

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, 2020**
2. SEC Identification Number: **CS200705607**
3. BIR Tax Identification No.: **006-710-876**
4. Exact name of issuer as specified in its charter: **SSI Group, Inc.**
5. Province, country or other jurisdiction of incorporation or organization: **Makati City, Philippines**
6. Industry Classification Code: (SEC Use Only)
7. Address of principal office:
6/F Midland Buendia Building, 403 Sen. Gil Puyat Avenue, Makati City
Postal Code: **1200**
8. Issuer's telephone number, including area code: **(632) 8890 8034**
9. Former name, former address, and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding as of September 30, 2020
Common Shares	3,298,408,430

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

Yes [] No []

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

Philippine Stock Exchange - Common Shares

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

RESULTS OF OPERATIONS

For the nine months ended September 30, 2020 and 2019

Key Performance Indicators	For the nine months ended September 30	
<i>PhP MM except where indicated</i>	2020	2019
Net Sales	7,299	14,856
Gross Profit – merchandise	3,135	6,786
Operating Income (Loss)	(626)	983
Net Income (Loss)	(762)	521
Gross Selling Space (sq.m.)	116,567	118,258
Decrease in Gross Selling Space (%)	1.4%	3.0%

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

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

Key Financial and Operating Data	For the nine months ended September 30	
<i>PhP MM except where indicated</i>	2020	2019
Key Financial Data		
Net Sales	7,299	14,856
Luxury & Bridge	2,459	4,399
Casual	959	1,953
Fast Fashion	2,170	4,460
Footwear, Accessories & Luggage	567	1,692
Others	1,144	2,351
Gross Profit – merchandise ¹	3,135	6,786
Gross Profit Margin – merchandise (%)	42.9%	45.7%
Operating Income (Loss)	(626)	983
Operating Income (Loss) Margin (%)	(8.6%)	6.6%
Other Income (Charges)	(371)	(228)
Net Income (Loss)	(762)	521
Net Income (Loss) Margin (%)	(10.4%)	3.5%
Total Debt ²	7,157	5,076
Net Debt ³	4,087	3,718
Key Operating Data		
Number of Brands	96	92
Number of Stores	571	582
Gross Selling Space (sq.m.)	116,567	118,258
Decrease in Gross Selling Space (%)	1.4%	3.0%

Revenues

Net sales

SSI Group, Inc. (the “Company” or the “Group”) generated sales of ₱7.3 billion during the first nine months of the year, a 50.9% decrease as compared to the same period in 2019. The Group’s net sales were significantly impacted by the COVID-19 pandemic and the continuing community quarantines imposed by the government.

While the Group’s year-to-date September 2020 sales have been negatively impacted by the COVID-19 pandemic, the Group’s sales began to recover in the 3rd quarter with 3rd quarter sales at ₱2.3 billion, an increase of 208.8% over sales of ₱737.9 million during the 2nd quarter of the year.

In addition to its brick and mortar store network, the Group is currently operating ten (10) brand.com websites in addition to its presence on Rustans.com and other third party marketplaces. For the nine months ended September 30, 2020, e-commerce sales increased by more than 300% as compared to the same period last year.

During the period, the Group also launched *The Specialist*, an At Home concierge service that provides customers with the ability to shop across the entire range of the Group's brands via a dedicated personal shopper.

¹ Calculated as Net Sales minus Cost of Merchandise Sold

² Calculated as the sum of Short-term loans payable, Current portion of long-term debt and Long-term debt

³ Calculated as Total Debt minus Cash

The Group's store network at the end of September 30, 2020 consisted of 571 stores nationwide covering approximately 116,567 square meters. During the third quarter of the year, the Group opened three stores covering 991 square meters and closed 15 stores covering 1,020 square meters.

As of September 30, 2020, the Group had 96 brands in its portfolio, with Balenciaga being added during the third quarter.

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

Store Network	September 30		December 31
	2020	2019	2019
Number of Stores*	571	582	593
Luxury & Bridge	146	139	147
Casual	73	73	76
Fast Fashion	57	58	58
Footwear, Accessories & Luggage	146	157	158
Others	149	155	154
Gross Selling Space (sq.m.)	116,567	118,258	118,922
Luxury & Bridge	13,643	13,185	13,705
Casual	12,151	12,415	12,721
Fast Fashion	50,940	50,759	50,862
Footwear, Accessories & Luggage	20,448	21,362	21,529
Others	19,385	20,537	20,107

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

As of September 30, 2020, the Group operated one (1) store in Guam which contributed de minimis sales to the Group's net sales for the period.

Rental income

Rental income for the nine months ended September 30, 2020 amounted to ₱25.4 million, a 54.9% decrease as compared to the same period last year. Rental income relates to the leasing out of certain store spaces at Central Square as well as income derived from parking spaces at Central Square.

Gross Profit

Gross profit for the nine months ended September 30, 2020 amounted to ₱3.2 billion, a 53.9% decrease as compared to the same period in 2019. The decrease is mainly due to lower sales level as a result of the temporary store closures during the first half of the year and due to lower gross profit margins in the 2nd and 3rd quarters, as the Group focused on driving sales, within a low foot traffic environment.

Gross profit margin for merchandise sold during the nine-month period was at 42.9% as compared to 45.7% during the same period last year. 3Q 2020 gross profit margin was at 36.7%.

Operating Expenses

Total operating expenses for the nine months ended September 30, 2020 amounted to ₱3.8 billion, a decrease of 35.4% as compared to the same period in 2019. The decrease reflects initiatives to reduce

expenses given current operating conditions. However, as a percentage of revenues, operating expenses were at 51.6% as compared to 39.2% during the same period last year. The higher opex to revenues ratio was a result of lower sales levels due to temporary store closures during the period.

For the nine-month period ending September 30, 2020, selling and distribution expenses amounted to ₱2.9 billion, a decrease of 39.8% as compared to the same period last year. The decrease was primarily caused by reduced rental expenses (net of increase in depreciation expense), personnel costs, utilities, credit card charges, and advertising which decreased by a total of ₱1.7 billion.

General and administrative expenses amounted ₱850.5 million for the first nine months of 2020, a decrease of 13.9% as compared to the same period last year. The decrease was primarily attributable to decreases in personnel costs, travel and transportation, and utilities which decreased by a total of ₱114.9 million during the period.

