111142018000904

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	CS200705607
Company Name	SSI GROUP, INC.
Industry Classification	Real Estate Activities
Company Type	Stock Corporation

Document Information

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Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
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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, 2018**

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) 890 80 34**

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

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

Title of each Class	Number of shares of common stock outstanding as of September 30, 2018
Common Shares	**3,311,186,430**

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

    Yes [√]   No [   ]

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

    Philippine Stock Exchange - Common Shares

12. Indicate by check mark whether the registrant:

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

    Yes [√]   No [   ]

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

    Yes [√]   No [   ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The Company's unaudited interim condensed consolidated financial statements as of September 30, 2018 (with comparative audited figures as of December 31, 2017) and for the three-month and nine-month periods ended September 30, 2018 and 2017 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, 2018 and 2017

Key Performance Indicators	**For the nine months ended September 30**	
PhP MM except where indicated	**2018**	**2017**
Net Sales	13,791	12,479
Gross Profit	5,915	6,007
Operating Income	733	910
Net Income	368	342
Gross Selling Space (sq.m.)	121,904	131,885
Decrease in Gross Selling Space (%)	7.6%	6.8%

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

Net sales	Sales, net of VAT, less sales returns and allowances and sales discounts
Gross profit	Net sales less cost of sales
Operating income	Gross profit less operating expenses
Net income	Operating income less other charges
Gross selling space	Sum of floor area of all stores of the Group

Key Financial and Operating Data	**For the nine months ended September 30**	
PhP MM except where indicated	**2018**	**2017**
Key Financial Data		
Net Sales	13,791	12,479
Luxury & Bridge	3,521	2,776
Casual	1,740	1,471
Fast Fashion	4,743	4,604
Footwear, Accessories & Luggage	1,752	1,775
Others	2,035	1,853
Gross Profit	5,915	6,007
Gross Profit Margin (%)	42.9%	48.1%
Operating Income	733	910
Operating Income Margin (%)	5.3%	7.3%
Other Income (Charges)	(189)	(291)
Net Income	368	342
Net Income Margin (%)	2.7%	2.7%
Recurring Net Income[1]	435	444
Recurring Income Margin (%)	3.2%	3.6%
Total Debt[2]	6,211	7,356
Net Debt[3]	4,775	6,149
Key Operating Data		
Number of Stores	602	652
Gross Selling Space (sq.m.)	121,904	131,885
Decrease in Gross Selling Space (%)	7.6%	6.8%

Net Sales

SSI Group, Inc. ("SSI," the "Company" or the "Group") generated net sales of ₱13.8 billion during the first nine months of the year. This was an increase of 10.5% as compared to the same period last year, and was achieved despite a 7.6% year-on-year decline in total selling area. During the third quarter alone, net sales increased by 10.3% to ₱4.5 billion as compared to ₱4.1 billion last year. The Group also continued to post double-digit same-store sales growth ("SSSG") during the nine-month period, with 3Q 2018 SSSG of 12.9% and 9M 2018 SSSG of 12.0%

The Group continued to experience strong sales growth during the period driven by strong consumer demand coupled with selective price increases.

The Group's total selling space at the end of September 2018, which declined 7.6% year-on-year, covered approximately 121,904 square meters over 602 stores nationwide. During the 3rd quarter, the Group opened 13 stores covering 1,383 square meters and closed 27 stores covering 3,811 square meters.

As of September 30, 2018, the Group has a total of 95 brands under its portfolio, as SSI discontinued a number of brands during the 3rd quarter.

[1] Core Net Income is derived by excluding the effect of non-recurring write-offs due to store closures and write-offs of expiring NOLCO from the Group's net income
[2] Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt
[3] Calculated as Total Debt minus Cash

The following table sets out the Group's number of stores and gross selling space for the periods ended September 30, 2018 and 2017 and for the year ended December 31, 2017.

Store Network	**September 30**		**December 31**
	2018	**2017**	**2017**
Number of Stores*	602	652	638
Luxury & Bridge	134	143	140
Casual	76	91	86
Fast Fashion	69	70	72
Footwear, Accessories & Luggage	172	195	189
Others	151	153	151
Gross Selling Space (sq.m.)	121,904	131,885	129,486
Luxury & Bridge	13,136	14,565	14,203
Casual	13,460	15,497	15,012
Fast Fashion	52,259	55,555	55,655
Footwear, Accessories & Luggage	22,651	24,709	24,236
Others	20,398	21,559	20,381

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

As of September 30, 2018, the Group operated one (1) store in Guam which contributed de minimis sales to the Group's net sales for the period.

Gross Profit

Gross profit for the 3rd quarter of the year was at 43.9%, an increase of 150 basis points over the Group's gross profit margin of 42.4% during the first half of the year. As a result, gross profit margin for the period ended September 30, 2018 was at 42.9%, with total gross profit for the period of ₱5.9 billion. For the 3rd quarter alone, the Group generated gross profit of ₱2.0 billion, an increase of 3.3% as compared to the same period last year.

While gross profit margins during the period ended September 30, 2018 have been affected by the weaker peso, the Group's 3rd quarter gross profit margin improved as a result of the implementation of selective price increases.

Operating Expenses

Total operating expenses incurred by the Group during the period ended September 30, 2018 amounted to ₱5.2 billion, an increase of 1.7% over the same period last year. However, operating expenses as a percentage of net sales continued to improve with opex to sales ratio at 37.6% as of end September 2018 as compared to 40.8% same period last year. This improvement reflects the results of the Group's store rationalization program and its focus on maximizing scale and improving day-to-day cost efficiencies.

Selling and distribution expenses for the period amounted to ₱4.28 billion, a slight increase over ₱4.27 billion last year. The increase was primarily due to increases in taxes and licenses, credit card charges, personnel costs, and supplies and maintenance expenses which grew by a total of ₱115.1 million. However, this was offset by decreases in depreciation and amortization expense to ₱524.2 million, utilities expense to ₱411.0 million and rent expense to ₱1.4 billion.

As a percentage of net sales, selling and distribution expenses improved to 31.0% of net sales as compared to 34.2% same period last year.

General and administrative expenses during the first nine months grew by 9.2% to ₱906.6 million. However, general and administrative expenses as a percentage of net sales was stable at 6.6% of net sales. The increase was primarily attributable to an increase in personnel costs to ₱442.4 million as the Group strengthened its e-commerce and IT divisions, and brand management groups, as well as increases in utilities, travel and transportation, and depreciation expenses.

As a result of the foregoing, operating income for the period amounted to ₱733.1 million as compared to ₱909.7 million same period last year. However, for the 3rd quarter alone, operating income was flat, increasing by 0.3% to ₱257.7 million.

Other Income (Charges)

For the period ended September 30, 2018, the Group incurred other charges of ₱188.5 million, a 35.2% decrease over the same period last year. The significant decrease reflects the impact of the divestment of the FamilyMart business in January 2018 and lower write-offs related to store closures during the period.

