108062019001554

# SECURITIES AND EXCHANGE COMMISSION

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Company Information

| | |
|---|---|
| SEC Registration No. | A200201756 |
| Company Name | ROBINSONS RETAIL HOLDINGS, INC. |
| Industry Classification | |
| Company Type | Stock Corporation |

**Document Information**

| | |
|---|---|
| Document ID | 108062019001554 |
| Document Type | 17-Q (FORM 11-Q:QUARTERLY REPORT/FS) |
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| Remarks | |

**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2019

2. Commission identification number A200201756

3. BIR Tax Identification No 216-303-212-000

4. Exact name of issuer as specified in its charter

   **ROBINSONS RETAIL HOLDINGS, INC.**

5. Province, country or other jurisdiction of incorporation or organization Philippines

6. Industry Classification Code: ______ (SEC Use Only)

7. Address of issuer's principal office Postal Code
   43rd Floor, Robinsons Equitable Tower
   ADB Avenue corner Poveda Sts., Ortigas Center
   Pasig City, Metro Manila 1605

8. Issuer's telephone number, including area code
   (02) 635-07-51

9. Former name, former address and former fiscal year, if changed since last report

   Not Applicable

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| Common Shares | 1,576,489,360 |

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

    Yes [ / ] No [ ]

    If yes, state the name of such Stock Exchange and the classes of securities listed therein:

    Philippine Stock Exchange - Common Share

12. Indicate by check mark whether the registrant:

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

Yes [ / ]  No [ ]

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

Yes [ / ]  No [ ]

**PART I--FINANCIAL INFORMATION**

Item 1. Financial Statements

Please refer to the attached.

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

Please refer to the attached.

**PART II--OTHER INFORMATION**

Attachment 1 – Use of Proceeds from Initial Public Offering as of June 30, 2019

**SIGNATURES**

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

Registrant: **Robinsons Retail Holdings, Inc.**

Signature and Title: Lance Y. Gokongwei
Chairman

Date: August 1, 2019

Signature and Title: Robina Y. Gokongwei-Pe
President and Chief Executive Officer

Date: August 1, 2019

Signature and Title: Graciela A. Banatao
Treasurer

Date: August 1, 2019

Signature and Title: Mylene A. Kasiban
Chief Financial Officer

Date: August 1, 2019

## PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

A. Unaudited Consolidated Statements of Financial Position as of June 30, 2019 and Audited Consolidated Statements of Financial Position as of December 31, 2018.

B. Unaudited Consolidated Statements of Comprehensive Income for the Six Months Ended June 30, 2019 and 2018.

C. Unaudited Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2019 and 2018

D. Unaudited Consolidated Statements of Cash Flow for the Six Months Ended June 30, 2019 and 2018

E. Notes to Unaudited Consolidated Financial Statement.

# ROBINSONS RETAIL HOLDINGS, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **Robinsons Retail Holdings, Inc. and Subsidiaries** is responsible for all information and representations contained in the financial statements for the period ended **June 30, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Lance Y. Gokongwei
Chairman

Robina Y. Gokongwei-Pe
President & Chief Executive Officer

Mylene A. Kasiban
Chief Financial Officer

Graciela A. Banatao
Treasurer

Signed this 1st day of August 2019.

SUBSCRIBED AND SWORN to before me, a notary public in PASIG CITY, personally appeared:

| Name | Competent Proof of Identity |
|---|---|
| Lance Y. Gokongwei | TIN No. 116-312-586 |
| Robina Y. Gokongwei-Pe | TIN No. 139-634-860 |
| Mylene A. Kasiban | TIN No. 127-019-194 |
| Graciela A. Banatao | TIN No. 907-401-098 |

Who are personally known to me to be the same persons described in the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this AUG 05 2019 day of ________, 2019.

Doc. No. 123;
Page No. 26;
Book No. X;
Series of 2019.

**ATTY. PATRICK ARNOLD P. TETANGCO**
Notary Public for Pasig City
Commission No. 187 (2018-2019)
40th Flr., Robinsons Equitable Tower,
Ortigas Center, Pasig City
IBP No. 012638; Quezon City Chapter
Roll No. 63825; 05/08/2014
PTR No. 5858740; 01/31/2018; Q.C.
MCLE No. VI-0007708; 04/11/2018.

# -COVER SHEET-
## for
## FINANCIAL STATEMENTS

SEC Registration Number

| A | 2 | 0 | 0 | 2 | 0 | 1 | 7 | 5 | 6 | |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

Principal Office (*No./Street/Barangay/City/Town/Province*)

43rd Floor, Robinsons Equitable Tower, ADB Avenue corner Poveda Sts., Ortigas Center, Pasig City, Metro Manila

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 17-Q | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| info@robinsonsretailholdings.com.ph | 635-0751 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 36 | Last Thursday of May | December 31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Mylene A. Kasiban | Mylene.Kasiban@robinsonsretail.ph | 635-0751 local 214 | 0998 840 4227 |

**CONTACT PERSON's ADDRESS**

43rd Floor, Robinsons Equitable Tower, ADB Avenue corner Poveda Sts., Ortigas Center, Pasig City, Metro Manila

***NOTE 1 :*** *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies*

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 7 and 27) | **₱12,186,463,005** | ₱14,788,040,613 |
| Trade and other receivables (Notes 8, 24 and 27) | **3,203,389,002** | 3,171,595,504 |
| Merchandise inventories (Note 9) | **19,367,964,553** | 18,628,013,928 |
| Other current assets (Note 10) | **3,026,937,846** | 3,159,661,090 |
| Total Current Assets | **37,784,754,406** | 39,747,311,135 |
| **Noncurrent Assets** | | |
| Debt and equity instrument financial assets (Notes 11 and 27) | **18,830,135,468** | 19,751,466,722 |
| Property and equipment (Note 12) | **19,293,415,965** | 19,269,212,908 |
| Right-of-use asset | **23,811,753,760** | – |
| Investment in associates (Note 13) | **7,510,960,933** | 6,814,297,383 |
| Intangible assets (Notes 14 and 19) | **19,085,625,824** | 19,106,289,393 |
| Deferred tax assets - net (Note 25) | **643,359,835** | 413,459,629 |
| Retirement plan asset (Notes 22 and 23) | **72,007,855** | 91,253,643 |
| Other noncurrent assets (Notes 15 and 27) | **2,638,012,056** | 2,583,816,381 |
| Total Noncurrent Assets | **91,885,271,696** | 68,029,796,059 |
| | **₱129,670,026,102** | ₱107,777,107,194 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Notes 16, 24 and 27) | **₱21,986,855,189** | ₱24,577,110,455 |
| Short-term loans payable (Notes 17 and 27) | **5,628,532,534** | 6,794,000,000 |
| Current portion of lease liability | **3,562,644,260** | – |
| Income tax payable | **512,113,338** | 837,681,888 |
| Other current liabilities (Note 27) | **234,949,778** | 279,844,005 |
| Total Current Liabilities | **₱31,925,095,099** | 32,488,636,348 |
| **Noncurrent Liabilities** | | |
| Noncurrent portion of lease liability | **20,973,925,578** | – |
| Deferred tax liabilities - net (Note 25) | **2,056,429,581** | 1,954,819,590 |
| Retirement obligation (Notes 22 and 23) | **243,157,305** | 325,461,329 |
| Other noncurrent liabilities (Note 27) | **304,021,928** | 304,021,928 |
| Total Noncurrent Liabilities | **23,577,534,392** | 2,584,302,847 |
| Total Liabilities | **55,502,629,491** | 35,072,939,195 |
| **Equity** (Note 18) | | |
| Capital stock | **1,576,489,360** | 1,576,489,360 |
| Additional paid-in capital | **40,768,202,897** | 40,768,202,897 |
| Other comprehensive income (loss) (Notes 11, 13 and 23) | **75,594,306** | (563,817,037) |
| Equity reserve | **(988,417,129)** | (970,435,361) |
| Retained earnings | | |
| Appropriated | **24,151,852,847** | 24,151,852,847 |
| Unappropriated | **4,196,657,261** | 3,558,435,683 |
| Total equity attributable to equity holders of the Parent Company | **69,780,379,542** | 68,520,728,389 |
| Non-controlling interest in consolidated subsidiaries | **4,387,017,069** | 4,183,439,610 |
| Total Equity | **74,167,396,611** | 72,704,167,999 |
| | **₱129,670,026,102** | ₱107,777,107,194 |

*See accompanying Notes to Consolidated Financial Statements.*

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2019 (Unaudited)** | 2018 (Unaudited) | **2019 (Unaudited)** | 2018 (Unaudited) |
| **SALES** - Net of sales discounts and returns (Notes 6, 20 and 24) | **₱39,860,627,900** | ₱31,498,019,853 | **₱77,210,922,958** | ₱60,458,705,313 |
| **COST OF MERCHANDISE SOLD** (Notes 6 and 9) | **30,669,332,231** | 24,345,622,486 | **59,549,723,150** | 46,795,524,219 |
| **GROSS PROFIT** (Note 6) | **9,191,295,669** | 7,152,397,367 | **17,661,199,808** | 13,663,181,094 |
| **ROYALTY, RENT AND OTHER REVENUE** (Notes 6, 24 and 29) | **627,795,691** | 574,952,754 | **1,252,552,297** | 1,117,946,706 |
| **GROSS PROFIT INCLUDING OTHER REVENUE** (Note 6) | **9,819,091,360** | 7,727,350,121 | **18,913,752,105** | 14,781,127,800 |
| **OPERATING EXPENSES** (Notes 21, 22, 23, 28 and 29) | **(7,612,735,169)** | (5,974,983,169) | **(15,510,481,840)** | (11,753,710,010) |
| **OTHER INCOME (CHARGES)** | | | | |
| Interest income (Notes 6, 7 and 11) | **283,910,732** | 238,330,560 | **562,554,615** | 475,235,810 |
| Equity in net earnings in associates (Note 13) | **47,350,363** | 42,399,908 | **57,605,446** | 80,650,641 |
| Dividend income (Notes 6 and 11) | **27,875,000** | 27,875,000 | **55,750,000** | 55,750,000 |
| Interest expense (Notes 6 and 17) | **(1,104,420,606)** | (28,628,476) | **(1,194,565,759)** | (55,478,365) |
| Foreign currency exchange gain (losses) (Note 6) | **(83,705,615)** | 84,652,048 | **(91,302,105)** | 246,299,776 |
| Others (Note 14) | **8,081,417** | (52,960,542) | **6,125,186** | (52,960,542) |
| | **(820,908,709)** | 311,668,498 | **(603,832,617)** | 749,497,320 |
| **INCOME BEFORE INCOME TAX** (Note 6) | **1,385,447,482** | 2,064,035,450 | **2,799,437,648** | 3,776,915,110 |
| **PROVISION FOR INCOME TAX** (Note 25) | | | | |
| Current | **467,675,741** | 500,924,789 | **931,540,500** | 880,315,812 |
| Deferred | **(182,091,605)** | (31,763,009) | **(237,999,613)** | (51,221,227) |
| | **285,584,136** | 469,161,780 | **693,540,887** | 829,094,585 |
| **NET INCOME** | **1,099,863,346** | 1,594,873,670 | **2,105,896,761** | 2,947,820,525 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods: | | | | |
| Changes in fair value of debt and equity financial assets (Note 11) | **165,068,715** | (227,577,752) | **414,913,917** | (622,022,631) |
| Share in change in fair value of debt and equity financial assets on associates (Note 13) | **91,311,402** | (84,268,034) | **344,258,378** | 101,219,139 |
| Share in change in translation adjustment in associates (Note 13) | **315,601** | (116,173) | **5,873,704** | (1,561,987) |
| Cumulative translation adjustment | **(24,776,766)** | 18,025,675 | **(26,843,246)** | 53,434,149 |
| Income tax effect | **(27,488,101)** | 25,315,262 | **(105,039,625)** | (29,897,146) |
| Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods: | | | | |
| Share in actuarial gains (loss) on retirement obligation in associates (Note 13) | **3,396,000** | – | **8,926,022** | (1,243,379) |
| Income tax effect | **(1,018,800)** | – | **(2,677,807)** | 373,014 |
| | **206,808,051** | (268,621,022) | **639,411,343** | (499,698,841) |
| **TOTAL COMPREHENSIVE INCOME** | **₱1,306,671,397** | ₱1,326,252,648 | **₱2,745,308,104** | ₱2,448,121,684 |

(Forward)

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|---|---|---|
| Net income attributable to: | | | | |
| Equity holders of the Parent Company | **₱945,979,308** | ₱1,410,202,522 | **₱1,773,293,917** | ₱2,621,692,929 |
| Non-controlling interest in consolidated subsidiaries | **153,884,038** | 184,671,148 | **332,602,844** | 326,127,596 |
| | **₱1,099,863,346** | ₱1,594,873,670 | **₱2,105,896,761** | ₱2,947,820,525 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Parent Company | **₱1,152,787,359** | ₱1,141,581,500 | **₱2,412,705,260** | ₱2,121,994,088 |
| Non-controlling interest in consolidated subsidiaries | **153,884,038** | 184,671,148 | **332,602,844** | 326,127,596 |
| | **₱1,306,671,397** | ₱1,326,252,648 | **₱2,745,308,104** | ₱2,448,121,684 |
| **Basic/Diluted Earnings Per Share** (Note 26) | **₱0.60** | ₱1.02 | **₱1.12** | ₱1.89 |

*See accompanying Notes to Consolidated Financial Statements.*

# ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Total Equity Attributable to Equity Holders of the Parent Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **For the Six Months Ended June 30, 2019 (Unaudited)** | | | | | | | | |
| | | | | | **Retained Earnings** | | | | |
| | **Capital Stock** (Note 18) | **Additional Paid-in Capital** (Note 18) | **Other Comprehensive Income (Loss)** (Notes 11, 13, and 23) | **Equity Reserve** (Note 18) | **Appropriated** (Note 18) | **Unappropriated** (Note 18) | **Total** | **Non-controlling Interest in Consolidated Subsidiaries** (Note 18) | **Total** |
| Balance at beginning of year | **₱1,576,489,360** | **₱40,768,202,897** | **(₱563,817,037)** | **(₱970,435,361)** | **₱24,151,852,847** | **₱3,558,435,683** | **₱68,520,728,389** | **₱4,183,439,610** | **₱72,704,167,999** |
| Net income | **–** | **–** | **–** | **–** | **–** | **1,773,293,917** | **1,773,293,917** | **332,602,844** | **2,105,896,761** |
| Other comprehensive income | **–** | **–** | **639,411,343** | **–** | **–** | **–** | **639,411,343** | **–** | **639,411,343** |
| Total comprehensive income | **–** | **–** | **639,411,343** | **–** | **–** | **1,773,293,917** | **2,412,705,260** | **332,602,844** | **2,745,308,104** |
| Acquisition of noncontrolling interest | **–** | **–** | **–** | **(17,981,768)** | **–** | **–** | **(17,981,768)** | **17,981,768** | **–** |
| Dividends (Note 18) | **–** | **–** | **–** | **–** | **–** | **(1,135,072,339)** | **(1,135,072,339)** | **(147,007,154)** | **(1,282,079,493)** |
| Balance at end of year | **₱1,576,489,360** | **₱40,768,202,897** | **₱75,594,306** | **(₱988,417,129)** | **₱24,151,852,847** | **₱4,196,657,261** | **₱69,780,379,542** | **₱4,387,017,069** | **₱74,167,396,611** |
| | For the Six Months Ended June 30, 2018 (Unaudited) | | | | | | | | |
| Balance at beginning of year | ₱1,385,000,000 | ₱27,227,385,090 | ₱289,698,663 | (₱1,021,894,669) | ₱15,212,852,847 | ₱8,440,230,328 | ₱51,533,272,259 | ₱3,733,366,825 | ₱55,266,639,084 |
| Net income | – | – | – | – | – | 2,621,692,929 | 2,621,692,929 | 326,127,596 | 2,947,820,525 |
| Other comprehensive loss | – | – | (499,698,841) | – | – | – | (499,698,841) | – | (499,698,841) |
| Total comprehensive income (loss) | – | – | (499,698,841) | – | – | 2,621,692,929 | 2,121,994,088 | 326,127,596 | 2,448,121,684 |
| Appropriation | – | – | – | – | 6,157,000,000 | (6,157,000,000) | – | – | – |
| Additional investment in a subsidiary (Notes 2 and 18 | – | – | – | – | – | – | – | 14,700,000 | 14,700,000 |
| Dividends (Note 18) | – | – | – | – | – | (997,200,000) | (997,200,000) | (116,200,000) | (1,113,400,000) |
| Balance at end of year | ₱1,385,000,000 | ₱27,227,385,090 | (₱210,000,178) | (₱1,021,894,669) | ₱21,369,852,847 | ₱3,907,723,257 | 52,658,066,347 | ₱3,957,994,421 | ₱56,616,060,768 |

*See accompanying Notes to Consolidated Financial Statements.*

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended June 30 | |
|---|---|---|
| | **2019 (Unaudited)** | 2018 (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱2,799,437,648** | ₱3,776,915,110 |
| Adjustments for: | | |
| Depreciation and amortization (Notes 6, 12, 14 and 21) | **3,433,160,358** | 1,111,499,459 |
| Interest expense (Notes 6 and 17) | **1,194,565,759** | 55,478,365 |
| Retirement expense (Notes 22 and 23) | **72,996,623** | 76,751,930 |
| Changes in fair value of debt instruments at FVTPL (Note 11) | **46,676,705** | – |
| Provision for doubtful accounts | – | 2,619,960 |
| Gain on disposal of debt security | **(58,560,531)** | – |
| Equity in net earnings in associates (Note 13) | **(57,605,446)** | (80,650,641) |
| Dividend income (Notes 6 and 11) | **(55,750,000)** | (55,750,000) |
| Unrealized foreign currency exchange gain (loss) (Note 6) | **91,302,105** | (246,299,776) |
| Interest income (Notes 6, 7 and 11) | **(562,554,615)** | (475,235,810) |
| Others | **–** | 52,960,542 |
| Operating income before working capital changes | **6,903,668,606** | 4,218,289,139 |
| Decrease (increase) in: | | |
| Trade and other receivables | **(27,169,794)** | (138,826,844) |
| Merchandise inventories | **(739,950,625)** | (745,916,450) |
| Other current assets | **132,723,244** | (44,016,851) |
| Increase (decrease) in: | | |
| Trade and other payables | **(3,625,914,617)** | (1,124,001,531) |
| Other current liabilities | **(44,894,227)** | (13,228,463) |
| Net cash flows generated from operations | **2,598,462,587** | 2,152,299,000 |
| Interest received | **562,995,362** | 792,075,245 |
| Retirement contributions and benefits paid (Note 23) | **(136,054,859)** | – |
| Income tax paid | **(1,257,109,050)** | (1,375,386,718) |
| Net cash flows used in operating activities | **1,768,294,040** | 1,568,987,527 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of: | | |
| Investment in associates (Note 13) | **(280,000,000)** | – |
| Debt and equity instrument financial assets (Note 11) | **(355,280,449)** | (818,943,888) |
| Property and equipment (Note 12) | **(1,500,207,519)** | (1,873,711,818) |
| Licenses (Note 14) | – | (68,749,356) |
| Proceeds from transfers/disposals of: | | |
| Debt and equity instrument financial assets (Note 11) | **1,583,700,000** | 756,249,689 |
| Dividends received (Note 11) | **55,750,000** | 55,750,000 |
| Increase in other noncurrent assets | **(54,195,675)** | 6,793,641 |
| Net cash flows used in investing activities | **(550,233,643)** | (1,942,611,732) |

(Forward)

| | Six Months Ended June 30 | |
|---|---|---|
| | **2019 (Unaudited)** | 2018 (Unaudited) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from loan availments (Note 17) | **₱1,644,532,534** | ₱738,336,158 |
| Dividends paid (Note 18) | **(147,007,154)** | (116,200,000) |
| Payment of loans (Note 17) | **(2,810,000,000)** | (3,861,000,000) |
| Interest paid (Note 17) | **(187,880,250)** | (55,478,365) |
| Payment of lease liabilities | **(2,227,981,030)** | – |
| Net cash flows used in financing activities | **(3,728,335,900)** | (3,294,342,207) |
| **EFFECTS OF FOREIGN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS** | **(91,302,105)** | – |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(2,601,577,608)** | (3,667,966,412) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **14,788,040,613** | 14,565,037,906 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 7) | **₱12,186,463,005** | ₱10,897,071,494 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Corporate Information

Robinsons Retail Holdings, Inc., (herein referred to as either "RRHI" or the "Parent Company") is a stock corporation organized under the laws of the Philippines. The Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) on February 4, 2002. The Parent Company's common stock was listed with the Philippine Stock Exchange (PSE) on November 11, 2013, the Parent Company's initial public offering (IPO).

The primary purpose of the Parent Company and its subsidiaries (herein referred to as "the Group") is to engage in the business of trading goods, commodities and merchandise of any kind.

As of December 31, 2018, the Parent Company is 30.90% owned by JE Holdings, Inc., 34.40% owned by PCD Nominee Corporation, 18.25% by Mulgrave Corporation B.V. (MCBV) and the rest by the public.

In November 2018, the Parent Company completed the acquisition of MCBV's 100% stake in Rustan Supercenters, Inc. (RSCI) through a share for share swap involving 34,968,437 shares of RSCI in exchange for 191,489,360 primary common shares of the Parent Company or 12.15% interest. In addition, GCH Investments Pte. Ltd. (GCH) also acquired 96,219,950 shares or 6.10% interest in the enlarged share capital from the existing controlling shareholders of the Parent Company. MCBV and GCH are wholly-owned subsidiaries of Dairy Farm International Holdings, Ltd. (DF) Group of companies. After the transaction, DF through MCBV will have an 18.25% interest in the Parent Company (Notes 18 and 19).

The registered office address and principal place of business of the Parent Company is at 43rd Floor, Robinsons Equitable Tower, ADB Avenue corner Poveda Sts., Ortigas Center, Pasig City, Metro Manila.