For the first nine months of the year, selling and distribution, and general and administrative expenses were at 40.0% and 11.6% of revenues, respectively.

As a result of the foregoing, operating loss for the period ended September 30, 2020 amounted to ₱626.3 million as compared to ₱982.8 million operating income during the same period last year.

Other Income (Charges)

Other charges for the nine months ended September 30, 2020 amounted to ₱371.5 million, an increase of 63.2% as compared to the same period last year. The increase was primarily attributable to an increase in interest expense to ₱406.3 million and a decrease in the share in net earnings of the Group's associate and joint ventures to a total of ₱2.4 million during the period.

Interest expense related to the Group's loans amounted to ₱274.7 million while interest expense recognized on the Group's lease liabilities amounted to ₱131.6 million during the first nine months of the year.

Provision for (Benefit from) Income Tax

Benefit from income tax for the nine months ended September 30, 2020 amounted to ₱236.2 million, as compared to the provision for income tax of ₱233.8 million during the same period last year. This translates to an effective tax rate of 23.7%.

Net Income (Loss)

As a result of the foregoing, the Group generated a loss of ₱285.2 million during the third quarter, a significant improvement versus its 2nd quarter loss of ₱586.2 million.

Net loss year to date September 30, 2020 amounted to ₱761.5 million as compared to ₱521.3 million net income during the same period last year.

FINANCIAL CONDITION

As of September 30, 2020, the Group had consolidated assets of ₱22.5 billion as compared to ₱22.1 billion as of December 31, 2019.

Current Assets

As of September 30, 2020, the Group had consolidated current assets of ₱15.5 billion, as compared to ₱14.3 billion as of December 31, 2019.

Cash and Cash Equivalents

As of September 30, 2020, cash and cash equivalents amounted to ₱3.1 billion as compared to ₱2.5 billion at the end of 2019. During the second quarter of the year, the Group availed of loans amounting to ₱3.0 billion. The Group used ₱571.9 million in its operations, repaid its existing loans including the related interest expense amounting to ₱629.6 million, and had capital expenditures of ₱292.9 million during the nine-month period. However, during the third quarter of 2020, the Group generated positive operating cash flows of ₱673.5 million.

Merchandise Inventories

As of September 30, 2020, merchandise inventories amounted to ₱10.7 billion as compared to ₱9.8 billion at the end of 2019. The increase during the period was a result of lower sales level due to temporary store closures.

Prepayments and Other Current Assets

As of September 30, 2020, prepayment and other current assets amounted to ₱894.2 million as compared to ₱1.2 billion at the end of 2019. The decrease during the period was mainly due to decreases in advances to suppliers to ₱99.4 million and supplies to ₱413.9 million.

Non-Current Assets

Investment in an Associate

As of September 30, 2020, investment in an associate amounted to ₱100.1 million as compared to ₱86.8 million at the end of 2019. The increase reflects the Group's share in the net earnings of SPI during the period amounting to ₱13.3 million.

Property and Equipment

As of September 30, 2020, property and equipment amounted to ₱4.5 billion as compared to ₱5.6 billion at the end of 2019. The decrease is primarily due to additional depreciation expense recognized during the period amounting to ₱1.4 billion. During the period, the Group made capital expenditures amounting to ₱292.9 million and recognized additional right-of-use assets amounting to ₱27.9 million.

Deferred Tax Assets

As of September 30, 2020, deferred tax assets amounted to ₱586.3 million as compared to ₱334.3 million at the end of 2019. These pertain to tax assets recognized for the Group's deductible temporary differences, carryforward benefits of unused minimum corporate income tax (MCIT) and NOLCO, to the extent that it is probable that sufficient future taxable profit will be available against

which the deductible temporary differences and the carryforward benefits of unused MCIT and NOLCO can be utilized.

Current Liabilities

As of September 30, 2020, the Group's total consolidated current liabilities amounted to ₱9.8 billion as compared to ₱8.1 billion at the end of 2019.

Trade and Other Payables

As of September 30, 2020, trade and other payables amounted to ₱1.9 billion as compared to ₱2.5 billion at the end of 2019. The decrease was attributable to a decrease in trade payables to ₱1.2 billion, a decrease in nontrade payables and accrued expenses to a total of ₱646.9 million as a result of lower expenses (e.g. rent, utilities) incurred during the period, and a decrease in output VAT to ₱15.4 million due to lower sales level during the first nine months of 2020.

Short-term Loans Payable

As of September 30, 2020, short-term loans payable amounted to ₱7.0 billion as compared to ₱4.1 billion at the end of 2019. The Group drew on additional lines to increase its cash reserves during the second quarter of the year.

Non- Current Liabilities

Long-term Debt

As of September 30, 2020, total long-term debt amounted to ₱146.6 million as compared to ₱401.5 million at the end of 2019. The decrease pertains to the Group's quarterly repayments on its ₱500.0 million long-term loan and the full repayment of the Group's syndicated term loan facility during the period. Total long-term debt as of the end of September 2020 is classified as current as the amount will be paid within the next 12 months.

Retirement Benefit Obligation

As of September 30, 2020, retirement benefit obligation amounted to ₱642.8 million as compared to ₱600.7 million at the end of 2019. This represents the difference between the present value of the Group's retirement plan obligations and the fair value of the Group's plan assets.

Lease Liabilities

As of September 30, 2020, total lease liabilities amounted to ₱2.1 billion as compared to ₱2.8 billion at the end of 2019. The decrease reflects the amortization of lease liabilities during the period amounting to ₱935.7 million which was offset by the interest expense on lease liabilities recognized during the period amounting to ₱131.6 million.

Current portion of lease liabilities, or amortization to be made within the next 12 months, less the related the interest expense, amounted to ₱675.5 million while the noncurrent portion amounted to ₱1.4 billion at the end of September 2020.

Equity

As of September 30, 2020, total equity amounted to ₱10.6 billion as compared to ₱11.4 billion at the end of 2019. The decrease reflects the Group's total net loss of ₱761.5 million and treasury shares purchased by the Group amounting to ₱12.8 million during the 1st quarter of the year.

CASH FLOWS

For the first nine months of 2020, cash flows used in the Group's operations amounted to ₱571.9 million as compared to positive ₱296.8 million generated during the same period last year. This reflects cash flows generated from operations before working capital changes of ₱854.6 million, an increase in merchandise inventories of ₱923.4 million, and a decrease in trade and other payables of ₱629.3 million.

