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SECURITIES AND EXCHANGE COMMISSION

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Company Information

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

Document Information

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2019
2. Commission identification number A200201756
3. BIR Tax Identification No 216-303-212-000
4. Exact name of issuer as specified in its charter

ROBINSONS RETAIL HOLDINGS, INC.

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

6. Industry Classification Code: (SEC Use Only)

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

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

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

Not Applicable

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

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

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

Yes [/] No []

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

Philippine Stock Exchange - Common Share

12. Indicate by check mark whether the registrant:

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

PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

- A. Unaudited Consolidated Statements of Financial Position as of September 30, 2019 and Audited Consolidated Statements of Financial Position as of December 31, 2018.
- B. Unaudited Consolidated Statements of Comprehensive Income for the Nine Months Ended September 30, 2019 and 2018.
- C. Unaudited Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2019 and 2018
- D. Unaudited Consolidated Statements of Cash Flow for the Nine Months Ended September 30, 2019 and 2018
- E. Notes to Unaudited Consolidated Financial Statement.

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 September 30, 2019

SIGNATURES

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

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

Signature and Title: 
Lance Y. Gokongwei
Chairman

Date: November 5, 2019

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

Date: November 5, 2019

Signature and Title: 
Graciela A. Banatao
Treasurer

Date: November 5, 2019

Signature and Title: 
Mylene A. Kasiban
Chief Financial Officer

Date: November 5, 2019



STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

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

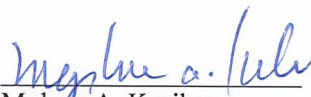
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or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


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

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



Lance Y. Gokongwei
Chairman

Robina Y. Gokongwei-Pe
President & Chief Executive Officer

Mylene A. Kasiban
Chief Financial Officer

Graciela A. Banatao
Treasurer

Signed this 5th day of November 2019.

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

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

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

Witness my hand and seal this _____ day of NOV 11 2019 2019.

Doc. No. 114;
Page No. 24;
Book No. 724111;
Series of 2019.


Atty. Richard Leo M. Baldueza
Notary Public for Quezon City
IBP Lifetime No. 7203 (01-17-08) Roll No. 53953
MCLE Compliance No. V-0013807 / 2-9-16
PTR No. 2355333 / 01-03-19 / Plaridel, Bulacan

-COVER SHEET-

for FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

R	O	B	I	N	S	O	N	S		R	E	T	A	I	L		H	O	L	D	I	N	G	S	,		I	N	C	
.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S													

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

4	3	r	d		F	l	o	o	r	,		R	o	b	i	n	s	o	n	s		E	q	u	i	t	a	b	l
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Form Type

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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

info@robinsonsretailholdings.com.ph

Company's Telephone Number

635-0751

Mobile Number

N/A

No. of Stockholders

36

Annual Meeting (Month / Day)

Last Thursday of May

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Mylene A. Kasiban

Email Address

Mylene.Kasiban@robinsonsretail.ph

Telephone Number/s

635-0751 local
214

Mobile Number

0998 840 4227

CONTACT PERSON'S ADDRESS

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

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

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

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 27)	₱10,542,956,990	₱14,788,040,613
Trade and other receivables (Notes 8, 24 and 27)	3,474,813,880	3,171,595,504
Merchandise inventories (Note 9)	20,055,302,265	18,628,013,928
Other current assets (Note 10)	3,055,110,585	3,159,661,090
Total Current Assets	37,128,183,720	39,747,311,135
Noncurrent Assets		
Debt and equity instrument financial assets (Notes 11 and 27)	15,691,360,850	19,751,466,722
Property and equipment (Note 12)	19,247,293,320	19,269,212,908
Right-of-use asset	23,038,365,436	–
Investment in associates (Note 13)	7,906,137,841	6,814,297,383
Intangible assets (Notes 14 and 19)	19,051,770,114	19,106,289,393
Deferred tax assets - net (Note 25)	745,728,306	413,459,629
Retirement plan asset (Notes 22 and 23)	65,223,026	91,253,643
Other noncurrent assets (Notes 15 and 27)	2,428,144,069	2,583,816,381
Total Noncurrent Assets	88,174,022,962	68,029,796,059
	₱125,302,206,682	₱107,777,107,194
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 16, 24 and 27)	₱19,207,891,430	₱24,577,110,455
Short-term loans payable (Notes 17 and 27)	2,679,000,000	6,794,000,000
Current portion of lease liability	2,121,730,315	–
Income tax payable	695,454,651	837,681,888
Other current liabilities (Note 27)	223,110,691	279,844,005
Total Current Liabilities	24,927,187,087	32,488,636,348
Noncurrent Liabilities		
Noncurrent portion of lease liability	22,001,586,649	–
Deferred tax liabilities - net (Note 25)	2,072,115,172	1,954,819,590
Retirement obligation (Notes 22 and 23)	235,488,825	325,461,329
Other noncurrent liabilities (Note 27)	321,604,775	304,021,928
Total Noncurrent Liabilities	24,630,795,421	2,584,302,847
Total Liabilities	49,557,982,508	35,072,939,195
Equity (Note 18)		
Capital stock	1,576,489,360	1,576,489,360
Additional paid-in capital	40,768,202,897	40,768,202,897
Other comprehensive income (loss) (Notes 11, 13 and 23)	475,114,574	(563,817,037)
Equity reserve	(988,417,129)	(970,435,361)
Retained earnings		
Appropriated	24,151,852,847	24,151,852,847
Unappropriated	5,297,952,584	3,558,435,683
Total equity attributable to equity holders of the Parent Company	71,281,195,133	68,520,728,389
Non-controlling interest in consolidated subsidiaries	4,463,029,041	4,183,439,610
Total Equity	75,744,224,174	72,704,167,999
	₱125,302,206,682	₱107,777,107,194