### 2. Basis of Preparation

<u>Basis of Preparation</u>
The consolidated financial statements have been prepared under the historical cost basis, except for financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI), which are measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), the Parent Company's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

<u>Statement of Compliance</u>
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

<u>Basis of Consolidation</u>
The consolidated financial statements as of June 30, 2019 and December 31, 2018 represent the consolidation of the financial statements of RRHI and the following subsidiaries directly and indirectly owned by the Parent Company.

| Investee Companies | **Effective Percentages of Ownership** **2019** Direct | **2019** Indirect | 2018 Direct | 2018 Indirect |
|---|---|---|---|---|
| Robinson's, Incorporated (RI) | **100.00%** | **–** | 100.00% | – |
| Robinsons Ventures Corporation (RVC) | **–** | **65.00%** | – | 65.00% |
| Robinsons Toys, Inc. (RTI) | **–** | **100.00%** | – | 100.00% |
| Robinsons Convenience Stores, Inc. (RCSI/Ministop) | **–** | **59.05%** | – | 59.05% |
| South Star Drug, Inc. (SSDI) | **–** | **45.00%** | – | 45.00% |
| TGP Pharma, Inc. (TGPPI) | **–** | **45.90%** | – | 45.90% |
| TGP Franchising Corp. (TFC) | **–** | **45.90%** | – | 45.90% |
| TheGenerics Pharmacy Inc. (TPI) | **–** | **45.90%** | – | 45.90% |
| Robinsons Gourmet Food and Beverages, Inc. (RGFBI) | **–** | **100.00%** | – | 100.00% |
| Savers Electronic World, Inc. (SEWI) | **–** | **90.00%** | – | 90.00% |
| Chic Centre Corporation (CCC) | **–** | **100.00%** | – | 100.00% |
| Super50 Corporation (Super50) | **–** | **51.00%** | – | 51.00% |
| Robinson's Supermarket Corporation (RSC) | **100.00%** | **–** | 100.00% | – |
| Angeles Supercenter, Inc. (ASI) | **–** | **100.00%** | – | 67.00% |
| Robinsons Appliances Corp. (RAC) | **–** | **67.00%** | – | 67.00% |
| South Star Drug, Inc. (SSDI) | **–** | **45.00%** | – | 45.00% |
| TGP Pharma, Inc. (TGPPI) | **–** | **45.90%** | – | 45.90% |
| TGP Franchising Corp. (TFC) | **–** | **45.90%** | – | 45.90% |
| TheGenerics Pharmacy Inc. (TPI) | **–** | **45.90%** | – | 45.90% |
| Robinson's Handyman, Inc. (RHMI) | **–** | **80.00%** | – | 80.00% |
| Handyman Express Mart, Inc. (HEMI) | **–** | **52.00%** | – | 52.00% |
| Waltermart-Handyman, Inc. (WHI) | **–** | **52.00%** | – | 52.00% |
| Robinsons True Serve Hardware Philippines, Inc. (RTSHPI) | **–** | **53.33%** | – | 53.33% |
| RHI Builders and Contractors Depot Corp. (RHIB) | **–** | **53.60%** | – | 53.60% |
| Home Plus Trading Depot, Inc. (HPTDI) | **–** | **40.20%** | – | 40.20% |
| Robinsons Lifestyle Stores, Inc. (RLSI) | **–** | **80.00%** | – | 80.00% |
| Everyday Convenience Stores, Inc. (ECSI) | **100.00%** | **–** | 100.00% | – |
| Robinsons Specialty Stores, Inc. (RSSI) | **100.00%** | **–** | 100.00% | – |
| Robinsons Daiso Diversified Corp. (RDDC) | **90.00%** | **–** | 90.00% | – |
| RHD Daiso-Saizen, Inc. (RHDDS) | **59.40%** | **–** | 59.40% | – |
| RHMI Management and Consulting, Inc. | **100.00%** | **–** | 100.00% | – |
| RRHI Management and Consulting, Inc. | **100.00%** | **–** | 100.00% | – |
| RRG Trademarks and Private Labels, Inc. | **100.00%** | **–** | 100.00% | – |
| RRHI Trademarks Management, Inc. (RRHI-TMI) | **100.00%** | **–** | 100.00% | – |
| New Day Ventures Limited (NDV Limited) | **100.00%** | **–** | 100.00% | – |
| Rustan Supercenters, Inc. (RSCI) | **100.00%** | **–** | 100.00% | – |

All subsidiaries are incorporated in the Philippines and the functional currency is the Philippine Peso (₱) except for NDV Limited which is incorporated in British Virgin Islands (BVI) and the functional currency is US Dollar ($).

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at June 30, 2019 and December 31, 2018 and for the six months ended June 30, 2019 and 2018. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)

- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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

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

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one (1) or more of the three (3) elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date when such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full consolidation.

NCI represent the portion of profit or loss and net assets in subsidiaries not held by the Parent Company and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity holders of the Parent Company.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Parent Company. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any NCI
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

*Additional Investments and Acquisitions*
On April 3, 2019, an NCI sold its ownership interest (33%) in ASI to RSC. As a result of the transaction, RSC's ownership interest to ASI increased from 67% to 100% (Note 18).

On March 28, 2019, RRHI made additional capital infusion to TCCI amounting to ₱280.00 million, this increases RRHI stake in TCCI from 20% to 30% (Note 13).

On November 23, 2018, RRHI acquired 100.00% ownership in RSCI, a company engaged in the business of food retailing (Note 19).

On November 16, 2018, RRHI subscribed 40% ownership interest in Data Analytics Ventures, Inc. (DAVI) of which ₱0.40 million was paid. DAVI has not yet started commercial operations. DAVI's principal activities include processing, managing and analyzing data. Accordingly, the Group accounted the investment in DAVI under investment in associates (Note 13).

On September 20, 2018, RRHI made an investment in G2M Solutions Philippines Pte. Ltd. (G2M) amounting to ₱160.65 million through convertible note which will provide the RRHI 14.90% ownership interest upon conversion of the note. The terms of the agreement entitled the RRHI to one (1) out of three (3) board seats and participation to board key decisions. G2M is providing neighborhood sundry stores enablement platform and software in the Philippines. Accordingly, the Group accounted the investment in G2M under investment in associates (Note 13).

On August 28, 2018, Mitsubishi sold its entire ownership interest (12%) in RCSI to RI and Ministop; 161,052,632 shares to RI and 78,947,367 shares to Ministop. As a result of the transaction, RI's ownership interest to RCSI increased from 51.0% to 59.05% while Ministop ownership increased from 36.9% to 40.9% (Note 18).

On August 16, 2018, RSC made an investment in GrowSari, Inc. (GrowSari) amounting to ₱105.00 million through convertible note which will provide the RSC 28.60% ownership interest upon conversion of the note. The terms of the agreement also provide technical information and entitled the RSC to two (2) out of seven (7) board seats and participation to board key decisions. GrowSari is engaged in selling wholesale goods to sari sari business owners. Accordingly, the Group accounted the investment in GrowSari under investment in associates (Note 13).

On July 12, 2018, RRHI made additional capital infusion to RBC amounting to ₱1.20 billion to meet the ₱15.0 billion minimum capital required by the Bangko Sentral ng Pilipinas for a bank to operate a network of over 100 branches (Note 13).

On February 27, 2018, RI and an NCI incorporated Super50, a company engaged in the business of retail and wholesale goods with paid-up capital amounting to ₱30.0 million. RI's ownership interest in Super50 is 51.0% (Note 18).

On February 22, 2018, RHMI incorporated RLSI, with a paid-up capital amounting to ₱50.00 million. RLSI is primarily engaged in the business of trading goods, commodities and merchandise of any kind.

On December 20, 2017, additional capital amounting ₱510.0 million to RCSI was made by RI. Corresponding additional investment coming from NCI of RCSI amounted to ₱490.0 million (Note 18).

On December 13, 2017, RRHI acquired 20% ownership in Taste Central Curators, Inc. (TCCI), operator of BeautyMNL, e-commerce site. Accordingly, the Group accounted the acquisition of TCCI using the equity method under investment in associates (Note 13).

## 3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2019. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

*Effective beginning on or after January 1, 2019*

- PFRS 9, *Prepayment Features with Negative Compensation* (Amendments)

  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are the SPPI criterion and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. These amendments have no impact on the Group's financial statements.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application as of January 1, 2019. The Group also elects to use the exemptions provided by the standard on lease contracts for which the lease term ends within 12 months as of the date of the initial application, and lease contracts for which the underlying assets is of low value.

The effect of adopting PFRS 16 as of January 1, 2019 follows:

| Consolidated statement of financial position | Increase (Decrease) |
|---|---|
| **ASSETS** | |
| Right-of-use asset | ₱25,757,865,359 |
| **LIABILITIES** | |
| Lease liabilities | 25,757,865,359 |

In accordance with the new lease standard requirements, the disclosure of the impact of adoption on our consolidated statement of comprehensive income and consolidated statement of financial position follows:

Consolidated statement of comprehensive income

| | For the six months ended June 30, 2019 | | |
|---|---|---|---|
| | As reported | Balances without adoption of PFRS 16 | Effect of change Higher (Lower) |
| Rent expense | ₱1,646,558,429 | ₱3,874,539,459 | (₱2,227,981,030) |
| Depreciation and amortization | 3,433,160,357 | 1,487,048,758 | 1,946,111,599 |
| Interest expense | 1,194,565,759 | (187,880,250) | 1,006,685,509 |
| Net income | 2,105,896,761 | 2,613,268,015 | (507,371,254) |

Consolidated statement of financial position

| | For the six months ended June 30, 2019 | | |
|---|---|---|---|
| | As reported | Balances without adoption of PFRS 16 | Effect of change Higher (Lower) |
| Deferred tax assets-net | ₱643,359,835 | ₱425,953,618 | 217,406,217 |
| Right-of-use assets, net of accumulated depreciation | 23,811,753,760 | – | 23,811,753,760 |
| Lease liabilities | 24,536,569,838 | – | 24,536,569,838 |
| Retained earnings | 28,348,510,108 | 28,855,881,362 | (507,371,254) |

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- PAS 28, *Long-term Interests in Associates and Joint Ventures* (Amendments)

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Group is currently assessing the impact of adopting the amendments.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of June 30, 2019 and December 31, 2018.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

    - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

        The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

        A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

        An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

    - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

        The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

        An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group.

    - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

        The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. These amendments are not relevant to the Group.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  These amendments do not have any impact on the Group's financial statements since the Group does not have share-based payment transactions.

<u>Standards Issued But Not Yet Effective</u>
Pronouncements issued but not yet effective are listed on the next page. Unless otherwise indicated, the Group does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

*Effective Beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

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

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective Beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

  The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  The amendments will have no significant impact on the Group's financial position or performance.

*Deferred Effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  The amendments will have no significant impact on the Group's financial position or performance.

4. **Summary of Significant Accounting Policies**

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group concluded that it is acting as principal in all its revenue arrangements. The Group recognized revenue from the following major sources:

- Sale of goods to retail customers, including the related loyalty programme and warranties granted under local legislation. Sale of goods include food, beverage, grocery items, fashion items (e.g. shoes, bags, clothing, cosmetics), household items, home improvement products, consumer electronics and appliances, toys, and prescription and over-the-counter pharmaceutical products;
- Sale of merchandise to franchisees;
- Franchise revenue under Ministop and TGP franchise agreements;
- Royalty fees

*Sale of Goods - Retail Customers*

The Group sells goods directly to customers both through its own retail outlets and through internet sales in partnership with major e-commerce players in the country.

For sale of goods through retail outlets revenue is recognized when the control of the goods has transferred to the customer, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

For internet sales, revenue is recognized when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location.

Under the Group's standard contract terms for sale to retail customers (from both retail outlet and internet sales), customers have a right of return within seven (7) days. The right of return entitles the customer to exchange the product bought for another product of the same type, quality, condition and price (for example, one color or size for another). The right of return is not a separate performance obligation.

*Sale of Goods - Wholesale Market*

The Group also sell goods in the wholesale market. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

The sale of goods to the wholesale market often includes volume discounts based on current purchases. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

*Sale of Loyalty Points and Gift Checks*
The Group operates a loyalty programme where retail customers accumulate points for purchases made at any participating retail outlets and partner establishments that can be redeemed against any future purchases at any participating retail outlets and partner establishments, subject to a minimum number of points obtained. The Group also sells gift checks which can be used to redeem goods.

The Group allocates a portion of the consideration received to loyalty points and gift checks. This allocation is based on the relative stand-alone selling prices. The stand-alone selling price is estimated based on the equivalent value given when the points and gift checks are redeemed by the customer and the likelihood of redemption, as evidenced by the Group's historical experience. The amount allocated to the items is deferred and is recognized as revenue when redeemed or the likelihood of the customer redeeming becomes remote. The deferred revenue is included in contract liabilities.

*Sale of Merchandise - Franchisees*
For sale of merchandise to franchisees, revenue is recognized when control of the goods has transferred to the franchisees, being at the point the goods are delivered to the franchisees. Delivery occurs when the goods have been shipped to the franchisee's specific location.

*Franchise Revenue*
The Group's franchise agreement includes payment of non-refundable upfront fee. The revenue from non-refundable upfront fees is recognized on a straight-line basis over the period the franchisee has access to the license (the term of the franchise agreement). Continuing franchise fees in exchange for the franchise right granted over the term of the franchise agreement are recognized as revenue when the subsequent sale of merchandise by the franchisees occurs.

Contract Balances
*Receivables*
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract Liabilities*
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer.

Royalty Fee
Royalty fee is recognized as a percentage of gross profit earned by the franchisee.

Rental Income
Rental income is accounted for on a straight line basis over the lease term.

Interest Income
Interest on cash in bank, cash equivalents, debt financial assets at FVOCI and FVTPL is recognized as the interest accrues using the effective interest rate (EIR) method.

Dividend Income
Dividend income is recognized when the Group's right to receive the payment is established.

Cost of Merchandise Sold
Cost of merchandise sold includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. Vendor returns, allowances and consideration received under normal trade arrangements are generally deducted from cost of merchandise sold.

Operating Expenses
Operating expenses constitute costs of administering the business. These are recognized as expenses when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has occurred and the decrease in economic benefits can be measured reliably.

Financial Assets
The Group recognizes a financial asset in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

*Initial Recognition and Measurement*
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

*Subsequent Measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

*Financial Assets at Amortized Cost (Debt Instruments).* The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the asset is derecognized, modified or impaired.

As of June 30, 2019 and December 31, 2018, the Group's financial assets at amortized cost includes cash and cash equivalents, trade receivables and refundable security deposits included under 'other noncurrent assets'.

*FVOCI (Debt Instruments).* The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI in the consolidated statement of comprehensive income. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to profit or loss in the consolidated statement of comprehensive income.

As of June 30, 2019 and December 31, 2018, the Group's debt instruments at FVOCI includes investments in quoted debt instruments.

*Financial Assets Designated at FVOCI (Equity Instruments).* Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation and Disclosure* are not held for trading. The classification is determined on an instrument-by instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investments under this category.

*Financial Assets at FVTPL.* Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not SPPI are classified and measured at FVTPL, irrespective of the business model.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss in the consolidated statement of comprehensive income.

As of June 30, 2019 and December 31, 2018, the Group's financial assets at FVTPL includes investments in debt instruments which contain loss absorption feature.

*Impairment of Financial Assets*
The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk of the financial asset since origination (12-month ECL). Otherwise if a significant increase in credit risk is observed, then the ECL estimation is extended until the end of the life of the financial asset (Lifetime ECL). The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a significant increase in credit risk since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then entities shall revert to recognizing 12-month ECL.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

A default is considered to have occurred when (a) there is a breach of financial covenants by the counterparty; or (b) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

At each reporting date, the Group shall assess whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. Group's assessment of significant increase in credit risk involves looking at quantitative element and qualitative element. The quantitative element is being looked through statistical models or credit ratings process or scoring process that captures certain information which the Group shall consider as relevant in assessing changes in credit risk. The Group may also look at the number of notches downgrade of credit risk rating or certain thresholds for the probabilities of default being generated from statistical models to determine whether significant increase in credit risk has occurred subsequent to initial recognition date.

Credit exposures shall be transferred from Stage 1 to Stage 2 if there is significant increase in credit risk from initial recognition date. Exposures shall be classified as Stage 2 if (a) the exposure have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures; (b) If there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

Exposures shall be transferred from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to their transfer. Quantitative indicator is characterized by payments made within an observation period. Qualitative indicator pertains to the results of assessment of the borrower's financial capacity.

ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been significant increase in credit risk since initial recognition. ECL calculations are based on the following components:

- Probability-of-default (PD) - an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.

- Loss-given-default (LGD) - an estimate of the loss arising in case where defaults occur at a given time. It is based on the difference between the contractual cash flow due and those that the Group would expect to receive, including from any collateral.

- Exposure-at-default (EAD) - an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.

Forward-looking information shall be considered in estimating/determining the 12-month and lifetime PD, LGD and EAD depending on the credit exposure.

ECL measurement is determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported. Forward-looking macroeconomic information and scenarios shall consider factors that may affect the general economic or market conditions in which the Group operates.

For trade receivables and contract assets, the Group applies the simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted by forward-looking factors specific to the debtors and economic environment.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument.

The Group's debt instruments at FVOCI comprise solely of quoted bonds that are graded in the top investment category by the S&P and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the S&P both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

For other debt financial instruments e.g., cash and cash equivalents and security deposits ECLs the Company applies the general approach. Therefore, the Group track changes in credit risk at every reporting date.

<u>Financial Liabilities</u>
*Initial Recognition*
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL and other financial liabilities at amortized cost. The initial measurement of financial liabilities, except for designated at FVPL, includes transaction costs.

As of June 30, 2019 and December 31, 2018, the financial liabilities of the Group are classified as other financial liabilities.

*Subsequent Measurement*
The measurement of financial liabilities depends on their classification, as described below:

*Other Financial Liabilities.* After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through amortization process.

This accounting policy relates primarily to the Group's trade and other payables and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement obligation).

<u>Offsetting of Financial Assets and Liabilities</u>
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Derecognition of Financial Assets and Liabilities

*Financial Asset*

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognized where:

- the right to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through' arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either; (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.
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Where the Group has transferred its right to receive cash flows from an asset but has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial Liability*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and are subject to an insignificant risk of change in value.

<u>Merchandise Inventories</u>
Merchandise inventories are stated at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. Costs comprise of purchase price, including duties, transport and handling costs, and other incidental expenses incurred in bringing the merchandise inventory to its present location and condition.

NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of comprehensive income.

<u>Investment in Associates</u>
Associates are entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of investee, but is not control or joint control over those policies. Investment in associates is accounted for under the equity method of accounting.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group’s share in the net assets of the associates, less any impairment in value. The profit or loss reflects the share of the results of the operations of the associates reflected a “Equity in net earnings of associates” under “Other income (charges)” in the consolidated statement of comprehensive income. Goodwill relating to associate is included in the carrying amount of the investment and is not amortized. The Group’s share in the investees’ post acquisition movements in the investees’ equity reserves is recognized directly in equity. Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associate and for unrealized losses to the extent that there is no evidence of impairment of the assets transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when the investment associates is reduced to zero (0). Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates. When the associates subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the associates and the Group are identical and associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount under "Other expenses" in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associates, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of comprehensive income.

Business Combination and Goodwill

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognizes any adjustments to those provisional values as a result of completing the initial accounting within twelve (12) months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the Group will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PFRS 9 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating unit (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of comprehensive income any excess remaining after reassessment.

Combination of Entities under Common Control

Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method accounted for prospectively from the acquisition date as allowed under PIC Q&A 2012-01. Under the prospective pooling of interest method, the assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets and liabilities, at the date of the combination. No new goodwill is recognized. The adjustments made, if any, are only to the extent to harmonize accounting policies within the Group. The difference between the book value of net asset acquired and the consideration paid or transferred is recognized in equity, under "Equity reserve". The profit and loss of the acquirees are consolidated from the acquisition date. Comparative periods are not restated.

Property and Equipment

Property and equipment, except land are carried at cost less accumulated depreciation and amortization and accumulated impairment in value, if any. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Construction in-progress (CIP) are transferred to the related "Property and equipment" account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for service. CIP is not depreciated until such time when the relevant assets are completed and available for use. Depreciation and amortization is computed using the straight-line method over the estimated useful lives (EUL) of the assets. Leasehold improvements are amortized over the EUL of the improvements or the term of the related lease, whichever is shorter.

The EUL of property and equipment in general are as follow:

| | Years |
|---|---|
| Building and other equipment | 20 - 25 |
| Leasehold improvements | 6 - 10 |
| Store furniture and fixtures | 5 - 10 |
| Office furniture and fixtures | 5 - 10 |
| Transportation equipment | 5 - 10 |
| Computer equipment | 3 - 10 |

The assets' useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the period the item is derecognized.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed and adjusted, if appropriate, at each financial year-end.

Fully depreciated and amortized property and equipment are maintained in the accounts until these are no longer in use.

<u>Intangible Assets</u>

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the EUL and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

*Licenses*
The Group acquired the license to use the brand and operate its stores. The license shall be amortized using the straight-line method over a period of ten (10) years. The amortization of the license is recorded in the consolidated statement of comprehensive income under "Operating expenses" account.

*Trademarks*
Trademarks, which were acquired through business combinations in 2012 (SSDI), 2015 (SEWI), 2016 (TGPPI) and 2018 (RSCI) were recognized at fair value at the date of acquisition and assessed to have indefinite useful lives. Following initial recognition, the trademarks are carried at cost and subject to annual impairment testing.

*Franchise*
The Group acquired the franchise to use the brand and operate its stores. The franchise shall be amortized using the straight-line method over a period of ten (10) years. The amortization of the franchise is recorded in the consolidated statements of comprehensive income under "Operating expenses" account.

Impairment of Nonfinancial Assets
This accounting policy primarily applies to the Group's property and equipment, investment in associates and intangible assets.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell, and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly-traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognized in equity up to the amount of any previous revaluation.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

*Investment in Associates*
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the investment in associates and recognizes the difference in the consolidated statement of comprehensive income.

*Impairment Testing of Goodwill and Trademarks*
Goodwill and trademarks are reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

The Group performed its annual impairment test for the years ended December 31, 2018 and 2017. The CGU are concluded to be the entire entities acquired by the Group. The impairment testing may be performed at any time in the annual reporting period, but it must be performed at the same time every year and when circumstances indicate that the carrying amount is impaired. The impairment testing also requires an estimation of the recoverable amount, which is the net selling price or value-in-use of the CGU to which the goodwill and intangibles are allocated.

The most recent detailed calculation made in a preceding period of the recoverable amount of the CGU may be used for the impairment testing for the current period provided that:

- The assets and liabilities making up the CGU have not changed significantly from the most recent calculation;
- The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the CGU by a significant margin; and
- The likelihood that a current recoverable amount calculation would be less than the carrying amount of the CGU is remote based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation.

Impairment is determined for goodwill and trademarks by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill and trademarks relate. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill and trademarks have been allocated, an impairment loss is recognized immediately in the consolidated statement of comprehensive income. Impairment loss recognized for goodwill and trademarks shall not be reversed in future periods.

Retirement Cost
*Defined Benefit Plan*
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss in the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in the consolidated statement of comprehensive income subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Value-Added Taxes (VAT)
Input tax represents the VAT paid on purchases of goods and services that the Group can apply against any future liability for output VAT on sale of goods and services subjected to VAT. The input VAT can also be recovered as tax credit under certain circumstances and can be applied against future income tax liability of the Group upon approval of the BIR. Input VAT is stated at its estimated NRV. Output VAT pertains to the 12.0% tax due on the local sale of goods by the Group.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Trade and other payables" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under "Other current assets".