However, during the third quarter of the year, the Group generated operating cash flows of ₱673.5 million as compared to ₱36.7 million during the same period last year.

Cash flows used in investing activities totaled ₱307.4 million for the nine months ended September 30, 2020, which primarily reflects the Group's capital expenditures during the period.

Cash flows from financing activities amounted to ₱1.5 billion for the first nine months of 2020. During the period, the Group availed loans (net of repayments and related interest) totaling ₱2.4 billion.

Other Disclosures

- (i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (ii) There were no events that will trigger direct or contingent financial obligations that are material to the Company, including and default or acceleration of an obligation.
- (iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- (iv) There are no material commitments for capital expenditures aside from those performed in the ordinary course of business.
- (v) The closure of substantially all of the Group's stores from March 17, 2020 to May 31, 2020 and from August 4 to 18, 2020 are expected to have a material impact on the Group's revenues in 2020.
- (vi) There were no significant elements of income or loss that did not arise from continuing operations.
- (vii) The Group usually experiences the fourth quarter of the year as the peak season relating to increased sales resulting from the Christmas and New Year holidays.

PART II – OTHER INFORMATION

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

SIGNATURES

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

SSI GROUP, INC.

By:



ROSSELLINA J. ESCOTO

Authorized Signatory

Vice President - Finance

November 13, 2020

SSI Group, Inc. and Subsidiaries

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

SSI GROUP, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As of September 30, 2020

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

	September 30 2020 (Unaudited)	December 31 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	P3,069,970,720	P2,492,459,933
Trade and other receivables (Note 4)	794,520,629	785,743,181
Merchandise inventories (Note 5)	10,742,231,951	9,818,880,088
Prepayments and other current assets (Note 6)	894,153,115	1,167,736,212
Total Current Assets	15,500,876,415	14,264,819,414
Noncurrent Assets		
Investment in an associate (Note 7)	100,058,427	86,776,792
Interests in joint ventures (Note 8)	557,990,635	568,859,842
Property and equipment (Note 9)	4,506,338,961	5,592,880,009
Deferred tax assets - net	586,256,220	334,276,084
Security deposits and construction bonds (Note 23)	1,029,727,289	1,035,414,362
Other noncurrent assets (Note 10)	177,622,907	182,435,276
Total Noncurrent Assets	6,957,994,439	7,800,642,365
TOTAL ASSETS	P22,458,870,854	P22,065,461,779
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	P1,902,328,621	P2,531,640,071
Short-term loans payable (Note 12)	7,010,000,000	4,075,000,000
Current portion of long-term debt (Note 13)	146,644,718	283,986,981
Current portion of lease liabilities (Note 23)	675,503,271	980,470,908
Deferred revenue	20,991,291	20,991,291
Income tax payable	13,964,285	162,001,413
Total Current Liabilities	9,769,432,186	8,054,090,664
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 13)	-	117,554,404
Lease liabilities - net of current portion (Note 23)	1,380,686,493	1,851,991,876
Retirement benefit obligation	642,847,718	600,692,107
Tenant deposits (Note 23)	20,011,722	19,864,451
Total Noncurrent Liabilities	2,043,545,933	2,590,102,838
Total Liabilities	11,812,978,119	10,644,193,502
Equity		
Capital stock	3,312,864,430	3,312,864,430
Additional paid-in capital	2,519,309,713	2,519,309,713
Treasury shares	(30,893,010)	(18,103,900)
Retained earnings		
Appropriated	1,100,000,000	1,100,000,000
Unappropriated	3,902,968,637	4,664,505,311
Cumulative translation adjustment	(2,169,584)	(2,169,584)
Other comprehensive loss	(156,187,451)	(155,137,693)
Total Equity	10,645,892,735	11,421,268,277
TOTAL LIABILITIES AND EQUITY	P22,458,870,854	P22,065,461,779

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

	Three-Month Periods Ended September 30		Nine-Month Periods Ended September 30	
	2020	2019	2020	2019
REVENUES				
Revenue from contract with customers - net sales	₱2,278,303,869	₱5,004,646,290	₱7,299,089,297	₱14,855,645,459
Rental income (Note 23)	7,173,640	19,862,029	25,376,571	56,311,656
	2,285,477,509	5,024,508,319	7,324,465,868	14,911,957,115
COST OF GOODS SOLD AND SERVICES				
(Note 14)	1,446,039,799	2,753,190,431	4,173,434,861	8,081,531,654
GROSS PROFIT	839,437,710	2,271,317,888	3,151,031,007	6,830,425,461
OPERATING EXPENSES				
Selling and distribution (Note 15)	740,219,662	1,631,451,277	2,926,757,568	4,859,474,477
General and administrative (Note 16)	322,457,777	325,064,457	850,536,612	988,171,956
	1,062,677,439	1,956,515,734	3,777,294,180	5,847,646,433
OTHER INCOME (CHARGES)				
Share in net earnings (losses) of an associate (Note 7)	(2,277,044)	21,343,148	13,281,635	46,449,438
Interest accretion on security deposits (Note 24)	702,556	665,982	2,594,569	1,894,247
Interest income (Note 3)	1,853,759	1,175,498	4,169,035	4,008,582
Interest expense (Notes 12, 13 and 23)	(154,037,812)	(84,298,779)	(406,329,553)	(245,162,191)
Loss on disposal of property and equipment (Note 9)	(11,558,401)	(14,136,186)	(28,425,520)	(55,407,279)
Share in net earnings (losses) of joint ventures (Note 8)	(6,555,915)	5,851,829	(10,869,208)	19,739,556
Foreign exchange losses - net	(3,036,332)	(5,623,060)	(8,759,587)	(7,696,162)
Others - net	26,643,525	12,764,773	62,856,804	8,569,774
	(148,265,664)	(62,256,795)	(371,481,825)	(227,604,035)
INCOME (LOSS) BEFORE INCOME TAX	(371,505,393)	252,545,359	(997,744,998)	755,174,993
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	6,613,501	89,303,221	15,305,535	274,884,176
Deferred	(92,876,102)	(12,156,956)	(251,513,859)	(41,050,384)
	(86,262,601)	77,146,265	(236,208,324)	233,833,792
NET INCOME (LOSS)	(285,242,792)	175,399,094	(761,536,674)	521,341,201
OTHER COMPREHENSIVE INCOME				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Cumulative translation adjustment on foreign operations, net of deferred tax	-	-	-	16,210
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement loss on retirement benefit, net of deferred tax	-	-	(1,049,758)	(11,409,202)
TOTAL COMPREHENSIVE INCOME	(₱285,242,792)	₱175,399,094	(₱762,586,432)	₱509,948,209
BASIC/DILUTED EARNINGS (LOSS) PER SHARE (Note 20)				
	(₱0.09)	₱0.05	(₱0.23)	₱0.16

