pineda, Jr.	45	Filipino	Since 2014
Jose Teodoro K. Limcaoco	55	Filipino	Since 2015
Carlo L. Katigbak	47	Filipino	Since 2014

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

**Zenaida R. Tantoco**, 70, Director of the Company since 2007. She is the Chairman and Chief Executive Officer of the Company. Ms. Tantoco is also the Chairman and Chief Executive Officer of all of the Group's companies. She has over 40 years of experience in the retail business, and serves as the President of Rustan Commercial Corporation and Rustan Marketing Corporation. In addition, she is a member of the board of directors of several Rustan's Group companies, including, among others, Rustan Commercial Corporation, Rustan Marketing Corporation and Rustan Coffee Corporation. Ms. Tantoco graduated cum laude from the Assumption College with a Bachelor of Science degree in Business Administration.

**Anthony T. Huang**, 45, Director of the Company since 2007. Director of the Company since 2007. He is the President of the Company. Mr. Huang is also the President and a director of all of the Group's companies. He joined the Group in 1995 and has over 22 years of experience in the retail business. He also serves as the President of Rustan Marketing Corporation, and the Chairman of the Board of Landmark Management Services, Ltd and MUJI Philippines Corp. He is a member of the board of directors of Sta. Elena Properties, Inc, Commonwealth Foods, Inc, and Philippine FamilyMart CVS, Inc. Mr. Huang graduated from the University of Asia and the Pacific with a Bachelor of Arts degree in Humanities.

**Ma. Teresa R. Tantoco**, 52, Director of the Company since 2008. She is the Treasurer of the Company. Ms. Tantoco is also the Treasurer and a director of the Group's companies, including, among others, International Specialty Apparel, Inc., Specialty Food Retailers, Inc., International Specialty Retailers, Inc., International Specialty Wear, Inc., Footwear Specialty Retailers, Inc., International Specialty Fashions, Inc. and Luxury Concepts, Inc. In addition, she serves as the Treasurer and a director of RPG Distribution Services, Inc., Rustan Marketing Corporation, and is a member of the board of directors of Rustan Commercial Corporation. Ms. Tantoco graduated from John Cabot International College with a Bachelor of Science degree in Business Administration.

**Ma. Elena T. Valbuena**, 58, Director of the Company since 2008. Ms. Valbuena is also a member of the board of directors of Group's companies, including, among others, Stores Specialists, Inc., Rustan Marketing Specialists, Inc., International Specialty Concepts, Inc., and Specialty Investments, Inc., She is a director of Rustan Commercial Corporation and serves as Vice President of Buying for its Home Division. In addition, she is a member of the board of directors of Rustan Coffee Corporation, Rustan Marketing Corporation and RPG Distribution Services, Inc. Ms. Valbuena graduated from the Assumption College with a Bachelor of Science degree in Entrepreneurship.



**Bienvenido V. Tantoco III**, 50, Director of the Company since 2007. Mr. Tantoco is the President of Rustan Supercenters, Inc. He was also the Executive Vice President and General Manager of Rustan Supercenters, Inc. prior to his appointment as the President. In addition, he served as the Vice President for Corporate Planning and later with the Office of the President, of Rustan Commercial Corporation. Mr. Tantoco graduated from Connecticut College with a Bachelor of Arts degree in Economics, and J.L Kellogg Graduate School of Management, Northwestern University with a Master of Management degree, majors in Marketing, Accounting, and Organizational Behavior.

**Eduardo T. Lopez III**, 48, Director of the Company since 2008. Mr. Lopez is the General Manager and Vice President of Finance and Administration of Superstar Security Agency, Inc., the Assistant to the President of Unilogix, Inc., the owner and General Manager of Blue Line Art Gallery, Inc., and the owner and General Manager of Secondo Time Pieces. He is a director of Touch Media Philippines, Inc., and Market Intelligence Holdings, Corp. In addition, Mr. Lopez serves as a member of the board of directors of Rustan Commercial Corporation, Rustan Marketing Corporation, Rustan Supermarket, Inc., Rustan Coffee Corporation, Rustan Superstore Administration, Inc., Rustan Investments Management Corporation and Rustan Design Specialists, Inc. Mr. Lopez graduated from Ateneo De Manila University with a Bachelor of Science degree in Economics, Santa Clara University with a Bachelor of Science degree in Economics, and Stanford University with a Master of Science degree in Management.

**Edgardo Luis Pedro T. Pineda, Jr.**, 45, Director of the Company since 2014. Mr. Pineda is also a director of the Group's companies, Stores Specialists, Inc. and Rustan Marketing Specialists, Inc. In addition, he is a director of Rustan Commercial Corporation, Rustan Marketing Corporation, Rustan Supermarket, Inc., Rustan Coffee Corporation, Rustan Superstore Administration, Inc., Rustan Investments Management Corporation and Rustan Design Specialists, Inc. Mr. Pineda graduated from Fordham University with a Bachelor of Science degree in Business Administration, and Stanford University with a Master of Science degree in Business Management.

**Jose Teodoro K. Limcaoco**, 55, Independent Director of the Company since 2015. Mr. Limcaoco is also the Chief Finance Officer and Finance Group Head of Ayala Corporation since April 2015. He is the Chairman of Ayala Healthcare Holdings, Inc., Ayala Hotels, Inc., Darong Agricultural and Development Corporation, Zapfam Inc., and Water Capital Works, Inc. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of AC Energy Holdings, Inc., Ayala Aviation Corporation, Ayala Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., BPI Globe Banko, LICA Management Inc., and Just For Kids, Inc. He is a Director of Ayala Automotive Holdings Corporation effective January 19, 2016. As of April 2016, he is a Director of Globe Telecom, Inc. and Integrated Microelectronics, Inc., both publicly listed companies. 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 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.

**Carlo L. Katigbak**, 47, Independent Director of the Company since 2014. Mr. Katigbak was also appointed the President and Chief Executive Officer of ABS-CBN Corporation effective January 1, 2016. He is the President and CEO of Skycable Corporation and President of ABS-CBN Convergence, Inc. In addition, he is a member of the Board of Directors of Iconnect Convergence, Inc., Play Innovations, Inc., A CJ O Shopping Corporation, Sky Vision Corporation, Sapiientis Holdings Corporation, ABS-CBN Studios, Inc. and Columbus Technologies, Inc. Mr. Katigbak is also a member of the Board of Trustees of Knowledge Channel Foundation and ABS-CBN Lingkod, Kapamilya Foundation, Inc. He has 21 years of combined experience in financial management and businesses operations, corporate planning and general management. He began his career as a financial analyst with First Pacific Capital Corp. in 1992. He joined SkyCable in 1994 as Corporate Finance Manager and has held various positions in Corporate Planning, Provincial Operations and Finance. In 1998, he served as the first Managing Director of Pilipino Cable Corporation. He was then assigned to ABS-CBN Interactive as Managing Director in 1999 where he led the company pioneer various digital services such as mobile downloads, interactive TV, online advertising and online video-on-demand. He returned to SkyCable as Managing Director in 2005. Mr. Katigbak has a Bachelor of Science in Management

Engineering from the Ateneo de Manila University. Mr. Katigbak also completed the Advanced Management Program at Harvard Business School in 2009.

## **Officers**

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

<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Citizenship</b>	<b>Period during which individual has served as such<sup>8</sup></b>
Zenaida R. Tantoco	Chief Executive Officer	70	Filipino	Since June 2015
Anthony T. Huang	President	45	Filipino	Since June 2015
Ma. Teresa R. Tantoco	Treasurer	52	Filipino	Since June 2015
Elizabeth T. Quiambao	Executive Vice President	65	Filipino	Since June 2015
Rossellina J. Escoto	Vice President - Finance	63	Filipino	Since June 2015
Ma. Margarita A. Atienza	Vice President - Investor Relations and Compliance Officer	43	Filipino	Since June 2015
Cheryl Anne M. Berioso	Head of Corporate Planning	38	Filipino	Since June 2015
Gemma M. Santos	Corporate Secretary	55	Filipino	Since June 2015
Ma. Alicia Picazo-San Juan	Assistant Corporate Secretary	46	Filipino	Since June 2015

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

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

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

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

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

*C-Chairman  
M-Member*

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

<sup>8</sup>The 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        | 6. EDUARDO T. LOPEZ III         |
| 2. ANTHONY T. HUANG          | 7. EDGARDO LUIS PEDRO T. PINEDA |
| 3. MA. TERESA R. TANTOCO     | 8. JOSE TEODORO K. LIMCAOCO     |
| 4. MA. ELENA T. VALBUENA     | 9. CARLO L. KATIGBAK            |
| 5. BIENVENIDO V. TANTOCO III |                                 |

Mr. Jose Teodoro K. Limcaoco and Mr. Carlo L. Katigbak were duly nominated as independent directors by Ms. Michaela N. Torres, 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 Ms. Zenaida R. Tantoco as Chairperson, and 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 Manual on Corporate Governance and 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 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 Glicería R. Tantoco, are the founders of the Rustan's Group. They have six children, Bienvenido R. Tantoco, Jr., Zenaida R. Tantoco, Ma. Carmencita T. Lopez, Ma. Elena T. Valbuena, Ma. Lourdes T. Pineda and Ma. Teresa R. Tantoco (collectively, the "Second Generation").

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

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

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

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

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

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

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

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

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

**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 21 (Related Party Disclosures) of the Notes to Consolidated Financial Statements.

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

**f. Resignation of directors**

No director has resigned from, or declined to stand for re-election to the Board since the date of the 2016 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 and projected for the year 2017.

<b>Name</b>	<b>Position</b>
Zenaida R. Tantoco	Chairman and CEO
Anthony T. Huang	President
Ma. Teresa R. Tantoco	Treasurer
Elizabeth T. Quiambao	Executive Vice President
Rossellina J. Escoto	Vice President – Finance

The following table identifies and summarizes the aggregate compensation of the Company's CEO and the four (4) most highly compensated executive officers, as well as the aggregate compensation paid to all officers and Directors as a group, for the years ended December 31, 2014, 2015 and 2016.

	<b>Year</b>	<b>Total (In ₱ millions)</b>
CEO and the four (4) most highly compensated executive officers named in the previous page	2014	16.1
	2015	19.0
	2016	18.5
	2017 (estimated)	19.4
	Aggregate compensation paid to all other officers and Directors as a group unnamed	2014
	2015	3.7
	2016	5.2
	2017 (estimated)	4.0

**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 are expected to be issued to the eligible employees of the Corporation in 2017.

**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 2016/2017 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.



<i>(in ₱ Millions)</i>	<b>Audit and Audit-related Fees</b>		<b>Tax Fees</b>	<b>Other Fees</b>	<b>Total</b>
	Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings	Professional Fees related to the Initial Public Offering			
2016	4.8	–	–	–	4.8
2015	4.7	–	–	–	4.7
2014	4.6	11.0	–	–	14.6

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

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

#### **Item 8. Compensation Plans**

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

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

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

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

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

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

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

The audited financial statements as of December 31, 2016, the Management's Discussion and Analysis, market price of shares and dividends and other data related to the Company's financial information are attached hereto as Annex "A".

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

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

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

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

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

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

#### **D. OTHER MATTERS**

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

The following are to be submitted for approval during the stockholders' meeting:

- (a) Minutes of the annual meeting of stockholders held on 15 June 2016;
- (b) President's Report based on the Annual Report and 2016 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.

These acts are covered by Resolutions of the Board of Directors duly adopted in the normal course of trade or business, like:

- (i) Approval of projects;
- (ii) Treasury matters related to opening of accounts and transactions with banks;
- (iii) Appointments of signatories and amendments thereof.

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

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

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

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

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

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

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

*Vote required for approval*

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

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

*Methods by which votes will be counted*

SSI Group, Inc.'s By-Laws does not prescribe a method of voting. However, election of directors will be conducted by ballot as requested by voting shareholders. In the election of directors, the shareholders are entitled to cumulate their votes as discussed in Part B, Item 4(c) of this Information Statement. SSI Group, Inc.'s Corporate Secretary is tasked and authorized to count votes on any matter properly

brought to the vote of the shareholders. The Company shall appoint an independent entity before the scheduled date of the annual stockholders' meeting to assist in the validation of ballots.

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

**ATTENTION: MA. MARGARITA A. ATIENZA  
VICE PRESIDENT—INVESTOR RELATIONS  
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 8th day of May 2017.

**SSI GROUP, INC.**

By:



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**ANTHONY T. HUANG**  
President

**Annex “A”**

**MANAGEMENT REPORT**

**RESULTS OF OPERATIONS**

For the years ended December 31, 2016, 2015 and 2014

<b>Key Performance Indicators</b> <i>PhP MM except where indicated</i>	<b>For the years ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net Sales	18,442	17,421	15,213
Gross Profit	9,154	9,324	8,532
Net Income	232	811	998
Gross Selling Space (sq.m.)	138,852	147,145	133,640
Growth (Decrease) in Gross Selling Space (%)	(5.6%)	10.1%	

<b>Key Financial and Operating Data</b> <i>PhP MM except where indicated</i>	<b>For the years ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Key Financial Data</b>			
Net Sales	18,442	17,421	15,213
Luxury & Bridge	3,848	3,556	3,334
Casual	2,616	2,695	2,443
Fast Fashion	6,569	6,232	5,433
Footwear, Accessories & Luggage	2,686	2,533	2,134
Others	2,723	2,405	1,869
Gross Profit	9,154	9,324	8,532
Gross Profit Margin (%)	49.6%	53.5%	56.1%
EBITDA <sup>9</sup>	2,771	3,266	2,921
EBITDA Margin (%)	15.0%	18.7%	19.2%
Other Income (Charges)	(656)	(475)	(385)
Net Income	232	811	998
Net Income Margin (%)	1.3%	4.7%	6.6%
Core Net Income <sup>10</sup>	581	1,039	1,143
Core Net Income Margin (%)	3.2%	6.0%	7.5%
Total Debt <sup>11</sup>	6,928	8,011	5,417
Net Debt <sup>12</sup>	5,881	6,706	2,889
<b>Key Operating Data</b>			
<b><i>Specialty Retailing</i></b>			
Number of Brands	114	116	106
Number of Stores	708	792	723
Gross Selling Space (sq.m.)	138,852	147,145	133,640
Growth (Decrease) in Gross Selling Space (%)	(5.6%)	10.1%	36.2%
<b><i>Convenience Stores</i></b>			
Number of Stores	98	112	90
Gross Selling Space (sq.m.)	11,631	13,037	9,656
Growth (Decrease) in Gross Selling Space (%)	(10.8%)	35%	

<sup>9</sup> EBITDA is calculated as operating income plus depreciation and amortization

<sup>10</sup> Core Net Income is derived by excluding the effect of non-recurring write-offs due to store closures and other one-time write-offs from the Group's net income

<sup>11</sup> Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt.