The Group also booked rent income of ₱60.8 million during the period, a 47.7% increase year-on-year. This pertains to the leasing of retail spaces at Central Square, subleasing of store spaces at Kiss and Fly in NAIA Terminal 3, and parking fees at Central Square.

Provision for Income Tax

Provision for income tax amounted to ₱176.5 million for the period ended September 30, 2018, which translates to an effective tax rate of 32.4%. This is an improvement over the 44.8% effective tax rate during the same period last year, reflecting the absence of nondeductible expenses related to the Company’s share in the net losses of its joint ventures.

Net Income

As a result of the foregoing, net income for the first nine months of 2018 amounted to ₱368.1 million, a 7.7% growth over the same period last year. Net income for the third quarter was ₱84.8 million, a 25.3% increase year-on-year.

Recurring net income, or net income excluding write-offs related to the closure of some stores and write-offs of expiring NOLCO, amounted to ₱434.5 million during the nine-month period, a 2.2% decrease year-on-year. Recurring net income for the third quarter was at ₱134.7 million, a 15.2% increase over 3Q 2017.

FINANCIAL CONDITION

The Group had consolidated assets of ₱18.6 billion as of September 30, 2018, a decrease of 0.8% from ₱18.8 billion as of December 31, 2017.

Current Assets

As of September 30, 2018, the Group had consolidated current assets of ₱13.483 billion, as compared to ₱13.477 billion as of December 31, 2017.

Cash

Cash was at ₱1.4 billion as of September 30, 2018 as compared ₱1.7 billion at the end of 2017. The decrease was primarily due to payment of capital expenditures for store constructions and renovations amounting to ₱313.3 million, net repayment of loans amounting to ₱193.6 million, and dividend payment of ₱43.0 million during the first nine months of the year. The Group also generated strong operating cash flows during the period amounting to ₱435.9 million, a 56.7% increase as compared to the same period last year.

Trade and Other Receivables

As of September 30, 2018, trade and other receivables amounted to ₱894.9 million as compared to ₱848.1 million at the end of 2017. The increase reflects increases in trade receivables, which primarily consist of receivables from credit card companies, to ₱361.5 million. The Group also received the SPI dividends declared in 2017 amounting to ₱40.0 million during the period.

Prepayments and other Current Assets

Prepayments and other current assets amounted to ₱1.2 billion as of September 30, 2018 as compared to ₱1.3 billion at the end of 2017. The 7.5% net decrease is primarily attributable to decreases in supplies inventory to ₱382.9 million and advances to suppliers to ₱337.0 million, and an increase in prepaid tax to ₱46.8 million.

Non-Current Assets

Investment in an Associate

Investment in associate amounted to ₱77.4 million as of September 30, 2018, an increase of ₱30.1 million or 63.6% as compared to end 2017. This reflects the Company's share in the net earnings of SPI during the period.

Property and Equipment

Property and equipment was at ₱2.9 billion at the end of September 2018. This is a decrease of 12.2% or ₱408.6 billion from end 2017 reflecting the depreciation expense recognized during the period, the write-offs of undepreciated leasehold improvements related to store closures, and the selective opening of new stores.

Security Deposits and Construction Bonds

As of September 30, 2018, security deposits and construction bonds amounted to ₱1.2 billion as compared to ₱1.0 billion at the end of 2017. The increase primarily reflects additional deposits made during the period due to rental escalations and store constructions and renovations.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱77.7 million at the end of the period. The ₱22.2 million decrease as compared to ₱99.9 million at the end of 2017 is primarily due to a decline in miscellaneous deposits to ₱23.2 million, which includes deposits with contractors for the construction and renovation of stores, and a decrease in franchise fee to ₱37.9 million.

Current Liabilities

The Group had consolidated current liabilities of ₱7.4 billion as of September 30, 2018, as compared to ₱7.3 billion at the end of 2017.

Trade and Other Payables

As of September 30, 2018, trade and other payables were at ₱1.3 billion as compared to ₱1.8 billion as of December 31, 2017. The 26.9% decrease is primarily attributable to a decrease in trade payables to ₱690.1 million, reflecting terms of merchandise deliveries during the period, and a decrease in accrued expenses to ₱124.6 million as a result of payments of expenses accrued at the end of 2017.

Short-term Loans Payable

As of September 30, 2018, short-term loans payable amounted to ₱5.3 billion as compared to ₱4.2 billion at the end of 2017. Additional loans were availed by the Group primarily to fund working capital and inventory requirements during the first three quarters of the year.

Non- Current Liabilities

Long-term Debt

Long-term debt was at ₱960.9 million as of September 30, 2018 as compared to ₱2.0 billion at the end of 2017. The decrease reflects quarterly repayments on the ₱2.0 billion syndicated term loan facility entered into by the Group on May 8, 2013 and ₱500.0 million term loan facility entered into on October 14, 2016, and full repayments of the ₱1.0 billion and ₱400.0 million term loan facilities entered into in 2015.

Equity

Total equity amounted to ₱10.6 billion, a 3.1% increase as compared to ₱10.2 billion at the end of 2017. The growth is attributable to the net increase in retained earnings, reflecting the net income earned by the Company amounting to ₱368.1 million and the payment of dividends amounting to ₱43.0 million during the period.

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, 2018

SSI Group, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
As of September 30, 2018 *(With Comparative Audited Figures as of December 31, 2017)*
and For the Three-Month Periods Ended September 30, 2018 and 2017

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As of September 30, 2018
(With Comparative Audited Figures as of December 31, 2017)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash (Note 3)	**₱1,436,187,295**	₱1,689,481,704
Trade and other receivables (Note 4)	**894,852,343**	848,104,295
Merchandise inventory (Note 5)	**9,857,597,597**	9,423,866,643
Amounts owed by related parties (Note 19)	**74,803,557**	196,132,537
Prepayments and other current assets (Note 6)	**1,219,999,066**	1,319,587,551
Total Current Assets	**13,483,439,858**	13,477,172,730
Noncurrent Assets		
Investment in an associate (Note 7)	**77,384,325**	47,301,362
Interests in joint ventures (Note 8)	**508,868,368**	485,374,525
Property and equipment (Note 9)	**2,939,053,225**	3,347,613,636
Deferred tax assets	**348,843,739**	300,083,923
Security deposits and construction bonds (Note 23)	**1,191,251,692**	1,019,838,784
Other noncurrent assets (Note 10)	**77,697,003**	99,902,912
Total Noncurrent Assets	**5,143,098,352**	5,300,115,142
TOTAL ASSETS	**₱18,626,538,210**	₱18,777,287,872
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	**₱1,333,057,070**	₱1,823,566,896
Short-term loans payable (Note 12)	**5,250,000,000**	4,195,000,000
Current portion of long-term debt (Note 13)	**712,840,569**	1,148,120,568
Amounts owed to related parties (Note 19)	**159,923**	–
Deferred revenue	**20,406,472**	26,144,932
Income tax payable	**65,972,638**	82,195,269
Total Current Liabilities	**7,382,436,672**	7,275,027,665
Noncurrent Liabilities		
Long-term debt (Note 13)	**248,068,284**	851,018,282
Retirement benefit obligation	**403,063,749**	379,029,267
Tenant deposits (Note 23)	**33,770,004**	34,778,744
Total Noncurrent Liabilities	**684,902,037**	1,264,826,293
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 grant	**33,640,983**	33,640,983
Treasury shares	**(3,703,440)**	(457,280)
Retained earnings		
Appropriated	**1,140,000,000**	1,402,500,000
Unappropriated	**3,629,720,723**	3,042,212,724
Cumulative translation adjustment	**(2,699,892)**	(2,703,640)
Other comprehensive income	**(69,933,016)**	(69,933,016)
Total Equity	**10,559,199,501**	10,237,433,914
TOTAL LIABILITIES AND EQUITY	**₱18,626,538,210**	₱18,777,287,872

