**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: **June 30, 2020**

2. SEC Identification Number: **CS200705607**

3. BIR Tax Identification No.: **006-710-876**

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

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

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

7. Address of principal office:
   **6/F Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City**

   Postal Code: **1200**

8. Issuer's telephone number, including area code: **(632) 8890 8034**

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

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

| Title of each Class | Number of shares of common stock outstanding as of June 30, 2020 |
|---|---|
| **Common Shares** | **3,298,408,430** |

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [ √ ]   No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    **Philippine Stock Exchange - Common Shares**

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

    Yes [ √ ]   No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days

    Yes [ √ ]   No [ ]

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

The Company's unaudited interim condensed consolidated financial statements as of June 30, 2020 (with comparative audited figures as of December 31, 2019) and for the three-month and six-month periods ended June 30, 2020 and 2019 are attached to this Report.

### Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

**RESULTS OF OPERATIONS**

**For the six months ended June 30, 2020 and 2019**

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

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

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

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

**Revenues**

*Net sales*

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

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

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

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

[1] Calculated as Net Sales minus Cost of Merchandise Sold
[2] Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt
[3] Calculated as Total Debt minus Cash

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

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

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

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

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

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

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

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

## Gross Profit

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

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

### Operating Expenses

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

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

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

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

### Other Income (Charges)

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

### Provision for Income Tax

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

### Net Income

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

## FINANCIAL CONDITION

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

### Current Assets

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

**Cash**

As of June 30, 2020, cash amounted to ₱3.0 billion as compared to ₱2.5 billion at the end of 2019. During the first six months of year, the Group availed additional loans amounting to ₱3.0 billion and received dividends of ₱25.2 million from Samsonite Philippines, Inc. (SPI). The Group used ₱1.3 billion in its operations, repaid its existing loans, including related interest, amounting to ₱388.2 million, and used ₱255.2 million for capital expenditures during the period.

**Trade and Other Receivables**

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

**Merchandise Inventory**

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

### Non-Current Assets

**Investment in an Associate**

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

**Property and Equipment**

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

**Deferred Tax Assets**

As of June 30, 2020, deferred tax assets amounted to ₱492.9 million as compared to ₱334.3 million at the end of 2019. These pertain to tax assets recognized for the Group's deductible temporary differences, carryforward benefits of unused minimum corporate income tax (MCIT) and NOLCO, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and the carryforward benefits of unused MCIT and NOLCO can be utilized.

**Other Noncurrent Assets**

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

**<u>Current Liabilities</u>**

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

**Trade and Other Payables**

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

**Short-term Loans Payable**

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

**<u>Non- Current Liabilities</u>**

**Long-term Debt**

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

**<u>Equity</u>**

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

**<u>CASH FLOWS</u>**

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

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

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

**Other Disclosures**

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

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

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

(iv) There are no material commitments for capital expenditures aside from those performed in the ordinary course of business.

(v) The closure of substantially all of the Group's stores from March 17, 2020 to May 31, 2020 are expected to have a material impact on the Group's revenues in 2020.

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

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

## PART II – OTHER INFORMATION

There is no other information not previously reported in SEC Form 17-C that needs to be reported in this section.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

**SSI GROUP, INC.**

By:

**ROSSELLINA J. ESCOTO**
Authorized Signatory
Vice President - Finance

August 14, 2020

# SSI Group, Inc. and Subsidiaries

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

## SSI GROUP, INC. AND SUBSIDIARIES

## UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

**As of June 30, 2020**
**(With Comparative Audited Figures as of December 31, 2019)**

| | June 30 2020 (Unaudited) | December 31 2019 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Note 3) | **₱2,996,956,824** | ₱2,492,459,933 |
| Trade and other receivables (Note 4) | **713,843,979** | 785,743,181 |
| Merchandise inventories (Note 5) | **10,934,548,513** | 9,818,880,088 |
| Prepayments and other current assets (Note 6) | **1,213,142,126** | 1,167,736,212 |
| **Total Current Assets** | **15,858,491,442** | 14,264,819,414 |
| **Noncurrent Assets** | | |
| Investment in an associate (Note 7) | **102,335,471** | 86,776,792 |
| Interests in joint ventures (Note 8) | **564,546,550** | 568,859,842 |
| Property and equipment (Note 9) | **4,877,262,372** | 5,592,880,009 |
| Deferred tax assets - net | **492,930,222** | 334,276,084 |
| Security deposits and construction bonds (Note 23) | **1,018,815,147** | 1,035,414,362 |
| Other noncurrent assets (Note 10) | **172,489,433** | 182,435,276 |
| **Total Noncurrent Assets** | **7,228,379,195** | 7,800,642,365 |
| **TOTAL ASSETS** | **₱23,086,870,637** | ₱22,065,461,779 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 11) | **₱1,899,210,308** | ₱2,531,640,071 |
| Short-term loans payable (Note 12) | **7,110,000,000** | 4,075,000,000 |
| Current portion of long-term debt (Note 13) | **171,243,648** | 283,986,981 |
| Current portion of lease liabilities (Note 23) | **691,645,037** | 980,470,908 |
| Deferred revenue | **20,991,291** | 20,991,291 |
| Income tax payable | **13,983,568** | 162,001,413 |
| **Total Current Liabilities** | **9,907,073,852** | 8,054,090,664 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Note 13) | **4,811,071** | 117,554,404 |
| Retirement benefit obligation | **625,264,380** | 600,692,107 |
| Lease liabilities - net of current portion (Note 23) | **1,598,531,517** | 1,851,991,876 |
| Tenant deposits (Note 23) | **20,037,850** | 19,864,451 |
| **Total Noncurrent Liabilities** | **2,248,644,818** | 2,590,102,838 |
| **Total Liabilities** | **12,155,718,670** | 10,644,193,502 |
| **Equity** | | |
| Capital stock | **3,312,864,430** | 3,312,864,430 |
| Additional paid-in capital | **2,519,309,713** | 2,519,309,713 |
| Treasury shares | **(30,893,010)** | (18,103,900) |
| Retained earnings | | |
| Appropriated | **1,100,000,000** | 1,100,000,000 |
| Unappropriated | **4,188,227,869** | 4,664,505,311 |
| Cumulative translation adjustment | **(2,169,584)** | (2,169,584) |
| Other comprehensive loss | **(156,187,451)** | (155,137,693) |
| **Total Equity** | **10,931,151,967** | 11,421,268,277 |
| **TOTAL LIABILITIES AND EQUITY** | **₱23,086,870,637** | ₱22,065,461,779 |