See accompanying Notes to Consolidated Financial Statements.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
SALES - Net of sales discounts and returns (Notes 6, 20 and 24)	₱38,947,763,290	₱31,358,373,743	₱116,158,686,248	₱91,817,079,056
COST OF MERCHANDISE SOLD (Notes 6 and 9)	29,918,875,920	24,333,749,026	89,468,599,070	71,129,273,245
GROSS PROFIT (Note 6)	9,028,887,370	7,024,624,717	26,690,087,178	20,687,805,811
ROYALTY, RENT AND OTHER REVENUE (Notes 6, 24 and 29)	725,528,476	651,934,182	1,978,080,773	1,769,880,888
GROSS PROFIT INCLUDING OTHER REVENUE (Note 6)	9,754,415,846	7,676,558,899	28,668,167,951	22,457,686,699
OPERATING EXPENSES (Notes 21, 22, 23, 28 and 29)	(7,825,436,090)	(6,049,231,921)	(23,335,917,930)	(17,802,941,931)
OTHER INCOME (CHARGES)				
Interest income (Notes 6, 7 and 11)	245,809,479	240,005,946	808,364,094	715,241,756
Equity in net earnings in associates (Note 13)	85,109,415	29,431,402	142,714,861	110,082,043
Dividend income (Notes 6 and 11)	27,875,000	27,875,000	83,625,000	83,625,000
Interest expense (Notes 6 and 17)	(571,185,188)	(36,703,564)	(1,765,750,947)	(92,181,929)
Foreign currency exchange gain (losses) (Note 6)	47,535,655	58,712,076	(43,766,450)	305,011,852
Others (Note 14)	(50,033,761)	(138,581,903)	(43,908,575)	(191,542,445)
	(214,889,400)	180,738,957	(818,722,017)	930,236,277
INCOME BEFORE INCOME TAX (Note 6)	1,714,090,356	1,808,065,935	4,513,528,004	5,584,981,045
PROVISION FOR INCOME TAX (Note 25)				
Current	571,887,578	515,822,627	1,503,428,078	1,396,138,439
Deferred	(110,104,517)	(94,934,936)	(348,104,130)	(146,156,163)
	461,783,061	420,887,691	1,155,323,948	1,249,982,276
NET INCOME	1,252,307,295	1,387,178,244	3,358,204,056	4,334,998,769
OTHER COMPREHENSIVE INCOME (LOSS)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Changes in fair value of debt and equity financial assets (Note 11)	344,758,818	(194,070,161)	759,672,735	(816,092,792)
Share in change in fair value of debt and equity financial assets on associates (Note 13)	63,597,220	(71,445,268)	407,855,598	29,773,871
Share in change in translation adjustment in associates (Note 13)	66,273	(4,663,551)	5,939,977	(6,225,538)
Cumulative translation adjustment	12,574,205	(1,440,750)	(14,269,041)	51,993,399
Income tax effect	(19,099,048)	22,832,646	(124,138,673)	(7,064,500)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Share in actuarial gains (loss) on retirement obligation in associates (Note 13)	(3,396,000)	—	5,530,022	(1,243,379)
Income tax effect	1,018,800	—	(1,659,007)	373,014
	399,520,268	(248,787,084)	1,038,931,611	(748,485,925)
TOTAL COMPREHENSIVE INCOME	₱1,651,827,563	₱1,138,391,160	₱4,397,135,667	₱3,586,512,844
(Forward)				

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
Net income attributable to:				
Equity holders of the Parent Company	P1,101,295,323	P1,210,769,447	P2,874,589,240	P3,832,462,376
Non-controlling interest in consolidated subsidiaries	151,011,972	176,408,797	483,614,816	502,536,393
	P1,252,307,295	P1,387,178,244	P3,358,204,056	P4,334,998,769
Total comprehensive income attributable to:				
Equity holders of the Parent Company	P1,500,815,591	P961,982,363	P3,913,520,851	P3,083,976,451
Non-controlling interest in consolidated subsidiaries	151,011,972	176,408,797	483,614,816	502,536,393
	P1,651,827,563	P1,138,391,160	P4,397,135,667	P3,586,512,844
Basic/Diluted Earnings Per Share (Note 26)	P0.70	P0.87	P1.82	P2.77

See accompanying Notes to Consolidated Financial Statements.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Total Equity Attributable to Equity Holders of the Parent Company									
For the Nine Months Ended September 30, 2019 (Unaudited)									
	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Other Comprehensive Income (Loss) (Notes 11, 13, and 23)	Equity Reserve (Note 18)	Retained Earnings		Total	Non-controlling Interest in Consolidated Subsidiaries (Note 18)	Total
					Appropriated (Note 18)	Unappropriated (Note 18)			
Balance at beginning of year	P1,576,489,360	P40,768,202,897	(P563,817,037)	(P970,435,361)	P24,151,852,847	P3,558,435,683	P68,520,728,389	P4,183,439,610	P72,704,167,999
Net income	—	—	—	—	—	2,874,589,240	2,874,589,240	483,614,816	3,358,204,056
Other comprehensive income	—	—	1,038,931,611	—	—	—	1,038,931,611	—	1,038,931,611
Total comprehensive income	—	—	1,038,931,611	—	—	2,874,589,240	3,913,520,851	483,614,816	4,397,135,667
Acquisition of noncontrolling interest	—	—	—	(17,981,768)	—	—	(17,981,768)	17,981,768	—
Dividends (Note 18)	—	—	—	—	—	(1,135,072,339)	(1,135,072,339)	(222,007,154)	(1,357,079,493)
Balance at end of year	P1,576,489,360	P40,768,202,897	P475,114,574	(P988,417,129)	P24,151,852,847	P5,297,952,584	P71,281,195,133	P4,463,029,041	P75,744,224,174

