BUSINESS UPDATE

EXPLANATORY NOTE:

This Business Update updates the Company's plans to increase its selling space as discussed under "Overview of the Company—Significant factors affecting the company's results of operations—Growth in stores and selling space", "Our Business—Strengths and Strategies—Business strategies—Increase our selling area by approximately 10 to 15 per cent. per year over the next two years", "Our Business—Stores—New store roll out, regional expansion and construction" and "Risk Factors—Risks relating to our business—Our expansion plans, in Indonesia and in Southeast Asia, may not succeed".

The following discussion contains an update and discussion on the operating and financial performance of PT MAP Aktif Adiperkasa Tbk. (the "Company").

THIS DOCUMENT DOES NOT CONSTITUTE AND IS NOT AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES (THE "SECURITIES") OF THE COMPANY IN THE REPUBLIC OF INDONESIA, THE UNITED STATES OR ELSEWHERE. THE COMPANY HAS NOT REGISTERED AND DOES NOT INTEND TO REGISTER THE SECURITIES UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND THE SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, REGISTRATION. THE COMPANY DOES NOT INTEND TO MAKE ANY PUBLIC OFFERING OF THE SECURITIES IN THE UNITED STATES OR IN ANY OTHER JURISDICTION.

The non-GAAP financial measures presented in this document are supplemental measures of our performance that are not required by, or presented in accordance with, IFAS, IFRS or U.S. GAAP and should not be considered as an alternative to any performance measure derived in accordance with IFAS. Non-GAAP financial measures have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for, your own analysis of our financial condition or results of operations, as reported under IFAS. These non-GAAP financial measures are not standardised terms, hence a direct comparison between companies using such terms may not be possible.

Certain amounts (including percentage amounts) in this document, including financial, statistical and operating information, have been rounded for convenience. As a result, the totals of certain amounts presented in this document may vary from the actual arithmetic totals of such amounts or quotients.

This document includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond our control. These forward-looking statements are based on Management's current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "targets", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of our management or us concerning, among other things, our expansion plans, future capital expenditures to fund our expansion plans, our results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which we operate.

These forward-looking statements and other statements contained in this document regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties concerning, among other matters:

- *our ability to maintain our relationships with our third-party brand principals;*
- *our ability to manage our inventory in response to changing market trends and consumer preferences;*
- *economic, social and political conditions in Indonesia and globally;*
- *our ability to execute our expansion plans in Indonesia and in Southeast Asia;*
- *our ability to renew our leases or to enter into new leases in favorable locations on acceptable terms;*
- *the performance of the malls in which we maintain stores;*
- *competitive pressures in the Indonesian retail markets;*
- *fluctuations in foreign currency exchange rates; and*
- *other risks, uncertainties and factors set forth in this document, including under "Risk Factors".*

Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Such forward-looking statements contained in this document speak only as at the date of this

document. We, the Commissioners, the Directors, Management, and their respective affiliates and representatives expressly disclaim any obligation or undertaking to update these forward-looking statements to reflect any change in their expectations or any change in events, conditions or circumstances on which such statements are based unless required to do so by applicable law or regulation.

UPDATE

Capitalization and Indebtedness

The table below shows the cash and cash equivalents and capitalization of the Company as at 31 December 2018. This information has been derived from our audited financial statements as at 31 December 2018. This table should be read in conjunction with our financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	As at 31 December 2018	
	(Rp millions)	(USD millions)[1]
Cash and cash equivalents	467,205	32.5
Long-term liabilities – net of current maturities	2,107	0.1
Current maturities of long-term liabilities[2]	471,043	32.7
Total indebtedness	473,150	32.9
Capital stock	285,040	19.8
Additional paid-in capital	840,912	58.4
Other comprehensive income	11,547	0.8
Retained earnings	1,195,395	83.1
Non-controlling interest	2,412	0.2
Total equity	2,335,306	162.3
Total capitalization[3]	2,808,456	195.2

(1) Solely for convenience, the rupiah amounts have been translated into USD at the exchange rate of Rp 14,390 = USD1.00, which was the closing USD/Rp exchange rate according to Bloomberg as at 31 December 2018. These translations should not be construed as representations that the rupiah amounts represent such USD amounts or could be, or could have been, converted into USD at the rate indicated. These convenience translations are unaudited. See "Exchange Rates and Exchange Controls".

(2) Includes Bond Payable of Rp 468,906 million; the Bond Payable outstanding amount is Rp 479,103 million as of the date hereof.

(3) Total capitalization is the sum of total indebtedness and total equity.

Supplemental financial data

	Year ended 31 December		
	2016	2017	2018
	(In millions of Rp, except percentages)		
Same Store Sales Growth ("**SSSG**") (%)[1]	8.3[2]	11.1	11.8
Sports revenues	3,401,878	3,801,397	4,692,707
Leisure Footwear revenues	611,135	747,425	889,468
Kids revenues	520,651	527,359	663,372
Non-GAAP Financial Measures			
Adjusted EBITDA[3]	573,304	742,398	1,016,149
Adjusted net income[3]	343,557	457,528	630,817
Adjusted EBITDA margin[4]	12.6%	14.6%	16.3%
Adjusted net income margin[4]	7.6%	9.0%	10.1%

(1) We define SSSG as the change in the total revenue generated by a group of our stores in one period compared to the total revenue generated by such group of stores in the corresponding prior period, measured as a percentage. A store must be open for at least 12 months to be included in the comparison, and then the monthly revenue data of such store is only included in the comparison for months where revenue data is available for both periods being compared. A store that undergoes major renovations is excluded from the comparison until it has reopened for at least 12 months. We use SSSG to measure the growth of our existing business as opposed to growth due to additional stores.

(2) As we were established on 11 March 2015, SSSG for 2016 is based on the period from 11 March through 31 December for each of 2016 and 2015.

(3) We define EBITDA as net income plus, income tax expense, finance cost and depreciation and amortization. We define adjusted EBITDA as EBITDA adjusted for the items set forth in the table below.

We define adjusted net income as net income adjusted to eliminate (i) the day 1 gain in fiscal year 2018 of Rp 27,830 million, which was the difference between the fair value and the nominal value of the non-interest bearing bond held by ASH following a modification to the terms of the bond in connection with our listing on IDX that we accounted for as an extinguishment of the original liability and recognition of a new liability, (ii) loss on derecognition of the non-interest bearing bond, (iii) the amortized discount related to the non-interest bearing bond recorded in finance cost, (iv) provision for decline in value of inventories and (v) other gains and losses - net.

We use EBITDA, adjusted EBITDA and adjusted net income as supplemental financial measures of our operating performance. EBITDA, adjusted EBITDA and adjusted net income should not be considered in isolation or construed as alternatives to net income or any other measure of financial performance or as indicators of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. We may incur expenses similar to the adjustments in this presentation in the future and certain of these items could be recurring. EBITDA, adjusted EBITDA and adjusted net income presented herein may not be comparable to similarly titled measures presented by other companies. Set forth below are reconciliations of EBITDA, adjusted EBITDA and adjusted net income to the most directly comparable IFAS measure, net income.

	Year ended 31 December		
	2016	2017	2018
		(In millions of Rp)	
Net income	256,794	292,592	353,321
Income tax expense	114,706	151,187	232,451
Finance cost[(a)]	99,627	108,673	313,212
Day 1 gain	-	-	(27,830)
Gain (loss) on derivative financial instruments – net	3,935	787	(996)
Interest income – net	(4,181)	(5,011)	(13,311)
Depreciation and amortization	113,127	126,833	149,513
EBITDA	**584,008**	**675,061**	**1,006,360**
Other gains and losses – net[(b)]	(6,525)	31,605	(2,987)
Gain (loss) on foreign exchange	(8,261)	(3,047)	2,030
Loss on disposal/sales of property, plant and equipment	451	2,105	10,708
Provision for decline in value of inventories	3,631	36,674	38
Adjusted EBITDA	**573,304**	**742,398**	**1,016,149**

(a) In 2018, finance cost includes a Rp 244,362 million loss on derecognition of the non-interest bearing bond recorded in connection with a modification to the terms of the bond that we accounted for as an extinguishment of the original liability and recognition of a new liability.

(b) Other gains and losses - net includes primarily (i) for fiscal year 2016, miscellaneous items; (ii) for fiscal year 2017 restructuring expenses in connection with the modernisation of our manufacturing facilities and (iii) for fiscal year 2018, reversal of provision for decline in value of inventories

(4) Adjusted EBITDA margin is adjusted EBITDA as a percentage of revenues and adjusted net income margin is adjusted net income as a percentage of revenues.

Reconciliation of adjusted net income to net income

	Year ended 31 December		
	2016	2017	2018
		(In millions of Rp)	
Net income for the period	256,794	292,592	353,321
Day 1 gain	-	-	(27,830)
Loss on derecognition of the non-interest bearing bond	-	-	244,362
Amortized discount	89,657	96,657	63,913
Provision for decline in value of inventories	3,631	36,674	38
Other gains and losses - net[(a)]	(6,525)	31,605	(2,987)
Adjusted net income	**343,557**	**457,528**	**630,817**

(a) For other gains and losses – net, see previous table.

Key operating data

	As at 31 December		
	2016	**2017**	**2018**
Selling space (in square meters)			
Java[1]	110,594	121,144	138,867
Others (Indonesia)	46,623	49,379	55,810
Vietnam	-	-	443
Total	**157,217**	**170,523**	**195,120**
Selling space of new stores (in square meters)			
Java	16,192	22,255	31,050
Others (Indonesia)	5,572	4,409	11,503
Vietnam	-	-	443
Total	**21,764**	**26,664**	**42,996**
Selling space of closed stores (in square meters)			
Java	17,369	13,782	14,846
Others (Indonesia)	5,169	2,586	4,673
Vietnam	-	-	-
Total	**22,538**	**16,368**	**19,519**

(1) As of 31 December 2018, we had 463 stores in Greater Jakarta, with a total selling space of 87,751 square meters.

	Year ended 31 December		
	2016	**2017**	**2018**
Selling space of new stores (in square meters)[1]	**21,764**	**26,664**	**36,903**
Sports	18,401	22,017	32,891
Leisure Footwear	2,037	2,640	5,322
Kids	1,327	2,007	4,340
Selling space of closed stores (in square meters)[1]	**22,538**	**16,368**	**19,519**
Sports	17,258	11,995	16,282
Leisure Footwear	717	1,648	661
Kids	4,563	2,726	2,576
Enlargement (reduction) of selling space in current stores[1]	(1,300)	3,009	958
Sports selling space at end of period (in square meters)[1]	113,838	127,948	146,673
Leisure Footwear selling space at end of period (in square meters)	19,510	20,511	25,028
Kids selling space at end of period (in square meters)	23,870	22,064	22,977
Selling space at end of period (in square meters)	**157,217**	**170,523**	**194,677**

(1) Excludes selling space of stores in Vietnam.

OVERVIEW OF THE COMPANY

We are Indonesia's dominant operator of sports goods stores focused on international sportswear brands, with a market share of 63.4% in 2017, according to Euromonitor. We believe we are also a leading retailer in the leisure footwear and kids markets. We cater to a broad range of consumer segments with our portfolio of proprietary multi-brand retail chains, including Planet Sports, Sports Station and Kidz Station. We also operate a diverse portfolio of mono-brand retail stores for brands such as Skechers, Reebok and Converse. Over the last 20 years, we have successfully developed a sports, leisure footwear and kids retail network that included 1,074 stores across 74 cities in Indonesia as of 31 December 2018. We also opened our first store in Vietnam in 2018, and we opened a second store in Vietnam in 2019. We carry a portfolio of over 150 international brands, including Adidas, Nike, Puma and Bandai, and have exclusive distribution rights in Indonesia for over 40 brands, including most of our top ten brands.

We operate three principal business lines: sports, leisure footwear and kids, which we define based on the types of stores in which we generate sales. Our sports stores sell a range of athletic and lifestyle sports shoes, apparel and sports accessories and equipment. Our leisure footwear stores sell primarily leisure and casual footwear. Our kids stores sell a range of kids' products that include kids wear, toys and early education tools.

SIGNIFICANT FACTORS AFFECTING THE COMPANY'S RESULTS OF OPERATIONS

Macroeconomic conditions, the state of the retail market and domestic consumer trends in Indonesia

We operate a retail business that depends on the state of the Indonesian economy. Indonesia's economy, the largest in Southeast Asia, has experienced strong growth in recent years, with nominal GDP expanding at a compound annual growth rate ("**CAGR**") of 9.5% between 2012 and 2018, according to Euromonitor, driven by a combination of strong domestic consumption from a rapidly expanding middle class and a steady flow of foreign direct investment, according to Euromonitor.

Demand for our products depends on the disposable income of Indonesia's consumers, which in turn directly depends on the strength of the Indonesian economy and consumer confidence. As the economy grows, the purchasing power of consumers increases. As a result, more consumers have sufficient disposable income to be able to afford our products, and our existing customers will be able to spend more on our products.

Hence the pricing of our products, and ultimately our profit margin, are tied to consumer demand and our ability to satisfy consumer preferences.

Growth in stores and selling space

Opening new stores and increasing selling space have been, and will continue to be, key factors driving our revenue growth and profitability. As we open new stores and increase our aggregate selling space, our net revenues and cost of goods sold increase. Although we capitalise the cost of fitting-out new stores, opening new stores increases our operating expenses, such as additional rent, salary and wages, depreciation, energy, distribution and insurance expenses.

We generally aim to earn back our investment in new stores within 12 to 24 months. In its first year, a new store's productivity, net revenues and adjusted EBITDA margin have typically converged on the average for our similarly sized mature stores. New stores that we opened in existing malls typically reached maturity sooner than stores we opened in new malls. We generally target operating margins of at least 15% when evaluating potential new stores. However, the success of a new store depends on a number of factors, some of which are outside of our control, including, in the case of stores we open in malls, the success of the mall where the new store is located, and we may not be able to achieve our performance targets for our new stores. See "Risk Factors—Risks relating to our business—Our expansion plans may not proceed as expected" below.

We regularly review our store and brand portfolio to ensure satisfactory returns and profitability. In 2015, we undertook a comprehensive review of our store and brand portfolio and identified certain stores and brands that were underperforming. This led to an acceleration of store closures in 2016 and 2017, either because the stores were underperforming or, in the case of mono-brand stores, because we decided to cease carrying the brand. However, since the stores we closed were primarily smaller stores (for example, stores-in-stores or golf stores), and the new stores that we opened were larger, our selling space expanded between 2016 and 2017. In 2018, in addition to growing our selling space in Indonesia, we expanded to Vietnam, where we opened our first store.

The following table shows by geographic region the selling space of stores we opened and closed in fiscal years 2016 to 2018, and our total selling space at the end of each period:

	As at 31 December		
	2016	**2017**	**2018**
Selling space (in square meters)			
Java[1]	110,594	121,144	138,867
Others (Indonesia)	46,623	49,379	55,810
Vietnam	-	-	443
Total	**157,217**	**170,523**	**195,120**

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Vietnam	-	-	-
Total	**22,538**	**16,368**	**19,519**

(1) As of 31 December 2018, we had 463 stores in Greater Jakarta, with a total selling space of 87,751 square meters.

The following table shows by business line the selling space of stores we opened and closed in fiscal years 2016 to 2018, and our total selling space at the end of each period:

	Year ended 31 December		
	2016	**2017**	**2018**
Selling space of new stores (in square meters)[1]	**21,764**	**26,664**	**36,903**
Sports	18,401	22,017	32,891
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Selling space at end of period (in square meters)	**157,217**	**170,523**	**194,677**

(1) Excludes selling space of stores in Vietnam.

We plan to increase our selling space by approximately 10 to 15 per cent. per year for the next two years, subject to general economic and other conditions. See "Risk Factors—Risks relating to our business—Our expansion plans may not proceed as expected" below. We do not currently plan to materially change the mix of our stores. We do not have targets for store closures, as we continually review the performance of our stores and brands.

Sell-through and sales cycle management

Sell-through is the percentage of goods purchased for a season sold by the end of that season. While we are able to sell most of the goods we acquire from our suppliers, we may hold some of these goods as inventory for longer periods of time and reduce inventory by offering discounts, depending on market factors. Our ability to attain high levels of sell-through depends on a number of factors, including our ability to accurately gauge consumer sentiment, our ability to maintain the optimal stock and mix of products, our ability to effectively market our stores, products and sales promotions, and our ability to deliver a shopping experience in our stores that is in line with the expectations of our customers.

The following table shows our sell-through rates for our top 10 brands for the spring-summer and fall-winter seasons in 2017 and 2018:

	Spring-summer 2017	**Fall-winter 2017**	**Spring-summer 2018**	**Fall-winter 2018**
Percentage of goods purchased for the season sold by the end of that season	32	38	41	47

We seek to maintain strong profit margins by managing our average selling prices. Our selling prices are typically higher when we achieve high sell-through and maintain a relatively low inventory age. In 2017 and 2018, products sold without a discount contributed 36% and 43% of our revenues, respectively. We seek to reduce our inventory age by improving our procurement, warehousing and distribution processes. The percentage of our inventory aged over six months decreased from approximately 35% as of 31 December 2016 to approximately 17% as of 31 December 2018 primarily through our use of data analytics that help refine size curves and product mix. Our average inventory days (our average inventory balance divided by cost of sales and multiplied by the number of days in the period) were 202 days, 168 days, and 156 days fiscal years 2016, 2017 and 2018, respectively. Our long-term goal is to reduce average inventory days to 120. Our ability to achieve this goal will depend on a number of factors, some of

which are beyond our control. See "Risk Factors—Risks relating to our business—Our expansion plans may not proceed as expected" below.

Productivity

Our financial results depend on the productivity of our stores, which we track through SSSG and revenues per square meter of selling space. SSSG and revenues per square meter of selling space primarily measure the growth of our existing business as opposed to growth due to an increase in the number of stores in our network.

The following table presents SSSG and revenues per square meter of selling space for the periods indicated:

	Year ended 31 December		
	2016	**2017**	**2018**
SSSG (%)[1]	8.3	11.1	11.8
Revenues per square meter of selling space (millions of rupiah)[2]	2.35	2.52	2.79

(1) We define SSSG as the change in the total revenue generated by a group of our stores in one period compared to the total revenue generated by such group of stores in the corresponding prior period, measured as a percentage. A store must be open for at least 12 months to be included in the comparison, and then the monthly revenue data of such store is only included in the comparison for months where revenue data is available for both periods being compared. A store that undergoes major renovations is excluded from the comparison until it has reopened for at least 12 months. We use SSSG to measure the growth of our existing business as opposed to growth due to additional stores.