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	
	2018	2017	**2018**	2017
NET SALES	**₱4,528,239,074**	₱4,106,012,128	**₱13,791,450,346**	₱12,479,446,860
COST OF GOODS SOLD (Note 14)	**2,539,486,420**	2,180,268,630	**7,876,051,907**	6,472,740,802
GROSS PROFIT	**1,988,752,654**	1,925,743,498	**5,915,398,439**	6,006,706,058
OPERATING EXPENSES				
Selling and distribution (Note 15)	**1,419,061,545**	1,382,628,166	**4,275,720,502**	4,266,695,631
General and administrative (Note 16)	**311,995,974**	286,118,853	**906,593,522**	830,354,284
	1,731,057,519	1,668,747,019	**5,182,314,024**	5,097,049,915
OTHER INCOME (CHARGES)				
Rental income (Note 23)	**26,207,846**	14,402,021	**60,758,915**	41,127,252
Share in net earnings of an associate (Note 7)	**9,211,920**	4,242,857	**30,082,963**	25,939,103
Interest accretion on security deposits (Note 24)	**1,069,659**	1,392,157	**2,576,107**	3,866,402
Interest income (Note 3)	**773,363**	785,868	**3,156,455**	2,076,814
Interest expense (Notes 12 and 13)	**(91,338,652)**	(76,657,614)	**(210,403,742)**	(194,895,904)
Share in net income (losses) of joint ventures (Note 8)	**6,415,772**	(17,378,691)	**23,493,843**	(46,566,111)
Loss on store closures and disposal of property and equipment (Note 9)	**(66,698,624)**	(61,305,048)	**(85,886,550)**	(122,126,058)
Foreign exchange gains (losses) - net	**(261,450)**	(4,388,641)	**(4,896,253)**	(10,000,421)
Others - net	**(14,011,757)**	19,753,446	**(7,385,062)**	9,775,953
	(128,631,923)	(119,153,645)	**(188,503,324)**	(290,802,970)
INCOME BEFORE INCOME TAX	**129,063,212**	137,842,834	**544,581,091**	618,853,173
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	**50,169,286**	70,571,418	**226,248,433**	277,397,087
Deferred	**(5,879,989)**	(398,052)	**(49,720,765)**	(264,596)
	44,289,297	70,173,366	**176,527,668**	277,132,491
NET INCOME	**84,773,915**	67,669,468	**368,053,423**	341,720,682
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	–	854,392	**3,748**	854,392
TOTAL COMPREHENSIVE INCOME	**₱84,773,915**	₱68,523,860	**₱368,057,171**	₱342,575,074
BASIC/DILUTED EARNINGS PER SHARE (Note 20)	**₱0.03**	₱0.02	**₱0.11**	₱0.10

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

	For the Nine-Month Periods Ended September 30, 2018 and 2017								
					Retained Earnings		Cumulative Translation	Other Comprehensive	
	Capital Stock	Additional Paid-in Capital	Stock Grants	Treasury Shares	Appropriated	Unappropriated	Adjustment	Income	Total
Balances at January 1, 2017	₱3,312,864,430	₱2,519,309,713	₱33,640,983	₱–	₱1,115,000,000	₱3,054,450,420	(₱2,603,987)	(₱66,422,477)	₱9,966,239,082
Net income	–	–	–	–	–	341,720,682	–	–	341,720,682
Exchange differences on translation	–	–	–	–	–	–	854,392	–	854,392
Total comprehensive income for the period	–	–	–	–	–	341,720,682	854,392	–	342,575,074
Balances at September 30, 2017	**₱3,312,864,430**	**₱2,519,309,713**	**₱33,640,983**	**₱–**	**₱1,115,000,000**	**₱3,396,171,102**	**(₱1,749,595)**	**(₱66,422,477)**	**₱10,308,814,156**
Balances at January 1, 2018	₱3,312,864,430	₱2,519,309,713	₱33,640,983	(₱457,280)	₱1,402,500,000	₱3,042,212,724	(₱2,703,640)	(₱69,933,016)	₱10,237,433,914
Net income	–	–	–	–	–	368,053,423	–	–	368,053,423
Exchange differences on translation	–	–	–	–	–	–	3,748	–	3,748
Total comprehensive income for the period	–	–	–	–	–	368,053,423	3,748	–	368,057,171
Reversal of appropriation of retained earnings	–	–	–	–	(262,500,000)	262,500,000	–	–	–
Treasury shares	–	–	–	(3,246,160)	–	–	–	–	(3,246,160)
Dividends paid during the year	–	–	–	–	–	(43,045,424)	–	–	(43,045,424)
Balances at September 30, 2018	**₱3,312,864,430**	**₱2,519,309,713**	**₱33,640,983**	**(₱3,703,440)**	**₱1,140,000,000**	**₱3,629,720,723**	**(₱2,699,892)**	**(₱69,933,016)**	**₱10,559,199,501**

