COVER SHEET

CS200705607

SEC Registration Number

SSI GROUP, INC. AND SUBSIDIARIES

(Company's Full Name)

6/F Midland Buendia Building 403 Senator Gil Puyat Avenue, Makati City

(Business Address: No. Street City/Town/Province)

Ms. Rossellina J. Escoto

(Contact Person)

890-8034

(Company Telephone Number)

12 31

Month *Day*

(Calendar Year)

17-Q

(Form Type)

June 15

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

Domestic	Foreign
₱8,631 million	Not Applicable

37

Total No. of Stockholders as of 30 September 2016

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC Number CS200705607
File Number ___________

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

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

(632) 890-8034
(Telephone Number)

September 30, 2016
(Quarter Ending)

SEC FORM 17-Q
(Form Type)

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: **September 30, 2016**

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) 896 95 91**

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
Common Shares	**3,312,864,430**

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** **3,312,864,430**

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 September 30, 2016 (with comparative audited figures as of December 31, 2015) and for the three-month and nine-month periods ended September 30, 2016 and 2015 are attached to this Report.

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

RESULTS OF OPERATIONS

For the nine months ended September 30, 2016 and 2015

Key Performance Indicators	**For the nine months ended September 30**	
PhP MM except where indicated	**2016**	**2015**
Net Sales	12,636	11,784
Gross Profit	6,255	6,263
Net Income	306	701
Gross Selling Space (sq.m.)	141,483	143,497
Decrease in Gross Selling Space (%)	-1.4%	

Key Financial and Operating Data	**For the nine months ended September 30**	
PhP MM except where indicated	**2016**	**2015**
Key Financial Data		
Net Sales	12,636	11,784
Luxury & Bridge	2,616	2,363
Casual	1,730	1,713
Fast Fashion	4,460	4,309
Footwear, Accessories & Luggage	1,905	1,769
Others	1,925	1,630
Gross Profit	6,255	6,263
Gross Profit Margin (%)	49.5%	53.1%
EBITDA[1]	1,920	2,345
EBITDA Margin (%)	15.2%	19.9%
Other Income (Charges)	(282)	(374)
Net Income	306	701
Net Income Margin (%)	2.4%	5.9%
Core Net Income[2]	395	730
Core Net Income Margin (%)	3.1%	6.2%
Total Debt[3]	8,631	8,935
Net Debt[4]	7,888	7,792
Key Operating Data		
Specialty Retailing		
Number of Stores	720	781
Gross Selling Space (sq.m.)	141,483	143,497
Decrease in Gross Selling Space (%)	-1.4%	
Convenience Stores		
Number of Stores	101	113
Gross Selling Space (sq.m.)	11,794	13,572
Decrease in Gross Selling Space (%)	-13.1%	

[1]EBITDA is calculated as operating income plus depreciation and amortization
[2]Core Net Income is derived by excluding the effect of non-recurring write-offs due to store closures and write-offs of expiring Net Operating Loss Carry Overs (NOLCO) from the Group's net income
[3]Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt
[4]Calculated as Total Debt minus Cash

Net Sales

For the nine months ended September 30, 2016, SSI Group, Inc. (the "Company or the "Group") generated net sales of ₱12.6 billion, an increase of 7.2% as compared to the year ago period. For the third quarter of 2016 alone, the Group generated net sales of ₱4.1 billion, a year-on-year increase of 4.6%. The increase in net sales was driven by improvements in same-store sales growth during the first half of the year and sales of stores open for less than 12 months. Given its diversified brand portfolio and its strategically located store network, the Group continues to benefit from increasing consumer demand and interest in specialty brands.

As of September 30, 2016, the Group's store network consisted of 720 stores covering 141,483 square meters. This represents a decrease of 1.4% as compared to the number of square meters in the Group's store network at the end of September 2015. During the nine-month period ended September 30, 2016, and in line with the Group's store rationalization program, the Group opened 42 new stores covering 4,062 square meters while at the same time closing 114 stores covering 9,724 square meters.

As of end September 30, 2016, the Group's brand portfolio was composed of 114 brands, as we discontinued Desigual, Fruits & Passion, Giuseppe Zanotti.

The following table sets out the Group's number of stores and gross selling space for the periods ended September 30, 2016 and 2015 and for the year ended December 31, 2015.

Store Network	**September 30**		**December 31**
	2016	**2015**	**2015**
Number of Stores*	720	781	792
Luxury & Bridge	160	165	165
Casual	102	137	138
Fast Fashion	79	96	97
Footwear, Accessories & Luggage	219	228	234
Others	160	155	158
Gross Selling Space (sq.m.)	141,483	143,497	147,145
Luxury & Bridge	17,311	17,370	17,544
Casual	16,862	18,971	19,129
Fast Fashion	58,144	59,368	60,941
Footwear, Accessories & Luggage	25,490	24,645	26,209
Others	23,676	23,143	23,322

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

As of September 30, 2016, the Group operated 1 store in Guam which contributed de minimis sales to the Group's net sales for the period.

Gross Profit

For the period ended September 30, 2016, the Group generated gross profit of ₱6.3 billion, a decrease of 0.1% as compared to the year ago period. Gross profit margin year-to-date September 30, 2016 was at 49.5% as compared to 53.1% during the year ago period. The decrease in gross profit margin reflects increased discounting and promotional activities as the Group continues to operate within a more competitive environment as compared to the year ago period. However, gross profit margin during 3Q 2016 has begun to stabilize as compared to the year ago period, with 3Q 2016 gross profit margin at 48.2%, as compared to 48.7% during 3Q 2015.

Operating Expenses

For the period ended September 30, 2016, the Group's operating expenses amounted to ₱5.4 billion, an increase of 12.6% as compared to the year ago period. Operating expenses as a percentage of revenue were at 42.8% as compared to 40.8% during the year ago period.

Selling and distribution expenses increased 13.2% to ₱4.6 billion. Increases in selling and distribution expenses were driven by depreciation expense, which increased 21.4% to ₱961.0 million, increases in rental expense, which grew 19.0% to ₱1.5 billion and increases in utilities expense which increased 17.0% to ₱471.1 million. These increase were partially off-set by a slower rate of increase in personnel expenses which increased by only 6.2% to ₱796.9 million.

Despite increases in the aforementioned items, for the period ended September 30, 2016, selling and distribution expense was at 36.6% of revenue, comparing favorably to 37.3% as of end- December 2015.