<sup>12</sup> Calculated as Total Debt minus Cash

## 2016 vs. 2015

### Net Sales

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

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

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

The following table sets out the Group's number of stores and gross selling space for the years ended December 31, 2016, 2015 and 2014.

Store Network	For the years ended December 31		
	2016	2015	2014
Number of Stores	708	792	723
Luxury & Bridge	159	165	150
Casual	98	138	119
Fast Fashion	76	97	92
Footwear, Accessories & Luggage	217	234	219
Others	158	158	143
Gross Selling Space (sq.m.)	138,852	147,145	133,640
Luxury & Bridge	16,715	17,544	15,229
Casual	16,484	19,129	18,217
Fast Fashion	56,702	60,941	56,151
Footwear, Accessories & Luggage	25,889	26,209	23,556
Others	23,061	23,322	20,487

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

As of December 31, 2016, the Group operated one (1) store in Guam which contributed de minimis sales to the Group's net sales for the period

### Gross Profit

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



## **Operating Expenses**

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

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

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

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

## **Other Income (Charges)**

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

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

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

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

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

## **Provision for Income Tax**

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

## **Net Income**

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

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

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

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

## **EBITDA**

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

## **FINANCIAL CONDITION**

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

### **Current Assets**

#### **Cash**

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

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

As of December 31, 2016 trade and other receivables were at ₱926.1 million as compared to ₱594.6 million at the end of 2015. The increase in receivables was due primarily to an increase in nontrade receivables to ₱356.3 million driven by advertising and marketing support from the principals and landlords, as well as an increase in receivables from related parties to ₱220.8 million. This increase was primarily due to a ₱106.0 million advance to SIAL CVS Retailers, Inc., representing the Group's capital contribution to the FamilyMart business in 2016. Trade receivables were at ₱277.7 million as compared to ₱220.9 million at the end of 2015. Trade receivables consist primarily of receivables from credit card companies.

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

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

## **Non-Current Assets**

### **Interests in Joint Ventures**

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

### **Property and Equipment**

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

### **Other Noncurrent Assets**

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

## **Current Liabilities**

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

### **Trade and Other Payables**

As of December 31, 2016, trade and other payables were at ₱1.7 billion as compared to ₱2.4 billion at the end of 2015. The decrease was due primarily to a decrease in trade payables, reflecting the terms of merchandise deliveries during the year.

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

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

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

As of December 31, 2016, Current portion of long-term debt was ₱917.7 million, as compared to ₱467.6 million at the end of 2015. This reflects quarterly payments due within the next 12 months on the ₱2.0 billion syndicated term loan facility entered into by the Group on May 8, 2013, and a ₱1.0 billion term loan facility entered into on September 14, 2015 as well as a ₱400.0 million term loan facility entered into on October 15, 2015.

## **Non- Current Liabilities**

### **Long-term Debt**

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

**Retirement Benefit Obligation**

As of December 31, 2016, retirement benefit obligation was at ₱345.3 million from ₱330.6 million at the end of 2015. The retirement benefit obligation represents the difference between the present value of the Company's retirement plan obligations and the fair value of its plan assets. In 2016, a total of ₱12.0 million in retirement benefits were paid out.

**Tenant Deposits**

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

**Equity**

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

## **2015 vs. 2014**

### **Net Sales**

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

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

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

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

### **Gross Profit**

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

### **Operating Expenses**

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

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

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

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

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

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

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

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

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

### **Provision for Income Tax**

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

### **Net Income**

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

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

### **EBITDA**

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

## **FINANCIAL CONDITION**

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

### **Current Assets**

#### **Cash**

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

#### **Merchandise Inventory**

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

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

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



merchandise inventory, an increase in input VAT to ₱277.2 million, and an increase in supplies inventory to ₱263.3 million.

## **Non-Current Assets**

### **Interests in Joint Ventures**

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

### **Property and Equipment**

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

### **Security Deposits and Construction Bonds**

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

## **Current Liabilities**

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

### **Trade and Other Payables**

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

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

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

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

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

## **Non- Current Liabilities**

### **Long-term Debt**

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

### **Retirement Benefit Obligation**

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

### **Tenant Deposits**

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

## **Equity**

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

### **Other Disclosures**

- (i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (ii) There were no events that will trigger direct or contingent financial obligations that are material to the Company, including and default or acceleration of an obligation
- (iii) Likewise there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- (iv) There are no material commitments for capital expenditures aside from those performed in the ordinary course of business.
- (v) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- (vi) There were no significant elements of income or loss that did not arise from continuing operations.

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

## **NATURE AND SCOPE OF BUSINESS**

SSI Group, Inc. (the “Company”) with its subsidiaries (collectively “SSI” or the “Group”) is the leading specialty retailer in the Philippines with an extensive portfolio of established international brands. The Group’s portfolio caters to all aspects of a quality lifestyle and is supported by a nationwide strategic retail presence. SSI leads the Philippine specialist retail market in terms of the size and breadth of its international brand portfolio and store footprint. As of December 31, 2016, SSI’s retail network consists of 708 stores located within approximately 82 major malls across the Philippines, including Metro Manila, Luzon, Visayas and Mindanao, with a total gross selling space of approximately 138,852 square meters. SSI expanded its retail format offerings with a joint venture in convenience stores under the “FamilyMart” franchise in 2013.

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

## MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### MARKET INFORMATION

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

The following table sets out the high and low closing prices (in PhP) of SSI Group, Inc.'s shares in the Philippine Stock Exchange for the first quarter of 2017 and for the years 2016 and 2015:

	<u>High</u>	<u>Low</u>
<b><u>2017</u></b>		
1st Quarter	2.80	2.08
<b><u>2016</u></b>		
1st Quarter	3.75	2.43
2nd Quarter	4.15	2.65
3rd Quarter	3.73	2.85
4th Quarter	2.93	2.50
<b><u>2015</u></b>		
1st Quarter	11.30	9.74
2nd Quarter	10.80	9.38
3rd Quarter	9.54	5.90
4th Quarter	6.00	3.37

The market capitalization of SSI Group, Inc's common shares as of December 31, 2016, based on the closing price of ₱2.55 per share, was approximately ₱8.4 billion.

The stock price of SSI Group, Inc's common shares as of May 3, 2017 is ₱2.27 per share translating to a market capitalization of approximately ₱7.5 billion.

### HOLDERS

The number of registered shareholders as of April 30, 2017 was 39. Outstanding common shares as of April 30, 2017 were 3,312,864,430.

The following are the top 20 registered holders of SSI Group, Inc.'s securities as of April 30, 2017:

<b>No.</b>	<b>Name of Shareholder</b>	<b>Number of Shares Held</b>	<b>Percent to Total Outstanding Shares</b>
1	PCD Nominee Corporation (Filipino)	794,850,486	23.9928%
2	Wellborn Trading & Investments, Inc.	466,043,679	14.0677%
3	Marjorisca Incorporated	434,440,400	13.1137%
4	Birdseyeview, Inc.	434,412,500	13.1129%
5	Educar Holdings Corporation	415,753,800	12.5497%
6	Bordeaux Holdings, Inc.	414,967,821	12.5260%
7	PCD Nominee Corporation (Non-Filipino)	257,642,793	7.7778%
8	Valbuena, Maria Elena T.	31,603,479	0.9540%
9	Tantoco, Maria Teresa Rustia	31,601,431	0.9539%
10	Lopez, Maria Carmencita T.	30,244,090	0.9129%
11	Northpoint R & E Holdings, Inc.	975,000	0.0294%
12	Iyo, Sarah Bismark	265,000	0.0080%

13	Ong Jr., Eugene D.	15,000	0.0005%
14	Go, Giselle Karen Y.	10,000	0.0003%
15	Tacub, Pacifico B.	7,000	0.0002%
16	Stephen T. Teo &/Or Teresita R. Teo	6,000	0.0001%
17	Wee, Joseph	5,000	0.0001%
18	Oscar M. Rayos del Sol	2,000	0.0000%
19	Blanco, Ofelia R.	2,000	0.0000%
20	Quimpo, Celeste Virginia C. Ylagan And/Or Ma	2,000	0.0000%

## **DIVIDENDS**

No dividends were declared by the Company during the year.

## **DIVIDEND POLICY**

The Group have not established a specific dividend policy. Dividends shall be declared and paid out of the Company's unrestricted retained earnings which shall be payable in cash, property or stock to all shareholders on the basis of outstanding stock held by them. Unless otherwise required by law, the Board shall determine the amount, type and date of payment of the dividends to the shareholders, taking into account various factors, including:

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

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

## **RECENT SALES OF UNREGISTERED SECURITIES**

Not Applicable in the fiscal year covered by this report.

## **CORPORATE GOVERNANCE**

The Company submitted its Manual on Corporate Governance in compliance with Philippine SEC Memorandum Circular No. 6, series of 2009. 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 of Corporate Governance Manual (the "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 Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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


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


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

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

  
\_\_\_\_\_  
**ZENAIDA R. TANTOCO**  
Chairman of the Board

  
\_\_\_\_\_  
**ZENAIDA R. TANTOCO**  
Chief Executive Officer

  
\_\_\_\_\_  
**ANTHONY T. HUANG**  
President

  
\_\_\_\_\_  
**MA. TERESA R. TANTOCO**  
Treasurer

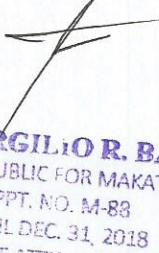
Signed this 5th day of April 2017



SUBSCRIBED AND SWORN to before me this 05 APR 2017 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	EC2876712	01 Dec 2014   DFA Manila
Ma. Teresa R. Tantoco	EC8123289	24 Jun 2016   DFA Manila

Doc. No.: 169  
Page No.: 35  
Book No.: 10  
Series of 2017.

  
**ATTY. VIRGILIO R. BATALLA**  
NOTARY PUBLIC FOR MAKATI CITY  
APPT. NO. M-88  
UNTIL DEC. 31, 2018  
ROLL OF ATTY. NO. 48348  
MCLE COMPLIANCE NO. IV-0016333-4/10/13  
I.B.P.O.R No. 705762, LIFETIME MEMBER JAN 29, 2007  
PTR No. 560-90-82 JAN. 3, 2017  
EXECUTIVE BLDG. CENTER  
MAKATI AVE. COR., JUPITER ST. MAKATI CITY

## INDEPENDENT AUDITOR'S REPORT

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

### 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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

### Key Audit Matters

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

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





*Existence and completeness of merchandise inventory*

The merchandise inventory balance as at December 31, 2016 amounting to ₱9.56 billion, as disclosed in Note 7 to the consolidated financial statements, represents 50% of the total consolidated assets. The Group operates 708 stores and 9 warehouses. We focused on the existence and completeness of inventory since inventories are material to the consolidated financial statements and are located in various sites across the country.

*Audit response*

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

*Valuation of merchandise inventory*

The Group sells goods that are subject to changing consumer demands and fashion trends. Thus, assessing the recoverability of the Group's inventories requires significant management judgment as disclosed in Note 3 to the consolidated financial statements. Such judgment includes management's expectations for future sales and inventory liquidation plans.

*Audit response*

We obtained an understanding of the Group's process in identifying out-of-season, damaged and soiled inventories as well as tested the relevant controls. We physically inspected sample inventories during the inventory count to check if there were any potential inventory obsolescence. We reviewed the list of damaged and soiled inventories as of December 31, 2016 and inquired from management about its sales plan on these inventories. On a sampling basis, we compared the revised selling prices of out-of-season, damaged and soiled inventories with the costs of such inventories. We also reviewed the revised selling price of such inventories subsequent to year-end.

