# COVER SHEET

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SEC Registration Number

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

110 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City

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

**Diosdado Felix Zapata III**

(Contact Person)

**635-0797**

(Company Telephone Number)

**12** **31**

*Month* *Day*

(Fiscal Year)

**17-Q**

(Form Type)

*Month* *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

**16**

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

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, 2014

2. Commission identification number A20021756

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

   110 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City, Philippines 1002

8. Issuer's telephone number, including area code

   (632) 635-07-97

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

   n/a

10. Securities registered pursuant to Sections 8 and 12 of the 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 | 1,366,028,050 |

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 class/es 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, 2014

**PART 1 – FINANCIAL INFORMATION**

## 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: | John L. Gokongwei, Jr.<br>Chairman and Chief Executive Officer |
| Date: | August 14, 2014 |
| Signature and Title: | Diosdado Felix A. Zapata III<br>Vice President and Chief Financial Officer |
| Date: | August 14, 2014 |

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City, Metro Manila

The management of **Robinsons Retail Holdings Inc. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the six months ended June 30, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

MR. JOHN L. GOKONGWEI, JR.
Chairman and Chief Executive Officer

ROBINA Y. GOKONGWEI – PE
President and COO

DIOSDADO FELIX A. ZAPATA III
Vice President and Chief Financial Officer

Signed this 14th day of August, 2014

AUG 14 2014

Subscribed and Sworn to before me this ________________, 2014 affiant(s) exhibiting to me his Residence Certificate/Passport, as follows:

| Name | Competent Proof of Identity | Place/Date of Issue |
|---|---|---|
| John L. Gokongwei, Jr. | TIN No. 124-294-226 | |
| Robina Y. Gokongwei-Pe | TIN No. 139-634-860 | |
| Diosdado Felix Zapata III | TIN 142-200-457 | |

Who is personally known to me to be the same person 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 14th day of August 20 14.

Doc. No. 27;
Page No. 6;
Book No. II;
Series of 2014.

ATTY. GILBERT S. MILLADO, JR.
Roll No. 45039
Notary Public
Until December 31, 2014
PTR No. 9049245; Jan. 6, 2014; Quezon City
IBP No. 953587; Jan. 8, 2014; CALMANA
TIN 166-215-465
Commission-Adm. No. 233 (2013-2014)
MCLE Compliance No. IV-0015071

Item 1 – Financial Statements

A. Unaudited Consolidated Balance Sheet as of June 30, 2014 and Audited Consolidated Balance Sheet as of December 31, 2013

B. Unaudited Consolidated Statements of Comprehensive Income for the Three Months Ended June 30, 2014 and 2013 and for the Six Months Ended June 30, 2014 and 2013

C. Unaudited Consolidated Statement of Changes in Equity for the Six Months Ended June 30, 2014 and 2013

D. Unaudited Consolidated Statements of Cash Flow for the Six Months Ended June 30, 2014 and 2013

E. Notes to Unaudited Consolidated Financial Statements

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**
**(Formerly Robinsons Holdings, Inc. and Subsidiaries)**

# UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 8 and 29) | **₱9,980,695,140** | ₱30,135,581,370 |
| Short-term investments (Note 9) | **6,837,669,623** | 335,101,613 |
| Trade and other receivables (Notes 11 and 29) | **792,744,126** | 1,108,452,139 |
| Merchandise inventories (Note 12) | **7,637,249,199** | 7,028,810,289 |
| Other current assets (Note 13) | **1,271,041,963** | 1,008,098,342 |
| Total Current Assets | **26,519,400,051** | 39,616,043,753 |
| **Noncurrent Assets** | | |
| Property and equipment (Note 14) | **7,873,414,640** | 6,896,788,480 |
| Available-for-sale (AFS) financial assets (Note 10) | **10,840,389,839** | – |
| Investment in shares of stocks (Note 15) | **1,914,388,829** | 1,803,149,527 |
| Intangible assets (Note 16) | **3,095,450,602** | 2,906,604,232 |
| Deferred tax assets (Note 27) | **138,836,263** | 119,331,416 |
| Other noncurrent assets (Note 17) | **1,287,036,548** | 958,915,358 |
| Total Noncurrent Assets | **25,149,516,721** | 12,684,789,013 |
| | **₱51,668,916,772** | ₱52,300,832,766 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 18) | **₱10,853,831,651** | ₱12,075,397,219 |
| Current portion of loans payable (Notes 19 and 29) | **145,555,556** | 395,555,556 |
| Income tax payable | **429,956,175** | 700,641,915 |
| Other current liabilities | **236,247,357** | 203,652,278 |
| Total Current Liabilities | **11,665,590,739** | 13,375,246,968 |
| **Noncurrent Liabilities** | | |
| Loans payable - net of current portion (Notes 19 and 29) | **83,966,112** | 111,860,152 |
| Deferred tax liability (Notes 21 and 27) | **470,075,260** | 470,075,260 |
| Pension liability (Note 25) | **392,337,050** | 361,181,660 |
| Total Noncurrent Liabilities | **946,378,422** | 943,117,072 |
| Total Liabilities | **12,611,969,161** | 14,318,364,040 |

(Forward)

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| **Equity** | | |
| Capital stock (Note 20) | **₱1,385,000,000** | ₱1,385,000,000 |
| Additional paid-in capital | **27,026,913,866** | 27,026,913,866 |
| Treasury shares | **(1,100,373,100)** | (1,100,373,100) |
| Other comprehensive income (Notes 10 and 25) | **73,118,082** | 27,710,882 |
| Equity reserve | **116,459,430** | 116,459,430 |
| Retained earnings (Note 20) | **9,856,034,785** | 9,050,943,458 |
| Total equity attributable to equity holders of the Parent Company | **37,357,153,063** | 36,506,654,536 |
| Non-controlling interest in consolidated subsidiaries | **1,699,794,548** | 1,475,814,190 |
| Total Equity | **39,056,947,611** | 37,982,468,726 |
| | **₱51,668,916,772** | ₱52,300,832,766 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## (Formerly Robinsons Holdings, Inc. and Subsidiaries)
# UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **SALES**- net of sales discounts and returns (Note 22) | **₱19,553,373,486** | ₱16,303,156,002 | **₱36,979,383,461** | ₱31,316,634,034 |
| **COST OF MERCHANDISE SOLD** (Note 12) | **15,328,360,990** | 12,830,105,254 | **29,089,533,461** | 24,770,439,146 |
| **GROSS PROFIT** | **4,225,012,496** | 3,473,050,748 | **7,889,850,000** | 6,546,194,888 |
| **ROYALTY, RENT AND OTHER REVENUE**(Notes 30 and 31) | **381,564,049** | 353,259,547 | **706,004,648** | 646,475,000 |
| **GROSS PROFIT INCLUDING OTHER REVENUE** | **4,606,576,545** | 3,826,310,295 | **8,595,854,648** | 7,192,669,888 |
| **OPERATING EXPENSES** (Note 23) | **(3,505,071,918)** | (2,871,229,412) | **(6,736,768,389)** | (5,579,857,851) |
| **OTHER INCOME (CHARGES)** | | | | |
| Interest income (Notes 8, 9 and 10) | **135,274,720** | 17,095,397 | **235,323,510** | 40,808,097 |
| Dividend income | – | 1,090,720 | – | 3,271,519 |
| Interest expense (Note 19) | **(4,251,765)** | (20,840,340) | **(9,463,042)** | (45,619,367) |
| Unrealized foreign currency exchange gain (loss) | **(30,156,532)** | 8,115,640 | **(30,148,673)** | 6,228,595 |
| Equity in net earnings of an associate (Note 15) | **37,950,552** | (16,676,549) | **50,246,489** | 126,819,029 |
| | **138,816,975** | (11,215,132) | **245,958,284** | 131,507,873 |
| **INCOME BEFORE INCOME TAX** | **1,240,321,602** | 943,865,751 | **2,105,044,543** | 1,744,319,910 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 27) | | | | |
| Current | **349,435,836** | 289,164,426 | **594,080,287** | 469,207,778 |
| Deferred | **(17,682,614)** | 10,313,165 | **(40,245,597)** | 3,023,763 |
| | **331,753,222** | 299,477,591 | **553,834,690** | 472,231,541 |
| **NET INCOME** | **908,568,380** | 644,388,160 | **1,551,209,853** | 1,272,088,369 |
| **OTHER COMPREHENSIVE INCOME(LOSS)** | | | | |
| *Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:* | | | | |
| Changes in fair value of AFS financial assets (Note 10) | **(950,257)** | 417,133,034 | **3,874,616** | 417,133,034 |
| Share in change in fair value of AFS financial assets of an associate (Note 15) | **56,512,995** | (272,875,595) | **65,683,828** | (274,675,595) |
| Share in change in translation adjustment of an associate (Note 15) | **34,725,412** | (78,816,050) | **(4,691,015)** | (23,313,699) |
| Income tax effect | **(27,086,445)** | 31,204,244 | **(19,460,229)** | 15,093,539 |
| *Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:* | | | | |
| Share in actuarial losses on pension liability of an associate | – | (7,260,054) | – | (7,260,054) |
| Actuarial losses on net pension liabilities (Note 25) | – | 15,490,889 | – | (81,431,717) |
| Income tax effect | – | (4,647,267) | – | 24,429,515 |
| | **63,201,705** | 100,229,201 | **45,407,200** | 69,975,023 |
| **TOTAL COMPREHENSIVE INCOME** | **₱971,770,085** | ₱744,617,361 | **₱1,596,617,053** | ₱1,342,063,392 |
| Net income attributable to: | | | | |
| Equity holders of the Parent Company | **₱806,249,610** | ₱553,998,360 | **₱1,367,829,495** | ₱1,085,807,856 |
| Non-controlling interest in consolidated subsidiaries | **102,318,770** | 90,389,800 | **183,380,358** | 186,280,513 |
| | **₱908,568,380** | ₱644,388,160 | **₱ 1,551,209,853** | ₱1,272,088,369 |

(Forward)

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Parent Company | **₱869,451,315** | ₱654,227,561 | **₱1,413,236,695** | ₱1,155,782,879 |
| Non-controlling interest in consolidated subsidiaries | **102,318,770** | 90,389,800 | **183,380,358** | 186,280,513 |
| | **₱971,770,085** | ₱744,617,361 | **₱1,596,617,053** | ₱1,342,063,392 |
| **Basic/Diluted Earnings Per Share** (Note 28) | **₱0.59** | ₱1.33 | **₱1.00** | ₱2.62 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## (Formerly Robinsons Holdings, Inc. and Subsidiaries)
## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**For the Six Months Ended June 30, 2014**

| | Capital Stock (Note 20) | Additional Paid-in Capital (Note 20) | Deposit for Future Stock Subscription (Note 20) | Other Comprehensive Income (Loss) | Equity Reserve (Note 2) | Retained Earnings: Appropriated (Note 20) | Retained Earnings: Unappropriated (Note 20) | Treasury Stock (Note 20) | Total Equity Attributable to Equity Holders of the Parent Company | Non-controlling Interest in Consolidated Subsidiaries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2014 | **₱1,385,000,000** | **₱27,026,913,866** | **₱–** | **₱27,710,882** | **₱116,459,430** | **₱4,340,251,453** | **₱4,710,692,005** | **(₱1,100,373,100)** | **₱36,506,654,536** | **₱1,475,814,190** | **₱37,982,468,726** |
| Additional investment in a subsidiary | – | – | – | – | – | – | – | – | – | **40,600,000** | **40,600,000** |
| Dividends paid | – | – | – | – | – | – | **(562,738,168)** | – | **(562,738,168)** | – | **(562,738,168)** |
| Appropriation during the year | – | – | – | – | – | **1,742,000,000** | **(1,742,000,000)** | – | – | – | – |
| Net income | – | – | – | – | – | – | **1,367,829,495** | – | **1,367,829,495** | **183,380,358** | **1,551,209,853** |
| Other comprehensive income | – | – | – | **45,407,200** | – | – | – | – | **45,407,200** | – | **45,407,200** |
| Total comprehensive income | – | – | – | **45,407,200** | – | – | **1,367,829,495** | – | **1,413,236,695** | **183,380,358** | **1,596,617,053** |
| **Balance at June 30, 2014** | **₱1,385,000,000** | **₱27,026,913,866** | **₱–** | **₱73,118,082** | **₱116,459,430** | **₱6,082,251,453** | **₱3,773,783,332** | **(₱1,100,373,100)** | **₱37,357,153,063** | **₱1,699,794,548** | **₱39,056,947,611** |

For the Six Months Ended June 30, 2013

| | Capital Stock (Note 20) | Additional Paid-in Capital (Note 20) | Deposit for Future Stock Subscription (Note 20) | Other Comprehensive Income (Loss) | Equity Reserve (Note 2) | Retained Earnings: Appropriated (Note 20) | Retained Earnings: Unappropriated (Note 20) | Treasury Stock (Note 20) | Total Equity Attributable to Equity Holders of the Parent Company | Non-controlling Interest in Consolidated Subsidiaries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2013 | ₱415,000,000 | ₱141,816,919 | ₱– | (₱30,049,176) | ₱116,459,430 | ₱4,235,825,899 | ₱2,072,819,567 | ₱– | ₱6,951,872,639 | ₱1,105,509,148 | ₱8,057,381,787 |
| Subscriptions of shares of stocks during the period | – | – | 485,250,000 | – | – | – | – | – | 485,250,000 | – | 485,250,000 |
| Dividends paid | – | – | – | – | – | – | (2,666,667) | – | (2,666,667) | – | (2,666,667) |
| Appropriation during the period | – | – | – | – | – | 917,531,811 | (917,531,811) | – | – | – | – |
| Net income | – | – | – | – | – | – | 1,085,807,856 | – | 1,085,807,856 | 186,280,513 | 1,272,088,369 |
| Other comprehensive income | – | – | – | 69,975,023 | – | – | – | – | 69,975,023 | – | 69,975,023 |
| Total comprehensive income | – | – | – | 69,975,023 | – | – | 1,085,807,856 | – | 1,155,782,879 | 186,280,513 | 1,342,063,392 |
| **Balance at June 30, 2013** | ₱415,000,000 | ₱141,816,919 | ₱485,250,000 | ₱39,925,847 | ₱116,459,430 | ₱5,153,357,710 | ₱2,238,428,945 | ₱– | ₱8,590,238,851 | ₱1,291,789,661 | ₱9,882,028,512 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**
**(Formerly Robinsons Holdings, Inc. and Subsidiaries)**