General and administrative expenses increased to ₱787.0 million, an increase of 8.9% as compared to the year ago period. Increases in general and administrative expenses were driven by increases in personnel expense which increased 13.5% to ₱374.7 million, rental expense which increased 11.7% to ₱107.3 million, and depreciation expense which grew 10.8% to ₱88.4 million. These expenses increased in line with the expansion of head office spaces and head office positions.

As a result of the foregoing, operating income for the period was at ₱844.5 million as compared to ₱1.5 billion during the first nine months of 2015.

Other Income (Charges)

For the nine months ended September 30, 2016, the Group incurred other charges of ₱282.5 million, a decrease of 24.5% as compared to the year ago period. The decrease in other charges is attributable primarily to a decrease in share in net losses of joint ventures. The Group's share in the losses of the FamilyMart and Wellworth joint ventures, and in the net income of Landmark Management Services, Ltd. was at ₱100.7 million as compared to ₱163.7 million during the year ago period. This reflects a reduction in the operating losses booked for the Wellworth business, following the divestment of the department stores assets in March 2016.

The Group booked rental income of ₱40.8 million during the period as compared to ₱20.7 million in 2015. 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.

In relation to the Group's store rationalization program, the Group booked write-offs on disposals of property and equipment of ₱66.7 million. These reflect write-offs of partially depreciated leasehold improvements of stores closed during the nine-month period ended September 30, 2016.

Provision for Income Tax

For the nine months ended September 30, 2016, provision for income tax was ₱255.8 million. The Group's effective tax rate was 45.5% as 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 due to write-offs of expiring net operating loss carry overs (NOLCO) amounting to ₱41.7 million.

Net Income

As a result of the foregoing, net income during the first nine months of 2016 was at ₱306.1 million as compared to ₱701.0 million during the first nine months of 2015.

Core net income, or net income excluding write-offs related to the Group's store rationalization program and write-offs of expiring NOLCO, was at ₱394.5 million as compared to ₱729.6 million during the first nine months of 2015.

However, given the stabilization of the Group's 3Q 2016 gross profit margins as compared to the year ago period, as well as the reduction in joint venture losses following the Wellworth divestment, core net income during 3Q 2016 was at ₱105.3 million a decline of 13.3% as compared to 3Q 2015.

Net income during 3Q 2016 was at ₱65.4 million as compared to ₱115.3 million in 3Q 2015.

EBITDA

EBITDA during the first nine months of 2016 was ₱1.9 billion as compared to ₱2.3 billion in 2015.

FINANCIAL CONDITION

As of September 30, 2016, the Group had consolidated assets of ₱20.5 billion, a decrease of 0.5% as compared to December 31, 2015.

Current Assets

Cash

As of September 30, 2016, cash was at ₱743.3 million as compared to ₱1.3 billion as of December 31, 2015. The decrease in cash balance reflects the use of cash to fund inventory purchases throughout the year and pay down debt during the third quarter.

Merchandise Inventory

Merchandise inventory as of September 30, 2016 was at ₱10.2 billion as compared to ₱9.7 billion at the end of 2015. The inventory balance as of end-September reflect stocking up on merchandise for the Christmas season. Despite taking on additional stock for the Christmas season, inventory levels as of September 30, 2016 were basically unchanged as compared to June 30, 2016, when inventory was also at ₱10.2 billion.

Prepayments and other Current Assets

As of September 30, 2016, prepayments and other current assets were at ₱1.8 billion as compared to ₱1.4 billion at the end of 2015. The increase was due primarily to an increase in supplies inventory to ₱464.2 million from ₱321.1 million as a result of stocking up for the Christmas season, increases in prepaid tax to ₱98.1 million from ₱23.2 million, and increases in prepayments-others to ₱217.2 million from ₱83.4 million, representing advances to foreign suppliers for non-merchandise purchases.

Non-Current Assets

Investment in an Associate

As of September 30, 2016, investments in an associate were at ₱77.4 million as compared to ₱54.9 million at the end of 2015. The increase reflects the Group's share in the net income of Samsonite Philippines, Inc. during the period.

Interests in Joint Ventures

As of September 30, 2016, interests in joint ventures were at ₱939.9 million, as compared to ₱1.05 billion at the end of 2015. During the period, the Group increased its investment in SCRI by ₱91.0 million and booked its share of SCRI losses of ₱71.1 million. The Group also booked its share in the operating losses of SIAL Specialty Retailers, Inc. (SSRI) of ₱33.3 million, as well as the return of its investment in SSRI amounting to ₱104.8 million, representing the payments received from the sale of SSRI's department store assets. The Group also booked its share of the net income of Landmark Management Services, Ltd. of ₱3.6 million.

Property and Equipment

As of September 30, 2016, property and equipment was at ₱4.7 billion as compared to ₱5.2 billion at the end of 2015, reflecting the lower number of new stores opened during the period, the Group's store rationalization program and additional depreciation expense on existing property and equipment during the period.

<u>Current Liabilities</u>

As of September 30, 2016, the Group had consolidated current liabilities of ₱8.0 billion, as compared to ₱8.1 billion at the end of 2015.

Trade and Other Payables

As of September 30, 2016, trade and other payables were at ₱1.4 billion as compared to ₱2.4 billion at the end of 2015. The decrease was due primarily to a decrease in nontrade payables to ₱286.1 million related to payables to contractors and suppliers of services and a decrease in trade payables to ₱816.2 million, reflecting the terms of merchandise deliveries during the period. Accrued expenses also declined to ₱107.6 million reflecting payments of expenses during the period.

Short-term Loans Payable

As of September 30, 2016, short term loans payable were at ₱6.0 billion, as compared to ₱5.1 billion at the end of 2015. Additional short-term loans were used to fund inventory purchases.

<u>Non- Current Liabilities</u>

Long-term Debt

As of September 30, 2016, long-term debt was at ₱2.2 billion from ₱2.4 billion at the end of 2015. The decrease in long-term debt reflects the net effect of principal repayments on the Group's corporate note.

<u>Equity</u>

As of September 30, 2016, total equity was at ₱10.0 billion as compared to ₱9.7 billion at the end of 2015. The increase in total equity is due to an increase in retained earnings, reflecting income generated during the first nine months of 2016.

Other Disclosures

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

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

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

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

(v) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.

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

(vii) 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.