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

## SSI GROUP, INC. AND SUBSIDIARIES

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Three-Month Periods Ended June 30 | | Six-Month Periods Ended June 30 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **REVENUE** | | | | |
| Revenue from contract with customers - net sales | **₱737,890,731** | ₱4,929,605,880 | **₱5,020,785,428** | ₱9,850,999,169 |
| Rental income (Note 23) | **4,890,604** | 16,857,380 | **18,202,931** | 36,449,627 |
| | **742,781,335** | 4,946,463,260 | **5,038,988,359** | 9,887,448,796 |
| **COST OF GOODS SOLD AND SERVICES (Note 14)** | **415,785,759** | 2,631,332,322 | **2,727,395,062** | 5,328,341,223 |
| **GROSS PROFIT** | **326,995,576** | 2,315,130,938 | **2,311,593,297** | 4,559,107,573 |
| **OPERATING EXPENSES** | | | | |
| Selling and distribution (Note 15) | **668,354,027** | 1,599,594,338 | **2,186,537,906** | 3,228,023,200 |
| General and administrative (Note 16) | **216,935,652** | 353,592,734 | **528,078,835** | 663,107,499 |
| | **885,289,679** | 1,953,187,072 | **2,714,616,741** | 3,891,130,699 |
| **OTHER INCOME (CHARGES)** | | | | |
| Share in net earnings of an associate (Note 7) | **(2,792,492)** | 12,489,840 | **15,558,679** | 25,106,290 |
| Interest accretion on security deposits (Note 24) | **1,055,945** | 589,278 | **1,892,013** | 1,228,265 |
| Interest income (Note 3) | **1,458,028** | 979,970 | **2,315,276** | 2,833,084 |
| Interest expense (Notes 12 and 13) | **(191,949,676)** | (83,498,302) | **(252,291,741)** | (160,863,412) |
| Share in net income of joint ventures (Note 8) | **(9,388,490)** | 4,462,915 | **(4,313,293)** | 13,887,727 |
| Loss on disposal of property and equipment (Note 9) | **(1,818,049)** | (17,722,624) | **(16,867,119)** | (34,214,175) |
| Foreign exchange gains (losses) - net | **1,092,703** | (1,110,490) | **(5,723,255)** | (2,073,102) |
| Others - net | **(4,904,142)** | (23,297,773) | **36,213,279** | (11,251,917) |
| | **(207,246,173)** | (107,107,186) | **(223,216,161)** | (165,347,240) |
| **INCOME BEFORE INCOME TAX** | **(765,540,276)** | 254,836,680 | **(626,239,605)** | 502,629,634 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | | | | |
| Current | **(68,301,698)** | 94,742,248 | **8,692,035** | 185,580,958 |
| Deferred | **(111,050,171)** | (15,229,730) | **(158,637,758)** | (28,893,428) |
| | **(179,351,869)** | 79,512,518 | **(149,945,723)** | 156,687,530 |
| **NET INCOME** | **(586,188,407)** | 175,324,162 | **(476,293,882)** | 345,942,104 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | |
| Cumulative translation adjustment on foreign operations, net of deferred tax | **–** | – | **–** | 16,210 |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | | | |
| Re-measurement gain (loss) on retirement benefit, net of deferred tax | **560,628** | – | **(1,049,758)** | (11,409,202) |
| **TOTAL COMPREHENSIVE INCOME** | **(₱585,627,779)** | ₱175,324,162 | **(₱477,343,640)** | ₱334,549,112 |
| **BASIC/DILUTED EARNINGS PER SHARE** (Note 20) | **(₱0.18)** | ₱0.05 | **(₱0.14)** | ₱0.10 |

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

## SSI GROUP, INC. AND SUBSIDIARIES

# UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND 2019

| | Capital Stock | Additional Paid-in Capital | Treasury Shares | Retained Earnings | | Cumulative Translation Adjustment | Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | Appropriated | Unappropriated | | | |
| Balances at January 1, 2019 | ₱3,312,864,430 | ₱2,519,309,713 | (₱7,558,440) | ₱1,100,000,000 | ₱3,901,797,763 | (₱2,123,272) | (₱6,554,441) | ₱10,817,735,753 |
| Net income | – | – | – | – | 345,942,104 | – | – | 345,942,104 |
| Other comprehensive income | | | | | | | (11,409,202) | (11,409,202) |
| Exchange differences on translation | – | – | – | – | – | 16,210 | – | 16,210 |
| Total comprehensive income for the period | – | – | – | – | 345,942,104 | 16,210 | (11,409,202) | 334,549,112 |
| Treasury shares | – | – | (2,644,280) | – | – | – | – | (2,644,280) |
| **Balances at June 30, 2019** | **₱3,312,864,430** | **₱2,519,309,713** | **(₱10,202,720)** | **₱1,100,000,000** | **₱4,247,739,867** | **(₱2,107,062)** | **(₱17,963,643)** | **₱11,149,640,585** |
| | | | | | | | | |
| Balances at January 1, 2020 | ₱3,312,864,430 | ₱2,519,309,713 | (₱18,103,900) | ₱1,100,000,000 | ₱4,664,521,751 | (₱2,169,584) | (₱155,137,693) | ₱11,421,284,717 |
| Net income | – | – | – | – | (476,293,882) | – | – | (476,293,882) |
| Other comprehensive income | – | – | – | – | – | – | (1,049,758) | (1,049,758) |
| Total comprehensive income for the period | – | – | – | – | (476,293,882) | – | (1,049,758) | (477,343,640) |
| Treasury shares | – | – | (12,789,110) | – | – | – | – | (12,789,110) |
| **Balances at June 30, 2020** | **₱3,312,864,430** | **₱2,519,309,713** | **(₱30,893,010)** | **₱1,100,000,000** | **₱4,188,227,869** | **(₱2,169,584)** | **(₱156,187,451)** | **₱10,931,151,967** |

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

## SSI GROUP, INC. AND SUBSIDIARIES

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

# SSI GROUP, INC. AND SUBSIDIARIES

# NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANC0IAL STATEMENTS

## 1. Corporate Information

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

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

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

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

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

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

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

Basis of Preparation
The unaudited interim condensed consolidated financial statements as of June 30, 2020 and for the six-month periods ended June 30, 2020 and 2019 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2019.