(2) Equals aggregate net sales generated by our retail stores for the period divided by their average selling space for the period; average selling space for a period is the sum of the aggregate selling space at each calendar month end in the period divided by the number of months in the period.

Our store productivity has been driven primarily by improvements in our inventory management and logistics, which we believe improve the quality and mix of products in our stores and the speed with which we stock new products. Through our use of proprietary real time analytics, we closely monitor changes in consumer preferences and adjust our mix of products accordingly, thereby increasing the number of purchases our customers make and the average price per purchase.

Controlling operating expenses

We focus on controlling our operating expenses. Our operating expenses were 28.4%, 28.4% and 27.8% of our net revenues in fiscal years 2016, 2017 and 2018, respectively**.** Our key operating expenses are rent and salaries and allowances.

We incur annual rent associated with our stores, which are all leased, and our headquarters. Rental expenses as a percentage of net revenues were 10.7%, 10.5% and 10.2% in fiscal years 2016, 2017 and 2018, respectively. We typically enter into long term lease agreements. Our leases can be (i) fixed rent or (ii) variable rent (including blanket agreement arrangements). Fixed rents are quoted per square metre, with escalations during the contract periods. Variable rents are calculated as a percentage of a store's net revenues subject to minimum rents. Blanket arrangements relate to properties leased from affiliated parties, and are based on a reference to rental rates paid to third party landlords.

Salaries and allowances recorded under selling expenses as a percentage of net revenues were 9.2%, 9.1%, and 8.9% in fiscal years 2016, 2017 and 2018, respectively. We are required to set the wages paid to our employees at levels that comply with minimum wage regulations. These minimum wage policies are determined annually at the provincial level one to two months prior to the start of each fiscal year, and such determinations have in the past resulted in increases in minimum wages, which in turn increased our salaries and allowances. We endeavor to maintain competitive wage levels compared to other retail operators.

Seasonality

Our sales have an element of seasonality, although no 30-day period accounted for more than 12% of net revenues in the last three fiscal years. Our stores experience an increase in traffic and sales during three periods:

- *The year-end holiday period that includes Christmas and New Year*. The Christmas and year-end shopping season has a positive impact on our net revenues.

- *The period 15 days prior to and 15 days after Lebaran*. In the month prior to Lebaran, all employees in Indonesia receive an allowance of a month's salary in accordance with Indonesian labor laws. This increases customers' disposable income immediately prior to Lebaran and has a positive impact on net revenues. The mandated allowance also increases our salaries and allowances expenses, but those increases are small relative to the increase in net revenues during the period. The date of Lebaran changes from year to year and the peak in sales may span different quarters in different years.

- *The June-July 'back to school' period.* During this period we generally see increases in sales of "back-to-school" items. This period sometimes partially overlaps with Lebaran.

In addition to Lebaran, there are several other holidays that do not occur on fixed dates, such as Chinese New Year. Consequently, the results of a given interim financial period may not be directly comparable to results from the preceding interim period or the corresponding period in prior years. Also, if more pay periods than usual occur during a period, we may experience increased sales. Likewise, a smaller than usual number of pay periods during the peak season can have a negative impact. See "—Risks relating to our business— Our results of operations are subject to seasonality" below.

Inflation

Our results are affected by inflation through increases in the costs of our products, salaries and allowances and other costs. Significant inflation can reduce demand for our products as consumers have less discretionary income to spend. However, many of our customers have adequate disposable income to absorb a portion of consumer price increases. Indonesia's annual inflation rate was 3.5% in 2016, 3.8% in 2017 and 3.1% in 2018, according to the OECD.

Geographical diversity

The table below presents net revenues by geographical market:

	Year ended 31 December					
	2016		2017		2018	
	(In millions of Rp)	% Net Revenues	(In millions of Rp)	% Net Revenues	(In millions of Rp)	% Net Revenues
Java Island[1]	3,353,710	74.0	3,790,518	74.7	4,691,568	75.1
Sumatra Island	448,068	9.9	520,214	10.2	629,979	10.1
Bali Island	209,925	4.6	237,380	4.7	279,815	4.5
Sulawesi Island	188,371	4.2	217,158	4.3	269,047	4.3
Kalimantan Island	130,625	2.9	158,000	3.1	191,416	3.1
Others	202,965	4.5	152,911	3.0	183,722	2.9
Total	**4,533,664**	**100.0**	**5,076,181**	**100.0**	**6,245,547**	**100.00**

(1) In fiscal year 2018, Greater Jakarta accounted for 42.7% of our total net revenues.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future period.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

In applying our accounting policies, Management has not made critical judgments that have a significant effect on the amounts recognized in the consolidated financial statements, apart from those involving estimations, which are described below. The key assumptions concerning future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment loss on receivables

We assess our receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, Management makes a judgment as to whether there is objective evidence that a loss event has occurred. Management also makes a judgment as to the methodology and assumptions for estimating the amount and timing of future cash flows which are reviewed regularly to reduce any differences between a loss estimate and actual loss.

Allowance for decline in value of inventory

We provide allowances for decline in value of inventories based on estimated future usage of such inventories. While we believe that the assumptions used in the estimation of the allowance for decline in value of inventories are appropriate and

reasonable, significant changes in these assumptions may materially affect the assessment of the allowance for decline in value of inventories, which ultimately will impact our results of operations.

Estimated useful lives of property, plant and equipment

The useful life of each item of our property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. The estimates are based on internal technical evaluations and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above.

A change in the estimated useful life of any item of property, plant and equipment would affect the recorded depreciation expense and decrease the carrying values of these assets.

Employee Benefits

The determination of provision for employment benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate and rate of salary increase. While we believe that our assumptions are reasonable and appropriate, significant differences in actual results or significant changes in assumptions may materially affect our provision for employment benefits.

Income tax

Under the tax laws of Indonesia, we submit tax returns on the basis of self-assessment. The tax authorities may assess or amend taxes within the statute of limitation under prevailing regulations. We have exposure to income taxes since significant judgment is involved in determining our provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax provisions in the period in which such determination is made.

Fair value measurements and valuation processes

Some of our assets and liabilities are measured at fair value for financial reporting purposes. Management determines the appropriate valuation technique and inputs for fair value measurements.

In determining the fair value of an asset or liability, our Management engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation technique and inputs to the model. Market-observable data is used in the valuation to the extent that it is available.

SEGMENT REPORTING

We have two reportable segments: retail sales and non-retail sales. Retail sales comprise sales of products through our stores, including commissions we earn when we sell products in our stores on consignment on behalf of third parties, and sales through our e-commerce platform planetsports.asia. Non-retail sales comprise wholesale sales and consignment sales. Wholesale sales comprise sales of products we acquire from our brand principals to other retailers and sales of goods by our manufacturing subsidiary. Consignment sales comprise sales of our products through third party stores where we do not have our own store-in-store concept on a consignment basis and e-commerce sales through third party online platforms.

KEY COMPONENTS OF THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following discussion provides a description of the key components of our consolidated statement of profit or loss and other comprehensive income for the periods indicated.

Net Revenues

The following tables present a breakdown of our net revenues for the periods indicated by reportable segment:

	Year ended 31 December					
	2016		2017		2018	
	In millions of Rp	% Net Revenues	In millions of Rp	% Net Revenues	In millions of Rp	% Net Revenues
Retail sales	3,729,600	82.3	4,261,161	83.9	5,408,010	86.6
Non-retail sales	883,770	19.5	941,402	18.5	964,936	15.4
Inter-segment sales[1]	(79,706)	(1.8)	(126,382)	(2.5)	(127,399)	(2.0)
Net non-retail sales	804,064	17.7	815,020	16.1	837,537	13.4
Net revenues	**4,533,664**	**100.0**	**5,076,181**	**100.0**	**6,245,547**	**100.00**

(1) Represents the elimination of cross-segment revenues generated by sales of goods from our manufacturing subsidiary to our retail business.

The following tables presents a breakdown of our revenues by business line:

	Year ended 31 December					
	2016		2017		2018	
	In millions of Rp	% Net Revenues	In millions of Rp	% Net Revenues	In millions of Rp	% Net Revenues
Sports	3,401,878	75.0	3,801,397	74.9	4,692,707	75.1
Leisure Footwear	611,135	13.5	747,425	14.7	889,468	14.2
Kids	520,651	11.5	527,359	10.4	663,372	10.6
Total revenues	**4,533,664**	**100.0**	**5,076,181**	**100.0**	**6,245,547**	**100.0**

Cost of goods sold

Cost of goods sold includes the cost of merchandise inventories and manufacturing costs in our garment unit, where we manufacture various products under license.

The following table presents a breakdown of the cost of goods sold for the periods indicated:

	Year ended 31 December		
	2016	2017	2018
		(In millions of Rp)	
Beginning balance of merchandise inventories	1,533,706	1,232,170	1,315,066
Additions related to business combination	-	-	-
Purchases of merchandise inventories	2,096,429	2,664,243	3,504,804
Merchandise inventories available for sale	3,630,135	3,896,413	4,819,870
Royalties	79,926	103,321	132,891
Ending balance of merchandise inventories	(1,232,170)	(1,315,066)	(1,622,048)
Cost of goods sold - merchandise inventories	**2,477,891**	**2,684,668**	**3,330,713**
Cost of goods sold – garment industry (manufacturing)	**110,563**	**113,385**	**87,156**
Total cost of goods sold	**2,588,454**	**2,798,053**	**3,417,869**

Selling expenses

Selling expenses comprise expenses for rental and service charge, salaries and allowances of mainly store personnel, depreciation and warehouse operation services, and also include expenses for marketing and promotion, water and electricity, credit card administration, transportation and travel, packing materials, stationery and printing, telephone and facsimile, freight and other ancillary expenses.

The following table presents a breakdown of selling expenses for the periods indicated:

	Year ended 31 December		
	2016	**2017**	**2018**
		(In millions of Rp)	
Rental and service charge	478,711	526,117	630,218
Salaries and allowances	415,769	463,622	554,839
Depreciation	109,789	121,553	139,547
Warehouse operation services	90,307	95,124	125,854
Water and electricity	51,243	53,338	56,974
Marketing and promotion	32,721	54,037	78,818
Others[(1)]	109,686	129,344	151,549
Total selling expenses	**1,288,226**	**1,443,135**	1,737,799

(1) Includes credit card administration, transportation and travel, packing materials, stationery and printing, telephone and facsimile, and freight.

General and administrative expenses

General and administrative expenses primarily comprise management fees and salaries and allowances of head office personnel, and also include expenses for employment benefits, transportation and travel, office rental, professional fees and other expenses.

Management fees include fees we pay to MAP for services provided in the areas of information technology, corporate services, finance and accounting, human resources, corporate secretarial, legal administration, supply chain management, general affairs and licensing to support our operational activities.

Finance costs

Finance costs primarily comprise amortized discounts on our non-interest bearing bond, and also include interest expense on bank loans, interest expense on loans from related parties and other expenses. See "—Indebtedness."

Provision for decline in value of inventories

Provision for decline in inventories comprises provisions for obsolescence and decline in value of inventories, including merchandise, packing materials and our manufactured goods.

Loss on disposals/sales of property, plant and equipment

Loss on disposals/sales of property, plant and equipment is the difference between the proceeds we receive from sales of property, plant and equipment and its net carrying amount.

Loss on derivative financial instruments

`Loss on derivative financial instruments includes losses on foreign exchange forward contracts we use to manage our exposure to foreign currency exchange movements. We enter into these transactions primarily to comply with Bank Indonesia regulations. To mitigate risks inherent to private external debt, specifically at non-bank corporations, Bank Indonesia requires companies to hedge their net exposure to foreign currency. The minimum liquidity ratio (foreign currency assets over foreign currency liabilities) must be at least 70%, while the minimum hedging ratio (foreign currency liabilities over foreign currency assets) must be at least 25%.

Gain (loss) on foreign exchange

Gain (loss) on foreign exchange includes gains and losses resulting from changes in foreign currency exchange rates. Transactions in foreign currencies are translated into rupiah at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period monetary assets and liabilities denominated in foreign currencies are translated into rupiah using the closing exchange rate. Foreign exchange gains or losses result from the settlement of the foreign currency transactions in rupiah and the translation of the monetary assets and liabilities into rupiah.

Interest income

Interest income consists of interest on bank deposits

Income tax expense

Income tax expense primarily includes provision for current and deferred corporate income tax in Indonesia.

RESULTS OF OPERATIONS

The following tables present our statement of profit or loss data in rupiah amounts and as a percentage of net revenues for the periods indicated:

	Year ended 31 December					
	2016		2017		2018	
	In millions of Rp	% Net Revenues	In millions of Rp	% Net Revenues	In millions of Rp	% Net Revenues
NET REVENUES	**4,533,664**	**100.0**	**5,076,181**	**100.0**	**6,245,547**	**100.0**
COST OF GOODS SOLD	**(2,588,454)**	**(57.1)**	**(2,798,053)**	**(55.1)**	**3,417,869**	**(54.7)**
GROSS PROFIT	**1,945,210**	**42.9**	**2,278,128**	**44.9**	**2,827,678**	**45.3**
Selling expenses	(1,288,226)	(28.4)	(1,443,135)	(28.4)	(1,737,799)	(27.8)
General and administrative expenses	(196,807)	(4.3)	(219,428)	(4.3)	(223,243)	(3.6)
Finance cost	(99,627)	(2.2)	(108,673)	(2.1)	(313,212)	(5.0)
Gain (loss) on foreign exchange - net	8,261	0.2	3,047	0.1	(2,030)	0.0
Provision for decline in value of inventories	(3,631)	(0.1)	(36,674)	(0.7)	(38)	0.0
Loss on disposals/sales of property, plant and equipment	(451)	0.0	(2,105)	0.0	(10,708)	(0.2)
Gain (loss) on derivative financial instruments - net	(3,935)	(0.1)	(787)	0.0	996	0.0
Interest income	4,181	0.1	5,011	0.1	13,311	0.2
Day 1 gain	-	-	-	-	27,830	0.4
Other gains and losses - net	6,525	0.1	(31,605)	(0.6)	2,987	0.0
INCOME BEFORE TAX	**371,500**	**8.2**	**443,779**	**8.7**	**585,772**	**9.4**
INCOME TAX EXPENSE	**(114,706)**	**(2.5)**	**(151,187)**	**(3.0)**	**(232,451)**	**(3.7)**
NET INCOME FOR THE PERIOD	**256,794**	**5.7**	**292,592**	**5.8**	**353,321**	**5.7**

2018 compared 2017

Net revenues

Our net revenues increased by Rp 1,169,366 million, or 23.0%, from Rp 5,076,181 million in fiscal year 2017 to Rp 6,245,547 million in fiscal year 2018, primarily due to increased retail sales.

Net revenues from retail sales increased by Rp 1,146,849 million, or 26.9% from Rp 4,261,161 million in fiscal year 2017 to Rp 5,408,010 million in fiscal year 2018, primarily due to a net addition of 24,597 square meters of selling space, representing an increase of 14.1%, from 170,523 square meters at the end of fiscal year 2017 to 194,677 square meters at the end of fiscal year 2018, and increased store productivity, with SSSG of 11.8% in fiscal year 2018 compared to 11.1% in fiscal year 2017.

Sports revenues increased by Rp 891,310 million, or 23.4%, from Rp 3,801,397 million in fiscal year 2017 to Rp 4,692,707 million in fiscal year 2018, primarily as a result of increases in selling space and SSSG, and improved product mix, product cycles and pricing.

Leisure footwear revenues increased by Rp 142,043 million, or 19.0%, from Rp 747,425 million in fiscal year 2017 to Rp 889,468 million in fiscal year 2018, primarily for the same reasons that sports revenues increased.

Kids revenues increased by Rp 136,013 million, or 25.8%, from Rp 527,359 million in fiscal year 2017 to Rp 663,372 million in fiscal year 2018. The increase in revenues in fiscal year 2018 was primarily due to additions of new brands and improved product mix.

Net revenues from non-retail sales increased by Rp 22,517 million, or 2.8%, from Rp 815,020 million in fiscal year 2017 to Rp 837,537 million in fiscal year 2018.

Cost of goods sold

Our cost of goods sold increased by Rp 619,816 million, or 22.2%, from Rp 2,798,053 million in fiscal year 2017 to Rp 3,417,869 million in fiscal year 2018, primarily due to a Rp 646,045 million, or 24.1%, increase in cost of merchandise inventories,

from Rp 2,684,668 million in fiscal year 2017 to Rp 3,330,713 million in fiscal year 2018. The increase was primarily due to our increased merchandise sales.

Cost of goods sold as a percentage of net revenues was 54.7% in fiscal year 2018 compared to 55.1% in fiscal year 2017. Cost of goods sold grew less quickly than net revenues primarily due to improvements in inventory profile and merchandise planning, which improved sell-through, and improved brand mix, with sales of higher margin products growing faster than sales of lower margin products.

Gross profit

As a result of the foregoing, our gross profit increased by Rp 549,550 million, or 24.1%, from Rp 2,278,128 million in fiscal year 2017 to Rp 2,827,678 million in fiscal year 2018. Our gross profit margin increased to 45.3% in fiscal year 2018, compared to 44.9% in fiscal year 2017.

Selling expenses

Our selling expenses increased by Rp 294,664 million, or 20.4%, from Rp 1,443,135 million in fiscal year 2017 to Rp 1,737,799 million in fiscal year 2018, primarily due to:

- a Rp 104,101 million, or 19.8%, increase in rental and service charge, from Rp 526,117 million in fiscal year 2017 to Rp 630,218 million in fiscal year 2018, primarily due to the net addition of 24,597 square meters of selling space in fiscal year 2018 and contractual increases under existing leases;

- a Rp 91,217 million, or 19.7%, increase in salaries and allowances of store personnel, from Rp 463,622 million in fiscal year 2017 to Rp 554,839 million in fiscal year 2018, primarily due to increased sales staff headcount due to the increase in the number of our stores and selling space and increases in the minimum wage;

- a Rp 30,730 million, or 32.3%, increase in warehouse and operations costs, from Rp 95,124 million in fiscal year 2017 to Rp 125,854 million in fiscal year 2018, primarily due to an increase in warehousing space and corresponding operations costs to support our increased sales;

- a Rp 24,781 million, or 45.9%, increase in marketing and promotion costs, from Rp 54,037 million in fiscal year 2017 to Rp 78,818 million in fiscal year 2018, primarily due to an increase in marketing and promotional events supported by the Company, primarily as a result of the increase in the number of our stores; and

- a Rp 17,994 million, or 14.8%, increase in depreciation, from Rp 121,553 million in fiscal year 2017 to Rp 139,547 million in fiscal year 2018, primarily due to an increase in depreciation related to new stores opened during fiscal year 2018 compared to fiscal year 2017.