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

November 14, 2016

SSI Group, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2016 (*With Comparative Audited Figures as of December 31, 2015*) and For the Nine-Month Periods Ended September 30, 2016 and 2015

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As of September 30, 2016
(With Comparative Audited Figures as of December 31, 2015)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash (Note 4)	**₱743,331,361**	₱1,304,962,341
Trade and other receivables (Note 5)	**701,022,552**	594,632,831
Merchandise inventory (Note 6)	**10,208,590,432**	9,679,995,388
Amounts owed by related parties (Note 20)	**45,780,240**	31,172,792
Prepayments and other current assets (Note 7)	**1,751,250,990**	1,351,636,657
Total Current Assets	**13,449,975,575**	12,962,400,009
Noncurrent Assets		
Investment in an associate (Note 8)	**77,403,943**	54,913,723
Interests in joint ventures (Note 9)	**939,895,858**	1,054,465,557
Property and equipment (Note 10)	**4,692,552,008**	5,208,538,864
Deferred tax assets - net	**249,183,458**	247,626,299
Security deposits and construction bonds (Note 24)	**1,015,635,239**	1,003,310,781
Other noncurrent assets (Note 11)	**97,769,806**	96,509,536
Total Noncurrent Assets	**7,072,440,312**	7,665,364,760
TOTAL ASSETS	**₱20,522,415,887**	₱20,627,764,769
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	**₱1,382,618,263**	₱2,375,171,265
Short-term loans payable (Note 13)	**5,995,000,000**	5,125,000,000
Current portion of long-term debt (Note 14)	**467,607,681**	467,607,681
Amounts owed to related parties (Note 20)	**267,909**	504,095
Deferred revenue	**22,455,599**	21,103,013
Income tax payable	**96,253,548**	151,380,797
Total Current Liabilities	**7,964,203,000**	8,140,766,851
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 14)	**2,168,300,395**	2,418,300,395
Retirement benefit obligation	**334,702,720**	330,562,832
Tenant deposits (Note 24)	**31,882,708**	21,267,898
Total Noncurrent Liabilities	**2,534,885,823**	2,770,131,125
Equity		
Capital stock - ₱1 par value	**3,312,864,430**	3,312,864,430
Additional paid-in capital	**2,519,309,713**	2,519,309,713
Stock grants	**33,640,983**	33,640,983
Retained earnings		
Appropriated	**925,000,000**	925,000,000
Unappropriated	**3,318,978,014**	3,012,834,660
Cumulative translation adjustment	**(2,140,337)**	(2,457,254)
Other comprehensive loss	**(84,325,739)**	(84,325,739)
Total Equity	**10,023,327,064**	9,716,866,793
TOTAL LIABILITIES AND EQUITY	**₱20,522,415,887**	₱20,627,764,769

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 September 30		Nine-Month Periods Ended September 30	
	2016	2015	**2016**	2015
NET SALES	**₱4,054,638,688**	₱3,877,384,235	**₱12,636,152,100**	₱11,784,131,385
COST OF GOODS SOLD (Note 15)	**2,101,245,524**	1,990,289,728	**6,381,642,782**	5,521,519,398
GROSS PROFIT	**1,953,393,164**	1,887,094,507	**6,254,509,318**	6,262,611,987
OPERATING EXPENSES				
Selling and distribution (Note 16)	**1,495,039,886**	1,295,950,931	**4,623,015,425**	4,082,816,791
General and administrative (Note 17)	**236,718,563**	247,345,108	**787,032,652**	722,406,375
	1,731,758,449	1,543,296,039	**5,410,048,077**	4,805,223,166
OTHER INCOME (CHARGES)				
Rental income (Note 24)	**13,407,721**	7,723,286	**40,849,912**	20,665,026
Share in net earnings of an associate (Note 8)	**9,199,259**	8,174,655	**22,490,220**	24,507,028
Interest accretion on security deposits (Note 24)	**621,950**	743,158	**2,077,103**	1,967,703
Interest income (Note 4)	**675,021**	962,122	**2,006,019**	2,779,101
Interest expense (Notes 13 and 14)	**(86,080,725)**	(82,087,513)	**(232,448,534)**	(223,760,261)
Share in net losses of joint ventures (Note 9)	**(23,376,445)**	(57,515,126)	**(100,736,299)**	(163,701,780)
Loss on disposal of property and equipment (Note 10)	**(33,191,912)**	(3,183,231)	**(66,690,377)**	(14,533,902)
Foreign exchange gains (losses) - net	**9,411,333**	(11,489,664)	**(5,836,599)**	(11,303,765)
Others - net	**34,796,370**	(12,803,230)	**55,797,969**	(11,011,759)
	(74,537,428)	(149,475,543)	**(282,490,586)**	(374,392,609)
INCOME BEFORE INCOME TAX	**147,097,287**	194,322,925	**561,970,655**	1,082,996,212
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	**76,000,975**	94,120,365	**255,520,863**	403,141,131
Deferred	**5,724,664**	(15,047,703)	**306,438**	(21,121,860)
	81,725,639	79,072,662	**255,827,301**	382,019,271
NET INCOME	**65,371,648**	115,250,263	**306,143,354**	700,976,941
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	**321,786**	42,259	**316,917**	(7,100,733)
TOTAL COMPREHENSIVE INCOME	**₱65,693,434**	₱115,292,522	**₱306,460,271**	₱693,876,208
BASIC/DILUTED EARNINGS PER SHARE (Note 21)	**₱0.02**	₱0.04	**₱0.09**	₱0.22

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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

	For the Nine-month Periods Ended September 30, 2016 and 2015								
					Retained Earnings		Cumulative	Other	
	Capital Stock	Additional Paid-in Capital	Stock Grants	Equity Reserve	Appropriated	Unappropriated	Translation Adjustment	Comprehensive Loss	Total
Balances at January 1, 2015	₱3,312,864,430	₱4,056,457,439	₱4,205,123	(₱1,537,147,726)	₱510,000,000	₱2,617,168,339	₱4,516,079	(₱96,203,691)	₱8,871,859,993
Net income	–	–	–	–	–	700,976,941	–	–	700,976,941
Exchange differences on translation	–	–	–	–	–	–	(7,100,733)	–	(7,100,733)
Total comprehensive income for the period	–	–	–	–	–	700,976,941	(7,100,733)	–	693,876,208
Stock grants	–	–	26,632,444	–	–	–	–	–	26,632,444
Balances at September 30, 2015	**₱3,312,864,430**	**₱4,056,457,439**	**₱30,837,567**	**(₱1,537,147,726)**	**₱510,000,000**	**₱3,318,145,280**	**(₱2,584,654)**	**(₱96,203,691)**	**₱9,592,368,645**
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	–	–	–	–	–	306,143,354	–	–	306,143,354
Exchange differences on translation	–	–	–	–	–	–	316,917	–	316,917
Total comprehensive income for the period	–	–		–	–	306,143,354	316,917	–	306,460,271
Balances at September 30, 2016	**₱3,312,864,430**	**₱2,519,309,713**	**₱33,640,983**	**₱–**	**₱925,000,000**	**₱3,318,978,014**	**(₱2,140,337)**	**(₱84,325,739)**	**₱10,023,327,064**