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

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

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

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of June 30, 2020 and for the six months ended June 30, 2020 and 2019. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

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

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

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

*Effective beginning on or after June 1, 2020:*
- Amendments to PFRS 16, *Covid -19 Related Rent Concessions*

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *Amendments to PFRS 3, Business Combination - Reference to the Conceptual Framework*

## 3. Cash

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

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

## 4. Trade and Other Receivables

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

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

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

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

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

## 5. Merchandise Inventory

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

Inventories in transit include items not yet received but ownership or title to the goods has already passed to the Group.

There are no merchandise inventories pledged as security for liabilities. All inventories are presented at cost.

The cost of inventories recognized as expense and presented in "Cost of goods sold" amounted to ₱2,721,335,203 and ₱5,320,198,184, for the six months ended June 30, 2020 and 2019, respectively (see Note 14).

## 6. Prepayments and Other Current Assets

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

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

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

Input VAT will be applied against output VAT.

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

## 7. Investment in an Associate

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

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

As of June 30, 2020 and December 31, 2019, SPI is 40% owned by the Group and 60% owned by Samsonite Corporation, its ultimate parent and an entity incorporated under the laws of the United States of America.

## 8. Interests in Joint Ventures

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

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

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

June 30, 2020

| | **LMS** | **MPC** | **SSRI** | **SCRI** | **Total** |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Balances at beginning and end of period | **₱375,296,454** | **₱89,250,000** | **₱407,344,383** | **₱420,350,000** | **₱1,292,240,837** |
| Accumulated equity in net earnings (losses): | | | | | |
| Balances at beginning of year | **44,796,081** | **59,517,308** | **(407,344,383)** | **(420,350,000)** | **(723,380,994)** |
| Share in net income | **(8,109,075)** | **3,795,782** | **–** | **–** | **5,075,197** |
| Balances at end of year | **36,687,006** | **63,313,090** | **(407,344,383)** | **(420,350,000)** | **(718,305,797)** |
| | **₱411,983,460** | **₱152,563,090** | **₱–** | **₱–** | **₱564,546,550** |

December 31, 2019 (Audited)

| | LMS | MPC | SSRI | SCRI | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Balances at beginning and end of year | ₱375,296,454 | ₱89,250,000 | ₱407,344,383 | ₱420,350,000 | ₱1,292,240,837 |
| Accumulated equity in net earnings (losses) and impairment loss: | | | | | |
| Balances at beginning of year | 32,527,710 | 22,775,002 | (407,344,383) | (420,350,000) | (772,391,671) |
| Share in net earnings | 12,268,370 | 36,742,306 | – | – | 49,010,676 |
| Balances at end of year | 44,796,080 | 59,517,308 | (407,344,383) | (420,350,000) | (723,380,995) |
| | ₱420,092,534 | ₱148,767,308 | ₱– | ₱– | ₱568,859,842 |

Investment in LMS

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

The acquisition cost includes the consideration for goodwill amounting to ₱121.75 million and intangible asset amounting to ₱29.90 million. The intangible asset pertains to the concession agreement with Duty Free and is being amortized over 10.7 years. Amortization expense, which is included in the share in net income of LMS, amounted to ₱1.28 million and ₱1.28 million for the six months ended June 30, 2020 and 2019, respectively.

Investment in MPC

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

Investment in SSRI

The Group (through SII) has 50% ownership interest in SSRI which is engaged in the operation of mid-market department stores. In March 2016, SSRI sold the fixed assets in the department stores. The proceeds from the sale are distributed to the joint venturers. The remaining carrying value of the investment, after the share in net losses, amounting to ₱27.16 million is fully provided with impairment loss. SSRI has no commercial operations as at June 30, 2020.

Investment in SCRI

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

The joint ventures have no contingent liabilities or capital commitments as of June 30, 2020 and December 31, 2019.