**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2014** | 2013 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱2,105,044,543** | ₱1,744,319,910 |
| Adjustments for: | | |
| Depreciation and amortization (Notes 14 and 16) | **587,337,291** | 467,148,875 |
| Equity in net earnings of an associate (Note 15) | **(50,246,489)** | (126,819,029) |
| Interest expense (Note 19) | **9,463,042** | 45,619,367 |
| Interest income (Notes 8, 9 and 10) | **(235,323,510)** | (40,808,097) |
| Dividend income | **–** | (3,271,519) |
| Unrealized foreign exchange loss (gain) | **30,148,673** | (6,228,595) |
| Provision for impairment losses - property and equipment (Notes 14 and 23) | **–** | 3,864,978 |
| Operating income before working capital changes | **2,446,423,550** | 2,083,825,890 |
| Decrease (increase) in: | | |
| Trade and other receivables | **390,063,011** | 254,083,805 |
| Merchandise inventories | **(608,438,910)** | 408,457,808 |
| Other current assets | **(282,437,102)** | (185,053,695) |
| Short-term investments | **(6,525,321,336)** | 7,132,879 |
| Increase (decrease) in: | | |
| Trade and other payables | **(1,800,563,153)** | (2,926,049,305) |
| Other current liabilities | **32,595,077** | (50,240,407) |
| Pension liability | **31,155,390** | 25,449,665 |
| Net cash flows used in operations | **(6,316,523,473)** | (382,393,360) |
| Income tax paid | **(843,992,024)** | (266,730,601) |
| Interest received | **160,968,512** | 44,748,792 |
| Net cash flows used in operating activities | **(6,999,546,985)** | (604,375,169) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Dividends received | **–** | 3,271,519 |
| Acquisitions of: | | |
| Property and equipment (Note 14) | **(1,566,034,033)** | (1,053,341,539) |
| AFS investments | **(10,843,910,570)** | – |
| Goodwill | **(148,705,000)** | – |
| Franchise | **(37,949,450)** | – |
| License | **(3,000,000)** | – |
| Proceeds from disposals of: | | |
| AFS financial assets | **–** | 50,000,000 |
| Property and equipment | **3,177,008** | 1,291,781 |
| Increase in other noncurrent assets | **(328,419,535)** | (103,476,958) |
| Net cash flows used in investing activities | **(12,924,841,580)** | (1,102,255,197) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from stock subscriptions (Note 18) | **–** | 485,250,000 |
| Payment of loans (Note 19) | **(277,894,040)** | (812,934,992) |
| Interest paid (Note 19) | **9,463,042** | (45,619,367) |
| Dividends paid | **(2,666,667)** | (2,666,667) |
| Increase (decrease) in noncontrolling interest | **40,600,000** | – |
| Cash flows used in financing activities | **(230,497,665)** | (375,971,026) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(20,154,886,230)** | (2,082,601,392) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **30,135,581,370** | 6,051,728,328 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** (Note 8) | **₱9,980,695,140** | ₱3,969,126,936 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements*

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## (Formerly Robinsons Holdings, Inc. and Subsidiaries)

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Robinsons Retail Holdings, Inc. (formerly Robinsons 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 Parent Company is 35.49% owned by JE Holdings, Inc. 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.

The registered office address and principal place of business of the Parent Company is at 110 E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City.

On March 26, 2013, the SEC approved the change of the Parent Company's corporate name from Robinsons Holdings, Inc. to Robinsons Retail Holdings, Inc.

2. **Basis of Preparation**

The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets, which are measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), the Group's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

The Group's management opted to change the presentation of its consolidated statements of comprehensive income. "Gross profit" and "Gross profit including other revenue" have been presented to assist users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes and computation of financial ratios. The Group's management believes that the inclusion of "Gross profit" and "Gross profit including other revenue", which included the "royalty, rent and other revenue" line item, for the six months ended June 30, 2014 and 2013 would be more useful to the users of the consolidated financial statements.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

In 2013, the Group finalized the purchase price allocation and the fair value computation of trademark and goodwill from its acquisition of South Star Drug, Inc. (SSDI), a subsidiary, through business combination on July 4, 2012.

Basis of Consolidation
The interim condensed consolidated financial statements represent the consolidation of the financial statements of RRHI and the following subsidiaries directly and indirectly owned by the Parent Company.

| Investee Companies | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Percentage of Ownership | | | |
| | **Direct** | **Indirect** | Direct | Indirect |
| Robinsons, Inc. (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) | – | **51.00%** | – | 51.00% |
| South Star Drug, Inc. (SSDI) | – | **45.00%** | – | 45.00% |
| GNC Pharma Corporation (GPC) | – | **100.00%** | – | – |
| Robinsons Gourmet Food and Beverages, Inc. (RGFBI) | – | **100.00%** | – | 100.00% |
| Robinsons Supermarket Corporation (RSC) | **100.00%** | – | 100.00% | – |
| Angeles Supercenter, Inc. (ASI) | – | **67.00%** | – | 67.00% |
| Eurogrocer Corp. (EC) | – | **100.00%** | – | 100.00% |
| JAS 8 Retailing Mngt. Corp. (JRMC) | – | **100.00%** | – | – |
| Robinsons Appliances Corp. (RAC) | – | **67.00%** | – | 67.00% |
| South Star Drug, Inc. (SSDI) | – | **45.00%** | – | 45.00% |
| Robinsons Handyman, Inc. (RHMI) | – | **55.00%** | – | 55.00% |
| Handyman Express Mart, Inc. (HEMI) | – | **65.00%** | – | 65.00% |
| Waltermart Handyman, Inc. (WHI) | – | **65.00%** | – | 65.00% |
| Robinsons True Serve Hardware Philippines, Inc. (RTSHPI) | – | **66.67%** | – | 66.67% |
| 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. | **100.00%** | – | 100.00% | – |

All subsidiaries were incorporated in the Philippines.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Establishment and Acquisition of New Companies

On June 2, 2014, SSDI acquired 100% ownership of GPC, a Company engaged in the business of pharmaceutical retailing (Note 20).

On January 29, 2014, RSC acquired 100% ownership of JRMC, a Company engaged in the business of grocery retailing (Note 20).

On September 14, 2013, RSC acquired 100% ownership of EC, a Company engaged in the business of grocery retailing (Note 20).

On July 8, 2013, RGFBI, wholly-owned subsidiary of RI, was incorporated to engage in the business of establishing, operating and managing of retail coffee shops and espresso shops. RI provided equity funding to RGFBI amounting ₱100 million.

On May 23, 2013, RRG Trademarks and Private Labels, Inc., wholly-owned subsidiary of the Parent Company, was incorporated to administer and own marks. The Parent Company provided equity funding to RRG Trademarks and Private Labels, Inc. amounting ₱0.19 million.

On May 23, 2013, RRHI Trademarks Managements, Inc., wholly-owned subsidiary of the Parent Company, was incorporated to administer and own marks. The Parent Company provided equity funding to RRHI Trademarks Management, Inc. amounting ₱0.19 million.

On May 27, 2013, RHMI Management and Consulting, Inc., wholly-owned subsidiary of the Parent Company, was incorporated to provide management and consulting services. The Parent Company provided equity funding to RHMI Management and Consulting, Inc. amounting ₱0.19 million.

On May 27, 2013, RRHI Management and Consulting, Inc., wholly-owned subsidiary of the Parent Company, was incorporated to provide management and consulting services. The Parent Company provided equity funding to RRHI Management and Consulting, Inc. amounting ₱0.19 million.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group 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.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

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 non-controlling interests 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 Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- 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's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

## 3. Changes in Accounting Policies

The accounting policies adopted in the preparation of the Group's interim consolidated financial statements are consistent with those of the previous financial years except for the adoption of the following new and amended Philippine Financial Reporting Standards (PFRS) and Philippine Interpretations which became effective beginning January 1, 2014. Except as otherwise stated, the adoption of these new and amended Standards and Philippine Interpretations did not have any impact on the interim condensed consolidated financial statements.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)* (effective for annual periods beginning on or after January 1, 2014)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the

period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments will affect disclosures only and will have no impact on the Group's financial position or performance.

- Philippine Interpretation IFRIC 21, *Levies* (effective for annual periods beginning on or after January 1, 2014)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that IFRIC 21 will have material financial impact in the consolidated financial statements.

- Amendments to PFRS 10, PFRS 12 and PAS 27, *Investment Entities*(effective for annual periods beginning on or after January 1, 2014)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The Group does not expect that these amendments will have material financial impact in the consolidated financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*(effective for annual periods beginning on or after January 1, 2014)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group does not expect that these amendments will have material financial impact in the consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments will affect presentation only and will have no impact on the Group's financial position or performance.

The Group will adopt the following standards, interpretations and amendments to standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) to have significant impact on the Group's financial statements.

*Effective in 2015*

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement

requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

The Group will assess the impact of PFRS 9 in its consolidated financial statements upon completion of all phases of PFRS 9.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This Philippine Interpretation, which may be early applied, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The interpretation is not relevant to the Group as it is not involved in real estate business.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*(effective for annual periods beginning on or after July 1, 2014)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service.

  Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be applied retrospectively. The amendments will have no significant impact on the Group's financial position or performance.

*Annual Improvements to PFRS* (2010-2012 cycle)
The *Annual Improvements to PFRS* (2010-2012 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after July 1, 2014. Except as otherwise indicated, the Group does not expect the adoption of these new standards to have significant impact on the Group's consolidated financial statements.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. The amendment is to be applied prospectively. This amendment does not apply to the Group as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or

more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are to be applied retrospectively. The amendments affect disclosures only and will have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
    a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
    b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment will have no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are to be applied retrospectively. The amendments affect disclosures only and will have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
    a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
    b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments will have no impact on the Group's financial position or performance.

*Annual Improvements to PFRS* (2011-2013 cycle)
The *Annual Improvements to PFRS* (2011-2013 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied prospectively. Except as otherwise indicated, the Group does not expect the adoption of these new standards to have significant impact on the Group's consolidated financial statements.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment will have no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment will have no impact on the Group's financial position or performance.

## 4. Seasonality of Operations

Due to the seasonal nature of the Group's business, higher revenues and operating profits are usually expected in the last quarter of the year than the first six (6) months. Higher revenues from October to December are mainly attributed to the increased sales during the peak holiday season.

## 5. Summary of Significant Accounting Policies

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and other sales taxes. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

*Sales revenue*
Sales are recognized from retail customers at the point of sale in the stores. Sales returns and sales discounts are deducted from the sales to arrive at the net sales shown in the consolidated statement of comprehensive income.

*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, cash equivalents and short-term cash investments is recognized as the interest accrues using the effective interest method.

*Dividend income and other income*
Dividend income and other income are 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 and allowances 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 Instruments
*Date of recognition*
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial recognition of financial instruments*
Financial instruments are recognized initially at the fair value of the consideration given. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

*Determination of fair value*
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.

As of June 30, 2014 and December 31, 2013, the financial instruments of the Group are classified as loans and receivables, AFS financial assets and other financial liabilities.

*Day 1 profit*
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a ‘Day 1’ profit) in the consolidated statement of comprehensive income. In cases where use is made of data which is not observable, the difference between transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the ‘Day 1’ profit amount.

*AFS financial assets*
AFS financial assets are those which are designated as such and are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as OCI in the equity section of the consolidated statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in the consolidated statement of changes in equity is recognized in the consolidated statement of comprehensive income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of comprehensive income.

This accounting policy relates primarily to the Group’s investments in debt and equity securities and non-voting preferred shares.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed

maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR).

This accounting policy relates primarily to the Group's cash and cash equivalents, trade and other receivables, security deposits and construction bonds.

*Receivables*
Receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition, and includes fees that are an integral part of the effective interest rate (EIR) and transaction costs. Gains and losses are recognized in profit or loss, when the receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy applies primarily to the Group's trade and other receivables (Note 11).

*Financial liabilities*
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at cost or amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

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

<u>Classification of Financial Instruments Between Debt and Equity</u>
A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

The Group has no financial instruments that contain both liability and equity elements.

Offsetting of Financial Instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated 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. This is not generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*AFS financial assets*
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded under interest income in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is also reversed through profit or loss.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income, is removed from the consolidated statement of changes in equity and recognized in the consolidated statement of comprehensive income.

Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in the consolidated statement of changes in equity.

*Loans and receivables*
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as the borrower's payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any difference between loss estimates and actual loss experience.

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 when:

- the Group rights 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 rights 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and 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 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 consolidated statement of comprehensive income.

Embedded Derivative

The Group assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment where there is a change to the contract that significantly modifies the cash flows.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial instruments designated at FVPL; when their economic risks and characteristics are not clearly and closely related to those of their respective host contracts; and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the

Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets or liabilities at FVPL. Changes in fair values are included in the profit and loss. As of June 30, 2014 and December 31, 2013, the Group's interest rate swap is assessed as clearly and closely related and no bifurcation is required to recognize either gain or loss on embedded derivative.

Cash and Cash Equivalents
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. Cash and cash equivalents, excluding cash on hand, are classified and accounted for as loans and receivables.

Merchandise Inventories
Merchandise inventories are stated at the lower of cost or net realizable value (NRV). Cost is determined using the retail inventory method. Under the retail inventory method, which approximates the lower of cost or NRV, inventory is valued by applying a cost-to-retail ratio to the ending retail value of inventory. 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.