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, 2020 AND 2019

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Retained Earnings		Cumulative Translation Adjustment	Other Comprehensive Loss	Total
				Appropriated	Unappropriated			
Balances at January 1, 2019	₱3,312,864,430	₱2,519,309,713	(₱7,558,440)	₱1,100,000,000	₱3,901,797,763	(₱2,123,272)	(₱6,554,441)	₱10,817,735,753
Net income	–	–	–	–	521,341,201	–	–	521,341,201
Other comprehensive loss	–	–	–	–	–	–	(11,409,202)	(11,409,202)
Exchange differences on translation	–	–	–	–	–	16,210	–	16,210
Total comprehensive income for the period	–	–	–	–	521,341,201	16,210	(11,409,202)	509,948,209
Treasury shares	–	–	(2,644,280)	–	–	–	–	(2,644,280)
Dividends paid during the period	–	–	–	–	(49,957,284)	–	–	(49,957,284)
Balances at September 30, 2019	₱3,312,864,430	₱2,519,309,713	(₱10,202,720)	₱1,100,000,000	₱4,373,181,680	(₱2,107,062)	(₱17,963,643)	₱11,275,082,398
Balances at January 1, 2020	₱3,312,864,430	₱2,519,309,713	(₱18,103,900)	₱1,100,000,000	₱4,664,505,311	(₱2,169,584)	(₱155,137,693)	₱11,421,268,277
Net loss	–	–	–	–	(761,536,674)	–	–	(761,536,674)
Other comprehensive loss	–	–	–	–	–	–	(1,049,758)	(1,049,758)
Total comprehensive loss for the period	–	–	–	–	(761,536,674)	–	(1,049,758)	(762,586,432)
Treasury shares	–	–	(12,789,110)	–	–	–	–	(12,789,110)
Balances at September 30, 2020	₱3,312,864,430	₱2,519,309,713	(₱30,893,010)	₱1,100,000,000	₱3,902,968,637	(₱2,169,584)	(₱156,187,451)	₱10,645,892,735

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	
	2020 (Unaudited)	2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	(₱997,744,998)	₱755,174,996
Adjustments for:		
Depreciation and amortization (Notes 9, 10 and 18)	1,386,123,632	639,809,715
Interest expense (Notes 12, 13 and 23)	406,329,553	245,162,191
Loss on disposal of property and equipment (Note 9)	28,425,520	48,350,363
Share in net earnings of an associate (Note 7)	(13,281,635)	(46,449,438)
Share in net losses (earnings) of joint ventures (Note 8)	10,869,208	(19,739,556)
Unrealized foreign exchange losses	–	1,187,639
Interest income (Note 3)	(4,169,035)	(4,008,582)
Interest accretion on security deposits (Note 23)	(2,594,569)	(1,894,247)
Movement in retirement benefit obligation	40,655,956	13,683,989
Operating income before working capital changes	854,613,632	1,631,277,070
Decrease (increase) in:		
Trade and other receivables	(8,777,448)	(43,950,446)
Merchandise inventories	(923,351,863)	(1,661,667,838)
Prepayments and other current assets	293,974,442	(142,498,507)
Increase (decrease) in:		
Trade and other payables	(629,311,450)	760,297,651
Tenant deposits	147,271	75,775
Deferred revenue	–	678,895
Net cash generated from (used in) operations	(412,705,416)	544,212,600
Interest received	4,169,035	4,008,582
Income taxes paid	(163,359,043)	(251,374,265)
Net cash flows from (used in) operating activities	(571,895,424)	296,846,918
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 9)	(292,907,298)	(584,024,090)
Increase in:		
Security deposits and construction bonds	(12,109,703)	(65,057,172)
Other noncurrent assets	(2,421,195)	(8,286,781)
Net cash flows used in investing activities	(307,438,307)	(657,368,043)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of short-term loans payable	3,035,000,000	1,085,000,000
Payments of:		
Short-term loans payable	(100,000,000)	(1,090,000,000)
Long-term debt	(254,896,667)	(338,229,999)
Lease liability	(804,140,151)	–
Interest	(406,329,553)	(245,162,191)
Dividends paid during the year	–	(49,957,284)
Purchase of treasury shares	(12,789,110)	(2,644,280)
Net cash flows from (used in) financing activities	1,456,844,519	(640,993,754)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	577,510,787	(1,001,514,880)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	–	(1,187,639)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,492,459,933	2,360,460,924
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 3)	₱3,069,970,720	₱1,357,758,405

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).

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 unaudited interim condensed consolidated financial statements were reviewed and recommended for approval by the Audit Committee to the Board of Directors (BOD) on November 4, 2020. The same unaudited interim condensed consolidated financial statements were approved and authorized by the BOD on the same date.

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

Basis of Presentation

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

Basis of Preparation

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

Basis of Consolidation

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

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

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

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

Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

Common control business combinations and group reorganizations

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

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

Changes in Accounting Policies and Disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2020. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the Group's financial statements.

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

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

Effective beginning on or after June 1, 2020:

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

3. Cash and Cash Equivalents

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash on hand	₱24,102,796	₱61,720,680
Cash in banks	2,245,867,924	2,372,029,222
Short-term investments	800,000,000	58,710,031
	₱3,069,970,720	₱2,492,459,933

Cash in banks earn interest at the respective bank deposit rates. Interest earned from cash in banks for the nine months ended September 30, 2020 and 2019 amounted to ₱4,169,035 and ₱4,008,582, respectively.