Selling expenses as a percentage of net revenues decreased from 28.4% in fiscal year 2017 to 27.8% in fiscal year 2018.

General and administrative expenses

Our general and administrative expenses increased by Rp 3,815 million, or 1.7%, from Rp 219,428 million in fiscal year 2017 to Rp 223,243 million in fiscal year 2018, primarily due to a Rp 20,957 million, or 28.5%, increase in salaries and allowances for head office personnel, from Rp 73,568 million in fiscal year 2017 to Rp 94,525 million in fiscal year 2018, partially offset by:

- a Rp 24,377 million, or 27.2%, decrease in management fees payable under our services agreement with MAP, from Rp 89,536 million in fiscal year 2017 to Rp 65,159 million in fiscal year 2018 due to the continued transfer of corporate functions from MAP to us; and

- a Rp 2,388 million, or 9.6%, decrease in employment benefits, from Rp 24,979 million in fiscal year 2017 to Rp 22,591 million in fiscal year 2018, due to changes in actuarial assumptions related to post-employment benefits.

General and administrative expenses as a percentage of net revenues were 3.6% in fiscal year 2018 compared to 4.3% in fiscal year 2017.

Finance cost

Our finance cost increased by Rp 204,539 million, or 188.2%, from Rp 108,673 million in fiscal year 2017 to Rp 313,212 million in fiscal year 2018. On 11 April 2018, we and ASH signed an agreement waiving our obligation to repay the non-interest bearing bond in full in connection with our listing on IDX. This modification of the terms of the bond was accounted for as an extinguishment of the original liability and recognition of a new liability, and we recorded a loss on derecognition of the bond of Rp 244,362 million. The loss on derecognition of the bond was partially offset by a Rp 32,744 million, or 33.9%, decrease in amortized discount on the bond, from Rp 96,657 million in fiscal year 2017 to Rp 63,913 million in fiscal year 2018 due to a

decrease of the net present value of the bond following our partial repayment of the outstanding bond in connection with our listing on IDX in July 2018.

Provision for decline in value of inventories

Our provision for decline in value of inventories decreased by Rp 36,636 million, or 99.9%, from Rp 36,674 million in fiscal year 2017 to Rp 38 million in fiscal year 2018, primarily due to a change in policy in fiscal year 2018 to align our accounting policy with that of MAP. In fiscal year 2018, we began recording a provision for decline in value of inventories equal to (a) 5% of the value of inventory aged between six and twelve months and (b) 10% of the value of inventory aged more than 12 months.

Loss on disposals/sales of property, plant and equipment

Our loss from disposals/sales of property, plant and equipment increased by Rp 8,603 million, or 408.7%, from Rp 2,105 million in fiscal year 2017 to Rp 10,708 million in fiscal year 2018, primarily due to increased losses on property, plant and equipment associated with store closures in fiscal year 2018 compared to fiscal year 2017.

Gain (loss) on derivative financial instruments

Our net gain on derivative financial instruments increased by Rp 1,783 million, or 226.6%, from a loss of Rp 787 million in fiscal year 2017 to a gain of Rp 996 million in fiscal year 2018, primarily due to gains on settlement of foreign exchange forward contracts. We enter into these transactions to comply with Bank Indonesia regulations that mandate managing foreign currency exposure.

Loss on foreign exchange

Our net loss on foreign exchange increased by Rp 5,077 million, or 166.6%, from a gain of Rp 3,047 million in fiscal year 2017 to a loss of Rp 2,030 million in fiscal year 2018, primarily due to currency fluctuations.

Interest income

Our interest income increased by Rp 8,300 million, or 165.6%, from Rp 5,011 million in fiscal year 2017 to Rp 13,311 million in fiscal year 2018, due to an increase in bank deposits.

Other gains and losses

Our other gains and losses increase by Rp 34,592 million, or 109.5 %, from a loss of Rp 31,605 million in fiscal year 2017 to a gain of Rp 2,987 million in fiscal year 2018. This is primarily due one time losses incurred in connection with the modernization of our factories.

Day 1 gain

In fiscal year 2018, we recorded a day 1 gain of Rp 27,830 million. The day 1 gain is the difference between the fair value and the nominal value of the non-interest bearing bond held by ASH following the modification described above under "—Finance cost".

Income before tax

As a result of the foregoing, our income before tax increased by Rp 141,993 million, or 32.0%, from Rp 443,779 million in fiscal year 2017 to Rp 585,772 million in fiscal year 2018. Our income before tax margin increased to 9.4% in fiscal year 2018 compared to 8.7% in fiscal year 2017.

Income tax expense

Our income tax expense increased by Rp 81,264 million, or 53.8%, from Rp 151,187 million in fiscal year 2017 to Rp 232,451 million in fiscal year 2018, primarily due to increased taxable income.

Net income

As a result of the foregoing, our net income increased by Rp 60,729 million, or 20.8%, from Rp 292,592 million in fiscal year 2017 to Rp 353,321 million in fiscal year 2018.

2017 compared to 2016

Net revenues

Our net revenues increased by Rp 542,517 million, or 12.0%, from Rp 4,533,664 million in fiscal year 2016 to Rp 5,076,181 million in fiscal year 2017, primarily due to increased retail sales.

Net revenues from retail sales increased by Rp 531,561 million, or 14.3% from Rp 3,729,600 million in fiscal year 2016 to Rp 4,261,161 million in fiscal year 2017, primarily due to a net addition of 13,306 square meters of selling space, representing an increase of 8.5%, from 157,217 square meters at the end of fiscal year 2016 to 170,523 square meters at the end of fiscal year 2017, and increased store productivity, with SSSG of 11.1% in fiscal year 2017 compared to 7.5% in fiscal year 2016.

Sports revenues increased by Rp 399,518 million, or 11.7%, from Rp 3,401,878 million in fiscal year 2016 to Rp 3,801,397 million in fiscal year 2017, primarily as a result of increases in selling space and SSSG, and improved product mix, product cycles and pricing.

Leisure footwear revenues increased by Rp 136,291 million, or 22.3%, from Rp 611,135 million in fiscal year 2016 to Rp 747,425 million in fiscal year 2017, primarily for the same reasons that sports revenues increased.

Kids revenues increased by Rp 6,708 million, or 1.3%, from Rp 520,651 million in fiscal year 2016 to Rp 527,359 million in fiscal year 2017. Our kids revenue experiences annual fluctuations driven by the number of hit toys and other merchandise associated with popular movies and other trend-setting events. There were no significant changes or differences in trend-setting events in 2017 compared to 2016, and our kids revenues in 2016 and 2017 were relatively constant as a result.

Net revenues from non-retail sales increased by Rp 10,956 million, or 1.4%, from Rp 804,064 million in fiscal year 2016 to Rp 815,020 million in fiscal year 2017, primarily due to the addition to our portfolio of brands with a large wholesale component and increased consignment sales through value department stores.

Cost of goods sold

Our cost of goods sold increased by Rp 209,599 million, or 8.1%, from Rp 2,588,454 million in fiscal year 2016 to Rp 2,798,053 million in fiscal year 2017, primarily due to a Rp 206,777 million, or 8.3%, increase in cost of merchandise inventories, from Rp 2,477,891 million in fiscal year 2016 to Rp 2,684,668 million in fiscal year 2017. The increase was primarily due to our increased merchandise sales.

Cost of goods sold as a percentage of net revenues was 55.1% in fiscal year 2017 compared to 57.1% in fiscal year 2016. Cost of goods sold grew less quickly than net revenues primarily due to improvements in inventory profile and merchandise planning, which improved sell-through, and improved brand mix, with sales of higher margin products growing faster than sales of lower margin products.

Gross profit

As a result of the foregoing, our gross profit increased by Rp 332,918 million, or 17.1%, from Rp 1,945,210 million in fiscal year 2016 to Rp 2,278,128 million in fiscal year 2017. Our gross profit margin increased to 44.9% in fiscal year 2017, compared to 42.9% in fiscal year 2016.

Selling expenses

Our selling expenses increased by Rp 154,909 million, or 12.0%, from Rp 1,288,226 million in fiscal year 2016 to Rp 1,443,135 million in fiscal year 2017, primarily due to:

- a Rp 47,853 million, or 11.5%, increase in salaries and allowances of store personnel, from Rp 415,769 million in fiscal year 2016 to Rp 463,622 million in fiscal year 2017, primarily due to increased sales staff headcount due to the increase in the number of our stores and selling space and increases in the minimum wage;

- a Rp 47,406 million, or 9.9%, increase in rental and service charge, from Rp 478,711 million in fiscal year 2016 to Rp 526,117 million in fiscal year 2017, primarily due to the net addition of 13,306 square meters of selling space in fiscal year 2017 and contractual increases under existing leases;

- a Rp 21,316 million, or 65.1%, increase in marketing and promotion costs, from Rp 32,721 million in fiscal year 2016 to Rp 54,037 million in fiscal year 2017, primarily due to an increase in marketing and promotional events supported by the Company, primarily as a result of the increase in the number of our stores; and

- a Rp 11,764 million, or 10.7%, increase in depreciation, from Rp 109,789 million in fiscal year 2016 to Rp 121,553 million in fiscal year 2017, primarily due to an increase in depreciation related to new stores opened during fiscal year 2017 compared to fiscal year 2016;

Selling expenses as a percentage of net revenues were unchanged from fiscal year 2016, at 28.4%.

General and administrative expenses

Our general and administrative expenses increased by Rp 22,621 million, or 11.5%, from Rp 196,807 million in fiscal year 2016 to Rp 219,428 million in fiscal year 2017, primarily due to:

- a Rp 11,074 million, or 17.7%, increase in salaries and allowances for head office personnel, from Rp 62,494 million in fiscal year 2016 to Rp 73,568 million in fiscal year 2017;

- a Rp 6,276 million, or 33.6%, increase in employment benefits, from Rp 18,703 million in fiscal year 2016 to Rp 24,979 million in fiscal year 2017, due to an increase in the number of employees and changes in actuarial assumptions related to post-employment benefits; and

- a Rp 2,457 million, or 2.8%, increase in management fees payable under our services agreement with MAP, from Rp 87,079 million in fiscal year 2016 to Rp 89,536 million in fiscal year 2017.

General and administrative expenses as a percentage of net revenues were unchanged from fiscal year 2016, at 4.3%.

Finance cost

Our finance cost increased by Rp 9,046 million, or 9.1%, from Rp 99,627 million in fiscal year 2016 to Rp 108,673 million in fiscal year 2017, primarily due to:

- a Rp 7,000 million, or 7.8%, increase in amortised discount on the non-interest bearing bond held by ASH, from Rp 89,657 million in fiscal year 2016 to Rp 96,657 million in fiscal year 2017 due to the increase in the net present value of the bond with the decrease in time to maturity; and

- a Rp 2,864 million, or 59.6%, increase in interest expense on bank loans, from Rp 4,806 million in fiscal year 2016 to Rp 7,670 million in fiscal year 2017, primarily due to a loan obtained by our manufacturing subsidiary in connection with the modernization of our manufacturing facility through increased automation. This loan was repaid in fiscal year 2018.

Provision for decline in value of inventories

Our provision for decline in value of inventories increased by Rp 33,043 million, or 910.0%, from Rp 3,631 million in fiscal year 2016 to Rp 36,674 million in fiscal year 2017, primarily due to a change in policy in fiscal year 2017. In fiscal year 2017, we began recording a provision for decline in value of inventories equal to 10% of the value of inventory aged over six months, whereas previously our provision equaled 0.5% of the value of all inventories.

Loss on disposals/sales of property, plant and equipment

Our loss from disposals/sales of property, plant and equipment increased by Rp 1,654 million, or 366.7%, from Rp 451 million in fiscal year 2016 to Rp 2,105 million in fiscal year 2017, primarily due to increased losses on property, plant and equipment associated with store closures in fiscal year 2017 than in fiscal year 2016.

Loss on derivative financial instruments

Our net loss on derivative financial instruments decreased by Rp 3,148 million, or 80.0%, from a loss of Rp 3,935 million in fiscal year 2016 to a loss of Rp 787 million in fiscal year 2017, primarily due to a decrease in loss on settlement of foreign exchange forward contracts. We enter into these transactions to comply with Bank Indonesia regulations that mandate managing foreign currency exposure.

Gain (loss) on foreign exchange

Our net gain on foreign exchange decreased by Rp 5,214 million, or 63.1%, from Rp 8,261 million in fiscal year 2016 to Rp 3,047 million in fiscal year 2017, primarily due to currency fluctuations.

Interest income

Our interest income increased by Rp 830 million, or 19.9%, from Rp 4,181 million in fiscal year 2016 to Rp 5,011 million in fiscal year 2017, due to an increase in bank deposits.

Other gains and losses

Our other gains and losses decreased by Rp 38,130 million, or 584.4%, from a gain of Rp 6,525 million in fiscal year 2016 to a loss of Rp 31,605 million in fiscal year 2017, primarily due to losses incurred in connection with the modernization of our manufacturing facility.

Income before tax

As a result of the foregoing, our income before tax increased by Rp 72,279 million, or 19.5%, from Rp 371,500 million in fiscal year 2016 to Rp 443,779 million in fiscal year 2017. Our income before tax margin increased to 8.7% in fiscal year 2017 compared to 8.2% in fiscal year 2016.

Income tax expense

Our income tax expense increased by Rp 36,481 million, or 31.8%, from Rp 114,706 million in fiscal year 2016 to Rp 151,187 million in fiscal year 2017, primarily due to increased taxable income.

Net income

As a result of the foregoing, our net income increased by Rp 35,798 million, or 13.9%, from Rp 256,794 million in fiscal year 2016 to Rp 292,592 million in fiscal year 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table summarizes cash flows for the periods indicated:

	Year ended 31 December		
	2016	**2017**	**2018**
		(In millions of Rp)	
Net cash provided by operating activities	723,340	500,581	543,567
Net cash used in investing activities	(271,500)	(178,965)	(280,029)
Net cash provided by/ used in financing activities	(266,846)	(411,528)	(34,099)
Net increase/ (decrease) in cash and cash equivalents	184,994	(89,912)	229,439
Cash and cash equivalents at end of the period	327,678	237,766	467,205

Net cash provided by operating activities

Net cash provided by operating activities was Rp 543,567 million in fiscal 2018, compared to net cash provided by operating activities of Rp 500,581 million in fiscal 2017. The increase was due to (i) a Rp 1,263,569 million increase in cash receipts from customers due to increased sales, (ii) a Rp 6,714 million decrease in interest and financing charges paid due to a decrease in outstanding loans during the period and (iii) a Rp 2,558 million increase in income tax restitution received. These amounts were partially offset by (i) a Rp 886,662 million increase in cash paid to suppliers and a Rp 177,397 million increase in cash paid for other operating expenses, in each case primarily due to increased purchases of inventories to support increase in revenue, (ii) a Rp 97,096 million increase in cash paid to employees due to increases in the minimum wage and an increase in the number of employees to support new stores and increased sales activity, and (iii) a Rp 68,700 million increase in tax payments.

Net cash provided by operating activities was Rp 500,581 million in fiscal year 2017, compared to net cash provided by operating activities of Rp 723,340 million in fiscal year 2016. The decrease was primarily due to (i) a Rp 454,113 million increase in cash paid to suppliers and a Rp 223,344 million increase in cash paid for other operating expenses, in each case primarily due to increases in purchases to support the increase in net revenues and to replace inventory sold in fiscal year 2016 in connection with our efforts to improve our inventory position, (ii) a Rp 28,346 million increase in cash paid to employees due to increases in the minimum wage, opening of new stores and increased sales activity, and (iii) a Rp 2,380 million increase in interest and financing charges paid. These amounts were partially offset by (i) a Rp 481,321 million increase in cash receipts from customers due to increased sales, (ii) a Rp 3,908 million increase in income tax restitution received, and (iii) a Rp 195 million decrease in tax payments.

Net cash provided by operating activities was Rp 723,340 million in fiscal year 2016. This was primarily due to Rp 4,557,978 million in cash receipts from customers and Rp 1,922 million income tax restitution received. These amounts were partially offset by (i) Rp 2,340,982 million in cash paid to suppliers and Rp 799,931 million in cash paid for other operating expenses, primarily due to purchases to support revenue, (ii) Rp 514,610 million in cash paid to employees, (iii) Rp 171,705 million in income tax paid and (iv) Rp 9,402 million in interest and financing charges paid.

Net cash used in investing activities

Net cash used in investing activities was Rp 280,029 million in fiscal 2018, compared to net cash used in investing activities of Rp 178,965 million in fiscal 2017. The increase was primarily due to (i) a Rp 88,032 million increase in payments for acquisitions of property, plant and equipment due to new store openings and refurbishment of existing stores, investment in IT and other capital expenditures, (ii) Rp 18,500 million of additions to deferred license fees due to payments for the acquisition of the ASTEC brand, and (iii) a Rp 1,802 million decrease in proceeds from sales of property, plant and equipment. These amounts were partially offset by (i) a Rp 4,362 million increase in interest received due to an increase in cash and cash equivalents as a result of increased cash

receipts from customers, (ii) a Rp 2,217 million decrease in placements of refundable deposits in connection with store openings, and (iii) a Rp 616 million decrease in advances for purchases of property, plant and equipment.

Net cash used in investing activities was Rp 178,965 million in fiscal year 2017, compared to net cash used in investing activities of Rp 271,500 million in fiscal year 2016. The decrease was primarily due to (i) a Rp 180,000 million payment in fiscal year 2016 for acquisition of subsidiary in connection with our acquisition of MGI from MAP, (ii) a Rp 4,700 million increase in proceeds from sales of property, plant and equipment due to increased disposals of assets from closed stores, and (iii) a Rp 856 million increase in interest received. These amounts were partially offset by (i) a Rp 78,970 million increase in payments for acquisitions of property, plant and equipment, (ii)a Rp 3,043 million payment for advances for purchases of property, plant and equipment, in each case due to new store openings and refurbishment of existing stores, investment in IT and other capital expenditures, and (iii) a Rp 11,008 million increase in placements of refundable deposits for new store openings.