For the Nine Months Ended September 30, 2018 (Unaudited)									
Balance at beginning of year	P1,385,000,000	P27,227,385,090	P289,698,663	(P1,021,894,669)	P15,212,852,847	P8,440,230,328	P51,533,272,259	P3,733,366,825	P55,266,639,084
Net income	—	—	—	—	—	3,832,462,376	3,832,462,376	502,536,393	4,334,998,769
Other comprehensive loss	—	—	(748,485,925)	—	—	—	(748,485,925)	—	(748,485,925)
Total comprehensive income (loss)	—	—	(748,485,925)	—	—	3,832,462,376	3,083,976,451	502,536,393	3,586,512,844
Appropriation	—	—	—	—	6,157,000,000	(6,157,000,000)	—	—	—
Additional investment in a subsidiary (Notes 2 and 18)	—	—	—	—	—	—	—	14,700,000	14,700,000
Dividends (Note 18)	—	—	—	—	—	(997,200,000)	(997,200,000)	(136,200,000)	(1,133,400,000)
Balance at end of year	P1,385,000,000	P27,227,385,090	(P458,787,262)	(P1,021,894,669)	P21,369,852,847	P5,118,492,704	P53,620,048,710	P4,114,403,218	P57,734,451,928

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P4,513,528,004	P5,584,981,045
Adjustments for:		
Depreciation and amortization (Notes 6, 12, 14 and 21)	5,074,524,279	1,729,066,859
Interest expense (Notes 6 and 17)	1,765,750,947	92,181,929
Retirement expense (Notes 22 and 23)	106,712,564	115,178,714
Changes in fair value of debt instruments at FVTPL (Note 11)	38,938,019	—
Provision for doubtful accounts	—	(3,953,752)
Gain on disposal of debt security	(70,156,523)	—
Equity in net earnings in associates (Note 13)	(142,714,861)	(110,082,043)
Dividend income (Notes 6 and 11)	(83,625,000)	(83,625,000)
Unrealized foreign currency exchange gain (loss) (Note 6)	43,766,450	(305,011,852)
Interest income (Notes 6, 7 and 11)	(808,364,094)	(715,241,756)
Others	—	85,097,378
Operating income before working capital changes	10,438,359,785	6,388,591,522
Decrease (increase) in:		
Trade and other receivables	(297,524,592)	(71,473,993)
Merchandise inventories	(1,427,288,337)	(1,364,094,726)
Other current assets	104,550,505	(22,567,039)
Increase (decrease) in:		
Trade and other payables	(5,249,092,876)	(3,400,765,547)
Other current liabilities	(56,733,314)	31,750,462
Other noncurrent liabilities	17,582,847	—
Net cash flows generated from operations	3,529,854,018	1,561,440,679
Interest received	808,804,841	883,800,220
Retirement contributions and benefits paid (Note 23)	(170,654,451)	—
Income tax paid	(1,645,655,315)	(1,708,021,234)
Net cash flows generated from operating activities	2,522,349,093	737,219,665
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment in associates (Note 13)	(529,800,000)	(1,305,000,000)
Debt and equity instrument financial assets (Note 11)	(563,656,662)	(847,021,923)
Property and equipment (Note 12)	(2,241,987,134)	(2,865,131,541)
Licenses (Note 14)	—	(68,749,355)
Proceeds from transfers/disposals of:		
Debt and equity instrument financial assets (Note 11)	5,352,268,181	756,249,689
Dividends received (Note 11)	83,625,000	83,625,000
Decrease (increase) in other noncurrent assets	155,672,312	(163,554,264)
Net cash flows generated from (used in) investing activities	2,256,121,697	(4,409,582,394)

(Forward)

	Nine Months Ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan availments (Note 17)	P1,284,532,534	P2,487,829,137
Dividends paid (Note 18)	(1,357,079,492)	(1,133,400,000)
Payment of loans (Note 17)	(5,399,532,534)	(4,632,000,000)
Interest paid (Note 17)	(266,091,692)	(92,181,929)
Payment of lease liabilities	(3,241,616,779)	—
Net cash flows used in financing activities	(8,979,787,963)	(3,369,752,792)
EFFECTS OF FOREIGN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(43,766,450)	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,245,083,623)	(7,042,115,521)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,788,040,613	14,565,037,906
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	P10,542,956,990	P7,522,922,385

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

2. Basis of Preparation

Basis of Preparation

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

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements as of September 30, 2019 and December 31, 2018 represent the consolidation of the financial statements of RRHI and the following subsidiaries directly and indirectly owned by the Parent Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional Investments and Acquisitions

On August 14, 2019, RRHI made additional capital infusion to DAVI amounting to P249.80 million (Note 13).

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

On March 28, 2019, RRHI made additional capital infusion to TCCI amounting to P280.00 million, this increases RRHI stake in TCCI from 20% to 30% (Note 13).

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

On November 16, 2018, RRHI subscribed 40% ownership interest in Data Analytics Ventures, Inc. (DAVI) of which P0.40 million was paid. DAVI has not yet started commercial operations. DAVI's principal activities include processing, managing and analyzing data. Accordingly, the Group accounted the investment in DAVI under investment in associates (Note 13).

On September 20, 2018, RRHI made an investment in G2M Solutions Philippines Pte. Ltd. (G2M) amounting to P160.65 million through convertible note which will provide the RRHI 14.90% ownership interest upon conversion of the note. The terms of the agreement entitled the RRHI to one (1) out of three (3) board seats and participation to board key decisions. G2M is providing neighborhood sundry stores enablement platform and software in the Philippines. Accordingly, the Group accounted the investment in G2M under investment in associates (Note 13).

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

On August 16, 2018, RSC made an investment in GrowSari, Inc. (GrowSari) amounting to P105.00 million through convertible note which will provide the RSC 28.60% ownership interest upon conversion of the note. The terms of the agreement also provide technical information and entitled the RSC to two (2) out of seven (7) board seats and participation to board key decisions. GrowSari is engaged in selling wholesale goods to sari sari business owners. Accordingly, the Group accounted the investment in GrowSari under investment in associates (Note 13).

On July 12, 2018, RRHI made additional capital infusion to RBC amounting to P1.20 billion to meet the P15.0 billion minimum capital required by the Bangko Sentral ng Pilipinas for a bank to operate a network of over 100 branches (Note 13).