Investment in an Associate
Investment in an associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the investee company 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 investee company, less any impairment in value. The profit or loss reflects the share of the results of the operations of the investee company reflected as "Equity in net earnings of an associate" under "Other income (charges)" in the consolidated statement of comprehensive income. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group's share in the investee's post acquisition movements in the investee's equity reserves is recognized directly in equity. Profit and losses resulting from transactions between the Group and the investee company are eliminated to the extent of the interest in the investee company 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 their investment in investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company subsequently reports 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 investee company and the Group are identical and the investee companies' 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 its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount under "Other expenses" in the consolidated statement of income.

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

Business Combination and Goodwill

PFRS 3 provides that 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 acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve 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 acquirer 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 acquirer 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 PAS 39 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 loss. 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 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 income any excess remaining after reassessment.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization and accumulated impairment in value, if any. 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 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. Construction in-progress 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 are as follows:

| | Years |
|---|---|
| Leasehold improvements | 10 |
| Store furniture and fixtures | 10 |
| Office furniture and fixtures | 10 |
| Transportation equipment | 10 |
| Building and other equipment | 20 |
| Computer equipment | 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.

Intangible Assets
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 useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 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.

*License*
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 statement of comprehensive income under “Operating expenses” account.

*Trademark*
Trademark was acquired through business combination in 2012 and was recognized at fair value at the date of acquisition. This has indefinite useful life. Following initial recognition, the trademark is carried at cost and subject to annual impairment testing.

Impairment of Nonfinancial Assets
This accounting policy primarily applies to the Group’s property and equipment, investment in an associate 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 an associate*
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 the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investment in an associate 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 investee company and recognizes the difference in profit or loss.

*Impairment of goodwill*
Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. 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 has been allocated, an impairment loss is recognized immediately in the consolidated statement of comprehensive income. Impairment loss recognized for goodwill shall not be reversed in future periods.

<u>Pension Cost</u>
*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. 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 high quality corporate 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.

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 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.

<u>Income Tax</u>
*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 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 profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss 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 20). 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.

Retained Earnings
Retained earnings represent accumulated earnings of the Group less dividends declared. It includes the accumulated equity in undistributed earnings of consolidated subsidiaries which are not available for dividends until declared by subsidiaries (Note 20).

Treasury Shares
Treasury shares are own equity instruments which are reacquired, recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation, if reissued, is recognized in APIC. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to APIC to the extent of the specific or average APIC when the shares were issued and to retained earnings for the remaining balance. The retained earnings account is restricted to payment of dividends to the extent of the cost of treasury shares (Note 20).

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 was initially included in the lease term;
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 Philippine Dealing and Exchange Corp. (PDEX) closing rate prevailing at the reporting date. 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.

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 period ended June 30, 2014 and December 31, 2013 (Note 28).

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.

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 7.

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 notes when material.

## 6. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS 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:

*Going concern*
The management of the Group has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Group is not aware of any material uncertainties that may cast significant doubts upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

*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 noncancellable 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 noncancellable. Also, the Group has determined that it has not retained all the significant risks and rewards of ownership of the leased property.

*Operating lease commitments - Group as lessor*
The Group has entered into lease agreements to provide store facilities and equipment (Note 30). The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

*Revenue recognition*
Management exercises judgment in determining whether the Group is acting as a principal or an agent. The Group is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods, otherwise it is acting as an agent. The Group has assessed all its revenue arrangements and concluded that it is acting as a principal.

*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.

The Group has contingent assets arising from an ongoing damage claims pending final assessment. The outcome of certain cases is not presently determinable in the opinion of the management, eventual asset, if any, will not have material or adverse effect on the Group's financial position and results of operations.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation and 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.

*Determining fair values of financial assets and liabilities*
Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. Fair value disclosures are provided in Note 29.

*Allowance for impairment losses on trade and other receivables*
The Group maintains allowance for impairment losses at levels considered adequate to provide for potential uncollectible receivables. The levels of this allowance are evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the debtor, the debtor's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The Group provides full allowance for receivables that it deems uncollectible.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease the current assets.

The related balances follow (Note 11):

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| Trade and other receivables | **₱822,786,227** | ₱1,138,494,240 |
| Allowance for impairment losses | **30,042,101** | 30,042,101 |

*Impairment of AFS financial assets*
The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value of the investment below its cost or whether other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' greater than six (6) months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

*Allowance for impairment losses on merchandise inventories*
The Group uses the retail method of inventory valuation. Under the retail method, inventory markdowns are considered in determining the cost of inventories. The Group has made assumptions in determining the amount of markdown to be recognized based on the information available.

*EUL of property and equipment*
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The EUL of property and equipment are reviewed annually, considering factors such as asset utilization, internal technical evaluation, technological changes, environmental changes and anticipated use of the assets.

In 2013, the management concluded its reassessment of the EUL of its property and equipment items to reflect the appropriate pattern of economic benefits. The changes in accounting estimates is accounted for prospectively resulting in a decrease in the depreciation expense of the Group by ₱780.64 million for the year ended December 31, 2013 (Note 14).

The related balances follow (Notes 14 and 23):

| | **June, 30 2014** | December 31, 2013 |
|---|---|---|
| Property and equipment - cost | **₱17,495,289,917** | ₱15,940,122,419 |
| Accumulated depreciation and amortization | **9,546,075,345** | 8,967,534,007 |
| Depreciation and amortization | **586,230,865** | 987,128,720 |

*Evaluation of impairment of nonfinancial assets*
The Group reviews property and equipment, investment in an associate and intangible assets 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 an associate 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 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, 2014 and December 31, 2013, no indicators of impairment exist for property and equipment, investment in an associate and intangible assets.

The related carrying values follow (Notes 14, 15 and 16):

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| Property and equipment – net | **₱7,873,414,640** | ₱6,896,788,480 |
| Investment in an associate | **444,305,390** | 333,066,088 |
| Trademark | **1,566,917,532** | 1,566,917,532 |
| Licenses | **111,282,830** | 109,090,910 |
| Franchise | **37,949,450** | – |

*Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimate of the recoverable amounts which is the net selling price or value in use of the CGUs to which the goodwill is allocated. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGUs and choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group has determined that goodwill is recoverable as there were no indications that it is impaired. Goodwill amounted to ₱1,379,300,790 and ₱1,230,595,790 as of June 30, 2014 and December 31, 2013, respectively (Note 16 and 21).

*Pension and other retirement benefits*
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25, and include, among others, discount rate and salary rates increase.

The related amounts as follow (Note 25):

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| Net pension liabilities | **₱392,337,050** | ₱361,181,660 |
| Pension expense | **31,135,585** | 52,543,936 |
| Present value of defined benefit obligation | **409,305,299** | 378,150,409 |
| Actuarial losses recognized in OCI | – | 28,395,304 |

*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 profit 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 profit against which recognized deferred tax assets will be realized.

As of June 30, 2014 and December 31, 2013, the Group has deferred tax assets amounting ₱138,836,263 and ₱119,331,416, respectively (Note 27).

*Purchase price allocation*

Acquisition of SSDI
In December 2013, the Group finalized the purchase price allocation and the fair value computation of trademark and goodwill. The December 31, 2012 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, trademark, deferred tax liability and non-controlling interest increased by ₱1,566,917,532, ₱470,075,260 and ₱109,684,227, respectively (Note 21).

The final purchase price allocation resulted in goodwill of ₱745,887,131 (Notes 16 and 21).

Acquisition of EC and assets of Beauty Skinnovations Retail, Inc. (BSRI)
As of December 31, 2013, the purchase price allocation relating to the Group's business acquisitions have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition, as of September 14, 2013 and December 5, 2013, respectively, were based on the net book values of the identifiable assets and liabilities since these approximate the fair values (Note 21). The difference between the total consideration and the net assets is recognized as goodwill, as follows (Note 16):

| | EC | BSRI |
|---|---|---|
| Total consideration | ₱318,722,500 | ₱90,000,000 |
| Net assets | 2,500,000 | 6,675,309 |
| Goodwill | ₱316,222,500 | ₱83,324,691 |

Acquisition of JRMC
As of June 30, 2014, the purchase price allocation relating to the Group's business acquisitions have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition, as of January 29, 2014, were based on the net book values of the identifiable assets and liabilities since these approximate the fair values (Note 21). The difference between the total consideration and the net assets is recognized as goodwill, as follows (Note 16):

| | |
|---|---|
| Total consideration | ₱131,705,000 |
| Net assets | 2,500,000 |
| Goodwill | ₱129,205,000 |

Acquisition of GPC
As of June 30, 2014, the purchase price allocation relating to the Group's business acquisitions have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition, as of June 2, 2014, were based on the net book values of the identifiable assets and liabilities since these approximate the fair values (Note 21). The difference between the total consideration and the net assets is recognized as goodwill, as follows (Note 16):

| | |
|---|---|
| Total consideration | ₱24,500,000 |
| Net assets | 5,000,000 |
| Goodwill | ₱19,500,000 |

7. **Operating Segment**

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, investment 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 income before income tax, and earnings before income tax, 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 statements of financial position which is in accordance with PFRS.

The Group derives its revenue from the following reportable units:

- *Supermarket Division*
  The first major retailer to promote health and wellness. Robinson's Supermarket commits to bring together healthy options and affordable prices in a refreshingly clean and organized shopping destination. It makes a bold lifelong commitment to educate and empower its customers to make healthy choices.

- *Department Store Division*
  Robinson's Department Store is one of the premier shopping destinations in the country today. It offers an exceptional selection of merchandise from top international and local brands. From the trendiest fashion pieces, the most coveted lifestyle products, the latest items for the home, to playthings and necessities for the little ones. It provides experience that goes beyond ordinary shopping.

- *Hardware Division*
  Handyman has grown to be one of the most aggressive hardware and home improvement centers in the country. It aims to cover the Philippine landscape with more branches in key commercial centers to promote self reliance among "do-it yourselfers".

- *Convenience Store Division*
  Ministop is a 24 hour convenience store chain and is a franchise of Ministop Co. Ltd., one 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*
  South Star Drug Store offers over a thousand brands from food and pharmaceuticals to personal care products.

- *Specialty Store Division*
  The Specialty Store Division is the lifestyle retail arm of Robinsons Retail Group. It is committed to bringing the best loved international lifestyle brands, top entertainment systems, and unparalleled selection of toys and games.

The financial information about these operating segments as of and for the six months ended June 30, 2014 and 2013 and for the year ended December 31, 2013 is summarized below:

**June 30, 2014**

| | Supermarket Division | Department StoreDivision | Hardware Division | Convenience Store Division | Drug store Division | SpecialtyStore Division | Parent Company | Intersegment Eliminating Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Segment net sales | ₱18,167,629,794 | ₱6,164,783,774 | ₱3,832,693,067 | ₱2,219,224,710 | ₱3,440,971,295 | ₱3,154,080,821 | ₱– | ₱– | ₱36,979,383,461 |
| Intersegment net sales | – | – | – | – | – | 247,075,690 | – | (247,075,690) | – |
| **Total net sales** | 18,167,629,794 | 6,164,783,774 | 3,832,693,067 | 2,219,224,710 | 3,440,971,295 | 3,401,156,511 | – | (247,075,690) | 36,979,383,461 |
| Segment cost of merchandise sold | 14,828,643,632 | 4,292,609,633 | 2,613,684,079 | 2,015,749,059 | 2,879,150,651 | 2,459,696,407 | – | – | 29,089,533,461 |
| Intersegment cost of merchandise sold | – | 247,075,690 | – | – | – | – | – | (247,075,690) | – |
| **Total cost of merchandise sold** | 14,828,643,632 | 4,539,685,323 | 2,613,684,079 | 2,015,749,059 | 2,879,150,651 | 2,459,696,407 | – | (247,075,690) | 29,089,533,461 |
| **Gross profit** | 3,338,986,162 | 1,625,098,451 | 1,219,008,988 | 203,475,651 | 561,820,644 | 941,460,104 | – | – | 7,889,850,000 |
| Segment other income | 47,213,204 | 34,942,538 | – | 570,757,806 | 45,676,924 | 7,414,176 | – | – | 706,004,648 |
| Intersegment other income | 51,711,359 | – | – | – | – | – | – | (51,711,359) | – |
| **Total other income** | 98,924,563 | 34,942,538 | – | 570,757,806 | 45,676,924 | 7,414,176 | – | (51,711,359) | 706,004,648 |
| **Gross profit including other income** | 3,437,910,725 | 1,660,040,989 | 1,219,008,988 | 774,233,457 | 607,497,568 | 948,874,280 | – | (51,711,359) | 8,595,854,648 |
| Segment operating expenses | 2,311,150,048 | 1,191,584,355 | 788,973,459 | 627,243,391 | 438,411,371 | 786,406,016 | 5,662,458 | – | 6,149,431,098 |
| Intersegment operating expenses | – | 27,272,618 | 9,702,810 | – | 8,714,156 | 6,021,774 | – | (51,711,359) | – |
| **Total operating expenses** | 2,311,150,048 | 1,218,856,973 | 798,676,269 | 627,243,391 | 447,125,527 | 792,427,790 | 5,662,458 | (51,711,359) | 6,149,431,098 |
| **Earnings before interest, taxes and depreciation and amortization** | 1,126,760,677 | 441,184,016 | 420,332,719 | 146,990,066 | 160,372,041 | 156,446,490 | (5,662,458) | – | 2,446,423,550 |
| Depreciation and amortization | 258,918,441 | 82,042,744 | 58,503,829 | 88,292,729 | 21,240,614 | 78,338,934 | – | – | 587,337,291 |
| **Earnings before interest and taxes** | 867,842,236 | 359,141,272 | 361,828,890 | 58,697,337) | 139,131,427 | 78,107,556 | (5,662,458) | – | 1,859,086,259 |
| Interest expense | – | – | – | (1,625,000) | (3,984,680) | (3,853,362) | – | – | (9,463,042) |
| Interest income | 2,288,011 | 2,244,079 | 5,746,456 | 553,956 | 1,065,313 | 1,184,135 | 222,241,560 | – | 235,323,510 |
| Unrealized forex gain (loss) | – | – | – | – | – | – | (30,148,673) | – | (30,148,673) |
| Equity in net earnings of an associate | – | – | – | | – | – | 50,246,489 | – | 50,246,489 |
| **Income before income tax** | ₱870,130,247 | ₱361,385,351 | ₱367,575,346 | ₱57,626,293 | ₱136,212,060 | ₱75,438,329 | ₱236,676,918 | – | ₱2,105,044,543 |
| **Assets and Liabilities** | | | | | | | | | |
| Segment assets | 10,041,968,605 | 2,767,782,605 | 3,551,816,838 | 1,772,352,490 | 2,663,727,983 | 3,644,102,978 | 29,889,844,905 | (2,662,679,632) | 51,668,916,772 |
| Investment in subsidiaries - at cost | 1,326,328,033 | 1,834,770,374 | – | – | – | – | 1,736,274,134 | (4,897,372,541) | – |
| **Total segment assets** | ₱11,368,296,638 | ₱4,602,552,979 | ₱3,551,816,838 | ₱1,772,352,490 | ₱2,663,727,983 | ₱3,644,102,978 | ₱31,626,119,039 | (7,560,052,173) | ₱51,668,916,772 |
| **Total segment liabilities** | ₱7,359,617,218 | ₱2,104,936,179 | ₱1,743,574,714 | ₱1,004,284,080 | ₱1,385,257,552 | ₱2,956,492,343 | ₱594,264,575 | (4,536,457,500) | ₱12,611,969,161 |
| **Other segment information:** | | | | | | | | | |
| **Capital expenditures** | ₱566,875,836 | ₱235,211,513 | ₱162,531,506 | ₱234,053,956 | ₱69,912,329 | ₱297,448,893 | ₱– | ₱– | ₱1,566,034,033 |