Net cash used in investing activities were Rp 271,500 million in fiscal year 2016. This was primarily due to (i) payments of Rp 85,911 million for acquisition of property, plant and equipment, (ii) payments of Rp 10,297 million for placements of refundable deposits for new store openings, (iii) Rp 907 million of advances for purchases of property, plant, and equipment; and (iv) payments of Rp 150,000 million for the acquisition of MGI from MAP. These amounts were partially offset by (i) Rp 4,139 million of interest received and (ii) Rp 1,476 million of proceeds from sales of property, plant, and equipment.

Net cash flows provided by/(used in) financing activities

Net cash used in financing activities was Rp 34,099 million for fiscal 2018, as compared to net cash used in financing activities of Rp 411,528 million fiscal 2017. The decrease was mainly due to (i) a cash inflow of Rp 987,840 million from the initial public offering of the Company in July 2018, the proceeds of which were used to repay Rp 888,897 million of the principal due on our bond; and (ii) a Rp 2,500 million increase in capital sock subscription in a subsidiary due to payments received in connection with the sale of a 10% minority interest of the subsidiary through which ASTEC conducts its operations. This amount was offset by (i) a Rp 31,433 million increase in accounts receivable from and payable to related parties – net, (ii) Rp 39,187 million in payments of liabilities for purchase of property, plant and equipment for our new stores, (iii) Rp 25,000 million of payments of bank loans, and (iv) Rp 2 million payment of a dividend by a subsidiary to a non-controlling interest.

Net cash used in financing activities was Rp 411,528 million in fiscal year 2017, as compared to net cash used in financing activities of Rp 266,846 million in fiscal year 2016. In fiscal year 2017, we had cash inflows of Rp 410,000 million representing the proceeds from bank loans of which Rp 395,000 million were used for operational activities and repaid within the same year. This amount was offset by (i) payments of cash dividends of Rp 210,000 million, (ii) payments of bond principal of Rp 90,000 million, (iii) an increase in accounts receivable from and payable to related parties – net of Rp 102,786 million, (iv) payments of liabilities for purchases of property, plant and equipment of Rp 23,742 million, and (v) payments of bank loans for purchases of property, plant and equipment of Rp 395 million.

Net cash provided by financing activities was Rp 266,846 million in fiscal year 2016, which was primarily due to (i) proceeds from bank loans Rp 230,000 million, which were used for operational activities and were partially repaid within the same year, and (ii) proceeds from issuance of paid-up capital of Rp 110,350 million. These amounts were partially offset by (i) payments of bank loans of Rp 285,000 million, (ii) payments of liabilities for purchases of property, plant, and equipment of Rp 36,622 million, (iii) a decrease in account receivable from and payable to related parties – net of Rp 62,599 million, (iv) payments of cash dividends of Rp 155,975 million, (v) payment of non-interest bearing bond principal of Rp 42,000 million, and (vi) payments of cash dividends by a subsidiary to previous shareholders of Rp 25,000 million.

Liquidity

Our primary source of liquidity for our operations is cash generated from our operating activities. The Company had Rp 327,678 million, Rp 237,766 million and Rp 467,205 million in cash and cash equivalents as at 31 December 2016, 2017 and 2018, respectively. The Company's primary uses of cash is for operating activities. We anticipate that increased capital expenditure and other expenditures will be incurred in connection with new store openings and for general corporate purposes.

We believe cash on hand, cash generated from operating activities and revolving credit facility are sufficient to cover present and expected working capital requirements and capital expenditures for at least the next 12 months.

INDEBTEDNESS

Non-interest Bearing Bond

On 27 May 2015, MAP, our majority shareholder, issued an unsecured and non-interest bearing bond with a nominal value of Rp 1.5 trillion to ASH. On 1 June 2015, the bond was novated to MAA and MAA assumed the obligations and liabilities under the bond.

Upon the novation of the bond to us, we recorded the bond at fair value (Rp 992,067 million). We also recorded unamortized discount of Rp 507,933 million (the difference between the nominal and fair value of the bond) as day 1 gain.

We repaid Rp 42,000 million, Rp 90,000 million and Rp 888,897 million of the bond principal in fiscal years 2016, 2017 and 2018, respectively, including Rp 888,897 million in connection with our listing on the IDX. We include the amortized discount with respect to the bond in our finance cost.

As of the date hereof the principal amount outstanding under the bond is Rp 479,103 million.

Loan Agreements

As of 31 December 2018, we had no debt outstanding under our credit facilities, which are described below. Interest rates for borrowings under these facilities will be determined at the time a drawdown is made.

BCA Loan Agreement

We entered into a loan agreement on 11 November 2015, which was extended on 9 November 2018, with the Bank of Central Asia ("**BCA Loan Agreement**") through which have the following facilities:

- a time loan revolving facility of Rp 100,000 million;
- a time money market loan facility of Rp 100,000 million
- a multi credit facility (sight/usance letter of credit, sight/usance SKBDN, standby letter of credit, bank guarantee and counter guarantee) of USD 20 million; and
- a foreign exchange line facility of USD 10 million.

Under the BCA Loan Agreement, we are required to fulfil certain financial covenants based on the consolidated financial statements of MAP and its subsidiaries, including maintaining a minimum current ratio of 1, a maximum net debt to equity ratio of 2 and a maximum net debt to EBITDA (as defined in the loan agreement) ratio of 3.25. The facilities mature on 12 August 2019.

As of 31 December 2018, we had Rp 0.0 debt outstanding under the facility.

CIMB Loan Agreement

We entered into a loan agreement on 1 June 2015, which was extended on 30 November 2018, with Bank CIMB Niaga ("**CIMB Loan Agreement**") through which we obtained the following financing facilities:

- fixed loan facility with a maximum limit of Rp 100,000 million, and a maximum sublimit consisting of (i) an extra special transactions loan facility of Rp 100,000 million and (ii) an import financing special transactions loan facility of Rp 100,000 million;
- letter of credit and/or SKBDN facilities with a maximum limit of USD 10 million, and a maximum sublimit consisting of (i) a trust receipt facility of USD 10 million and (ii) a bank guarantee/ counter guarantee/ standby letter of credit facility of USD 10 million; and
- foreign exchange facility with maximum pre-settlement limit of USD 750,000.

Under the CIMB Loan Agreement, we are required to fulfil certain financial covenants based on the consolidated financial statements of MAP and its subsidiaries, including maintaining a minimum current ratio of 1, a maximum net debt to equity ratio of 2 and a maximum net debt to EBITDA (as defined in the loan agreement) ratio of 3.25. The facilities mature on 1 June 2019.

As of 31 December 2018, we had Rp 0.0 debt outstanding under the facility.

HSBC Loan Agreement

We entered into a loan agreement on 16 June 2015, which was extended on 13 November 2018, with Bank HSBC Indonesia ("**HSBC Loan Agreement**") through which we obtained the following financing facilities:

- a facility with a maximum limit of Rp 200,000 million, and a maximum sublimit consisting of (i) a clean import loan facility of Rp 200,000 million and (ii) a revolving loan facility of Rp 200,000 million; and
- a facility with a maximum limited of USD 10 million, and a maximum sublimit consisting of (i) a documentary credit facility of USD 10 million, (ii) a deferred payment credit facility of USD 10 million, (iii) a bank guarantee facility of USD 10 million and (iv) a standby document credit facility of USD 10 million.

Under the HSBC Loan Agreement, we are required to fulfil certain financial covenants based on the consolidated financial statements of MAP and its subsidiaries, including maintaining a minimum current ratio of 1, a maximum net debt to equity ratio of 2 and a maximum net debt to EBITDA (as defined in the loan agreement) ratio of 3.25. The facilities mature on 31 May 2019.

As of 31 December 2018, we had Rp 0.0 debt outstanding under the facility.

Mandiri Loan Agreement

MAP entered into loan agreements on 30 May 2013 and 7 January 2014, which were extended on 19 December 2018, with Bank Mandiri ("**Mandiri Loan Agreement**") and obtained the following financing facilities, which are available to certain subsidiaries of MAP, including us:

- an import general facility with a limit of Rp 275,000 million; and
- a treasury line facility with a limit of USD 20 million.

Under the Mandiri Loan Agreement, we are required to fulfil certain financial covenants based on the consolidated financial statements of MAP and its subsidiaries, including maintaining a maximum current ratio above 1, a minimum EBITDA (as defined in the loan agreement) to interest plus instalment of loan principal ratio of 1.5, a maximum net debt to equity ratio of 2 and a maximum net debt to EBITDA ratio of not more than 3.25 to 1. The facilities mature on 23 November 2019.

As of 31 December 2018, we had Rp 0.0 debt outstanding under the facility.

SC Loan Agreement

MAP entered into a loan agreement on 27 March 2007, which was extended on 14 March 2018, with Standard Chartered AG ("**SC Loan Agreement**") and obtained the following financing facilities, which are available to certain subsidiaries of MAP, including us:

- a bond and guarantees facility of USD 35 million;
- short term loan facility of USD 5 million;
- an import letter of credit facility of USD 35 million;
- a commercial standby letter of credit facility of USD 15 million; and
- an import invoice financing facility of USD 35 million.

The facilities matured on 28 February 2019. We are in the process of seeking an extension of these facilities.

As of 31 December 2018, we had Rp 0.0 debt outstanding under the facility.

Maybank Loan Agreements

MAP entered into loan agreements on 19 December 2001 and 25 November 2008, which were extended on 3 December 2018, with Bank Maybank Indonesia ("**Maybank Loan Agreements**") for the following financing facilities, which are available to certain subsidiaries of MAP, including us:

- sight/usance letter of credit facility with a maximum limit of USD 25 million and invoice financing buyer facility of Rp 150,000 million, bank guarantee, counter guarantee, standby letter of credit and demand guarantee facilities of USD 25 million; and
- revolving loan with sublimit of bank guarantee line, counter guarantee, standby letter of credit and demand guarantee facility of Rp 100,000 million.

The Maybank Loan Agreement matures on 14 April 2019. Under the Maybank Loan Agreement, MAP is required to fulfil certain financial covenants based on its consolidated financial statement, including maintaining a minimum current ratio of 1, a maximum net debt to equity ratio of 2 and a maximum net debt to EBITDA (as defined in the loan agreement) ratio of 3.25.

As of 31 December 2018, we had Rp 0.0 debt outstanding under the facility.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Set out below is a summary of our contractual obligations and commercial commitments as of 31 December 2018:

	Total	Less than 12 months	One to five years	More than five years
		(In millions of Rp)		
Long-term debt obligations	4,707	2,460	2,247	0

The foregoing table does not include our obligations under our lease agreements. Our rental expenses as a percentage of net revenues were 10.7%, 10.5%, and 10.2% in fiscal years 2016, 2017 and 2018, respectively.

CAPITAL EXPENDITURES

Our capital expenditures were primarily related to (i) opening new stores and (ii) refurbishing existing stores, maintenance and head office assets.

The following table presents our capital expenditure for the fiscal years 2016, 2017 and 2018:

	Year ended 31 December		
	2016	2017	2018
		In millions of Rp	
Opening of new stores	60,045	155,854	188,003
Refurbishment, maintenance and head office assets	61,812	60,002	114,341
Total:	**122,245**	**215,856**	**302,344**

We fund our capital expenditures primarily by cash generated from our operations. We expect to fund future capital expenditures primarily by cash generated from operating activities.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

We are exposed to the effect of foreign currency exchange rate fluctuations mainly because of purchases of inventories denominated in USD. We manage our foreign currency exposure through natural hedging, or determining the price of products based on the exchange rate. When the purchase value of the goods exceeds that rate limit, we adjust the selling price of the goods. Our foreign currency exposure is described in Note 36 to our audited financial statements. To help manage the risk, we enter into foreign exchange forward contracts within established parameters. See Note 29 to the financial statements. For a foreign currency sensitivity analysis, see Note 37 to our audited financial statements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to market interest fluctuation arises primarily from borrowings with variable interest rates. To manage the interest rate exposure on our borrowings, we review interest rate movements to enable Management to take appropriate measures such as maintaining a reasonable mix of fixed and variable rate borrowings to help manage the exposure. For additional information and an interest rate sensitivity analysis, see Note 37 to our audited financial statements.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in financial loss to us.

Our credit risk primarily relates to cash in banks, time deposits, trade accounts receivable, other accounts receivable and refundable deposits. We place our bank balances and time deposits with credit worthy financial institutions to diversify interest income and spread risk. Trade accounts receivable are entered into with reputable credit card issuers and other credit worthy third parties and related parties, while other accounts receivable are entered into with credit worthy third parties and related parties. We continuously monitor our exposure and our counterparties and spread the aggregate value of transactions among approved counterparties.

We have no one largest customer, therefore we do not have significant credit exposure to any single counterparty or any group of counterparties having similar characteristics.

Liquidity Risk

We have established a liquidity risk management framework for the management of our short, medium and long-term funding and liquidity management requirements. We manage liquidity risk by maintaining reserves, banking facilities and reserves

borrowing facilities, and by continuously monitoring forecast and actual cash flows. For additional information, see Note 37 to our audited financial statements.

Our Business

We are Indonesia's dominant operator of sports goods stores focused on international sportswear brands, with a market share of 63.4% in 2017, according to Euromonitor. We believe we are also a leading retailer in the leisure footwear and kids markets. Our unique multi-tier retail strategy allows us to cater to a broad range of consumer segments with our portfolio of proprietary multi-brand retail chains, including Planet Sports, Sports Station and Kidz Station. We also operate a diverse portfolio of mono-brand retail stores for brands such as Skechers, Reebok and Converse. Over the last 20 years, we have successfully developed a sports, leisure footwear and kids retail network that included 1,074 stores across 74 cities in Indonesia as of 31 December 2018. We also opened our first store in Vietnam in 2018, and we opened a second store in Vietnam in 2019. We believe that through our long track record we have accumulated a deep understanding of the Indonesian consumer and strive to achieve operational excellence across our business in Indonesia and in the region. We carry a portfolio of over 150 international brands, including Adidas, Nike, Puma and Bandai, and have exclusive distribution rights in Indonesia for over 40 brands, including most of our top ten brands.

We operate three principal business lines: sports, leisure footwear and kids, which we define based on the types of stores in which we generate sales.

- ***Sports stores***. Our sports stores sell a broad range of athletic shoes, apparel and sports equipment from our portfolio of brands, including Adidas, Nike, Skechers, Reebok and Converse. Our sports stores include our multi-brand retail chains Planet Sports, Sports Station, the Athlete's Foot, Planet Sports Kids and Footgear, as well as mono-brand stores for selected brands.

  We generated 75.0%, 74.9% and 75.1% of our net revenues from sports in fiscal years 2016, 2017 and 2018, respectively.

- ***Leisure footwear stores.*** Our leisure footwear stores sell and distribute a range of leisure footwear, apparel and accessories from our portfolio of brands, including Camper, Birkenstock, Dr. Martens and Staccato. Our leisure footwear stores include our multi-brand retail chains Payless and Ogaan as well as mono-brand stores for selected brands.

  We generated 13.5%, 14.7% and 14.2% of our net revenues from leisure footwear in fiscal years 2016, 2017 and 2018, respectively.

- ***Kids stores***. Our kids stores sell a range of kids products that include kids wear, toys and early education tools from our portfolio of brands, including Hasbro, Lego, OshKosh B'gosh and Crocs. Our kids stores include our multi-brand retail chain Kidz Station as well as mono-brand stores for selected brands.

  We generated 11.5%, 10.4%, and 10.6% of our net revenues from kids in fiscal years 2016, 2017 and 2018, respectively.

We dominate the market for international sportswear-focused sports goods stores, according to Euromonitor. Our 1,074 stores in Indonesia had a combined selling space of approximately 194,677 square meters as of 31 December 2018, which comprises of 164,239 square meters of selling space in our multi-brand stores and 30,439 square meters of selling space in our mono-brand stores. Our stores range from store-in-store shops located within department stores to stores in shopping malls and large stand-alone stores with up to 3,000 square meters of selling space. In 2018, we also opened our first store in Vietnam, which comprises of 443 square meters of selling space.

We aim to provide our consumers with the best possible shopping experience and our brand principals with the best possible brand management. We focus on our customers by aiming to maintain stores that are staffed by knowledgeable and friendly sales staff, offer a broad selection of merchandise, are conveniently located, and are designed to provide a pleasant and attractive shopping environment.

We have grown significantly since we were formed as an independent subsidiary of MAP in March 2015. Our aggregate selling space (including out stores in Vietnam) has increased 24.1% from 157,217 square meters as of 31 December 2016 to 195,121 square meters as of 31 December 2018.

Our net revenues increased from Rp 4,533,664 million in fiscal year 2016 to Rp 5,076,181 million in fiscal year 2017 and Rp 6,245,547 million in fiscal year 2018. Our net income was Rp 256,794 million, Rp 292,592 million and Rp 353,321 million in fiscal years 2016, 2017 and 2018, respectively. Our adjusted EBITDA was Rp 573,304 million, Rp 742,398 million and Rp 1,016,149 million in fiscal years 2016, 2017 and 2018, respectively. Our adjusted net income was Rp 343,557 million, Rp 457,528 million and Rp 630,817 million in fiscal years 2016, 2017 and 2018, respectively. Adjusted EBITDA and adjusted net income are non-GAAP financial measures.

We became a public company following our listing on the IDX on 5 July 2018.

STRENGTHS AND STRATEGIES

As the largest international sportswear retailer in Indonesia, according to Euromonitor, with a history of over 20 years, we are a driver for growth in the international sportswear, leisure and kids markets in Indonesia. Our vision is "To bring sports & healthy living to all Indonesians – to enjoy the Game of Life!"

COMPETITIVE STRENGTHS

Indonesia's #1 sports retail marketer, well positioned to capture the strong growth of sportswear in Indonesia

We are the dominant operator of sports goods stores focused on international sportswear brands in Indonesia, with a market share of 63.4% in 2017 in this fast-growing market, according to Euromonitor. Over the last 20 years, we have successfully developed a sports, leisure footwear and kids retail network that included 1,074 stores across 74 cities in Indonesia as of 31 December 2018. With over 20 years of experience in the Indonesian retail business, we believe we have developed a deep understanding of Indonesian consumers and expertise in marketing sportswear, which has enabled us to grow our network of multi-brand banners and develop certain of our exclusive brand partners into leading positions in Indonesia.