Creditable Withholding Taxes (CWT)
CWT included under other current assets are attributable to taxes withheld by third parties arising from the sale of goods, rental fees and other services and will be applied against future taxes payable.

Income Tax

*Current Tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

*Deferred Tax*

Deferred tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside the consolidated statement of comprehensive income is recognized outside the consolidated statement of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in the consolidated statement of comprehensive income or other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Group issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC) (Note 18). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC. If APIC is not sufficient, the excess is charged against retained earnings.

Equity Reserve

Equity reserve consist of equity transactions other than capital contributions, such as equity transactions arising from transactions with NCI and combination or entities under common control.

Retained Earnings

Retained earnings represent accumulated earnings of the Group less dividends declared and any adjustment arising from application of new accounting standards, policies or correction of errors applied retroactively. It includes the accumulated equity in undistributed earnings of consolidated subsidiaries which are not available for dividends until declared by subsidiaries. Appropriated retained earnings are those that are restricted for store expansion. Unappropriated retained earnings are those that can be allocated for specific purposes and can be distributed as dividend (Note 18).

**Lease standard effective from or after January 1, 2019**

Right-of-use assets

The Group recognizes the right-of-use assets at the commencement date of the lease (i.e., the date the underlying assets is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the leaser term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date. It also applies the lease of low-value assets recognition exemption to leases. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Lease standard effective prior to January 1, 2019**

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease, only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless the term of the renewal or extension;
c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

*Group as Lessee*

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

*Group as Lessor*
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency Transactions
Transactions in foreign currencies are initially recorded in the Group's functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency using the Bankers Association of the Philippines (BAP) closing rate prevailing at the reporting date in 2019. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the prevailing closing exchange rate as of the date of initial transaction.

Financial statements of consolidated foreign subsidiaries which are considered foreign entities are translated into the presentation currency of the Parent Company (Peso) at the closing exchange rate at end of reporting period and their statements of income are translated using the monthly weighted average exchange rates for the year. The exchange differences arising from the translation are taken directly to a separate component of equity (under cumulative translation adjustment). On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of comprehensive income.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year applicable to common stock by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS is calculated by dividing the net income for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculation of diluted EPS does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on EPS.

The Parent Company does not have any potential dilutive ordinary shares for the six months ended June 30, 2019 and 2018 (Note 26).

Provisions
Provisions are recognized only when the following conditions are met: (a) there exists a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense in profit or loss. Provisions

are reviewed at each reporting period and adjusted to reflect the current best estimate.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Segment Reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for resource allocation and assessing performance of the operating segment, has been identified as the President. The nature of the operating segment is set out in Note 6.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the consolidated financial statements when material.

## 5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRSs requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Operating Lease Commitments - Group as Lessee*
The Group, having the ability to terminate the lease term, has entered into cancellable lease agreements as a lessee. The Group evaluates whether a lease contract is cancellable or noncancelable by assessing penalties on pretermination of lease contract. Penalties considered by the Group are not limited to those that are imposed by the contract but also include possible payment to third parties and loss of future earnings. The amount and timing of recorded rent expenses would differ if the Group determines lease contracts as noncancelable. Also, the Group has determined that it has not retained all the significant risks and rewards of ownership of the leased property.

*Right to Access - Performance Obligation Satisfied Over Time*
The Group considered the following in assessing whether the non-refundable upfront franchise fee is a right to access the Ministop and TGP licenses: (a) the franchisee reasonably expects that the entity will undertake activities that will significantly affect the license to which the customer has rights (i.e. the characters); (b) the rights granted by the franchise agreement directly expose the franchisee to any positive or negative effects of the Group's activities because the franchise agreement requires the customer to use the latest characters; and (c) even though the franchisees may benefit from those activities through the rights granted by the franchise agreement, they do not transfer a good or service to the customer as those activities occur.

The Group concludes that non-refundable upfront franchise fee is a payment to provide the franchisees with access to the Ministop and TGP licenses as it exists throughout the franchise period. Consequently, the entity accounts for the upfront franchise fee as a performance obligation satisfied over time.

*Determination if Consideration Received from Suppliers is Not Distinct*
The Group in the ordinary course of business received consideration from suppliers for product placements (e.g. slotting fees) and other programs. The Group determines that the consideration received from the suppliers is not in exchange for a distinct good or service that transfers to the supplier because of the following considerations:

- the standalone selling price of the good or service for which the consideration is received cannot be reasonably estimated; and
- the supplier does not obtain control of the goods or service.

*Accounting for Investment in GrowSari and G2M through Convertible Note*
The Group has investments in GrowSari, Inc. and G2M Solutions Philippines Pte. Ltd. through convertible note which will provide the Group 28.60% and 14.90% ownership interest, respectively, upon conversion of the note. The Group assessed that it has significant influence as evidenced by provision of technical information, board seats and service agreement in the term sheet. Thus, the investments are accounted for as investments in associates.

*Determination of Control*
The Group determined that it has control over its investees by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns.

The following were also considered:

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

*Recognition of Insurance Recovery*
The Group has recognized insurance recovery from its business interruption claim. For the amount recognized, the Group has determined that the likelihood of receiving insurance recovery is virtually certain and its recognition in the period is appropriate considering the following:

- There is a valid insurance policy for the incident;
- The advanced status of the Group's discussion with the adjuster and insurers regarding the claim; and
- The subsequent information that conform the status of the claim as of the reporting date.

*Contingencies*
The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to

these proceedings (Note 31).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, 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.

*Recoverability of Goodwill and Trademarks*
In the course of the Group's business combinations, goodwill and trademarks were acquired (Note 14). These assets have indefinite useful lives.

The Group performed its annual impairment test as at December 31, 2018 and 2017. The recoverable amounts of the CGUs have been determined based on value in use (VIU) and enterprise value or earnings before interest, taxes, depreciation and amortization (EV/EBITDA) multiple calculations.

As of December 31, 2018 and 2017, below are the business segments from which trademarks arise:

| | Basis | Amount |
|---|---|---|
| SSDI | VIU | ₱1,566,917,532 |
| TGPPI | VIU | 1,264,098,435 |
| SEWI | VIU | 364,914,493 |
| | | ₱3,195,930,460 |

As of December 31, 2018 and 2017, below are the business segments from which goodwill arise:

| | Basis | Amount |
|---|---|---|
| TGPPI | EV/EBITDA | ₱1,281,428,830 |
| SSDI | EV/EBITDA | 745,887,131 |
| SEWI | VIU | 715,103,869 |
| EC | EV/EBITDA | 199,870,222 |
| RHIB | VIU | 145,655,320 |
| RTSHPI | EV/EBITDA | 85,161,468 |
| Beauty Skinnovations Retail, Inc. (BSRI) | VIU | 83,324,691 |
| JRMC | EV/EBITDA | 71,732,435 |
| HPTDI | VIU | 30,000,000 |
| GPC | EV/EBITDA | 23,250,000 |
| | | ₱3,381,413,966 |

*Value In Use*
The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the demand for products and services.

The pre-tax discount rate applied to cash flow projections in 9.70% in 2018 (10.70% in 2017) and cash flows beyond the five-year period are extrapolated using a 5.00% to 10.00% in 2018 growth rate (5.00% to 10.00% in 2017) that is the same as the long-term average growth rate for the respective industries. As a result of this analysis, management concluded that the goodwill and trademarks are not impaired.

The calculation of value in use of the CGUs is most sensitive to the following assumptions:

- Gross margins
- Discount rate
- Price inflation
- Growth rates used to extrapolate cash flows beyond the forecast period

*Gross Margins*
Gross margins are based on average values achieved in one (1) to five (5) years preceding the beginning of the budget period. These are increased over the budget period for anticipated efficiency improvements. An increase of 7.00% to 12.00% per annum was applied. A decreased demand can lead to a decline in gross margin. A decrease in gross margin from 20.80% to 2.80% for 2018 and 11.50% to 5.00% for 2017 would result in impairment.

*Discount Rates*
Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in pre-tax discount rate of 2.40% to 20.20% and 8.00% to 12.00%, in 2018 and 2017, respectively, would result in impairment.

*Price Inflation*
Forecast price inflation which impacts the forecast for operating expenses lies within a range of 3.00% to 5.00% in 2018 and 2017. If price increases greater than the forecast price inflation and the Group is unable to pass on or absorb these increases through efficiency improvements, then the Group will have to recognize an impairment.

*Growth Rate Estimates*
Rates are based on published industry research. A reduction to 3.00% in the long-term growth rate would result in impairment.

*EV/EBITDA Multiple*
The Group utilized the use of EV/EBITDA multiple in the impairment testing of its goodwill from the acquisitions of some of its subsidiaries wherein the Group obtained and selected comparable entities which closely represent each entity from which goodwill was acquired. The characteristics taken into account include, among others, the geographical area where the comparable resides, nature of business or operations of the comparable entities and economic environment from which the comparable entities operate.

As such, the Group has selected EV/EBITDA multiples limited to retail entities in the Philippines as the management of the Group believes that these entities reasonably represent each acquired entity after carefully taking into account the future viability of the assumptions used and ability of each entity to attain such position in the future as it relates to the overall growth in the industry and in the country.

In 2018 and 2017, the Group used the EV/EBITDA multiple ranging from 10 to 15 multiples for impairment testing of goodwill and concluded and satisfied that goodwill from the acquired entities are not impaired.

If such EV/EBITDA multiple used falls lower than 4.45 multiple, goodwill will be impaired.

*Provision for ECL of Trade and Other Receivables*
The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrated the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

As of June 30, 2019 and December 31, 2018, allowance for expected credit losses on trade and other receivables amounted to ₱100.27 million and ₱156.35 million, respectively.

As of June 30, 2019 and December 31, 2018, the carrying value of the Group's trade and other receivables amounted to ₱3.20 billion and ₱3.17 billion, respectively (Note 8).

*Estimating NRV of Merchandise Inventories*
The Group carries merchandise inventory at NRV whenever the utility of it becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels, losses or other causes. The estimate of the NRV is reviewed regularly.

Estimates of NRV are based on the most reliable evidence available at the time the estimates are made on the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date.

Merchandise inventories amounted to ₱19.37 billion and ₱18.63 billion as of June 30, 2019 and December 31, 2018, respectively (Note 9).

*Evaluation of Impairment of Nonfinancial Assets*
The Group reviews property and equipment, investment in associates and intangible assets with definite lives for impairment of value.

The Group estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect property and equipment, investment in associates and intangible assets.

The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five (5) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Based on management assessment as of June 30, 2019 and December 31, 2018, there are no additional impairment provision required for property and equipment other than those already recorded in the books while there are none for investment in associates.

As of June 30, 2019 and December 31, 2018, the carrying value of the Group's property and equipment amounted to ₱19,293.42 million and ₱19,269.21 million, respectively (Note 12), investment in associates amounted to ₱7,510.96 million and ₱6,814.30 million, respectively (Note 13) and franchise amounted to ₱22.46 million and ₱24.13 million, respectively (Note 14).

*Retirement and Other Benefits*
The determination of the obligation and cost of retirement and other benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23, and include, among others, discount rate and salary rates increase.

As of June 30, 2019 and December 31, 2018, the carrying value of the retirement plan amounted to ₱72.00 million and ₱91.25 million asset and ₱243.16 million and ₱325.46 million obligation, respectively.

*Deferred Tax Assets*
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Management has determined based on business forecast of succeeding years that there is enough taxable income against which recognized deferred tax assets will be realized.

As of June 30, 2019 and December 31, 2018 the Group has deferred tax assets amounting ₱643.36 million and ₱413.46 million, respectively (Note 25). Unrecognized deferred tax assets amounted to ₱84.44 million and ₱100.67 million as of June 30, 2019 and December 31, 2018, respectively.

*Determining Whether the Loyalty Points and Gift Checks Provide Material Rights to Customers*
The Company has a loyalty points program which allows customers to accumulate points that can be redeemed for future purchases at any of the Group's retail outlets and participating stores, subject to a minimum number of points obtained. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. The Group also has gift checks which can be redeemed for future purchases at any of the Group's retail outlets.

As of June 30, 2019 and December 31, 2018, contract liabilities arising from customer loyalty program and gift checks amounted to ₱182.70 million and ₱197.90 million, respectively. (Note 16).

## 6. **Operating Segments**

Business Segment
The business segment is determined as the primary segment reporting format as the Group's risks and rates of return are affected predominantly by each operating segment.

Management monitors the operating results of its operating segments separately for the purpose of making decision about resource allocation and performance assessment. Group financing (including interest income, dividend income and interest expense) and income taxes are managed on a group basis and are not allocated to operating segments. The Group evaluates performance based on earnings before interest and taxes, and earnings before interest and taxes, depreciation and amortization. The Group does not report its results based on geographical segments because the Group operates only in the Philippines.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Cost and expenses exclude interest, taxes, depreciation and amortization.

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the consolidated statement of financial position which is in accordance with PFRSs.

The Group derives its revenue from the following reportable units:

- *Supermarket Division*
  Robinsons Supermarket is a major supermarket chain in the country that focuses on health and wellness. It also offers fresh food products at competitive prices. RSC actively encourages consumers to adopt a healthy lifestyle by providing a wide range of high quality health and wellness products. Such products are given a specifically allocated section within each of the supermarkets and are made highly visible to consumers. In 2018, the Group acquired RSCI which also operates supermarket chains in the country.

- *Department Store Division*
  Robinsons Department Store (RDS) offers a large selection of local and international brands that are grouped into categories such as shoes, bags and accessories (including beauty and personal care), ladies' and men's wear, children's wear, household items and others. RDS is focused on catering to middle-income customers.

- *Do-It-Yourself (DIY) Division*
  The five (5) DIY brands Handyman Do it Best, True Value, True Home, Robinsons Builders and Home Plus have grown to have a reputation of quality and dependability in the Philippine retail market, as well as being aggressive in terms of expansion among mall and big box hardware and home improvement centers in the country. The DIY segment aims to cover the Philippine landscape with more branches in key commercial centers to promote self-reliance among do-it yourselfers, as well as offer a wide selection of construction materials for contractors and builders.

- *Convenience Store Division*
  Ministop is a 24 - hour convenience store chain and is a franchise of Ministop Co. Ltd. - Japan (Ministop), one (1) of the largest convenience store chains in Japan. The store carries a wide assortment of merchandise and an extensive selection of ready to eat products.

- *Drug Store Division*
  The Drug Store segment primarily offers high quality pharmaceutical drugs, which constitutes to over a thousand reputable branded and affordable options including The Generics Pharmacy house brands for the generic medicines. The segment's other major product categories are staged milk and non-pharmaceutical selections, which include a vast array personal care items, food and beverage, and other convenience store grocery items.

- *Specialty Store Division*
  The Specialty Store format is the lifestyle arm of the Group. It is committed to bringing a diverse spectrum of products and services to the Philippine market, including some of the best loved international lifestyle brands in top entertainment systems, coffee shops, unparalleled selections of toys and games; and well-known global fast fashion brands, local and international cosmetics, a wide selection of nail care products, and innovative slush and fruit juice mixes.

**June 30, 2019**

| | Supermarket Division | Department Store Division | DIY Division | Convenience Store Division | Drug Store Division | Specialty Store Division | Parent Company | Intersegment Eliminating Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Segment net sales | **₱41,951,601,532** | **₱8,224,320,349** | **₱6,886,267,810** | **₱3,261,728,286** | **₱8,582,385,576** | **₱8,304,619,405** | **₱–** | **₱–** | **₱77,210,922,958** |
| Intersegment net sales | **–** | **–** | **–** | **–** | **–** | **782,706,269** | **–** | **(782,706,269)** | **–** |
| Total net sales | **41,951,601,532** | **8,224,320,349** | **6,886,267,810** | **3,261,728,286** | **8,582,385,576** | **9,087,325,674** | **–** | **(782,706,269)** | **77,210,922,958** |
| Segment cost of merchandise sold | **33,257,133,335** | **5,151,335,940** | **4,615,316,182** | **2,937,127,508** | **6,907,169,525** | **6,681,640,660** | **–** | **–** | **59,549,723,150** |
| Intersegment cost of merchandise sold | **–** | **782,706,269** | **–** | **–** | **–** | **–** | **–** | **(782,706,269)** | **–** |
| Total cost of merchandise sold | **33,257,133,335** | **5,934,042,209** | **4,615,316,182** | **2,937,127,508** | **6,907,169,525** | **6,681,640,660** | **–** | **(782,706,269)** | **59,549,723,150** |
| Gross profit | **8,694,468,197** | **2,290,278,140** | **2,270,951,628** | **324,600,778** | **1,675,216,051** | **2,405,685,014** | **–** | **–** | **17,661,199,808** |
| Segment other income | **270,852,497** | **47,775,099** | **–** | **847,786,905** | **82,459,257** | **3,678,539** | **–** | **–** | **1,252,552,297** |
| Intersegment other income | **73,942,604** | **7,136,642** | **–** | **–** | **–** | **–** | **–** | **(81,079,246)** | **–** |
| Total other income | **344,795,101** | **54,911,741** | **–** | **847,786,905** | **82,459,257** | **3,678,539** | **–** | **(81,079,246)** | **1,252,552,297** |
| Gross profit including other income | **9,039,263,298** | **2,345,189,881** | **2,270,951,628** | **1,172,387,683** | **1,757,675,308** | **2,409,363,553** | **–** | **(81,079,246)** | **18,913,752,105** |
| Segment operating expenses | **6,080,032,437** | **1,710,350,148** | **1,112,497,393** | **809,118,233** | **939,237,937** | **1,378,744,631** | **47,340,703** | **–** | **12,077,321,482** |
| Intersegment operating expenses | **6,871,785** | **23,447,054** | **16,734,624** | **–** | **21,253,596** | **12,772,187** | **–** | **(81,079,246)** | **–** |
| Total operating expenses | **6,086,904,222** | **1,733,797,202** | **1,129,232,017** | **809,118,233** | **960,491,533** | **1,391,516,818** | **47,340,703** | **(81,079,246)** | **12,077,321,482** |
| Earnings before interest, taxes and depreciation and amortization | **2,952,359,076** | **611,392,679** | **1,141,719,611** | **363,269,450** | **797,183,775** | **1,017,846,735** | **(47,340,703)** | **–** | **6,836,430,623** |
| Depreciation and amortization | **1,604,518,433** | **365,535,454** | **528,698,518** | **276,589,843** | **177,231,183** | **480,586,927** | **–** | **–** | **3,433,160,358** |
| Earnings before interest and taxes | **1,347,840,643** | **245,857,225** | **613,021,093** | **86,679,607** | **619,952,592** | **537,259,808** | **(47,340,703)** | **–** | **3,403,270,265** |
| Interest expense | **(686,613,477)** | **(114,944,912)** | **(97,749,585)** | **(29,259,799)** | **(98,397,633)** | **(147,792,429)** | **(35,254,917)** | **15,446,993** | **(1,194,565,759)** |
| Interest income | **36,610,558** | **27,838,680** | **39,439,501** | **11,571,927** | **17,020,805** | **17,484,346** | **428,035,791** | **(15,446,993)** | **562,554,615** |
| Dividend income | **–** | **–** | **–** | **–** | **–** | **–** | **55,750,000** | **–** | **55,750,000** |
| Foreign exchange gain - net | **–** | **–** | **–** | **–** | **–** | **–** | **(91,302,105)** | **–** | **(91,302,105)** |
| Equity in net earnings of an associate | **–** | **–** | **–** | **–** | **–** | **–** | **57,605,446** | **–** | **57,605,446** |
| Others | **(7,760,659)** | **–** | **–** | **–** | **–** | **45,788** | **13,840,057** | **–** | **6,125,186** |
| Income before income tax | **₱690,077,065** | **₱158,750,993** | **₱554,711,009** | **₱68,991,735** | **₱538,575,764** | **₱406,997,513** | **₱381,333,569** | **₱–** | **₱2,799,437,648** |
| Assets and liabilities | | | | | | | | | |
| Segment assets | **₱45,641,489,378** | **₱7,191,912,977** | **₱9,087,833,986** | **₱4,443,250,864** | **₱9,407,149,146** | **₱11,714,940,845** | **₱31,386,924,297** | **₱10,796,524,609** | **₱129,670,026,102** |
| Investment in subsidiaries - at cost | **2,840,607,224** | **3,878,258,269** | **–** | **–** | **–** | **–** | **21,632,839,151** | **(28,351,704,644)** | **–** |
| Total segment assets | **₱48,482,096,602** | **₱11,070,171,246** | **₱9,087,833,986** | **₱4,443,250,864** | **₱9,407,149,146** | **₱11,714,940,845** | **₱53,019,763,448** | **(₱17,555,180,035)** | **₱129,670,026,102** |
| Total segment liabilities | **₱29,390,391,476** | **₱5,899,247,408** | **₱4,244,597,674** | **₱2,681,871,146** | **₱5,330,884,486** | **₱7,994,626,640** | **₱1,277,399,107** | **(₱1,316,388,446)** | **₱55,502,629,491** |
| Other segment information: | | | | | | | | | |
| Capital expenditures | **₱627,978,282** | **₱162,069,978** | **₱124,312,631** | **₱241,647,022** | **₱52,545,981** | **₱291,653,625** | **₱–** | **₱–** | **₱1,500,207,519** |