## 9. Property and Equipment

The composition and movements of this account are as follows:

June 30, 2020 (Unaudited)

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

December 31, 2019 (Audited)

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

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

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

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

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

## 10. Other Noncurrent Assets

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

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

## 11. Trade and Other Payables

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

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

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

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

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

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

## 12. **Short-term Loans Payable**

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

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

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

## 13. **Long-term Debt**

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

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

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

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

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

Interest expense recognized in the consolidated statements of comprehensive income for the six months ended June 30, 2020 and 2019 amounted to ₱8,135,351 and ₱19,979,920, respectively.

Loan Covenants
The loan covenants covering the Group's outstanding debts include, among others, maintenance of certain level of current, debt-to-equity and debt-service coverage ratios. As of June 30, 2020 and December 31, 2019, the Group is in compliance with the loan covenants of all their respective outstanding debts.

## 14. Cost of Goods Sold

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

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

Cost of merchandise sold:

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

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

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

## 15. Selling and Distribution Expenses

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

## 16. General and Administrative Expenses

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

## 17. Personnel Costs

Personnel costs were charged to operations as follows:

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

Personnel costs were distributed as follows:

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

## 18. Depreciation and Amortization Expense

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

Depreciation and amortization were distributed as follows:

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

## 19. **Related Party Disclosures**

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

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

a. Lease of the Group's store outlet spaces from a related party (see Note 23). Related rent expense amounted to ₱19.7 million and ₱40.4 million, for the six months in the period ended June 30, 2020 and 2019, respectively;

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

c. Sales through the use of related parties' gift certificates. Total value of the related parties' gift certificates used amounted to ₱7.1 million and ₱13.6 million for the six months ended June 30, 2020 and 2019, respectively;

d. Short-term noninterest-bearing cash advances to/from related parties; and

e. Compensation of the Company's key management personnel comprised of short-term employee benefits amounting to ₱18.6 million, ₱18.8 million for the six months in the period ended June 30, 2020 and 2019, respectively, and post-employment benefits amounting to ₱2.6 million and ₱2.8 million for the six months in the period ended June 30, 2020 and 2019, respectively.

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

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

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

## 20. Earnings Per Share (EPS)

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

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

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

## 21. Risk Management Objectives and Policies

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

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

The magnitudes of these risks that have arisen over the year are discussed below.

*Credit risk*
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognized, creditworthy third parties, mostly with credit card companies. Trade receivables from third parties are monitored on an on-going basis with the result that the exposure of the Group to bad debts is not significant. There is no allowance for impairment of trade receivables since the Group expects to fully realize its receivables from debtors.

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

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

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

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

**June 30, 2020 (Unaudited)**

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

December 31, 2019

| | Total | Neither past due nor impaired | Past due but not impaired <30 days | 30 - 60 days | 60 - 90 days | > 90 days | Impaired |
|---|---|---|---|---|---|---|---|
| Cash in banks | ₱2,430,739,253 | ₱2,430,739,253 | ₱– | ₱– | ₱– | ₱– | ₱– |
| Trade and other receivables | | | | | | | |
| Trade receivables | 366,360,017 | 258,508,168 | 66,900,115 | 16,939,126 | 11,727,087 | 12,285,521 | – |
| Nontrade receivables | 215,673,361 | 154,493,724 | 42,324,674 | 10,528,147 | – | – | 8,326,816 |
| Receivables from related parties | 111,794,889 | 26,703,381 | 61,466,508 | – | – | – | 23,625,000 |
| Dividend receivable | 25,200,000 | 25,200,000 | – | – | – | – | – |
| Others | 7,080,051 | 7,080,051 | – | – | – | – | – |
| Security deposits and construction bonds[1] | 1,059,559,287 | 1,059,446,820 | – | – | – | – | 112,467 |
| Total | ₱4,216,406,858 | ₱3,962,171,397 | ₱170,691,297 | ₱27,467,273 | ₱11,727,087 | ₱12,285,521 | ₱32,064,283 |

*Impairment of financial assets*

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

a. Cash, nontrade receivables (except those related to principals), amounts owed by related parties and security deposits and construction bonds. The Group uses general approach in assessing impairment of these financial assets. The credit risk of these financial asset is presumed to increase when the contractual payments are more than 30 days past due. As of June 30, 2020 and December 31, 2019, there has been no increase in credit risk of these financial assets since initial recognition except for amounts owed by related parties amounting to ₱23.63 million which are classified as credit impaired as of June 30, 2020 and December 31, 2019.