The combination of our nationwide retail network and sports retail marketing capabilities positions us to benefit from the strong growth forecast for the international sportswear market in Indonesia. Euromonitor forecasts the Indonesian international sportswear market to grow at a CAGR of 10.6% from 2018 to 2022, with growth supported by Indonesia's economic growth, increasing urbanisation, increasing consumer spending and the rising influence of global health and sporting trends in Indonesia. The relative under-penetration of sportswear in Indonesia is also expected to provide an avenue for our future strong growth. According to Euromonitor, per capita sportswear retail sales in Indonesia in 2017 were less than half of those in China, with retail sales per 1,000 people of USD 3,557 compared to USD 22,700 for China, which we believe demonstrates the early stage of Indonesian sportswear sector penetration.

We are also growing our multi-tier leisure footwear and kids business lines, which in fiscal year 2018 accounted for approximately 24.8% of our net revenues. Our leisure footwear brand portfolio includes well-known brands such as Camper, Dr Martens and Birkenstock, and our kids brand portfolio includes well-known brands such as Hasbro, Lego and Leap Frog.

Unique multi-tier and diversified portfolio of proprietary retail banners targeting a large part of the market

We operate a unique, multi-tier, diversified portfolio of retail banners that targets a large part of the Indonesian sports goods market and helps us maintain strong margins. Our adjusted EBITDA margin was 12.6%, 14.6%, and 16.3% in fiscal years 2016, 2017 and 2018, respectively. The majority of these retail banners are our proprietary brands, including Planet Sports, Sports Station, Royal Sporting House, Golf House, Ogaan, Kidz Station and Planet Sports Kids. We have developed our portfolio of retail banners over 20 years, and we believe it would be difficult for new entrants to the market to replicate our network. We believe our business model is attractive to many brand principals seeking to grow in the Indonesian market.

Each of our multi-brand banners employs a distinct retail concept and targets a specific consumer segment. We offer products in a wide range of prices and styles, from value to premium and from leisure to sports. Our range of banners provides us with the flexibility to locate stores in a broad selection of shopping mall across Indonesia. Our multi-brand stores provide a one-stop shopping experience for our customers by offering a wide variety of brands and products. In addition, our broad portfolio of retail banners also allows us to sell a range of our brands' products that are typically sold by multiple retailers operating in separate market segments.

We generated over 73.6% of our net revenues in fiscal year 2018 through our multi-brand stores.

Trusted partner for more than 40 exclusive brand principals, which supports our profitability

We believe that we are an ideal partner for brand principals to develop their brands. Our portfolio of over 150 brands includes more than 40 brands for which we are the exclusive distributor in Indonesia. Our exclusive brands account for a considerable part of our business and typically generate higher margins than our non-exclusive brands.

We believe that our leading nationwide retail network, local insights and brand management experience make us the natural choice for brands looking to enter the Indonesian market, as we can market a broad range of products across the country through our multi-tier platform. We have stable, long-standing relationships with many of our brand principals, with some of our top 10 brands having been with us for over 10 years, and we believe we have helped certain of our brands achieve leading positions in Indonesia.

Operational excellence across supply chain and store operations

We strive to achieve operational excellence. We believe improvements in store operations, merchandising and supply chain logistics have been key drivers of our growth and profitability in recent years. We focus on developing our customized and integrated IT systems to help us collect and analyse high quality, real-time data that helps us improve many aspects of our operations.

We have improved our store productivity by refining our product mix, pricing strategy and inventory levels. As part of our strategy to maintain a healthy inventory flow, we monitor our inventory levels and strive to deliver products to our stores to maintain optimal supplies. Our automated system identifies and reduces prices of slow-selling products, or transfers them to the "last call" sections in our Sports Station and Ogaan stores. By transferring slow-moving products to our "last call" sections, we help maintain the image of our premium stores and allow them to carry the latest merchandise.

We also strive to deliver the right products to consumers by improving our merchandizing. We use our data analytics to help refine size curves and product mix. We also provide customized reports on store performance, sales and inventory levels to certain of our brand principals.

We have grown and improved our distribution and logistics network with the goal of supplying our 1,074 stores across 74 cities in Indonesia quickly and efficiently. We have designed and developed a proprietary warehouse management system that we implement through our third party warehouse providers, and work with a network of third party transportation companies to improve our supply chain management and efficiency.

As a result of our operational improvements, our inventory days declined from 202 days in fiscal year 2016 to 168 days and 156 days in fiscal year 2017 and 2018, respectively. We maintain a long-term target of achieving 120 inventory days.

Outstanding financial track record with a focus on profitable growth

In fiscal year 2018, we derived 75.1% of our net revenues from our sports goods stores focused on international sportswear brands, a sector that is expected to grow at a CAGR of 12.0% between 2018 and 2022, according to Euromonitor. Our net revenues increased by 23.0% in fiscal year 2018 compared to fiscal year 2017. The growth in our net revenues was primarily due to SSSG of 11.8% in fiscal year 2018 and an increase in selling space of 14.1% in fiscal year 2018.

We seek to achieve profitable growth and deliver strong margins by selectively opening new stores that we expect to meet our operating targets. We have improved our adjusted EBITDA margin from 12.6% in fiscal year 2016 to 16.3% in fiscal year 2018. Our gross margin increased from 42.9% in fiscal year 2016 to 45.3% in fiscal year 2018, primarily as a result of improvements in inventory profile and merchandise planning, which improved sell-through, and improved brand mix, with sales of higher margin products growing faster than sales of lower margin products. Our adjusted net income increased by 83.6% in fiscal year 2018 compared to fiscal year 2016. Our net income margin increased from 7.6% in fiscal year 2016 to 10.1% in fiscal year 2018.

Beneficial relationship with MAP

We believe we derive important benefits from our relationship with our controlling shareholder, MAP, one of Indonesia's leading lifestyle retailers. MAP is listed on the IDX and has over 25 years of experience in the Indonesian retail industry. We believe these benefits include the following:

- Since our formation as a subsidiary of MAP, MAP has been providing us with certain central services, including tax, legal, information technology, human resources and licensing.
- Although we maintain good relationships with mall and shopping center operators, we benefit from MAP's relationships in the retail property industry to help source new locations.
- We benefit from MAP's customer base through its MAP CLUB loyalty card, which has approximately two million members and allows us to run targeted promotions.
- MAP's long standing experience in consumer retail, including the department store, fashion, food & beverage and beauty retail segments, complements our insights into the sports, leisure footwear and kids segments to better understand consumer trends and the retail real estate market in Indonesia.
- We benefit from MAP's experience in developing and growing brands in Indonesia across multiple segments, such as department stores, apparel and food and beverage.
- We believe that MAP's strong corporate governance and values as a public company enhance our credibility with potential partners.
- We expect to benefit from MAP's experience in expanding into other countries in Southeast Asia, which is one of our business strategies.

Experienced professional management team with a track record of strong execution

Our senior management team comprises highly experienced retail professionals and industry veterans with an average of more than 20 years of experience. Under their leadership, we believe we have implemented many global best practices and international standards of operational excellence. Our track record of growing our business and brand relationships are testimony to the quality and ability of our management team. A majority of our senior management came from the MAP group and helped grow

our business to its leading position before we became an independent subsidiary.

The quality of our store personnel is also an important factor for our success. We seek to appoint competent and well-educated store managers experienced in international brand retailing. We provide training on brand policies and on daily store operations. To improve customer service, we also provide regular training to our retail staff. We believe that our corporate culture encourages our employees to seek ways to enhance the value of our company and motivates them to strive for our continued success.

BUSINESS STRATEGIES

Increase our selling area by approximately 10 to 15 per cent. per year over the next two years

Our goal is to achieve profitable growth. We aim to increase our net selling space by approximately 10 to 15 per cent. per year over the next two years. To support our growth, we maintain a rolling pipeline of approximately 200 potential store locations. Potential new store locations include new shopping malls and shopping centers, existing shopping malls and shopping centers where we do not currently have stores, existing malls and shopping centers where have at least one store but which we believe could support additional stores, and department stores. In fiscal 2018, we increased our net selling space by 24,597 square meters.

In order to manage our expansion program, we have a dedicated business development team which is responsible for identifying potential new sites, while working closely with brand principals in opening mono-brand stores. For our new stores we aim to earn back our investment within 12 to 24 months and operating margins of at least 15%. Our expansion plans and performance targets are subject to a number of risks. For a description of some of these risks, see "Risk Factors—Risks relating to our business—Our expansion plans may not proceed as expected" below.

Enhance product cycle efficiency to maintain strong SSSG and further improve profitability

Over the last few years, we have focused on improving our inventory profile. We lowered our inventory days from 201 days in 2016 to 156 days in 2018 by effectively identifying the aged inventory and improving our processes across warehousing and logistics. Such improvements along with better merchandise planning have helped reduce the proportion of discounted products in our overall sales mix. Percentage of sales with no discount increased from 36% in fiscal 2017 to 43% in fiscal 2018. This in turn helped drive our performance as we achieved SSSG of 11.1% and 11.8% in fiscal years 2017 and 2018, respectively, and our gross margin improved from 42.9% in 2016 to 45.3% in 2018.

We continue to focus on efficiency across the different functions of our product cycle. We believe there remains significant upside as we recently started to implement new initiatives focused on improving our operational performance, aided by data analytics. For example, we are working to improve the accuracy of SKU allocations across our store portfolio to reduce broken sizes for top selling SKUs and improve sell-through.

We also strive to improve the productivity of our individual stores. We will use store and customer data to improve the selection and availability of products in each store, our pricing strategy, our in-store displays and efficiency of store personnel.

We aim to use our real-time data analysis to improve the speed with which we monitor and respond to changing consumer demand. We will continue to improve our IT systems to collect better information in order to improve our data analysis, as well as utilizing this information in a systematic manner to guide our decisions and planning.

Details of some recent initiatives aimed towards improving our product cycle efficiency and productivity are set forth below:

Function	Implementation	Initiative	Potential impact
Plan	September 2018	Rolling monthly forecasts for top brands	Improve product availability in stores to capture full demand potential
Buy	March 2019	Alignment of budget forecasts and merchandise buying plans	Optimize inventory levels and quality of product mix
Make	October 2018	Weekly management report on end-to-end inventory status	Identify potential delays at an early stage and avoid impact to inventory
Move	January 2018	Center of Excellence team ensure optimal allocation of product range	Continued allocation refinement based on store data to improve conversion

Sell	December 2018	Traffic counters installed in selected stores	Gain ability to track traffic and conversion rates to ensure efficient use of resources

Focus on top brands to increase brand market share

We differentiate ourselves by focusing on a portfolio of brands that we believe have the potential for further growth in Indonesia. As an example, Skechers has grown to become the leading mono-brand international sportswear retailer in Indonesia, according to Euromonitor. We also plan to introduce new brands to the Indonesian market and improve sales for existing brands through our multi-tier retail platform. We focus on brands that we believe can deliver strong returns in addition to strong sales. To help improve brand performance, we allocate more space to their products in our stores, promote them through in-store displays and other advertising, feature them on our website and introduce them to underserved markets. We believe that the rapid growth of the sports, leisure footwear and kids retail segments in Indonesia provides a market opportunity for established brands and brands previously underrepresented in Indonesia.

We have a synergistic relationship with our brand principals: the better we are at selling their products, the better our and their results. We work together with many of our brands to seek ways to improve the way we market their products. The success of our brands in turn supports our growth by broadening our customer base in the Indonesian sports, leisure footwear and kids markets.

Continue to enhance our integrated digital retail platform

Whilst digital penetration continues to rise rapidly in Indonesia, internet retailing only accounted for 2.3% of the overall retail market in 2017, according to Euromonitor. Internet retailing is in a nascent stage of development due to low credit card usage and weak logistics infrastructure, according to Euromonitor. We aim to continue to improve the digital experience for our consumers, focusing on creating the most convenient shopping experience while promoting sports and a healthy lifestyle. Our plan is anchored by the development of our own online platform, planetsports.asia.

At the end of 2018, we launched our online platform, planetsports.asia, which provides customers access to our sports products across our stores and brands, providing a true one-stop online shopping experience. . The website also shares the name of our flagship offline multi-brand retail banner, *Planet Sports*, to help build our brand awareness. Similarly for our kids business, we plan to launch Kidzstation.asia in 2019.

Our fitness app *Planet Sports FitWalk* is a key part in our plan to promote sports and a healthy lifestyle and we plan to launch the app in the first half of 2019. The aim of the app is to promote walking as an entry form of exercise in Indonesia, where exercise and sports have not yet achieved widespread popularity. We also believe *Planet Sports FitWalk* will drive traffic to our website, while providing us with customer data for further data analytics and targeted marketing.

To further promote sports and a healthy lifestyle, we will invest in social media marketing and work with key opinion leaders to develop and promote sports related content in Indonesia. Our aim is to develop communities across various aspects of sports and exercise, which will in turn drive traffic and sales for MAA.

We also launched the Indonesia website for Skechers and are working with other brands such as Reebok and Crocs on development of their mono-brand websites to help grow online presence for these brands in Indonesia. We also complete the fulfilment processes for products sold through these websites.

Explore Southeast Asia expansion opportunities for long term Pan-ASEAN presence

We see significant expansion opportunities in the Southeast Asia market with a long-term vision of building a Pan-ASEAN business. We believe the three largest countries by population, Indonesia, Philippines and Thailand are the key markets to focus on given the large market potential and low sportswear penetration. We are already the market leader in Indonesia, and have already started expanding geographically through the opening of our first store in Vietnam in 2018 and a second store in 2019. We also believe planetsports.asia will have the potential to launch in other markets in Southeast Asia.

Our brand principals are supportive of our Pan-ASEAN plans. We believe that they recognize our capabilities in Indonesia and therefore identify us as a potential strong partner to help drive expansion in other markets of the region. We are exploring opportunities with some brand principals to partner on a regional level in the longer term.

MAP is also pursuing a strategy of geographic expansion in the region and we aim to benefit from MAP's experience.

Open to opportunistic strategic acquisitions that are complementary to our existing brand and store portfolio

We may consider strategic acquisitions that we believe are complementary to our existing brand and store portfolio. We look for proprietary brands with products that complement our product range, specialized products that are underserved by our current brands, or products that are manufactured domestically that can be brought to market quickly at low cost. We may also consider acquiring additional multi-brand retail chains that are complementary to our existing retail store portfolio.

As part of this strategy, in January 2018, we acquired Astec, a domestic high performance badminton brand designed and managed by Alan Budikusuma, gold medal winner at the 1992 Olympic Games, and Susi Susanti, a gold medal winner at the 1992 Olympic Games and a bronze medal winner at the 1996 Olympic Games. We believe Astec's positioning as a domestic value brand complements our current brand portfolio. We are in the process of developing new product lines for the brand and have helped to relaunch the Astec brand, with a premium badminton range launched in January 2019. Initially, Astec will focus on badminton products, but we expect to explore the possibility of increasing its product portfolio to include running, gym, fitness walking and leisure categories.

STORES

Retail stores network

We believe we have one of the largest and most geographically diverse and extensive network of stores in Indonesia, with 1,074 stores across Indonesia, covering approximately 194,677 square metres of total selling space as of 31 December 2018. Stores in Java contributed to 74.0%, 74.7%, and 75.1% of our net revenues, respectively.

The following table provides information on the geographic reach of our stores in Indonesia as of 31 December 2018:

Location	Number of stores	Selling space (square meters)	Percentage of total selling space (%)
Java [1]	753	138,867	71.3
Others (Indonesia)	321	55,910	28.7
Total [2]:	**1074**	**194,677**	100.0

(1) We have 463 stores in Greater Jakarta, with a total selling space of 87,751 square meters.
(2) Excluding stores in Vietnam

Of our 1,074 stores in Indonesia, 311 are stores-in-stores where our products are sold on consignment in department stores.

Retail stores

The following table sets forth a summary of our top 10 multi-branded and top 10 mono-brand retail stores by aggregate selling space as of 31 December 2018:

Top 10 multi brand retail chains [1]	Number of stores	Aggregate selling space (square meters)
The Athlete's Foot	21	2,336
Footgear	12	1,363
Golf House and Golf Proshops	27	3,334
Kidz Station	82	22,590
Ogaan	5	2,956
Payless Shoesource	87	18,388
Planet Sports	39	23,030
Planet Sports Kids	12	745
Royal Sporting House	50	2,913
Sports Station	354	83,871

Top 10 mono-brand retail chains [1]	Number of stores	Aggregate selling space (sqm)
Adidas	6	1,510
Birkenstock	22	1,308
Converse	53	3,340
Onitsuka Tiger	4	517
New Balance	22	1,953
Puma	14	1,865
Reebok	13	1,626
Rockport	12	741
Skechers	84	10,881
Stacatto	38	2,657

(1) Excluding stores in Vietnam

Multi-brand retail chains

Our multi-brand chains are well-known throughout Indonesia. Each of the multi-brand chains has a distinct retail concept and store identity, and targets a specific consumer segment. These individual identities determine where we locate the stores, taking into account the demographic profile of local shoppers and other retail shops in the area or mall. Sales through our multi-brand stores accounted for 78.2%, 76.4%, and 73.6% of our net revenues in fiscal years 2016, 2017 and 2018, respectively.

The retail concept of each chain determines how we establish a store's interior design, the variety of brands and products it carries, the price range of its products and the range of services it provides. As each of our chains retains its own identity, we often have several stores in the same shopping mall. This helps us capture foot traffic across multiple segments of the Indonesian consumer market.

Our top 10 multi-brand retail chains are described below:

Planet Sports – Planet Sports stores are the premium sports stores in our multi-brand store line-up, targeting the premium market segment, and are primarily located in grade A malls in Indonesia. Our Planet Sports stores act as aggregators for sports brands, and carry our brands' latest product lines. These stores offer a range of sports apparel, shoes and equipment from top brands such as Adidas, ASICS, Nike, Reebok, New Balance, Skechers, Puma and Speedo. Planet Sports stores typically range between 300 and 1,500 square meters of selling space, with the flagship store, located in Thamrin, Jakarta and launched in April 2018, covering 3,000 square meters.

A key feature of our Planet Sports stores is their experiential element. Many of the stores have indoor basketball courts, football pitches, running tracks and golf ranges which allow our customers to test our products. Our staff training helps our store employees provide technical advice to help customers make informed decisions. Our Thamrin flagship store also functions as our e-commerce fulfilment hub for Indonesia, and forms the basis of the expansion of our e-commerce operations.

As of 31 December 2018, we had 39 Planet Sports Stores, with an aggregate selling space of 23,030 square meters. Our Planet Sports stores generated Rp 676,225 million, or 10.9%, of our net revenues in fiscal year 2018.