## June 30, 2013

| | Supermarket Division | Department StoreDivision | Hardware Division | Convenience Store Division | Drug store Division | SpecialtyStore Division | Parent Company | Intersegment Eliminating Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Segment net sales | **₱14,999,208,238** | **₱5,534,047,101** | **₱3,365,250,661** | **₱2,076,805,886** | **₱3,017,272,277** | **₱2,324,049,871** | **₱–** | **₱–** | **₱31,316,634,034** |
| Intersegment net sales | – | – | – | – | – | **178,481,641** | – | **(178,481,641)** | – |
| **Total net sales** | **14,999,208,238** | **5,534,047,101** | **3,365,250,661** | **2,076,805,886** | **3,017,272,277** | **2,502,531,512** | – | **(178,481,641)** | **31,316,634,034** |
| Segment cost of merchandise sold | **12,302,455,007** | **3,901,784,075** | **2,307,778,299** | **1,900,969,548** | **2,527,353,046** | **1,830,099,171** | – | – | **24,770,439,146** |
| Intersegment cost of merchandise sold | – | **178,481,641** | – | – | – | – | – | **(178,481,641)** | – |
| **Total cost of merchandise sold** | **12,302,455,007** | **4,080,265,716** | **2,307,778,299** | **1,900,969,548** | **2,527,353,046** | **1,830,099,171** | – | **(178,481,641)** | **24,770,439,146** |
| **Gross profit** | **2,696,753,231** | **1,453,781,385** | **1,057,472,362** | **175,836,338** | **489,919,231** | **672,432,341** | – | – | **6,546,194,888** |
| Segment other income | **40,661,555** | **6,767,128** | – | **549,855,765** | **41,483,614** | **7,706,938** | – | – | **646,475,000** |
| Intersegment other income | **41,455,763** | – | – | – | – | – | – | **(41,455,763)** | – |
| **Total other income** | **82,117,318** | **6,767,128** | – | **549,855,765** | **41,483,614** | **7,706,938** | – | **(41,455,763)** | **646,475,000** |
| **Gross profit including other income** | **2,778,870,549** | **1,460,548,513** | **1,057,472,362** | **725,692,103** | **531,402,845** | **680,139,279** | – | – | **7,192,669,888** |
| Segment operating expenses | **1,942,902,878** | **1,030,009,824** | **668,470,419** | **543,564,034** | **377,489,327** | **520,164,698** | **26,242,818** | – | **5,108,843,998** |
| Intersegment operating expenses | – | **23,520,839** | **8,781,002** | – | **4,484,698** | **4,669,224** | – | **(41,455,763)** | – |
| **Total operating expenses** | **1,942,902,878** | **1,053,530,663** | **677,251,421** | **543,564,034** | **381,974,025** | **524,833,922** | **26,242,818** | **(41,455,763)** | **5,108,843,998** |
| **Earnings before interest, taxes and depreciation and amortization** | **835,967,671** | **407,017,850** | **380,220,941** | **182,128,069** | **149,428,820** | **155,305,357** | **(26,242,818)** | – | **2,083,825,890** |
| Depreciation and amortization | **199,937,615** | **76,489,786** | **47,487,644** | **82,433,085** | **18,628,703** | **46,037,020** | – | – | **471,013,853** |
| **Earnings before interest and taxes** | **636,030,056** | **330,528,064** | **332,733,297** | **99,694,984** | **130,800,117** | **109,268,337** | **(26,242,818)** | – | **1,612,812,037** |
| Interest expense | **(16,853,448)** | **(15,167,639)** | – | **(4,941,754)** | **(5,457,854)** | **(3,198,672)** | – | – | **(45,619,367)** |
| Interest income | **2,350,134** | **10,913,706** | **8,470,420** | **5,066,729** | **3,997,240** | **4,120,616** | **5,889,252** | – | **40,808,097** |
| Dividend income | **3,271,519** | – | – | – | – | – | – | – | **3,271,519** |
| Unrealized forex gain (loss) | – | – | – | – | – | – | **6,228,595** | – | **6,228,595** |
| Equity in net earnings of an associate | – | – | – | – | – | – | **126,819,029** | – | **126,819,029** |
| **Income before income tax** | **₱624,798,261** | **₱326,274,131** | **₱341,203,717** | **₱99,819,959** | **₱129,339,503** | **₱110,190,281** | **₱112,694,058** | – | **₱1,744,319,910** |

## December 31, 2013

| | Supermarket Division | Department StoreDivision | Hardware Division | Convenience Store Division | Drug store Division | SpecialtyStore Division | Parent Company | Intersegment Eliminating Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| **Assets and Liabilities** | | | | | | | | | |
| Segment assets | **₱8,916,781,572** | **₱3,585,222,266** | **₱3,119,843,992** | **₱1,965,131,397** | **₱2,471,831,550** | **₱3,277,220,905** | **₱29,681,084,428** | **(₱716,283,344)** | **52,300,832,766** |
| Investment in subsidiaries - at cost | **1,326,328,033** | **1,834,770,374** | – | – | – | – | **1,676,874,134** | **(4,837,972,541)** | – |
| **Total segment assets** | **₱10,243,109,605** | **₱5,419,992,640** | **₱3,119,843,992** | **₱1,965,131,397** | **₱2,471,831,550** | **₱3,277,220,905** | **₱31,357,958,562** | **(5,554,255,885)** | **₱52,300,832,766** |
| **Total segment liabilities** | **₱6,844,207,761** | **₱3,174,876,168** | **₱1,567,961,888** | **₱1,237,499,026** | **₱1,288,897,318** | **₱2,737,821,786** | **₱57,161,317** | **₱(2,590,061,224)** | **₱14,318,364,040** |
| **Other segment information:** | | | | | | | | | |
| **Capital expenditures** | **₱1,256,619,038** | **₱424,889,966** | **₱215,550,405** | **₱315,365,266** | **₱78,615,191** | **₱505,704,047** | **₱–** | **₱–** | **₱2,796,743,913** |

The revenue of the Group consists mainly of sales to external customers. Inter-segment revenue arising from purchase arrangements amounting ₱247,075,690 and ₱219,937,404 in 2014 and 2013, respectively, are eliminated on consolidation.

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

Capital expenditures consist of additions to property and equipment.

The Group has no significant customer which contributes 10.00% or more to the revenues of the Group.

## 8. Cash and Cash Equivalents

This account consists of:

| | **June 30, 2014 Unaudited** | December 31, 2013 Audited |
|---|---|---|
| Cash on hand | **₱337,773,765** | ₱828,833,889 |
| Cash in banks and cash equivalents | **9,642,921,375** | 29,306,747,481 |
| | **₱9,980,695,140** | ₱30,135,581,370 |

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of one (1) to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates that range from 0.20% to 1.80%, 0.30% to 6.00% and 0.25% to 3.88% for the six months ended June 30, 2014 and June 30, 2013, and for the year ended December 31, 2013, respectively.

Interest income arising from cash in banks and cash equivalents amounted to ₱94,706,429 and ₱36,933,057 for the six months ended June 30, 2014 and 2013, respectively. .

## 9. Short-term Investments

This account consists of peso and dollar-denominated investments with a period of one (1) year.

Short-term investments are made for varying periods of up to one (1) year, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates based on annual interest rates that ranges from 0.70% to 2.31% for the six months ended June 30, 2014 and 2.31% for the six months ended June 30, 2013 and for the year ended December 31, 2013.

Interest income arising from short-term investments amounted to ₱40,404,412 and ₱3,875,040 for the six months ended June 30, 2014 and 2013, respectively.

10. **Available-for-Sale (AFS) Financial Assets**

This account consists of investment in quoted debt securities.

Quoted debt securities consist of peso and dollar-denominated bond securities with fixed coupon rate per annum ranging from 4.38% to 7.88% in 2014.

Movements in AFS financial assets are as follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| **Cost** | | |
| At January 1 | **₱–** | 50,000,000 |
| Additions | **10,836,515,223** | – |
| Disposal | **–** | (50,000,000) |
| | **10,836,515,223** | – |
| **Change in fair value of AFS financial assets** | | |
| At January 1 | – | 1,800,000 |
| Changes in fair value during the year | **3,874,616** | – |
| Transfer to income due to disposals | – | (1,800,000) |
| | **3,874,616** | – |
| Total | **₱10,840,389,839** | ₱– |

In May 2013, the Group disposed its investment in equity securities for a total consideration of ₱50,000,000.

Interest income arising from AFS financial assets amounted to ₱100,212,669 for the six months ended June 30, 2014.

11. **Trade and Other Receivables**

This account consists of:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Trade | **₱301,720,942** | ₱753,337,097 |
| Due from franchisees | **188,044,877** | 138,109,712 |
| Nontrade | **333,020,408** | 247,047,431 |
| | **822,786,227** | 1,138,494,240 |
| Less allowance for impairment losses | **30,042,101** | 30,042,101 |
| | **₱792,744,126** | ₱1,108,452,139 |

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

Nontrade receivables consist mainly of receivable from insurer amounting ₱143,791,936. Receivable from insurer represents amounts recoverable from the insurance company for properties that were damaged due to fire and typhoon (Notes 12 and 14). The remaining balance consists of advances to officers and employees, cashier shortages and interest receivable arising from short-term investments.

As of June 30, 2014 and December 31, 2013, the allowance for impairment losses amounting ₱30,042,101 pertains to the provision for amounts due from lessees/franchisees.

## 12. Merchandise Inventories

This account consists of:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Beginning inventory | **₱7,028,810,289** | ₱6,081,812,428 |
| Add: Purchases - net of purchase discounts and allowances | **29,697,972,371** | 53,889,468,283 |
| Cost of goods available for sale | **36,726,782,660** | 59,971,280,711 |
| Cost of merchandise sold | **29,089,533,461** | 52,942,470,422 |
| Ending inventory | **₱7,637,249,199** | ₱7,028,810,289 |

In 2013, the Group had written-down inventory costs amounting ₱76,858,809 which were damaged during a typhoon. These amounts are fully recoverable from the insurance company (Note 11).

Also, during the year the Group had written down inventory costs amounting ₱11,338,176 which were damaged due to a fire.

There are no merchandise inventories pledged as security for liabilities.

The cost of merchandise inventories charged to the statements of comprehensive income amounted to ₱29,089,533,461 and ₱24,770,439,146 for the six months ended June 30, 2014 and 2013, respectively.

## 13. Other Current Assets

This account consists of:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Input value-added tax (VAT) - net | **₱984,454,797** | ₱765,941,924 |
| Prepayments | **275,856,205** | 234,044,428 |
| Others | **10,730,961** | 8,111,990 |
| | **₱1,271,041,963** | ₱1,008,098,342 |

Input VAT will be applied against output VAT in the succeeding periods. Management believes that the amount is fully realizable.

Prepayments mainly consist of creditable withholding taxes (CWT) which will be applied against income tax payable in future periods. Management believes that the amount is fully realizable.