On February 27, 2018, RI and an NCI incorporated Super50, a company engaged in the business of retail and wholesale goods with paid-up capital amounting to P30.0 million. RI's ownership interest in Super50 is 51.0% (Note 18).

On February 22, 2018, RHMI incorporated RLSI, with a paid-up capital amounting to P50.00 million. RLSI is primarily engaged in the business of trading goods, commodities and merchandise of any kind.

On December 20, 2017, additional capital amounting P510.0 million to RCSI was made by RI. Corresponding additional investment coming from NCI of RCSI amounted to P490.0 million (Note 18).

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

3. Changes in Accounting Policies

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

Effective beginning on or after January 1, 2019

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

<u>Consolidated statement of financial position</u>	Increase
ASSETS	
Right-of-use asset	₱25,866,157,854
LIABILITIES	
Lease liabilities	25,866,157,854

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

Consolidated statement of comprehensive income

	For the nine months ended September 30, 2019		
	As reported	Balances without adoption of PFRS 16	Effect of change Higher (Lower)
Rent expense	₱2,530,140,437	₱5,771,757,216	(₱3,241,616,779)
Depreciation and amortization	5,074,524,279	2,246,731,861	2,827,792,418
Interest expense	1,765,750,947	266,091,692	1,499,659,255
Net income	3,358,204,056	4,118,288,481	(760,084,425)

Consolidated statement of financial position

	For the nine months ended September 30, 2019		
	As reported	Balances without adoption of PFRS 16	Effect of change Higher (Lower)
Deferred tax assets-net	₱745,728,306	₱420,506,310	325,221,996
Right-of-use assets, net of accumulated depreciation	23,038,365,436	—	23,038,365,436
Lease liabilities	24,123,316,964	—	24,123,316,964
Retained earnings	29,449,805,431	30,209,889,856	(760,084,425)

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

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

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

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

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

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

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

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

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

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

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

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

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

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

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

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

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

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

Standards Issued But Not Yet Effective

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

Effective Beginning on or after January 1, 2020

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

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

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

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

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

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

Effective Beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

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

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

Deferred Effectivity

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

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

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

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

4. Summary of Significant Accounting Policies

Revenue from Contracts with Customers

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

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

Sale of Goods - Retail Customers

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

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

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

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

Sale of Goods - Wholesale Market

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

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

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

Sale of Loyalty Points and Gift Checks

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

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

Sale of Merchandise - Franchisees

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

Franchise Revenue

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

Contract Balances

Receivables

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

Contract Liabilities

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

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

Royalty Fee

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

Rental Income

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

Interest Income

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

Dividend Income

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

Cost of Merchandise Sold

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

Operating Expenses

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

Financial Assets

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

Initial Recognition and Measurement

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

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

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

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

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

Subsequent Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a significant increase in credit risk since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then entities shall revert to recognizing 12-month ECL.
- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

A default is considered to have occurred when (a) there is a breach of financial covenants by the counterparty; or (b) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the analysis, the Company considers that default has

occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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

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

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

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

- Probability-of-default (PD) - an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Loss-given-default (LGD) - an estimate of the loss arising in case where defaults occur at a given time. It is based on the difference between the contractual cash flow due and those that the Group would expect to receive, including from any collateral.
- Exposure-at-default (EAD) - an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.

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

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

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

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

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

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

Financial Liabilities

Initial Recognition

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL and other financial liabilities at amortized cost. The initial measurement of financial liabilities, except for designated at FVPL, includes transaction costs.

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

Subsequent Measurement

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

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

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

Offsetting of Financial Assets and Liabilities

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

Derecognition of Financial Assets and Liabilities

Financial Asset

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

- the right to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through' arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either; (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

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Where the Group has transferred its right to receive cash flows from an asset but has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liability

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

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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.

Merchandise Inventories

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

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

Investment in Associates

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

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

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

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

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

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

Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

Combination of Entities under Common Control

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

Property and Equipment

Property and equipment, except land are carried at cost less accumulated depreciation and amortization and accumulated impairment in value, if any. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a

separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Construction in-progress (CIP) are transferred to the related "Property and equipment" account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for service. CIP is not depreciated until such time when the relevant assets are completed and available for use.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives (EUL) of the assets. Leasehold improvements are amortized over the EUL of the improvements or the term of the related lease, whichever is shorter.

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

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

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

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

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

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

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

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

Licenses

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

Trademarks

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

Franchise

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

Impairment of Nonfinancial Assets

This accounting policy primarily applies to the Group’s property and equipment, investment in associates and intangible assets.

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

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

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

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If

that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

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

Investment in Associates

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

Impairment Testing of Goodwill and Trademarks

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

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

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

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

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

Retirement Cost

Defined Benefit Plan

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the

projected unit credit method.

Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) remeasurements of net defined benefit liability or asset.

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

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

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

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

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

Value-Added Taxes (VAT)

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

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

Creditable Withholding Taxes (CWT)

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

Income Tax

Current Tax

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

Deferred Tax

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

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

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

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

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

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

Capital Stock

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

Equity Reserve

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

Retained Earnings

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

are those that can be allocated for specific purposes and can be distributed as dividend (Note 18).

Lease standard effective from or after January 1, 2019

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

Lease standard effective prior to January 1, 2019

Leases

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

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

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

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

Group as Lessee

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

Group as Lessor

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

Foreign Currency Transactions

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

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

Earnings Per Share (EPS)

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

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

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

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

Provisions

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

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

Contingencies

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

Segment Reporting

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

Events After the Reporting Date

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Operating Lease Commitments - Group as Lessee

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

Right to Access - Performance Obligation Satisfied Over Time

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

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

Determination if Consideration Received from Suppliers is Not Distinct

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

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

Accounting for Investment in GrowSari and G2M through Convertible Note

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

Determination of Control

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

The following were also considered:

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

Recognition of Insurance Recovery

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

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

Contingencies

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

these proceedings (Note 31).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability of Goodwill and Trademarks

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

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

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

	Basis	Amount
SSDI	VIU	₱1,566,917,532
TGPPI	VIU	1,264,098,435
SEWI	VIU	364,914,493
		<u>₱3,195,930,460</u>

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

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

Value In Use

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

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

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

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

Gross Margins

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

Discount Rates

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

Price Inflation

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

Growth Rate Estimates

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

EV/EBITDA Multiple

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

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

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

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

Provision for ECL of Trade and Other Receivables

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

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

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

As of September 30, 2019 and December 31, 2018, the carrying value of the Group's trade and other receivables amounted to ₱3.47 billion and ₱3.17 billion, respectively (Note 8).