Sports Station - Sports Station stores sell a wide range of competitively priced sports products, and target the mid-range market segment. We promote these stores as a value sports retail chains. They are primarily located in grade B and C shopping malls, and range between 100 to 2,000 square meters of selling space.

A distinctive feature of our Sports Station stores is the "last call" section where we sell slow-moving inventory from our other sports stores at discounted prices. As of 31 December 2018, we had 354 Sports Station stores, with an aggregate selling space of 83,871 square meters. Our Sports Station stores generated Rp 2,247,898 million, or 6.0%, of our net revenues in fiscal year 2018.

Royal Sporting House - Royal Sporting House stores sell general sports and leisure footwear targeted at the value consumer market segment. They are primarily located within value department stores, and range between 50 to 120 square meters.

In fiscal 2018, we repositioned the Royal Sporting House brand as Indonesia's entry-level branded sports store to take advantage of a growing "emerging consumer class" who are considering premium brands.

As of 31 December 2018, we had 50 Royal Sporting House Stores, with an aggregate selling space of 2,913 square meters.

The Athlete's Foot - The Athlete's Foot stores sell athletic speciality footwear and fashion products and target the middle to higher income segments. They are primarily located in grade A shopping malls, and range between 100 to 300 square meters of selling space.

As of 31 December 2018, we had 21 The Athlete's Foot Stores, with an aggregate selling space of 2,336 square meters.

Golf House - Golf House stores are our speciality golf stores. They are located in grade A and grade B shopping malls and premier golf and country clubs across Indonesia, and range between 80 and 100 square meters of selling space. The brands that we sell in these Golf House stores include Titlist, Honma and Adidas Golf.

As of 31 December 2018, we had 15 Golf House stores, with an aggregate selling space of 2,294 square meters.

Footgear - Footgear stores sell a diverse selection of athletic and casual footwear for adults, targeting middle to higher income market segments. They are stand-alone boutique stores, and range between 70 and 300 square meters of selling space. They are typically located in Grade A to B malls in Indonesia.

As of 31 December 2018, we had 12 Footgear Stores, with an aggregate selling space of 1,363 square meters.

Planet Sports Kids - Planet Sports Kids stores sell kids sports and leisure footwear products. Merchandise in these stores is categorized by age and size. The stores are located in grade A through grade C shopping malls, and range between 80 and 100 square meters of selling space. Planet Sports Kids stores also appear as store-in-stores in larger Planet Sports stores.

As of 31 December 2018, we had 12 Planet Sports Kids stores, with an aggregate selling space of 745 square meters.

Ogaan - Ogaan stores are family footwear stores selling casual, office, active sports and kids shoes. They are primarily located in grade B and C shopping malls, target the value consumer market segment, and typically have approximately 800 square meters of selling space. Ogaan stores also assist us in turning dated inventory from our other leisure footwear and sports stores at discounted prices.

As of 31 December 2018, we had five Ogaan stores, with an aggregate selling space of 2,956 square meters.

Payless Shoesource - Payless Shoesource stores sell family footwear and are promoted as value stores. These stores are located in grade A through grade C shopping malls, and range between 180 to 200 square meters of selling space.

As of 31 December 2018, we had 87 Payless Shoesource Stores under a franchise arrangement, with an aggregate selling space of 18,388 square meters.

Kidz Station - Kidz Station are speciality retail stores, offering a wide range of products including toys, early learning products, apparel and footwear for kids. The stores are usually divided into different sections, such as hobby craft and collectibles, cartoon favorites, television action heroes and first steps for toddlers. They range between 150 and 800 square meters of selling space and are located in Grade A to C malls.

As of 31 December 2018, we had 82 Kidz Station Stores, with an aggregate selling space of 22,590 square meters.

Mono-brand stores

We also develop and operate mono-brand stores for international brand principals. We operate mono-brand stores for sports and leisure footwear brand principals, including Adidas, Converse, Reebok and Skechers.

New store roll out, regional expansion and construction

We expect an increasing number of modern shopping centers and retail malls to be developed in Indonesia, particularly in cities outside of Jakarta. We seek to locate our stores within shopping centers and malls because we aim to take advantage of the high customer traffic they can generate. We maintain good relationships with large real estate developers and mall operators. This allows us to identify opportunities to work with developers and mall operators to roll out new stores, particularly in underserved regions outside of Jakarta. Our diverse portfolio of proprietary banners and the breadth of our logistics network help provide flexibility in considering new store locations across Indonesia.

Since 2015, we have accelerated our expansion program through a disciplined strategy of controlled growth. We experienced a slight decrease of 2,073 square meters of selling space in 2016 as compared to 2015, but increased our selling space by 13,306 square meters and 24,597 square meters in 2017 and 2018, respectively. As a result, our net selling space has increased by 29.2% from our formation in March 2015.

We plan to increase our selling space by approximately 10 to 15 per cent. per year for the next two years subject to general economic and other conditions. See “Risk Factors—Risks relating to our business—Our expansion plans may not proceed as expected” below. We do not have targets for store closures, as we continually review the performance of our stores and brands.

In order to manage our expansion program, we have a dedicated business development team which is responsible for identifying potential new sites and managing relationships with our landlords and other intermediaries. In identifying potential sites for new stores, our real estate team focuses on a number of criteria, including expected rental costs, the target population and its disposable income, the size of the catchment area, population density and potential financial returns. While we identify most of our new sites as part of our nationwide expansion strategy, we also make opportunistic investments into new sites, and we incentivize our employees to recommend new sites to us. We seek to manage potential “cannibalization” of sales through regular reviews of our existing locations and proposed locations.

Under our brand agreements, we typically propose potential mono-brand store locations to our brand principals before opening new stores. Some of our brand agreements also require us to open a minimum number of stores each year. We regularly identify opportunities to increase our network of mono-brand stores in new malls and other promising retail locations, based upon demographic analysis and market intelligence. In assessing sites, in line with requirements under some of our brand agreements and our own internal policies, we attempt to assess whether potential store locations are suitable for a brand's image and target demographics. We also receive operational support from certain of our brand partners when we open new stores.

Once a new store location is approved, the business development team negotiates the lease terms. We also have a dedicated store building team which is involved in the initial planning process. As soon as we have access to the newly acquired site, our store building team installs our design elements for our multi-brand stores in accordance with our plans for each store.

We regularly review our store and brand portfolio to ensure satisfactory returns and profitability. In 2015, we undertook a comprehensive review of our store and brand portfolio and identified certain stores and brands that were underperforming. During the course of 2016 and 2017 this led to an acceleration of store closures, either because the stores were underperforming or, in the case of mono-brand stores, because we had closed the brand. However, since the stores we closed were primarily smaller stores (e.g., stores-in-stores or golf stores), and the new stores opened in the corresponding years were larger, selling space expanded between 2016 and 2017. The store rationalization that we commenced in 2016 has largely been completed, though we continue to monitor the performance of our brands and stores and expect to close additional stores each year.

The following table shows the amount of selling space in stores opened and closed in fiscal years 2016, 2017 and 2018, and our total selling space at the end of each period:

	Year ended 31 December		
	2016	**2017**	**2018**
Selling space of new stores (in square meters)	21,764	26,664	42,996
Store space of closed stores (in square meters)	22,538	16,368	19,519
Selling space at end of period (in square meters)	157,217	170,523	195,120
Year on year net selling space growth (%)	-	8.5	14.4

Store design

We believe that the design, layout and presentation of merchandise in each store are key to its success. The emphasis on presentation and associated visual merchandise are important in communicating information on price, current trends and value, while keeping our target customers in our stores longer. For example, our Planet Sports stores incorporate experiential design elements, allowing customers to immerse themselves in a sporting environment while purchasing our products. Many of these stores have indoor basketball courts, football pitches and golf simulators. On the other hand, our Sports Station stores are designed for efficient shopping, allowing our customers who are looking for a bargain to compare products and prices quickly and easily.

We develop the design elements for our multi-brand store presentation, including eye-catching and dynamic displays exhibiting our latest products, appropriate signage, easy circulation of customers throughout the store, and a structured and easy-to-understand layout of our products.

Under the terms of most of our brand agreements, our mono-brand stores adhere to the design concepts provided by the brand principals. Our in-house design teams typically send our brand principals proposed floor plans for their input. We then modify the plans to comply with applicable legal requirements. Final development plans are submitted to the brand principals for approval, and construction and fit-out are conducted in accordance with the approved plans.

To attempt to achieve consistent and proper implementation of our store presentation principles, we regularly provide store managers with instructions and training on current merchandising concepts and marketing directions to be applied uniformly across all our stores.

Ongoing improvements of existing stores

In addition to new store roll-outs, we seek to improve our stores and review each store's refurbishment needs. We aim to remodel a store approximately every five years, or at lease renewal, with the goal that each of our stores offers a modern store environment for our customers.

Our store refurbishments focus on enhancing the overall shopping experience of our customers. This may include installing or improving lighting, product displays, signage, new fitting rooms, wider aisles and more modern fixtures, with a particular focus on improving inventory selection without affecting the store's feeling of space. Under most of our brand agreements, we periodically refurbish our mono-brand stores to preserve the integrity and image of our international brands.

E-COMMERCE

We take a multi-pronged approach in developing our online presence. In the growing Indonesian e-commerce market, our aim has been to build a comprehensive online-to-offline ecosystem across self-operated retail platforms, third-party online retailers and offline stores, and marketing (including the use of social media platforms such as Instagram and Facebook).

We divide our online presence into two streams: our own channels and third-party marketplaces.

Online multi-brand and mono-brand stores

We launched our standalone website, www.planetsports.asia, in 2018. This is our flagship online multi-brand presence that provides customers access to our products across all our stores and brands in Indonesia. The website contains details of our latest products, product launches and sales events, and allows customers to make online purchase or make returns where necessary. As an aggregator of all our store brands and brand principals, our website provides a true one-stop online shopping experience for our customers. Our logistics network allows us to fulfil orders in accordance with the customer's preferences, thereby ensuring consistency across our services.

In our physical stores, our customers can also purchase out-of-stock merchandise in our stores online through our website. Customers then have the option to have their orders delivered to their addresses, or to pick up them up at the store once an inter-store transfer is completed.

We also assist certain of our brand partners to develop, operate and maintain their online mono-brand presence in the Indonesian market. As we are the exclusive distributors for certain of these brands in Indonesia, we also complete the fulfilment processes for products sold through these websites.

Third-party marketplaces

We partner with, or distribute our products through, third party online retailers such as Lazada, iLotte.com, and Blibli. We control the product range that we sell to these third party online retailers and also offer some products online that we do not sell in our physical stores to help drive traffic and create a unique online shopping experience. Customers can either purchase products through these third party online retailers, or be directed to our website to complete their purchases. We are therefore able to leverage traffic on third party sites for branding and marketing of the brands we distribute. We also sell our products on MAP E-MALL.com, the online shopping platform of MAP. This allows us to leverage MAP's client base.

Planet Sports FitWalk mobile application

We expect to launch our fitness app *Planet Sports FitWalk* in 2019. This fitness app is a key part in our plan to promote sports and a healthy lifestyle. The aim of the app is to promote walking as an entry form of exercise for the large part of the Indonesian population that currently does not participate in exercise and sports. The app tracks the number of steps the user takes in a day and, awards "active energy points" for consumers to redeem rewards or discounts on our Planetsports.asia website or to redeem environmentally friendly rewards, such as financing the cost to plant a tree. Our aim is for *Planet Sports FitWalk* to drive traffic to our website and increase awareness of the benefits of sports and a healthy lifestyle. We expect that the app will also provide us with customer data for further data analytics and targeted marketing.

BRAND PORTFOLIO

We sell more than 40 international brands for which we have exclusive distribution rights in Indonesia and more than 100 international brands for which we have non-exclusive distribution rights or whose products we purchase from other distributors in Indonesia.

We choose which brand principals to partner with, and which of their products to carry, based on the characteristics of the Indonesian consumer market. For example, because Indonesia does not have as developed a sports culture as some other countries, we focus on general athletic and leisure footwear products rather than on technical footwear and apparel. We also take into account relatively lower levels of disposable income in Indonesia by focusing on brands' mid- and lower-priced products rather than their premium offerings. In choosing our brand principals we also seek to maintain complementary product lines in each of our of our more than ten retail chains to provide consumers a selection of products designed to maximize the productivity of our stores.

The following table lists some of the brands that we sell:

	SPORTS	
Adidas [(1)]	Airwalk	ASICS[(2)]
Brooks	Converse	Crocs
Diadora	FZ Forza	Hoka One
Lorna Jane	Mizuno	New Balance
Nike	New Era	Puma
Reebok	Skechers	Spalding
Srixon	Taylor Made	2XU

LEISURE FOOTWEAR		
Aetrex	Birkenstock	Camper
Clarks	Dr Martens	Ecco
Nine West	Rockport	Staccato
Steve Madden		

KIDS		
Bandai	Crocs (Kids)	Hasbro
Leap Frog	Lego	MGA Entertainment[3]
Oshkosh B'Gosh & Carters	Rookie USA	

(1) Includes Adidas Golf, Adidas swim and Adidas Badminton.

(2) Includes Onitsuka and the ASICS tiger brand.

(3) Includes LOL, Num Noms, Popo Bots and Smooshins.

BRAND MANAGEMENT

We strive to maintain and protect brand integrity, faithfully replicate in Indonesia the international shopping experience associated with our brands and provide a platform for our brands to access the Indonesian market. We believe this combination has led to our success in partnering with our brand principals. In addition, our logistics systems, which efficiently manage inventory nationwide and which provide real-time analytics to support pricing, are designed with the aim of producing the best sales results for our brand principals. Our goal is to enhance brand prestige and consumer impressions of our brand principals in the Indonesian market.

Most of our brand arrangements are in the form of franchise, distribution or license agreements with brand principals, pursuant to which we provide comprehensive retail management services, acquire the rights to sell their products in our multi-branded stores throughout Indonesia, and in some cases, construct, manage and operate customized mono-brand stores. We have a dedicated team of professionals who are responsible for overseeing the overall development of the brand principals' operations in Indonesia, including developing business plans and strategies in consultation with many of our brand principals.

Under most of our brand agreements, we source the merchandise sold in these mono-brand stores directly from the brand principals or their approved suppliers, or manufacture the products ourselves under license. In addition to minimum advertising and product purchase spend obligations, we have a number of further obligations under most of our brand agreements, including ensuring that the stores are constructed and periodically refurbished in accordance with the standards mandated by the brand principals. Construction, maintenance and refurbishment costs are borne by us.

Many of the brand agreements include terms that allow automatic renewal upon expiry or the right to renew prior to expiry, and many brand principals have been with us for ten years or more. For some brand principals, we are required to make royalty payments and meet minimum purchase requirements and sales targets.

MARKETING

Advertising and promotion

Our marketing strategy is tailored to fit each brand that we represent in the markets where we sell its products. The objective of our brand marketing is to build up brand recognition and market acceptance by our customers. As brand management and marketing is key to our ability to command better margins for our products by leveraging brand recognition, we collate and analyse information on targeted consumer groups and their sensitivity to pricing in order to achieve the desired marketing and pricing objectives. We have a centralized in-house sales and marketing division that plans our marketing needs for each year.

We seek to maximize our brands exposure by making them available in a large number of retail stores, including those of third party retailers in certain cases, to create strong retail awareness and brand loyalty. The mono-brand retail concept is also employed to further convey and enhance the unique identity of our key brands.

Under many of our licensing and distribution agreements, we agree to spend specified amounts on advertising annually to ensure we adequately promote our brands. Some brands also require us to submit annual marketing plans for approval. We generally do not develop promotional and advertising materials ourselves, as they are typically provided by our brand principals.

Our in-house advertising and promotion team employs a comprehensive mix of media to communicate brand identities to its customers. The media mix varies from brand to brand, depending on the marketing requirements of the respective brand.

Our marketing and promotional expenses were Rp 32,721 million, Rp 54,037 million and Rp 78,818 million in fiscal years 2016, 2017 and 2018, respectively.

MAPClub

We leverage MAP's loyalty program to connect with MAP's two million members by offering customers who use the MAPClub card at our stores discounts or in-store credit. We intend to work with MAP to use data from the loyalty program to provide a more focused and targeted holistic shopping experience for our customers.

SALES AND MERCHANDISE

Merchandising

We generally source the merchandise sold in our stores directly from our brand principals or their approved suppliers. Some brands impose product mix restrictions while other brands allow us to decide the amount and mix of products we purchase.

We analyse our sales data, market trends and consumer preferences to help guide each season's merchandising process. In addition, our brand-merchandising managers streamline each brand's entire product line by managing various styles, optimizing our sizing selections, with the objective of maximizing profitable sales across the targeted customer segments. We work in close collaboration with many brand principals to attempt to identify merchandise that will capture market opportunities while conveying the distinctive image and value associated with those brands.

Quality control

Products purchased from our brand principals or their nominated suppliers are subject to spot inspections prior to distribution to our network of stores. Defective goods are returned to the brand principals or their nominated suppliers for replacement.

Inventory Management

As each brand's purchasing policy may differ, we attempt to adopt a flexible inventory control system. Our team of dedicated staff, using our state-of-the-art inventory management system, closely monitors the inventory levels of individual stores and the sales status of products, identifying both fast-selling and slow-moving products.

We continue tracking products as soon as they reach our stores. While many brand principals provide suggested retail prices, we are generally allowed to determine how we price our products. We may provide limited discounts on products in our mono-brand stores and premium multi-brand stores, such as Planet Sports, and maintain the flexibility to move products from our premium stores to stores such Sports Station and OGAAN where we can provide greater discounts.

Part of our success is due to our Center of Excellence team. Our Center of Excellence team comprises three functions: business processes, reporting and analytics, plan execution and product allocation. We provide inventory and sales reports to many of our brand principals on a regular basis. The team attempts to ensure that our range of products is optimally allocated and delivered to our stores from our warehouses, and that products move quickly and efficiently among our stores in order to apply appropriate discounts.

Distribution and Logistics

Our logistics operations are divided into three main segments: the shipment of products from our suppliers to our third party warehouses, the storage of these products in the warehouses, and the subsequent shipment of these products to our stores.

We use three key distribution centers with warehouse facilities in Greater Jakarta to help enable efficient coordination of our shipments from our suppliers and the timely delivery of products to our stores. These distribution centers are owned and managed by third party warehouse operators. We share one distribution center with MAP.