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	
	2018 (Unaudited)	2017 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱544,581,091**	₱618,853,173
Adjustments for:		
Depreciation and amortization (Notes 9, 10 and 18)	**643,420,429**	745,865,077
Interest expense (Note 12 and 13)	**210,403,742**	194,895,904
Share in net losses (income) of joint ventures (Note 8)	**(23,493,843)**	46,566,111
Loss on store closures and disposal of property and equipment (Note 9)	**85,886,550**	122,126,058
Unrealized foreign exchange gains	**(1,890,388)**	2,887,592
Share in net earnings of an associate (Note 7)	**(30,082,963)**	(25,939,103)
Interest accretion on security deposits (Note 23)	**(2,576,107)**	(3,866,402)
Interest income (Note 3)	**(3,156,455)**	(2,076,814)
Operating income before working capital changes	**1,423,092,056**	1,699,311,596
Decrease (increase) in:		
Trade and other receivables	**(46,748,048)**	38,306,227
Merchandise inventory	**(433,730,954)**	(283,575,521)
Amounts owed by related parties	**121,328,980**	(72,765,522)
Prepayments and other current assets	**84,328,599**	(412,925,637)
Increase (decrease) in:		
Trade and other payables	**(490,509,826)**	(382,394,548)
Deferred revenue	**(5,738,460)**	(187,105)
Amounts owed to related parties	**159,923**	(13,376,782)
Retirement benefit obligation	**24,034,482**	512,289
Tenant deposits	**(1,008,740)**	26,006
Net cash used in operations	**675,208,012**	572,931,003
Interest received	**3,156,455**	2,076,814
Income taxes paid	**(242,471,064)**	(296,810,289)
Net cash flows used in operating activities	**435,893,403**	278,197,528
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 9)	**(313,263,507)**	(266,395,198)
Additional interests in joint venture (Note 8)	–	(89,250,000)
Return of capital on SSRI (Note 8)	–	140,072,217
Dividends received from investment in an associate (Note 7)	–	26,000,000
Decrease (increase) in:		
Security deposits and construction bonds	**(159,285,087)**	(161,380,118)
Other noncurrent assets	**20,401,268**	(1,383,807)
Net cash flows used in investing activities	**(452,147,326)**	(352,336,906)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of short-term loans payable	**1,930,000,000**	2,050,000,000
Payments of:		
Short-term loans payable	**(875,000,000)**	(952,000,000)
Long-term debt	**(1,038,229,998)**	(670,000,000)
Interest	**(210,403,742)**	(194,895,904)
Purchase of treasury shares	**(3,246,160)**	–
Dividends paid during the year	**(43,045,424)**	–
Net cash flows from (used in) financing activities	**(239,925,324)**	233,104,096
NET INCREASE (DECREASE) IN CASH	**(256,149,494)**	158,964,718
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**2,855,085**	1,243,243
CASH AT BEGINNING OF PERIOD	**1,689,481,704**	1,047,464,592
CASH AT END OF PERIOD (Note 3)	**₱1,436,187,295**	₱1,207,672,553

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

SSI GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

The interim condensed consolidated financial statements were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on November 8, 2018. The same interim condensed consolidated financial statements were approved and authorized by the BOD on the same date.

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

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

Basis of Preparation
The unaudited interim condensed consolidated financial statements as of September 30, 2018 and for the nine-month periods ended September 30, 2018 and 2017 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, 2017.

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

	Percentage ownership			
	September 30, 2018		December 31, 2017	
	Direct	**Indirect**	Direct	Indirect
Stores Specialists, Inc. (SSI)	**100**	**–**	100	–
Rustan Marketing Specialists, Inc. (RMSI)	**–**	**100**	–	100
International Specialty Concepts, Inc. (ISCI)	**–**	**100**	–	100
Rustan Specialty Concepts, Inc. (RSCI)	**–**	**100**	–	100
Specialty Office Concepts, Inc. (SOCI)	**–**	**100**	–	100
Specialty Investments, Inc. (SII)	**–**	**100**	–	100
International Specialty Fashions, Inc. (ISFI)	**–**	**100**	–	100
Footwear Specialty Retailers, Inc. (FSRI)	**–**	**100**	–	100
Global Specialty Retailers, Inc. (GSRI)	**–**	**100**	–	100
Specialty Food Retailers, Inc. (SFRI)	**–**	**100**	–	100
International Specialty Retailers, Inc. (ISRI)	**–**	**100**	–	100
International Specialty Wears, Inc. (ISWI)	**–**	**100**	–	100
Fastravel Specialists Holdings, Inc. (FSHI)	**–**	**100**	–	100
International Specialty Apparels, Inc. (ISAI)	**–**	**100**	–	100
Specialty Lifestyle Concepts, Inc. (SLCI) (Formerly Casual Clothing Retailers, Inc. (CCRI))[1]	**–**	**100**	–	100
SKL International, Ltd. (SKL)	**–**	**100**	–	100
Luxury Concepts, Inc. (LCI)[1]	**–**	**–**	–	100

[1] *On July 24, 2018, the SEC approved the merger of LCI and CCRI, with CCRI as the surviving entity, effective August 1, 2018. Also on the same day, the SEC approved the change in name of CCRI to Specialty Lifestyle Concepts, Inc.*

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, 2018 and for the nine months ended September 30, 2018 and 2017. 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, 2018. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the Group's financial statements.

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

Effective beginning on or after January 1, 2018

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

  The Group is currently assessing the potential impact of adopting PFRS 9 in 2018.

- PFRS 15, *Revenue from Contracts with Customers*. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.
The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

  The Group is currently assessing the potential impact of adopting PFRS 15 in 2018.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9*, *Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

3. **Cash**

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash on hand	**67,041,714**	₱81,415,158
Cash in banks	**1,369,145,581**	1,608,066,546
	₱1,436,187,295	₱1,689,481,704

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the nine months ended September 30, 2018 and 2017 amounted to ₱3,156,455 and ₱2,076,814 respectively.

4. Trade and Other Receivables

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade receivables	**₱361,482,118**	₱251,200,355
Nontrade receivables	**367,809,648**	356,001,339
Receivables from related parties (see Note 19)	**80,321,265**	126,957,038
Advances to officers and employees	**84,894,895**	73,141,017
Dividend receivable	**–**	40,000,000
Others	**344,417**	804,546
	₱894,852,343	₱848,104,295

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

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

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

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

5. Merchandise Inventory

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
At cost		
On hand	**₱9,653,114,686**	₱8,800,455,694
In transit	**204,482,911**	623,410,949
	₱9,857,597,597	₱9,423,866,643

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

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

The cost of inventories recognized as expense and presented in “Cost of goods sold” amounted to ₱7,406,836,878 and ₱5,972,311,490, for the nine months ended September 30, 2018 and 2017, respectively (see Note 14).

6. Prepayments and Other Current Assets

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Supplies inventory	**₱382,929,030**	₱532,858,763
Advances to suppliers	**337,009,447**	361,492,605
Input VAT	**235,546,262**	207,140,763
Prepaid advertising	**68,743,109**	63,476,427
Prepaid tax	**46,768,541**	4,893,935
Current portion of prepaid rent (see Notes 10 and 23)	**32,252,046**	34,356,983
Deferred input VAT	**25,627,980**	17,131,409
Prepaid insurance	**17,867,967**	17,067,990
Creditable withholding tax	**10,117,766**	29,431,263
Prepaid guarantee	**7,606,439**	5,642,659
Current portion of security deposits (see Note 23)	**481,263**	10,032,977
Others	**55,049,216**	36,061,777
	₱1,219,999,066	₱1,319,587,551

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

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

Input VAT will be applied against output VAT.

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

7. Investment in an Associate

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Acquisition cost	**24,640,000**	₱24,640,000
Accumulated equity in net earnings:		
Balance at beginning of year	**22,661,362**	53,113,456
Share in net earnings	**30,082,963**	35,547,906
Dividends received	**–**	(66,000,000)
Balance at end of year	**52,744,325**	22,661,362
	₱77,384,325	₱47,301,362

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, 2018 and December 31, 2017, SPI is 40% owned by the Group and 60% owned by Samsonite Corporation, its ultimate parent and an entity incorporated under the laws of the United States of America.