**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, 2016, 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, 2016 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. 0783-AR-2 (Group A),  
May 1, 2015, valid until April 30, 2018

Tax Identification No. 901-617-005

BIR Accreditation No. 08-001998-76-2015,  
February 27, 2015, valid until February 26, 2018

PTR No. 5908775, January 3, 2017, Makati City

April 5, 2017



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



December 31

	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 5)	₱1,047,464,592	₱1,304,962,341
Trade and other receivables (Note 6)	926,096,727	594,632,831
Merchandise inventory (Note 7)	9,559,675,482	9,679,995,388
Amounts owed by related parties (Note 21)	57,511,820	31,172,792
Prepayments and other current assets (Note 8)	1,199,787,061	1,351,636,657
<b>Total Current Assets</b>	<b>12,790,535,682</b>	<b>12,962,400,009</b>
<b>Noncurrent Assets</b>		
Investment in an associate (Note 9)	77,753,456	54,913,723
Interests in joint ventures (Note 10)	663,382,136	1,054,465,557
Property and equipment (Note 11)	4,264,877,137	5,208,538,864
Deferred tax assets - net (Note 23)	240,760,677	247,626,299
Security deposits and construction bonds (Note 27)	1,024,028,596	1,003,310,781
Other noncurrent assets (Note 12)	103,114,036	96,509,536
<b>Total Noncurrent Assets</b>	<b>6,373,916,038</b>	<b>7,665,364,760</b>
<b>TOTAL ASSETS</b>	<b>₱19,164,451,720</b>	<b>₱20,627,764,769</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 13)	₱1,746,452,400	₱2,375,171,265
Short-term loans payable (Note 14)	4,012,000,000	5,125,000,000
Current portion of long-term debt (Note 15)	917,698,579	467,607,681
Amounts owed to related parties (Note 21)	156,383	504,095
Deferred revenue	24,334,100	21,103,013
Income tax payable	118,743,420	151,380,797
<b>Total Current Liabilities</b>	<b>6,819,384,882</b>	<b>8,140,766,851</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 15)	1,998,740,511	2,418,300,395
Retirement benefit obligation (Note 22)	345,334,507	330,562,832
Tenant deposits (Note 27)	34,752,738	21,267,898
<b>Total Noncurrent Liabilities</b>	<b>2,378,827,756</b>	<b>2,770,131,125</b>
<b>Total Liabilities</b>	<b>9,198,212,638</b>	<b>10,910,897,976</b>
<b>Equity (Note 29)</b>		
Capital stock	3,312,864,430	3,312,864,430
Additional paid-in capital (Note 4)	2,519,309,713	2,519,309,713
Stock grant	33,640,983	33,640,983
Retained earnings		
Appropriated	1,115,000,000	925,000,000
Unappropriated	3,054,450,420	3,012,834,660
Cumulative translation adjustment	(2,603,987)	(2,457,254)
Other comprehensive loss	(66,422,477)	(84,325,739)
<b>Total Equity</b>	<b>9,966,239,082</b>	<b>9,716,866,793</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱19,164,451,720</b>	<b>₱20,627,764,769</b>

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2016	2015	2014
<b>NET SALES</b>	<b>₱18,441,681,746</b>	₱17,420,769,116	₱15,213,323,956
<b>COSTS OF GOODS SOLD</b> (Note 16)	<b>9,288,120,323</b>	8,096,569,004	6,680,845,452
<b>GROSS PROFIT</b>	<b>9,153,561,423</b>	9,324,200,112	8,532,478,504
<b>OPERATING EXPENSES</b>			
Selling and distribution (Note 17)	6,769,824,340	6,493,059,856	5,530,234,060
General and administrative (Note 18)	1,134,883,350	1,060,671,797	1,120,760,076
	<b>7,904,707,690</b>	7,553,731,653	6,650,994,136
<b>OTHER INCOME (CHARGES)</b>			
Interest expense (Notes 14 and 15)	(340,901,875)	(315,250,994)	(281,585,421)
Share in net losses of joint ventures (Note 10)	(286,250,021)	(228,286,410)	(144,869,202)
Loss on disposals of property and equipment (Note 11)	(142,719,741)	(17,605,873)	(18,930,374)
Rent income (Note 27)	44,410,482	42,480,546	8,954,701
Share in net earnings of an associate (Note 9)	28,839,733	29,796,193	24,179,835
Foreign exchange gains (losses) - net	(19,063,414)	(15,268,860)	6,167,211
Interest accretion on security deposits (Note 27)	10,504,123	6,516,760	8,510,623
Interest income (Note 5)	2,940,318	3,379,270	4,473,664
Others - net	35,866,808	19,497,093	8,283,471
	<b>(666,373,587)</b>	(474,742,275)	(384,815,492)
<b>INCOME BEFORE INCOME TAX</b>	<b>582,480,146</b>	1,295,726,184	1,496,668,876
<b>PROVISION FOR (BENEFIT FROM)</b>			
<b>INCOME TAX</b> (Note 23)			
Current	351,694,701	483,286,043	551,119,917
Deferred	(830,315)	1,773,820	(52,733,938)
	<b>350,864,386</b>	485,059,863	498,385,979
<b>NET INCOME</b>	<b>231,615,760</b>	810,666,321	998,282,897
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Cumulative translation adjustment on foreign operations, net of deferred tax	(146,733)	(6,973,333)	9,758,244
<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 22)	17,903,262	11,877,952	(38,903,557)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱249,372,289</b>	₱815,570,940	₱969,137,584
<b>BASIC/DILUTED EARNINGS PER SHARE</b>			
(Note 24)	<b>₱0.07</b>	₱0.24	₱0.42

See accompanying Notes to Consolidated Financial Statements.



**SSI GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

	Capital Stock (Note 29)	Additional Paid-in Capital (APIC)	Stock Grants (Note 29)	Equity Reserve (Note 4)	Retained Earnings (Note 29)		Cumulative Translation Adjustment	Other Comprehensive Income (Loss)	Total
					Appropriated	Unappropriated			
Balances at January 1, 2014	₱200,000,000	₱-	₱-	₱500,434,495	₱1,290,000,000	₱838,616,229	(₱5,242,165)	(₱57,300,134)	₱2,766,508,425
Net income	-	-	-	-	-	998,282,897	-	-	998,282,897
Other comprehensive loss	-	-	-	-	-	-	-	(38,903,557)	(38,903,557)
Exchange differences on translation	-	-	-	-	-	-	9,758,244	-	9,758,244
Total comprehensive income for the year	-	-	-	-	-	998,282,897	9,758,244	(38,903,557)	969,137,584
Issuance of capital stock	2,417,162,900	-	-	-	-	-	-	-	2,417,162,900
Issuance of capital stock through initial public offering	695,701,530	4,056,457,439	-	-	-	-	-	-	4,752,158,969
Reversal of appropriation of retained earnings	-	-	-	-	(780,000,000)	780,000,000	-	-	-
Stock grants (Note 29)	-	-	4,205,123	-	-	-	-	-	4,205,123
Movement in equity reserve (Note 4)	-	-	-	(2,037,582,221)	-	-	-	-	(2,037,582,221)
Closed-out of equity reserve to APIC (Note 4)	-	(1,537,147,726)	-	1,537,147,726	-	-	-	-	-
Other comprehensive income on retirement obligation closed directly to retained earnings	-	-	-	-	-	269,213	-	-	269,213
<b>Balances at December 31, 2014</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱4,205,123</b>	<b>₱-</b>	<b>₱510,000,000</b>	<b>₱2,617,168,339</b>	<b>₱4,516,079</b>	<b>(₱96,203,691)</b>	<b>₱8,871,859,993</b>
Balances at January 1, 2015	₱3,312,864,430	₱2,519,309,713	₱4,205,123	₱-	₱510,000,000	₱2,617,168,339	₱4,516,079	(₱96,203,691)	₱8,871,859,993
Net income	-	-	-	-	-	810,666,321	-	-	810,666,321
Other comprehensive income	-	-	-	-	-	-	-	11,877,952	11,877,952
Exchange differences on translation	-	-	-	-	-	-	(6,973,333)	-	(6,973,333)
Total comprehensive income for the year	-	-	-	-	-	810,666,321	(6,973,333)	11,877,952	815,570,940
Additional appropriation of retained earnings	-	-	-	-	415,000,000	(415,000,000)	-	-	-
Stock grants (Note 29)	-	-	29,435,860	-	-	-	-	-	29,435,860
<b>Balances at December 31, 2015</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱33,640,983</b>	<b>₱-</b>	<b>₱925,000,000</b>	<b>₱3,012,834,660</b>	<b>(₱2,457,254)</b>	<b>(₱84,325,739)</b>	<b>₱9,716,866,793</b>

(Forward)



	Capital Stock (Note 29)	Additional Paid-in Capital	Stock Grants (Note 29)	Equity Reserve (Note 4)	Retained Earnings (Note 29)		Cumulative Translation Adjustment	Other Comprehensive Income (Loss)	Total
					Appropriated	Unappropriated			
Balances at January 1, 2016	₱3,312,864,430	₱2,519,309,713	₱33,640,983	₱-	₱925,000,000	₱3,012,834,660	(₱2,457,254)	(₱84,325,739)	₱9,716,866,793
Net income	-	-	-	-	-	231,615,760	-	-	231,615,760
Other comprehensive income	-	-	-	-	-	-	-	17,903,262	17,903,262
Exchange differences on translation	-	-	-	-	-	-	(146,733)	-	(146,733)
Total comprehensive income for the year	-	-	-	-	-	231,615,760	(146,733)	17,903,262	249,372,289
Additional appropriation of retained earnings (Note 29)	-	-	-	-	1,115,000,000	(1,115,000,000)	-	-	-
Reversal of appropriation of retained earnings (Note 29)	-	-	-	-	(925,000,000)	925,000,000	-	-	-
<b>Balances at December 31, 2016</b>	<b>₱3,312,864,430</b>	<b>₱2,519,309,713</b>	<b>₱33,640,983</b>	<b>₱-</b>	<b>₱1,115,000,000</b>	<b>₱3,054,450,420</b>	<b>(₱2,603,987)</b>	<b>(₱66,422,477)</b>	<b>₱9,966,239,082</b>

See accompanying Notes to Consolidated Financial Statements.



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

	<b>Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱582,480,146</b>	₱1,295,726,184	₱1,496,668,876
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Notes 11, 12 and 20)	<b>1,521,041,877</b>	1,498,501,295	1,039,304,397
Interest expense (Notes 14 and 15)	<b>340,901,875</b>	315,250,994	281,585,421
Share in net losses of joint ventures (Note 10)	<b>286,250,021</b>	228,286,410	144,869,202
Loss on disposals of property and equipment (Note 11)	<b>142,719,741</b>	17,605,873	18,930,374
Retirement benefit obligation	<b>40,347,759</b>	41,345,515	25,163,579
Share in net earnings of an associate (Note 9)	<b>(28,839,733)</b>	(29,796,193)	(24,179,835)
Interest accretion on refundable deposits (Note 27)	<b>(10,504,123)</b>	(6,516,760)	(8,510,623)
Interest income (Note 5)	<b>(2,940,318)</b>	(3,379,270)	(4,473,664)
Unrealized foreign exchange losses (gains) - net	<b>(1,262,810)</b>	(7,571,974)	15,693,554
Stock grants (Note 29)	-	29,435,860	4,205,123
Impairment loss on security deposits	-	-	4,870,502
Operating income before working capital changes	<b>2,870,194,435</b>	3,378,887,934	2,994,126,906
Decrease (increase) in:			
Trade and other receivables	<b>(331,463,896)</b>	(9,760,183)	(85,575,110)
Merchandise inventory	<b>120,319,906</b>	(1,699,925,289)	(2,081,162,341)
Amounts owed by related parties	<b>(26,339,028)</b>	(24,231,034)	1,726,601
Prepayments and other current assets	<b>155,735,118</b>	(766,053,020)	(248,504,967)
Increase (decrease) in:			
Trade and other payables	<b>(627,070,736)</b>	(872,949,651)	(249,514,809)
Deferred revenue	<b>3,231,087</b>	(2,997,032)	1,592,266
Amounts owed to related parties	<b>(347,712)</b>	479,875	(131,016)
Tenant deposits	<b>13,484,840</b>	21,267,898	-
Net cash generated from operations	<b>2,177,744,014</b>	24,719,498	332,557,530
Interest received	<b>2,940,318</b>	3,379,270	4,473,664
Income taxes paid	<b>(384,332,078)</b>	(524,365,581)	(568,928,833)
Net cash flows provided by (used in) operating activities	<b>1,796,352,254</b>	(496,266,813)	(231,897,639)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment (Note 11)	<b>(710,402,438)</b>	(2,041,870,197)	(3,143,865,049)
Additional interests in joint ventures (Note 10)	-	(803,296,454)	(255,250,000)
Return of capital from SSRI (Note 10)	<b>104,833,400</b>	-	-
Dividends received from investment in an associate (Note 9)	<b>6,000,000</b>	24,000,000	18,000,000
Decrease (increase) in:			
Security deposits and construction bonds	<b>(14,099,214)</b>	(185,069,258)	(248,464,117)
Other noncurrent assets	<b>(16,301,953)</b>	370,615	148,293,258
Net cash flows used in investing activities	<b>(629,970,205)</b>	(3,005,865,294)	(3,481,285,908)

(Forward)





	<b>Years Ended December 31</b>		
	<b>2016</b>	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of:			
Short-term loans payable (Note 14)	<b>₱2,805,000,000</b>	₱7,695,500,000	₱4,984,845,625
Long-term debt (Note 15)	<b>497,500,000</b>	1,398,887,415	704,190,142
Payments of:			
Short-term loans payable (Note 14)	<b>(3,918,000,000)</b>	(6,167,135,490)	(5,198,875,010)
Long-term debt (Note 15)	<b>(466,968,986)</b>	(333,333,333)	(166,666,666)
Interest	<b>(340,901,875)</b>	(315,250,994)	(281,585,421)
Proceeds from:			
Subscriptions to capital stock (Note 4)	-	-	2,417,162,900
Subscriptions to capital stock through initial public offering (Note 29)	-	-	4,752,158,969
Sale of SSI investment in CCSI (Note 1)	-	-	200,119,176
Return of deposits for future stock subscription to SSI	-	-	(61,580,320)
Payment for the purchase of SSI shares (Notes 1 and 4)	-	-	(2,242,162,541)
Net cash flows from (used in) financing activities	<b>(1,423,370,861)</b>	2,278,667,598	5,107,606,854
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(508,937)</b>	598,641	(1,344,935)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(257,497,749)</b>	(1,222,865,868)	1,393,078,372
<b>CASH AT BEGINNING OF YEAR</b>	<b>1,304,962,341</b>	2,527,828,209	1,134,749,837
<b>CASH AT END OF YEAR (Note 5)</b>	<b>₱1,047,464,592</b>	₱1,304,962,341	₱2,527,828,209

*See accompanying Notes to Consolidated Financial Statements.*



# SSI GROUP, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

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

#### *Corporate Restructuring*

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

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

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

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



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

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

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

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

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on April 3, 2017. The same consolidated financial statements were approved and authorized for issuance by the BOD on April 5, 2017.