## 14. Property and Equipment

The rollforward analysis of this account follows:

**June 30, 2014 (Unaudited)**

| | Leasehold Improvements | Store Furniture and Fixtures | Office Furniture and Fixtures | Transportation Equipment | Building and Other Equipment | Computer Equipment | Construction in-Progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1 | **₱7,306,919,983** | **5,689,574,401** | **319,297,358** | **97,664,409** | **1,310,283,555** | **1,216,382,713** | **₱–** | **₱15,940,122,419** |
| Additions | **660,727,090** | **478,179,314** | **226,126,866** | **8,450,315** | **19,200,679** | **173,349,769** | – | **1,566,034,033** |
| Disposals and write-off | **(3,878,245)** | **(3,384,031)** | – | – | – | **(3,604,259)** | – | **(10,866,535)** |
| At June 31 | **7,963,768,828** | **6,164,369,684** | **545,424,224** | **106,114,724** | **1,329,484,234** | **1,386,128,223** | – | **17,495,289,917** |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| At January 1 | **3,975,604,885** | **3,382,268,492** | **80,012,797** | **65,077,645** | **589,560,930** | **875,009,258** | – | **8,967,534,007** |
| Depreciation and amortization (Note 23) | **265,736,618** | **215,112,459** | **23,650,595** | **7,154,438** | **13,946,563** | **60,630,192** | – | **586,230,865** |
| Disposals | **(3,878,245)** | **(3,384,031)** | – | – | – | **(427,251)** | – | **(7,689,527)** |
| At June 30 | **4,237,463,258** | **3,593,996,920** | **103,663,392** | **72,232,083** | **603,507,493** | **935,212,199** | – | **9,546,075,345** |
| **Allowance for impairment losses** | | | | | | | | |
| At January 1 | **49,567,673** | **25,882,986** | – | – | – | **349,273** | – | **75,799,932** |
| Reversals | – | – | – | – | – | – | – | – |
| At June 30 | **49,567,673** | **25,882,986** | – | – | – | **349,273** | – | **75,799,932** |
| **Net Book Value** | **₱3,676,737,897** | **₱2,544,489,778** | **₱441,760,832** | **₱33,882,641** | **₱725,976,741** | **₱450,566,751** | **₱–** | **₱7,873,414,640** |

December 31, 2013 (Audited)

| | Leasehold Improvements | Store Furniture and Fixtures | Office Furniture and Fixtures | Transportation Equipment | Building and Other Equipment | Computer Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1 | ₱5,898,150,930 | ₱5,008,462,446 | ₱153,578,746 | ₱85,661,445 | ₱1,290,007,404 | ₱984,071,634 | ₱5,754,412 | ₱13,425,687,017 |
| Additions through business combination (Note 21) | 3,545,245 | – | – | – | 2,500,000 | – | – | 6,045,245 |
| Additions | 1,525,244,369 | 749,682,716 | 210,812,924 | 12,002,964 | 49,865,723 | 243,089,972 | – | 2,790,698,668 |
| Disposals and write-off | (125,774,973) | (86,739,397) | (1,236,503) | – | (32,089,572) | (36,468,066) | – | (282,308,511) |
| Transfers | 5,754,412 | 18,168,636 | (43,857,809) | – | – | 25,689,173 | (5,754,412) | – |
| At December 31 | 7,306,919,983 | 5,689,574,401 | 319,297,358 | 97,664,409 | 1,310,283,555 | 1,216,382,713 | – | 15,940,122,419 |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| At January 1 | 3,459,227,451 | 3,048,782,106 | 90,846,952 | 57,393,902 | 740,154,822 | 768,417,862 | – | 8,164,823,095 |
| Depreciation and amortization (Note 23) | 591,913,396 | 379,124,000 | 21,837,243 | 7,480,937 | (125,902,668) | 112,675,812 | – | 987,128,720 |
| Reversals | 6,700,798 | 24,147,150 | (31,583,673) | 202,806 | – | 22,007,761 | – | 21,474,842 |
| Disposals and write-off | (82,236,760) | (69,784,764) | (1,087,725) | – | (24,691,224) | (28,092,177) | – | (205,892,650) |
| At December 31 | 3,975,604,885 | 3,382,268,492 | 80,012,797 | 65,077,645 | 589,560,930 | 875,009,258 | – | 8,967,534,007 |
| **Allowance for impairment losses** | | | | | | | | |
| At January 1 | 56,268,472 | 39,172,943 | 205,491 | 202,806 | – | 1,425,063 | – | 97,274,775 |
| Reversals | (6,700,799) | (13,289,957) | (205,491) | (202,806) | – | (1,075,790) | – | (21,474,843) |
| At December 31 | 49,567,673 | 25,882,986 | – | – | – | 349,273 | – | 75,799,932 |
| **Net Book Value** | ₱3,281,747,425 | ₱2,281,422,923 | ₱239,284,561 | ₱32,586,764 | ₱720,722,625 | ₱341,024,182 | ₱– | ₱6,896,788,480 |

There are no property and equipment items as of June 30, 2014 and December 31, 2013 that are pledged as security to liability.

In 2013, the Group had written down property and equipment with net book values amounting to ₱39,625,054 which were damaged during a typhoon. These amounts are fully recoverable from the insurance company (Note 11).

Also in 2013, the Group had written down property and equipment with net book values amounting ₱9,661,656 which were damaged due to a fire.

Allowance for impairment losses pertain to closing of non-performing stores.

Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of December 31, 2013, the Group's capitalized payments as construction in-progress amounted to ₱5,754,412. There are no capitalized payments as of December 31, 2013.

In 2013, the Management concluded its reassessment of the estimated useful life (EUL) of its property and equipment items to reflect the appropriate pattern of economic benefits. In general, the revised average EUL of property and equipment follows (in years):

| | Revised | Old |
|---|---|---|
| Leasehold improvements | 10 | 5 |
| Store furniture and fixtures | 10 | 5 |
| Office furniture and fixtures | 10 | 5 |
| Transportation equipment | 10 | 5 |
| Building and other equipment | 20 | 10 |
| Computer equipment | 10 | 5 |

The change in accounting estimates is accounted for prospectively resulting in a decrease in the depreciation expense of the Group by ₱780.64 million for the year ended December 31, 2013.

## 15. Investment in Shares of Stocks

This account consists of investment in shares of stocks of Robinsons Bank Corporation (RBC):

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Investment in preferred stock | **₱1,470,083,439** | ₱1,470,083,439 |
| Investment in common stock | **444,305,390** | 333,066,088 |
| | **₱1,914,388,829** | ₱1,803,149,527 |

The preferred stock has the following features:

a. Preferred stockholders are entitled to receive preferential but non-cumulative dividends at the rate to be determined by the Board of Directors (BOD) of RBC.

b. Preferred stocks are redeemable at the option of RBC at any time provided that the redemption price shall not be lower than the par value or higher than 110.00% of said par value.

c. In the event of any voluntary or involuntary liquidation, the preferred stockholders are entitled to receive the liquidation value of the said shares equivalent to 110.00% of the par value plus any unpaid but declared dividends thereon. If the net assets of RBC shall be insufficient to pay in full the liquidation value of all the preferred stock, then such net resources shall be distributed among such preferred stock ratably in accordance with the respective liquidation value of the shares they are holding.

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

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Beginning balance | **₱1,470,083,439** | ₱1,051,150,405 |
| Change in fair value of investment in preferred stocks | – | 418,933,034 |
| | **₱1,470,083,439** | ₱1,470,083,439 |

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

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Shares of common stock - at equity: | | |
| Acquisition cost | **₱124,933,383** | ₱124,933,383 |
| Accumulated equity in net earnings: | | |
| Beginning balance | **511,543,518** | 320,077,533 |
| Equity in net earnings of an associate for the period | **50,246,489** | 191,465,985 |
| Ending balance | **561,790,007** | 511,543,518 |
| Share in fair value changes during the year | | |
| Beginning balance | **(303,410,813)** | 53,261,795 |
| Share in fair value changes during the year | **60,992,813** | (356,672,608) |
| Ending balance | **(242,418,000)** | (303,410,813) |
| | **₱444,305,390** | ₱333,066,088 |

The Group has 40% ownership in RBC.

No dividends have been declared by RBC in 2014 and 2013.

Financial information of RBC follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Total assets | **₱49,575,085,712** | ₱46,004,484,780 |
| Total liabilities | **44,012,523,472** | 40,739,791,501 |
| Net income | **125,616,222** | 442,422,513 |

The consolidated statement of comprehensive income follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Total operating income | **₱1,325,261,411** | ₱2,230,301,395 |
| Total operating expenses and provision for income tax | **1,199,645,189** | 1,787,878,882 |
| Net income | **₱125,616,222** | ₱442,422,513 |

The reconciliation of the net assets of the material associate to the carrying amounts of the interest in an associate recognized in the consolidated financial statements is as follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Net assets of associate attributable to common shareholders | **₱388,688,910** | ₱110,590,655 |
| Proportionate ownership in the associate | **40%** | 40% |
| Share in net identifiable assets | **155,475,564** | 44,236,262 |
| Difference | **288,829,826** | 288,829,826 |
| | **₱444,305,390** | ₱333,066,088 |

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

16. **Intangible Assets**

This account consists of:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Trademark (Note 21) | **₱1,566,917,532** | ₱1,566,917,532 |
| Goodwill | **1,379,300,790** | 1,230,595,790 |
| Licenses | **111,282,830** | 109,090,910 |
| Franchise | **37,949,450** | – |
| | **₱3,095,450,602** | ₱2,906,604,232 |

The Trademark was acquired through business combination in 2012 and was recognized at fair value at the date of acquisition.

The Group's goodwill pertains to the excess of the acquisition cost over the fair value of the net assets of SSDI, EC, RTSHPI, BSRI, JRMC and GPC as follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| SSDI (Note 21) | **₱745,887,131** | ₱745,887,131 |
| EC | **316,222,500** | 316,222,500 |
| JRMC | **129,205,000** | – |
| RTSHPI | **85,161,468** | 85,161,468 |
| BSRI | **83,324,691** | 83,324,691 |
| GPC | **19,500,000** | – |
| | **₱1,379,300,790** | ₱1,230,595,790 |

*Acquisition of GPC by SSDI*
GPC was acquired on June 2, 2014. The acquisition represents 100% ownership interest on the shares of stock of GPC.

*Acquisition of JRMC by RSC*
JRMC was acquired by RSC on January 29, 2014. The acquisition represents 100% ownership interest on the shares of stock of JRMC.

*Acquisition of EC by RSC*
EC was acquired by RSC on September 14, 2013. The acquisition represents 100% ownership interest on the shares of stock of EC.

*Acquisition of RTSHPI by RHMI*
RTSHPI was acquired by RHMI on February19, 2007. The acquisition represents 66.67% ownership interest on the shares of stock of RTSHPI.

*Acquisition of trademark by RSSI to secure a franchise/license*
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 ₱121,212,122. 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 ₱808,080 and ₱6,060,606 for the six months ended June 30, 2014 and 2013, respectively. (Note 23).

*Acquisition of assets of BSRI by RSSI*
On December 5, 2013, RSSI entered into an agreement to acquire the assets of BSRI. The assets acquired consist of stores which constitute a business. The transaction was accounted for as a business combination.

The Group performed its annual impairment test on its goodwill and trademark with indefinite useful life as of reporting date. The Group compared the recoverable amount against the book value of the CGU. The recoverable amount of the CGU is determined based on a fair value less cost to sell calculation using the EV/EBITDA multiple for impairment testing of goodwill while value in use calculation using cash flows projections from financial budgets approved by management covering a five (5) year period for impairment testing of trademark. As a result of the impairment test as of December 31, 2013, the Group did not identify any impairment on its CGU to which intangible assets are allocated.

*Acquisition of SSDI by RSC and RI*
SSDI was acquired by RSC and RI on July 4, 2012. The acquisition represents 90% ownership interest on the shares of stock of SSDI (Note 21).

## 17. Other Noncurrent Assets

This account consists of:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Security and other deposits | **₱1,257,853,409** | ₱925,750,023 |
| Construction bond | **27,176,213** | 28,091,950 |
| Others | **2,006,926** | 5,073,385 |
| | **₱1,287,036,548** | ₱958,915,358 |

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

## 18. Trade and Other Payables

This account consists of:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Trade | **₱8,118,640,078** | ₱10,702,966,697 |
| Nontrade (Note 26) | **1,762,794,943** | 1,158,307,271 |
| Dividends payable (Note 20) | **560,071,501** | – |
| Others | **412,325,129** | 214,123,251 |
| | **₱10,853,831,651** | ₱12,075,397,219 |

Trade payables are noninterest-bearing and are normally settled on forty five (45) to sixty (60) days' term.

This account represents trade payables arising mainly from purchases of merchandise inventories.

Nontrade payables consist mainly of liabilities/obligations payable to nontrade suppliers and due to related parties. For the terms and conditions of related party transactions, please refer to Note 26.

Others consist mainly of taxes and licenses payable and salaries payable.

19. **Loans Payable**

The rollforward analysis of this account follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| At January 1 | **₱507,415,708** | ₱2,528,197,564 |
| Availments | **–** | 100,000,000 |
| Payments | **(277,894,040)** | (2,120,781,856) |
| | **229,521,668** | 507,415,708 |
| Less current portion | **145,555,556** | 395,555,556 |
| Noncurrent portion | **₱83,966,112** | ₱111,860,152 |

The loans were obtained by the following:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| SSDI | **₱139,521,668** | 167,415,708 |
| RAC | **40,000,000** | ₱240,000,000 |
| RCSI | **50,000,000** | 100,000,000 |
| | **₱229,521,668** | ₱507,415,708 |

a.) The RAC loans payable represents a secured short-term promissory notes obtained from a local commercial banks and which are payable within twelve (12) months after reporting date with interest rates ranging from 3.8% to 4.0% per annum. The short-term note was obtained to support working capital requirements which mainly include store expansion and renovation of existing stores. As of June 30, 2014 and December 31, 2013, RSC acts as a guarantor for RAC's loans in which the bank restricts ₱40,000,000 from the guarantor's bank accounts as guarantee for the said loan (Note 26).

b.) The SSDI loans payable represents a five-year unsecured loan at a floating rate benchmark, based on 12M PDST-F. SSDI also entered into an interest rate swap agreement with the lender bank to coincide with the changes in notional amount, amortization schedule, and floating rate spread with fixed interest rate at 5.34% per annum. The interest rate swap is assessed as clearly and closely related and no bifurcation is required to recognize either a gain or loss on embedded derivative.

c.) RCSI has outstanding loans amounting ₱50,000,000 and ₱100,000,000 as of June 30, 2014 and December 31, 2013, respectively. The interest on the loans is computed at prevailing market interest rates. As of June 30, 2014 and December 31, 2013, RHMI acts as a guarantor for RCSI's loan in which the bank restricts ₱50,000,000 and ₱100,000,000, respectively, from the guarantor's bank accounts as guarantee for the said loan.