8. Interests in Joint Ventures

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

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

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

September 30, 2018 (Unaudited)

	LMS	**MPC**	**SSRI**	**SCRI**	**Total**
Cost:					
Balances at beginning and end of period	**₱375,296,454**	**₱89,250,000**	**₱407,344,383**	**₱420,350,000**	**₱1,292,240,837**
Accumulated equity in net earnings (losses):					
Balances at beginning of year	**15,519,812**	**5,308,259**	**(407,344,383)**	**(420,350,000)**	**(806,866,312)**
Share in net income	**12,503,982**	**10,989,861**	**–**	**–**	**23,493,843**
Balances at end of year	**28,023,794**	**16,298,120**	**(407,344,383)**	**(420,350,000)**	**(783,372,469)**
	₱403,320,248	**₱105,548,120**	**₱–**	**₱–**	**₱508,868,368**

December 31, 2017

	LMS	MPC	SSRI	SCRI	Total
Cost:					
Balances at beginning of year	₱375,296,454	₱–	₱547,416,600	₱420,350,000	₱1,343,063,054
Investment during the year	–	89,250,000	–	–	89,250,000
Return of investment	–	–	(140,072,217)	–	(140,072,217)
Balances at end of year	375,296,454	89,250,000	407,344,383	420,350,000	1,292,240,837
Accumulated equity in net earnings (losses):					
Balances at beginning of year	3,928,806	–	(380,183,139)	(303,426,585)	(679,680,918)
Share in net income (loss)	11,591,006	5,308,259	–	(116,923,415)	(100,024,150)
Balances at end of year	15,519,812	5,308,259	(380,183,139)	(420,350,000)	(779,705,068)
Impairment loss	–	–	(27,161,244)	–	(27,161,244)
	₱390,816,266	₱94,558,259	₱–	₱–	₱485,374,525

Investment in LMS
On August 12, 2015, SKL, a wholly owned subsidiary of SSI, executed agreements to effect the acquisition of a 50% equity stake in LMS from its two existing shareholders Regent and Prime. Regent and Prime will continue to own 50% ownership in LMS following the entry of SKL.

LMS is a company specializing in travel retail concepts and has existing supply and management agreements with travel retail stores in the Philippines.

The acquisition cost includes the consideration for goodwill amounting to ₱121.75 million and intangible asset amounting to ₱29.90 million. The intangible asset pertains to the concession agreement with Duty Free and is being amortized over 10.7 years. Amortization expense, which is included in the share in net income of LMS, amounted to ₱1.96 million for the nine months ended September 30, 2018 and 2017.

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

Investment in SSRI
The Group (through SII) has 50% ownership interest in SSRI which is engaged in the operation of mid-market department stores. In March 2016, SSRI sold the fixed assets in the department stores. The proceeds from the sale are distributed to the joint venturers. The remaining carrying value of the investment, after the share in net losses, amounting to ₱27.16 million is fully provided with impairment loss. SSRI has no commercial operations as at December 31, 2017.

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

The joint ventures have no contingent liabilities or capital commitments as of September 30, 2018 and December 31, 2017.

9. Property and Equipment

The composition and movements of this account are as follows:

September 30, 2018 (Unaudited)

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	**Total**
Cost:						
Balances at beginning of year	₱7,368,130,759	₱2,163,605,355	₱874,797,537	₱274,746,423	₱53,173,551	**₱10,734,453,625**
Additions	155,687,562	56,866,530	3,195,866	2,552,768	94,931,030	**313,233,756**
Disposals	(231,231,675)	(26,836,033)	–	–	–	**(258,067,708)**
Reclassifications	56,561,126	977,634	–	–	(57,538,760)	**–**
Balances at end of year	7,349,147,772	2,194,613,486	877,993,403	277,299,191	90,565,821	**10,789,649,424**
Accumulated depreciation and amortization:						
Balances at beginning of year	5,440,614,983	1,647,035,565	191,902,831	107,286,610	–	**7,386,839,989**
Depreciation (see Note 18)	443,485,772	145,837,551	34,432,228	17,860,238	–	**641,615,789**
Disposals	(159,389,950)	(18,499,380)	–	–	–	**(177,889,330)**
Balances at end of year	5,724,710,805	1,774,373,736	226,335,059	125,146,848	–	**7,850,596,199**
Net book values	**₱1,624,436,967**	**₱420,239,750**	**₱651,658,344**	**₱152,152,343**	**₱90,565,821**	**₱2,939,053,225**

December 31, 2017

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Construction in Progress	Total
Cost:						
Balances at beginning of year	₱7,859,264,624	₱2,140,414,229	₱874,797,537	₱259,497,420	₱82,611,796	₱11,216,585,606
Additions	218,847,085	87,483,615	–	16,424,003	53,617,995	376,372,698
Disposals and retirement	(793,037,190)	(64,292,489)	–	(1,175,000)	–	(858,504,679)
Reclassifications	83,056,240	–	–	–	(83,056,240)	–
Balances at end of year	7,368,130,759	2,163,605,355	874,797,537	274,746,423	53,173,551	10,734,453,625
Accumulated Depreciation and Amortization:						
Balances at beginning of year	5,246,576,934	1,474,302,956	147,559,377	83,269,202	–	6,951,708,469
Depreciation and amortization (Note 18)	808,908,130	221,514,759	44,343,454	24,134,908	–	1,098,901,251
Disposals and retirement	(614,870,081)	(48,782,150)	–	(117,500)	–	(663,769,731)
Balances at end of year	5,440,614,983	1,647,035,565	191,902,831	107,286,610	–	7,386,839,989
Net book values	₱1,927,515,776	₱516,569,790	₱682,894,706	₱167,459,813	₱53,173,551	₱3,347,613,636

10. Other Noncurrent Assets

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Franchise fee	**₱37,925,884**	₱44,436,554
Miscellaneous deposits	**23,232,382**	40,486,110
Prepaid rent - net of current portion (see Note 23)	**5,197,582**	8,733,502
Software costs	**1,063,835**	1,558,148
Others	**10,277,320**	4,688,598
	₱77,697,003	₱99,902,912

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

11. Trade and Other Payables

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade payables	**₱690,081,802**	₱980,700,326
Nontrade payables	**397,731,506**	412,308,745
Accrued expenses	**124,594,945**	274,789,107
Output VAT	**48,474,790**	90,367,395
Retention payable	**55,790,945**	39,337,730
Payable to related parties (see Note 19)	**1,259,369**	8,712,615
Others	**15,123,713**	17,350,978
	₱1,333,057,070	₱1,823,566,896

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

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

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

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

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

12. Short-term Loans Payable

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Banks:		
Bank of Philippine Islands (BPI)	**₱2,615,000,000**	₱2,370,000,000
Banco de Oro (BDO)	**1,635,000,000**	725,000,000
Security Bank Corporation (SBC)	**800,000,000**	500,000,000
Metropolitan Bank & Trust Co. (MBTC)	**200,000,000**	500,000,000
China Banking Corporation (CBC)	**–**	100,000,000
	₱5,250,000,000	₱4,195,000,000

The Group's outstanding short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 4.65% to 5.25% and 3.00% to 3.50% for the nine months ended 2018 and 2017, respectively.