4. Trade and Other Receivables

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade receivables	₱235,823,247	₱366,360,017
Nontrade receivables	397,574,174	215,673,361
Receivables from related parties (see Note 19)	92,279,508	111,794,889
Advances to officers and employees	77,170,516	67,961,679
Dividend receivable	-	25,200,000
Others	-	7,080,051
	802,847,445	794,069,997
Less allowance for ECL on nontrade receivables	8,326,816	8,326,816
	₱794,520,629	₱785,743,181

Trade receivables primarily pertain 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 Inventories

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
At cost		
On hand	P10,478,133,250	P9,040,507,891
In transit	264,098,701	778,372,197
	P10,742,231,951	P9,818,880,088

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

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

The cost of inventories recognized as expense and presented in “Cost of merchandise sold” amounted to P4,164.26 million and P8,069.44 million, for the nine months ended September 30, 2020 and 2019, respectively (see Note 14).

6. Prepayments and Other Current Assets

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Supplies	P413,933,847	P476,229,580
Input Value Added Tax (VAT)	115,286,023	106,951,795
Advances to suppliers	99,414,424	383,811,622
Creditable withholding tax	70,396,669	46,721,136
Prepaid advertising	42,759,990	9,386,640
Deferred input VAT	42,756,796	8,778,465
Current portion of security deposits (see Note 23)	41,478,461	24,144,925
Prepaid insurance	11,008,560	23,844,210
Current portion of prepaid rent (see Note 23)	3,454,641	35,563,482
Prepaid guarantee	6,837,894	5,090,418
Others	46,825,810	47,213,939
	P894,153,115	P1,167,736,212

Supplies 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 advance payments for non-merchandise purchases arising from transactions made by the Group with its foreign suppliers.

7. Investment in an Associate

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Acquisition cost	₱24,640,000	₱24,640,000
Accumulated equity in net earnings:		
Balance at beginning of year	62,136,792	29,954,522
Share in net earnings	13,281,635	57,382,270
Dividends received	-	(25,200,000)
Balance at end of year	75,418,427	62,136,792
	₱100,058,427	₱86,776,792

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

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

8. Interests in Joint Ventures

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

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

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

September 30, 2020 (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	44,796,081	59,517,308	(407,344,383)	(420,350,000)	(723,380,994)
Share in net earnings (loss)	(18,046,256)	7,177,048	–	–	(10,869,208)
Balances at end of period	26,749,825	66,694,356	(407,344,383)	(420,350,000)	(734,250,202)
	₱402,046,279	₱155,944,356	₱–	₱–	₱557,990,635

December 31, 2019 (Audited)

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

Investment in LMS

On August 12, 2015, SKL, a wholly owned subsidiary of SSI, executed agreements to effect the acquisition of a 50% equity stake in Landmark Management Services Ltd. (LMS) from its two existing shareholders, Regent Asia Group Limited (Regent) and Prime (Duty Free Distributors) Limited (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 Philippines and is being amortized over 10.7 years. Amortization expense, which is included in the share in net earnings of LMS, amounted to ₱1.90 million and ₱1.90 million for the nine months ended September 30, 2020 and 2019, respectively.

Investment in MPC

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

Investment in SSRI and SCRI

The remaining carrying value of the investment, after the share in net losses, amounting to ₱27.16 million is fully provided with impairment loss. Both SSRI and SCRI has no commercial operations as at September 30, 2020.

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

9. Property and Equipment

The composition and movements of this account are as follows:

September 30, 2020 (Unaudited)

	Leasehold Improvements	Store, Office, Warehouse Furniture and Fixtures	Building	Transportation Equipment	Right of Use Asset	Construction in Progress	Total
Cost:							
Balances at beginning of year	₱7,255,634,677	₱2,514,378,268	₱892,989,252	₱304,733,387	₱3,926,426,489	₱87,301,743	₱14,981,463,816
Additions	181,489,172	52,383,785	785,052	1,999,703	27,867,131	56,249,586	320,774,429
Disposals and retirement	(91,572,518)	(24,478,456)	–	–	–	–	(116,050,974)
Reclassifications	56,782,450	–	–	–	–	(56,782,450)	–
Balances at end of period	7,402,333,781	2,542,283,597	893,774,304	306,733,090	3,954,293,620	86,768,879	15,186,187,271
Accumulated depreciation and amortization:							
Balances at beginning of year	5,773,219,940	1,998,491,501	290,513,069	153,766,171	1,172,593,126	–	9,388,583,807
Depreciation and amortization (see Note 18)	404,252,072	123,407,841	32,604,308	18,560,732	800,065,004	–	1,378,889,957
Disposals and retirement	(64,459,702)	(23,165,752)	–	–	–	–	(87,625,454)
Balances at end of period	6,113,012,310	2,098,733,590	323,117,377	172,326,903	1,972,658,130	–	10,679,848,310
Net book values	₱1,289,321,471	₱443,550,007	₱570,656,927	₱134,406,187	₱1,981,635,490	₱86,768,879	₱4,506,338,961

December 31, 2019 (Audited)

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

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

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

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

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

10. Other Noncurrent Assets

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Franchise fee	₱89,014,689	₱94,484,273
Miscellaneous deposits	84,702,000	42,534,120
Software costs	2,575,455	3,278,569
Deferred input VAT	–	42,135,332
Others	1,330,763	2,982
	₱177,622,907	₱182,435,276

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

11. Trade and Other Payables

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade payables	₱1,163,487,521	₱1,312,044,432
Nontrade payables	577,771,263	713,833,266
Accrued expenses	69,118,354	274,736,642
Retention payable	52,480,467	56,514,419
Tenant deposits (see Note 23)	16,938,885	39,956,757
Output VAT	15,433,312	100,067,225
Payable to related parties (see Note 19)	9,036	1,354,050
Others	7,089,783	33,133,280
	₱1,902,328,621	₱2,531,640,071

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

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

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

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

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

12. Short-term Loans Payable

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Banks:		
Bank of the Philippine Islands (BPI)	₱2,710,000,000	₱2,325,000,000
Rizal Commercial Banking Corporation (RCBC)	1,440,000,000	–
BDO Unibank, Inc.	960,000,000	350,000,000
Bank of Commerce	700,000,000	600,000,000
Metropolitan Bank & Trust Co. (MBTC)	400,000,000	500,000,000
Security Bank Corporation (SBC)	500,000,000	–
China Banking Corporation (CBC)	300,000,000	300,000,000
	₱7,010,000,000	₱4,075,000,000

The Group's outstanding short-term peso-denominated loans from local commercial banks bear interest at rates ranging from 4.75% to 6.00% and 5.25% to 5.75% for the nine months ended September 30, 2020 and 2019, respectively.