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine-Month Periods Ended September 30	
	2016 (Unaudited)	2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱561,970,655**	₱1,082,996,212
Adjustments for:		
Depreciation and amortization (Notes 10, 11 and 19)	**1,075,318,976**	887,734,271
Interest expense (Note 13 and 14)	**232,448,534**	223,760,261
Share in net losses of joint ventures (Note 9)	**100,736,299**	163,701,780
Loss on disposal of property and equipment (Note 10)	**66,690,377**	14,533,902
Unrealized foreign exchange losses (gains)	**768,238**	(10,422,983)
Share in net earnings of an associate (Note 8)	**(22,490,220)**	(24,507,028)
Interest accretion on security deposits (Note 24)	**(2,077,103)**	(1,967,703)
Interest income (Note 4)	**(2,006,019)**	(2,779,101)
Stock grants	**–**	26,632,444
Operating income before working capital changes	**2,011,359,737**	2,359,682,055
Decrease (increase) in:		
Trade and other receivables	**(106,389,721)**	84,637,077
Merchandise inventory	**(528,595,044)**	(1,926,480,106)
Amounts owed by related parties	**(14,607,448)**	(191,094)
Prepayments and other current assets	**(399,668,805)**	(948,917,284)
Increase (decrease) in:		
Trade and other payables	**(992,553,002)**	(1,292,228,571)
Deferred revenue	**1,352,586**	109,200
Amounts owed to related parties	**(236,186)**	(17,121)
Retirement benefit obligation	**4,139,888**	25,786,810
Tenant deposits	**10,614,810**	10,515,437
Net cash used in operations	**(14,583,185)**	(1,687,103,597)
Interest received	**2,006,019**	2,779,101
Income taxes paid	**(310,648,112)**	(458,727,541)
Net cash flows used in operating activities	**(323,225,278)**	(2,143,052,037)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 10)	**(623,548,206)**	(1,472,304,903)
Additional interests in joint ventures (Note 9)	**(91,000,000)**	(803,296,454)
Return of investment in SSRI (Note 9)	**104,833,400**	–
Dividends received from investment in an associate (Note 8)	**–**	24,000,000
Increase in:		
Security deposits and construction bonds	**(10,192,883)**	(142,692,343)
Other noncurrent assets	**(3,734,561)**	(145,467,578)
Net cash flows used in investing activities	**(623,642,250)**	(2,539,761,278)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of:		
Short-term loans payable	**2,805,000,000**	6,653,500,000
Long-term debt	**–**	1,000,000,000
Payments of:		
Short-term loans payable	**(1,935,000,000)**	(3,890,135,490)
Long-term debt	**(250,000,000)**	(245,663,660)
Interest	**(232,448,534)**	(223,760,261)
Net cash flows from financing activities	**387,551,466**	3,293,940,589
NET DECREASE IN CASH	**(559,316,062)**	(1,388,872,726)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(2,314,918)**	3,322,248
CASH AT BEGINNING OF PERIOD	**1,304,962,341**	2,527,828,209
CASH AT END OF PERIOD (Note 4)	**₱743,331,361**	₱1,142,277,731

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

1. **Corporate Information**

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

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 September 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 ₱5,000,000,000 divided into 5,000,000,000 shares with a par value of ₱1 per share.

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

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

The interim condensed consolidated financial statements were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on November 14, 2016. 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.

<u>Basis of Preparation</u>
The unaudited interim condensed consolidated financial statements as of September 30, 2016 and for the nine-month periods ended September 30, 2016 and 2015 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, 2015.

Basis of Consolidation

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

	Percentage ownership			
	September 30, 2016		December 31, 2015	
	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
Luxury Concepts, Inc. (LCI)	**–**	**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)[1]	**–**	**100**	–	100
Casual Clothing Retailers, Inc. (CCRI)[2]	**–**	**100**	–	100
SKL International, Ltd. (SKL)[3]	**–**	**100**	–	100

[1] ISAI was registered with the SEC on October 8, 2013 and started commercial operations on October 18, 2014.
[2] CCRI was registered with the SEC on January 10, 2014 and immediately started commercial operations.
[3] 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 September 30, 2016 and for the nine months ended September 30, 2016 and 2015. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

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

Changes in Accounting Policies and Disclosures
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016.

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

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2016
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended standards and Philippine Interpretations from IFRIC and improved PFRS which the Group has adopted starting January 1, 2016. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements of the Group.

Effective in 2016:
Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial

recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the balance sheet and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016.

Improvements to PFRS
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group.

- **PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal***
- **PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts***
- **PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements***
- **PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate***
- **PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'***

3. 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 restructuring in 2014 resulted to equity reserve that was closed to "Additional paid-in capital" account, amounting to ₱1,537.15 million. The equity reserve recognized in the statement of changes in equity 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)
Equity reserve	(₱1,537,147,726)

Prior to the reorganization the balance of the equity reserve represents the difference between the legal capital of the Company and SSI.

4. Cash

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash on hand	**₱23,761,700**	₱102,192,410
Cash in banks	**719,569,661**	1,202,769,931
	₱743,331,361	₱1,304,962,341

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the nine months ended September 30, 2016 and 2015 amounted to ₱2,006,019 and ₱2,779,101, respectively.

5. Trade and Other Receivables

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Trade receivables	**₱171,270,291**	220,936,098
Nontrade receivables	**365,520,071**	151,706,373
Receivables from related parties (see Note 20)	**87,460,283**	104,823,661
Advances to officers and employees	**75,007,811**	112,893,788
Others	**1,764,096**	4,272,911
	₱701,022,552	₱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, receivables from related parties and other receivables are usually settled within one year. "Others" generally include receivables from contractors for professional services.

6. Merchandise Inventory

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
At cost		
On hand	**₱9,884,721,413**	₱9,167,904,410
In transit	**323,869,019**	512,090,978
	₱10,208,590,432	₱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 "Cost of goods sold" amounted to ₱5,865,875,326 and ₱4,942,335,566, for the nine months ended September 30, 2016 and 2015, respectively (see Note 15).