Interest expense recognized in the consolidated statements of comprehensive income for the nine months ended September 30, 2018 and 2017 amounted to ₱149,546,602 and ₱113,695,508, respectively.

13. Long-term Debt

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

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

₱400.00 million that carries a fixed interest rate of 3.85%. Principal repayments are due quarterly starting October 15, 2016 until October 15, 2018.

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

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

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
BPI	**₱534,575,266**	₱1,389,305,266
SBC	**154,499,585**	220,999,581
CBC	**106,581,480**	152,456,481
MBTC	**106,581,480**	152,456,481
RCBC	**58,671,041**	83,921,041
Total	**960,908,852**	1,999,138,850
Less: current portion	**448,120,568**	1,148,120,568
Noncurrent portion	**₱512,788,284**	₱851,018,282

Interest expense recognized in the consolidated statements of comprehensive income for the nine months ended September 30, 2018 and 2017 amounted to ₱60,857,140 and ₱81,201,289, respectively.

Loan Covenants

The loan covenants covering the Group's outstanding debts include, among others, maintenance of certain level of current, debt-to-equity and debt-service coverage ratios. As of September 30, 2018 and December 31, 2017, the Group is in compliance with the loan covenants of all their respective outstanding debts.

14. **Cost of Goods Sold**

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Cost of merchandise sold	**₱7,406,836,878**	₱5,972,311,490
Personnel costs (see Note 17)	**105,971,894**	68,969,779
Royalty fees	**61,319,377**	183,162,667
Rent (see Notes 19 and 23)	**48,172,088**	42,685,982
Travel and transportation	**35,426,534**	33,634,202
Depreciation and amortization (see Notes 9, 10 and 18)	**30,110,164**	33,807,671
Security and safety	**12,368,427**	15,934,434
Utilities	**10,906,090**	8,958,544
Repairs and maintenance	**15,922,988**	9,706,521

(Forward)

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Supplies and maintenance	**₱7,275,046**	₱2,990,685
Insurance	**2,377,051**	2,781,826
Taxes and licenses	**1,013,581**	331,521
Others	**138,351,789**	97,465,480
	₱7,876,051,907	₱6,472,740,802

Cost of merchandise sold:

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Merchandise inventory, beginning	**₱9,423,866,643**	₱9,559,675,482
Net purchases	**7,840,567,832**	6,255,887,011
Cost of merchandise available for sale	**17,264,434,475**	15,815,562,493
Less merchandise inventory, ending	**9,857,597,597**	9,843,251,003
	₱7,406,836,878	₱5,972,311,490

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

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

15. Selling and Distribution Expenses

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Rent (see Notes 19 and 23)	**₱1,437,060,853**	₱1,455,814,177
Personnel costs (see Note 17)	**784,316,351**	761,971,433
Depreciation and amortization (see Notes 9, 10 and 18)	**524,205,785**	630,513,187
Utilities	**411,013,105**	434,063,214
Credit card charges	**260,672,112**	229,506,551
Supplies and maintenance	**149,639,281**	132,529,013
Taxes and licenses	**157,335,746**	112,877,194
Security services	**113,024,235**	103,886,602
Global marketing contribution fee	**92,814,162**	92,679,701
Repairs and maintenance	**64,201,924**	51,097,906
Advertising	**58,195,631**	64,302,990
Delivery and freight charges	**55,166,489**	38,955,002
Insurance	**27,467,744**	21,388,864
Travel and transportation	**24,360,224**	29,951,589
Communication	**21,238,691**	23,536,165
Outside services	**9,626,924**	7,630,772
Entertainment, amusement and recreation (EAR)	**4,339,224**	3,336,593
Telegraphic transfer	**1,741,723**	1,267,907
Others	**79,300,298**	71,386,771
	₱4,275,720,502	₱4,266,695,631

16. General and Administrative Expenses

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Personnel costs (see Note 17)	**₱442,368,433**	₱397,162,218
Rent (see Notes 19 and 23)	**98,006,119**	98,005,396
Depreciation and amortization (see Notes 9, 10 and 18)	**89,104,481**	81,544,219
Utilities	**35,554,322**	27,139,601
Taxes and licenses	**38,111,676**	30,686,113
Advertising	**27,336,336**	38,456,519
Repairs and maintenance	**27,408,191**	25,880,772
Security services	**26,716,343**	27,237,235
Travel and transportation	**23,068,743**	15,370,890
Supplies and maintenance	**21,547,332**	18,435,523
Communication	**14,829,363**	17,539,185
Insurance	**14,077,462**	6,959,786
Professional fees	**10,693,367**	9,069,976
EAR	**5,359,345**	5,148,250
Outside service	**446,784**	468,982
Others	**31,965,225**	31,249,619
	₱906,593,522	₱830,354,284

17. Personnel Costs

Personnel costs were charged to operations as follows:

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Salaries, wages and bonuses	**₱1,196,203,021**	₱1,089,151,375
Retirement benefit expense	**37,827,317**	11,851,032
Other employee benefits	**98,626,340**	127,101,023
	₱1,332,656,678	₱1,228,103,430

Personnel costs were distributed as follows:

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Cost of goods sold (see Note 14)	**₱105,971,894**	₱68,969,779
Selling and distribution (see Note 15)	**784,316,351**	761,971,433
General and administrative (see Note 16)	**442,368,433**	397,162,218
	₱1,332,656,678	₱1,228,103,430

18. **Depreciation and Amortization Expense**

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Property and equipment (see Note 9)	**₱641,615,789**	₱743,189,724
Franchise fee (see Note 10)	**1,567,038**	1,730,938
Software costs (see Note 10)	**237,603**	944,415
	₱643,420,430	₱745,865,077

Depreciation and amortization were distributed as follows:

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Cost of goods sold (see Note 14)	**₱30,110,164**	₱33,807,671
Selling and distribution (see Note 15)	**524,205,785**	630,513,187
General and administrative (see Note 16)	**89,104,481**	81,544,219
	₱643,420,430	₱745,865,077

19. **Related Party Disclosures**

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

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

a. Lease of the Group's store outlet spaces from a related party (see Note 23). Related rent expense amounted to ₱66.9 million and ₱82.8 million, for the nine months in the period ended September 30, 2018 and 2017, 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 ₱20.9 million and ₱21.1 million for the nine months ended September 30, 2018 and 2017, respectively;

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

e. Compensation of the Company's key management personnel comprised of short-term employee benefits amounting to ₱28.1 million, ₱28.2 million for the nine months in the period ended September 30, 2018 and 2017, respectively, and post-employment benefits amounting to ₱4.1 million and ₱4.2 million for the nine months in the period ended September 30, 2018 and 2017, respectively;

As of September 30, 2018 and December 31, 2017, receivables from and payables to related parties are as follows:

September 30, 2018 (Unaudited)		Outstanding balances			
Related Parties	Transactions for the period	Receivables from related parties (see Note 4)	Payable to related parties (see Note 11)	Amounts owed by related parties	Amounts owed to related parties
Affiliates					
RCC	₱11,015,874	₱22,427,954	₱1,037,953	₱744,384	₱–
RMK	20,472,701	29,172,631	221,416	443	159,923
Joint ventures					
PFM	443,009	14,087,164	–	4,393,889	–
SCRI	–	–	–	68,165,337	–
MPC	12,810,998	13,972,678	–	14,850	–
Associate					
SPI	73,750	660,838	–	1,484,654	–
	₱44,816,332	**₱80,321,265**	**₱1,259,369**	**₱74,803,557**	**₱159,923**

December 31, 2017 (Audited)		Outstanding balances			
Related Parties	Transactions for the period	Receivables from related parties (see Note 4)	Payable to related parties (see Note 11)	Amounts owed by related parties	Amounts owed to related parties
Affiliates					
RCC	₱24,071,179	₱51,550,863	₱2,921,689	₱–	₱–
RMK	5,429,868	23,696,413	994,990	–	–
Joint ventures					
PFM	3,351,736	17,690,793	–	–	–
SCRI	90,967,200	–	–	196,132,537	–
MPC	36,715,345	31,919,409	4,795,936	–	–
Associate					
SPI	135,536	2,099,560	–	–	–
	₱160,670,864	₱126,957,038	₱8,712,615	₱196,132,537	₱–

The related party balances as of September 30, 2018 and December 31, 2017 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting ₱48.96 million, all receivables from related parties are not impaired. All related party balances are settled in cash.

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

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

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Net income	**₱368,053,423**	₱341,720,682
Divided by weighted average number of common shares	**3,312,263,372**	3,312,864,430
	₱0.11	₱0.10

There were no potential dilutive common shares for the nine months ended September 30, 2018 and 2017.

21. **Risk Management Objectives and Policies**

The principal financial instruments of the Group are cash and cash equivalents 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, short-term investments, 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, 2018 (Unaudited)

	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 and cash equivalents	1,369,145,581	1,369,145,581	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	361,482,118	361,482,118	–	–	–	–	–
Nontrade receivables	367,809,648	149,073,297	32,696,245	11,413,849	39,489,376	135,136,881	–
Receivables from related parties	80,321,265	3,554,698	6,862,142	3,049,841	15,249,204	51,605,380	–
Advances to officers and employees	84,894,895	84,757,488	–	27,698	3,109	106,600	–
Other receivables	344,417	344,417	–	–	–	–	–
Amounts owed by related parties	74,803,557	68,924,692	–	–	–	5,878,865	–
Current portion of security deposits[1]	481,263	481,263	–	–	–	–	–
Security deposits and construction bonds	1,191,251,692	1,191,251,692	–	–	–	–	–
Total	**₱3,530,534,436**	**₱3,229,015,246**	**₱39,558,387**	**₱14,491,388**	**₱54,741,689**	**₱192,727,726**	**₱–**

1 Presented under "Prepayments and other current assets"

December 31, 2017 (Audited)

	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	₱1,608,066,546	₱1,608,066,546	₱–	₱–	₱–	₱–	₱–
Trade and other receivables							
Trade receivables	251,200,356	248,909,907	419,434	101,969	1,769,046	–	–
Nontrade receivables	356,001,339	27,156,883	137,066,079	18,016,682	6,575,694	167,186,001	–
Receivables from related parties	126,957,038	126,957,038	–	–	–	–	–
Advances to officers and employees	73,141,017	70,358,537	2,330,447	5,901	331,009	115,123	–
Other receivables	804,546	–	804,546	–	–	–	–
Amounts owed by related parties	245,092,200	196,132,537	–	–	–	–	48,959,663
Security deposits[1]	10,032,977	10,032,977	–	–	–	–	–
Security deposits and construction bonds	1,019,838,784	1,019,838,784	–	–	–	–	–
Total	₱3,691,134,803	₱3,307,453,209	₱140,620,506	₱18,124,552	₱8,675,749	₱167,301,124	₱48,959,663

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, 2018 and year ended December 31, 2017. 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, 2018.

22. Fair Value of Financial Instruments

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

	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets				
Loans and receivables				
Security deposits and construction bonds	**₱1,191,732,955**	**₱1,175,259,612**	₱1,019,838,784	₱1,004,948,318
Financial Liabilities				
Other financial liabilities				
Long-term debt	**₱960,908,852**	**₱1,001,313,437**	₱1,999,138,850	₱2,029,562,933

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

Cash and cash equivalents, trade and other receivables, amounts owed by/to related parties, current portion of security deposits (presented under prepayments and other current assets), tenants' deposits, trade and other payables and short-term loans
The carrying values of these financial instruments approximate their fair values due to the short-term maturity, ranging from one to twelve months.

Security deposits and construction bonds
The fair values of security deposits are based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 4.65% to 7.03% and 1.91% to 5.00%, were used in calculating the fair value of the Group's refundable deposits as of September 30, 2018 and December 31, 2017, respectively.

Long-term debt
The fair value of long-term debt is based on the discounted value of future cash flows using the applicable market interest rates. Discount rates ranging from 4.29% to 6.20% and 4.08% to 6.36% were used in calculating the fair value of the Group's long-term debt as of September 30, 2018 and December 31, 2017, respectively.

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

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

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

As at September 30, 2018 and December 31, 2017 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, 2018 and years ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

23. Contracts and Commitments

Leases
The Group leases its office space and certain store outlets used in its operations for lease terms ranging from two to three years. Rental payments on certain outlets are based on a fixed basic monthly rate plus a certain percentage of gross sales, while other store outlets and office spaces are based on fixed monthly rates. Rentals charged to operations amounted to ₱1,583.2 million and ₱1,606.1 million, for the nine months ended September 30, 2018 and 2017, respectively (see Notes 14, 15 and 16).

Of the total rent expense, ₱196.4 million and ₱192.3 million for the nine months ended September 30, 2018 and 2017, 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 ₱1,191.7 million and ₱1,029.9 million as of September 30, 2018 and December 31, 2017, respectively, which are refundable upon complete turnover of the leased area. The present value of these deposits was computed using the discount rates prevailing at the inception date of the lease, ranging from 1.24% to 7.15%. Interest income recognized from these security deposits amounted to ₱2.6 million and ₱3.9 million, for the nine months ended September 30, 2018 and 2017, respectively.

Group as lessor
In 2014, the Group leased out portions of the store spaces and parking space in Central Square for a lease term ranging from one to three years. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales. Deposits received from tenants amounted to ₱33.8 million and ₱34.8 million as of September 30, 2018 and December 31, 2017, 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 ₱60.8 million and ₱41.1 million, for the nine months ended September 30, 2018 and 2017, respectively.