Interest expense recognized in the interim consolidated statements of comprehensive income for the nine months ended September 30, 2020 and 2019 amounted to ₱267.18 million and ₱220.83 million, 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 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 was fully paid on May 20, 2020.

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

The purpose of these loans is solely to 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, 2020 (Unaudited)	December 31, 2019 (Audited)
BPI	₱146,644,718	₱279,280,156
SBC	–	44,304,426
CBC	–	30,563,391
MBTC	–	30,563,391
RCBC	–	16,830,021
Total	146,644,718	401,541,385
Less: current portion	146,644,718	283,986,981
Noncurrent portion	₱–	₱117,554,404

Interest expense recognized in the interim consolidated statements of comprehensive income for the nine months ended September 30, 2020 and 2019 amounted to ₱7.56 million and ₱24.33 million, respectively.

Loan Covenants

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

14. Cost of Goods Sold and Services

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Cost of merchandise sold (see Note 5)	₱4,164,263,161	₱8,069,440,960
Depreciation and amortization (see Notes 9 and 18)	2,984,104	3,061,862
Rent (see Note 23)	2,437,187	2,376,290
Utilities	1,971,290	3,030,726
Outside services	361,728	1,360,680
Others	1,417,391	2,261,136
	₱4,173,434,861	₱8,081,531,654

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

Cost of merchandise sold:

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Merchandise inventories, beginning	₱9,818,880,088	₱9,245,189,954
Net purchases	5,087,615,024	9,731,108,798
Cost of merchandise available for sale	14,906,495,112	18,976,298,752
Less merchandise inventories, ending	(10,742,231,951)	(10,906,857,792)
	₱4,164,263,161	₱8,069,440,960

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

15. Selling and Distribution Expenses

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Depreciation and amortization (see Notes 9, 10 and 18)	₱1,220,893,453	₱544,265,206
Personnel costs (see Note 17)	642,122,337	914,508,680
Utilities	256,691,043	422,236,419
Taxes and licenses	193,055,429	177,781,627
Credit card charges	147,209,580	283,673,734
Rent (see Notes 19 and 23)	(144,352,192)	1,509,495,573
Advertising	117,585,456	187,683,670
Supplies and maintenance	99,769,229	156,134,895
Security services	76,546,138	120,098,009
Global marketing contribution fee	63,389,672	138,964,866
Insurance	42,708,175	34,909,244
Professional fees	38,246,978	64,134,310
Delivery and freight charges	33,605,597	66,382,075
Repairs and maintenance	31,124,092	52,745,003
Travel and transportation	21,513,845	67,815,508
Communication	20,317,298	25,433,178
Outside services	16,060,883	22,781,097
Entertainment, amusement and recreation (EAR)	1,806,488	8,416,810
Telegraphic transfer	817,502	1,602,973
Others	47,646,565	60,411,599
	₱2,926,757,568	₱4,859,474,477

16. General and Administrative Expenses

	September 30, 2020	September 30,
	(Unaudited)	(Unaudited)
Personnel costs (see Note 17)	₱426,216,146	₱489,584,963
Depreciation and amortization (see Notes 9, 10 and 18)	162,246,075	92,482,648
Insurance	35,269,092	12,414,133
Taxes and licenses	34,697,579	32,979,441
Utilities	31,627,153	53,811,592
Repairs and maintenance	24,763,904	25,465,986
Supplies and maintenance	23,959,104	28,224,100
Rent (see Note 23)	21,517,269	94,444,392
Security services	16,071,514	24,856,870
Communication	11,362,413	15,330,122
Professional fees	10,051,827	10,823,996
Advertising	7,307,564	16,892,174
Travel and transportation	6,766,708	36,103,787
EAR	1,791,697	5,048,747
Outside service	332,054	811,766
Others	36,556,513	48,897,240
	₱850,536,612	₱988,171,956

17. Personnel Costs

Personnel costs were charged to operations as follows:

	September 30, 2020	September 30,
	(Unaudited)	(Unaudited)
Salaries, wages and bonuses	₱951,479,851	₱1,203,316,702
Retirement benefit expense	44,262,654	37,027,786
Other employee benefits	72,595,978	163,749,155
	₱1,068,338,483	₱1,404,093,643

Personnel costs were distributed as follows:

	September 30, 2020	September 30,
	(Unaudited)	(Unaudited)
Selling and distribution (see Note 15)	₱642,122,337	₱914,508,680
General and administrative (see Note 16)	426,216,146	489,584,963
	₱1,068,338,483	₱1,404,093,643

18. Depreciation and Amortization Expense

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Property and equipment (see Note 9)	₱1,378,889,957	₱625,593,981
Franchise fee (see Note 10)	6,310,202	13,204,612
Software costs (see Note 10)	923,473	1,011,122
	₱1,386,123,632	₱639,809,715

Depreciation and amortization were distributed as follows:

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Cost of services (see Note 14)	₱2,984,104	₱3,061,862
Selling and distribution (see Note 15)	1,220,893,453	544,265,206
General and administrative (see Note 16)	162,246,075	92,482,647
	₱1,386,123,632	₱639,809,715

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 ₱30.76 million and ₱59.40 million, for the nine months ended September 30, 2020 and 2019, respectively;
- b. The Group reimburses related parties for its expenses paid by the related parties in behalf of the Group;
- c. Sales through the use of related parties' gift certificates. Total value of related parties' gift certificates used amounted to ₱10.61 million and ₱19.01 million for the nine months ended September 30, 2020 and 2019, respectively;
- d. Short-term noninterest-bearing cash advances to/from related parties; and
- e. Compensation of the Company's key management personnel comprised of short-term employee benefits amounting to ₱27.9 million, ₱28.0 million for the nine months in the period ended September 30, 2020 and 2019, respectively, and post-employment benefits amounting to ₱4.1 million and ₱4.2 million for the nine months ended September 30, 2020 and 2019, respectively.