7. Prepayments and Other Current Assets

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Advances to suppliers	**₱446,017,568**	₱436,010,318
Supplies inventory	**464,207,301**	321,134,504
Input VAT	**311,024,593**	277,171,328
Prepaid tax	**98,112,246**	23,183,441
Deferred input VAT	**73,525,861**	63,419,431
Current portion of prepaid rent (see Notes 11 and 24)	**52,569,269**	43,413,949
Prepaid insurance	**35,533,088**	15,476,014
Prepaid advertising	**27,552,834**	65,815,593
Prepaid guarantee	**10,590,948**	11,637,084
Creditable withholding tax	**9,519,323**	5,575,049
Current portion of security deposits (see Note 24)	**5,374,459**	5,428,931
Others	**217,223,500**	83,371,015
	₱1,751,250,990	₱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 for non-merchandise purchases arising from transactions made by the Group with its foreign suppliers.

8. Investment in an Associate

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Acquisition cost	**₱24,640,000**	₱24,640,000
Accumulated equity in net earnings:		
Balance at beginning of year	**30,273,723**	24,477,530
Share in net earnings	**22,490,220**	29,796,193
Dividends received	**–**	(24,000,000)
Balance at end of year	**52,763,943**	30,273,723
	₱77,403,943	₱54,913,723

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 September 30, 2016 and December 31, 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.

9. Interests in Joint Ventures

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

Joint venture	Joint venture partner	Project description	Income sharing arrangement
SIAL CVS Retailers, Inc. (SCRI)[1]	Varejo Corporation	Open and operate convenience stores directly owned and/or franchised in the Philippines	50:50
SIAL Specialty Retailers, Inc. (SSRI)[2]	Varejo Corporation	Investment in and operation of mid-market department stores	50:50
Landmark Management Services, Ltd. (LMS)[3]	Regent Asia Group, Ltd. (Regent) and Prime (Duty Free Distributors) Ltd. (Prime)	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 August 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:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
SCRI	**₱282,643,282**	₱262,721,435
SSRI	**278,935,547**	417,063,488
SKL	**378,317,029**	374,680,634
	₱939,895,858	₱1,054,465,557

SCRI (50% take up through SII)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cost:		
Balance at beginning of year	**₱420,350,000**	₱223,850,000
Additional investment	**91,000,000**	196,500,000
Balance at end of year	**511,350,000**	420,350,000
Accumulated equity in net earnings:		
Balance at beginning of period	**(157,628,565)**	(77,655,770)
Share in net loss	**(71,078,153)**	(79,972,795)
Balance at end of period	**(228,706,718)**	(157,628,565)
	₱282,643,282	₱262,721,435

SSRI (50% take up through SII)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cost:		
Balance at beginning of year	**₱652,250,000**	₱420,750,000
Additional (return of) investment	**(104,833,400)**	231,500,000
Balance at end of year	**547,416,600**	652,250,000
Accumulated equity in net earnings:		
Balance at beginning of period	**(235,186,512)**	(87,488,717)
Share in net loss	**(33,294,541)**	(147,697,795)
Balance at end of period	**(268,481,053)**	(235,186,512)
	₱278,935,547	₱417,063,488

LMS (50% take up through SKL)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Acquisition cost	**₱375,296,454**	₱375,296,454
Accumulated equity in net earnings:		
Balances at beginning of period	**(615,820)**	–
Share in net earnings (losses)	**3,636,395**	(615,820)
Balances at end of period	**3,020,575**	(615,820)
	₱378,317,029	₱374,680,634

The joint ventures have no contingent liabilities or capital commitments as of September 30, 2016 and December 31, 2015.

10. Property and Equipment

The composition and movements of this account are as follows:

September 30, 2016	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	**Total**
Cost:						
Balances at beginning of year	₱7,751,959,370	₱2,202,872,779	₱852,141,513	₱256,436,738	₱138,527,183	**₱11,201,937,583**
Additions	458,423,217	96,082,019	22,656,024	1,345,384	45,041,562	**623,548,206**
Disposals	(308,210,685)	(8,005,214)	–	–	–	**(316,215,899)**
Reclassifications	99,133,226	–	–	–	(99,133,226)	**–**
Balances at end of period	8,001,305,128	2,290,949,584	874,797,537	257,782,122	84,435,519	**11,509,269,890**
Accumulated depreciation and amortization:						
Balances at beginning of year	4,458,906,590	1,368,102,459	103,524,715	62,864,955	–	**5,993,398,719**
Depreciation (see Note 19)	839,727,592	182,895,471	32,938,275	17,283,347	–	**1,072,844,685**
Disposals	(243,713,238)	(5,812,284)	–	–	–	**(249,525,522)**
Balances at end of period	5,054,920,944	1,545,185,646	136,462,990	80,148,302	–	**6,816,717,882**
Net book values	**₱2,946,384,184**	**₱745,763,938**	**₱738,334,547**	**₱177,633,820**	**₱84,435,519**	**₱4,692,552,008**

December 31, 2015	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 and amortization:						
Balances at beginning of year	3,378,403,168	1,131,996,960	62,985,677	41,497,177	–	4,614,882,982
Depreciation (see Note 19)	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

11. Other Noncurrent Assets

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Franchise fee	**₱54,054,512**	₱51,060,289
Miscellaneous deposits	**30,096,297**	30,776,868
Prepaid rent - net of current portion (see Note 24)	**6,186,648**	6,571,715
Software costs	**906,801**	1,775,246
Others	**6,525,548**	6,325,418
	₱97,769,806	₱96,509,536

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

12. **Trade and Other Payables**

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Trade payables	**₱826,180,662**	₱994,450,553
Nontrade payables	**286,122,308**	825,981,870
Retention payable	**107,579,640**	152,750,762
Accrued expenses	**97,925,982**	294,270,621
Output VAT	**42,530,518**	32,524,573
Payable to related parties (see Note 20)	**1,331,660**	1,590,289
Others	**20,947,493**	73,602,597
	₱1,382,618,263	₱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, 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.

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

13. **Short-term Loans Payable**

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Banks:		
Bank of the Philippine Islands (BPI)	**₱2,015,000,000**	₱1,600,000,000
Banco de Oro (BDO)	**1,270,000,000**	700,000,000
Security Bank Corporation (SBC)	**1,210,000,000**	990,000,000
Metropolitan Bank & Trust Co. (MBTC)	**500,000,000**	–
China Banking Corporation (CBC)	**500,000,000**	1,000,000,000
Hongkong and Shanghai Banking Corporation Limited (HSBC)	**400,000,000**	400,000,000
Rizal Commercial Banking Corporation (RCBC)	**100,000,000**	435,000,000
	₱5,995,000,000	₱5,125,000,000

The Group's outstanding short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 2.50% to 3.50% and 2.80% to 3.50%, for the nine months ended September 30, 2016 and 2015, respectively.

Interest expense recognized in the consolidated statements of comprehensive income for the nine months ended September 30, 2016 and 2015 amounted to ₱129,336,392 and ₱138,475,509, respectively.