Total interest expense charged to operations amounted to ₱9,463,042 and ₱45,619,367 for the six months ended June 30, 2014 and 2013, respectively.

## 20. Equity

*Capital Stock*

The details of this account follow:

| | June 30, 2014 (Unaudited) | | December 31, 2013 (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 | **1,385,000,000** | **1,385,000,000** | 1,385,000,000 | 1,385,000,000 |
| Treasury shares | **(1,100,373,100)** | **(18,971,950)** | (1,100,373,100) | (18,971,950) |

The rollforward of issued shares account follows:

| | No. of Shares | | Amount | |
|---|---|---|---|---|
| | **June 30, 2014** | December 31, 2013 | **June 30, 2014** | December 31, 2013 |
| At January 1 | **415,000,000** | 415,000,000 | **₱415,000,000** | ₱415,000,000 |
| Issuance | **970,000,000** | 970,000,000 | **970,000,000** | 970,000,000 |
| | **1,385,000,000** | 1,385,000,000 | **₱1,385,000,000** | ₱1,385,000,000 |

*Capital Stock*

Increase in authorized capital stock

As approved by the BOD on June 7, 2013, the Parent Company increased its authorized capital stock from ₱500,000,000 divided into 500,000,000 common shares with par value of ₱1.00 per share to ₱2,000,000,000 divided into 2,000,000,000 common shares with par value of ₱1.00 per share.

Of the said increase in the authorized capital stock, 485,250,000 shares have been subscribed amounting ₱485,250,000 on the same date.

The increase in authorized capital stock was approved by the SEC on July 3, 2013.

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. The Parent Company incurred transaction costs incidental to the IPO amounting ₱745,653,053, which is charged against "Additional paid-in capital" in the consolidated statement of financial position.

Treasury Shares

On June 7, 2013 the BOD of the Parent Company approved the buyback of its common shares sold during the IPO. Of the total shares sold to the public, 18,971,950 common shares were reacquired by the Parent Company at ₱58 per share or an aggregate cost of ₱1,100,373,100.

*Retained Earnings*

The income of the subsidiaries and associates that are recognized in the consolidated statement of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and associates. The accumulated earnings of subsidiaries and an associate included in retained earnings amounted to ₱7,573,181,065 and ₱6,453,758,483 as at June 30, 2014 and December 31, 2013, respectively.

Also, retained earnings is restricted to payments of dividends to the extent of cost of treasury shares in the amount of ₱1,100,373,100 as at June 30, 2014 and December 31, 2013.

On June 25, 2014, the BOD approved the declaration of cash dividend of ₱0.41 per share or an aggregate amount of ₱560,071,501 to all stockholders of record as of July 17, 2014 payable on August 12, 2014.

Appropriation of Retained Earnings

On July 4, 2013, the BOD approved the reversal of the appropriated retained earnings amounting ₱1,400,000,000. The appropriation was made in 2011 for continuing investment in subsidiaries.

On February 6, 2014, the Group's BOD approved the appropriation of ₱1,742,000,000. The appropriated retained earnings shall be used to augment funds to construct 69 new stores and renovate 3 stores during the year in line with the Group's nationwide expansion. Details follow:

| | |
|---|---|
| RSC | ₱1,000,000,000 |
| RHMI | 325,000,000 |
| RI | 200,000,000 |
| RTSHPI | 80,000,000 |
| WHMI | 55,000,000 |
| RAC | 47,000,000 |
| RSSI | 25,000,000 |
| RTI | 10,000,000 |
| Total | ₱1,742,000,000 |

Capital Management
The primary objective of the Group's capital management policy is to ensure that it maintains a 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 during the period ended June 30, 2014 and December 31, 2013, respectively.

The Group considers its equity as follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Capital stock | **₱1,385,000,000** | ₱1,385,000,000 |
| Additional paid-in capital | **27,026,913,866** | 27,026,913,866 |
| Other comprehensive income (loss) | **73,118,082** | 27,710,882 |
| Equity reserve | **116,459,430** | 116,459,430 |
| Treasury shares | **(1,100,373,100)** | (1,100,373,100) |
| Retained earnings | **9,856,034,785** | 9,050,943,458 |
| | **₱37,357,153,063** | ₱36,506,654,536 |

The Group is not subject to externally-imposed capital requirements.

## 21. Business Combinations

*Acquisition of SSDI*
On July 4, 2012, RSC and RI, wholly-owned subsidiaries of RRHI, each acquired 45% interest in SSDI, aggregating to 90%, for a total consideration amounting ₱2,570,165,155.

The Group elected to measure the non-controlling interest in SSDI at the proportionate share of its interest in SSDI's identifiable net assets.

The fair values of the identifiable assets and liabilities of SSDI at the date of acquisition were:

| | Fair Values recognized on acquisition (Restated) |
|---|---|
| **Assets** | |
| Cash | ₱418,078,660 |
| Trade and other receivables | 59,002,918 |
| Inventories | 1,348,427,599 |
| Other current assets | 60,866,170 |
| Property and equipment (Note 14) | 181,924,835 |
| Trademark | 1,566,917,532 |
| Other noncurrent assets | 37,252,913 |
| | 3,672,470,627 |
| **Liabilities** | |
| Trade and other payables | 906,773,885 |
| Income tax payable | 5,134,007 |
| Loans payable (Note 19) | 246,483,209 |
| Deferred tax liability | 470,075,260 |
| Pension liability (Note 25) | 17,028,684 |
| | 1,645,495,045 |
| **Net assets before non-controlling interest** | 2,026,975,582 |

| | |
|---|---|
| Non-controlling interest measured at share of net assets (10%) | ₱202,697,558 |
| **Net assets** (90%) | 1,824,278,024 |
| Goodwill arising on acquisition | 745,887,131 |
| Acquisition cost | ₱2,570,165,155 |

The net assets recognized in the 2012 consolidated financial statements were based on a provisional assessment of fair value. The valuation had not been completed when the 2012 financial statements were approved for issue by management.

In 2013, the Group finalized the price allocation and the fair value computation of trademark and goodwill. Adjustments to provisional amounts that were made during the measurement period were recognized as if the accounting for the business combination had been completed on July 4, 2012, the acquisition date. Accordingly, the December 31, 2012 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, trademark, deferred tax liability and non-controlling interest increased by ₱1,566,917,532, ₱470,075,260 and ₱109,684,227, respectively. The final purchase price allocation resulted in goodwill of ₱745,887,131 from the previous determined provisional amount of ₱1,733,045,176.

*Acquisition of EC*
On September 14, 2013, RSC acquired 100% ownership of EC for a total consideration of ₱318,722,500.

The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. Below are the preliminary fair values of the identifiable assets acquired:

| | |
|---|---|
| **Assets** | |
| Property and equipment | ₱2,500,000 |
| Goodwill (Note 16) | 316,222,500 |
| Acquisition cost | ₱318,722,500 |

*Acquisition of assets of BSRI*
On December 5, 2013, the RSSI, entered into an agreement and it acquired the assets of BSRI for a total consideration of ₱90,000,000. The assets acquired consisted of stores which constitute a business. The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. Below are the preliminary fair values of the identifiable assets acquired:

| | |
|---|---|
| **Assets** | |
| Property and equipment | ₱3,545,245 |
| Security deposits | 3,130,064 |
| **Net assets** | 6,675,309 |
| Goodwill (Note 16) | 83,324,691 |
| Acquisition cost | ₱90,000,000 |

*Acquisition of JRMC*
On January 29, 2014, RSC acquired 100% ownership of JRMC for a total consideration of ₱131,705,000.

The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. Below are the preliminary fair values of the identifiable assets acquired:

| | |
|---|---|
| **Assets** | |
| Property and equipment | ₱2,500,000 |
| Goodwill (Note 16) | 129,205,000 |
| Acquisition cost | ₱131,705,000 |

*Acquisition of GPC*
On June 2, 2014, SSD acquired 100% ownership of GNC Pharma Corporation for a total consideration of ₱24,500,000.

22. **Sales Revenue**

Sales are recognized from retail customers at the point of sale in the stores. Sales returns and sales discounts deducted from the sales to arrive at the net sales amounted to ₱828,119,390 and ₱655,663,336 in June 30, 2014 and 2013, respectively.

23. **Operating Expenses**

Operating expenses for the six months ended June 30 consist of:

| | **2014 (Unaudited)** | 2013 (Unaudited) |
|---|---|---|
| Rental and utilities (Note 30) | **₱3,124,716,445** | ₱2,627,611,423 |
| Personnel costs and contracted services (Note 24) | **1,852,572,420** | 1,534,292,383 |
| Depreciation and amortization (Notes 14 and 16) | **587,337,291** | 467,148,875 |
| Transportation and travel | **309,370,901** | 217,165,396 |
| Supplies | **223,192,314** | 169,847,038 |
| Bank and credit charges | **167,614,219** | 137,063,547 |
| Advertising | **135,759,999** | 112,704,538 |
| Repairs and maintenance | **100,666,964** | 92,261,353 |
| Royalty | **51,531,104** | 44,360,818 |
| Provision for impairment loss on property and equipment (Note 14) | – | 3,864,978 |
| Others | **184,006,732** | 173,537,502 |
| | **₱6,736,768,389** | ₱5,579,857,851 |

Depreciation and amortization expense pertains to the depreciation and amortization of property and equipment, amortization of franchise fee and license fee amounting ₱586,230,865 and ₱1,106,426, respectively in 2014 and ₱460,788,478 and ₱6,360,397, respectively, in 2013.

Others consist mainly of taxes and licenses, insurance and professional fees.

## 24. Personnel Costs and Contracted Services

Personnel costs and contracted services for the six months ended June 30 consist of (Note 23):

| | **2014 (Unaudited)** | 2013 (Unaudited) |
|---|---|---|
| Salaries, allowances and benefits (Note 25) | **₱931,908,652** | ₱795,611,310 |
| Contracted services | **920,663,768** | 738,681,073 |
| | **₱1,852,572,420** | ₱1,534,292,383 |

## 25. Employee Benefits

The Group has a defined benefit plan, covering substantially all of its employees. The latest retirement valuation was issued in February 24, 2014.

The following tables summarize the components of net pension expense recognized in the consolidated statements of comprehensive income and the amounts recognized in the consolidated statements of financial position for the plan:

*Net pension expense*

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Current service cost | **₱26,546,486** | ₱36,117,176 |
| Interest cost on net benefit obligation | **4,608,904** | 16,426,760 |
| Net pension expense | **₱31,155,390** | ₱52,543,936 |

*Pension liability*

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Pension obligation | **₱409,305,799** | ₱378,150,409 |
| Fair value of plan assets | **(16,968,749)** | (16,968,749) |
| Pension liability | **₱392,337,050** | ₱361,181,660 |

The movements in pension liability recognized in the consolidated statements of financial position follow:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of period | **₱361,181,660** | ₱285,272,547 |
| Pension expense | **31,155,390** | 52,543,936 |
| Recognized in OCI | – | 28,395,304 |
| Benefits paid | – | (5,030,127) |
| Balance at end of period | **₱392,337,050** | ₱361,181,660 |

Changes in the present value of defined benefit obligation follow:

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of period | **₱378,150,409** | ₱301,606,425 |
| Current service cost | **26,546,486** | 36,117,176 |
| Interest cost | **4,608,904** | 17,432,927 |
| Actuarial losses on: | | |
| Changes in financial assumptions | – | 25,989,200 |
| Experience adjustments | – | 2,034,808 |
| Benefits paid | – | (5,030,127) |
| Balance at end of period | **₱409,305,799** | ₱378,150,409 |

Movements in the fair value of plan assets follow:

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of period | **₱16,968,749** | ₱16,333,878 |
| Interest income included in net interest cost | – | 1,006,167 |
| Actual return excluding amount in net interest cost | – | (371,296) |
| Balance at end of period | **₱16,968,749** | ₱16,968,749 |

Amounts of the current and previous periods follow:

| | June 30, 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Defined benefit obligation | **₱409,305,799** | ₱378,150,409 | ₱301,606,325 | ₱215,414,164 | ₱128,765,336 |
| Experience adjustments on plan liabilities | – | 2,034,808 | 46,418,171 | (13,840,865) | – |

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

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Discount rates | 4.17%-5.57% | 4.17%-5.57% |
| Salary increase rates | 5.50% | 5.50% |

The Group does not expect to contribute to the fund in 2014.

The distribution of the plan assets at year end follows:

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| **Assets** | | |
| Cash | **₱1,834,144** | ₱1,834,144 |
| Investments in government securities | **14,241,734** | 14,241,734 |
| Investments in funds - AFS financial assets | **868,034** | 868,034 |
| Receivables | **45,165** | 45,165 |
| | **₱16,989,077** | ₱16,989,077 |
| **Liabilities** | | |
| Trust fee payable | **₱20,328** | ₱20,328 |

Salaries, allowances and benefits (Note 24):

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Salaries, wages and allowances | **₱900,753,262** | ₱1,624,182,102 |
| Net pension expense | **31,155,390** | 52,543,936 |
| | **₱931,908,652** | ₱1,676,726,038 |

26. **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

(1) The Group, in the regular conduct of business, has receivables from/payables to affiliates arising from the normal course of operations.