We have worked with our warehouse operators to implement a warehouse management system to streamline our warehouse administration, increase efficiency and accuracy of our receiving and distribution processes and to improve control over the movement and storage of inventory within our warehouses. As the warehouse management system interfaces directly with our central IT systems, we are able to feed in shipping details, product lead times and inventory management plans from our team of analysts at the Center of Excellence into the warehouse management system to ensure that products can be moved quickly through these distribution centers. We have a dedicated in-house system in place that ensures that the various requirements for importation of products into Indonesia are met, and that international and local customs regulations are adhered to. Once shipments arrive, we process them through our warehouse management system, which then allocates products distributions throughout our network of stores. To maximise efficiency and to reduce costs, part of our distribution centers are operated as a "flow-through facility", delivering goods on a "just in time" basis, thereby reducing the amount of time we keep inventory in these centers.

We have standing accounts with several logistics companies that ship merchandise from our distribution centers to our

stores. The third party logistics companies are typically responsible for any loss that may occur during transportation and we have the right to seek indemnification or damages from these providers for any such losses.

Our logistics staff is responsible for supervising and overseeing our distribution centers and warehouse inventory levels and coordinating with our brand-merchandising managers for the shipment and arrival of merchandise. They monitor and update our brand managers on shipment progress and arrivals to improve coordination and plan deliveries to our stores.

We believe that our logistics operations, which are highly complex within the expansive Indonesian archipelago, is a key advantage for us, and that the difficulty of establishing efficient logistics is a barrier to entry for retailers attempting to establish a nationwide retail network.

FACTORY OPERATIONS

We have a factory located in West Java where we manufacture basic apparel under some of our brand agreements. Having a manufacturing base that is in Indonesia allows us to lower the lead time to bring products to market, reduces the amount of inventory we carry, and helps us to react to changing consumer preferences. Under certain brand agreements, we pay royalties on the products we manufacture.

COMPETITION

While we maintain a leading market share in the sports retail market, we recognize that competition in this sector may become more intense. We face competition from third parties and retail stores that distribute international brands other than the brands that we distribute and seek to appeal to a similar pool of customers or that sell brands for which we do not have exclusive distribution rights. We believe that there are very few multi-branded retail chains with a significant presence in Indonesia in our segments. See “Risk Factors—Risks relating to our business—We operate in a competitive market, and competitive pressures could have a material adverse effect on our business” below.

INFORMATION TECHNOLOGY

We have a fully integrated information technology system that supports offline and online retail transactions from our stores across 74 cities nationwide. We have invested in several software systems, including SAP IT systems, to enable us to more effectively run our business operations. The integrated reporting systems between our headquarters and each retail outlet enables us to get real-time visibility of our entire enterprise, enabling us to streamline our supply chain, bring products to market more quickly, maximize procurement, and eliminate redundancies.

All of our stores and distribution centers are linked in a wide area network that connects to our data center. Every store adopts a standard front-end, point-of-sales platform that integrates with other backend systems to provide inventory positions and sales reports daily.

We use third-party retail management software to manage our finance, sales and distribution, material management and warehouse management functions. Our front-end point-of-sales system is fully integrated with our backend system, and we use a robust promotion engine to create multidimensional pricing and promotions across various brands and locations. We have built our own enterprise data analysis tools designed to harmonize data sets across our stores.

STORE LEASES

All of our stores premises are leased and most of our leases are denominated in rupiah. Most of our lease arrangements range from one to 10 years, with options at our discretion to renew the leases. The leases typically do not contain early termination clauses. Each of our stores operates under a separate lease.

EMPLOYEES

Staffing

We had 7,642 employees as of 31 December 2018. We consider our relations with our employees to be good. The following table shows the number of full-time employees by function as of the dates indicated:

	31 December		
Function	**2016**	**2017**	**2018**
Store personnel	5,877	5,605	**6,509**
Central staff (head office)	541	529	598
Factory staff	948	566	**535**
Total:	**7,366**	**6,700**	**7,642**

The number of sales staff we employ in each store depends on the store’s selling space and sales volume. We monitor employee performance for each store in order to attempt to optimise service levels and profitability. For example, if the sales productivity of staff in a particular store is unusually high, this may indicate a need to increase the number of sales staff to maximise

sales.

We also employ temporary staff in our stores, particularly during peak periods (for example, during the Lebaran, 'back to school' and Christmas periods).

Our factory staff decreased in 2017, compared to 2016, as we purchased new machinery and automated many processes.

Union

Our employees are a part of a trade union pursuant to a joint working agreement entered into by the Employee Union Communication Forum of MAP Aktif Adiperkasa.

The role of the union is to: (i) act as the employees' representative in connection with management's policies; (ii) organize PORKAMI (Sports Week of Adiperkasa Family), a social event for our employees; (iii) organize staff day; and (iv) periodically review the Joint Working Agreement for bipartite amendment and ratification between the employee's representatives and us.

Employee Training

We have structured training and development programs designed to develop employees' skills. We provide training to employees at all levels. Our training program focuses on customer service, improving the selling skills of our employees and specialised training for specific sports for our sport specialty staff. We also deploy career development programs, including leadership training for our management-level employees and company leadership.

TRADEMARKS

We use certain trademarks in our day-to-day operations. We own a majority of our trademarks and are in the process of renewing or applying for certain trademarks. See "Risk Factors—Risks Relating to our Business—We may be unable to protect our intellectual property rights and may infringe the intellectual property rights of others" below.

LEGAL PROCEEDINGS

From time to time, we may be involved in legal proceedings concerning matters arising in connection with the conduct of our business. Currently, we are not involved in any material pending claims or legal proceedings.

INSURANCE

Our properties are covered by property all risks insurance provided by a reputable company and with commercially reasonable terms. We maintain insurance coverage against our employees, stores, products, vehicles, money, equipment and movable assets, business interruption, terrorism and sabotage, personal accident, public liability and product liability. We believe our insurance liability is in accordance with the industry standards in Indonesia. See "Risk Factors—Risks Relating to our Business—Our insurance policies may not adequately protect us against losses" below.

BUSINESS LICENSES

Pursuant to Trade Minister Regulation No. 36/M-DAG/PER/9/2007 on Issuance of Trade Business License, as lastly amended by Trade Minister Regulation No. 07/M-DAG/PER/2/2017 TAHUN 2017 on Third Amendment to the Trade Minister Regulation No. 36/M-DAG/PER/9/2007 on Issuance of Trade Business License, conducting business in the field of retail industry requires a Trade Business License (*Surat Izin Usaha Perdagangan or* "**SIUP**"), issued by the Ministry of Trade of Indonesia. Once issued, the SIUP will be valid as long as the company still runs it business.

As at 31 December 2018, we have obtained all SIUP that are required in connection with our business. We believe that we have also obtained other material business licenses necessary for the operation of our business, which include (i) Industrial Business Licenses (*Izin Usaha Industri or* "**IUI**") and (ii) Textiles and Textile Products Import License (*Persetujuan Impor Tekstil dan Produk Tekstil*).

CORPORATE AND SOCIAL RESPONSIBILITY

We are involved in various charitable endeavours. Through our various multi-brand stores, and in collaboration with our brand principals, we have organized and sponsored various health and lifestyle activities, including charity drives and fun runs in support of charitable initiatives, to improve and support our employee's and our community's health and wellbeing. We conduct the following corporate social responsibility programs:

- **Jakarta Race Series:** Each year, we participate in the annual Jakarta Race Series, which consists of races in the 5 km and 2.5 km categories held by the Jakarta International Club. The event serves as a platform for us to raise funds for Mary's Cancer Kiddies, educational scholarships, orphanages and the Jakarta Animal Aid Network.

- **Astra Green Run, Jakarta & Bali**: Astra Green Run is a program implemented by the Astra Group with the purpose of protecting and conserving the environment and to raise awareness various environmental campaigns to the public.

- **Maybank Bali Marathon**: The Maybank Bali Marathon is an annual international running championship which we sponsor. The event serves as a platform for us to make a positive impact on the local community in Bali.

- **Skechers Walk and Run for Pink Ribbon**: The Skechers Walk and Run for Pink Ribbon is an event that is conducted by Yayasan Kanker Payudara Indonesia to raise the awareness of the community to breast cancer.

- **Children's day with Kidz Station**: We, in collaboration with PAUD Lontar Ceria, celebrated children's day with underprivileged children at one of our Kidz Station Store.

RISK FACTORS

Risks relating to our business

Our rights to manage and operate our portfolio of brands depend on our relationships with our third-party brand principals, which we may not be able to maintain on satisfactory terms.

We derive a majority of our revenues by selling our brand principals' merchandise, and our success depends on our ability to retain our brand principals. We have long-standing working relationships with a large number of third-party brand principals. In fiscal year 2018, one brand principal accounted for more than 10% of our revenues, and no brand principal accounted for 20% or more of our revenues. Our rights to manage and operate the brands we represent in Indonesia, and therefore conduct our business, are derived from the rights granted to us by the brand principals in the brand agreements we enter into with them. Our brand agreements generally require us to comply with agreed business plans, which typically include requirements for the number of stores in which we carry the brands, merchandising requirements, sales targets, minimum purchase quantities and royalty payments, and fit-out requirements. We also have to comply with operating standards, which may change over time, in some cases at the discretion of the brand principal, and such standards may restrict our ability to make improvements or modifications to our store operations without the consent of the brand. Our arrangements with our third party brand principles may also require us to develop stores that, based on cost-benefit or other analyses, we would not otherwise develop. If we fail to comply with the terms of our brand agreements, the brand principals could terminate the agreements. In addition, some of our brand agreements limit the product lines we may distribute, or prohibit the sale of competing brands in our stores, including other brands that we sell, or require consent to sell their products through our online stores, which we do not always obtain. We have granted one of our brand principals the option to make an equity investment in our business related to that brand, in exchange for an interest of up to 50% of such business. If the brand principal were to exercise the option, we would receive the proceeds from the equity investment, and our share of the profits of the business would be reduced in proportion to the percentage of the business the brand principal acquired. This brand principal accounted for less than 10% of our net revenues in fiscal year 2018.

The terms of our brand agreements range between one and twenty-five years. Even if we comply with the terms of our brand agreements, our brand principals could elect not to renew their agreements with us, or those who granted us exclusive rights in Indonesia may only agree to renewal on a non-exclusive basis or on less favorable terms. We are currently in the process of renewing certain of our material brand agreements and other agreements that will expire in 2019. Furthermore, if any of our brand principals grants other parties the right to distribute their products in Indonesia, we may face significant competition from those parties and may lose the benefit of the capital and other resources we have expended to market the brands. In addition, if a brand experiences financial difficulties, including but not limited to bankruptcy, insolvency or other related proceedings, the brand may not be able to continue supplying products to us or comply with the terms of its agreements with us.

If we lose any of our brand principals for any reason, our business, financial condition and results of operations may be materially adversely affected.

We may not accurately manage our inventory of merchandise to respond to changing market trends and consumer preferences.

Our ability to maintain and grow our business depends in part on our ability to anticipate and respond to changing consumer demands and tastes. Consumer preferences may respond to changes in fashion, lifestyle preferences, economic conditions and other factors. If we over-forecast sales volumes for any of the products we purchase from our suppliers, our inventory levels may rise and we may need to rely on markdowns to dispose of unsold inventory, which could materially adversely affect our financial condition and results of operations.

If we under-forecast sales volumes of our products, or the time it will take to obtain new inventory, we may not have an adequate supply of merchandise to meet consumer demand, which could result in missed sales, erosion of customers' confidence in their ability to buy what they want from our stores and other reputational harm, each of which could materially adversely affect our business, financial condition and results of operation. For more details on our inventory controls, see "Our Business—Inventory Control".

Changes in economic conditions in Indonesia could negatively affect consumer spending patterns and harm our sales.

Our business is significantly affected by general and local retail market and economic conditions outside our control. As consumers generally view most of the merchandise we sell in our stores as "discretionary", our financial performance is sensitive to economic conditions in Indonesia and their impact on consumer spending patterns. Accordingly, customer demand for our products may decline during periods where consumer confidence or purchasing power decrease, for example, during an economic downturn. If economic conditions in Indonesia, or any of the regions within in Indonesia in which we operate, decline or stagnate, demand for our products could also decline or stagnate. This could harm our sales, force us to lower our prices or adversely affect our inventories. Weak economic conditions in Indonesia have, in the past, caused the retail industry to suffer as consumers reduced their consumption of discretionary items, and may do so again in the future. Uncertainties regarding future economic prospects may also affect consumer spending habits, as consumer purchases of discretionary items generally decline during periods of economic uncertainty.

The following, which is not meant to be comprehensive, historically have had, and could have, a material adverse effect on Indonesian consumer spending patterns:

- domestic, regional or global economic changes;
- declines in the size of Indonesia's middle class or the disposable income of the middle class;
- increased inflation in Indonesia;
- increases in property prices or rents that reduce disposable income;
- changes in global commodity prices;
- changes in taxation and zoning laws; and
- adverse government regulations.

If Indonesian consumer spending declines or stagnates as a result of these or other factors, demand for our products may also decline, which could reduce our net revenues and materially adversely affect our business, financial condition and results of operations.

Our expansion plans, in Indonesia and in Southeast Asia, may not succeed.

As part of our growth strategy, we plan to enhance our leading position in Indonesia by opening new stores and increasing our selling space. We may also open stores in other Southeast Asian countries, such as Vietnam. We increased our selling space by 13,306 and 24,597 square meters in 2017 and 2018, respectively, and opened one new store in Vietnam in 2018 and a second store in Vietnam in 2019. We expect to increase our selling space by approximately 10 to 15 per cent. per year over the next two years and intend to increase our store count and selling space in Vietnam in 2019.

We may not be able to achieve our expansion objectives and any new stores we open may not succeed or may not meet our sales and other targets. In addition the rate of expansion may strain our resources and systems including our management's time, reporting systems, management controls and logistics systems, and our expansion into new locations may increase our distribution costs. Successfully opening and operating new stores depends on several factors, including:

- successfully integrating new stores with our existing operations and distribution network;
- identifying favorable locations;
- extending contracts and obtaining favorable terms from our landlords;
- hiring, training and retaining skilled employees;
- maintaining a successful and cost-effective logistics management system;
- monitoring the performance of new stores and adjusting product mix to match customers' preferences;
- our ability to control "cannibalization" among different brands and adjacent retail outlets;
- ensuring new stores achieve similar SSSG as existing stores despite differences in size, layout and location;
- availability of financing or other funding sources;
- closing no more stores than we project;
- effectively marketing new stores;
- obtaining regulatory approvals and permits in a timely manner; and
- favorable economic conditions in Indonesia and other countries in Southeast Asia.

As a result of these and other factors, we may not be able to achieve our planned expansion objectives, including our objectives to increase our selling space by approximately 10 to 15 per cent. per year for the next two years, our target of achieving operating margin of at least 15% for new stores, our target to earn back our investment in new stores within 12 to 24 months, our expansion into other Southeast Asian countries and our long term goal of achieving 120 inventory days.

Failure to execute our expansion strategies effectively may result in limited growth and reduced profitability which could have a material adverse effect on our business, financial condition and results of operations.

We lease substantially all of our premises and we may not be able to renew our leases or to enter into new leases in favorable locations on acceptable terms.

We lease substantially all of our premises. Most of our lease arrangements range from one to 10 years, with options at our discretion to renew the leases. Leases of premises in large shopping centers may not be available for extension because landlords may decide to change tenants to obtain better commercial terms or change they types of stores in their malls. A number of our landlords have the right to terminate our lease prior to its expiration upon the occurrence of certain events, including if we default on the terms of the lease. We are in the process of renewing a number of leases which have recently expired. If any of our leases terminates prior to its expiration, or if our leases expire and are not renewed, we will need to close or relocate the store. A store may also be forced to close or relocate for other reasons outside of our control, such as fire, natural disasters, the closure of a mall, changes in zoning laws or changes in government regulation of leased space. Relocating a store may disrupt its operations and may require significant expenditure, and we cannot assure you that we will be able to find suitable premises on acceptable terms or at all, in a timely manner. Our inability to renew leases as they expire, or to acquire new leases in comparable or more favorable locations on acceptable terms, early termination of existing leases, or the revision of lease terms to our detriment may have a material adverse effect on our business, financial condition and results of operations. We do not maintain leases for certain store-in-stores that sell products on consignment, and do not have rights typically granted by lease agreements.

With a nationwide footprint of 1,074 stores across Indonesia as of 31 December 2018, increases in property prices in Indonesia will increase our operating costs. We incurred rent expenses (including rent and service charges related to our stores, headquarters and warehouses) of Rp 478,711 million, Rp 526,117 million and Rp 630,218 million in fiscal years 2016, 2017 and 2018, respectively. Rent expenses in Indonesia are expected to increase with strong economic growth, increasing urbanisation and rising incomes in Indonesia. Sustained increases in rental rates may reduce our margins, making it less economical to lease certain stores and requiring us to discontinue operations at some of our stores, each of which may have a material adverse effect on our business, financial condition and results of operations.

Our performance may be affected by the performance of the malls in which we maintain stores.

The majority of our stores are located in malls containing other retail outlets. Traffic in our stores is affected by the volume of consumers in the malls in which our stores are located. If a particular mall fails to become popular or its popularity declines (for example, due to the opening of a nearby mall, the increasing popularity of another existing mall, shifting demographics, the developer's failure to maintain the mall in a good condition or the absence of complementary or attractive retail outlets in the mall), the traffic in our store may decline. In addition, new malls in which we open stores may not achieve anticipated customer traffic. Operators of malls in which we have stores may also face financial difficulties that could force them to close their malls. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

We operate in a competitive market, and competitive pressures could have a material adverse effect on our business

Although we have exclusive distribution rights in Indonesia for a majority of our top brands, we face competition from brands that compete with the brands in our portfolio. Brands compete on the basis of product design and range, brand popularity, price and other factors.

In addition, retailers of our brand competitors may increase the number of stores they operate or the number of competing brands they carry. Some of these competitors may have greater financial, distribution or marketing resources than we do, and may be able or willing to devote greater resources to sourcing, promoting and selling our brand competitors. Potential competition may also come from our existing brand principals, should we or they terminate our relationship. We also compete with other retailers who offer the same brands as we do, in the case of brands with which we do not have exclusivity.

We also compete with online retailers, direct selling and home shopping, whose sales may increase as a result of changing consumer preferences and rapid improvements in telecommunications infrastructure, in particular increased internet, television and mobile access, and improved payment and security systems.

As competition intensifies, our sales and margins may decline and we may face greater operating costs, which could materially adversely affect our business, financial condition and results of operations.

The brands we market may diminish in reputation and value, and product liability claims and adverse publicity from defective goods sold in our stores could have a material adverse effect on our reputation.