14. Long-term Debt

On May 8, 2013, SSI entered into a credit facility for the ₱2.00 billion syndicated term loan facility with BPI, SBC, CBC, MBTC and RCBC. The purpose of the loan is to finance the Group's capital expenditures related to the construction of the Central Square and other corporate purposes. Principal repayments are due quarterly starting August 20, 2014. The loan 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 December 15, 2016. The loan carries a fixed interest rate of 3.85%. The loan will mature on September 15, 2018. Also on October 15, 2015, SSI entered into another long-term loan agreement with BPI amounting to ₱400.00 million that carries a fixed interest rate of 3.85%. Principal repayments are due quarterly starting December 15, 2016. 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:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
BPI	**₱1,724,126,729**	₱1,790,626,729
SBC	**330,427,572**	396,927,572
CBC	**227,945,337**	273,820,337
MBTC	**227,945,337**	273,820,337
RCBC	**125,463,101**	150,713,101
Total	**2,635,908,076**	2,885,908,076
Less: current portion	**467,607,681**	467,607,681
Noncurrent portion	**₱2,168,300,395**	₱2,418,300,395

Interest expense recognized in the consolidated statements of comprehensive income for the nine months ended September 30, 2016 and 2015 amounted to ₱103,112,142 and ₱85,284,752, respectively.

<u>Loan Covenants</u>

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 September 30, 2016 and December 31, 2015, the Group is in compliance with the loan covenants of all their respective outstanding debts.

15. **Cost of Goods Sold**

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Cost of merchandise sold	**₱5,865,875,326**	₱4,942,335,566
Royalty fees	**159,589,526**	173,072,620
Advertising	**87,336,929**	112,612,939
Personnel costs (see Note 18)	**84,889,157**	158,016,856
Travel and transportation	**52,246,949**	38,280,097
Rent (see Notes 20 and 24)	**32,136,326**	28,873,830
Depreciation and amortization (see Notes 10, 11 and 19)	**25,930,008**	16,513,941
Utilities	**11,535,385**	12,886,766
Repairs and maintenance	**10,604,380**	8,071,754
Security and safety	**9,799,001**	7,779,558
Insurance	**2,376,644**	2,201,681
Supplies and maintenance	**1,274,437**	663,306
Taxes and licenses	**299,434**	64,318
Others	**37,749,280**	20,146,166
	₱6,381,642,782	₱5,521,519,398

Cost of merchandise sold:

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Merchandise inventory, beginning	**₱9,679,995,388**	₱7,980,070,099
Net purchases	**6,394,470,370**	6,868,815,672
Cost of merchandise available for sale	**16,074,465,758**	14,848,885,771
Less merchandise inventory, ending	**10,208,590,432**	9,906,550,205
	₱5,865,875,326	₱4,942,335,566

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.

16. **Selling and Distribution Expenses**

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Rent (see Notes 20 and 24)	**₱1,495,075,632**	₱1,256,744,178
Depreciation and amortization (see Notes 10, 11 and 19)	**960,976,158**	791,418,482
Personnel costs (see Note 18)	**796,855,662**	750,427,085
Utilities	**471,104,916**	402,576,429
Credit card charges	**226,553,395**	194,785,456
Taxes and licenses	**103,917,830**	118,898,212
Supplies and maintenance	**99,621,622**	100,747,031
Global marketing contribution fee	**96,412,417**	85,050,279
Security services	**91,578,281**	113,780,140
Advertising	**71,546,146**	64,587,421
Repairs and maintenance	**64,518,872**	52,150,239
Communication	**27,713,834**	25,040,991
Travel and transportation	**25,543,486**	30,630,814
Insurance	**22,827,338**	31,294,165
Delivery and freight charges	**14,188,058**	13,820,438
Outside services	**7,668,260**	7,262,932
Professional fees	**5,976,770**	5,069,864
Entertainment, amusement and recreation (EAR)	**5,539,610**	6,261,045
Telegraphic transfer	**1,640,645**	2,035,866
Others	**33,756,493**	30,235,724
	₱4,623,015,425	₱4,082,816,791

17. **General and Administrative Expenses**

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Personnel costs (see Note 18)	**₱374,682,286**	₱330,102,522
Rent (see Notes 20 and 24)	**107,316,082**	96,033,227
Depreciation and amortization (see Notes 10, 11 and 19)	**88,412,810**	79,801,848
Supplies and maintenance	**27,684,136**	37,279,431
Repairs and maintenance	**26,111,497**	17,880,965
Security services	**22,916,555**	17,166,634
Taxes and licenses	**21,099,879**	13,851,519
Utilities	**18,547,938**	22,751,078
Travel and transportation	**17,857,103**	19,576,184
Advertising	**17,770,414**	12,793,960
Communication	**13,854,365**	14,937,330
Professional fees	**11,513,923**	11,179,560
Insurance	**7,240,627**	12,305,608
EAR	**5,146,797**	5,677,083
Outside services	**474,339**	284,488
Others	**26,403,901**	30,784,938
	₱787,032,652	₱722,406,375

18. Personnel Costs

Personnel costs were charged to operations as follows:

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Salaries, wages and bonuses	**₱1,117,531,238**	₱1,090,448,613
Retirement benefit expense	**10,995,615**	25,786,810
Other employee benefits	**127,900,252**	122,311,040
	₱1,256,427,105	₱1,238,546,463

Personnel costs were distributed as follows:

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Cost of goods sold (see Note 15)	**₱84,889,157**	₱158,016,856
Selling and distribution (see Note 16)	**796,855,662**	750,427,085
General and administrative (see Note 17)	**374,682,286**	330,102,522
	₱1,256,427,105	₱1,238,546,463

19. Depreciation and Amortization Expense

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Property and equipment (see Note 10)	**₱1,072,844,685**	₱887,734,271
Franchise fee (see Note 11)	**1,449,434**	–
Software costs (see Note 11)	**1,024,857**	–
	₱1,075,318,976	₱887,734,271

Depreciation and amortization were distributed as follows:

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Cost of goods sold (see Note 15)	**₱25,930,008**	₱16,513,941
Selling and distribution (see Note 16)	**960,976,158**	791,418,482
General and administrative (see Note 17)	**88,412,810**	79,801,848
	₱1,075,318,976	₱887,734,271

20. **Related Party Disclosures**

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

The Group, transacts with the following related parties:

a. Rustan Commercial Corporation (RCC) and Rustan Marketing Corporation (RMK) are controlled by certain key management personnel of the Group.

b. SCRI and SPI are joint venture and associate, respectively, of the Group.

c. Philippine Family Mart CVS, Inc. (PFM) is a subsidiary of SSRI.