Outstanding operational due from (to) related parties follow (Note 18):

**June 30, 2014**

| **Related parties** | **Sales** | **Royalty Fee** | **Purchases - Net** | **Rent and Utilities** | **Outstanding Balance** | **Terms** | **Conditions** |
|---|---|---|---|---|---|---|---|
| Consolidated Global Imports, Inc. | **₱683,671,369** | **₱268,413,199** | **₱–** | **₱–** | **₱119,811,980** | Noninterest bearing; payable in 30 days | Unsecured, Unimpaired |
| Universal Robina Corporation | – | – | **(888,564,197)** | **8,281,873** | **(109,981,569)** | Noninterest bearing; payable in 30 days | Unsecured |
| Robinsons Land Corporation | – | – | – | **(1,451,797,060)** | **(171,135,809)** | Noninterest bearing; payable in 30 days | Unsecured |
| JG Summit Holdings, Inc. | – | – | – | **(11,174,092)** | – | Noninterest bearing; payable in 30 days | Unsecured |
| **Total** | **₱683,671,369** | **₱268,413,199** | **(₱888,564,197)** | **(₱1,454,689,279)** | **(₱161,305,398)** | | |

December 31, 2013

| **Related parties** | **Sales** | **Royalty Fee** | **Purchases - Net** | **Rent and Utilities** | **Outstanding Balance** | **Terms** | **Conditions** |
|---|---|---|---|---|---|---|---|
| Consolidated Global Imports | ₱1,108,382,339 | ₱457,202,328 | ₱– | ₱– | ₱108,684,239 | Noninterest bearing; payable in 30 days | Unsecured, Unimpaired |
| Universal Robina Corporation | – | – | (1,464,559,437) | – | (104,819,249) | Noninterest bearing; payable in 30 days | Unsecured |
| Robinsons Land Corporation | – | – | – | (2,572,832,546) | (133,415,748) | Noninterest bearing; payable in 30 days | Unsecured |
| JG Summit Holdings Inc. | – | – | – | (21,391,170) | 270,099 | Noninterest bearing; payable in 30 days | Unsecured |
| **Total** | ₱1,108,382,339 | ₱457,202,328 | (₱1,464,559,437) | (₱2,594,223,716) | (₱129,280,659) | | |

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

(2) Key management personnel of the Group include the Chairman of the BOD, President and Treasurer. These officers do not receive any form of compensation or benefits from the Group.

*Terms and conditions of transactions with related parties*
Outstanding balances at year-end are unsecured, interest-free and settlement occur in cash. There have been no guarantees provided or received for any related party payables or receivables. The Group has not recognized any impairment losses on amounts due from related parties for the six months ended June 30, 2014 and the year ended December 31, 2013. 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.

## 27. Income Tax

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

| | **2014 (Unaudited)** | 2013 (Unaudited) |
|---|---|---|
| Current | **₱594,080,287** | ₱469,207,778 |
| Deferred | **(40,245,597)** | 3,023,763 |
| | **₱553,834,690** | ₱472,231,541 |

The components of the Group's deferred tax assets follow:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Tax effects of: | | |
| Pension liability | **₱117,700,965** | ₱108,492,828 |
| Allowance for impairment losses | **199,568** | 6,771,446 |
| Unrealized foreign exchange loss | **8,818,130** | (8,067,985) |
| Net operating losses carryover | **31,744,031** | 4,747,472 |
| Accrued rent | **3,736,306** | 3,715,943 |
| Allowance for inventory write-down | **1,923,125** | 1,923,125 |
| Fair value adjustment on AFS financial assets and investment in an associate | **(25,285,862)** | 1,748,587 |
| | **₱138,836,263** | ₱119,331,416 |

The deferred tax liability of the Group amounting ₱470,075,260 pertains to the deferred tax attributable to the trademark acquired in business combination (Note 21).

## 28. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company for the six months ended June 30, 2014 and 2013:

| | **2014** | 2013 |
|---|---|---|
| Net income attributable to equity holders of the Parent Company | **₱1,367,829,495** | ₱1,085,807,856 |
| Weighted average number of common shares | **1,366,028,050** | 415,000,000 |
| Adjusted weighted average number of common shares for diluted EPS | **1,366,028,050** | 415,000,000 |
| Basic/ Diluted EPS | **₱1.00** | ₱2.62 |

The Parent Company has no dilutive potential common shares in 2014 and 2013.

29. **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.

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the noncurrent loans payable as of June 30, 2014 and December 31, 2013:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| AFS financial assets (Note 10) | **10,836,515,223** | **10,840,389,839** | – | – |
| **Financial Liabilities** | | | | |
| Other financial liability | | | | |
| Loans payable* (Note 19) | **₱139,521,668** | **₱139,521,668** | **₱167,415,708** | **₱174,867,343** |

**Includes current portion*

*Loans payable:* Are based on the discounted value of future cash flows using the applicable rates for similar types of loans.

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 interest rate risk, liquidity risk, credit risk, foreign currency risk and equity price risk. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of June 30, 2014, the Group has AFS financial assets valued under Level 1 amounting to ₱10,840,389,839 (Note 10). These financial assets are measured at fair value.

As of June 30, 2014 and December 31, 2013, the Group has loans payable for which fair values are disclosed under Level 3 amounting to ₱139,521,668 and ₱174,867,343, respectively.

There were no transfers among levels 1, 2 and 3 in 2014 and 2013.

Financial Risk
*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's exposure to market risk for interest rates relates primarily to the amounts due to related parties at current market rates.

The Group manages its interest rate risk by using current rates of money market placements when computing for interest rates that will be charged to the related party.

The Group has minimal interest rate risk because the interest-bearing loans are short-term in nature.

*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, 2014 and December 31, 2013 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, 2014**

| | On Demand | 1 year | More than 1 year | Total |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Loans and receivables** | | | | |
| Cash and cash equivalents (excluding cash on hand) | **₱9,642,921,375** | **₱–** | **₱–** | **₱9,642,921,375** |
| Short term investments | **–** | **6,837,669,623** | **–** | **6,837,669,623** |
| Trade and other receivables | **–** | **792,744,126** | **–** | **792,744,126** |
| Other noncurrent assets | | | | |
| Security and other deposits | **–** | **–** | **1,257,853,409** | **1,257,853,409** |
| Construction bond | **–** | **–** | **27,176,213** | **27,176,213** |
| | **₱9,642,921,375** | **₱7,630,413,749** | **₱1,285,029,622** | **₱18,558,364,746** |
| **Financial Liabilities** | | | | |
| **Other financial liabilities** | | | | |
| Trade and other payables* | **₱–** | **₱10,675,058,716** | **₱–** | **₱10,675,058,716** |
| Loans payable | **–** | **145,555,556** | **83,966,112** | **229,521,668** |
| Other current liabilities | **–** | **236,247,357** | **–** | **236,247,357** |
| | **₱–** | **₱11,056,861,629** | **₱83,966,112** | **₱11,140,827,741** |

**excluding statutory liabilities amounting ₱178,772,935*

December 31, 2013

| | On Demand | 1 year | More than 1 year | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱29,306,747,481 | ₱– | ₱– | ₱29,306,747,481 |
| Short term investments | – | 335,101,613 | – | 335,101,613 |
| Trade and other receivables | – | 1,108,452,139 | – | 1,108,452,139 |
| Other noncurrent assets | | | | |
| Security and other deposits | – | – | 925,750,023 | 925,750,023 |
| Construction bond | – | – | 28,091,950 | 28,091,950 |
| | ₱29,306,747,481 | ₱1,443,553,752 | ₱953,841,973 | ₱31,704,143,206 |
| Financial Liabilities | | | | |
| Other financial liabilities | | | | |
| Trade and other payables* | ₱– | ₱11,954,443,309 | ₱– | ₱11,954,443,309 |
| Loans payable | – | 395,555,556 | 111,860,152 | 507,415,708 |
| Other current liabilities | – | 203,652,278 | – | 203,652,278 |
| | ₱0 | ₱12,553,651,143 | ₱111,860,152 | ₱12,665,511,295 |

**excluding statutory liabilities amounting ₱120,953,907*

As of June 30, 2014 and December 31, 2013, the Group has outstanding loans from Robinsons Savings Bank and Metrobank and Trust Company amounting ₱229,521,668 and ₱507,415,708, respectively (Note 19).

*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.

As of June 30, 2014 and December 31, 2013, all trade and other receivables are expected to be settled within one (1) year.

The Group's maximum exposure in financial assets is equal to their carrying amounts. These financial assets have a maturity of up to one (1) year only, and have a high credit rating. This was determined based on the nature of the counterparty and the Group's experience.

## 30. **Lease Commitments**

*Group as lessee*
The Group has entered into cancellable lease agreements as a lessee with terms of one (1) year up to fifteen (15) 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. Rent expense for the period ended June 30, 2014 and 2013 amounted to ₱1,723,485,145 and ₱1,453,152,801, respectively (Notes 23 and 26).

*Group as lessor*
Lease agreements mainly include agreements entered into by RSC to provide store facilities. The related lease fee income derived from these transactions included under "Royalty, rent and other revenue" amounted to ₱96,180,050 and ₱79,500,757 in 2014 and 2013, respectively.

## 31. **Agreements**

Among the Group's outstanding agreements during the year are as follows:

a) The Group has exclusive right to use the Ministop System in the Philippines 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 ₱27,280,996 and ₱26,508,630 in 2014 and 2013, respectively (Note 23). Royalty payable to Ministop included under "Nontrade payable" as of June 30, 2014 and December 31, 2013 amounted to ₱27,280,996 and ₱52,538,597, respectively (Note18).

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 royalty fee is based on a certain percentage of the gross profit of the franchisee. The related royalty fee amounted to ₱566,632,806 and ₱544,556,019 in 2014 and 2013, respectively (Note 30).

As of June 30, 2014 and December 31, 2013, amounts due from franchisees amounted to ₱158,583,866 and ₱106,706,622, respectively. These amounts are net of allowance for impairment losses amounting ₱29,461,011 as of June 30, 2014 and December 31, 2013, respectively (Note 11).

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

d.) On September 21, 2012, RSSI paid ₱121,212,122 in exchange for the trademarks that were duly registered in the Philippine Intellectual Rights Office. Upon acquisition, the trademarks were surrendered that granted the Group a license to operate a brand in the Philippines. The ₱121,212,122 it paid allows the Group to use the brand and operate its stores.

e.) The Group is a sub-licensee of Toys R Us in the Philippines. Royalty expense amounted to ₱21,952,681 and ₱17,174,876 in 2014 and 2013, respectively.

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

## 32. Contingencies

The Group is currently involved in various 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 on these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, 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.

**USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING**
**June 30, 2014**

As disclosed in the Company's prospectus, gross and net proceeds were estimated at Php26.79 billion and Php26.07billion, 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 Php26.79 billion from the Primary offering of 461,897,500 shares on November 11, 2013 and an additional Php0.23 billion from the exercised over-allotment of 3,880,550 shares, and incurred Php745.65 million IPO-related expenses, resulting to actual net proceeds of P26.27 billion.

The net proceeds have not been fully disbursed as of June 30, 2014. For the period covered January 1 to June 30, 2014, the application of the net proceeds is broken down as follows:

| Use of Proceeds | Amount in Pesos |
|---|---|
| Expansion of store network | ₱1,034,891,639 |
| Renovation of existing stores | 264,134,059 |
| Repayment of bank loans | 303,207,444 |
| Other corporate purposes | 49,639,091 |

**SUPPLEMENTARY SCHEDULES**

I. Supplementary schedules required by Annex 68-E

A. Financial Assets

B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

C. Amounts Receivable From 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 Financial Ratios

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE A: FINANCIAL ASSETS

**June 30, 2014**

| 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 |
|---|---|---|---|---|
| **Available-for-Sale Investments** | | | | |
| Various Private Bonds | ₱10,836,515,223 | ₱10,840,389,839 | ₱10,840,389,839 | ₱100,212,669 |
| **Money Market Placements** | | | | |
| RBC | ₱6,837,669,623 | ₱6,837,669,623 | ₱6,837,669,623 | ₱40,404,412 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

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

**June 30, 2014**

| 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 RECEIVABLES FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

**June 30, 2014**

| Entity with Receivable Balance | Balance at Beginning of Period | Net Movement | Write-offs | Current | Noncurrent | Balance at end of period |
|---|---|---|---|---|---|---|
| Robinsons Retail Holdings Inc. | ₱2,429,640,462 | ₱2,545,843,828 | ₱– | ₱4,975,484,290 | ₱– | ₱4,975,484,290 |
| Robinsons Toys Inc. | 137,425,740 | (100,952,931) | – | 36,472,809 | – | 36,472,809 |
| Robinsons Convenience Stores Inc. | 39,106,088 | – | – | 39,106,088 | – | 39,106,088 |
| Robinsons Supermarket Corp. | 25,507,709 | (21,458,735) | – | 4,048,974 | – | 4,048,974 |
| Robinson's Incorporated | 18,410,886 | (4,788,281) | – | 13,622,605 | – | 13,622,605 |
| Robinson's Handyman Inc. | 4,138,324 | – | – | 4,138,324 | – | 4,138,324 |
| RHD Daiso- Saizen Inc. | 1,925,425 | – | – | 1,925,425 | – | 1,925,425 |
| | ₱2,656,154,634 | ₱2,418,643,881 | ₱– | ₱5,074,798,515 | ₱– | ₱5,074,798,515 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE D: INTANGIBLE ASSETS

**June 30, 2014**

| Description | Beginning balance | Additions at cost | Charged to costs and expenses | Charged to other accounts | Other changes | Ending balance |
|---|---|---|---|---|---|---|
| Trademark | ₱1,566,917,532 | ₱– | ₱– | ₱– | ₱– | ₱1,566,917,532 |
| Goodwill | 1,230,595,790 | 148,705,000 | – | – | – | 1,379,300,790 |
| License | 109,090,910 | 3,000,000 | (808,080) | – | – | 111,282,830 |
| Franchise | – | 37,949,450 | – | – | – | 37,949,450 |
| | ₱2,906,604,232 | ₱189,654,450 | (₱808,080) | ₱– | ₱– | ₱3,095,450,602 |

See Note 16 of the Consolidated Financial Statements.