The reputation and popularity of the brands we sell are key to our business. However, we do not own most of the brands in our portfolio and are unable to control the development of these brands as a whole or influence the popularity of these brands outside Indonesia. The reputation and popularity of these brands could decline for a number of reasons, including competition from other brands, counterfeit products, disputes or litigation between a brand and third parties such as employees, or negative publicity or media coverage. The strength and value of our brands also depend on the marketing and promotional efforts of the brand principals. If our brand principals' marketing and promotion efforts, which are not within our control, are not successful, the strength

and value of the brands may diminish. If any of the brands we represent declines in popularity internationally, the image and popularity of the brand in Indonesia may also decline, which may negatively impact our sales and business.

The quality of the goods sold in our stores is important to our business. The packaging, marketing, distribution and sale of our goods entail an inherent risk of product recalls, adverse publicity and exposure to product liability claims, especially in relation to kids products. A significant portion of the goods sold in our stores are manufactured by our brand partners, and we have little to no control or oversight of the manufacturing process for such goods. While we maintain product liability insurance, there is no assurance that we will be successful in seeking the full recovery of losses as a result of defective goods supplied to us. In addition, if we are found to be selling defective goods in our stores, whether or not we are found responsible for damage caused by the defective goods, our reputation could suffer, which could materially adversely affect our business, financial condition and results of operations.

We may be unable to protect our intellectual property rights and may infringe the intellectual property rights of others.

We have a private label brand, Astec, and trademarks for our concept stores. While the majority of our trademarks are registered, some are in the process of being registered, including the trademark for Planet Sports Kids. We cannot assure you that these registrations will be approved. We may not be able to prevent third parties from using our unregistered trademarks, or prevent third parties from infringing our registered trademarks, either of which could harm our reputation. In addition, our use of our unregistered trademarks may violate applicable laws.

In addition, we cannot be certain that our activities, or the activities of our consignment vendors, do not infringe the intellectual property rights of others. Although we have not been subject to any claims for the infringement of third party intellectual property rights, infringement or alleged infringement may result in negative publicity and we may be compelled to discontinue the sale of the offending goods and the use of the offending trademarks, and pay damages or fines, which could have a material adverse effect on our business, financial condition and results of operations.

We import a substantial portion of our merchandise, which exposes us to risks associated with global trade, including foreign currency exchange rate fluctuations.

We derive our revenues primarily from selling international brands and import a majority of the products we sell. As a result, our business is sensitive to the dynamics of global trade, particularly trade between the countries where our suppliers are located and Indonesia. Our dependence on foreign imports makes us vulnerable to risks associated with importing products manufactured abroad. The government of Indonesia could increase import duties, tariffs or similar charges on our products or impose import quotas on our products; foreign governments could impose trade restrictions on our products; increased labor costs or work stoppages abroad could increase the cost of our products; freight costs could increase; and our products could be damaged, destroyed or confiscated in transit to Indonesia. In addition to increasing our costs, these factors could prevent us from receiving the merchandise we require, on time or at all. Any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Recent international trade disputes, including tariffs announced by the United States and the People's Republic of China, and the uncertainties created by these disputes, may disrupt the international flow of goods and services and may adversely affect the Indonesian economy as well as global markets and economic conditions. If international trade disputes impair the international flow of goods and services, and lead to a deterioration in the global economic outlook, our business, financial condition and results of operations may be materially adversely affected.

In addition, we are vulnerable to foreign exchange rate fluctuations, particularly declines in the value of the rupiah against the U.S. dollar, as we purchase most of the products we sell in U.S. dollars while most of our sales are denominated in rupiah. See "—Risks relating to Indonesia— Changes in the value of the rupiah may have a material adverse effect on our business, financial condition and results of operations".

We rely upon independent third-party service providers for all of our product shipments and are subject to increased transportation costs and other logistical challenges.

We rely on local transportation companies for the distribution of merchandise from our warehouses to our stores across Indonesia. We have maintained long-standing relationships with several of our service providers. However, our service providers may terminate our relationships or may not renew their service contracts with us, and we may be unable to find alternative providers on reasonable terms or at all. We are in the process of renewing certain of our expired service contracts. In addition, with the disparate locations of our stores, the weather conditions that affect Indonesia (including frequent landslides and flash floods) and the overall standard of Indonesian infrastructure, we may from time to time face logistical challenges managing the distribution of our merchandise to our stores. Our deliveries could also be disrupted by transportation bottlenecks, labor strikes and natural disasters. Any of the foregoing could increase our costs or reduce sales, which could materially and adversely affect our business, profitability and competitiveness.

In addition, our logistics network may not be adequate to support our growth plans. As we expand into less developed regions of Indonesia and other Southeast Asian countries such as Vietnam, we will need to secure efficient distributors and service providers to support our new stores. Regions which are relatively less developed may not have adequate logistics networks for

delivering our products. Less developed regions are often hampered by poor infrastructure, such as inadequate seaports, roads and power supplies and other logistical challenges. As our key management and business operations are based in Indonesia, our base of operations may not be able to support our overseas expansion in other Southeast Asian countries. Our failure to maintain effective logistics networks could have a material and adverse effect on our expansion plans, operating costs and our results of operations. See "Business—Sales and Merchandise—Distribution and Logistics" for details.

Our failure to develop and maintain our information technology systems could harm our results of operations.

Our operations depend on a number of management information systems. We rely on our information technology ("**IT**") systems to manage many key aspects of our business, such as demand forecasting, purchasing, supply chain management, store operations and sales processing, staff planning and deployment, marketing and advertising, financial management and safeguarding of information. These systems are critical to our operations, as we use them for the exchange of information between our stores and our centralized teams, to manage procurement, sales and inventory, to collect and analyse customer information, and to oversee our cash management and internal processes. As we develop our online sales strategy, our reliance on appropriate IT systems will increase. Although we maintain IT disaster recovery systems, there is no assurance that our IT systems will always operate without interruption and that we will not lose data. Any failure of our management systems to perform as anticipated or to meet the needs of our operations, particularly as we conduct our expansion, could disrupt our business, expose us to operational inefficiencies and risks, and may result in higher costs, reduced sales or otherwise adversely affect our results of operation and future financial performance.

Our results of operations are subject to seasonality.

Our sales have an element of seasonality. Our stores experience an increase in traffic and sales during the end-of-year holiday period around Christmas and New Year, the period 15 days prior and 15 days after Lebaran and the June-July 'back to school' period.

In the month prior to Lebaran, all employees in Indonesia receive an allowance of a month's salary in accordance with Indonesian labor laws. This increases customers' disposable income immediately prior to Lebaran and has a positive impact on net revenues. The mandated allowance also increases our general and administrative expenses as well as our selling expenses, specifically salaries and allowances. The date of Lebaran changes from year to year and the peak in sales may span different quarters in different years.

In addition to Lebaran, there are several other holidays throughout the year that do not occur on fixed dates, such as Chinese New Year. Consequently, the results of a given interim financial period may or may not be directly comparable to results from the preceding interim period or to the corresponding period in prior years. To the extent that any of these peak sales periods overlap in a particular year, net revenues may suffer at that particular period relative to years in which the peak sales periods did not overlap. Net revenues can also be impacted by the number of pay periods spanned by a particular peak season. If more pay periods than usual are spanned, we may experience increased sales. Likewise, a smaller than usual number of pay periods during a peak season can have a negative impact. For more information, see "Management's Discussion and Analysis—Significant Factors Affecting the Company's Results of Operations—Seasonality."

Our operations and growth may require significant capital expenditures.

Our operations and growth require capital expenditures for the refurbishment of our stores and the development and fitting-out of new stores. While we generally fund our capital expenditures from our cash from operating activities, there may be instances where this is not possible. At such times, we would seek to, but may not be able to, obtain additional debt or equity financing. Our ability to finance our capital expenditure plans is subject to a number of risks, contingencies and other factors, some of which are beyond our control. Furthermore, any adverse developments in the Asian and international equity capital or credit markets may be a barrier to raising financing and may increase our overall cost of funds. We may also require additional financing to fund day-to-day operational needs and debt service payments. Additional financing, even when accessible, may not be available on acceptable terms. If we incur additional debt, it will result in increased debt service obligations and could result in additional operating and financing covenants, or liens on our assets, that could restrict our operations. Without the required financing, we may not be able to continue our operations, implement our planned growth, hire, train and retain employees or respond to competitive pressures. The lack of adequate funding facilities on acceptable terms, or at all, could materially and adversely affect our ability to fund the development and expansion of our business. Our inability to obtain sufficient funding to support our operations or development strategies could have a material adverse effect on our business, financial condition and results of operations.

Our margins may be affected by increases in our operating and other expenses.

Our operating and other expenses may increase due to a number of factors, including any of the following:

- increases in merchandise and inventory costs;
- increases in rent;
- increases in labor costs;

- increases in construction, design, repair and maintenance costs for new and existing stores;
- changes in laws, regulations or government policies which increase the cost of compliance with such laws, regulations or policies;
- increases in the rate of inflation;
- adverse changes in the cost of existing and future debt financing;
- increases in insurance premiums;
- increases in the cost of utilities; and
- increases in custom duties, business taxes, property taxes and other statutory charges.

Any increase in the above operating and other expenses will have an impact on our cash flows. Furthermore, any sustained increases in our operating and other expenses could result in all or a portion of our operations becoming unprofitable. If our stores do not generate revenue sufficient to meet our operating expenses and debt service and capital expenditure requirements, our business, financial condition and results of operations could be materially and adversely affected.

Our credit facilities may limit our financial, operating and commercial flexibility.

Covenants contained in the agreements governing our credit facilities restrict our ability to, among other things:

- enter into any amalgamation, demerger or merger, consolidation or corporate reconstruction;
- invest in or acquire any shares issued by, or any interest in, any person or make a capital investment in any person;
- enter into, invest in or acquire any shares, stocks, securities or other interests in any joint venture, or provide security for the obligations of any joint venture;
- create or permit to subsist any security over its assets;
- dispose of any asset;
- incur additional debt;
- transfer our exclusive rights to any person or sell or dispose our private label brand; and
- be a creditor in respect of any financial indebtedness or guarantee any liability or obligation of any person.

We may also be required to repay our credit facilities upon the occurrence of certain events and we may not be able to finance such a repayment. Failure to comply with an obligation to repay the credit facilities would result in an event of default. Some of our credit facilities contain cross-default provisions as a result of which an event of default under one facility could cause an event of default under other facilities. Any event of default could have a material adverse effect on our business, financial condition and results of operations.

These covenants could limit our ability to pursue our growth plans, restrict our flexibility in planning for, or reacting to, changes in our business and industry and increase our vulnerability to adverse economic and industry conditions. We may enter into additional financing arrangements in the future, which could further restrict our financial flexibility.

Our insurance policies may not adequately protect us against losses.

We maintain different types of insurance policies to cover our operations and assets. The coverage includes vehicle, equipment and property damage, losses resulting from events such as fire, earthquakes, floods, riots, strikes and acts of terrorism or sabotage, business interruption, product liability and public liability. We do not carry insurance in respect of certain risks that we believe are not insured under normal industry practice in Indonesia, or which are uninsurable on commercially acceptable terms or at all, such as loss caused by war and civil disorder. Accordingly, there may be circumstances in which we will not be covered or compensated, in part or at all, for specific losses, damages and liabilities. Material losses in excess of insurance proceeds may arise in the future. Furthermore, even if a loss arises that is covered by insurance (such as business interruption insurance) there may be a time delay between the loss occurring and the insurer making a payment. Any risk that is not adequately covered by insurance or any time delay in receiving compensation from insurers may have a material adverse effect on our business, financial condition and results of operations.

We depend on key management and other personnel, and our failure to attract and retain key employees could harm our business.

We dependent on our key senior management personnel who have extensive experience in the sports, leisure footwear and kids retail businesses. The loss of members of our senior management may result in: (i) a loss of organisational focus; (ii) poor operating execution; or (iii) an inability to identify and execute potential strategic initiatives such as launching new product initiatives or expansion of our stores. The successful implementation of our strategy also depends on the availability of skilled management and technical personnel at our head offices and our ability to attract, motivate and retain other employees, including sales staff. There can be no assurance that any of these key personnel will continue to be employed by us or that we will be able to attract and retain personnel in the future.

The loss of services of key personnel, the failure to attract and retain new personnel or the unforeseen extended absence of key personnel, could significantly delay or prevent us from achieving our business goals and maintaining our competitive position. Furthermore, the termination of employees (including members of Management), is subject to various mandatory end-of-service benefits and payments under Indonesian law. In addition, we are required under Indonesian law to obtain work permits and related authorisations in connection with the employment of non-Indonesian individuals and a failure to obtain such permits and authorisations could lead to an inability to employ such persons and/or penalties. These factors may have a material adverse effect on our business, financial condition and results of operations.

We may fail to fulfil the terms of our licenses, permits and other authorizations, or fail to renew them when they expire.

We are required to maintain and renew certain licenses, permits and other authorizations, including business permits and permits concerning, for example, health and safety, environmental standards and distribution standards. See "Regulation". Our licenses, permits and other authorizations contain various requirements that must be complied with to keep such licenses, permits and other authorizations valid. If we fail to meet the terms of any of our licenses, permits or other authorizations necessary for our operations, these may be suspended or terminated, leading to temporary or potentially permanent closing of stores, temporary cessation of store operations, suspension of construction activities, imposition of penalties and fines, or other adverse consequences. In addition, we cannot be certain that any given license, permit or authorization will be deemed sufficient by the relevant governmental authorities to fully cover activities conducted in reliance on such license, permit or authorization. See "Regulation—Licenses".

There can be no assurance that we will be able to renew the necessary licenses, permits and other authorizations for our stores or that such licenses, permits and other authorizations will not be revoked. If we are unable to obtain or renew our licenses, permits and other authorizations or are only able to do so on unfavorable terms, this could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our net revenues is transacted in cash and our internal controls in relation to cash management may not be able to address all the risks associated with the handling of cash and cash transactions.

A significant portion of our sales are transacted in cash. Our internal controls in relation to cash management may not be able to eliminate all the risks associated with handling cash and cash transactions. We are therefore exposed to risks such as the loss or theft of cash used in our transactions, and accepting forged currency at our stores. In the event that such risks rise to a material level, they may have a material adverse effect on our business, financial condition and results of operations.

We are engaged in a number of transactions with affiliated parties and the application of OJK conflict of interest rules may cause us to forego transactions that are in our best interests.

We have entered into a number of transactions on arms' length terms with our affiliated parties. See "Affiliated Transactions ". In addition, some of our Commissioners and Directors are also officers and directors of our affiliated parties and, with respect to transactions with our affiliated parties, may individually or in the aggregate, have conflicts of interest. Relations with these affiliates may deteriorate or the relevant contractual counterparty may cease to be an affiliate of us. These factors may have a material adverse effect on our business, financial condition and results of operations. See "Risk Factors – Risks relating to our majority shareholder".

In order to provide more legal certainty and protection to shareholders, in particular independent shareholders, in connection with affiliated party transactions or conflict of interest transactions conducted by an Indonesian issuer or public company, in November 2009, BAPEPAM-LK (now OJK) issued BAPEPAM-LK Rule No.IX.E.1 attachment to the Decree of Chairman of Capital Market Supervisory Board and Financial Institution No. KEP-412/BL/2009 dated 25 November, 2009 regarding Affiliated Transaction and Conflict of Interest in Certain Transaction ("**BAPEPAM-LK Rule No. IX.E.1**").

BAPEPAM-LK Rule No. IX.E.1 requires an Indonesian issuer or public company to disclose information to the public and to submit the evidence of such disclosure and its supporting documents to OJK of its affiliated party transaction at the latest by the end of the second working day following such a transaction, and further stipulates that any conflict of interest transaction conducted by an Indonesian public company would require prior approval of the independent shareholders of the issuer or the said Indonesian public company, unless such affiliated party transaction or conflict of interest transaction meets certain criteria for an exemption stipulated under BAPEPAM-LK Rule No. IX.E.1.

Transactions between us and other persons could constitute affiliated party transactions or conflict of interest transactions under the OJK rule. If such transactions falls under the conflict of interest transaction rules, the approval of holders of a majority of shares owned by the independent shareholders would have to be obtained prior to conducting such transactions. OJK has the power to enforce this rule and our shareholders may also be entitled to seek enforcement or bring enforcement actions based on this OJK rule.

The requirement to obtain independent shareholder approval could be burdensome to us in terms of time and expense, and could cause us to forego entering into certain transactions which we might otherwise consider to be in our best interest. Moreover, approval of the independent shareholders may not be obtained if sought.

We may be subject to work stoppages, slowdowns or increased labor costs.

Our workforce is unionized. Union actions by our employees could result in demands that may increase our operating expenses and adversely affect our profitability. If we were unable to reach agreement on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, our business operations could be subject to work slowdowns or stoppages. Any of these events would be disruptive to our operations and could harm our business.

Privacy and data security concerns and regulation could result in additional costs and liabilities.

Protecting our data and the data of our customers and employees is critical. The regulatory environment surrounding information security and privacy is demanding, with the imposition of new and changing requirements. In addition, customers have a high expectation that we will adequately protect their personal information. Any actual or perceived misappropriation or breach involving this data could attract negative media attention, harm our reputation or result in liability (including but not limited to fines, penalties or lawsuits), any of which could have a material adverse effect on our business, financial condition and results of operations. Data privacy regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices.

Inability to comply with, or any changes in, environmental laws and regulations may adversely affect our results of operations and financial condition.

We are subject to various laws relating to the protection of the environment that may require us to investigate and clean up hazardous or toxic substances at the locations of our stores. Such laws provide that we could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our operations on such sites and potentially also result in claims against the owner by private plaintiffs. Additionally, we could be held liable if environmental claims are successfully brought against us, arising in respect of real estate acquired with undisclosed or unknown environmental problems or which are located on contaminated properties or as to which we have established inadequate financial reserves.

In addition, we cannot predict what environmental legislation or regulations will be amended or enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental laws or regulations or to respond to environmental claims. The introduction or inconsistent application of, or changes in, laws and regulations applicable to our business could have a material adverse effect on our business, financial condition and results of operations.

We may face litigation and other regulatory proceedings.

Although we are not a party to any material litigation, from time to time we may become involved in lawsuits and regulatory actions relating to our business. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot predict the ultimate outcome of any such proceedings. An unfavorable outcome may damage our reputation and brands and may have a material adverse effect on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, such proceedings are expensive and would require us to devote substantial resources and our management's time in defending us.