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 24). Related rent expense amounted to ₱71.9 million and ₱71.2 million, for the nine months ended September 30, 2016 and 2015, 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 ₱28.4 million and ₱13.5 million for the nine months ended September 30, 2016 and 2015, respectively;

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

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

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Short-term employee benefits	**₱28**	₱39
Post-employment benefits	**5**	5
	₱33	₱44

As of September 30, 2016 and December 31, 2015, receivables from and payables to related parties are as follows (amounts in thousands):

September 30, 2016

		Outstanding balances			
Related Parties	Transactions for the period	Receivables from related parties (see Note 5)	Payable to related parties (see Note 12)	Amounts owed by related parties	Amounts owed to related parties
Affiliates					
RCC	₱17,631	₱56,120	₱–	₱1,776	₱–
RMK	11,860	17,578	1,332	–	268
Joint ventures					
PFM	958	8,820	–	4,394	–
SCRI	53,367	4,415	–	38,125	–
Associate					
SPI	257	527	–	1,485	–
	₱84,073	**₱87,460**	**₱1,332**	**₱45,780**	**₱268**

December 31, 2015

		Outstanding balances			
Related Parties	Transactions for the period	Receivables from related parties (see Note 5)	Payable to related parties (see Note 12)	Amounts owed by related parties	Amounts owed to related parties
Affiliates					
RCC	₱39,057	₱81,235	₱–	₱2,165	₱–
RMK	4,155	5,860	1,590	1	477
Joint ventures					
PFM	1,496	7,868	–	4,393	–
SCRI	30,866	9,632	–	23,125	–
Associate					
SPI	271	229	–	1,489	27
	₱75,845	₱104,824	₱1,590	₱31,173	₱504

The above related party balances as of September 30, 2016 and December 31, 2015 are unsecured, on demand and noninterest-bearing.

21. **Earnings Per Share (EPS)**

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

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Net income	**₱306,143,354**	₱700,976,941
Divided by weighted average number of common shares	**3,312,864,430**	3,254,889,303
	₱0.09	₱0.22

There were no potential dilutive common shares for the nine months ended September 30, 2016 and 2015.

22. **Risk Management Objectives and Policies**

The principal financial instruments of the Group are cash in banks 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 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, 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:

September 30, 2016

	Total	**Neither past due nor impaired**	**Past due but not impaired** **<30 days**	**30 - 60 days**	**60 - 90 days**	**> 90 days**	**Impaired**
Cash in banks	₱719,569,661	₱719,569,661	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	171,270,291	38,754,626	99,626,092	15,459,862	3,480,104	13,949,607	–
Nontrade receivables	365,520,071	82,335,197	58,688,136	130,821,741	13,742,010	79,932,987	–
Receivables from related parties	87,460,283	6,633,174	25,266,286	13,450,347	5,359,515	36,750,961	–
Advances to officers and employees	75,007,811	68,667,484	195,222	4,799,064	569,142	776,899	–
Other receivables	1,764,096	1,764,096	–	–	–	–	–
Amounts owed by related parties	45,780,240	39,901,697	–	–	–	5,878,543	–
Current portion of security deposits[1]	5,374,459	5,374,459	–	–	–	–	–
Security deposits and construction bonds	1,015,635,239	278,690,740	–	–	–	736,944,499	–
	₱2,487,382,151	**₱1,241,691,134**	**₱183,775,736**	**₱164,531,014**	**₱23,150,771**	**₱874,233,496**	**₱–**

1 Presented under "Prepayments and other current assets"

December 31, 2015

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30 - 60 days	60 - 90 days	> 90 days	Impaired
Cash in banks	₱1,202,769,931	₱1,202,769,931	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	220,936,098	71,110,356	138,739,956	4,722,207	2,053,069	4,310,510	–
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[1]	5,428,931	5,428,931	–	–	–	–	–
Security deposits and construction bonds	1,003,310,781	359,780,317	–	–	–	643,530,464	–
Total	₱2,837,315,266	₱1,814,528,006	₱223,565,097	₱9,309,352	₱13,844,377	₱776,068,434	₱–

1 Presented under "Prepayments and other current assets"

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 nine months ended September 30, 2016 and year ended December 31, 2015. 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 September 30, 2016.

23. 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:

	September 30, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets				
Loans and receivables				
Security deposits and construction bonds	**₱1,021,009,698**	**₱1,018,584,983**	₱1,008,739,712	₱959,973,152
Financial Liabilities				
Other financial liabilities				
Long-term debt	**₱2,635,908,076**	**₱2,794,174,682**	₱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 in banks, trade and other receivables, amounts owed by/to related parties, current portion of security deposits (presented under prepayments and other current assets), tenant 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 2.01% to 3.63% and 2.38% to 3.98%, were used in calculating the fair value of the Group's security deposits as of September 30, 2016 and December 31, 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 1.59% to 2.88% and 3.67% to 4.29% were used in calculating the fair value of the Group's long-term debt as of September 30, 2016 and December 31, 2015, respectively.

<u>Fair Value Hierarchy</u>
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 September 30, 2016 and December 31, 2015, the Group does not have financial instruments with fair values determined using inputs that are classified under Level 1 and 3.

For the nine months ended September 30, 2016 and year ended December 31, 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.

24. Contracts and Commitments

Group as lessee
The Group leases its office space and store outlets used in its operations for lease terms ranging from two to three years. Rental payments on certain outlets are based on a fixed basic monthly rate plus a certain percentage of gross sales, while other store outlets and office spaces are based on fixed monthly rates. Rentals charged to operations amounted to ₱1,634.53 million and ₱1,381.65 million, for the nine months ended September 30, 2016 and 2015, respectively (see Notes 15, 16 and 17).

Of the total rent expense, ₱213.64 million and ₱264.39 million for the nine months ended September 30, 2016 and 2015, respectively, pertain to contingent rent of some stores based on percentage ranging from 3% to 6% of total merchandise sales.

The Group has paid security deposits for the store outlets and office spaces with carrying amounts of ₱1,021.01 million and ₱1,008.74 million as of September 30, 2016 and December 31, 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 ₱2.08 million and ₱1.97 million, for the nine months ended September 30, 2016 and 2015, 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 ₱31.88 million and ₱21.27 million as of September 30, 2016 and December 31, 2015, respectively, pertaining to deposits on the leased space.

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

Rental income recognized on these spaces amounted to ₱40.85 million and ₱20.67 million, for the nine months ended September 30, 2016 and 2015, respectively.