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

### Basis of Preparation and Statement of Compliance

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

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



Basis of Consolidation

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

	Percentage ownership					
	2016		2015		2014	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Stores Specialists, Inc. (SSI)	100	–	100	–	100	–
Rustan Marketing Specialists, Inc. (RMSI)	–	100	–	100	–	100
International Specialty Concepts, Inc. (ISCI)	–	100	–	100	–	100
Rustan Specialty Concepts, Inc. (RSCI)	–	100	–	100	–	100
Specialty Office Concepts, Inc. (SOCI)	–	100	–	100	–	100
Specialty Investments, Inc. (SII)	–	100	–	100	–	100
Luxury Concepts, Inc. (LCI)	–	100	–	100	–	100
International Specialty Fashions, Inc. (ISFI)	–	100	–	100	–	100
Footwear Specialty Retailers, Inc. (FSRI)	–	100	–	100	–	100
Global Specialty Retailers, Inc. (GSRI) <sup>1</sup>	–	100	–	100	–	100
Specialty Food Retailers, Inc. (SFR) <sup>2</sup>	–	100	–	100	–	100
International Specialty Retailers, Inc. (ISRI) <sup>3</sup>	–	100	–	100	–	100
International Specialty Wears, Inc. (ISWI) <sup>4</sup>	–	100	–	100	–	100
Fastravel Specialists Holdings, Inc. (FSHI) <sup>5</sup>	–	100	–	100	–	–
International Specialty Apparels, Inc. (ISAI) <sup>6</sup>	–	100	–	100	–	–
Casual Clothing Retailers, Inc. (CCRI) <sup>7</sup>	–	100	–	100	–	–
SKL International, Ltd. (SKL) <sup>8</sup>	–	100	–	–	–	–

<sup>1</sup>GSRI was registered with the SEC on August 9, 2011 and started commercial operations on February 17, 2012.

<sup>2</sup>SFRI (formerly Specialtea Blends, Inc.) was registered with the SEC on June 25, 2012 and started commercial operations on November 8, 2012.

<sup>3</sup>ISRI was registered with the SEC on November 29, 2012 and started commercial operations on March 16, 2013.

<sup>4</sup>ISWI was registered with the SEC on November 29, 2012 and started commercial operations on March 17, 2013.

<sup>5</sup>FSHI was registered with the SEC on February 21, 2013 and immediately started commercial operations.

<sup>6</sup>ISAI was registered with the SEC on October 8, 2013 and started commercial operations on October 18, 2014.

<sup>7</sup>CCRI was registered with the SEC on January 10, 2014 and immediately started commercial operations.

<sup>8</sup>On July 16, 2015, SSI caused the incorporation of SKL, a wholly owned subsidiary, under the territory of the British Virgin Islands (BVI).

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

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2016 and 2015 and each of the three years in the period ended December 31, 2016. 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 pooling-of-interests method. The assets and liabilities of the acquired entities and that of the Company are reflected at their carrying values at the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity.

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

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

#### New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2016

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle



- Amendment to PFRS 5, *Changes in Methods of Disposal*
- Amendment to PFRS 7, *Servicing Contracts*
- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- Amendment to PAS 19, *Discount Rate: Regional Market Issue*
- Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report*

New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2016

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the Group's financial statements.

*Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*  
The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*  
The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*  
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.



*Effective beginning on or after January 1, 2018*

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

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

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

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

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

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

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

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- *PFRS 15, Revenue from Contracts with Customers*

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

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



- *PFRS 9, Financial Instruments*

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

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

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

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

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

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

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

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





its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

- **PFRS 16, *Leases***

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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

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

*Deferred effectivity*

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

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

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

Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.



### Revenue Recognition

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

#### *Sale of merchandise*

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

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

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

#### *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 interest accrues using the effective interest rate (EIR) method.

### Cost of Goods Sold

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

### Operating Expenses

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

### Cash

Cash in the consolidated balance sheets consists of cash on hand and with banks. Cash in banks earn interest at a regular deposit rate.



### Financial Instruments

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

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

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

#### *Loans and receivables*

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

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

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

#### *Other financial liabilities*

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

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

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



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

#### *Offsetting of financial instruments*

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

#### Fair Value Measurement

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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



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

#### “Day 1” Difference

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

#### Impairment of Financial Assets

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

#### *Assets carried at amortized cost*

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

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



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

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

##### *Financial liabilities*

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

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

#### Merchandise Inventory

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

#### Investment in an Associate and Interests in Joint Ventures

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



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

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

The aggregate of the Group's share of profit or loss of an associate and joint ventures is shown on the face of the consolidated profit or loss outside operating profit and represents profit or loss after tax.

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

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

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

#### Property and Equipment

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

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



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

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

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

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

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

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

#### Intangible Assets

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

The useful life of intangible assets is assessed as finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting date. Changes in the expected useful life or the expected 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 and/or changes in accounting policies, respectively. The amortization expense on intangible assets is recognized in the consolidated profit or loss in the expense category consistent with the function of the intangible assets.

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





### Software Costs

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

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

### Impairment of Nonfinancial Assets

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

Impairment losses are recognized in the consolidated profit or loss in those expense categories consistent with the function of the impaired asset.

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

### Capital Stock and Additional Paid-in Capital

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

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



### 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.

### Equity Reserve

Equity reserve represents the effect of the application of the reorganization of entities under common control, accounted for similar to pooling-of-interests method.

### Retirement Benefit Obligation

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

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

Defined benefit costs comprise the following:

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

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

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

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

### Share-based Payment Transactions

Officers and management of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified,



the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

*Equity-settled transactions*

The cost of equity-settled transactions with employees for awards granted is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, performance conditions is not taken into account.

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

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

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

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

Leases

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

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

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



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

*Operating leases - Group as a lessee*

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

*Operating leases - Group as a lessor*

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of the assets, until such time that the assets are substantially ready for their intended use or sale, which necessarily take a substantial period of time. Income earned on temporary investment of specific borrowings, pending the expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the consolidated profit or loss in the period in which they are incurred.

Taxes

*Current tax*

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

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

*Deferred tax*

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

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



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

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

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

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

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

#### *Sales tax*

Revenues, expenses, and assets are recognized net of amount of sales tax except:

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

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

#### Input Value-Added Tax (VAT)

Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

#### Provisions

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

#### Contingencies

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

Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefit is probable.



### Segment Reporting

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

### Earnings Per Share (EPS)

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

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

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

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

### Foreign Currency Translation and Transactions

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

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

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



#### Events After the Reporting Date

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

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

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

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

#### Judgments

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

#### *Determination of functional currency*

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

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

#### *Determination of operating segment*

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

#### *Operating lease commitments - Group as a lessee*

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

The Group has determined that these arrangements are joint arrangements as they have the following characteristics:

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



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

#### Estimates and Assumptions

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

#### *Assessing NRV of merchandise inventory*

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, 2016 and 2015, the Group has no allowance for inventory losses. Merchandise inventory amounted to ₱9,559.68 million and ₱9,680.00 million as of December 31, 2016 and 2015, respectively (see Note 7).

#### *Estimating useful lives of property and equipment, franchise fee and software costs*

The Group estimates the useful lives of its property and equipment, 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.

As of December 31, 2016 and 2015, the aggregate net book values of property and equipment, franchise fee and software costs presented under "Other noncurrent assets" amounted to ₱4,321.47 million and ₱5,261.37 million, respectively (see Notes 11 and 12).

The Group recognized depreciation and amortization expense amounting to ₱1,521.04 million, ₱1,498.50 million and ₱1,039.30 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 20).

#### *Assessing impairment of investment in an associate, interests in joint ventures and property and equipment*

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





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

The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results; and
- significant negative industry or economic trends.

As of December 31, 2016 and 2015, the Group has not identified any events or change in circumstances that would indicate impairment of its nonfinancial assets. The carrying values of the Group's nonfinancial assets as of December 31 are as follows:

	2016	2015
Property and equipment (Note 11)	<b>₱4,264,877,137</b>	₱5,208,538,864
Interests in joint ventures (Note 10)	<b>663,382,136</b>	1,054,465,557
Investment in an associate (Note 9)	<b>77,753,456</b>	54,913,723

*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 22 to the consolidated financial statements.

As of December 31, 2016 and 2015, the Group's retirement benefit obligation amounted to ₱345.33 million and ₱330.56 million, respectively (see Note 22). The Group recognized retirement expense amounting to ₱51.83 million, ₱47.90 million and ₱36.14 million in 2016, 2015 and 2014, respectively (see Notes 19 and 22).

*Realizability of deferred tax assets*

The Group reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Temporary differences for which deferred tax assets are not recognized are disclosed in Note 23 to the consolidated financial statements. As of December 31, 2016 and 2015, net deferred tax assets recognized amounted to ₱240.76 million and ₱247.63 million, respectively (see Note 23).

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#### 4. Reorganization Involving Entities Under Common Control

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



Under the pooling-of-interests method:

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

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

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

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

Below is the summary of the movements of the “Equity reserve” account of the Group for the year ended December 31, 2014:

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

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



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5. **Cash**

	<b>2016</b>	2015
Cash on hand	<b>₱85,514,004</b>	₱102,192,410
Cash in banks	<b>961,950,588</b>	1,202,769,931
	<b>₱1,047,464,592</b>	₱1,304,962,341

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the years ended December 31, 2016, 2015 and 2014 amounted to ₱2.94 million, ₱3.38 million and ₱4.47 million, respectively.

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6. **Trade and Other Receivables**

	<b>2016</b>	2015
Trade receivables	<b>₱277,721,936</b>	₱220,936,098
Nontrade receivables	<b>356,329,207</b>	151,706,373
Receivables from related parties (Note 21)	<b>220,802,680</b>	104,823,661
Advances to officers and employees	<b>69,970,079</b>	112,893,788
Others	<b>1,272,825</b>	4,272,911
	<b>₱926,096,727</b>	₱594,632,831

Trade receivables are due from credit card companies and normally settled on three days' terms.

Nontrade receivables, advances to officers and employees and receivables from related parties are usually settled within one year. "Others" generally include receivables from third parties that are not trade related and are generally due within one year.

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7. **Merchandise Inventory**

	<b>2016</b>	2015
At cost:		
On hand	<b>₱8,992,350,579</b>	₱9,167,904,410
In transit	<b>567,324,903</b>	512,090,978
	<b>₱9,559,675,482</b>	₱9,679,995,388

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 ₱8,614.74 million, ₱7,473.60 million and ₱6,119.52 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 16).



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8. **Prepayments and Other Current Assets**

	<b>2016</b>	2015
Supplies inventory	<b>₱344,162,960</b>	₱321,134,504
Advances to suppliers	<b>337,563,365</b>	436,010,318
Input VAT	<b>288,220,106</b>	277,171,328
Prepaid advertising	<b>90,379,099</b>	65,815,593
Deferred input VAT	<b>15,935,051</b>	63,419,431
Current portion of prepaid rent (Notes 12 and 27)	<b>30,384,059</b>	43,413,949
Creditable withholding tax	<b>18,704,643</b>	28,758,490
Prepaid insurance	<b>18,307,563</b>	15,476,014
Current portion of security deposits (Note 27)	<b>9,314,453</b>	5,428,931
Prepaid guarantee	<b>4,268,845</b>	11,637,084
Others	<b>42,546,917</b>	83,371,015
	<b>₱1,199,787,061</b>	₱1,351,636,657

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

Input VAT will be applied against output VAT.

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

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9. **Investment in an Associate**

	<b>2016</b>	2015
Acquisition cost	<b>₱24,640,000</b>	₱24,640,000
Accumulated equity in net earnings:		
Balances at beginning of year	<b>30,273,723</b>	24,477,530
Share in net earnings	<b>28,839,733</b>	29,796,193
Dividends received	<b>(6,000,000)</b>	(24,000,000)
Balances at end of year	<b>53,113,456</b>	30,273,723
	<b>₱77,753,456</b>	₱54,913,723

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, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Current assets	<b>₱397,731,549</b>	₱154,226,913
Noncurrent assets	<b>15,262,306</b>	28,128,925
Current liabilities	<b>50,209,849</b>	42,000,681
Noncurrent liabilities	<b>168,673,141</b>	3,680,269
Equity	<b>194,110,864</b>	136,674,888
Revenues	<b>397,794,228</b>	425,972,705
Net income	<b>72,099,332</b>	74,490,483

## 10. Interests in Joint Ventures

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

Joint venture	Project description	Income sharing arrangement
SCRI <sup>1</sup>	Open and operate convenience stores directly owned and/or franchised in the Philippines	50:50
SSRI <sup>2</sup>	Investment in and operation of mid-market department stores	50:50
LMS <sup>3</sup>	Investment in and operation of travel retail stores in the Philippines	50:50

*1 SCRI has started commercial operations in April 2013.*

*2 SSRI has started commercial operations in March 2014.*

*3 LMS has existing operations prior to the acquisition in 2015.*

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

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

	2016	2015
LMS	<b>₱379,225,260</b>	₱374,680,634
SSRI	<b>167,233,461</b>	417,063,488
SCRI	<b>116,923,415</b>	262,721,435
	<b>₱663,382,136</b>	₱1,054,465,557

*LMS (50% take up through SKL)*

	2016	2015
Acquisition cost	<b>₱375,296,454</b>	₱375,296,454
Accumulated equity in net earnings (losses):		
Balances at beginning of year	<b>(615,820)</b>	-
Share in net income (loss)	<b>4,544,626</b>	(615,820)
Balances at end of year	<b>3,928,806</b>	(615,820)
	<b>₱379,225,260</b>	₱374,680,634



Key financial information of LMS is as follows:

	2016	2015*
Current assets	<b>₱476,966,706</b>	₱417,376,719
Noncurrent assets	<b>74,891,349</b>	72,241,379
Current liabilities	<b>59,673,941</b>	58,456,113
Noncurrent liabilities	-	-
Equity	<b>492,184,113</b>	431,161,985
Revenues	<b>623,249,164</b>	263,150,411
Net income	<b>13,918,787</b>	1,018,108

*\*Revenues and net income pertain to transactions from August 13 to December 31, 2015.*

The acquisition cost includes the consideration for goodwill amounting to ₱121.75 million and intangible asset amounting to ₱29.90 million. The intangible asset pertains to the concession agreement with Duty Free and is being amortized over 10.7 years. Amortization expense, which is included in the share in net loss of LMS, amounted to ₱2.41 million and ₱1.12 million in 2016 and 2015, respectively.