June 30, 2018

| | Supermarket Division | Department Store Division | DIY Division | Convenience Store Division | Drug Store Division | Specialty Store Division | Parent Company | Intersegment Eliminating Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Segment net sales | ₱27,863,612,293 | ₱8,012,210,781 | ₱6,477,987,320 | ₱3,004,742,203 | ₱7,640,581,671 | ₱7,459,571,045 | ₱– | ₱– | ₱60,458,705,313 |
| Intersegment net sales | – | – | – | – | – | 600,727,824 | – | (600,727,824) | – |
| Total net sales | 27,863,612,293 | 8,012,210,781 | 6,477,987,320 | 3,004,742,203 | 7,640,581,671 | 8,060,298,869 | – | (600,727,824) | 60,458,705,313 |
| Segment cost of merchandise sold | 22,518,079,207 | 5,210,527,727 | 4,366,942,180 | 2,715,457,569 | 6,133,683,029 | 5,850,834,507 | – | – | 46,795,524,219 |
| Intersegment cost of merchandise sold | – | 600,727,824 | – | – | – | – | – | (600,727,824) | – |
| Total cost of merchandise sold | 22,518,079,207 | 5,811,255,551 | 4,366,942,180 | 2,715,457,569 | 6,133,683,029 | 5,850,834,507 | – | (600,727,824) | 46,795,524,219 |
| Gross profit | 5,345,533,086 | 2,200,955,230 | 2,111,045,140 | 289,284,634 | 1,506,898,642 | 2,209,464,362 | – | – | 13,663,181,094 |
| Segment other income | 64,312,455 | 52,552,712 | – | 891,581,293 | 87,045,573 | 22,454,673 | – | – | 1,117,946,706 |
| Intersegment other income | 68,854,878 | 19,711,209 | – | – | – | – | – | (88,566,087) | – |
| Total other income | 133,167,333 | 72,263,921 | – | 891,581,293 | 87,045,573 | 22,454,673 | – | (88,566,087) | 1,117,946,706 |
| Gross profit including other income | 5,478,700,419 | 2,273,219,151 | 2,111,045,140 | 1,180,865,927 | 1,593,944,215 | 2,231,919,035 | – | (88,566,087) | 14,781,127,800 |
| Segment operating expenses | 3,723,964,339 | 1,815,941,155 | 1,448,681,855 | 1,006,387,432 | 968,092,776 | 1,609,616,487 | 69,526,507 | – | 10,642,210,551 |
| Intersegment operating expenses | 13,440,997 | 24,955,362 | 17,566,989 | – | 16,326,932 | 16,275,807 | – | (88,566,087) | – |
| Total operating expenses | 3,737,405,336 | 1,840,896,517 | 1,466,248,844 | 1,006,387,432 | 984,419,708 | 1,625,892,294 | 69,526,507 | (88,566,087) | 10,642,210,551 |
| Earnings before interest, taxes and depreciation and amortization | 1,741,295,083 | 432,322,634 | 644,796,296 | 174,478,495 | 609,524,507 | 606,026,741 | (69,526,507) | – | 4,138,917,249 |
| Depreciation and amortization | 457,892,556 | 204,541,093 | 104,177,270 | 113,657,791 | 58,563,594 | 172,667,155 | – | – | 1,111,499,459 |
| Earnings before interest and taxes | 1,283,402,527 | 227,781,541 | 540,619,026 | 60,820,704 | 550,960,913 | 433,359,586 | (69,526,507) | – | 3,027,417,790 |
| Interest expense | (1,239,933) | (15,777,315) | (2,131,076) | – | (30,504,364) | (21,272,670) | – | 15,446,993 | (55,478,365) |
| Interest income | 18,856,699 | 8,759,400 | 19,668,255 | 7,801,720 | 5,461,136 | 11,444,258 | 418,691,335 | (15,446,993) | 475,235,810 |
| Dividend income | – | – | – | – | – | – | 55,750,000 | – | 55,750,000 |
| Foreign exchange gain - net | – | – | – | – | – | – | 246,299,776 | – | 246,299,776 |
| Equity in net earnings of an associate | – | – | – | – | – | – | 80,650,641 | – | 80,650,641 |
| Others | – | – | – | – | – | (52,960,542) | – | – | (52,960,542) |
| Income before income tax | ₱1,301,019,293 | ₱220,763,626 | ₱558,156,205 | ₱68,622,424 | ₱525,917,685 | ₱370,570,632 | ₱731,865,245 | ₱– | ₱3,776,915,110 |
| **December 31, 2018** | | | | | | | | | |
| Assets and liabilities | | | | | | | | | |
| Segment assets | ₱30,641,562,719 | ₱5,107,770,668 | ₱6,528,041,665 | ₱3,111,410,150 | ₱8,983,261,961 | ₱9,252,631,153 | ₱31,697,362,422 | ₱12,455,066,456 | ₱107,777,107,194 |
| Investment in subsidiaries - at cost | 2,790,607,224 | 3,878,258,269 | 62,500,000 | – | – | – | 21,632,839,151 | (28,364,204,644) | – |
| Total segment assets | ₱33,432,169,943 | ₱8,986,028,937 | ₱6,590,541,665 | ₱3,111,410,150 | ₱8,983,261,961 | ₱9,252,631,153 | ₱53,330,201,573 | (₱15,909,138,188) | ₱107,777,107,194 |
| Total segment liabilities | ₱15,061,073,844 | ₱3,937,639,289 | ₱2,097,554,693 | ₱1,381,766,940 | ₱5,178,010,004 | ₱5,788,948,538 | ₱1,594,271,333 | ₱33,674,554 | ₱35,072,939,195 |
| Other segment information: | | | | | | | | | |
| Capital expenditures | ₱2,300,718,232 | ₱598,770,330 | ₱447,306,797 | ₱211,404,175 | ₱133,088,174 | ₱728,159,814 | ₱– | ₱– | ₱4,419,447,522 |

The revenue of the Group consists mainly of sales to external customers through its retail and internet channels. Inter-segment revenue arising from purchase arrangements amounting ₱782.71 million, and ₱600.73 million in 2019 and 2018, respectively, were eliminated on consolidation.

No operating segments have been aggregated to form the above reportable segments.

Capital expenditures consist of additions to property and equipment arising from current acquisitions and those acquired through business combinations plus any adjustments made in the fair values of the acquired property and equipment.

The Group has no significant customer which contributed to 10.00% or more to the revenue of the Group.

## 7. Cash and Cash Equivalents

This account consists of cash on hand and in banks and cash equivalents amounting to ₱12.19 billion and ₱14.79 billion as of June 30, 2019 and December 31, 2018, respectively.

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of one (1) to three (3) months, depending on the immediate cash requirements of the Group, and earn annual interest at the respective short-term investment rates that ranges from 0.90% to 5.52%,0.90% to 5.52% in 2019 and 2018, respectively.

Interest income arising from cash in banks and cash equivalents amounted to ₱158.96 million and ₱88.26 million for the six months ended June 30, 2019 and 2018, respectively.

## 8. Trade and Other Receivables

This account consists of:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Trade (Notes 24 and 27) | **₱1,712,585,227** | ₱2,108,620,270 |
| Nontrade (Notes 24 and 27) | **944,543,252** | 734,264,185 |
| Due from franchisees (Notes 27 and 29) | **646,531,654** | 485,057,897 |
| | **3,303,660,133** | 3,327,942,352 |
| Less allowance for impairment losses (Notes 27 and 29) | **100,271,131** | 156,346,848 |
| | **₱3,203,389,002** | ₱3,171,595,504 |

Trade receivables are noninterest-bearing and are generally on a one (1) to thirty (30) days' term.

Nontrade receivables include receivable from insurance companies amounting to ₱145.97 million as of December 31, 2018. The remaining balance consists of operational advances and interest receivable arising from short-term investments.

Movement in the allowance for impairment losses is as follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱156,346,848** | ₱110,387,770 |
| Provision for impairment losses (Note 21) | **–** | 46,748,194 |
| Less write off | **56,075,717** | 789,116 |
| Balance at end of year | **₱100,271,131** | ₱156,346,848 |

9. **Merchandise Inventories**

The rollforward analysis of this account follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱18,628,013,928** | ₱14,846,561,020 |
| Acquisition through business combination | **–** | 3,073,734,206 |
| Add purchases - net of purchase discounts and allowances | **60,316,250,993** | 103,596,280,274 |
| Cost of goods available for sale | **78,944,264,921** | 121,516,575,500 |
| Less cost of merchandise sold | **59,549,723,150** | 102,845,384,354 |
| Allowance for inventory obsolescence | **26,577,218** | 43,177,218 |
| Balance at end of year | **₱19,367,964,553** | ₱18,628,013,928 |

The cost of merchandise inventories charged to the consolidated statements of comprehensive income amounted to ₱59.50 billion and ₱46.80 billion for the six months ended June 30, 2019 and 2018 respectively.

Movements in the allowance for shrinkage, obsolescence and other losses for the six months ended June 30, 2019 and year ended December 31, 2018 follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱43,177,218** | ₱– |
| Provisions during the year (Note 21) | **9,000,000** | 59,503,049 |
| Less write off and reversals | **25,600,000** | 16,325,831 |
| Balance at end of year | **₱26,577,218** | ₱43,177,218 |

There are no merchandise inventories pledged as security for liabilities as of June 30, 2019 and December 31, 2018.

## 10. Other Current Assets

This account consists of:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Input VAT - net | **₱2,005,230,042** | ₱2,246,748,776 |
| Prepayments | **464,284,511** | 490,482,729 |
| Creditable withholding tax | **550,048,180** | 410,508,668 |
| Others | **7,375,113** | 11,920,917 |
| | **₱3,026,937,846** | ₱3,159,661,090 |

Input VAT will be applied against output VAT in the succeeding periods.

Prepayments consist of advance payments for rental, taxes and utilities.

CWT will be applied against income tax payable in future periods.

Others consist mainly of excess payments of income taxes.

## 11. Debt and Equity Instrument Financial Assets

The Group's debt and equity instrument financial assets classified as FVOCI and FVTPL which are carried at fair value as of June 30, 2019 and December 31, 2018 follow:

| | | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|---|
| Debt securities | | | |
| FVOCI with recycling | (a) | **₱16,772,780,631** | ₱16,135,895,711 |
| FVTPL | (b) | **93,354,837** | 1,665,171,011 |
| | | **16,866,135,468** | 17,801,066,722 |
| Equity securities at FVOCI without recycling | | **1,964,000,000** | 1,950,400,000 |
| | | **₱18,830,135,468** | ₱19,751,466,722 |

Debt Securities

a. The Group's debt securities consist of Peso and Dollar-denominated bond securities with fixed coupon rate per annum ranging from 4.38% to 7.88% and term of five (5) to ten (10) years.

Rollforward analysis of debt securities as of June 30, 2019 and December 31, 2018 follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Amortized cost: | | |
| At beginning of year | **₱16,804,654,570** | ₱16,593,843,811 |
| Additions | **355,280,449** | 847,021,924 |
| Disposals | **–** | (756,249,689) |
| Foreign exchange gain | **(114,644,994)** | 133,169,275 |
| At end of year | **17,045,290,025** | 16,817,785,321 |
| Amortization of premium on debt securities | **(80,487,956)** | (75,423,505) |
| Change in fair value of financial assets: | | |
| At beginning of year | **(593,335,355)** | 329,275,323 |
| Changes in fair value recognized in OCI | **401,313,917** | (965,569,116) |
| Transfer to profit or loss | **–** | 42,958,438 |
| Allowance for expected credit losses | **–** | (13,130,750) |
| At end of year | **(192,021,438)** | (606,466,105) |
| | **₱16,772,780,631** | ₱16,135,895,711 |

b. The Group’s debt securities pertain to Metrobank Basel III Tier 2 Notes and BDO Tier 2 Notes with fixed interest rate of 5.38% and 5.19%, respectively. The notes will mature on June 27, 2024 and March 10, 2020, respectively.

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| At beginning of year | **₱1,663,214,780** | ₱1,683,700,000 |
| Disposal | **(1,525,139,469)** | – |
| Changes in fair value recognized in profit or loss | **(44,720,474)** | (18,528,989) |
| | **₱93,354,837** | ₱1,665,171,011 |

In 2019, the Group recognized gain on disposal of debt instrument financial asset amounting to ₱58.56 million and in 2018, the Group recognized loss on disposal of debt instrument financial assets amounting ₱21.34 million.

Interest income arising from debt instrument financial assets amounted to ₱403.59 million and ₱386.97 million for the six months ended June 30, 2019 and 2018, respectively.

Accretion of interest pertains to the amortization of interest income resulting from the difference of the carrying value and face value of debt instrument financial assets.

Equity Securities

Quoted equity securities pertain to investment in stock listed in the PSE. The Group elected to classify irrevocably its listed equity investments under FVOCI in 2018 as it intends to hold these investments for the foreseeable future.

Rollforward analysis of equity securities as of June 30, 2019 and December 31, 2018 follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Cost | **₱2,000,000,000** | ₱2,000,000,000 |
| Change in fair value of equity instrument financial assets: | | |
| At beginning of year | **(49,600,000)** | 104,000,000 |
| Changes in fair value | **13,600,000** | (153,600,000) |
| At end of year | **(36,000,000)** | (49,600,000) |
| | **₱1,964,000,000** | ₱1,950,400,000 |

Dividend income earned by the Group amounted to ₱55.75 million for the six months ended June 30, 2019 and 2018.

Fair value changes on debt and equity instrument financial assets attributable to the equity holders of the Parent Company follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balances at the beginning of year | **(₱642,230,230)** | ₱433,980,448 |
| Change in fair value during the year - OCI | **414,913,917** | (1,119,169,116) |
| Transfers to profit or loss | **–** | 42,958,438 |
| Balances at the end of year | **(₱227,316,313)** | (₱642,230,230) |

## 12. Property and Equipment

### June 30, 2019

| | Land | Building and Other Equipment | Leasehold Improvements | Store Furniture and Fixtures | Office Furniture and Fixtures | Transportation Equipment | Computer Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At beginning of year | **₱609,382,477** | **₱2,806,347,351** | **₱16,184,847,447** | **₱10,943,361,979** | **₱2,749,061,388** | **₱214,640,752** | **₱3,204,209,258** | **₱–** | **₱36,711,850,652** |
| Additions | **–** | **9,390,588** | **782,154,909** | **409,367,676** | **152,741,290** | **21,535,357** | **125,017,699** | **–** | **1,500,207,519** |
| Disposals and derecognition | **–** | **–** | **(77,699,618)** | **(43,975,898)** | **(96,295)** | **–** | **(4,381,267)** | **–** | **(126,153,078)** |
| At end of year | **₱609,382,477** | **2,815,737,939** | **₱16,889,302,738** | **11,308,753,757** | **2,901,706,383** | **236,176,109** | **3,324,845,690** | **–** | **38,085,905,093** |
| **Accumulated depreciation and amortization** | | | | | | | | | |
| At beginning of year | **–** | **827,792,789** | **7,720,367,463** | **5,990,962,008** | **908,288,918** | **143,590,710** | **1,775,835,924** | **–** | **17,366,837,812** |
| Depreciation and amortization (Note 21) | **–** | **78,092,313** | **678,497,611** | **407,900,594** | **142,732,044** | **8,207,010** | **150,955,618** | **–** | **1,466,385,190** |
| Disposals and derecognition | **–** | **–** | **(71,599,096)** | **(41,093,440)** | **(96,104)** | **–** | **(3,745,166)** | **–** | **(116,533,806)** |
| At end of year | **–** | **905,885,102** | **8,327,265,978** | **6,357,769,162** | **1,050,924,858** | **151,797,720** | **1,923,046,376** | **–** | **18,716,689,196** |
| **Allowance for impairment losses** | | | | | | | | | |
| At beginning and end of year | **–** | **–** | **49,567,673** | **25,882,986** | **–** | **–** | **349,273** | **–** | **75,799,932** |
| | **₱609,382,477** | **₱1,909,852,837** | **₱8,555,029,087** | **₱4,925,101,609** | **₱1,850,781,525** | **₱84,378,389** | **₱1,401,450,041** | **₱–** | **₱19,293,415,965** |

### December 31, 2018

| | Land | Building and Other Equipment | Leasehold Improvements | Store Furniture and Fixtures | Office Furniture and Fixtures | Transportation Equipment | Computer Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| At beginning of year | ₱42,560,000 | ₱1,736,445,913 | ₱13,336,313,960 | ₱8,985,785,664 | ₱2,200,258,093 | ₱205,687,524 | ₱2,559,053,303 | ₱– | ₱29,066,104,457 |
| Additions through business combination (Note 19) | – | 1,055,410,907 | 1,504,200,176 | 1,140,406,897 | 19,878,814 | 4,568,813 | 173,259,404 | – | 3,897,725,011 |
| Additions | 566,822,477 | 20,600,492 | 1,832,715,018 | 945,195,127 | 531,144,741 | 6,630,665 | 516,339,002 | – | 4,419,447,522 |
| Disposals and derecognition | – | (6,109,961) | (488,381,707) | (128,025,709) | (2,220,260) | (2,246,250) | (44,442,451) | – | (671,426,338) |
| At end of year | 609,382,477 | 2,806,347,351 | 16,184,847,447 | 10,943,361,979 | 2,749,061,388 | 214,640,752 | 3,204,209,258 | – | 36,711,850,652 |
| Accumulated depreciation and amortization | | | | | | | | | |
| At beginning of year | – | 762,915,308 | 6,846,916,373 | 5,430,000,011 | 658,242,847 | 128,288,976 | 1,562,551,987 | – | 15,388,915,502 |
| Depreciation and amortization (Note 21) | – | 68,191,243 | 1,117,732,580 | 665,203,140 | 252,073,518 | 16,436,667 | 257,422,724 | – | 2,377,059,872 |
| Disposals and derecognition | – | (3,313,762) | (244,281,490) | (104,241,143) | (2,027,447) | (1,134,933) | (44,138,787) | – | (399,137,562) |
| At end of year | – | 827,792,789 | 7,720,367,463 | 5,990,962,008 | 908,288,918 | 143,590,710 | 1,775,835,924 | – | 17,366,837,812 |
| Allowance for impairment losses | | | | | | | | | |
| At beginning and end of year | – | – | 49,567,673 | 25,882,986 | – | – | 349,273 | – | 75,799,932 |
| | ₱609,382,477 | ₱1,978,554,562 | ₱8,414,912,311 | ₱4,926,516,985 | ₱1,840,772,470 | ₱71,050,042 | ₱1,428,024,061 | ₱– | ₱19,269,212,908 |

Allowance for impairment losses pertain to closing of non-performing stores. Cost of fully depreciated property and equipment still in use amounted to ₱8.97 billion and ₱7.64 billion as of June 30, 2019 and December 31, 2018 respectively.

## 13. Investment in Associates

This account consists of investments in shares of stocks as follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| RBC | **₱6,876,051,125** | ₱6,440,203,060 |
| G2M | **160,650,429** | 160,650,429 |
| TCCI | **372,890,784** | 112,075,299 |
| GrowSari | **100,968,595** | 100,968,595 |
| DAVI | **400,000** | 400,000 |
| | **₱7,510,960,933** | ₱6,814,297,383 |

The details of the investment in common stock of RBC follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Shares of stock - at equity: | | |
| Balance at beginning of year | **₱5,950,238,902** | ₱4,750,238,902 |
| Additional investment (Note 2) | – | 1,200,000,000 |
| Balance at end of year | **5,950,238,902** | 5,950,238,902 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **960,380,963** | 834,958,356 |
| Equity in net earnings | **76,789,961** | 125,422,607 |
| Balance at end of year | **1,037,170,924** | 960,380,963 |
| Share in fair value changes of financial assets of RBC: | | |
| Balance at beginning of year | **(417,023,044)** | (393,204,586) |
| Share in fair value changes of financial assets at FVOCI | **344,258,378** | (23,818,458) |
| Balance at end of year | **(72,764,666)** | (417,023,044) |
| Share in translation loss adjustments: | | |
| Balance at beginning of year | **(48,006,938)** | (41,044,297) |
| Share in translation adjustments | **5,873,704** | (6,962,641) |
| Balance at end of year | **(42,133,234)** | (48,006,938) |
| Share in remeasurement losses on retirement obligation: | | |
| Balance at beginning of year | **(5,386,823)** | (4,143,444) |
| Share in remeasurement gain (loss) on retirement obligation | **8,926,022** | (1,243,379) |
| Balance at end of year | **3,539,199** | (5,386,823) |
| | **₱6,876,051,125** | ₱6,440,203,060 |

RBC is incorporated in the Philippines and is engaged in commercial and thrift banking whose principal activities include deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing. The Group has 40.00% ownership in RBC.

Summarized financial information of RBC follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Total assets | **₱123,502,766,065** | ₱121,356,956,413 |
| Total liabilities | **107,087,927,923** | 109,157,896,832 |
| Net income | **191,974,903** | 313,556,517 |
| Other comprehensive income (loss) | **860,645,945** | (59,546,145) |

The consolidated statements of comprehensive income follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Total operating income | **₱2,181,048,956** | ₱4,125,255,244 |
| Total operating expenses and tax | **1,989,074,053** | 3,811,698,727 |
| Net income | **191,974,903** | 313,556,517 |
| Other comprehensive income (loss) | **860,645,945** | (59,546,145) |
| Total comprehensive income | **₱1,052,620,848** | ₱254,010,372 |
| Group’s share of profit for the year | **₱17,011,247** | ₱125,422,607 |

The reconciliation of the net assets of RBC to the carrying amounts of the interest in RBC recognized in the consolidated financial statements follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Net assets of RBC | **₱16,468,053,248** | ₱15,378,433,085 |
| Proportionate ownership in the associate | **40%** | 40% |
| Total share in net assets | **6,587,221,299** | 6,151,373,234 |
| Carrying amount of the investment | **6,876,051,125** | 6,440,203,060 |
| Difference | **₱288,829,826** | ₱288,829,826 |

The difference is attributable to the commercial banking license and goodwill.

Fair value changes on financial assets and remeasurement losses on retirement obligation of associates attributable to the equity holders of the Parent Company follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Changes in fair value of financial assets of associates: | | |
| Balances at beginning of year | **(₱426,604,312)** | (₱373,495,977) |
| Change in fair value during the year | **242,414,650** | (53,108,335) |
| Balances at end of year | **(184,189,662)** | (426,604,312) |
| Remeasurement losses on retirement obligation of associates: | | |
| Balances at beginning of year | **(8,299,655)** | (7,056,276) |
| Remeasurement gain (loss) during the year | **8,926,022** | (1,243,379) |
| Balances at end of year | **626,367** | (8,299,655) |
| | **(₱183,563,295)** | (₱434,903,967) |

*G2M*

On September 20, 2018, the Parent Company made an investment in G2M amounting to ₱160.65 million through convertible note which will provide the Company 14.90% ownership interest upon conversion of the note. The terms of the agreement also provide and entitled the Company to one (1) out of three (3) board seats. G2M is principally engaged in the business of providing neighborhood sundry stores enablement platform and software in the Philippines.

*TCCI*

On March 28, 2019, the Parent Company made additional investment in TCCI amounting to ₱280.00 million, which increases the Parent Company's stake in TCCI from 20% to 30%.

On December 13, 2017, the Parent Company acquired 20.00% ownership interest in TCCI or 1.00 million shares for a total consideration amounting to ₱125.00 million or ₱25.00 per share. TCCI is incorporated in the Philippines and is the operator of BeautyMNL, an e-commerce site.

Carrying value of TCCI's investment as of June 30, 2019 and December 31, 2018 amounted to ₱363.30 million and ₱112.08 million, respectively. Details follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Shares of stock - at equity: | | |
| Balance at beginning of year | **₱125,000,000** | ₱125,000,000 |
| Additional investment | **280,000,000** | − |
| Balance at end of year | **₱405,000,000** | ₱125,000,000 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **(12,924,701)** | (272,735) |
| Equity in net loss | **(19,184,515)** | (12,651,966) |
| Balance at end of year | **(32,109,216)** | (12,924,701) |
| | **₱372,890,784** | ₱112,075,299 |

*GrowSari*
On August 16, 2018, RSC made an investment in GrowSari amounting to ₱105.00 million through convertible note which will provide the Company 28.60% ownership interest upon conversion of the note. The terms of the agreement also provide technical information and entitled the Company to two (2) out of seven (7) board seats. GrowSari is engaged in selling wholesale goods to sari sari business owners.