Estimating NRV of Merchandise Inventories

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

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

Merchandise inventories amounted to ₱20.05 billion and ₱18.63 billion as of September 30, 2019 and December 31, 2018, respectively (Note 9).

Evaluation of Impairment of Nonfinancial Assets

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

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

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

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

As of September 30, 2019 and December 31, 2018, the carrying value of the Group's property and equipment amounted to ₱19,247.29 million and ₱19,269.21 million, respectively (Note 12), investment in associates amounted to ₱7,906.14 million and ₱6,814.30 million, respectively (Note 13) and franchise amounted to ₱6.83 million and ₱24.13 million, respectively (Note 14).

Retirement and Other Benefits

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

As of September 30, 2019 and December 31, 2018, the carrying value of the retirement plan amounted to ₱65.22 million and ₱91.25 million asset and ₱235.49 million and ₱325.46 million obligation, respectively.

Deferred Tax Assets

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

As of September 30, 2019 and December 31, 2018 the Group has deferred tax assets amounting ₱745.73 million and ₱413.46 million, respectively (Note 25). Unrecognized deferred tax assets amounted to ₱84.58 million and ₱100.67 million as of September 30, 2019 and December 31, 2018, respectively.

Determining Whether the Loyalty Points and Gift Checks Provide Material Rights to Customers

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

As of September 30, 2019 and December 31, 2018, contract liabilities arising from customer loyalty program and gift checks amounted to ₱205.00 million and ₱197.90 million, respectively. (Note 16).

6. Operating Segments

Business Segment

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

Management monitors the operating results of its operating segments separately for the purpose of

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

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

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

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

The Group derives its revenue from the following reportable units:

- *Supermarket Division*
Robinsons Supermarket is a major supermarket chain in the country that focuses on health and wellness. It also offers fresh food products at competitive prices. RSC actively encourages consumers to adopt a healthy lifestyle by providing a wide range of high quality health and wellness products. Such products are given a specifically allocated section within each of the supermarkets and are made highly visible to consumers. In 2018, the Group acquired RSCI which also operates supermarket chains in the country.
- *Department Store Division*
Robinsons Department Store (RDS) offers a large selection of local and international brands that are grouped into categories such as shoes, bags and accessories (including beauty and personal care), ladies' and men's wear, children's wear, household items and others. RDS is focused on catering to middle-income customers.
- *Do-It-Yourself (DIY) Division*
The five (5) DIY brands Handyman Do it Best, True Value, True Home, Robinsons Builders and Home Plus have grown to have a reputation of quality and dependability in the Philippine retail market, as well as being aggressive in terms of expansion among mall and big box hardware and home improvement centers in the country. The DIY segment aims to cover the Philippine landscape with more branches in key commercial centers to promote self-reliance among do-it yourselfers, as well as offer a wide selection of construction materials for contractors and builders.
- *Convenience Store Division*
Ministop is a 24 - hour convenience store chain and is a franchise of Ministop Co. Ltd. - Japan (Ministop), one (1) of the largest convenience store chains in Japan. The store carries a wide assortment of merchandise and an extensive selection of ready to eat products.
- *Drug Store Division*
The Drug Store segment primarily offers high quality pharmaceutical drugs, which constitutes to over a thousand reputable branded and affordable options including The Generics Pharmacy house brands for the generic medicines. The segment's other major product categories are staged milk and non-pharmaceutical selections, which include a vast array personal care items, food and beverage, and other convenience store grocery items.