*SSRI (50% take up through SII)*

	2016	2015
Cost:		
Balances at beginning of year	<b>₱652,250,000</b>	₱420,750,000
Additional (return of) investment	<b>(104,833,400)</b>	231,500,000
Balances at end of year	<b>547,416,600</b>	652,250,000
Accumulated equity in net losses:		
Balances at beginning of year	<b>(235,186,512)</b>	(87,488,717)
Share in net loss	<b>(144,996,627)</b>	(147,697,795)
Balances at end of year	<b>(380,183,139)</b>	(235,186,512)
	<b>₱167,233,461</b>	₱417,063,488

Key financial information of SSRI are as follows:

	2016	2015
Current assets	<b>₱347,562,106</b>	₱268,016,849
Noncurrent assets	<b>2,000,000</b>	760,790,328
Current liabilities	<b>17,307,285</b>	193,869,971
Equity	<b>332,254,822</b>	834,937,207
Revenues	<b>114,001,258</b>	309,117,739
Net loss	<b>(289,993,254)</b>	(295,395,590)



SCRI (50% take up through SII)

	2016	2015
<b>Cost:</b>		
Balances at beginning of year	₱420,350,000	₱223,850,000
Additional investment	–	196,500,000
Balances at end of year	<b>420,350,000</b>	420,350,000
<b>Accumulated equity in net losses:</b>		
Balances at beginning of year	(157,628,565)	(77,655,770)
Share in net loss	(145,798,020)	(79,972,795)
Balances at end of year	<b>(303,426,585)</b>	(157,628,565)
	<b>₱116,923,415</b>	₱262,721,435

Key financial information of SCRI are as follows:

	2016	2015
Current assets	₱107,739,917	₱45,318,805
Noncurrent assets	453,025,394	839,400,000
Current liabilities	326,451,985	52,679,483
Equity	234,313,326	832,039,322
Revenues	290,248,033	167,155,021
Net loss	(291,596,040)	(159,945,590)

The joint ventures have no contingent liabilities or capital commitments as of December 31, 2016 and 2015.

## 11. Property and Equipment

The composition and movements of this account are as follows:

	<b>December 31, 2016</b>					Total
	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	
<b>Cost:</b>						
Balances at beginning of year	₱7,751,959,370	₱2,202,872,779	₱852,141,513	₱256,436,738	₱138,527,183	₱11,201,937,583
Additions	519,280,731	111,419,660	22,656,024	4,848,181	52,197,842	710,402,438
Disposals	(519,865,491)	(174,101,425)	–	(1,787,499)	–	(695,754,415)
Reclassifications	107,890,014	223,215	–	–	(108,113,229)	–
Balances at end of year	7,859,264,624	2,140,414,229	874,797,537	259,497,420	82,611,796	11,216,585,606
<b>Accumulated depreciation:</b>						
Balances at beginning of year	4,458,906,590	1,368,102,459	103,524,715	62,864,955	–	5,993,398,719
Depreciation (Note 20)	1,177,201,386	267,916,630	44,034,662	22,191,746	–	1,511,344,424
Disposals	(389,531,042)	(161,716,133)	–	(1,787,499)	–	(553,034,674)
Balances at end of year	5,246,576,934	1,474,302,956	147,559,377	83,269,202	–	6,951,708,469
<b>Net book values</b>	<b>₱2,612,687,690</b>	<b>₱666,111,273</b>	<b>₱727,238,160</b>	<b>₱176,228,218</b>	<b>₱82,611,796</b>	<b>₱4,264,877,137</b>



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

Additions to leasehold improvements and construction in progress in 2016 and 2015 pertain to improvements and construction of newly opened and renovated stores during the year. Borrowing costs capitalized as cost of building amounted to nil in 2016 and 2015, and ₱9.30 million in 2014.

Disposals for the years ended December 31, 2016 and 2015 mainly pertain to leasehold improvements and store furniture and fixtures derecognized on closed or renovated stores.

No property and equipment were pledged nor treated as security to the outstanding liabilities as of December 31, 2016 and 2015.

## 12. Other Noncurrent Assets

	2016	2015
Franchise fee (net of accumulated amortization of ₱13.24 million and ₱4.98 million as of December 31, 2016 and 2015, respectively)	<b>₱52,018,462</b>	₱51,060,289
Miscellaneous deposits	<b>37,932,037</b>	36,502,304
Prepaid rent - net of current portion (Notes 8 and 27)	<b>5,700,219</b>	6,571,715
Software costs (net of accumulated amortization of ₱2.53 million and ₱1.09 million as of December 31, 2016 and 2015, respectively)	<b>4,577,197</b>	1,775,246
Others	<b>2,886,121</b>	599,982
	<b>₱103,114,036</b>	₱96,509,536

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

Amortization expense of software costs amounted to ₱1.44 million, ₱0.90 million, and nil for the years ended December 31, 2016 and 2015, 2014, respectively (see Note 20).





### 13. Trade and Other Payables

	2016	2015
Trade payables	<b>₱824,095,807</b>	₱994,450,553
Nontrade payables	<b>535,192,116</b>	825,981,870
Accrued expenses	<b>240,668,448</b>	294,270,621
Output VAT	<b>87,871,774</b>	32,524,573
Retention payable	<b>36,785,633</b>	152,750,762
Payables to related parties (Note 21)	<b>1,762,925</b>	1,590,289
Others	<b>20,075,697</b>	73,602,597
	<b>₱1,746,452,400</b>	₱2,375,171,265

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

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

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

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

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

### 14. Short-term Loans Payable

	2016	2015
Banks:		
Bank of Philippine Islands (BPI)	<b>₱2,112,000,000</b>	₱1,600,000,000
Banco de Oro (BDO)	<b>800,000,000</b>	700,000,000
Metropolitan Bank & Trust Co. (MBTC)	<b>500,000,000</b>	-
Hongkong and Shanghai Banking Corporation Limited (HSBC)	<b>400,000,000</b>	400,000,000
China Banking Corporation (CBC)	<b>100,000,000</b>	1,000,000,000
Rizal Commercial Banking Corporation (RCBC)	<b>100,000,000</b>	435,000,000
Security Bank Corporation (SBC)	-	990,000,000
	<b>₱4,012,000,000</b>	₱5,125,000,000

The Group's outstanding unsecured short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 2.5% to 3.5% and 2.75% to 3.13% in 2016 and 2015, respectively.

Interest expense related to short-term loans for the years ended December 31, 2016, 2015 and 2014 amounted to ₱197.78 million, ₱230.54 million and ₱173.87 million, respectively.



## 15. Long-term Debt

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

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

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

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

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

- Debt to equity ratio shall not at any time exceed 2.00; and
- Debt service coverage ratio shall not exceed 1.50.

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

	2016	2015
BPI	<b>₱2,063,626,587</b>	₱1,790,626,729
SBC	<b>309,054,613</b>	396,927,572
CBC	<b>213,201,210</b>	273,820,337
MBTC	<b>213,201,210</b>	273,820,337
RCBC	<b>117,355,470</b>	150,713,101
Total	<b>2,916,439,090</b>	2,885,908,076
Less current portion	<b>917,698,579</b>	467,607,681
Noncurrent portion	<b>₱1,998,740,511</b>	₱2,418,300,395

A rollforward analysis of unamortized transaction costs in 2016 and 2015 follows:

	2016	2015
Balances at beginning of year	<b>₱14,091,923</b>	₱12,979,337
Transaction costs recognized during the year	<b>2,500,000</b>	7,000,000
Amortization	<b>(6,364,348)</b>	(5,887,414)
Balances at end of year	<b>₱10,227,575</b>	₱14,091,923

Interest expense relating to long-term debt for the years ended December 31, 2016, 2015 and 2014 amounted to ₱143.12 million, ₱84.71 million and ₱107.71 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, 2016 and 2015, the Group is in compliance with the loan covenants of all their respective outstanding debts.

**16. Costs of Goods Sold**

	2016	2015	2014
Cost of merchandise sold (Note 7)	<b>₱8,614,736,000</b>	₱7,473,601,159	₱6,119,520,507
Royalty fees	<b>205,781,450</b>	77,173,640	83,460,981
Personnel costs (Notes 19 and 22)	<b>133,784,116</b>	214,129,486	180,237,387
Rent (Notes 21 and 27)	<b>55,374,265</b>	38,837,004	33,588,866
Travel and transportation	<b>45,667,194</b>	56,360,309	45,556,239
Depreciation and amortization (Notes 11, 12 and 20)	<b>31,695,468</b>	25,018,865	19,889,501
Utilities	<b>17,069,154</b>	16,344,131	11,105,076
Security and safety	<b>12,487,380</b>	14,755,820	10,192,718
Repairs and maintenance	<b>12,216,295</b>	11,555,703	7,183,052
Insurance	<b>3,120,939</b>	3,298,680	1,843,788
Supplies and maintenance	<b>2,420,812</b>	1,160,259	1,463,570
Taxes and licenses	<b>412,355</b>	401,227	404,564
Others	<b>153,354,895</b>	163,932,721	166,399,203
	<b>₱9,288,120,323</b>	₱8,096,569,004	₱6,680,845,452

Cost of merchandise sold:

	2016	2015	2014
Merchandise inventory, beginning	<b>₱9,679,995,388</b>	₱7,980,070,099	₱5,898,907,758
Net purchases	<b>8,494,416,094</b>	9,173,526,448	8,200,682,848
Cost of merchandise available for sale	<b>18,174,411,482</b>	17,153,596,547	14,099,590,606
Less merchandise inventory, ending	<b>(9,559,675,482)</b>	(9,679,995,388)	(7,980,070,099)
	<b>₱8,614,736,000</b>	₱7,473,601,159	₱6,119,520,507

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

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



### 17. Selling and Distribution Expenses

	2016	2015	2014
Rent (Notes 21 and 27)	<b>₱2,130,852,260</b>	₱1,960,838,136	₱1,705,386,223
Depreciation and amortization (Notes 11, 12 and 20)	<b>1,370,244,867</b>	1,359,783,041	917,892,527
Personnel costs (Notes 19 and 22)	<b>1,127,897,645</b>	1,109,838,508	1,019,935,414
Utilities	<b>640,057,372</b>	630,893,893	554,521,919
Credit card charges	<b>335,256,130</b>	302,028,033	270,505,097
Supplies and maintenance	<b>253,904,621</b>	209,932,975	250,089,287
Taxes and licenses	<b>202,635,290</b>	180,489,705	162,454,489
Global marketing contribution fee	<b>137,383,982</b>	121,495,238	93,987,925
Security services	<b>128,285,517</b>	166,692,701	170,587,881
Advertising	<b>124,678,663</b>	122,797,197	100,531,934
Repairs and maintenance	<b>97,322,744</b>	84,109,980	69,897,861
Insurance	<b>42,640,301</b>	44,196,189	27,006,452
Travel and transportation	<b>37,704,160</b>	46,073,361	53,590,474
Communication	<b>35,363,049</b>	35,101,560	28,954,612
Delivery and freight charges	<b>23,580,295</b>	31,916,547	41,313,876
Entertainment, amusement and recreation (EAR)	<b>12,344,662</b>	9,611,020	11,501,434
Outside services	<b>11,276,356</b>	12,045,930	8,559,742
Professional fees	<b>10,990,827</b>	28,162,911	6,533,482
Telegraphic transfer	<b>1,978,162</b>	2,736,193	3,073,835
Others	<b>45,427,437</b>	34,316,738	33,909,596
	<b>₱6,769,824,340</b>	₱6,493,059,856	₱5,530,234,060

### 18. General and Administrative Expenses

	2016	2015	2014
Personnel costs (Notes 19 and 22)	<b>₱502,704,189</b>	₱462,822,713	₱425,607,374
Rent (Note 27)	<b>130,517,395</b>	122,974,608	106,907,950
Depreciation and amortization (Notes 11, 12 and 20)	<b>119,101,542</b>	113,699,389	101,522,369
Advertising	<b>63,269,096</b>	54,445,317	86,054,909
Supplies and maintenance	<b>43,974,624</b>	49,577,494	41,212,235
Utilities	<b>39,672,861</b>	39,157,883	39,101,467
Taxes and licenses	<b>36,022,536</b>	29,188,913	106,709,144
Repairs and maintenance	<b>35,752,632</b>	31,377,152	22,031,820
Travel and transportation	<b>35,024,428</b>	24,259,108	34,863,630
Security services	<b>32,346,466</b>	31,802,773	23,660,394
Communication	<b>22,324,347</b>	21,358,928	12,344,058
Insurance	<b>13,056,639</b>	15,978,008	14,390,334
Professional fees	<b>16,015,986</b>	14,142,612	36,561,512
EAR	<b>7,500,432</b>	8,727,771	9,516,353
Others	<b>37,600,177</b>	41,159,128	60,276,527
	<b>₱1,134,883,350</b>	₱1,060,671,797	₱1,120,760,076



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## 19. Personnel Costs

Personnel costs charged to operations are as follows:

	2016	2015	2014
Salaries, wages and bonuses	<b>₱1,641,516,551</b>	₱1,570,737,881	₱1,453,193,177
Retirement benefit expense (Note 22)	<b>51,827,906</b>	47,899,539	36,143,485
Other employee benefits	<b>71,041,493</b>	168,153,287	136,443,513
	<b>₱1,764,385,950</b>	₱1,786,790,707	₱1,625,780,175

Personnel expenses were distributed as follows:

	2016	2015	2014
Cost of goods sold (Note 16)	<b>₱133,784,116</b>	₱214,129,486	₱180,237,387
Selling and distribution (Note 17)	<b>1,127,897,645</b>	1,109,838,508	1,019,935,414
General and administrative (Note 18)	<b>502,704,189</b>	462,822,713	425,607,374
	<b>₱1,764,385,950</b>	₱1,786,790,707	₱1,625,780,175

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## 20. Depreciation and Amortization Expense

	2016	2015	2014
Property and equipment (Note 11)	<b>₱1,511,344,424</b>	₱1,495,790,061	₱1,037,570,581
Franchise fee (Note 12)	<b>8,261,827</b>	1,807,093	1,733,816
Software cost (Note 12)	<b>1,435,626</b>	904,141	–
	<b>₱1,521,041,877</b>	₱1,498,501,295	₱1,039,304,397

Depreciation and amortization were distributed as follows:

	2016	2015	2014
Cost of goods sold (Note 16)	<b>₱31,695,468</b>	₱25,018,865	₱19,889,501
Selling and distribution (Note 17)	<b>1,370,244,867</b>	1,359,783,041	917,892,527
General and administrative (Note 18)	<b>119,101,542</b>	113,699,389	101,522,369
	<b>₱1,521,041,877</b>	₱1,498,501,295	₱1,039,304,397

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## 21. Related Party Disclosures

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

The Group, transacts with the following related parties:

- Rustan Commercial Corporation (RCC) and Rustan Marketing Corporation (RMK) are controlled by certain key management personnel of the Group.
- SCRI and SPI are joint venture and associate, respectively, of the Group.