*DAVI*
On November 16, 2018, the Parent Company subscribed 40% ownership interest in DAVI of which ₱0.40 million was paid in 2018. As of December 31, 2018, DAVI has not yet started commercial operations. DAVI's principal activities include processing, managing and analyzing data.

## 14. **Intangible Assets**

This account consists of:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Goodwill (Note 19) | **₱12,490,800,027** | ₱12,490,800,027 |
| Trademarks (Note 19) | **6,572,361,340** | 6,591,363,481 |
| Licenses | **–** | – |
| Franchise | **22,464,457** | 24,125,885 |
| | **₱19,085,625,824** | ₱19,106,289,393 |

*Goodwill*
The Group's goodwill pertains to the excess of the acquisition cost over the fair value of the net assets of acquired subsidiaries. Details follow (Note 19):

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| TGPPI | **₱1,281,428,830** | ₱1,281,428,830 |
| SSDI | **745,887,131** | 745,887,131 |
| SEWI | **715,103,869** | 715,103,869 |
| EC | **199,870,222** | 199,870,222 |
| RHIB | **145,655,320** | 145,655,320 |
| RTSHPI | **85,161,468** | 85,161,468 |
| BSRI | **83,324,691** | 83,324,691 |
| JRMC | **71,732,435** | 71,732,435 |
| HPTDI | **30,000,000** | 30,000,000 |
| GPC | **23,250,000** | 23,250,000 |
| | **3,381,413,966** | 3,381,413,966 |
| RSCI (Note 19) | **9,109,386,061** | 9,109,386,061 |
| | **₱12,490,800,027** | ₱12,490,800,027 |

*Trademarks*
The trademarks were acquired through business combinations and were recognized at fair value at the date of acquisition. Details follow (Note 19):

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| SSDI | **₱1,566,917,532** | ₱1,566,917,532 |
| TGPPI | **1,264,098,435** | 1,264,098,435 |
| SEWI | **364,914,493** | 364,914,493 |
| | **3,195,930,460** | 3,195,930,460 |
| RSCI (Note 19) | **3,376,430,880** | 3,395,433,021 |
| | **₱6,572,361,340** | ₱6,591,363,481 |

For the six months ended June 30, 2019 and for the year ended December 31, 2018, amortization related to trademarks acquired through acquisition of RSCI amounted to ₱19.00 million and ₱3.17 million, respectively.

*Licenses*
<u>Acquisition of trademark by RSSI to secure a franchise/license</u>
On September 21, 2012, RSSI acquired a local trademark registered in the Philippine Intellectual Property Rights Office which is similar to a known international mark for ₱121.21 million. Due to such acquisition, RSSI was able to secure a franchise/license to exclusively use the similar known international mark in the Philippines. The franchise/license agreement is for an initial period of five (5) years which can be renewed for another five (5) years upon mutual agreement of the parties. Amortization amounted to nil and ₱6.06 million for the six months ended June 30, 2019 and 2018, respectively (Note 21). For the year ended December 31, 2018, RSSI impaired the remaining value of the license amounting to ₱48.48 million due to debranding.

The rollforward analysis of this account follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Beginning balance | **₱–** | ₱60,606,062 |
| Less amortization and impairment (Note 21) | **–** | 60,606,062 |
| | **₱–** | ₱– |

*Franchise*
On July 29, 2014, Costa International Limited granted the Group the development and operating rights to carry on the Costa business in the Philippines. The development agreement includes a development fee, 60.00% of which is payable upon execution of the agreement and the remaining 40.00% is payable one (1) year after the date of the agreement, and a service fee equal to a certain percentage of sales. As of June 30, 2019 and December 31, 2018, the Group has franchise amounting to ₱15.46 million and ₱16.73 million, respectively.

On January 10, 2018, Pet Lovers Centre International Pte. Ltd, granted the Group the right to develop its business including its trademarks, system, manuals and image in the Philippines for ₱7.58 million. The Group started Pet Lovers Centre operations in October 2018. The franchise shall be amortized using straight-line method over a period of ten (10) years.

The rollforward analysis of the franchise follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Beginning balance | **₱24,125,885** | ₱19,279,385 |
| Addition | **–** | 7,583,430 |
| Amortization (Note 21) | **(1,661,428)** | (2,736,930) |
| | **₱22,464,457** | ₱24,125,885 |

15. **Other Noncurrent Assets**

This account consists of:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Security and other deposits | **₱2,607,258,428** | ₱2,550,724,180 |
| Construction bonds | **30,753,628** | 33,092,201 |
| | **₱2,638,012,056** | ₱2,583,816,381 |

Security and other deposits mainly consist of advances for the lease of stores which are refundable at the end of the lease term.

For the year ended December 31, 2018, the Group impaired other noncurrent assets amounting to ₱68.75 million.

## 16. Trade and Other Payables

This account consists of:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Trade | **₱14,099,651,654** | ₱17,130,764,045 |
| Nontrade (Note 24) | **6,945,364,713** | 6,537,222,971 |
| Others | **941,838,822** | 909,123,439 |
| | **₱21,986,855,189** | ₱24,577,110,455 |

Trade payables are noninterest-bearing and are normally settled on forty-five (45) to sixty (60) in days' term arising mainly from purchases of merchandise inventories for resale.

Nontrade payables consist mainly of liabilities/obligations payable to nontrade suppliers and due to related parties.

Others mainly consist of taxes and licenses payable.

Contract Liabilities
The Group identified its gift check outstanding, accrued customer loyalty rewards and deferred revenue, recorded under trade payables, as contract liabilities as of June 30, 2019 and December 31, 2018, respectively. These represent the Group's obligation to provide goods or services to the customers for which the Group has received consideration from the customers.

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Gift check outstanding | **₱103,603,322** | ₱140,165,250 |
| Accrued customer loyalty reward | **63,220,583** | 40,713,870 |
| Deferred revenue | **15,874,764** | 17,020,098 |
| | **₱182,698,669** | ₱197,899,218 |

Below is the rollforward of contract liabilities from the date of initial application of the adoption of PFRS 15 in 2018 and as of June 30, 2019:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| At January 1 | **₱197,899,218** | ₱– |
| Reclassification from deferred revenue upon adoption of PFRS 15 | – | 275,042,623 |
| Deferred during the year | **250,032,490** | 848,807,808 |
| Recognized as revenue during the year | **(265,233,039)** | (925,951,213) |
| At December 31 | **₱182,698,669** | ₱197,899,218 |

17. **Short-term Loans Payable**

Details of short-term loans follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱6,794,000,000** | ₱6,377,954,863 |
| Additions through business combination (Note 19) | **−** | 1,500,000,000 |
| Availments | **1,644,532,534** | 7,508,045,137 |
| Payments | **(2,810,000,000)** | (8,592,000,000) |
| | **₱5,628,532,534** | ₱6,794,000,000 |

The balances of short-term loans of the subsidiaries are as follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| RSCI | **₱2,530,000,000** | ₱1,750,000,000 |
| SSDI | **1,974,000,000** | 2,182,000,000 |
| RI | **449,532,534** | 1,352,000,000 |
| RHDDS | **400,000,000** | 220,000,000 |
| RGFBI | **190,000,000** | 190,000,000 |
| HPTD | **50,000,000** | 50,000,000 |
| RHIB | **35,000,000** | − |
| RRHI | **−** | 1,050,000,000 |
| | **₱5,628,532,534** | ₱6,794,000,000 |

a.) In 2019, RSCI's short-term loans payable consist of loans availed from a local commercial bank at interest rates 5.50%-6.75% per annum. The loans were obtained to finance RSCI's working capital requirements. In 2019 and 2018, RSCI availed short term loans amounting to ₱780 million and ₱2,050 million. Short-term loans payable acquired through acquisition amounting to ₱1.05 billion. The short-term loans payable as of June 30, 2019 and December 31, 2018 amounted to ₱2.53 billion and ₱1.75 billion, respectively.

b.) SSDI's short-term loans payable consist of loans availed from local commercial banks at interest rates of 5.65%-5.9 0% per annum. In 2019 and 2018, SSDI availed short-term loans amounting to nil and ₱100.0 million, respectively. In addition, SSDI paid ₱208.00 million and ₱135.00 million of the outstanding loan balance in 2019 and 2018, respectively. The short-term loans payable of SSDI as of June 30, 2019 and December 31, 2018 amounted to ₱1.97 billion and ₱2.18 billion, respectively.

c.) RI's short-term loans payable consist of loans availed from a local commercial bank at an interest rates of 5.65%-5.90% per annum. These loans are renewable before the end of each lease term at the option of RI. In 2019 and 2018, RI availed short-term loan amounting to ₱649.53 million and ₱3.34 billion, respectively. In addition, RI paid ₱1.55 billion and ₱3.41 billion on the outstanding loan balance in 2019 and 2018, respectively. The loans were obtained to support the working capital requirements of RI. The short-term loans payable as of June 30, 2019 and December 31, 2018 amounted to ₱449.53 million and ₱1.35 billion, respectively.

d.) RHDDS's short-term loans payable consist of a loan availed from a local commercial bank at an interest rates of 6.00%-6.75% per annum. In 2019 and 2018, RHDDS availed short-term loan amounting ₱180.00 million and ₱145.00 million, respectively. In addition, RHDDS paid ₱155.00 million on the outstanding loan balance in 2018 The short-term loans payable as of June 30, 2019 and December 31, 2018 to ₱400.00 million and ₱220.00 million, respectively.

e.) RGFBI's short-term loans payable consists of loans availed from a local commercial bank at an interest rates of 6.50%-6.75% per annum. In 2019 and 2018, RGFBI availed short-term loans amounting to nil and ₱420.05 million, respectively. In 2018 RGFBI paid ₱317.00 million. The short-term loans payable of RGFBI as of June 30, 2019 and December 31, 2018 amounted to ₱190.00 million.

f.) HPTD paid outstanding short-term loan amounting to ₱8.00 million in 2018. The short-term loans payable as of June 30, 2019 and December 31, 2018 amounted to ₱50.00 million.

g.) In 2019, RHIB availed short term loans amounting to ₱35.00 million at an interest rate of 6.75% per annum.

h.) In 2019, RRHI's short-term loans payable consist of a loan availed from a local commercial bank amounting to ₱1.05 billion at an interest rates of 5.65%-5.90% per annum. The loans were obtained to support the working capital requirements of RRHI. In 2019, RRHI settled all of its loans payable.

Total interest expense charged to operations amounted to ₱187.88 million and ₱55.48 million for the six months ended June 30, 2019 and 2018, respectively.

The above loans are not subject to any loan covenants.

## 18. Equity

*Capital Stock*
The details of this account follow:

| | **June 30, 2019 (Unaudited)** | | December 31, 2018 (Audited) | |
|---|---|---|---|---|
| | **Amount** | **No. of shares** | Amount | No. of shares |
| Common stock - ₱1 par value | | | | |
| Authorized shares | **₱2,000,000,000** | **₱2,000,000,000** | ₱2,000,000,000 | 2,000,000,000 |
| Issued shares | **1,576,489,360** | **1,576,489,360** | 1,576,489,360 | 1,576,489,360 |

Registration Track Record
On November 11, 2013, the Parent Company listed with the Philippine Stock Exchange its common stock wherein it offered 484,750,000 shares to the public at ₱58.00 per share. All shares were sold. Of the total shares sold, 18,871,950 shares were subsequently reacquired by the Parent Company at ₱58.00 per share or an aggregate cost of ₱1,094.57 million. The Parent Company incurred transaction costs incidental to the IPO amounting ₱745.65 million, charged against "Additional paid-in capital".

On December 9, 2014, the Parent Company sold its treasury shares at ₱69.00 per share or ₱1,309.06 million, incurring transaction costs amounting to ₱8.22 million.

On November 23, 2018, the Parent Company issued 191,489,360 new common shares for the acquisition of RSCI (Notes 1 and 19). The market value of the share amounted to ₱72.05 per share on November 23, 2018. Transaction cost related to the issuance of new shares amounted to ₱64.50 million.

Equity Reserve
Details of equity reserve follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) | December 31, 2017 (Audited) |
|---|---|---|---|
| Acquisition of additional shares from non-controlling interest | | | |
| Beginning | **(₱975,943,538)** | (₱1,027,402,846) | (₱1,027,402,846) |
| Additions | **(17,981,768)** | 51,459,308 | – |
| | **(993,925,306)** | (975,943,538) | (1,027,402,846) |
| Acquisition of subsidiary under common control | **5,508,177** | 5,508,177 | 5,508,177 |
| | **(₱988,417,129)** | (₱970,435,361) | (₱1,021,894,669) |

*Acquisition of a Subsidiary under Common Control*
On October 3, 2016, RI acquired 28,800 common shares, representing 100% ownership of Chic Centre Corporation for a total consideration of ₱27.80 million. Net assets of Chic Centre Corporation at the date of acquisition amounted to ₱33.34 million. As a result of the combination of the entities, the difference between the consideration paid for the acquisition and the net assets acquired amounting to ₱5.51 million is accounted for as "Equity reserve".

*Acquisition of Additional Shares from a Non-Controlling Shareholder*
On April 3, 2019, RSC acquired additional 1,650,000 common shares, representing 33% of ASI from a non-controlling shareholder for ₱50.00 million. As a result of the acquisition, RSC then holds 100.00% interest in ASI. The Group recognized equity reserve from the acquisition amounting to ₱17.98 million included in "Equity reserve" representing the excess of carrying amount of the non-controlling interest acquired over consideration paid.

On August 28, 2018, RI acquired additional 161,052,632 common shares, representing 8.05% of RCSI from a non-controlling shareholder for ₱85.36 million. As a result of the acquisition, RI then holds 59.05% interest in RCSI. The Group recognized equity reserve from the acquisition amounting to ₱51.46 million included in "Equity reserve" representing the excess of carrying amount of the non-controlling interest acquired over consideration paid.

On December 5, 2014, RSC acquired additional 2,500,000 common shares, representing 25%, of RHMI from a non-controlling shareholder for ₱1.45 billion. As a result of the acquisition, RSC then holds 80% interest in RHMI.

The Group recognized equity reserve from the acquisition amounting to ₱1.02 billion included in "Equity reserve" in the consolidated statements of changes in equity representing the excess of consideration paid over the carrying amount of the non-controlling interest acquired. The equity reserve from the acquisition will only be recycled to the consolidated statements of comprehensive income in the event that RSC will lose its control over RHMI.

In 2015, the total consideration was adjusted from ₱1.45 billion to ₱1.48 billion. The difference is recognized as an adjustment to equity reserve. Of the total amount, ₱1.31 billion was received and settled in 2014. The remaining balance was fully settled in cash in 2015.

*Retained Earnings*
The income of the subsidiaries and accumulated equity in net income of the associates that are recognized in the consolidated statements of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and associates. The accumulated earnings of subsidiaries included in retained earnings amounted to ₱28.35 billion and ₱27.71 billion as of June 30, 2019 and December 31, 2018, respectively, while the accumulated equity in net income of the associates amounted to ₱1,001.03 million and ₱943.42 million as of June 30, 2019 and December 31, 2018, respectively (Note 13).

Dividend Declaration
Details of the Parent Company's dividend declarations follow:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Date of declaration | **May 30, 2019** | May 28, 2018 | June 27, 2017 |
| Dividend per share | **₱0.72** | ₱0.72 | ₱0.70 |
| Total dividends | **₱1,135,072,339** | ₱997,200,000 | ₱969,500,000 |
| Date of record | **June 20, 2019** | June 18, 2018 | July 17, 2017 |
| Date of payment | **July 12, 2019** | July 12, 2018 | August 10, 2017 |

Appropriation of Retained Earnings
Rollforward analysis of appropriated retained earnings follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱24,151,852,847** | ₱15,212,852,847 |
| Appropriation | – | 9,222,000,000 |
| Reversal of appropriation | – | (283,000,000) |
| Balance at end of year | **₱24,151,852,847** | ₱24,151,852,847 |

In 2018, the Group's BOD approved the appropriation of retained earnings which shall be used to augment new stores with the Group's nationwide expansion. Details are as follow:

| | Appropriations | | | | |
|---|---|---|---|---|---|
| Entity | February 20 | March 7 | March 8 | December 20 | Total |
| RRHI | ₱2,800,000,000 | ₱– | ₱– | ₱– | ₱2,800,000,000 |
| RSC | – | 1,250,000,000 | – | 1,100,000,000 | 2,350,000,000 |
| RHMI | – | 553,000,000 | – | 617,000,000 | 1,170,000,000 |
| SSDI | – | 300,000,000 | – | 500,000,000 | 800,000,000 |
| RI | – | 400,000,000 | – | 250,000,000 | 650,000,000 |
| RAC | – | 260,000,000 | – | – | 260,000,000 |
| RTSHPI | – | 93,000,000 | – | 105,000,000 | 198,000,000 |
| SEWI | – | – | 180,000,000 | 15,000,000 | 195,000,000 |
| RHDDS | – | 114,000,000 | – | 65,000,000 | 179,000,000 |
| RTI | – | 150,000,000 | – | 220,000,000 | 370,000,000 |
| WHMI | – | 50,000,000 | – | 97,000,000 | 147,000,000 |
| CC | – | – | – | 40,000,000 | 40,000,000 |

| | | | | | |
|---|---|---|---|---|---|
| RDDC | – | – | – | 33,000,000 | 33,000,000 |
| ASI | – | – | – | 15,000,000 | 15,000,000 |
| HEMI | – | 7,000,000 | – | 8,000,000 | 15,000,000 |
| | ₱2,800,000,000 | ₱3,177,000,000 | ₱180,000,000 | ₱3,065,000,000 | ₱9,222,000,000 |

In 2018, the BOD of the subsidiaries of the Group approved the reversal of appropriated retained earnings. Details are as follow:

| Entity | Date of reversal | Amount |
|---|---|---|
| RTSHPI | December 12 | ₱3,000,000 |
| RTI | July 6 | 150,000,000 |
| RHMI | June 16 | 100,000,000 |
| SEWI | March 22 | 30,000,000 |
| Total | | ₱283,000,000 |

On December 12, 2017 the BOD of the subsidiaries of the Group approved the reversal of appropriated retained earnings of RSSI amounting to ₱50.0 million.

Declaration of Dividends of the Subsidiaries

In 2019, the BOD of TGP approved the declaration of cash dividends amounting to ₱300 million.

In 2018, the BOD of the below subsidiaries approved the declaration of cash dividends as follows:

| Entity | Date of declaration | Amount |
|---|---|---|
| SEWI | May 30 | ₱30,000,000 |
| ASI | June 4 | 15,000,000 |
| TGP | May 3 | 200,000,000 |
| | December 14 | 220,000,000 |
| RHMI | June 14 | 100,000,000 |
| RTI | July 6 | 150,000,000 |
| RRHI - TMI | December 2 | 700,000,000 |
| RTSHPI | December 12 | 35,000,000 |
| Total | | ₱1,450,000,000 |

In 2017, the BOD of the below subsidiaries approved the declaration of cash dividends as follows:

| Entity | Date of declaration | Amount |
|---|---|---|
| RRHI-TMI | December 12 | ₱1,050,000,000 |
| | May 10 | 1,028,400,000 |
| TGP | February 1 | 300,000,000 |
| | October 1 | 300,000,000 |
| RTI | February 1 | 130,000,000 |
| WHMI | March 12 | 40,000,000 |
| RTSHPI | December 12 | 30,000,000 |
| Chic Centre Corporation | February 1 | 20,000,000 |
| Total | | ₱2,898,400,000 |

NCI

*Acquisitions of NCI from Business Combinations*

In May 2016, the Group has acquired NCI through business combination on the acquisition of TGPPI amounting to ₱942.17 million.

In 2016 and 2015, the Group has acquired NCI through business combinations on the acquisition of HPTDI and SEWI amounting ₱9.50 million and ₱30.54 million, respectively.

*Investment from NCI*

On February 27, 2018, an NCI made an investment which represents 49% ownership in Super50 Corporation amounting to ₱14.70 million.

On December 20, 2017, the BOD of RCSI authorized the increase of capital stock from ₱1.0 billion to ₱2.0 billion of which to ₱490.0 million was subscribed and paid in full by Ministop.

In 2016, no additional investment was recognized from NCI.

*Dividends to NCI*

In 2018, 2017 and 2016, dividends declared attributable to NCI amounted to ₱266.84 million, ₱357.80 million and ₱310.84 million, respectively.

Capital Management

The primary objective of the Group's capital management policy is to ensure that it maintains healthy capital in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2018 and 2017.

The Group considers the following as its main source of capital:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Capital stock | **₱1,576,489,360** | ₱1,576,489,360 |
| Additional paid-in capital | **40,768,202,897** | 40,768,202,897 |
| Other comprehensive income (loss) | **75,594,306** | (563,817,037) |
| Equity reserve | **(988,417,129)** | (970,435,361) |
| Retained earnings | | |
| Appropriated | **24,151,852,847** | 24,151,852,847 |
| Unappropriated | **4,196,657,261** | 3,558,435,683 |
| Total equity attributable to equity holders of the Parent Company | **69,780,379,542** | 68,520,728,389 |
| Non-controlling interest in consolidated subsidiaries | **4,387,017,069** | 4,183,439,610 |
| Total Equity | **₱74,167,396,611** | ₱72,704,167,999 |

## 19. **Business Combinations**

Business Combination and Goodwill

On March 23, 2018, the Board of Directors of RRHI and MCBV approved the acquisition by RRHI of MCBV's 100% stake in RSCI through a share for share swap involving shares of RSCI in exchange for primary common shares of RRHI equivalent to 12.15% stake. RSCI operates food retail brands "Marketplace by Rustan's", "Rustan's Supermarket", "Shopwise Hypermarket", "Shopwise Express" and "Wellcome".

RRHI agreed to pay MCBV at an agreed price which was settled by the issuance of 191.49 million new RRHI common shares as consideration for the value of the net assets of RSCI. RRHI engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by RRHI. The independent financial advisor completed its review and concluded that the acquisition of the net assets is fair and reasonable and in the interest of RRHI shareholders as a whole.

The completion of the acquisition was subjected to the procurement of certain regulatory and other approvals including:

i. Approval by the shareholders of RRHI of the issuance of primary shares;
ii. Approval of the transaction by the Philippine Competition Commission; and
iii. Confirmation by the SEC of the valuation of the entire issued share capital of RSCI to be exchanged for the primary shares of RRHI.