- *Specialty Store Division*

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

September 30, 2019

	Supermarket Division	Department Store Division	DIY Division	Convenience Store Division	Drug Store Division	Specialty Store Division	Parent Company	Intersegment Eliminating Adjustments	Consolidated
Segment net sales	P63,720,371,657	P11,918,081,779	P10,372,973,381	P4,908,612,958	P12,988,990,359	P12,249,656,114	P-	P-	P116,158,686,248
Intersegment net sales	-	-	-	-	-	1,137,021,477	-	(1,137,021,477)	-
Total net sales	63,720,371,657	11,918,081,779	10,372,973,381	4,908,612,958	12,988,990,359	13,386,677,591	-	(1,137,021,477)	116,158,686,248
Segment cost of merchandise sold	50,347,581,584	7,494,644,992	6,930,964,108	4,422,408,414	10,438,984,551	9,834,015,421	-	-	89,468,599,070
Intersegment cost of merchandise sold	-	1,137,021,477	-	-	-	-	-	(1,137,021,477)	-
Total cost of merchandise sold	50,347,581,584	8,631,666,469	6,930,964,108	4,422,408,414	10,438,984,551	9,834,015,421	-	(1,137,021,477)	89,468,599,070
Gross profit	13,372,790,073	3,286,415,310	3,442,009,273	486,204,544	2,550,005,808	3,552,662,170	-	-	26,690,087,178
Segment other income	406,796,682	104,667,631	-	1,324,430,537	137,113,592	5,072,331	-	-	1,978,080,773
Intersegment other income	110,070,923	11,764,669	-	-	-	-	-	(121,835,592)	-
Total other income	516,867,605	116,432,300	-	1,324,430,537	137,113,592	5,072,331	-	(121,835,592)	1,978,080,773
Gross profit including other income	13,889,657,678	3,402,847,610	3,442,009,273	1,810,635,081	2,687,119,400	3,557,734,501	-	(121,835,592)	28,668,167,951
Segment operating expenses	9,125,505,665	2,556,359,631	1,710,313,133	1,280,656,650	1,408,907,709	2,129,740,447	49,910,416	-	18,261,393,651
Intersegment operating expenses	10,597,388	33,314,494	24,289,307	-	33,205,451	20,428,952	-	(121,835,592)	-
Total operating expenses	9,136,103,053	2,589,674,125	1,734,602,440	1,280,656,650	1,442,113,160	2,150,169,399	49,910,416	(121,835,592)	18,261,393,651
Earnings before interest, taxes and depreciation and amortization	4,753,554,625	813,173,485	1,707,406,833	529,978,431	1,245,006,240	1,407,565,102	(49,910,416)	-	10,406,774,300
Depreciation and amortization	2,398,895,915	550,325,870	773,678,214	431,669,202	262,869,177	657,085,901	-	-	5,074,524,279
Earnings before interest and taxes	2,354,658,710	262,847,615	933,728,619	98,309,229	982,137,063	750,479,201	(49,910,416)	-	5,332,250,021
Interest expense	(1,019,757,876)	(167,614,307)	(140,862,715)	(42,572,903)	(151,237,232)	(223,909,185)	(42,967,218)	23,170,489	(1,765,750,947)
Interest income	53,806,421	35,829,120	58,136,499	16,443,299	21,377,512	24,663,324	621,278,408	(23,170,489)	808,364,094
Dividend income	-	-	-	-	-	-	83,625,000	-	83,625,000
Foreign currency exchange gain (losses)	7,787,708	-	-	-	-	(50,354)	(51,503,804)	-	(43,766,450)
Equity in net earnings of an associate	-	-	-	-	-	-	142,714,861	-	142,714,861
Others	-	-	-	-	-	(75,127,079)	31,218,504	-	(43,908,575)
Income before income tax	P1,396,494,963	P131,062,428	P851,002,403	P72,179,625	P852,277,343	P476,055,907	P734,455,335	P-	P4,513,528,004
Assets and liabilities									
Segment assets	P46,100,170,357	P6,154,090,244	P8,756,951,497	P3,812,474,148	P9,572,107,074	P11,714,940,845	P30,975,563,258	P8,644,923,279	P125,302,206,682
Investment in subsidiaries - at cost	2,840,607,224	3,878,258,269	-	-	-	-	21,632,839,151	(28,351,704,644)	-
Total segment assets	P48,940,777,581	P10,032,348,513	P8,756,951,497	P3,812,474,148	P9,572,107,074	P11,714,940,845	P52,608,402,409	(P19,706,781,365)	P125,302,206,682
Total segment liabilities	P29,425,925,152	P5,022,206,204	P3,946,154,392	P2,016,595,676	P5,307,316,404	P7,994,626,640	P160,234,985	(P3,841,528,419)	P49,557,982,508
Other segment information:									
Capital expenditures	P926,452,787	P249,348,600	P230,538,775	P389,143,077	P89,347,418	P357,156,477	P-	P-	P2,241,987,134

September 30, 2018

	Supermarket Division	Department Store Division	DIY Division	Convenience Store Division	Drug Store Division	Specialty Store Division	Parent Company	Intersegment Eliminating Adjustments	Consolidated
Segment net sales	P42,715,290,003	P11,690,002,658	P9,910,135,617	P4,544,834,536	P11,619,780,921	P11,337,035,321	P-	P-	P91,817,079,056
Intersegment net sales	-	-	-	-	-	960,318,701	-	(960,318,701)	-
Total net sales	42,715,290,003	11,690,002,658	9,910,135,617	4,544,834,536	11,619,780,921	12,297,354,022	-	(960,318,701)	91,817,079,056
Segment cost of merchandise sold	34,440,819,592	7,537,483,349	6,683,318,668	4,130,084,469	9,359,259,657	8,978,307,510	-	-	71,129,273,245
Intersegment cost of merchandise sold	-	960,318,701	-	-	-	-	-	(960,318,701)	-
Total cost of merchandise sold	34,440,819,592	8,497,802,050	6,683,318,668	4,130,084,469	9,359,259,657	8,978,307,510	-	(960,318,701)	71,129,273,245
Gross profit	8,274,470,411	3,192,200,608	3,226,816,949	414,750,067	2,260,521,264	3,319,046,512	-	-	20,687,805,811
Segment other income	103,605,521	84,242,330	-	1,370,596,184	177,468,907	33,967,946	-	-	1,769,880,888
Intersegment other income	103,282,317	33,132,871	-	-	-	-	-	(136,415,188)	-
Total other income	206,887,838	117,375,201	-	1,370,596,184	177,468,907	33,967,946	-	(136,415,188)	1,769,880,888
Gross profit including other income	8,481,358,249	3,309,575,809	3,226,816,949	1,785,346,251	2,437,990,171	3,353,014,458	-	(136,415,188)	22,457,686,699
Segment operating expenses	5,682,393,532	2,730,626,424	2,197,256,845	1,510,665,516	1,485,935,614	2,412,540,345	54,456,796	-	16,073,875,072
Intersegment operating expenses	23,558,393	38,046,220	25,963,361	-	24,488,493	24,358,721	-	(136,415,188)	-
Total operating expenses	5,705,951,925	2,768,672,644	2,223,220,206	1,510,665,516	1,510,424,107	2,436,899,066	54,456,796	(136,415,188)	16,073,875,072
Earnings before interest, taxes and depreciation and amortization	2,775,406,324	540,903,165	1,003,596,743	274,680,735	927,566,064	916,115,392	(54,456,796)	-	6,383,811,627
Depreciation and amortization	704,520,794	311,455,632	162,621,854	185,353,136	89,558,910	275,556,533	-	-	1,729,066,859
Earnings before interest and taxes	2,070,885,530	229,447,533	840,974,889	89,327,599	838,007,154	640,558,859	(54,456,796)	-	4,654,744,768
Interest expense	(1,239,933)	(24,534,867)	(2,791,312)	-	(55,464,517)	(31,321,789)	-	23,170,489	(92,181,929)
Interest income	27,248,185	14,146,682	31,925,097	11,994,261	11,159,219	15,645,633	626,293,168	(23,170,489)	715,241,756
Dividend income	-	-	-	-	-	-	83,625,000	-	83,625,000
Foreign currency exchange gain (losses)	-	-	-	-	-	-	305,011,852	-	305,011,852
Equity in net earnings of an associate	-	-	-	-	-	-	110,082,043	-	110,082,043
Others	(15,926,682)	-	-	-	(58,027)	(85,097,370)	(90,460,366)	-	(191,542,445)
Income before income tax	P2,080,967,100	P219,059,348	P870,108,674	P101,321,860	P793,643,829	P539,785,333	P980,094,901	P-	P5,584,981,045
December 31, 2018									
Assets and liabilities									
Segment assets	P30,641,562,719	P5,107,770,668	P6,528,041,665	P3,111,410,150	P8,983,261,961	P9,252,631,153	P31,697,362,422	P12,455,066,456	P107,777,107,194
Investment in subsidiaries - at cost	2,790,607,224	3,878,258,269	62,500,000	-	-	-	21,632,839,151	(28,364,204,644)	-
Total segment assets	P33,432,169,943	P8,986,028,937	P6,590,541,665	P3,111,410,150	P8,983,261,961	P9,252,631,153	P53,330,201,573	(P15,909,138,188)	P107,777,107,194
Total segment liabilities	P15,061,073,844	P3,937,639,289	P2,097,554,693	P1,381,766,940	P5,178,010,004	P5,788,948,538	P1,594,271,333	P33,674,554	P35,072,939,195
Other segment information:									
Capital expenditures	P2,300,718,232	P598,770,330	P447,306,797	P211,404,175	P133,088,174	P728,159,814	P-	P-	P4,419,447,522