- c. Philippine Family Mart CVS, Inc. (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 16, 17 and 27). Related rent expense amounted to ₱100.23 million, ₱102.90 million and ₱131.30 million for the years ended December 31, 2016, 2015 and 2014, respectively;
- b. The Group reimburses related parties for its expenses paid by the related parties on behalf of the Group;
- c. Sales through the use of related parties' gift certificates from RCC. Total value of the related parties' gift certificates used amounted to ₱14.10 million, ₱13.50 million and ₱10.30 million in 2016, 2015 and 2014, respectively;
- d. Short-term noninterest-bearing cash advances to/from RCC, RMK, PFM, SCRI and SPI; and
- e. Others include advances from stockholders which are noninterest-bearing and have no fixed repayment dates but are due and demandable any time.
- f. Compensation of the Company's key management personnel are as follows (in millions):

	2016	2015	2014
Short-term employee benefits	₱37	₱37	₱36
Post-employment benefits	6	5	5
	<b>₱43</b>	<b>₱42</b>	<b>₱41</b>



As of December 31, 2016 and 2015 transactions with related parties are as follows:

Related Parties	Year	Transactions for the period	Outstanding balances			
			Receivables from related parties (see Note 6)	Payable to related parties (see Note 13)	Amounts owed by related parties	Amounts owed to related parties
<i>Affiliates</i>						
RCC	<b>2016</b>	<b>₱24,900,185</b>	<b>₱81,537,463</b>	<b>₱-</b>	<b>₱3,507,432</b>	<b>₱-</b>
	2015	₱39,057,728	₱81,234,863	₱-	₱2,165,406	₱-
RMK	<b>2016</b>	<b>12,947,589</b>	<b>18,353,152</b>	<b>1,762,925</b>	<b>443</b>	<b>156,383</b>
	2015	4,154,707	5,859,980	1,590,289	1,045	477,105
<i>Joint ventures</i>						
PFM	<b>2016</b>	<b>1,249,280</b>	<b>9,941,909</b>	-	<b>4,394,290</b>	-
	2015	1,495,754	7,868,002	-	4,393,186	-
SCRI	<b>2016</b>	<b>25,000,000</b>	<b>110,415,308</b>	-	<b>48,125,000</b>	-
	2015	30,865,780	9,631,976	-	23,125,000	-
<i>Associate</i>						
SPI	<b>2016</b>	<b>312,740</b>	<b>554,848</b>	-	<b>1,484,655</b>	-
	2015	271,018	228,840	-	1,488,155	26,990
	<b>2016</b>	<b>₱64,409,794</b>	<b>₱220,802,680</b>	<b>₱1,762,925</b>	<b>₱57,511,820</b>	<b>₱156,383</b>
	2015	₱75,844,987	₱104,823,661	₱1,590,289	₱31,172,792	₱504,095

The related party balances as of December 31, 2016 and 2015 are due and demandable, non-interest bearing, unsecured and not impaired. All related party balances are settled in cash.



## 22. Retirement Benefit Plan

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

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

	2016	2015	2014
Current service cost	<b>₱34,990,969</b>	₱33,541,229	₱23,369,802
Net interest cost	<b>16,836,937</b>	14,358,310	12,773,683
Retirement benefit expense	<b>₱51,827,906</b>	₱47,899,539	₱36,143,485

As at December 31, 2016 and 2015, the amounts recognized in the consolidated balance sheets as retirement benefit obligation are as follows:

	2016	2015
Present value of obligations	<b>₱394,846,938</b>	₱379,381,032
Fair value of plan assets	<b>(49,512,431)</b>	(48,818,200)
Retirement benefit obligation	<b>₱345,334,507</b>	₱330,562,832

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

	2016	2015
Opening present value of obligation	<b>₱379,381,032</b>	₱355,111,516
Current service cost	<b>34,990,969</b>	33,541,229
Interest cost	<b>19,326,664</b>	16,657,818
Benefits paid	<b>(7,919,226)</b>	(6,040,728)
Benefits paid directly by the Group	<b>(4,080,147)</b>	(2,054,022)
Actuarial losses (gains) arising from:		
Deviations of experience from assumptions	<b>(11,228,971)</b>	(1,216,263)
Changes in financial assumptions	<b>(13,643,521)</b>	(20,140,556)
Changes in demographic assumptions	<b>(1,979,862)</b>	3,522,038
Closing present value of obligation	<b>₱394,846,938</b>	₱379,381,032

Changes in fair value of plan assets are as follows:

	2016	2015
Opening fair value of plan assets	<b>₱48,818,200</b>	₱48,925,696
Contributions	<b>7,400,000</b>	4,500,000
Interest income	<b>2,489,727</b>	2,299,508
Benefits paid	<b>(7,919,226)</b>	(6,040,728)
Return on plan assets, excluding amounts included in interest income	<b>(1,276,270)</b>	(866,276)
Closing fair value of plan assets	<b>₱49,512,431</b>	₱48,818,200

Plan assets are invested mostly in time deposits. The Group expects to contribute ₱4.00 million to the retirement plan in 2017.





The principal actuarial assumptions used as of December 31, 2016 and 2015 in determining retirement benefit obligations for the Group's retirement plan are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate	<b>5.2% - 6.0%</b>	4.6% - 5.1%
Salary increase rate	<b>3.0%</b>	3.0%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension obligations as of December 31, 2016 and 2015, assuming all other assumptions were held constant:

	Increase/(Decrease)	Effect on Present Value of Defined Benefit Obligation	
		<b>2016</b>	<b>2015</b>
Discount rate	+1%	<b>(P46,381,180)</b>	(P45,162,544)
	-1%	<b>56,092,079</b>	56,830,487
Future salary increase rate	+1%	<b>56,929,886</b>	57,409,327
	-1%	<b>(47,786,559)</b>	(46,371,971)

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 25 years in 2016.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
1 year or less	<b>P49,782,348</b>	P51,110,786
More than 1 year to 5 years	<b>68,411,041</b>	50,325,172
More than 5 years	<b>2,595,837,608</b>	2,027,596,226



### 23. Income Taxes

A reconciliation of income tax expense applicable to income before income tax at the statutory income tax rate to provision for income tax at the Group's effective income tax rates for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Provision for income tax at statutory tax rate of 30%	<b>₱174,744,044</b>	₱388,717,855	₱449,000,663
Additions to (reductions from) income tax resulting from:			
Share in net losses of an associate and joint ventures	<b>77,223,086</b>	59,547,065	36,206,810
Expiration of NOLCO	<b>31,825,281</b>	18,953,055	11,209,013
Movement in unrecognized deferred tax assets	<b>42,352,945</b>	11,155,637	3,174,924
Nondeductible expenses	<b>20,088,553</b>	488,569	1,126,663
Nondeductible interest expense	<b>195,528</b>	322,370	502,682
Interest income subjected to final tax	<b>(657,374)</b>	(873,032)	(1,290,236)
Others	<b>5,092,323</b>	6,748,344	(1,544,540)
	<b>₱350,864,386</b>	₱485,059,863	₱498,385,979

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

	2016	2015
Deferred tax assets:		
NOLCO	<b>₱103,019,184</b>	₱120,586,086
Retirement benefit obligation	<b>75,244,814</b>	62,341,754
MCIT	<b>25,918,144</b>	14,062,857
Accrued rent	<b>8,761,003</b>	17,945,561
Deferred revenue	<b>7,300,230</b>	6,330,904
Unrealized foreign exchange losses	<b>423,519</b>	1,307,510
Unamortized past service cost	<b>78,030</b>	130,048
Others	<b>4,487,348</b>	2,851,257
	<b>225,232,272</b>	225,555,977
Deferred tax liabilities:		
Carrying value of capitalized rent expense	<b>(8,214,521)</b>	(11,530,373)
Unamortized prepayments	<b>(3,068,273)</b>	(18,833)
Unrealized foreign exchange gains	<b>(1,387,095)</b>	(2,514,963)
Others	<b>—</b>	(5,111)
	<b>(12,669,889)</b>	(14,069,280)
Deferred tax asset related to retirement benefit obligation recognized under other comprehensive loss	<b>28,198,294</b>	36,139,602
Net deferred tax assets	<b>₱240,760,677</b>	₱247,626,299



As of December 31, 2016, 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
2013	2014 - 2016	₱182,160,552	(₱106,084,270)	(₱76,076,282)	₱-
2014	2015 - 2017	240,695,470	-	(100,126,731)	140,568,739
2015	2016 - 2018	83,799,539	-	-	83,799,539
2016	2017 - 2019	271,333,041	-	-	271,333,041
		<b>₱777,988,602</b>	<b>(₱106,084,270)</b>	<b>(₱176,203,013)</b>	<b>₱495,701,319</b>

As of December 31, 2016, the MCIT that can be claimed as tax credits follows:

Year incurred	Year of availment	Amount	Expired	Balance
2013	2014 - 2016	₱2,255,507	(₱2,255,507)	₱-
2014	2015 - 2017	9,665,725	-	9,665,725
2015	2016 - 2018	6,078,246	-	6,078,246
2016	2017 - 2019	14,483,304	-	14,483,304
		<b>₱32,482,782</b>	<b>(₱2,255,507)</b>	<b>₱30,227,275</b>

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

	2016	2015
NOLCO	<b>₱45,691,212</b>	₱248,469,665
MCIT	<b>4,309,131</b>	4,630,286
Retirement benefits	<b>524,147</b>	2,291,647
Accrued rent	<b>76,648</b>	-

#### 24. Basic/Diluted Earnings Per Share

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

	2016	2015	2014
Net income	<b>₱231,615,760</b>	₱810,666,321	₱998,282,897
Divided by weighted average number of common shares	<b>3,312,864,430</b>	3,312,864,430	2,399,779,822
	<b>₱0.07</b>	₱0.24	₱0.42

There were no potential dilutive common shares for the years ended December 31, 2016, 2015 and 2014.



## 25. 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 receivables since the Group expects to fully realize its receivables from its debtors. With respect to credit risk from other financial assets of the Group, which is mainly comprised of cash in banks, amounts owed by related parties, trade and other receivables and security deposits and construction bonds, the exposure of the Group to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

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

### **December 31, 2016**

	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	₱961,950,588	₱961,950,588	₱-	₱-	₱-	₱-	₱-
Trade and other receivables							
Trade receivables	277,721,936	277,721,936	-	-	-	-	-
Nontrade receivables	356,329,207	69,657,910	148,412,796	6,580,999	21,192,946	110,484,556	-
Receivables from related parties	220,802,680	112,426,218	29,992,301	576,551	1,537,589	76,270,021	-
Advances to officers and employees	69,970,079	69,081,755	66,336	97,130	485,472	239,386	-
Other receivables	1,272,825	1,272,825	-	-	-	-	-
Amounts owed by related parties	57,511,820	47,513,408	-	2,070,705	1,508,240	6,419,467	-
Current portion of security deposits <sup>1</sup>	9,314,453	9,314,453	-	-	-	-	-
Security deposits and construction bonds	1,024,028,596	1,024,028,596	-	-	-	-	-
<b>Total</b>	<b>₱2,978,902,184</b>	<b>₱2,572,967,689</b>	<b>₱178,471,433</b>	<b>₱9,325,385</b>	<b>₱24,724,247</b>	<b>₱193,413,430</b>	<b>₱-</b>

<sup>1</sup> Presented under "Prepayments and other current assets"



December 31, 2015

	Total	Neither past due nor impaired	Past due but not impaired				Impaired
			<30 days	30 - 60 days	60 - 90 days	> 90 days	
Cash in banks	₱1,202,769,931	₱1,202,769,931	₱-	₱-	₱-	₱-	₱-
Trade and other receivables							
Trade receivables	220,936,098	220,936,098	-	-	-	-	-
Nontrade receivables	151,706,373	29,746,601	63,139,878	2,799,782	9,016,204	47,003,908	-
Receivables from related parties	104,823,661	4,656,357	21,578,233	414,805	1,106,232	77,068,034	-
Advances to officers and employees	112,893,788	111,460,516	107,030	156,715	783,288	386,239	-
Other receivables	4,272,911	4,272,911	-	-	-	-	-
Amounts owed by related parties	31,172,792	25,302,086	-	1,215,843	885,584	3,769,279	-
Current portion of security deposits <sup>1</sup>	5,428,931	5,428,931	-	-	-	-	-
Security deposits and construction bonds	1,003,310,781	1,003,310,781	-	-	-	-	-
<b>Total</b>	<b>₱2,837,315,266</b>	<b>₱2,607,884,212</b>	<b>₱84,825,141</b>	<b>₱4,587,145</b>	<b>₱11,791,308</b>	<b>₱128,227,460</b>	<b>₱-</b>

<sup>1</sup> Presented under "Prepayments and other current assets"