24. Segment Reporting

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

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

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

The table below sets out revenue from external customers by category for the nine months ended September 30, 2018 and 2017 (amounts in millions):

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Net Sales		
Luxury and Bridge	**3,521**	₱2,776
Casual	**1,740**	1,471
Fast Fashion	**4,743**	4,604
Footwear, Accessories and Luggage	**1,752**	1,775
Other	**2,035**	1,853
	₱13,791	₱12,479

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, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Philippines	**₱13,745**	₱12,431
Guam	**46**	48
	₱13,791	₱12,479

25. Seasonality of operations

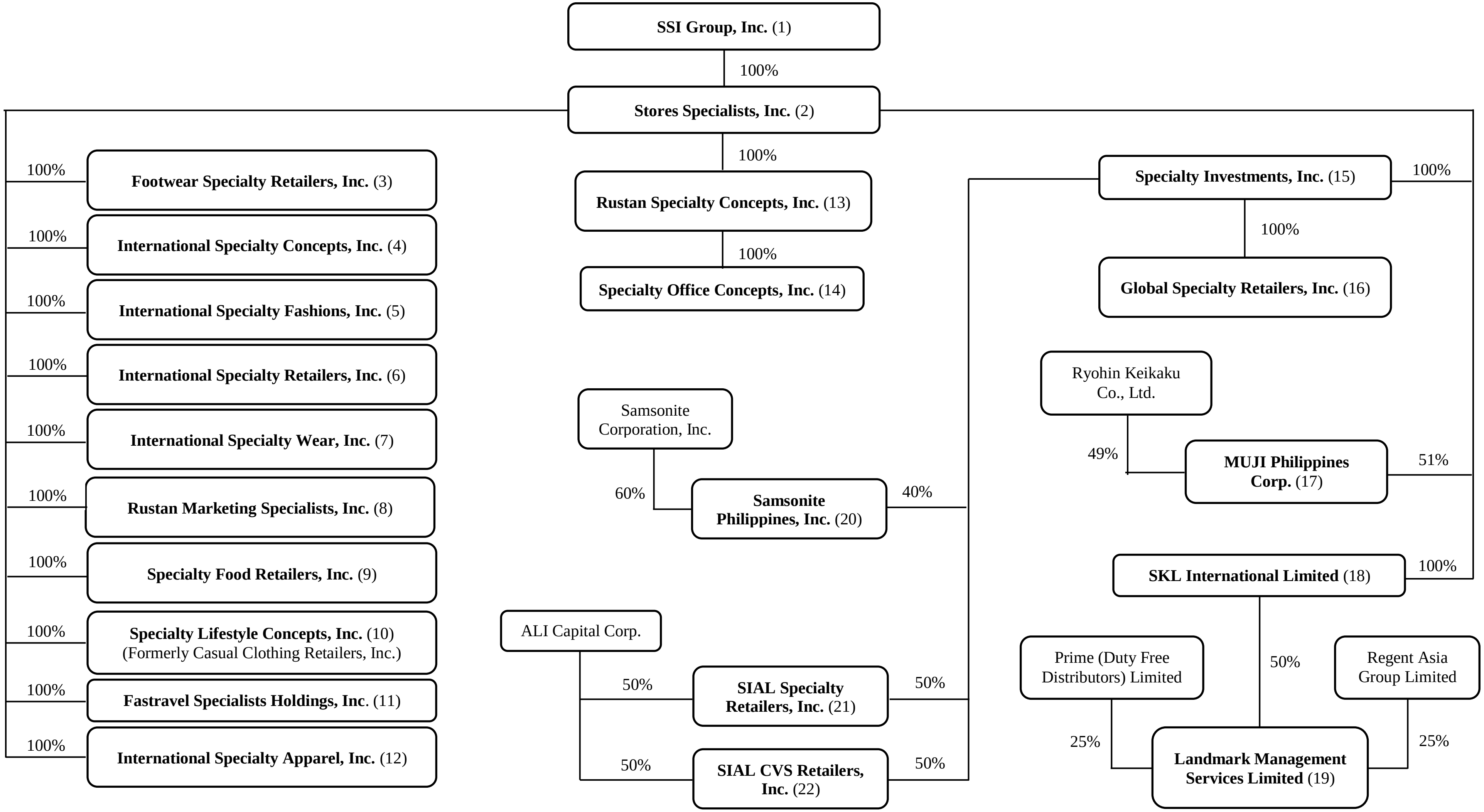
The Group experiences seasonal fluctuations in its operations. The Group's sales typically peak during the fourth quarter of the year due to the increased sales attributable to the Christmas and New Year Holidays.

EXHIBIT I

SSI GROUP, INC. AND SUBSIDIARIES

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

AS OF SEPTEMBER 30, 2018



SSI GROUP, INC.

SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		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			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to 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	✓		
	Amendments to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Segregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments		✓	
	PFRS 9, Financial Instruments (2014 or final version)		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	✓		
	Investment Entities (Amendments to PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 27, Separate Financial Statements)			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interest in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Clarification of Scope of the Standard	✓		
PFRS 13	Fair Value Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 13: Portfolio Exceptions			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓	
PFRS 16	Leases		✓	
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	✓		
	Amendments to PAS 7: Statement of Cash Flows – Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12, Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16: Bearer Plants			✓
	Amendments to PAS 16: Revaluation Method-Proportionate Restatement of Accumulated Depreciation and Amortization			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Related Party Disclosures - Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendment to PAS 27: Equity Method in Separate Financial Statements			✓
	Amendment to PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity and Associate			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	✓		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
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	✓		
	Amendments to PAS 34: Disclosure of Information ‘Elsewhere in the Interim Financial Report’			✓
PAS 36 (Amended)	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 38: Revaluation Method: Proportionate Restatement of Accumulated Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version): Hedge Accounting			✓
PAS 40	Investment Property			✓
	Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC2	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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
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 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreement for Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓	
IFRIC 23	Uncertainty over Income Tax Treatments		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

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

Exhibit III

SSI GROUP, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

September 30, 2018

Unappropriated retained earnings, as adjusted, beginning			₱999,292,554
Net income during the period closed to retained earnings		17,505,615	
Less:	Other realized gains related to accretion of income from security deposits	872,106	
	Deferred tax asset recognized during the year	–	
Net income actually earned during the period			16,633,509
Less:	Dividends declared during the period		(43,045,424)
Retained earnings available for dividend declaration			₱972,880,639

Exhibit IV

SSI GROUP, INC.
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratios	Formula	September 30, 2018	December 31, 2017	September 30, 2017
(i) Current Ratio	Current Assets/Current Liabilities	1.89	1.85	1.84
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.59	0.61	0.71
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.45	0.44	0.58
(iii) Asset to Equity Ratio	Total Assets/Total Equity	1.76	1.83	1.89
(iv) Interest Cover Ratio	EBITDA/Interest Expense	6.54	8.19	8.57
(v) Profitability Ratios				
GP Margin	Gross Profit/Revenues	42.89%	46.96%	48.18%
Net Profit Margin	Net Income/Revenues	2.67%	1.49%	2.74%
EBITDA Margin	EBITDA/Revenues	9.98%	12.88%	13.27%
Return on Assets	Net Income /Total Assets	1.98%	1.47%	1.75%
Return on Equity	Net Income /Total Equity	3.49%	2.69%	3.31%

*EBITDA = Operating income plus depreciation and amortization