The revenue of the Group consists mainly of sales to external customers through its retail and internet channels. Inter-segment revenue arising from purchase arrangements amounting ₱1,137.02 million, and ₱960.32 million in 2019 and 2018, respectively, were eliminated on consolidation.

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

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

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

7. Cash and Cash Equivalents

This account consists of cash on hand and in banks and cash equivalents amounting to ₱10.54 billion and ₱14.79 billion as of September 30, 2019 and December 31, 2018, respectively.

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

Interest income arising from cash in banks and cash equivalents amounted to ₱228.08 million and ₱122.82 million for the nine months ended September 30, 2019 and 2018, respectively.

8. Trade and Other Receivables

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade (Notes 24 and 27)	₱2,120,769,336	₱2,108,620,270
Nontrade (Notes 24 and 27)	582,624,917	734,264,185
Due from franchisees (Notes 27 and 29)	871,690,758	485,057,897
	3,575,085,011	3,327,942,352
Less allowance for impairment losses (Notes 27 and 29)	100,271,131	156,346,848
	₱3,474,813,880	₱3,171,595,504

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

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

Movement in the allowance for impairment losses is as follows:

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

9. Merchandise Inventories

The rollforward analysis of this account follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	₱18,628,013,928	₱14,846,561,020
Acquisition through business combination	–	3,073,734,206
Add purchases - net of purchase discounts and allowances	90,931,464,625	103,596,280,274
Cost of goods available for sale	109,559,478,553	121,516,575,500
Less cost of merchandise sold	89,468,599,070	102,845,384,354
Allowance for inventory obsolescence	35,577,218	43,177,218
Balance at end of year	₱20,055,302,265	₱18,628,013,928

The cost of merchandise inventories charged to the consolidated statements of comprehensive income amounted to ₱89.47 billion and ₱71.13 billion for the nine months ended September 30, 2019 and 2018 respectively.

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	₱43,177,218	₱–
Provisions during the year (Note 21)	18,000,000	59,503,049
Less write off and reversals	25,600,000	16,325,831
Balance at end of year	₱35,577,218	₱43,177,218

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

10. Other Current Assets

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Input VAT - net	₱1,944,554,032	₱2,246,748,776
Prepayments	627,271,433	490,482,729
Creditable withholding tax	468,043,524	410,508,668
Others	15,241,596	11,920,917
	₱3,055,110,585	₱3,159,661,090

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

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

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

Others consist mainly of excess payments of income taxes.

11. Debt and Equity Instrument Financial Assets

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Debt securities		
FVOCI with recycling (a)	₱13,570,267,327	₱16,135,895,711
FVTPL (b)	101,093,523	1,665,171,011
	13,671,360,850	17,801,066,722
Equity securities at FVOCI without recycling	2,020,000,000	1,950,400,000
	₱15,691,360,850	₱19,751,466,722

Debt Securities

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

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Amortized cost:		
At beginning of year	P16,804,654,570	P16,593,843,811
Additions	563,656,662	847,021,924
Disposals	(3,750,836,131)	(756,249,689)
Foreign exchange gain (loss)	(62,387,118)	133,169,275
At end of year	13,555,087,983	16,817,785,321
Amortization of premium on debt securities	(81,558,036)	(75,423,505)
Change in fair value of financial assets:		
At beginning of year	(593,335,355)	329,275,323
Changes in fair value recognized in OCI	696,208,791	(965,569,116)
Transfer to profit or loss	(6,136,056)	42,958,438
Allowance for expected credit losses	—	(13,130,750)
At end of year	96,737,380	(606,466,105)
	P13,570,267,327	P16,135,895,711

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
At beginning of year	P1,665,171,011	P1,683,700,000
Disposal	(1,525,139,469)	—
Changes in fair value recognized in profit or loss	(38,938,019)	(18,528,989)
	P101,093,523	P1,665,171,011

In 2019, the Group recognized gain on disposal of debt instrument financial asset amounting to P70.16 million and in 2018, the Group recognized loss on disposal of debt instrument financial assets amounting P22.22 million.