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

Related Parties	Periods ended	Transactions for the period	Outstanding balances	
			Receivables from related parties (see Note 4)	Payable to related parties (see Note 11)
<i>Under common control</i>				
RCC	September 30, 2020	(P13,431,717)	P31,108,264	P-
	December 31, 2019	P15,317,660	P34,220,435	P709,594
RMK	September 30, 2020	3,492,245	40,258,525	9,036
	December 31, 2019	11,087,521	39,384,773	644,456
Others	September 30, 2020	-	-	-
	December 31, 2019	-	6,380	-
<i>Joint ventures</i>				
PFM	September 30, 2020	-	18,481,052	-
	December 31, 2019	7,838	18,481,052	-
MPC	September 30, 2020	(4,350)	-	-
	December 31, 2019	6,247,633	17,285,247	-
<i>Associate</i>				
SPI	September 30, 2020	26,466	2,431,667	-
	December 31, 2019	223,034	2,417,002	-
	September 30, 2020		P92,279,508	P9,036
	December 31, 2019		P111,794,889	P1,354,050

The related party balances as of September 30, 2020 and December 31, 2019 are due and demandable, non-interest bearing and unsecured. Except for receivables from SCRI which was provided with allowance amounting P23.63 million, all receivables from related parties are not impaired. All related party balances are settled in cash.

20. Earnings (Loss) Per Share (EPS)

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

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Net income (loss)	(P761,536,674)	P521,341,198
Divided by weighted average number of common shares	3,301,737,057	3,309,186,035
	(P0.23)	P0.16

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

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 payables and long-term debt, amounts owed to/by related parties, tenant deposits, and security deposits and construction bonds which arise directly from its operations.

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

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

Credit risk

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

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash and cash equivalents	₱3,045,867,924	₱2,430,739,253
Trade and other receivables		
Trade receivables	235,823,247	366,360,017
Nontrade receivables	397,574,174	215,673,361
Receivables from related parties	92,279,508	111,794,889
Dividend receivable	-	25,200,000
Others	-	7,080,051
Security deposits and construction bonds	1,071,205,750	1,059,559,287
	₱4,842,750,603	₱4,216,406,858

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

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

September 30, 2020 (Unaudited)

	Total	Neither past due nor impaired	Past due but not impaired				Impaired
			<30 days	30 - 60 days	60 - 90 days	> 90 days	
Cash in banks	₱3,045,867,924	₱3,045,867,924	₱-	₱-	₱-	₱-	₱-
Trade and other receivables							
Trade receivables	235,823,247	192,557,793	26,465,606	785,536	1,244,160	14,770,153	-
Nontrade receivables	397,574,174	16,911,979	142,944,247	12,997,684	17,338,456	199,054,991	8,326,816
Receivables from related parties	92,279,508	1,813,035	20,221,956	8,425,815	6,740,652	55,078,051	-
Others	-	-	-	-	-	-	-
Security deposits and construction bonds	1,071,205,750	1,071,205,750	-	-	-	-	-
Total	₱4,842,750,603	₱4,149,889,447	₱189,631,808	₱33,081,704	₱25,323,268	₱436,497,560	₱8,326,816

December 31, 2019 (Audited)

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

Impairment of financial assets

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

- a. Cash and cash equivalents, nontrade receivables (except those related to principals), amounts owed by related parties and security deposits and construction bonds. The Group uses general approach in assessing impairment of these financial assets. The credit risk of these financial asset is presumed to increase when the contractual payments are more than 30 days past due. As of September 30, 2020 and December 31, 2019, there has been no increase in credit risk of these financial assets since initial recognition except for amounts owed by related parties amounting to ₱23.63 million which are classified as credit impaired as of September 30, 2020 and December 31, 2019.
- b. Trade receivables. For these financial assets, the Group uses simplified approach. An impairment analysis is performed at each reporting date to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. As of September 30, 2020 and December 31, 2019, the identified impairment losses on these financial assets were immaterial.
- c. Nontrade receivables pertain to receivables from principals. The credit risk of these financial assets is presumed to increase when the contractual payments are more than 90 days past due. As of September 30, 2020 and December 31, 2019, nontrade receivables from principals amounting to ₱8.33 million are classified as credit impaired.

Capital Management

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

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

As disclosed in Note 13, the Group is required by their creditors to maintain a debt-to-equity ratio and debt-service coverage ratio. The Group, thus, monitors capital on the basis of debt-to-equity ratio which is calculated as total liabilities divided by total equity. The 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, 2020 and December 31, 2019.

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, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
<i>Loans and receivables</i>				
Security deposits and construction bonds	₱1,071,205,750	₱1,054,902,123	₱1,018,278,699	₱1,050,086,063
Financial Liabilities				
<i>Other financial liabilities</i>				
Current portion of long-term debt	₱146,644,718	₱146,644,718	₱851,266,123	₱975,414,968

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

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

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

Security deposits and construction bonds

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

Long-term debt

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

Fair Value Hierarchy

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

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

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

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

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

23. Contracts and Commitments

Group as a Lessee

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

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

	Right-of-use assets	Lease liabilities
Balances at beginning of the year	₱2,753,833,363	₱2,832,462,784
Additions	27,867,131	27,867,131
Interest expense	–	131,593,498
Depreciation expense	(800,065,004)	–
Payments/lease liability amortization	–	(935,733,649)
Balances at end of the year	1,981,635,490	2,056,189,764
Less current portion	–	675,503,271
Balances at end of the year	<u>₱1,981,635,490</u>	<u>₱1,380,686,493</u>

The Group has paid security deposits for the store outlets and office spaces with carrying amounts of ₱1,071.21 million and ₱1,059.56 million as of September 30, 2020 and December 31, 2019, respectively, which are refundable upon complete turnover of the leased area. The present value of these deposits was computed using the discount rates prevailing at the inception date of the lease, ranging from 3.56% to 6.89%. Interest income recognized from these security deposits amounted to ₱2.59 million and ₱1.89 million, for the nine months ended September 30, 2020 and 2019, respectively.

Group as lessor

In 2014, the Group leased out portions of the store spaces and parking space in Central Square for a lease term ranging from one to three years. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales. Deposits received from tenants amounted to ₱36.95 million and ₱59.82 million as of September 30, 2020 and December 31, 2019, respectively, pertaining to deposits on the leased spaces.

In 2015, the Group subleased its leased space in NAIA Terminal 3 for a lease term of one year to five years. Rental income on these spaces is based on a fixed basic monthly rate plus a certain percentage of gross sales. Rental income recognized on these spaces amounted to ₱25.38 million and ₱56.31 million, for the nine months ended September 30, 2020 and 2019, respectively.