The acquisition was completed on November 23, 2018 as agreed in the Shareholders Agreement which is seven days after the confirmation by the SEC of the valuation of the entire issued share capital of RSCI to be exchanged for the primary shares of RRHI on November 16, 2018. Approvals (i) and (ii) were obtained on May 28, 2018 and August 16, 2018, respectively. On November 23, 2018, the market value of RRHI shares amounted to ₱72.05 per share. Transaction costs related to the issuance of new shares amounted to ₱64.50 million was charged to 'Additional paid-in capital'.

The purchase price consideration has been allocated to the assets and liabilities on the basis of provisional values at the date of acquisition as follows:

| | Provisional fair values recognized on acquisition |
|---|---|
| **Assets** | |
| Cash | ₱103,162,382 |
| Trade and other receivables | 384,075,105 |
| Merchandise inventories | 3,073,734,206 |
| Other current assets | 912,897,897 |
| Property and equipment (Note 12) | 3,897,725,011 |
| Trademarks arising from acquisition (Note 14) | 3,398,600,050 |
| Other noncurrent assets | 684,781,136 |
| | 12,454,975,787 |
| **Liabilities** | |
| Trade and other payables | (4,633,625,787) |
| Loans payable | (1,500,000,000) |
| Income tax payable | (39,346,173) |

| | |
|---|---|
| Other current liabilities | (60,595,212) |
| Retirement obligation | (283,655,342) |
| Deferred tax liability | (961,623,483) |
| Other noncurrent liabilities | (288,707,463) |
| | (7,767,553,460) |
| **Net assets acquired** | 4,687,422,327 |
| Provisional goodwill from the acquisition (Note 14) | 9,109,386,061 |
| Purchase consideration transferred | ₱13,796,808,388 |

The net assets recognized at the date of acquisition were based on provisional fair values of the assets owned by RSCI, which will be determined through an independent valuation. The result of this valuation had not been finalized as at March 14, 2019.

Total consolidated revenue would have increased by ₱24,420.0 million, while consolidated net income would have decreased by ₱1,050.0 million for the year ended December 31, 2018 had the acquisition of RSCI takes place at the beginning of the year. Total revenues and net loss of RSCI included in the consolidated statement of comprehensive income amounted to ₱3,010.0 million and to ₱100.95 million, respectively, from November 23, 2018 to December 31, 2018.

As a result of the transaction, provisional goodwill amounting to ₱9.11 billion, representing the difference between the total consideration of ₱13.80 billion and the provisional value of net assets acquired of ₱4.69 billion, was recognized (Note 14). The provisional goodwill of ₱9.11 billion comprises the expected synergies arising from acquisition. The provisional goodwill and trademarks were not tested for impairment since the acquisition occurred in the fourth quarter of 2018 and there was no material change in RSCI's business since obtaining the fairness opinion from an independent financial advisor.

Material Partly-Owned Subsidiary

In 2018 and 2017, the Group has 49.00% proportion of equity interest held by non-controlling interests attributable to TGPPI. Accumulated balances of material non-controlling interest amounted to ₱580.69 million, ₱408.86 million and ₱624.99 million in 2018, 2017 and 2016, respectively. Profit allocated to material non-controlling interest amounted to ₱238.68 million, ₱237.23 million and ₱155.08 million in 2018, 2017 and 2016, respectively. Total assets of TGPPI as of December 31, 2018 and 2017 amounted to ₱1,818.38 million and ₱1,716.11 million, respectively, while total liabilities as of December 31, 2018 and 2017 amounted to ₱679.77 million and ₱625.49 million, respectively. Total sales in 2018, 2017 and 2016 amounted to ₱4,335.08 million, ₱4,193.39 million and ₱3,893.20 million, respectively. Net income in 2018, 2017 and 2016 amounted to ₱464.73 million, ₱464.85 million and ₱305.34 million, respectively.

## 20. Sales Revenue

Sales are recognized from customers at the point of sale in the stores and upon delivery.

Sales returns and sales discounts deducted from the sales to arrive at the net sales amounted to ₱2.11 billion and ₱2.02 billion for the six months ended June 30, 2019 and 2018, respectively.

*Disaggregated revenue information*
Set out below is the disaggregation of the Company's revenue from contracts with customers:

| | For the six months ended June 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Segments** | **Supermarket** | **Department Store** | **DIY** | **Convenience Store** | **Drug Store** | **Specialty Store** | **Total** |
| **Type of goods or service** | | | | | | | |
| Sale of goods - retail | ₱41,951,601,532 | ₱8,224,320,349 | ₱6,886,267,810 | ₱– | ₱8,582,385,576 | ₱9,087,325,674 | ₱74,731,900,941 |
| Sale of merchandise to franchisees | – | – | – | 3,261,728,286 | – | – | 3,261,728,286 |
| Franchise revenue | – | – | – | 4,006,663 | 21,488,840 | – | 25,495,503 |
| Royalty fee | – | – | – | 843,782,242 | 27,753,937 | – | 871,536,179 |
| | ₱41,951,601,532 | ₱8,224,320,349 | ₱6,886,267,810 | 4,109,517,191 | ₱8,631,628,353 | ₱9,087,325,674 | ₱78,890,660,909 |
| **Timing of revenue recognition** | | | | | | | |
| Goods transferred at point in time | ₱41,951,601,532 | ₱8,224,320,349 | ₱6,886,267,810 | ₱3,261,728,286 | ₱8,582,385,576 | ₱9,087,325,674 | ₱77,993,629,227 |
| Services transferred over time | – | – | – | 847,788,905 | 49,242,777 | – | 897,031,682 |
| | ₱41,951,601,532 | ₱8,224,320,349 | ₱6,886,267,810 | ₱4,109,517,191 | ₱8,631,628,353 | ₱9,087,325,674 | ₱78,890,660,909 |

Intersegment eliminating adjustments related to sale of goods amounted to ₱782.71 million (Note 6).

## 21. Operating Expenses

This account consists of:

| | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) |
|---|---|---|
| Rental and utilities (Notes 24 and 28) | **₱4,346,933,917** | ₱4,936,403,921 |
| Personnel costs and contracted services (Notes 22 and 23) | **4,592,626,152** | 3,386,627,123 |
| Depreciation and amortization (Notes 12 and 14) | **3,433,160,358** | 1,111,499,459 |
| Transportation and travel | **620,509,753** | 597,749,736 |
| Supplies | **443,075,969** | 339,491,352 |
| Advertising | **380,937,991** | 303,050,251 |
| Bank and credit charges | **352,789,594** | 311,651,443 |
| Repairs and maintenance | **363,902,260** | 226,441,210 |
| Royalty expense (Note 29) | **95,885,016** | 82,153,484 |
| Others | **880,660,830** | 458,642,031 |
| | **₱15,510,481,840** | ₱11,753,710,010 |

Others consist mainly of taxes and licenses, insurance and professional fees and allowance for impairment losses on trade and other receivables (Note 8).

Depreciation and amortization pertains to:

| | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) |
|---|---|---|
| Property and equipment (Note 12) | **₱1,466,385,190** | ₱1,104,165,189 |
| Right-of-use asset | **1,946,111,599** | – |
| Franchise and license fees (Note 14) | **20,663,569** | 7,334,270 |
| | **₱3,433,160,358** | ₱1,111,499,459 |

## 22. Personnel Costs and Contracted Services

This account consists of:

| | June 30, 2019 (Unaudited) | June 30, 2018 (Unaudited) |
|---|---|---|
| Salaries, allowances and benefits (Note 21) | **₱2,737,377,530** | ₱1,892,335,227 |
| Contracted services (Note 21) | **1,855,248,622** | 1,494,291,896 |
| | **₱4,592,626,152** | ₱3,386,627,123 |

Details of salaries, allowances and benefits:

| | **June 30, 2019 (Unaudited)** | June 30, 2018 (Unaudited) |
|---|---|---|
| Salaries, wages and allowances | **₱2,664,380,907** | ₱1,815,583,297 |
| Retirement expense (Note 23) | **72,996,623** | 76,751,930 |
| | **₱2,737,377,530** | ₱1,892,335,227 |

## 23. Employee Benefits

The Group has a funded, non-contributory, defined benefit pension plan covering all regular permanent employees. Benefits are dependent on years of service and the respective employee's final compensation. The benefits are paid in a lump-sum upon retirement or separation in accordance with the terms of the Robinsons Retail Multi-Employer Retirement Plan, South Star Drug Retirement Plan and Rustan Supercenters Retirement Plan (the Plan).

The Group computes the actuarial valuation every year by hiring the services of a professional third party qualified actuary.

The Group is a member of the Plan which is administered separately by the Trustee, RBC, Metrobank Corporation and Bank of the Philippine Islands, so named under the Trust Agreement. The Trustee is under the supervision of the Retirement Working Committee (the Committee) of the Plan. The Committee shall have all the powers necessary or useful in the discharge of its duties, including but not limited, to implement and administer the plan, propose changes and determine the rights of the members of the plan. However, changes or revisions in the Plan shall be approved by the Executive Retirement Committee.

The Committee may seek the advice of counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and an actuary to value the Plan.

Under the existing regulatory framework, Republic Act (RA) No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of retirement expense under "Operating expenses" account in the consolidated statements of comprehensive income are as follow:

| | **June 30, 2019 (Unaudited)** | June 30, 2018 (Unaudited) |
|---|---|---|
| Current service cost | **₱73,561,798** | ₱74,743,926 |
| Net interest cost | **(565,175)** | 2,008,004 |
| Retirement expense | **₱72,996,623** | ₱76,751,930 |

Net retirement obligation as of June 30, 2019 and December 31, 2018 recognized in the consolidated statements of financial position follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Present value of defined benefit obligation | **₱1,105,426,056** | ₱1,052,484,292 |
| Fair value of plan assets | **(934,276,606)** | (818,276,606) |
| Net retirement obligation | **₱171,149,450** | ₱234,207,686 |

The movements in net retirement obligation recognized in the consolidated statements of financial position follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱234,207,686** | ₱546,188,167 |
| Additions arising from business combination (Note 19) | **–** | 283,655,342 |
| Retirement expense | **72,996,623** | 155,999,283 |
| Remeasurement gain | **–** | (342,862,134) |
| Actual contribution | **(116,000,000)** | (387,521,455) |
| Benefits paid from direct payments | **(20,054,859)** | (21,251,517) |
| Balance at end of year | **₱171,149,450** | ₱234,207,686 |

Remeasurement effects recognized in OCI:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Remeasurement gains (losses) on: | | |
| Retirement obligation | **₱–** | ₱406,864,233 |
| Retirement plan assets | **–** | (64,002,099) |
| | **₱–** | ₱342,862,134 |

Movements of cumulative remeasurement effect recognized in OCI:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱112,152,820** | (₱182,643,820) |
| Actuarial gain | **–** | 406,864,233 |
| Return on assets excluding amount included in net interest cost | **–** | (64,002,099) |
| Total remeasurement | **₱112,152,820** | 160,218,314 |
| Income tax effect | **–** | (48,065,494) |
| | **₱112,152,820** | ₱112,152,820 |

Movements in the fair value of plan assets follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱818,276,606** | ₱421,598,614 |
| Additions arising from business combination (Note 19) | **–** | 40,897,816 |
| Actual contribution | **116,000,000** | 387,521,455 |
| Benefits paid | **–** | (1,145,647) |
| Interest income included in net interest cost | **–** | 33,406,467 |
| Remeasurement loss | **–** | (64,002,099) |
| Balance at end of year | **₱934,276,606** | ₱818,276,606 |

Changes in the present value of defined benefit obligation follow:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱1,052,484,292** | ₱967,786,781 |
| Additions arising from business combination (Note 19) | **–** | 324,553,158 |
| Current service cost | **73,561,798** | 135,673,669 |
| Interest cost | **(565,175)** | 53,732,081 |
| Remeasurement gain arising from: | | |
| Changes in financial assumptions | **–** | (307,538,498) |
| Experience adjustments | **–** | (82,362,765) |
| Changes in demographic assumptions | **–** | (16,962,970) |
| Benefits paid | **(20,054,859)** | (22,397,164) |
| Balance at end of year | **₱1,105,426,056** | ₱1,052,484,292 |

The fair value of net plan assets of the Group by each class as at the end of the reporting period are as follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Cash and cash equivalents | | |
| Savings deposit | **₱1,688,422** | ₱1,688,422 |
| Investments in government securities | | |
| Fixed rate treasury notes | **16,439,885** | 16,439,885 |
| Investments in UITF | **916,037,660** | 800,037,660 |
| Other receivables | **133,151** | 133,151 |
| Accrued trust fee payable | **(22,512)** | (22,512) |
| | **₱934,276,606** | ₱818,276,606 |

The principal assumptions used in determining pensions for the Group's plan are shown below:

| | **2018** | 2017 |
|---|---|---|
| Discount rates | **7.19% - 7.46%** | 4.90% - 5.60% |
| Salary increase rates | **3.00% - 7.70%** | 5.70% - 7.00% |

The carrying amounts disclosed above reasonably approximate fair values at each reporting period. The actual return (loss) on plan assets amounted to (₱30.60 million), (₱15.64 million) and ₱22.67 million in 2018, 2017 and 2016, respectively.

The Group expects to contribute ₱299.18 million to the defined benefit plan in 2019.

Remeasurement effects attributable to the equity holders of the Parent Company follows:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balances at the beginning of year | **₱477,196,974** | ₱236,820,467 |
| Remeasurement gain during the year | **−** | 240,376,507 |
| Balances at end of year | **₱477,196,974** | ₱477,196,974 |

The sensitivity analyses that follow has been determined based on reasonably possible changes of the assumption occurring as of the end of the reporting period, assuming if all other assumptions were held constant.

| | | **Increase (Decrease)** | **Effect in Defined Benefit Obligation** |
|---|---|---|---|
| **2018** | **Salary increase** | **+1.00%** | **₱96,724,955** |
| | | **-1.00%** | **(82,990,856)** |
| | **Discount rates** | **+1.00%** | **(77,198,339)** |
| | | **-1.00%** | **66,855,480** |
| 2017 | Salary increase | +1.00% | ₱290,936,127 |
| | | -1.00% | (161,085,306) |
| | Discount rates | +1.00% | (133,966,262) |
| | | -1.00% | 328,900,041 |

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. The principal technique of the Group's ALM is to ensure the expected return on assets to be sufficient to support the desired level of funding arising from the defined benefit plans.

Shown below is the maturity analysis of the undiscounted benefit payments:

| | **2018** | 2017 |
|---|---|---|
| Less than 1 year | **₱93,327,604** | ₱47,864,692 |
| More than 1 year but less than 5 years | **255,986,130** | 148,976,023 |
| More than 5 years but less than 10 years | **517,995,321** | 416,750,644 |

| | | |
|---|---|---|
| More than 10 years but less than 15 years | **767,895,040** | 562,283,554 |
| More than 15 years but less than 20 years | **1,134,757,501** | 808,632,826 |
| More than 20 years | **5,596,509,099** | 6,213,573,653 |

## 24. Related Party Disclosures

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

Significant Related Party Transactions
The Group, in the regular conduct of business, has receivables from/payables to related parties arising from the normal course of operations.

1. The following are the Group's transactions with its related parties:

| | Amount | | Due from (Due to) | |
|---|---|---|---|---|
| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
| **Other affiliates under common control** | | | | |
| a. Trade and other receivables | | | | |
| Sales | **₱1,797,280,256** | ₱3,214,288,927 | **₱420,899,579** | ₱325,303,347 |
| Royalty income | **644,844,730** | 1,443,589,170 | **–** | – |
| b. Trade and other payable | | | | |
| Purchases – net | **(1,177,239,786)** | (2,896,390,334) | **–** | – |
| Rent and utilities | **(1,988,963,977)** | (4,462,345,647) | **(497,428,197)** | (541,174,032) |

Below are the Group's transactions with its related parties:

a. As of June 30, 2019 and December 31, 2018, the Group has outstanding balances from its other affiliates amounting to ₱420.90 million and ₱325.30 million, respectively, arising primarily from sales of merchandise inventories and royalty income for grant of use and right to operate stores of the Group.

   For the six months ended June 30, 2019 and for the year ended December 31, 2018, sales of merchandise inventories to related parties amounted to ₱1.79 billion and ₱3.21 billion respectively, and royalty income amounted to ₱644.85 million and ₱1.44 billion, respectively (Note 29).

b. As of June 30, 2019 and December 31, 2018, the Group has outstanding payable to its other affiliates amounting to ₱420.90 million and ₱541.17 million, respectively, arising from purchases of merchandise inventories for resale to its customers which are normally paid within the year and expenses for rent and utilities relative to the Group's operations. Lease agreements are cancellable and normally have terms of 5 to 20 years with escalation clauses ranging from 5% to 10% every year and renewable every year.

   For the six months ended June 30, 2019 and year ended December 31, 2018, purchases of merchandise inventories for resale to customers amounted ₱1.17 billion and ₱2.90 billion, respectively while expenses for rent and utilities amounted to ₱1.99 billion and ₱4.46 billion, respectively.

c. The Group maintains savings and current accounts and money market placements with RBC. Cash and cash equivalents earns interest at the prevailing bank deposit rates.

Affiliates are related parties by the Group by virtue of common ownership and representations to management where significant influence is apparent.

2. There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plans.

The details of compensation and benefits of key management personnel for 2018, 2017 and 2016 follow:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Short-term employee benefits | **₱144,741,622** | ₱140,592,485 | ₱135,091,073 |
| Post-employment benefits | **25,737,872** | 37,004,324 | 30,916,815 |
| | **₱170,479,494** | ₱177,596,809 | ₱166,007,888 |

*Terms and Conditions of Transactions with Related Parties*
Outstanding balances at year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Group did not recognize provision for expected credit losses relating to amounts due from related parties for the six months ended June 30, 2019 and for the year ended December 31, 2018. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

## 25. **Income Tax**

Provision for income tax for the six months ended June 30 follows:

| | **2019 (Unaudited)** | 2018 (Unaudited) |
|---|---|---|
| Current | **₱931,540,500** | ₱880,315,812 |
| Deferred | **(237,999,613)** | (51,221,227) |
| | **₱693,540,887** | ₱829,094,585 |

The components of the net deferred tax assets of the Group as of June 30, 2019 and December 31, 2018 pertain to the deferred tax effects of the following:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Tax effects of: | | |
| *Items recognized in profit or loss:* | | |
| Lease liabilities | **₱217,406,217** | – |
| MCIT | **126,057,118** | ₱123,082,937 |
| NOLCO | **86,232,566** | 77,184,991 |
| Unamortized past service cost | **66,924,069** | 66,962,036 |
| Accrued rent | **61,078,099** | 61,078,099 |
| Allowance for expected credit losses | **40,894,445** | 40,894,445 |

| | | |
|---|---|---|
| Deferred revenue | **16,971,298** | 16,971,298 |
| Retirement expense | **21,561,743** | 10,535,727 |
| Allowance for inventory write-down | **14,185,128** | 23,384,581 |
| Others | **3,233,380** | 4,549,743 |
| | **654,544,063** | 424,643,857 |
| *Item recognized directly in other comprehensive income:* | | |
| Remeasurement loss on retirement obligation | **(11,184,228)** | (11,184,228) |
| | **₱643,359,835** | ₱413,459,629 |

Deferred tax assets acquired in the acquisition of RSCI in 2018 amounted to as follow:

| | |
|---|---|
| Items recognized in profit or loss | ₱91,398,505 |
| Items recognized in other comprehensive income | 14,185,789 |
| | ₱105,584,294 |

The components of the net deferred tax liabilities of the Group as of June 30, 2019 and December 31, 2018 represent deferred tax effects of the following:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Tax effect of: | | |
| *Items recognized in profit or loss:* | | |
| Business combination (Note 19) | **₱1,921,295,422** | ₱1,921,295,422 |
| Asset revaluation | **42,880,587** | 47,669,901 |
| Unrealized forex gains | **–** | 1,318,126 |
| | **1,964,176,009** | 1,970,283,449 |
| *Item recognized directly in other comprehensive income:* | | |
| Fair value adjustments on investment in an associate | **92,253,572** | (15,463,859) |
| | **₱2,056,429,581** | ₱1,954,819,590 |

The Group has the following deductible temporary differences that are available for offset against future taxable income or tax payable for which deferred tax assets have not been recognized:

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Tax effects of: | | |
| Allowance for impairment losses | **₱22,739,980** | ₱22,739,980 |
| NOLCO | **55,493,633** | 55,174,650 |
| Allowance for doubtful accounts | **5,928,982** | 22,751,697 |
| Retirement expense | **278,445** | – |
| | **₱84,441,040** | ₱100,666,327 |

Details of the Group's NOLCO related to RCSI, RGFBI, RHIB, RSSI, RLSI and Super50 follow:

| Inception Year | Beginning Balance | Applied/ Expired | Addition | Ending Balance | Expiry Year |
|---|---|---|---|---|---|
| 2019 | ₱– | ₱– | ₱31,221,861 | ₱31,221,861 | 2022 |
| 2018 | 166,466,045 | – | – | 166,466,045 | 2021 |
| 2017 | 170,325,860 | – | – | 170,325,860 | 2020 |
| 2016 | 113,954,603 | 9,547,704 | – | 104,406,899 | 2019 |
| 2015 | 104,903,471 | 104,903,471 | – | – | 2018 |
| Total | ₱555,649,979 | ₱114,451,175 | ₱31,221,861 | ₱472,420,665 | |

Details of the Group's MCIT related to RI, RVC, RCSI, RHIB, RSSI and RDDC follow:

| Inception Year | Beginning Balance | Applied/ Expired | Additions | Ending Balance | Expiry Year |
|---|---|---|---|---|---|
| 2019 | ₱– | ₱– | ₱4,966,148 | ₱4,966,148 | 2022 |
| 2018 | 100,297,401 | – | – | 100,297,401 | 2021 |
| 2017 | 16,911,569 | – | – | 16,911,569 | 2020 |
| 2016 | 5,873,967 | 1,991,967 | – | 3,882,000 | 2019 |
| 2015 | 5,229,059 | 5,229,059 | – | – | 2018 |
| Total | ₱128,311,996 | ₱7,221,026 | ₱4,966,148 | ₱126,057,118 | |

The reconciliation of statutory income tax rate to the effective income tax rate follows:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Add (deduct) tax effects of: | | | |
| Nondeductible interest expense | **–** | 1.74 | 0.32 |
| Investment income | **–** | – | (0.46) |
| Nondeductible expense | **0.17** | – | – |
| Change in unrecognized deferred tax assets | **(0.15)** | (0.77) | (0.03) |
| Effect of PFRS 9 and 15 adoption | **(0.24)** | – | – |
| Dividend income | **(0.44)** | (0.46) | (0.50) |
| Effect of OSD | **(0.50)** | (3.67) | (3.38) |
| Nontaxable income subject to final tax | **(0.82)** | – | – |
| Derecognized DTA for NOLCO | **(0.82)** | – | – |
| Interest income subject to final tax | **(3.88)** | (3.59) | (3.88) |
| Effective income tax rate | **23.32%** | 23.25% | 22.07% |

On December 19, 2017, the RA No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changed existing tax law and includes several provisions that generally affected businesses on a prospective basis, the management assessed that the same did not have any significant impact on the financial statement balances as of the reporting date.