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

*Foreign currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group takes an exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows. This arises from foreign currency denominated cash in banks and trade and other payables as of December 31, 2016 and 2015. 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, 2016

	USD <sup>1</sup>	EUR <sup>2</sup>	HKD <sup>3</sup>	JPY <sup>4</sup>	GBP <sup>5</sup>	Total Peso Equivalent
<b>Financial assets</b>						
Cash in banks and cash equivalents	\$1,864,615	€58,690	\$3,921	¥-	£-	₱95,776,333
<b>Financial liabilities</b>						
Trade and other payables	(1,468,400)	(3,500,179)	-	(37,712,955)	(18,547)	(271,803,665)
<b>Net financial assets (liabilities)</b>	<b>\$396,215</b>	<b>(€3,441,489)</b>	<b>\$3,921</b>	<b>(¥37,712,955)</b>	<b>(£18,547)</b>	<b>(₱176,027,332)</b>

<sup>1</sup>\$1 = ₱47.06

<sup>2</sup>€1 = ₱51.74

<sup>3</sup>HK\$1 = ₱6.09

<sup>4</sup>JPY = ₱0.43

<sup>5</sup>GBP = ₱60.87



December 31, 2015

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

<sup>1</sup>\$1 = ₱44.72

<sup>2</sup>€1 = ₱54.34

<sup>3</sup>HK\$1 = ₱5.75

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

	2016		2015	
	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax	Appreciation/ Depreciation of Foreign Currency	Effect on Income Before Tax
US Dollar	+5%	<b>₱984,990</b>	+5%	₱5,058,112
	-5%	<b>(984,990)</b>	-5%	(5,058,112)
Euro	+5%	<b>(8,920,339)</b>	+5%	(17,010,076)
	-5%	<b>8,920,339</b>	-5%	17,010,076
HK Dollar	+5%	<b>1,259</b>	+5%	11,198
	-5%	<b>(1,259)</b>	-5%	(11,198)
Great Britain Pound	+5%	<b>(56,448)</b>	+5%	–
	-5%	<b>56,448</b>	-5%	–
Japan Yen	+5%	<b>(810,829)</b>	+5%	–
	-5%	<b>810,829</b>	-5%	–

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

#### *Liquidity risk*

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

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



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

**December 31, 2016**

	Contractual undiscounted payments				
	Total	On demand	Within 1 year	>1 to 5 years	> 5 years
<i>Financial Liabilities</i>					
Trade payables and other payables*	₱1,696,060,290	₱1,445,465,404	₱250,594,886	₱-	₱-
Amounts owed to related parties	156,383	156,383	-	-	-
Short-term loans payable**	4,017,793,589	5,793,589	4,012,000,000	-	-
Long-term debt**	3,265,077,908	12,353,975	596,916,374	2,655,807,559	-
Tenant deposits	34,752,738	-	-	34,752,738	-
<b>Total Undiscounted Financial Liabilities</b>	<b>₱9,013,840,908</b>	<b>₱1,463,769,351</b>	<b>₱4,859,511,260</b>	<b>₱2,690,560,297</b>	<b>₱-</b>

\* Excluding statutory liabilities

\*\* Including interest payable

**December 31, 2015**

	Contractual undiscounted payments				
	Total	On demand	Within 1 year	>1 to 5 years	> 5 years
<i>Financial Liabilities</i>					
Trade payables and other payables*	₱2,323,545,625	₱1,980,239,049	₱343,306,576	₱-	₱-
Amounts owed to related parties	504,095	165,565	338,530	-	-
Short-term loans payable**	5,132,400,833	7,400,833	5,125,000,000	-	-
Long-term debt**	3,230,673,228	12,223,799	590,626,565	2,627,822,864	-
Tenant Deposits	21,267,898	-	-	21,267,898	-
<b>Total Undiscounted Financial Liabilities</b>	<b>₱10,708,391,679</b>	<b>₱2,000,029,246</b>	<b>₱6,059,271,671</b>	<b>₱2,649,090,762</b>	<b>₱-</b>

\* Excluding statutory liabilities

\*\* Including interest payable

The Company's financial assets amounting to ₱2,978.90 million and ₱2,837.32 million can be used to meet the Group's liquidity needs.

**Capital Management**

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

The Group manages its capital structure and makes adjustments to it based on changes in economic and business conditions. To maintain or adjust the capital structure, the Group may consider paying dividends to stockholders, returning capital to stockholders, or issuing new shares of stocks. No major changes were made on the objectives, policies, or processes during the years ended December 31, 2016 and 2015. Capital includes equity as shown in the consolidated balance sheet.

As disclosed in Note 15, the Group is required by their creditors to maintain a debt-to-equity ratio and debt-service coverage ratio. The Group, thus, monitors capital on the basis of debt-to-equity ratio which is calculated as total liabilities divided by total equity. The Company includes within debt all interest-bearing short-term and long-term liabilities. These externally imposed capital requirements have been complied with as of December 31, 2016.



## 26. Fair Value of Financial Instruments

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

	2016		2015	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Assets</b>				
<i>Loans and receivables</i>				
Security deposits and construction bonds	₱1,033,824,312	₱983,845,061	₱1,008,739,712	₱959,973,152
<b>Financial Liabilities</b>				
<i>Other financial liabilities</i>				
Long-term debt	₱2,916,439,090	₱3,053,557,852	₱2,885,908,076	₱3,021,591,397

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 2.57% and 2.38% to 3.98% were used in calculating the fair value of the Group's refundable deposits as of December 31, 2016 and 2015, respectively.

*Long-term debt*

The fair value of long-term debt is based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 3.43% to 5.59% and 3.67% to 4.29% were used in calculating the fair value of the Group's long-term debt as of December 31, 2016 and 2015, 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, 2016 and 2015, the Group does not have financial instruments with fair values determined using inputs that are classified under Levels 1 and 3. For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.





## 27. Contracts and Commitments

### *Group as a Lessee*

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

	2016	2015	2014
Fixed rent	<b>₱2,050</b>	₱1,875	₱1,479
Contingent rent	<b>266</b>	248	367
	<b>₱2,316</b>	₱2,123	₱1,846

Contingent rent of some stores is based on percentage ranging from 3% to 6% of total merchandise sales in 2016, 2015 and 2014.

Future minimum rentals payable under these leases are as follows as of December 31, 2016 and 2015 (in millions):

	2016	2015
Within one year	<b>₱931</b>	₱956
After one year but not more than five years	<b>1,616</b>	1,535
Later than five years	<b>303</b>	305

The Group has paid security deposits and construction bonds for the store outlets and office spaces with carrying amounts of ₱1,033.34 million and ₱1,008.74 million (including current portion in "Prepayments and other current assets") as of December 31, 2016 and 2015, respectively, which are refundable upon complete turnover of the leased area. The present value of these deposits was computed using the discount rates prevailing at the inception date of the lease, ranging from 1.24% to 7.15%. Interest income recognized from these security deposits amounted to ₱10.36 million, ₱6.52 million and ₱8.51 million for the years ended December 31, 2016, 2015 and 2014, respectively.

### *Group as a lessor*

In 2014, the Group leased out portions of the store spaces and parking space in Central Square for a lease term ranging from one to three years. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales. Deposits received from tenants amounted to ₱34.75 million and ₱21.27 million as of December 31, 2016 and 2015, respectively. 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.

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

	2016	2015
Within one year	<b>₱1</b>	₱25
After one year but not more than five years	<b>60</b>	18



## 28. Segment Reporting

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

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

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

The table below sets out revenue from external customers by category for the years ended December 31, 2016, 2015 and 2014 (amounts in millions):

	2016	2015	2014
Net Sales			
Fast fashion	<b>₱6,569</b>	₱6,232	₱5,433
Luxury and bridge	<b>3,848</b>	3,556	3,334
Footwear, accessories and luggage	<b>2,686</b>	2,533	2,134
Casual	<b>2,616</b>	2,695	2,443
Other	<b>2,723</b>	2,405	1,869
	<b>₱18,442</b>	₱17,421	₱15,213

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).

	2016	2015	2014
Philippines	<b>₱18,367</b>	₱17,308	₱15,067
Guam	<b>75</b>	113	146
	<b>₱18,442</b>	₱17,421	₱15,213

## 29. Equity

### a. Common Shares

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

	Number of Shares		
	2016	2015	2014
Authorized capital stock, ₱1 par value	<b>5,000,000,000</b>	5,000,000,000	5,000,000
Issued capital stock	<b>3,312,864,430</b>	3,312,864,430	3,312,864,430



As of December 31, 2016, 2015 and 2014, capital stock amounted ₱3,312,864,430.

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

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

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

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

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

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

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

b. Appropriation of Retained Earnings

On December 2, 2016, the BOD approved the reversal of prior years' appropriations amounting to ₱925.00 million and the appropriation of the following balances from unappropriated retained earnings.

	2016	2015
RMSI	<b>₱480,000,000</b>	₱480,000,000
ISCI	<b>300,000,000</b>	200,000,000
LCI	<b>300,000,000</b>	220,000,000
RSCI	<b>35,000,000</b>	25,000,000
	<b>₱1,115,000,000</b>	₱925,000,000

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



c. Stock Grants

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

The total number of vested shares to be issued through the grant as of December 31 are as follows:

	<b>2016</b>	2015
Balances at beginning of year	<b>3,889,131</b>	1,944,565
Vested grants	-	1,944,566
Balances at end of year	<b>3,889,131</b>	3,889,131

The fair value of the grant is based on the market price of the Company's shares on the grant date. Market price of the shares on this date is at ₱8.65 per share. Stock grants expense recorded as part of "Others - net" in the statements of comprehensive income amounted to nil and ₱29.44 million in 2016 and 2015, respectively.

Outstanding balance of stock grants presented in the balance sheets amounted to ₱33.64 million as of December 31, 2016 and 2015.



## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SSI Group, Inc. and its Subsidiaries as at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, included in this Form 17-A and have issued our report thereon dated April 5, 2017. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



John T. Villa  
Partner  
CPA Certificate No. 94065  
SEC Accreditation No. 0783-AR-2 (Group A),  
May 1, 2015, valid until April 30, 2018  
Tax Identification No. 901-617-005  
BIR Accreditation No. 08-001998-76-2015,  
February 27, 2015, valid until February 26, 2018  
PTR No. 5908775, January 3, 2017, Makati City

April 5, 2017



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

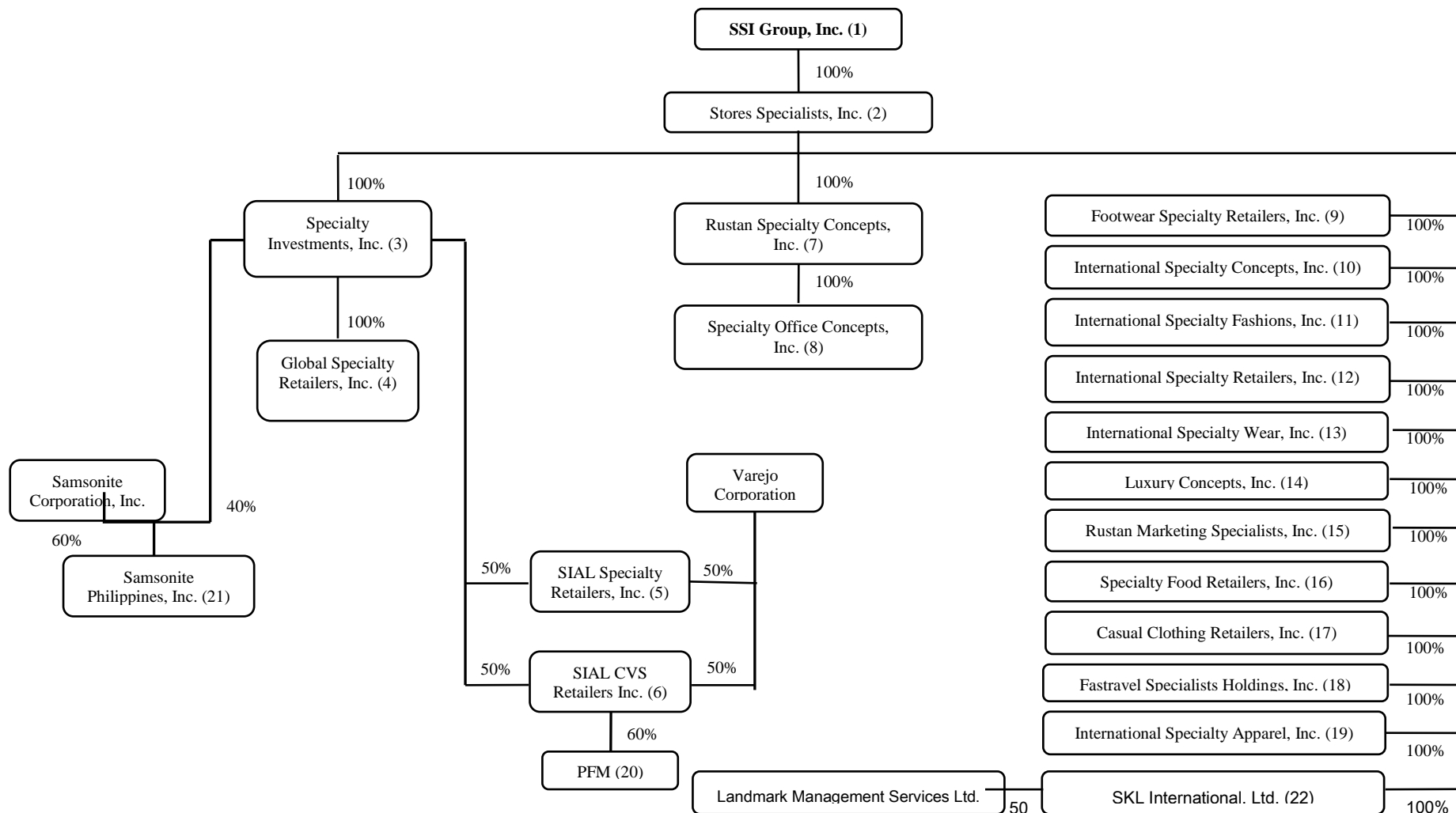
### **INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
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**SSI GROUP, INC. AND SUBSIDIARIES**

**MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES  
DECEMBER 31, 2016**



**SSI GROUP, INC. AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS  
AND INTERPRETATIONS  
DECEMBER 31, 2016**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>			✓	
<b>Philippine Financial Reporting Standards</b>				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of 'Effective PFRSs'			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendment to PFRS 2: Definition of Vesting Condition	✓		
	Amendment to PFRS 2: Classification and Measurement of Share-based Payments and Transactions	✓		
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9; Financial Instruments, with PFRS 4			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Effective as of December 31, 2016</b>				
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segment's Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments (2010 version)		✓*	
	PFRS 9, Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)		✓*	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓*	
	PFRS 9, Financial Instruments (2014 or final version)		✓*	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 12: Classification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables			✓
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Effective as of December 31, 2016</b>				
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1 (Revised): Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 14	Segment Reporting	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16: Bearer Plants			✓
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS19: Defined Benefit Plans - Employee Contributions			✓
	Amendment to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendment to PAS 34: Disclosure of Information "Elsewhere in the Interim Financial Report"	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Effective as of December 31, 2016</b>				
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 40: Transfer of Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2	✓		
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

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

**SSI GROUP, INC. AND SUBSIDIARIES****RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION****DECEMBER 31, 2016**

Unappropriated Retained Earnings, beginning		₱890,774,351
Less: Non-actual/unrealized income net of tax	—	
Benefit from deferred tax	—	—
Unappropriated Retained Earnings, as adjusted, beginning		890,774,351
Net income during the period closed to Retained Earnings	90,140,189	
Less: Other realized gains related to accretion of income from security deposits	(1,691,179)	
Benefit from deferred tax recognized during the year	(2,394,166)	
Net income actually earned during the period		86,054,844
Retained earnings available for dividend declaration		<u>₱976,829,195</u>

## SSI GROUP, INC. AND SUBSIDIARIES

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

<b>Ratios</b>	<b>Formula</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
(i) Current Ratio	Current Assets/Current Liabilities	1.87	1.59
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.70	0.82
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.59	0.69
(iii) Asset to Equity Ratio	Total Assets/Total Equity	1.92	2.12
(iv) Interest Cover Ratio	EBITDA/Interest Expense	8.11	10.37
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	49.64%	53.52%
Net Profit Margin	Net Income/Revenues	1.26%	4.65%
EBITDA Margin	EBITDA/Revenues	14.99%	18.76%
Return on Assets	Net Income/Total Assets	1.21%	3.93%
Return on Equity	Net Income/Total Equity	2.32%	8.34%

\*EBITDA = Operating income before working capital changes

**SCHEDULE A**

**SSI GROUP, INC. AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**

**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

	Name of Issuing entity and association of each issue	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash	N/A	₱1,047,464,592	₱1,047,464,592	₱2,940,318
Trade and other receivables				
Trade receivables	N/A	277,721,936	277,721,936	–
Nontrade receivables	N/A	356,329,207	356,329,207	–
Receivables from related parties	N/A	220,802,680	220,802,680	–
Advances to officers and employees	N/A	69,970,079	69,970,079	–
Other receivables	N/A	1,272,825	1,272,825	–
Amounts owed by related parties	N/A	57,511,820	57,511,820	–
Current portion of security Deposits (presented under “Prepayments and other current assets”)	N/A	9,314,453	9,314,453	–
Security deposits and construction bonds	N/A	1,024,028,596	1,024,028,596	–
		<b>₱3,064,416,188</b>	<b>₱3,064,416,188</b>	<b>₱2,940,318</b>



**SCHEDULE B**

**SSI GROUP, INC. AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM  
DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND  
PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)  
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

**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	P81,235	P49,150	(P48,848)	P81,537	P-	P81,537
PFM	7,868	2,321	(247)	9,942	-	9,942
RMK	5,860	12,963	(470)	18,353	-	18,353
SCRI	9,632	106,000	(5,217)	110,415	-	4,415
SPI	229	339	(13)	555	-	555
Advances to officers and employees	112,894	84,477	(127,401)	69,970	-	69,970
	<b>P217,718</b>	<b>P255,250</b>	<b>(P182,196)</b>	<b>P290,772</b>	<b>P-</b>	<b>P184,772</b>

**Amounts owed by Related Parties (*in thousands*)**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Non- Current	Balance at the end of the period
RMK	P1	P-	(P1)	P-	P-	P-
RCC	2,165	2,673	(1,331)	3,507	-	3,507
PFM	4,393	10	(9)	4,394	-	4,394
SCRI	23,125	25,000	-	48,125	-	48,125
SPI	1,489	-	(4)	1,485	-	1,485
	<b>P31,173</b>	<b>P27,683</b>	<b>(P1,345)</b>	<b>P57,511</b>	<b>P-</b>	<b>P57,511</b>

**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, 2016**

**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	
SIG	₱184,990,147	₱5,766,448	(₱68,046,866)	₱-	₱122,709,729	₱-	₱122,709,729
SSI	19,305,376	1,549,885	(19,293,026)	-	1,562,235	-	1,562,235
RMSI	155,300,901	107,391,022	(22,337,169)	-	240,354,754	-	240,354,754
ISCI	115,263,485	7,850,695	(488,919)	-	122,625,261	-	122,625,261
RSCI	14,243,794	280,863	(2,507,353)	-	12,017,304	-	12,017,304
SOCI	138,370,878	3,692	(491,300)	-	137,883,270	-	137,883,270
SII	4,888,092	10,299	-	-	4,898,391	-	4,898,391
LCI	7,433,232	31,269,804	(34,656,024)	-	4,047,012	-	4,047,012
ISFI	924	169,606	(200)	-	170,330	-	170,330
FSRI	22,563,214	14,106,569	(27,912,352)	-	8,757,431	-	8,757,431
GSRI	14,790,509	505,568	(404,814)	-	14,891,263	-	14,891,263
SFRI	629,647,940	207,276,611	(155,354,104)	-	681,570,447	-	681,570,447
ISRI	334,055	285,325	(80,899)	-	538,481	-	538,481
ISWI	465,824	210,761	(17,204)	-	659,381	-	659,381
ISAI	477,875	170,711	(47,143)	-	601,443	-	601,443
CCRI	125,261,575	93,796,804	(72,247,716)	-	146,810,663	-	146,810,663
	<b>₱1,433,337,821</b>	<b>₱470,644,663</b>	<b>(₱403,885,089)</b>	<b>₱-</b>	<b>₱1,500,097,395</b>	<b>₱-</b>	<b>₱1,500,097,395</b>

**Amounts owed by related parties which are eliminated during the consolidation**

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off			Balance at end of period
					Current	Noncurrent	
CCSI	₱108,938,198	₱54,736,597	(₱8,265,889)	₱-	₱155,408,906	₱-	₱155,408,906
SSI	182,579,430	242,971,017	(176,343,009)	-	249,207,438	-	249,207,438
RMSI	28,068,559	28,801,328	(6,458,995)	-	50,410,892	-	50,410,892
ISCI	331,930,445	273,793,247	(42,503,956)	-	563,219,736	-	563,219,736
RSCI	7,121,172	5,863,041	(23,216)	-	12,960,997	-	12,960,997
ISFI	62,025,083	86,638,209	(22,666,117)	-	125,997,175	-	125,997,175
FSRI	17,633,075	29,049,679	(4,260,220)	-	42,422,534	-	42,422,534
GSRI	143,224,132	3,534,765	(1,911,428)	-	144,847,469	-	144,847,469
SFRI	4,395,449	5,323,904	(91,642)	-	9,627,711	-	9,627,711
ISRI	43,617,744	160,427,008	(47,170,362)	-	156,874,390	-	156,874,390
ISWI	27,149,740	172,264,168	(43,575,915)	-	155,837,993	-	155,837,993
ISAI	87,452,282	116,121,405	(27,971,259)	-	175,602,428	-	175,602,428
LCI	2,279,870	9,613,733	(10,639,766)	-	1,253,837	-	1,253,837
CCRI	185,889	41,984,506	(15,445,030)	-	26,725,365	-	26,725,365
	<b>₱1,046,601,068</b>	<b>₱1,231,122,607</b>	<b>(₱407,326,804)</b>	<b>₱-</b>	<b>₱1,870,396,871</b>	<b>₱-</b>	<b>₱1,870,396,871</b>

**SSI GROUP, INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER  
ASSETS****AS AT DECEMBER 31, 2016****Intangible Assets - Other Assets**

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
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**Not Applicable**

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

**SCHEDULE E**

**SSI GROUP, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT**  
**AS AT DECEMBER 31, 2016**

		<b>Long-term Debt</b>					
Title of issue and type of obligation	Bank	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	Borrowing date	Maturity date	Interest rate
Syndicated loan	Bank of the Philippines Island (BPI)	P309,054,612	P88,112,980	P220,941,632	May 20, 2013	May 20, 2020	The higher of (a) the 7-year PDST-F rate on interest setting date plus a margin of 1.50% or (b) 5.50% per annum
	Security Banking Corporation	309,054,613	88,112,980	220,941,633	May 20, 2013	May 20, 2020	
	Chinabank Banking Corporation	213,201,210	60,784,706	152,416,504	May 20, 2013	May 20, 2020	
	Metropolitan Bank & Trust Company	213,201,210	60,784,706	152,416,504	May 20, 2013	May 20, 2020	
	Rizal Commercial Banking Corporation	117,355,470	33,456,432	83,899,038	May 20, 2013	May 20, 2020	
Midterm loan	BPI	897,757,462	398,432,932	499,324,530	September 15, 2015	September 15, 2018	The higher of (a) the applicable 3-year PDST-R2 rate plus a spread of 0.75% or (b) 3.75% per annum
	BPI	359,071,276	159,351,021	199,720,255	October 15, 2015	September 15, 2018	
	BPI	497,743,237	28,662,822	469,080,415	October 14, 2016	October 14, 2021	
		<u>P2,916,439,090</u>	<u>P917,698,579</u>	<u>P1,998,740,511</u>			

**SSI GROUP, INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**

AS AT DECEMBER 31, 2016

**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, 2016****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.*

**SSI GROUP, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**  
**AS AT DECEMBER 31, 2016**

**Capital Stock**

<u>Title of Issue</u>	<u>Number of shares authorized</u>	<u>Number of shares issued and outstanding as shown under related balance sheet caption</u>	<u>Number of shares reserved for options warrants, conversion and other rights</u>	<u>Number of shares held by related parties</u>	<u>Number of shares held by directors, officers and employees</u>	<u>Others</u>
Common shares	5,000,000,000	3,312,864,430	–	–	511,528,411	–

## **Annex “B”**

### **EXECUTIVE OFFICERS**

**Elizabeth T. Quiambao**, 65, 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. She is also a member of the board of directors of Landmark Management Services, Ltd. and MUJI Philippines Corp. Prior to joining the Group in 1994, she was an auditor with SGV & Co., the Controller of Philippine Aerospace Development Corp., the Vice President of Tourist Duty Free Shops and Vice President of Grosby Footwear, Inc. Mrs. Quiambao 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**, 63, is the Vice President of Finance for the Company. Mrs. Escoto is also the Finance Manager of the Group companies, Stores Specialists, Inc., Global Specialty Retailers, Inc., Footwear Specialty Retailers, Inc., Luxury Concepts, Inc., International Specialty Fashions, Inc. and International Specialty Concepts, Inc. Prior to joining the Group in 1997, she was an auditor with SGV & Co., and also held a senior management position with the PSE. Mrs. Escoto graduated magna cum laude from the University of Santo Tomas with a Bachelor of Science degree in Commerce, major in Accountancy and is a certified public accountant.

**Ma. Margarita A. Atienza**, 43, is the Vice President of Investor Relations and Compliance Officer for the Company. In addition, she serves as the Chief Financial Officer of Landmark Management Services, Ltd. She is also a member of the board of directors of MUJI Philippines Corp. Prior to joining the Group in 2014, she was an Associate Director for Client Coverage with BPI Capital Corporation, which she joined in 2008. Ms. Atienza graduated from the Ateneo de Manila University with a Bachelors Degree in Social Sciences and the Asian Institute of Management with a Masters in Business Administration.

**Cheryl Anne M. Berioso**, 38, is the Head of Corporate Planning for the Company. Prior to the joining the Group in 2001, she was a market and planning analyst with the Bank of Commerce, as well as the Secretary for the Executive and Asset and Liabilities Committees. Ms. Berioso graduated from De La Salle University with a Bachelor of Science in Applied Economics and a Master of Science degree in Economics.

**Gemma M. Santos**, 55, is the Corporate Secretary for the Company. Atty. Santos is a practicing lawyer and a Senior Partner of Picazo Buyco Tan Fider & Santos Law Offices and Corporate Secretary of various Philippine companies, including publicly-listed companies such as Max’s Group, Inc. and Vista Land & Lifescapes, Inc. Atty. Santos graduated cum laude with the degree of Bachelor of Arts, Major in History from the University of the Philippines in 1981, and with the degree of Bachelor of Laws also from the University of the Philippines in 1985.

**Ma. Alicia Picazo-San Juan**, 46, is the Assistant Corporate Secretary for the Company. Atty. Picazo-San Juan is a practicing lawyer and a Partner of Picazo Buyco Tan Fider & Santos Law Offices and Corporate Secretary of various Philippine companies, including AsianLife and General Assurance Corporation, ATRAM Trust Corporation, ATR KimEng Asset Management, Inc. and several mutual fund companies. Atty. Picazo-San Juan graduated magna cum laude with the degree of Bachelor of Science in Management, Major in Legal Management, from the Ateneo de Manila University in 1992, and graduated cum laude with the degree of Bachelor of Laws from the University of the Philippines in 1996.