Upon the adoption of PFRS 16, the Group reassessed the classification of the ongoing subleases that were classified as operating leases under PAS 17 and determined that the subleases qualify as finance lease under the new standard. The assessment was made on the basis of the remaining contractual terms and conditions of the head lease and sublease. The Group accounted for the subleases as new finance leases entered into at the date of initial application. As a result, the Group recognized lease receivables amounting to P26.15 million on January 1, 2019.

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

	2020
Balances at beginning of the year	P7,007,483
Interest income	246,111
Collection	(7,253,594)
Balances at end of the period	P-

24. Segment Reporting

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

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

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

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

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Net Sales		
Luxury and Bridge	P2,459	P4,399
Casual	959	1,953
Fast Fashion	2,170	4,460
Footwear, Accessories and Luggage	567	1,692
Other	1,144	2,351
	P7,299	P14,855

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, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Philippines	₱7,283	₱14,809
Guam	16	46
	₱7,299	₱14,855

25. Seasonality of operations

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

EXHIBIT I

SSI GROUP, INC.

**MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND ITS SUBSIDIARIES
SEPTEMBER 30, 2020**

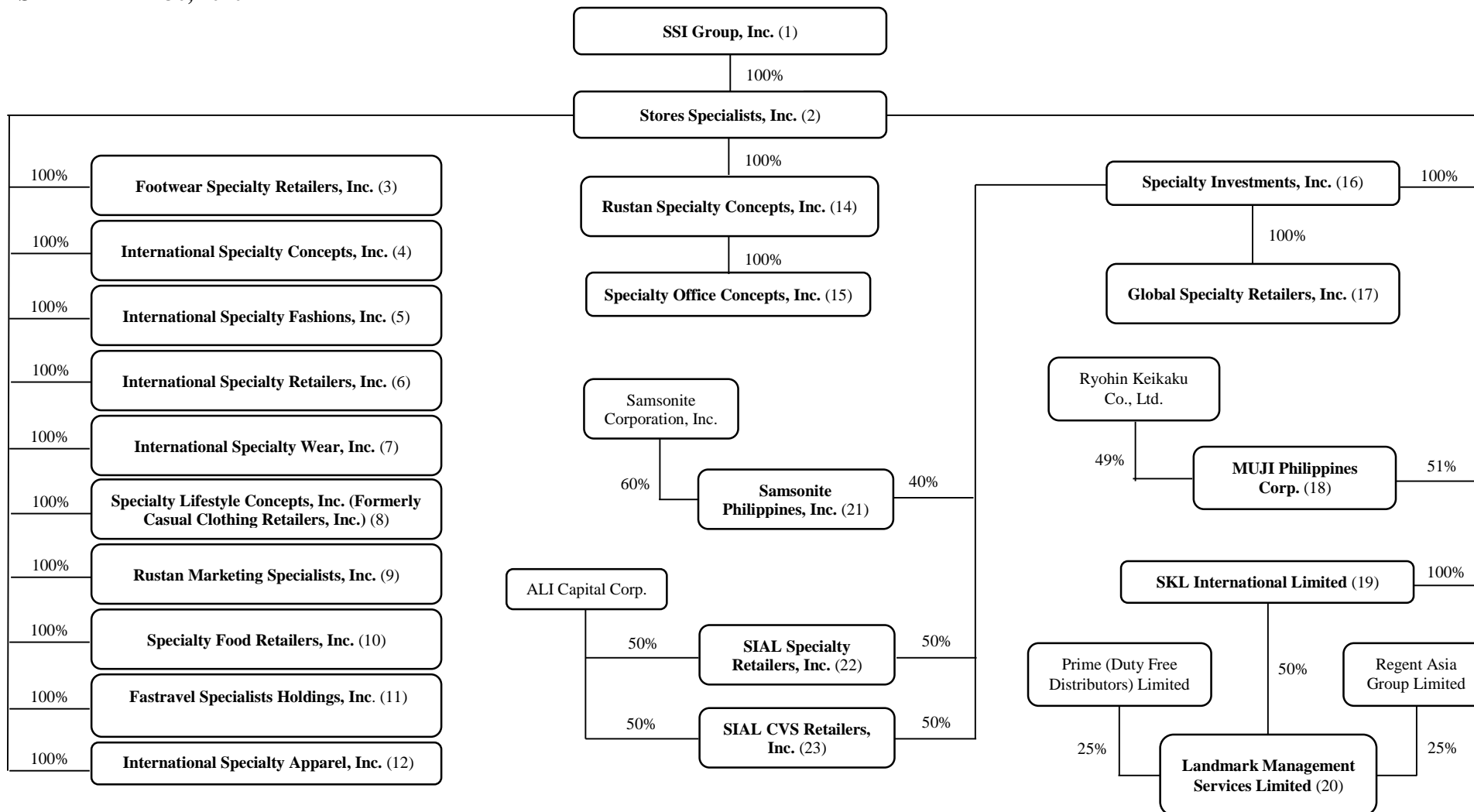


Exhibit II**SSI GROUP, INC.**

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

Unappropriated retained earnings, as adjusted, beginning		₱1,037,886,136
Net loss during the period closed to retained earnings	(10,789,988)	
Less: Other realized gains related to accretion of income from security deposits	523,125	
Deferred tax asset recognized during the year	<u>4,624,281</u>	
Net loss during the period		(15,937,394)
Retained earnings available for dividend declaration		<u><u>₱1,021,948,742</u></u>

Exhibit III

SSI GROUP, INC.

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratios	Formula	September 30, 2020	December 31, 2019	September 30, 2019
(i) Current Ratio	Current Assets/Current Liabilities	1.59	1.77	1.91
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	0.67	0.39	0.45
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	0.38	0.17	0.33
(iii) Asset to Equity Ratio	Total Assets/Total Equity	2.11	1.93	1.70
(iv) Interest Cover Ratio	EBITDA/Interest Expense	2.41	6.97	6.69
(v) Profitability Ratios				
GP Margin	Gross Profit/Revenues	43.02%	44.99%	45.81%
Net Profit (Loss) Margin	Net Income (Loss) /Revenues	-10.40%	3.63%	3.50%
EBITDA Margin	EBITDA/Revenues	9.05%	17.08%	11.00%
Return on Assets	Net Income (Loss) /Total Assets	-3.39%	3.70%	2.72%
Return on Equity	Net Income (Loss) /Total Equity	-7.15%	7.14%	4.62%

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