On November 26, 2008, the BIR issued Revenue Regulation No. 16-2008 which implemented the provisions of RA No. 9504 on Optional Standard Deduction (OSD). This regulation allowed both individual and corporate taxpayers to use OSD in computing their taxable income. For corporations, they may elect standard deduction in an amount equivalent to 40% of the gross income, as provided by law, in lieu of the itemized allowable deductions. In 2018, 2017 and 2016 certain subsidiaries elected OSD in the computation of its taxable income.

## 26. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

| | **June 30, 2019 (Unaudited)** | June 30, 2018 (Unaudited) |
|---|---|---|
| Net income attributable to equity holders of the Parent Company | **₱1,773,293,917** | ₱2,621,692,929 |
| Weighted average number of common shares | **1,576,489,360** | 1,385,000,000 |
| Basic and Diluted EPS | **₱1.12** | ₱1.89 |

The Parent Company has no dilutive potential common shares in 2019 and 2018.

## 27. Risk Management and Financial Instruments

Governance Framework
The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The BOD approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets and specify reporting requirements.

Financial Risk
The main purpose of the Group's financial instruments is to fund its operations and capital expenditures. The main risks arising from the Group's financial instruments are market risk, liquidity risk and credit risk. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

*Market Risk*
Market risk is the risk of loss to future earnings, to fair value of cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates equity prices and other market factors.

*Interest Rate Risk*
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has minimal interest rate risk because the interest-bearing loans are short-term in nature and bear fixed interest rates.

*Price Interest Rate Risk*
The Group is exposed to the risks of changes in the value/future cash flows of its financial instruments due to its market risk exposures. The Group's exposure to interest rate risk relates primarily to the Group's financial assets at FVTPL, FVOCI and AFS financial assets.

The table below shows the impact on income before tax of the estimated future yield of the related market indices of the Group's financial assets at FVTPL, FVOCI and AFS financial assets using a sensitivity approach.

| | Change in Income Before Income Tax | |
|---|---|---|
| Reasonably Possible Changes in Interest Rates | **2018** | 2017 |
| +100 basis points (bps) | **₱9,198,181** | ₱9,363,465 |
| -100 bps | **(9,198,181)** | (9,363,465) |

*Foreign Currency Risk*
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal transactions are carried out in Philippine Peso (₱) but maintain a minimal balance of foreign currency. The Group's currency risk arises mainly from foreign currency-denominated cash and cash equivalents, interest receivable, financial assets at FVOCI, and AFS financial assets which are denominated in currency other than the Group's functional currency.

The following tables demonstrate the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | **Increase (decrease) in foreign currency rate** | | **Effect on income before income tax (₱)** | |
|---|---|---|---|---|
| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
| USD | **+0.98%** | +1.13% | **₱45,941,207** | ₱48,071,706 |
| | **-0.98%** | -1.13% | **(45,941,207)** | (48,071,706) |

The Group used foreign exchange rate of ₱51.24:USD1 and ₱52.58: USD1 as of June 30, 2019 and December 31, 2018, respectively, in converting its dollar-denominated financial assets to peso.

The sensitivity analyses shown above are based on the assumption that the movements in US dollars will more likely be limited to the upward or downward fluctuation of 0.98% and 1.13% in 2019 and 2018 respectively. The forecasted movements in percentages used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months.

The foreign currency-denominated financial assets in original currencies and equivalents to the functional and presentation currency in 2019 and 2018 are as follows:

| | **June 30, 2019 (Unaudited)** | | December 31, 2018 (Audited) | |
|---|---|---|---|---|
| | **USD** | **PHP** | USD | PHP |
| Cash and cash equivalents | **$1,562,291** | **₱80,051,791** | $1,447,926 | ₱76,131,949 |
| Receivables | **897,972** | **46,012,085** | 766,277 | 40,290,845 |
| FVOCI with recycling | **89,063,108** | **4,563,593,654** | 78,704,449 | 4,138,279,928 |
| Total | **$91,523,371** | **₱4,689,657,530** | $80,918,652 | ₱4,254,702,722 |

The effect on the Group's income before tax is computed on the carrying value of the Group's foreign currency denominated financial assets and liabilities as at June 30, 2019 and December 31, 2018.There is no impact on equity other than those already affecting income before income tax.

*Equity Price Risk*
The Group's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as financial assets at FVOCI in 2019 and 2018.

Quoted equity securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

Quoted equity security consists of marketable equity security that is listed and traded on the PSE. The fair market value of the listed shares is based on the quoted market price as of June 30, 2019 and December 31, 2018.

The analyses below are performed for reasonably possible movements in the PSE Index with all other variables held constant, showing the impact on equity:

| | **Change in variable** | **Effect on equity- Other comprehensive income** |
|---|---|---|
| **2019** | | |
| | **+14.73%** | **₱46,523,806** |
| | **-14.73%** | **(46,523,806)** |
| 2018 | +17.95% | ₱68,645,011 |
| | -17.95% | (68,645,011) |

The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index and other quoted equity securities will be most likely be limited to an upward or downward fluctuation of 14.73% and 17.95% in 2019 and 2018, respectively.

For quoted securities, the Group, used as basis of these assumptions, the annual percentage change in PSE composite index.

The impact of sensitivity of equity prices on the Group's equity already excludes the impact on transactions affecting the consolidated statements of income.

*Liquidity Risk*
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows.

The table below shows the maturity profile of the financial instruments of the Group as of June 30, 2019 and December 31, 2018 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

**June 30, 2019**

| | **On Demand** | **One (1) year** | **More than One (1) year** | **Total** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Amortized cost** | | | | |
| Cash and cash equivalents | **₱12,186,463,005** | **₱–** | **₱–** | **₱12,186,463,005** |
| Trade receivables | **80,507,860** | **1,632,077,367** | **–** | **1,712,585,227** |
| Nontrade receivables | – | **944,543,252** | **–** | **944,543,252** |
| Due from franchisees | **19,763,272** | **626,768,382** | **–** | **646,531,654** |
| Other noncurrent assets: | | | | |
| Security and other deposits | – | – | **2,607,258,428** | **2,607,258,428** |
| Construction bonds | – | – | **30,753,628** | **30,753,628** |
| **FVOCI** | – | – | **18,736,780,631** | **18,736,780,631** |
| **FVTPL** | – | – | **93,354,837** | **93,354,837** |
| | **₱12,286,734,137** | **₱3,203,389,001** | **₱21,468,147,524** | **₱36,958,270,662** |
| **Financial Liabilities** | | | | |
| **Other financial liabilities** | | | | |
| Trade and other payables* | **₱–** | **₱21,407,954,724** | **₱–** | **₱21,407,954,724** |
| Loans payable | **–** | **5,628,532,534** | **–** | **5,628,532,534** |
| Other current liabilities | **–** | **234,949,778** | **–** | **234,949,778** |
| Other noncurrent liabilities | **–** | **304,021,928** | **–** | **304,021,928** |
| | **₱–** | **₱27,575,458,964** | **₱–** | **₱27,575,458,964** |

**Excluding statutory liabilities amounting ₱578,900,465.*

December 31, 2018

| | On Demand | One (1) year | More than One (1) year | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Amortized cost | | | | |
| Cash and cash equivalents | ₱14,788,040,613 | ₱– | ₱– | ₱14,788,040,613 |
| Trade receivables | 173,451,559 | 1,935,168,711 | – | 2,108,620,270 |
| Nontrade receivables | – | 734,264,185 | – | 734,264,185 |
| Due from franchisees | 75,838,989 | 409,218,908 | – | 485,057,897 |
| Other noncurrent assets: | | | | |
| Security and other deposits | – | – | 2,550,724,180 | 2,550,724,180 |
| Construction bonds | – | – | 33,092,201 | 33,092,201 |
| FVOCI | – | – | 18,086,295,711 | 18,086,295,711 |
| FVTPL | – | – | 1,665,171,011 | 1,665,171,011 |
| | ₱15,037,331,161 | ₱3,078,651,804 | ₱22,335,283,103 | ₱40,451,266,068 |
| Financial Liabilities | | | | |
| Other financial liabilities | | | | |
| Trade and other payables* | ₱– | ₱24,046,700,951 | ₱– | ₱24,046,700,951 |
| Loans payable | – | 6,794,000,000 | – | 6,794,000,000 |
| Other current liabilities | – | 279,844,005 | – | 279,844,005 |
| Other noncurrent liabilities | – | 304,021,928 | – | 304,021,928 |
| | ₱– | ₱31,424,566,884 | ₱– | ₱31,424,566,884 |

**Excluding statutory liabilities amounting ₱530,409,504.*

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group's trade and other receivables are actively monitored by the Collection Services Department to avoid significant concentrations of credit risk.

The Group has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

The Group manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group. The Group's policies include the following: setting up of exposure limits by each counterparty or group of counterparties; right of offset where counterparties are both debtors and creditors; reporting of credit risk exposures; monitoring of compliance with credit risk policy; and review of credit risk policy for pertinence and the changing environment.

The Group's maximum exposure in financial assets (excluding cash on hand amounting to ₱278.03 million and ₱2.17 billion in 2019 and 2018, respectively) are equal to their carrying amounts. This was determined based on the nature of the counterparty and the Group's experience.

*Credit Quality*
The Group maintains internal credit rating system. Neither past due nor impaired financial assets are graded as either "A" or "B" based on the following criteria:

- Grade A are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

- Grade B are active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to the Group's collection efforts and update their payments accordingly.

Cash in banks and cash equivalents are short-term placements and working cash fund placed, invested or deposited in reputable foreign and local banks in the Philippines. These financial assets are classified as Grade A due to the counterparties' low probability of insolvency.

Receivables and due from franchisees are Grade A because they are from related parties, employees and accredited customers who are highly reputable, progressive and consistently pay their accounts.

Security and other deposits and construction bond are Grade A since these were paid to creditworthy third parties.

Financial assets at FVOCI and FVTPL are Grade A because these are securities placed in entities with good favorable credit standing.

The Group's financial assets considered as neither past due nor impaired amounting to ₱36.49 billion and ₱36.46 billion as of June 30, 2019 and December 31, 2018, respectively are all graded "A" based on the Group's assessment.

The tables below show the aging analysis of financial assets classified as amortized cost and FVOCI as of June 30, 2019 and December 31, 2018.

**2019**

| | Neither past due nor impaired | Past due but not impaired | Impaired Financial Assets | Total |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Amortized cost** | | | | |
| Cash and cash equivalents (excluding cash on hand) | **₱11,908,433,896** | **₱–** | **₱–** | **₱11,908,433,896** |
| Trade receivables | **1,632,077,368** | **–** | **80,507,859** | **1,712,585,227** |
| Nontrade receivables | **944,543,252** | **–** | **–** | **944,543,252** |
| Due from franchisees | **626,768,382** | **–** | **19,763,272** | **646,531,654** |
| Other noncurrent assets: | | | | |
| Security and other deposits | **2,607,258,428** | **–** | **–** | **2,607,258,428** |
| Construction bond | **30,753,628** | **–** | **–** | **30,753,628** |
| **FVOCI** | **18,736,780,631** | **–** | **–** | **18,736,780,631** |
| | **₱36,486,615,585** | **₱–** | **₱100,271,131** | **₱36,586,886,716** |

2018

| | Neither past due nor impaired | Past due but not impaired | Impaired Financial Assets | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Amortized cost | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱12,613,663,128 | ₱– | ₱– | ₱12,613,663,128 |
| Trade receivables | 2,028,112,411 | – | 80,507,859 | 2,108,620,270 |
| Nontrade receivables | 734,264,185 | – | – | 734,264,185 |
| Due from franchisees | 409,218,908 | – | 75,838,989 | 485,057,897 |
| Other noncurrent assets: | | | | |
| Security and other deposits | 2,550,724,180 | – | – | 2,550,724,180 |
| Construction bond | 33,092,201 | – | – | 33,092,201 |
| FVOCI | 18,086,295,712 | – | – | 18,086,295,712 |
| | ₱36,455,370,725 | ₱– | ₱156,346,848 | ₱36,611,717,573 |

*Impairment of Financial Assets*
The Company has the following financial assets that are subject to the expected credit loss model under PFRS 9:
- Cash and cash equivalents;
- Trade receivables;
- Debt securities at FVOCI; and
- Other debt instruments carried at amortized cost

Other debt instruments carried at amortized cost include accrued interest receivables, refundable security and other deposits, advances to employees and officers and receivable from insurance. These are also subject to impairment requirements of PFRS 9, the identified impairment losses were immaterial.

*Cash and Cash Equivalents and Debt Securities at FVOCI.* Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The Group invests only on quoted debt securities with very low credit risk. The Group's debt instruments at FVOCI comprised solely of quoted bonds that are have a minimum BBB- credit rating by S&P Global Ratings and, therefore, are considered to be low credit risk investments. The Group recognized provision for expected credit losses on its debt instruments at FVOCI amounting to ₱13.13 million in 2018 (Note 11).

*Trade Receivables.* The Group applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group recognized provision for expected credit losses on its trade receivables amounting to ₱46.75 million in 2018 (Note 8).

A summary of Group exposure to credit risk under general and simplified approach as of June 30, 2019 and December 31, 2018 follows:

**2019**

| | General Approach | | | Simplified |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Approach** |
| **Amortized cost** | | | | |
| Cash and cash equivalents | **₱11,908,433,896** | **₱–** | **₱–** | **₱–** |
| Trade receivables | – | – | – | **1,712,585,227** |
| Due from franchisees | – | – | – | **646,531,654** |
| Nontrade receivables | **944,543,252** | – | – | – |
| Security and other deposits | **2,638,012,056** | – | – | – |
| **FVOCI** | **18,736,780,631** | – | – | – |
| **Total gross carrying amounts** | **34,227,769,835** | – | – | **2,359,116,881** |
| **Less allowance** | **13,130,750** | – | – | **100,271,131** |
| | **₱34,214,639,085** | **₱–** | **₱–** | **₱2,258,845,750** |

2018

| | General Approach | | | Simplified |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Approach |
| **Amortized cost** | | | | |
| Cash and cash equivalents | ₱12,613,663,128 | ₱– | ₱– | ₱– |
| Trade receivables | – | – | – | 2,108,620,270 |
| Due from franchisees | – | – | – | 485,057,897 |
| Nontrade receivables | 734,264,185 | – | – | – |
| Security and other deposits | 2,583,816,381 | – | – | – |
| **FVOCI** | 18,086,295,711 | – | – | – |
| **Total gross carrying amounts** | 34,018,039,405 | – | – | 2,593,678,167 |
| **Less allowance** | 13,130,750 | – | – | 156,346,848 |
| | ₱34,004,908,655 | ₱– | ₱– | ₱2,437,331,319 |

In 2019 and 2018, there were no movements between stage 1, 2 and 3.

Fair Values of Financial Assets and Liabilities
The methods and assumptions used by the Group in estimating the fair value of financial asset and other financial liabilities are:

- Due to the short-term nature of the transaction, the fair value of cash and cash equivalents and trade and other receivables approximates the carrying values at year-end.

- Security and other deposits and construction bond are presented at cost since the timing and amounts of future cash flows related to the refundable deposits are linked to the termination of the contract which cannot be reasonably and reliably estimated.

- Debt and equity instrument financial assets amounting to ₱18.83 billion and ₱19.75 billion as at June 30, 2019 and December 31, 2018, respectively were carried at fair values. Investments in bonds and quoted equity securities are derived from quoted market prices in active markets.

- Due to the short-term nature of trade and other payables, short-term loans payable and other current liabilities, their carrying values approximate fair values.

In 2019 and 2018, the Company's financial assets measured at fair value are categorized within the Level 1 fair value hierarchy.

## 28. Lease Commitments

*Group as Lessee*
The Group has entered into cancellable lease agreements as a lessee with terms of one (1) year up to twenty-five (25) years.  Most leases contain renewal options and a clause enabling annual upward revision of the rental charges based on prevailing market conditions.  Other leases provide for the percentage rent which is a certain percentage of actual monthly sales.  Rental expense for the six months ended June 30, 2019 and 2018 amounted to ₱1.65 billion and ₱2.91 billion, respectively (Notes 21 and 24).

*Group as a Lessor*
The Group has entered into operating leases on its building.  Income from these leases is included in the "Royalty, Rent and Other Revenue" account in the consolidated statements of comprehensive income (Note 29).

There are no contingent rental income and expense under these operating leases both as lessee and lessor.

Accrued rent recognized in the consolidated statements of financial position as of June 30, 2019 and December 31, 2018 amounting to ₱306.02 million and ₱304.02 million, respectively pertains to RSCI's lease agreements arising from lease straight-lining.

## 29. Agreements

a) The Group has exclusive right to use the Ministop System in the Philippines which was granted to the Group by Ministop Co. Ltd., a corporation organized in Japan.  In accordance with the franchise agreement, the Group agrees to pay, among others, royalties to Ministop based on a certain percentage of gross profit.

   Royalty expense amounted to ₱42.55 million and ₱39.75 million for the six months ended June 30, 2019 and 2018, respectively (Note 21).  Royalty payable to Ministop included under "Other current liabilities" as of June 30, 2019 and December 31, 2018 amounted to ₱16.67 million and ₱7.91 million, respectively (Note 16).

b) The Group has franchise agreements which mainly include providing store facilities and equipment to franchisees.  Other services rendered by Ministop consist of providing personnel and utilities.  The lease/royalty fee is based on a certain percentage of the gross profit of the lessee/franchisee.  The related royalty income amounted to ₱843.78 million and ₱891.58 million for the six months ended June 30, 2019 and 2018, respectively.

   As of June 30, 2019 and December 31, 2018, amounts due from franchisees amounted to ₱626.77 million and ₱409.22 million, respectively.  These amounts are net of allowance for impairment losses on due from franchisees amounting to ₱19.76 million and ₱75.84 million as of June 30, 2019 and December 31, 2018 (Note 8).

c) The Group obtained a license to use the Daiso Business Model in the Philippines that was granted to the Group by Daiso Industries Co., Ltd. (DICL) in Japan.  In accordance with the license agreement, the Group agrees to pay, among others, royalties to DICL based on a certain percentage of monthly net sales.

   Royalty expenses amounted to ₱5.37 million and ₱4.37 million for the six months ended

June 30, 2019 and 2018, respectively.

d.) On September 21, 2012, RSSI paid ₱121.21 million in exchange for the trademarks that were duly registered in the Philippine Intellectual Rights Office. The trademark allows the Group to use the brand and operate its stores in the Philippines (Note 14).

Royalty expense amounted to ₱1.26 million in 2016.

e.) The Group is a sub-licensee of Toys R Us in the Philippines. The royalty fee is based on fixed percentage of gross monthly sales of sub-licensee. Royalty expense amounted to ₱37.17 million, and ₱34.57 million for the six months ended June 30, 2019 and 2018, respectively.

f.) On July 29, 2014, Costa International Limited granted the Group the development and operating rights to carry on the Costa business in the Philippines (Note 14).

The Group started Costa operations in June 2015. Royalty expenses amounted to ₱3.34 million and ₱3.47 million for the six months ended June 30, 2019 and 2018, respectively.

g.) The Group has other licenses and franchises to carry various global brands.

## 30. Changes in Liabilities Arising from Financing Activities

**2019**

| | January 1, 2019 | Net Cash Flows | Dividend Declaration | Others | June 30, 2019 |
|---|---|---|---|---|---|
| Loans payable | ₱6,794,000,000 | ₱1,165,467,466 | ₱– | ₱– | ₱5,628,532,534 |
| Dividends payable | 11,666,662 | (147,007,154) | 1,282,079,493 | – | 1,146,739,001 |
| Total liabilities from financing activities | ₱6,805,666,662 | ₱1,018,460,312 | ₱1,282,079,493 | ₱– | ₱6,775,271,535 |

Others pertain to the short-term loans assumed in the acquisition of RSCI.

2018

| | January 1, 2018 | Net Cash Flows | Dividend Declaration | Others | December 31 2018 |
|---|---|---|---|---|---|
| Loans payable | ₱6,377,954,863 | (₱1,083,954,863) | ₱– | ₱1,500,000,000 | ₱6,794,000,000 |
| Dividends payable | 14,000,000 | (1,266,370,255) | 1,264,036,917 | – | 11,666,662 |
| Total liabilities from financing activities | ₱6,391,954,863 | (₱850,325,118) | ₱1,264,036,917 | ₱1,500,000,000 | ₱6,805,666,662 |

Interest paid for the six months ended June 30, 2019 and 2018 amounted to ₱187.88 million and ₱55.48 million, respectively.

## 31. Contingencies

The Group has various contingent liabilities from legal cases arising from the ordinary course of business which are either pending decision by courts or are currently being contested by the Group, the outcome of which are not presently determinable.

In the opinion of the management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have material adverse effect in the Group’s financial position and results of operations.

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**
**INDEX TO CONSOLIDATED COMPANY FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

## SUPPLEMENTARY SCHEDULES

I. Supplementary schedules required by Annex 68-E

  A. Financial Assets (Other Short-term Cash Investments)
  B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
  C. Amounts Receivable/Payable From/To Related Parties which are Eliminated during the Consolidation of Financial Statements
  D. Intangible Assets
  E. Short-term and Long-term Debt
  F. Indebtedness to Related Parties
  G. Guarantees of Securities of Other Issuers
  H. Capital Stock

II. Schedule of all of the effective standards and interpretations (Part 1, 4J)

III. Map of the relationships of the companies within the group (Part 1, 4H)

IV. Schedule of Financial Soundness Indicators

V. Use of Proceeds from Initial Public Offering

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE A: FINANCIAL ASSETS (OTHER SHORT-TERM CASH INVESTMENTS)

**JUNE 30, 2019**

| Name of issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet | Value based on market quotation at end of reporting period | Income received and accrued |
|---|---|---|---|---|
| Debt and Equity Securities | | | | |
| Various bonds | ₱17,159,935,019 | ₱16,772,780,631 | ₱16,772,780,631 | ₱367,483,032 |
| Notes | 100,000,000 | 93,354,837 | 93,354,837 | 36,109,550 |
| Investment in preferred shares | 2,000,000,000 | 1,964,000,000 | 1,964,000,000 | 55,750,000 |
| | ₱19,259,935,019 | ₱18,830,135,468 | ₱18,830,135,468 | ₱459,342,582 |

See Note 11 of the Consolidated Financial Statements.