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

c. Nontrade receivables pertain to receivables from principals. The credit risk of these financial assets is presumed to increase when the contractual payments are more than 90 days past due. As of June 30, 2020 and December 31, 2019, nontrade receivables from principals amounting to ₱8.34 million are classified as credit impaired.

Capital Management

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

The Group manages its capital structure and makes adjustments to it based on changes in economic and business conditions. To maintain or adjust the capital structure, the Group may consider paying dividends to stockholders, returning capital to stockholders, or issuing new shares of stocks. No major changes were made on the objectives, policies, or processes during the six months ended June 30, 2020 and year ended December 31, 2019. Capital includes equity as shown in the consolidated balance sheet.

As disclosed in Note 14, the Group is required by their creditors to maintain a debt-to-equity ratio and debt-service coverage ratio. The Group, thus, monitors capital on the basis of debt-to-equity ratio which is calculated as total liabilities divided by total equity. The Company includes within debt all interest-bearing short-term and long-term liabilities. These externally imposed capital requirements have been complied with as of June 30, 2020.

## 22. Fair Value of Financial Instruments

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

| | **June 30, 2020 (Unaudited)** | | December 31, 2019 (Audited) | |
|---|---|---|---|---|
| | **Carrying Amounts** | **Fair Values** | Carrying Amounts | Fair Values |
| **Financial Assets** | | | | |
| *Loans and receivables* | | | | |
| Security deposits and construction bonds | **₱1,060,891,807** | **₱1,044,588,180** | ₱1,018,278,699 | ₱1,050,086,063 |
| **Financial Liabilities** | | | | |
| *Other financial liabilities* | | | | |
| Long-term debt | **₱176,054,719** | **₱288,798,052** | ₱851,266,123 | ₱975,414,968 |

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

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

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

*Security deposits and construction bonds*
The fair values of security deposits are based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 5.80% to 6.10% and 5.50% to 7.56% were used in calculating the fair value of the Group's refundable deposits as of June 30, 2020 and December 31, 2019, respectively.

*Long-term debt*
The fair value of long-term debt is based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 5.59% to 5.82% and 5.23% to 7.03% were used in calculating the fair value of the Group's long-term debt as of June 30, 2020 and December 31, 2019, respectively.

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

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

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

As at June 30, 2020 and December 31, 2019 the Group does not have financial instruments with fair values determined using inputs that are classified under Level 1 and 3.

For the six months ended June 30, 2020 and years ended December 31, 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 23. Contracts and Commitments

*Group as a Lessee*
The Group has various leases of its warehouse and office space and certain store outlets used in its operations for lease terms ranging from three to ten years. Rental payments on certain outlets are based on a fixed basic monthly rate plus a certain percentage of gross sales, while other store outlets and office spaces are based on fixed monthly rates. The Group also has certain leases of stores, office and warehouse space with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

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

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

The Group has paid security deposits for the store outlets and office spaces with carrying amounts of ₱1,060.89 million and ₱1,059.56 million as of June 30, 2020 and December 31, 2019, respectively, which are refundable upon complete turnover of the leased area. The present value of these deposits was computed using the discount rates prevailing at the inception date of the lease, ranging from 3.56% to 6.89%. Interest income recognized from these security deposits amounted to ₱1.9 million and ₱1.2 million, for the six months ended June 30, 2020 and 2019, respectively.

*Group as lessor*
In 2014, the Group leased out portions of the store spaces and parking space in Central Square for a lease term ranging from one to three years. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales. Deposits received from tenants amounted to ₱20.04 million and ₱59.82 million as of June 30, 2020 and December 31, 2019, respectively, pertaining to deposits on the leased space.

In 2015, The Group subleased its leased space in NAIA Terminal 3 for a lease term of one year to five years. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales. Rental income recognized on these spaces amounted to ₱18.2 million and ₱36.4 million, for the six months ended June 30, 2020 and 2019, respectively.