25. **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 nine months ended September 30, 2016 and 2015 (amounts in millions):

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Net Sales		
Luxury and Bridge	**₱2,616**	₱2,363
Casual	**1,730**	1,713
Fast Fashion	**4,460**	4,309
Footwear, Accessories and Luggage	**1,905**	1,769
Other	**1,925**	1,630
	₱12,636	₱11,784

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):

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Philippines	**₱12,578**	₱11,699
Guam	**58**	85
	₱12,636	₱11,784

26. **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. AND SUBSIDIARIES

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

SEPTEMBER 30, 2016

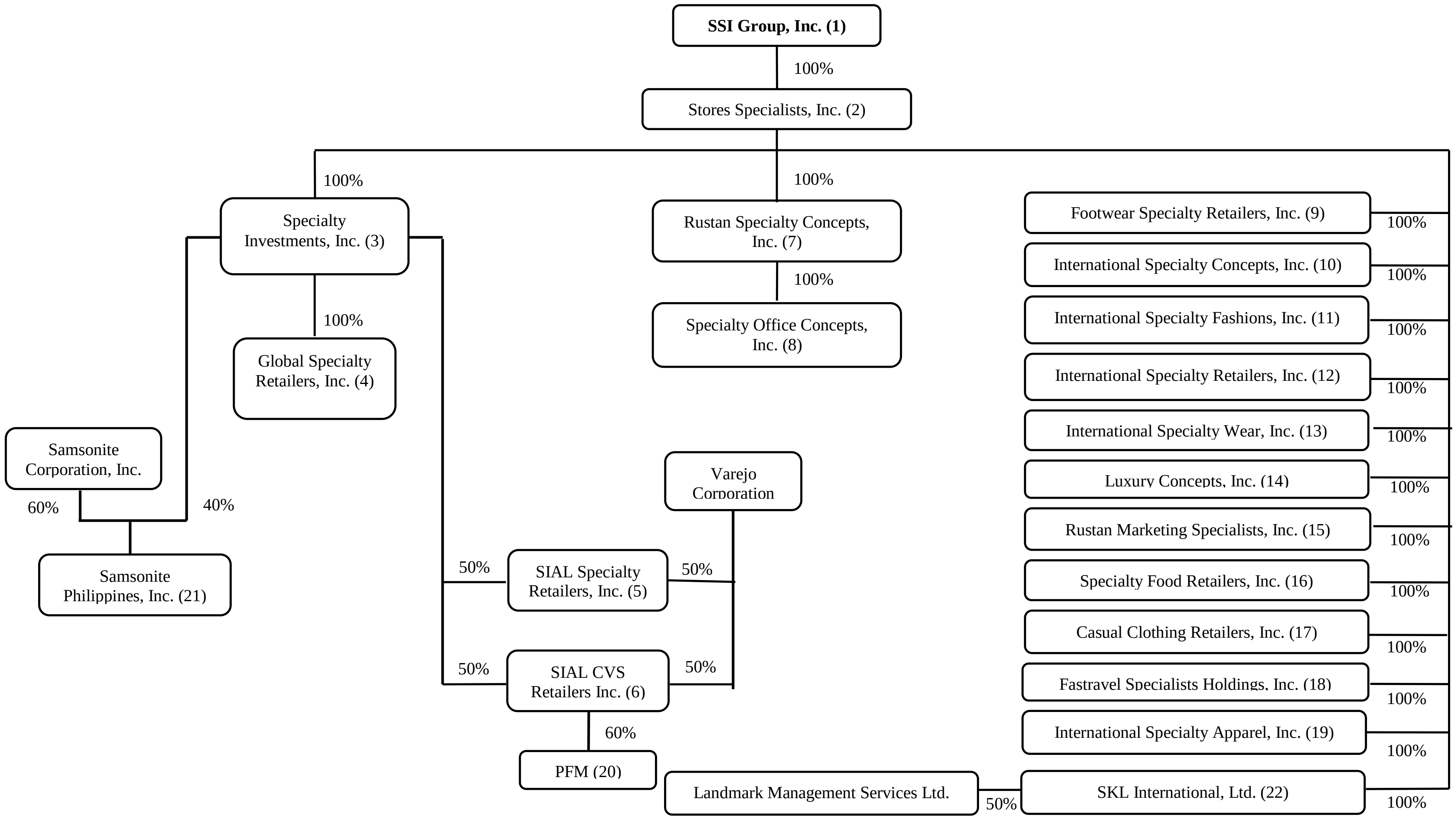

Exhibit II

SSI GROUP, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

SEPTEMBER 30, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of September 30, 2016**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	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	✓		
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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
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: Classification and Measurement of Financial Assets	✓		
	Financial Instruments: Classification and Measurement of Financial Liabilities	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓*	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
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			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1 (Revised): Disclosure Initiative		✓*	
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 14	Segment Reporting			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation			✓
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			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Revised)	Amendments to PAS 27 (Amended): Investment Entities			✓
	Amendments to PAS 27 (Revised): Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27 (Amended): Investment Entities			✓
	Amendments to PAS 27 (Amended): Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception			✓
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	✓		
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			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of September 30, 2016**		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 41: Bearer Plants			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
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 11	PFRS 2- Group and Treasury Share Transactions			✓
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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
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			
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
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*

Exhibit III

SSI GROUP, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

SEPTEMBER 30, 2016

Unappropriated retained earnings, as adjusted, beginning		₱890,774,351
Net income during the period closed to retained earnings	31,562,926	
Less: Other realized gains related to accretion of income from security deposits	–	
Deferred tax asset recognized during the year	–	
Net income actually earned during the period		31,562,926
Retained earnings available for dividend declaration		₱922,337,277

Exhibit IV

SSI GROUP, INC.
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratios	Formula	September 30, 2016	December 31, 2015	September 30, 2015
(i) Current Ratio	Current Assets/Current Liabilities	1.69	1.59	
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.86	0.82	
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.79	0.69	
(iii) Asset to Equity Ratio	Total Assets/Total Equity	2.05	2.12	
(iv) Interest Cover Ratio	EBITDA/Interest Expense	8.26	10.37	10.48
(v) Profitability Ratios				
GP Margin	Gross Profit/Revenues	49.50%		53.14%
Net Profit Margin	Net Income/Revenues	2.42%	`	5.95%
EBITDA Margin	EBITDA/Revenues	15.19%		19.90%
Return on Assets	Net Income/Total Assets	1.49%		3.34%
Return on Equity	Net Income/Total Equity	3.05%		7.31%

*EBITDA = Operating income plus depreciation and amortization