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

**JUNE 30, 2019**

| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not current | Balance at end of period |
|---|---|---|---|---|---|---|---|

**NOT APPLICABLE**

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**

**SCHEDULE C: AMOUNTS RECEIVABLE/PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**

**JUNE 30, 2019**

| Entity with Receivable Balance | Balance at Beginning of Period | Net Movement | Write-offs | Current | Noncurrent | Balance at end of period |
|---|---|---|---|---|---|---|
| Robinsons Retail Holdings, Inc. | ₱545,075,446 | ₱3,405,383,169 | ₱– | ₱3,950,458,615 | ₱– | ₱3,950,458,615 |
| Robinsons Toys, Inc. | 213,995,712 | (163,236,757) | – | 50,758,955 | – | 50,758,955 |
| Robinsons Convenience Stores, Inc. | 39,106,088 | – | – | 39,106,088 | – | 39,106,088 |
| Robinson's Supermarket Corporation | 27,770,762 | (5,535,451) | – | 22,235,311 | – | 22,235,311 |
| Robinson's Incorporated | 15,279,270 | 198,010 | – | 15,477,280 | – | 15,477,280 |
| Robinsons Handyman, Inc. | 7,383,979 | (7,383,979) | – | – | – | – |
| RHD Daiso - Saizen, Inc. | 370,881,028 | (31,190,473) | – | 339,690,555 | – | 339,690,555 |
| | ₱1,219,492,285 | ₱3,198,234,519 | ₱– | ₱4,417,726,804 | ₱– | ₱4,417,726,804 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE D: INTANGIBLE ASSETS

**JUNE 30, 2019**

| Description | Beginning balance | Additions at cost | Charged to costs and expenses | Charged to other accounts | Other changes | Ending balance |
|---|---|---|---|---|---|---|
| Goodwill | ₱12,490,800,027 | ₱– | ₱– | ₱– | ₱– | ₱12,490,800,027 |
| Trademarks | 6,591,363,481 | – | (19,002,141) | – | – | 6,572,361,340 |
| License | – | – | – | – | – | – |
| Franchise | 24,125,885 | – | (1,661,428) | – | – | 22,464,457 |
| | ₱19,106,289,393 | ₱– | (₱20,663,569) | ₱– | ₱– | ₱19,085,625,824 |

See Note 14 of the Consolidated Financial Statements.

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE E: SHORT TERM AND LONG TERM DEBT

**JUNE 30, 2019**

| Title of issue and type of obligation | Amount authorized by indenture | Interest rates | Current portion | Noncurrent portion |
|---|---|---|---|---|
| Bank loans | ₱5,628,532,534 | 3.10%-6.50% | ₱5,628,532,534 | ₱– |
| | ₱5,628,532,534 | | ₱5,628,532,534 | ₱– |

See Note 17 of the Consolidated Financial Statements.

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES
**JUNE 30, 2019**

| Name of related party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| Robinsons Land Corporation | ₱259,085,303 | ₱211,749,352 |
| Universal Robina Corporation | 282,088,729 | 285,678,845 |
| JG Summit Holdings, Inc. | – | – |
| | ₱541,174,032 | ₱497,428,197 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS

**JUNE 30, 2019**

| Name of issuing entity of securities guaranteed by the company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount of owned by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|

**NOT APPLICABLE**

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE H: CAPITAL STOCK

**JUNE 30, 2019**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by | | |
|---|---|---|---|---|---|---|
| | | | | Related parties | Directors, officers and employees | Others |
| Common stock - ₱1 par value | 2,000,000,000 | 1,576,489,360 | – | 487,095,717 | 259,344,156 | 830,049,487 |

See Note 18 of the Consolidated Financial Statements

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as at January 1, 2019:

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of January 1, 2019** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1** | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions | | | ✓ |
| **PFRS 3** | Business Combinations | | | ✓ |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments | ✓ | | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |
| **PFRS 15** | Revenue from Contracts with Customers | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of January 1, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Philippine Accounting Standards** | | | | |
| **PAS 1** | Presentation of Financial Statements | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| **PAS 23** | Borrowing Costs | | | ✓ |
| **PAS 24** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Separate Financial Statements | | | ✓ |
| **PAS 28** | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Presentation | ✓ | | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of January 1, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| **PAS 40** | Investment Property | | | ✓ |
| | Amendments to PAS 40, Transfers of Investment Property | | | ✓ |
| **PAS 41** | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| **Philippine Interpretation IFRIC-1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **Philippine Interpretation IFRIC-2** | Members' Shares in Co-operative Entities and Similar Instruments | | | ✓ |
| **Philippine Interpretation IFRIC-4** | Determining whether an Arrangement contains a Lease | ✓ | | |
| **Philippine Interpretation IFRIC-5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **Philippine Interpretation IFRIC-6** | Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment | | | ✓ |
| **Philippine Interpretation IFRIC-7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **Philippine Interpretation IFRIC-10** | Interim Financial Reporting and Impairment | | | ✓ |
| **Philippine Interpretation IFRIC-12** | Service Concession Arrangements | | | ✓ |
| **Philippine Interpretation IFRIC-14** | PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| **Philippine Interpretation IFRIC-16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **Philippine Interpretation IFRIC-17** | Distributions of Non-cash Assets to Owners | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of January 1, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Philippine Interpretation IFRIC-19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **Philippine Interpretation IFRIC-20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **Philippine Interpretation IFRIC-21** | Levies | | | ✓ |
| **Philippine Interpretation IFRIC-22** | Foreign Currency Transactions and Advance Consideration | | | ✓ |
| **Philippine Interpretation SIC-7** | Introduction of the Euro | | | ✓ |
| **Philippine Interpretation SIC-10** | Government Assistance—No Specific Relation to Operating Activities | | | ✓ |
| **Philippine Interpretation SIC-15** | Operating Leases—Incentives | | | ✓ |
| **Philippine Interpretation SIC-25** | Income Taxes—Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **Philippine Interpretation SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **Philippine Interpretation SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **Philippine Interpretation SIC-32** | Intangible Assets—Web Site Costs | | | ✓ |

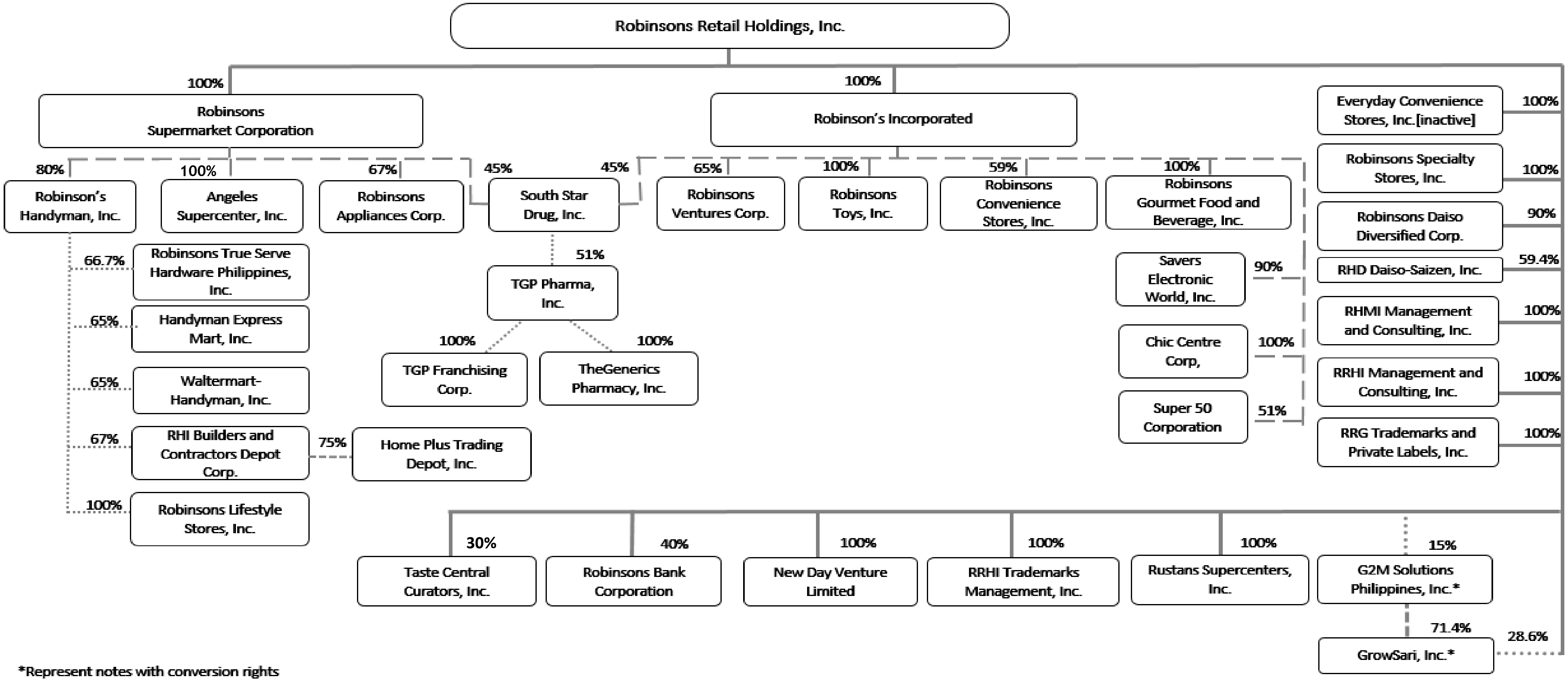
Standards tagged as "Not applicable" have been adopted by the Company but have no significant covered transactions for the six months ended June 30, 2019.

Standards tagged as "Not adopted" are standards issued but not yet effective as of January 1, 2019. The Company will adopt the Standards and Interpretations when these become effective.

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**

**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**
**JUNE 30, 2019**

*Group Structure*
Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as of June 30, 2019:




*Represent notes with conversion rights

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

### FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2018

| Financial Soundness Indicator | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| i. Liquidity ratio: | | |
| Current ratio | **1.18** | 1.22 |
| ii. Profitability ratio: | | |
| Gross profit margin | **0.23** | 0.22 |
| Return on assets | **0.02** | 0.06 |
| Return on equity | **0.03** | 0.09 |
| iii. Stability ratio: | | |
| Solvency ratio | **0.10** | 0.23 |
| Debt to equity ratio | **0.75** | 0.48 |
| Asset to equity ratio | **1.75** | 1.48 |
| Interest rate coverage ratio | **2.85** | 41.65 |

**See attached reporting computation.*

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

### FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2018

| | **June 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Current assets | **₱37,784,754,406** | ₱39,747,311,135 |
| Current liabilities | **31,925,095,099** | 32,488,636,348 |
| Current ratio | **1.18** | 1.22 |
| | | |
| Gross profit | **17,661,199,808** | 29,835,082,422 |
| Net sales | **77,210,922,958** | 132,680,466,776 |
| Gross profit margin | **0.23** | 0.22 |
| | | |
| After tax net profit | **2,105,896,761** | 5,825,137,424 |
| Depreciation and amortization | **3,433,160,358** | 2,395,085,036 |
| | **5,539,057,119** | 8,220,222,460 |
| Total liabilities | **55,502,629,491** | 35,072,939,195 |
| Solvency ratio | **0.10** | 0.23 |
| | | |
| Total liabilities | **55,502,629,491** | 35,072,939,195 |
| Total equity | **74,167,396,611** | 72,704,167,999 |
| Debt to equity ratio | **0.75** | 0.48 |
| | | |
| Total assets | **129,670,026,102** | 107,777,107,194 |
| Total equity | **74,167,396,611** | 72,704,167,999 |
| Asset to equity ratio | **1.75** | 1.48 |
| | | |
| Earnings before interest and taxes | **3,403,270,265** | 6,625,876,142 |
| Interest expense | **1,194,565,759** | 159,071,734 |
| Interest rate coverage ratio | **2.85** | 41.65 |
| | | |
| Net income | **2,105,896,761** | 5,825,137,424 |
| Average total assets | **118,723,566,648** | 94,978,917,013 |
| Return on assets | **0.02** | 0.06 |
| | | |
| Net income | **2,105,896,761** | 5,825,137,424 |
| Average total equity | **73,435,782,305** | 63,985,403,542 |
| Return on equity | **0.03** | 0.09 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

### AS OF JUNE 30, 2019

As disclosed in the Company's prospectus, gross and net proceeds were estimated at ₱26.79 billion and ₱26.07 billion, respectively for the Primary Offer (excluding any additional expenses that may be incurred in relation to the Over-allotment Option).

The Company received actual gross proceeds amounting to ₱26.79 billion from the Primary offering of 461,897,500 shares on November 11, 2013 and an additional ₱0.23 billion from the exercised over-allotment of 3,880,550 shares, and incurred ₱745.65 million IPO-related expenses, resulting to actual net proceeds of ₱26.27 billion.

For the six months ended June 30, 2019, the application of the net proceeds is broken as follows:

| Use of Proceeds | Amount in Pesos |
|---|---:|
| Expansion of store network | ₱591,143,813 |
| Renovation of existing stores | 312,578,167 |
| Repayment of bank loans | 271,268,034 |
| Other corporate purposes | 324,500,161 |
| Total | ₱1,499,490,175 |

**Item 2. Management's Discussion and Analysis or Plan of Operation**

**Consolidated Results of Operations**
***(Amounts in Million Pesos)***

Robinsons Retail Holdings, Inc. recorded 27.7% increase in consolidated net sales of ₱77.2 billion in the first half of 2019, driven by the same store sales growth (SSSG) of 3.9%, additional sales coming from new stores opened in the last 12 months and the consolidation of Rustan Supercenters which we acquired in November 2018. The supermarket segment now accounts for 54% of our entire business, from 46% in the same period last year pre-Rustan. Consolidated net sales for the quarter reached ₱39.9 billion, up by 26.5%.

Blended gross profit margin for the quarter expanded by 28.5% to ₱9.2 billion, with gross margin up by 40bps to 23.1%. This was higher than the 20bps gain in the first quarter, resulting to 30bps increase in the first half of 2019 to 22.9%. The improvement in gross margins was attributable to our larger scale and improvement in category mix.

In 2Q19, the company reflected the year-to-date impact of adopting the new accounting standard on leases (PFRS 16) effective January 1, 2019. A right-of-use asset is recognized and amortized over the lease term while interest expense is incurred on the lease liability. PFRS 16 adjustments are non-cash and have no effect on cashflow. With this, operating income and EBITDA increased by 12.4% to ₱3.4 billion and 65.2% to ₱6.8 billion in the first half of 2019. Excluding the impact of PFRS 16, operating income and EBITDA rose by 3.1% to ₱3.1 billion and 11.3% to ₱4.6 billion, respectively. Quarter on quarter, we are seeing improvement in margins pre-PFRS 16. Rustan Supercenters Inc. registered positive operating income pre-PFRS 16 in 2Q19, a turnaround from the negative operating income seen in 1Q19, due to the gains in gross profit brought about by the alignment of trading terms, reduction in operating and corporate expenses and alignment in the depreciation policy.

Interest expense surged to ₱1.2 billion in the first half of 2019 from ₱55 million the previous year. The ₱1.0 billion increase in interest expense was attributable to the non-cash interest expense on the lease liability. The shift to PFRS 16 reduced our net income attributable to parent company to ₱1.8 billion in the first half of 2019, lower by ₱481 million or 21.3% versus pre-PFRS 16.

**Supermarket**

Net sales grew 48.1% to ₱21.2 billion in the 2$^{nd}$ quarter and 50.6% to ₱42.0 billion as of June 2019, boosted by the consolidation of Rustan, which accounted for 28.2% of total supermarket sales. Excluding Rustan, Robinsons Supermarket's net sales rose 7.1% to ₱15.3 billion in the 2$^{nd}$ quarter and 8.1% to ₱30.1 billion as of June 2019 driven by the sales contribution of new stores and healthy SSSG.

Gross Margin expanded to 21.1% in the 2$^{nd}$ quarter (19.4% vs. same period last year) and 20.7% in the 1$^{st}$ semester (19.2% vs. same period last year) driven by the alignment of trading terms between Robinsons Supermarket and Rustan and higher DC fees and listing fees due to a number of new product launches by suppliers.

With the recognition of PFRS 16, year-to-date EBIT reached ₱1.34 billion, a 5% increase from ₱1.28 billion in the same period last year. Excluding PFRS 16, year-to-date EBIT declined 6.3% as a result of the higher operating expenses of Rustan. However, this is significantly lower coming from a 25.3% decline in Q1 due to the gains in gross margin and reduction of expenses.

EBITDA margin increased to 9.7% in Q2 (vs. 6.6% in Q2 2018) and 7.0% as of June 2019 (vs. 6.2% in 1st half 2018) mainly due to the shift in accounting standard. Excluding this adjustment, EBITDA would have dropped to 4.8% but higher vs. Q1 of 4.3%.

**Department Store**

Robinsons Department Store grew sales by 3.6% to ₱4.6 billion in Q2 and by 2.6% to ₱8.2 billion as of June 2019, despite the closure of 3 department stores in Metro Manila. SSSG improved to 0.7% in Q2 from a decline in Q1.

Q2 and YTD gross profit margin increased to 28.0% (vs. 27.0% in Q2 last year) and 27.8% (vs. 27.5% in 1st half 2018), respectively, as a result of improvement in category mix driven by men’s and children’s category.

EBIT grew 7.9% to P245.9 million or 3.0% of sales as of June with the adoption of PFRS 16. Excluding the impact of this new accounting standard, YTD EBIT margin is the same as last year at 2.8% of sales. Similarly, EBITDA margin after PFRS 16 jumped to 10.8% in Q2 (vs. 6.1% in Q2 2018) and 7.4% in the 1st semester (vs. 5.4% in 1st half 2018). Before PFRS 16, Q2 EBITDA margin expanded by 100 bps to 7.1% with the higher gross margin. This is an improvement from the decline in EBITDA margin in Q1.

**DIY Stores**

Net sales grew by 6.3% from ₱6.48 billion to ₱6.89 billion as of June 2019 driven by healthy SSSG with the increase in basket size and contribution of new stores.

Gross profit as of June 2019 increased by 7.6% to ₱2.27 billion (from ₱2.11 billion in 1st half 2018) or 33.0% of sales which is 40 bps higher than last year.

As a result, excluding PFRS 16, EBIT grew by 7.2% at ₱580 million for the first half of 2019 versus ₱541 million in the same period last year. EBITDA grew faster at 8.3% to ₱698 million for the first half of 2019. EBITDA margin as of June 2019 including PFRS 16 was at 16.6% of sales.

**Convenience Store**

Ministop’s system-wide sales and merchandise sales as of June 2019 increased by 6.7% to ₱4.8 billion and 8.6% to ₱3.3 billion, respectively, as we increase the number of operating stores to 518.

Total gross profit and royalty income margin declined to 32.9% and 35.9% in Q2 and 1st half 2019, respectively, due to lower other income. However, both EBIT and EBITDA margins as of June 2019 before PFRS 16 increased by 40 bps to 2.4% of sales and 6.2% of sales, respectively. With the impact of the new accounting standard, EBIT margin was at 2.7% of sales and EBITDA margin at 11.1% of sales.

**Drug Store Segment**

The drug store segment registered net sales of ₱8.58 billion as of June 2019 and grew 12.3% from last year's net sales of ₱7.64 billion. The growth was mainly driven by the strong same store sales performance of South Star Drug (SSD) at 11.2% resulting from an increase in demand for medicines caused by an unexpected epidemic that swept through the country in Q1 2019. SSD accounted for 73.3% of the drugstore segment's total sales with the balance contributed by TGP Pharma, Inc.

Gross margin increased by 9.6% to ₱0.82 billion in Q2 or 19.7% of sales vs. 19.6% last year because of the improvement of front margins in SouthstarDrug's pharma category. This helped cut down the margin gap to only 20 bps in the 1st half of 2019 from 50 bps in Q1 driven by the growing low-priced but branded OTC drugs in TGP.

Excluding PFRS 16, EBIT and EBITDA margins as of June 2019 were at 6.9% and 7.8% of sales, respectively, which are lower than same period last year as a result of the lower gross margin. With the impact PFRS 16, EBIT margin was at 7.2% of sales and EBITDA margin at 9.3% of sales.

**Specialty Segment**

The combined net sales of the specialty store segment grew 12.7% to ₱4.9 billion in Q2 and ₱9.1 billion as of June 2019, primarily due to sales contribution of new stores and healthy SSSG. The consumer appliances and electronics format contributed the most to specialty segment's sales with 59% share.

Gross margins declined to 25.3% in Q2 and 26.5% as of June 2019 due to margin compression in the fashion specialty and coffee shop formats.

Excluding PFRS 16, EBIT margins in Q2 and YTD June were at 5.9% and 5.4% of sales, respectively, while EBITDA margins were at 7.5% in Q2 and 7.2% as of June 2019. With the impact of PFRS 16, the EBIT margins in Q2 and YTD June were higher at 6.9% and 5.9% of sales, respectively, while EBITDA margins were 14.9% in Q2 and 11.2% as of June 2019.

**Balance Sheet**

As of June 30, 2019, the Company’s balance sheet showed consolidated assets of ₱129.67 billion, which is 20.3% higher than the total consolidated assets of ₱107.78 billion as of December 31, 2018.

Cash and cash equivalents decreased from ₱14.79 billion as of December 31, 2018, to ₱12.19 billion as of June 30, 2019. Net cash provided by operating activities totaled ₱1.77 billion. Net cash used in investing activities amounted to ₱550.23 million, ₱1.50 billion of which was used to acquire properties and equipment and ₱280 million was used for additional investment in an associate. Net cash spent from financing activities amounted to ₱3.73 billion.

Effective January 1, 2019, right-of-use assets (ROU) and lease liability amounting to ₱25.76 billion were recognized in accordance to the new lease accounting standard PFRS 16. For the six months ended June 30, 2019, amortization and interest expense amounted to ₱1.95 billion and ₱1.00 billion, respectively.

Investment in debt and equity instrument financial assets decreased by 4.7% from ₱19.75 billion in 2018 to ₱18.83 billion as of June 30, 2019 due to the early redemption of a debt security amounting to ₱1.58 billion offset by additions for the first half of 2019 amounting to ₱355 million and the fair value gains for the six months ended June 30, 2019 of ₱414 million.

Investment in associates increased by 10.2% from ₱6,814 million in 2018 to ₱7,510 million as of June 30, 2019 mainly driven by additional capital infusion to Taste Central Curators, Inc. and the share in associates fair value gains on its financial assets at FVOCI amounting to ₱344 million.

Deferred tax assets increased by 55.6% from ₱414.46 million in 2018 to ₱643.36 million, ₱217.41 million of which pertains to PFRS 16 adjustments.

Current loans payable decreased from payment of loans during the period amounting to ₱2.81 billion offset by availment of ₱1.65 billion.

Stockholder’s equity grew from ₱72.70 billion as of December 31, 2018, to ₱74.17 million as of June 30, 2019, due to net income during the period offset by the declaration of cash dividend of ₱0.72 per share.