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE E: SHORT TERM AND LONG TERM DEBT

**June 30, 2014**

| Title of issue and type of obligation | Amount authorized by indenture | Interest rates | Current portion | Noncurrent portion |
|---|---|---|---|---|
| Floating rate bank loans | ₱139,521,668 | 5.3% | ₱55,555,556 | ₱83,966,112 |
| Commercial bank loans | 40,000,000 | 3.8% | 40,000,000 | – |
| Commercial bank loans | 50,000,000 | 3.9% | 50,000,000 | – |
| | ₱229,521,668 | | ₱145,555,556 | ₱83,966,112 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES

**June 30, 2014**

| Name of related party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| Universal Robina Corporation | ₱104,819,249 | ₱109,981,569 |
| Robinsons Land Corporation | 133,415,748 | 171,135,809 |
| | ₱238,234,997 | ₱281,117,378 |

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS

**June 30, 2014**

| Name of issuing entity of securities guaranteed by the company for which this statements 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, 2014**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding at 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 | 1,366,028,050 | – | 520,067,497 | 380,182,503 | 465,778,050 |
| | 2,000,000,000 | 1,366,028,050 | – | 520,067,497 | 380,182,503 | 465,778,050 |

See Note 20 of the Consolidated Financial Statements

## ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
## SCHEDULE OF FINANCIAL RATIOS

### Financial Soundness Indicator

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **i. Liquidity analysis ratios:** | | |
| **Current ratio** | **2.27** | 2.96 |
| **Quick ratio** | **1.59** | 2.42 |
| **Solvency ratio** | **4.10** | 3.65 |
| **ii. Financial leverage ratios:** | | |
| **Debt ratio** | **0.24** | 0.27 |
| **Debt to equity ratio** | **0.32** | 0.38 |
| **Interest coverage** | **196.46** | 52.55 |
| **Asset to equity ratio** | **1.32** | 1.38 |
| | **June 30, 2014** | June 30, 2013 |
| **iii. Profitability ratios:** | | |
| **Gross profit margin** | **21%** | 21% |
| **Net profit margin** | **4%** | 4% |
| **Return on assets** | **3%** | 6% |
| **Return on equity** | **4%** | 13% |
| **Price/Earnings ratio** | **72.95** | – |

**See attached supporting computation.*

# ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## SCHEDULE OF FINANCIAL RATIOS

**Liquidity Analysis Ratios**

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| Current assets | **26,519,400,051** | 39,616,043,753 |
| Current liabilities | **11,665,590,739** | 13,375,246,968 |
| **Current ratio** | **2.27** | 2.96 |
| | | |
| Current assets | **26,519,400,051** | 39,616,043,753 |
| Inventory | **(7,637,249,199)** | (7,028,810,289) |
| Prepayments | **(275,856,205)** | (234,044,428) |
| Total | **18,606,294,647** | 32,353,189,036 |
| Current liabilities | **11,665,590,739** | 13,375,246,968 |
| **Quick ratio** | **1.59** | 2.42 |
| | | |
| Total assets | **51,668,916,772** | 52,300,832,766 |
| Total liabilities | **12,611,969,161** | 14,318,364,040 |
| **Solvency ratio** | **4.10** | 3.65 |

**Financial Leverage Ratios**

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| Total liabilities | **12,611,969,161** | 14,318,364,040 |
| Total assets | **51,668,916,772** | 52,300,832,766 |
| **Debt ratio** | **0.24** | 0.27 |
| | | |
| Total liabilities | **12,611,969,161** | 14,318,364,040 |
| Total equity | **39,056,947,611** | 37,982,468,726 |
| **Debt to equity ratio** | **0.32** | 0.38 |
| | | |
| Earnings before interest and taxes | **1,859,086,259** | 4,063,463,730 |
| Interest expense | **9,463,042** | 77,328,731 |
| **Interest rate coverage ratio** | **196.46** | 52.55 |
| | | |
| Total assets | **51,668,916,772** | 52,300,832,766 |
| Total equity | **39,056,947,611** | 37,982,468,726 |
| **Asset to equity ratio** | **1.32** | 1.38 |

**Profitability Ratios**

| | **June 30, 2014** | June 30, 2013 |
|---|---|---|
| Gross profit | **7,889,850,000** | 6,546,194,888 |
| Sales | **36,979,383,461** | 31,316,634,034 |
| **Gross profit margin** | **0.21** | 0.21 |
| | | |
| Net profit | **1,551,209,853** | 1,272,088,369 |
| Sales | **36,979,383,461** | 31,316,634,034 |
| **Net profit margin** | **0.04** | 0.04 |
| | | |
| Net income | **1,551,209,853** | 1,272,088,369 |
| Total assets | **51,668,916,772** | 22,379,874,103 |
| **Return on assets** | **0.03** | 0.06 |
| | | |
| Net income | **1,551,209,853** | 1,272,088,369 |
| Total equity | **39,056,947,611** | 9,882,028,512 |
| **Return on equity** | **0.04** | 0.13 |
| | | |
| Price per share | **72.95** | – |
| Earnings per common share | **1.00** | 2.62 |
| **Price/Earnings ratio** | **72.95** | – |

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

**Consolidated Results of Operations**
**For the Six Months Ended June 30, 2014 and 2013**
***(Amounts in Millions Pesos)***

Robinsons Retail Holdings, Inc. recorded net income of ₱1,551 million for the six months ended June 30, 2014, an increase of 22% as compared to ₱1,272 million for the six months ended June 30, 2013. The increase was largely due to increased income from operations as a result of new store openings.

Consolidated revenues increased by 18% from ₱31,317 million for the six months ended June 30, 2013 to ₱36,979 million for the six months ended June 30, 2014. The robust growth was largely due to increase in sales volume. Royalty, rent and other income also increased from ₱646 million to ₱706 million or a 9% growth due to higher royalty fee income of the convenience store segment.

Gross profit for the six months ended June 30, 2014 amounted to ₱7,890 million, 21% higher than ₱6,546 million for the six months ended June 30, 2013. The increase was on the back of higher sales and vendor discounts.

Operating expenses grew by 21% from ₱5,580 million to ₱6,737 million for the six months ended June 30, 2014 due to higher selling expenses and accelerated store network expansion.

Earnings before interests and taxes (EBIT) grew by 15.3% from ₱1,613 million to ₱1,859 million for the six months ended June 30, 2014. As a percentage of sales, EBIT is at 5.0% this year as against 5.2% last year.

Other income and charges increased by 100% from ₱123 million to ₱246 million for the six months ended June 30, 2014 primarily due to the increase in interest income as a result of acquisition of AFS financial assets during the year which earned a total of ₱100 million interest income.

Earnings before interests, taxes, depreciation, amortization and other non-cash items (EBITDA) expanded by 17.4% from ₱2,084 million for the six months ended June 30, 2013 to ₱2,446 million for the six months ended June 30, 2013.

### Supermarket

Robinsons Supermarket concluded the first of half of the year with net sales of ₱18,168 million, a 21.1% growth from ₱14,999 million in the same period last year. The rapid growth was largely due to the increase in sales volume as a result of the addition of 24 new stores after end of June 2013 which includes a six-store supermarket chain acquired in September 2013 and a three-store supermarket chain acquired in January 2014. Robinsons Supermarket is the biggest business segment of the group accounting for 49.1% of consolidated net sales for the six-month period this year.

Cost of sales grew by 20.5% from ₱12,302 million to ₱14,829. The increase was at a slower pace as compared to the increase in sales primarily due to higher supplier discounts and supports. Gross margin expanded by 23.8% to ₱3,339 million from ₱2,697 million in the same period last year. As a percentage to sales, gross margin stood at 18.4% this year versus 18.0% last year.

EBIT reached P868 million for the first half of the year, a 36.4% jump from ₱636 million in the same period last. Accordingly, EBITDA expanded by 34.8% to ₱1,127 million, resulting to an increase of EBITDA margin from 5.6% last year to 6.2% this year.

### Department Store

Robinsons Department Store (RDS) realized sales of ₱6,165 million for the six months ended June 30, 2014, a growth of 11.4% from ₱5,534 million for the same period last year. This increase in net sales was mainly due to improved sales of existing stores and sales contribution of new stores.

RDS' cost of sales amounted to ₱4,540 million for the six months ended June 30, 2014, an increase of 11.3% from ₱4,080 million for the same period last year. This resulted to a gross margin of ₱1,625 million for the six months ended June 30, 2014 against P1,454 million for the same period last year. The increase in gross margin was due to an increase in sales with improved margins coming from additional discounts.

As a result of the foregoing, RDS generated EBIT of ₱359 million for the six months ended June 30, 2014 representing 8.7% increase against ₱331 million in the same period last year. Consequently, RDS' EBITDA of ₱441 million for the six months ended June 30, 2014, also grew by 8.4% against ₱407 million in the same period last year.

**DIY Stores**

DIY segment concluded the first half of 2014 with increases in sales, gross margins and profitability. Net sales lifted by 13.9% from ₱3,365 million to ₱3,833 million for the six months ended June 30, 2013 and June 30, 2014, respectively. The improvement was driven primarily by the strong performance of the existing stores coupled with the aggressive store expansion this year with year-on-year increase of 17 new stores.

DIY's cost of sales grew by 13.3% from ₱2,308 million in 2013 to ₱2,614 million in 2014. The increase was slower as compared to growth in sales primarily due to the additional discounts and supports extended by the suppliers. Gross profit, as a result, expanded to ₱1,219 million from ₱1,057 million in the first half of 2013. As a percentage to sales, gross profit was at 31.8% this year against 31.4% last year. EBIT registered a modest growth of 8.7% from ₱333 million for the first half of 2013 to ₱362 million for the first half of 2014.

EBITDA expanded by 10.5% to ₱420 million for the six months ended June 30, 2014 against ₱380 million for the same period in 2013. As a percentage to sales, EBITDA remains strong at 11.0% in 2014 against 11.3% in 2013.

**Convenience Stores**

Convenience stores segment registered a system wide sales and merchandise sales of ₱3,312 million and ₱2,219 million for the first six months of 2014, a 4.6% and 6.9% growth from ₱3,167 million and ₱2,077 million in the same period last year, respectively. The increase in the sales can be attributed to the increase in number of operating stores. Other Income this year of ₱571 million which mainly consist of Royalty Fee was 3.8% higher than last year's ₱550 million.

Cost of Sales grew by ₱115 million or 6.0%, to ₱2,016 million for the first six months of 2014 from ₱1,901 million in 2013. Gross Margin grew by 0.7% from 8.5%% last year to 9.2% this year due to higher supplier discounts and supports. Convenience stores recorded an EBIT of ₱59 million this year versus last year's ₱100 million.

EBITDA generated for the first half of 2014 was ₱147 million, 19.2% lower than the ₱182 million recorded in the same period last year.

**Drug Stores**

South Star Drug, Inc. (SSD) registered net sales of ₱3,441 million for the six months ended June 30, 2014, representing a 14.0% growth from the same period last year's figure amounting to ₱3,017 million. The growth can be attributed to the 59 stores that opened from July 2013 to June 2014. SSD also experienced strong same store sales performance during the first six months of 2014.

SSD's cost of sales for the six months ended June 30, 2014 reached ₱2,879 million, resulting to a gross margin of ₱562 million or 16.3% of sales against only 16.2% of sales for the same period last year. The slight expansion in margins was mainly due to the initiative undertaken to review the main merchandising categories in 2014.

SSD generated EBITDA of ₱160 million for the six months ended June 30, 2014, representing 4.7% of sales, compared to 5.0% last year.

**Specialty Stores**

The net sales of the Specialty Stores segment increased by 35.9% from ₱2,503 million to ₱3,401 million for the six months ended June 30, 2013 and June 30, 2014, respectively. The Segment added 73 more stores after June 30, 2013 bringing the store network to 217 by the end of June 2014.

The cost of merchandise sold of Specialty Stores segment increased by 34.4% from ₱1,830 million to ₱2,460 million for the six months ended June 30, 2013 to June 30, 2014, respectively, which was comparable to the increase in volume of sales. The cost of merchandise increased at a slower rate than net sales mainly due to the additional discounts and support from vendors. As a percentage to sales, gross margin stood at 27.7% this year versus 26.9% last year bringing a 40.0% rise in the Specialty Stores segment gross profit from ₱672 million to ₱941 million for the six months ended June 30, 2013 and June 30 2014, respectively.

For the six months ended June 30, 2014, the Specialty Stores segment generated an EBITDA of ₱156 million, a slight increase of 0.7% compared to ₱155 million. As a percentage to sales, EBITDA went down by 1.6 percentage points from 6.2% to 4.6% for the six months ended June 30, 2013 and June 30, 2014, respectively.

**Financial Position**

June 30, 2014 versus December 31, 2013

As of June 30, 2014, the Company's balance sheet showed consolidated assets of ₱51,669 million, which is 1% lower than the total consolidated assets of ₱52,301 million as of December 31, 2013.

Cash and cash equivalents significantly decreased from ₱30,136 million as of December 31, 2013 to ₱9,981 million as of June 30, 2014. Net cash used in operating activities totaled ₱7,000 million. Net cash used in investing activities amounted to ₱12,925 million, ₱1,566 million of which were used to acquire properties and equipment and ₱10,844 million were used to acquire available-for-sale investments. Net cash used in financing activities amounted to ₱230 million.

Trade and other receivables decreased by 28% from ₱1,108 million to ₱793 million as a result of the Group's efficient collection process.

Goodwill increased from ₱1,231 million to ₱1,379 million due to the acquisition of JAS 8 Retailing Mngt. Corp (JRMC) and GNC Pharma Corporation (GPC).

Other noncurrent assets also increased from ₱959 million to ₱1,287 million due to additional security deposit for new stores.

Trade and other payables decreased from ₱12,075 million to ₱10,854 million.

Current loans payable decreased due to settlement of loans during the period.

Stockholder's equity grew from ₱37,982 million as of December 31, 2013 to ₱39,057 million as of June 31, 2014 due to higher net income during the period.