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

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

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

24. **Segment Reporting**

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

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

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

The table below sets out revenue from external customers by category for the six months ended June 30, 2020 and 2019 (amounts in millions):

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

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

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

25. **Seasonality of operations**

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

**EXHIBIT I**

## SSI GROUP, INC.

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

**JUNE 30, 2020**

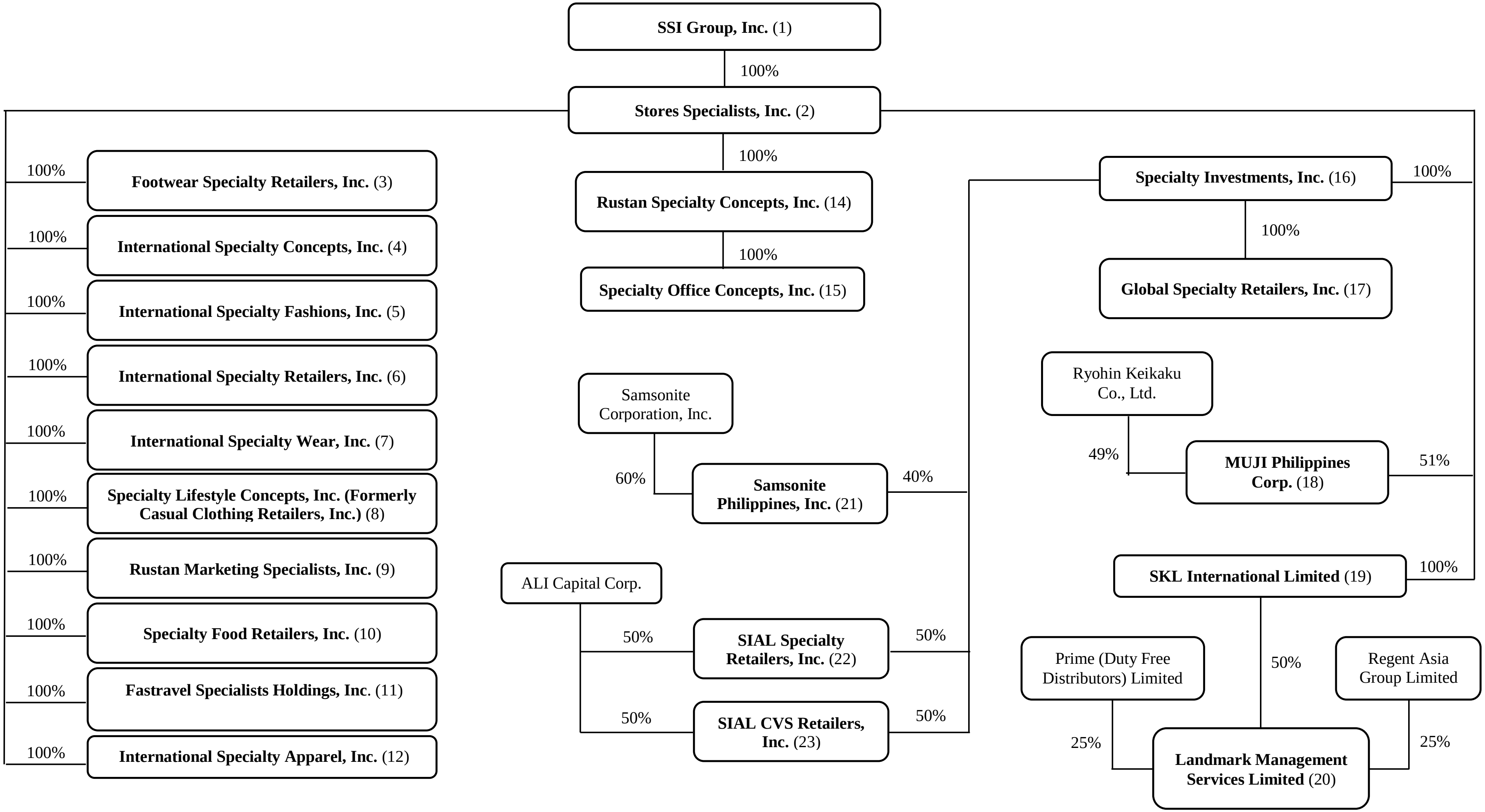

**Exhibit II**

## SSI GROUP, INC.

## RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

**JUNE 30, 2020**

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

**Exhibit III**

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

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

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