Interest income arising from debt instrument financial assets amounted to P580.23 million and P592.42 million for the nine months ended September 30, 2019 and 2018, respectively.

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

Equity Securities

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

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cost	P2,000,000,000	P2,000,000,000
Change in fair value of equity instrument		
financial assets:		
At beginning of year	(49,600,000)	104,000,000
Changes in fair value	69,600,000	(153,600,000)
At end of year	20,000,000	(49,600,000)
	P2,020,000,000	P1,950,400,000

Dividend income earned by the Group amounted to P83.63 million for the nine months ended September 30, 2019 and 2018.

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balances at the beginning of year	(P642,230,230)	P433,980,448
Change in fair value during the year - OCI	765,808,791	(1,119,169,116)
Transfers to profit or loss	(6,136,056)	42,958,438
Balances at the end of year	P117,442,505	(P642,230,230)

12. Property and Equipment

September 30, 2019

	Land	Building and Other Equipment	Leasehold Improvements	Store Furniture and Fixtures	Office Furniture and Fixtures	Transportation Equipment	Computer Equipment	Construction in Progress	Total
Cost									
At beginning of year	P609,382,477	P2,806,347,351	P16,184,847,447	P10,943,361,979	P2,749,061,388	P214,640,752	P3,204,209,258	P-	P36,711,850,652
Additions	-	14,654,350	1,263,240,425	535,100,320	238,746,418	22,225,090	168,020,531	-	2,241,987,134
Disposals and derecognition	-	-	(178,437,990)	(38,555,513)	(821,655)	-	(5,844,913)	-	(223,660,071)
At end of year	P609,382,477	2,821,001,701	P17,269,649,882	11,439,906,786	2,986,986,151	236,865,842	3,366,384,876	-	38,730,177,715
Accumulated depreciation and amortization									
At beginning of year	-	827,792,789	7,720,367,463	5,990,962,008	908,288,918	143,590,710	1,775,835,924	-	17,366,837,812
Depreciation and amortization (Note 21)	-	116,381,472	1,076,057,597	564,735,706	216,507,787	12,513,584	220,885,858	-	2,207,082,004
Disposals and derecognition	-	-	(125,634,813)	(34,731,171)	(839,069)	-	(5,630,300)	-	(166,835,353)
At end of year	-	944,174,261	8,670,790,247	6,520,966,543	1,123,957,636	156,104,294	1,991,091,482	-	19,407,084,463
Allowance for impairment losses									
At beginning and end of year	-	-	49,567,673	25,882,986	-	-	349,273	-	75,799,932
	P609,382,477	P1,876,827,440	P8,549,291,962	P4,893,057,257	P1,863,028,515	P80,761,548	P1,374,944,121	P-	P19,247,293,320

December 31, 2018

	Land	Building and Other Equipment	Leasehold Improvements	Store Furniture and Fixtures	Office Furniture and Fixtures	Transportation Equipment	Computer Equipment	Construction in Progress	Total
Cost									
At beginning of year	P42,560,000	P1,736,445,913	P13,336,313,960	P8,985,785,664	P2,200,258,093	P205,687,524	P2,559,053,303	P-	P29,066,104,457
Additions through business combination (Note 19)	-	1,055,410,907	1,504,200,176	1,140,406,897	19,878,814	4,568,813	173,259,404	-	3,897,725,011
Additions	566,822,477	20,600,492	1,832,715,018	945,195,127	531,144,741	6,630,665	516,339,002	-	4,419,447,522
Disposals and derecognition	-	(6,109,961)	(488,381,707)	(128,025,709)	(2,220,260)	(2,246,250)	(44,442,451)	-	(671,426,338)
At end of year	609,382,477	2,806,347,351	16,184,847,447	10,943,361,979	2,749,061,388	214,640,752	3,204,209,258	-	36,711,850,652
Accumulated depreciation and amortization									
At beginning of year	-	762,915,308	6,846,916,373	5,430,000,011	658,242,847	128,288,976	1,562,551,987	-	15,388,915,502
Depreciation and amortization (Note 21)	-	68,191,243	1,117,732,580	665,203,140	252,073,518	16,436,667	257,422,724	-	2,377,059,872
Disposals and derecognition	-	(3,313,762)	(244,281,490)	(104,241,143)	(2,027,447)	(1,134,933)	(44,138,787)	-	(399,137,562)
At end of year	-	827,792,789	7,720,367,463	5,990,962,008	908,288,918	143,590,710	1,775,835,924	-	17,366,837,812
Allowance for impairment losses									
At beginning and end of year	-	-	49,567,673	25,882,986	-	-	349,273	-	75,799,932
	P609,382,477	P1,978,554,562	P8,414,912,311	P4,926,516,985	P1,840,772,470	P71,050,042	P1,428,024,061	P-	P19,269,212,908

Allowance for impairment losses pertain to closing of non-performing stores. Cost of fully depreciated property and equipment still in use amounted to P6.87 billion and P7.64 billion as of September 30, 2019 and December 31, 2018 respectively.

13. Investment in Associates

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
RBC	P7,046,719,479	P6,440,203,060
TCCI	347,599,338	112,075,299
DAVI	250,200,000	400,000
G2M	160,650,429	160,650,429
GrowSari	100,968,595	100,968,595
	P7,906,137,841	P6,814,297,383

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Shares of stock - at equity:		
Balance at beginning of year	P5,950,238,902	P4,750,238,902
Additional investment (Note 2)	—	1,200,000,000
Balance at end of year	5,950,238,902	5,950,238,902
Accumulated equity in net earnings:		
Balance at beginning of year	960,380,963	834,958,356
Equity in net earnings	187,190,822	125,422,607
Balance at end of year	1,147,571,785	960,380,963
Share in fair value changes of financial assets of RBC:		
Balance at beginning of year	(417,023,044)	(393,204,586)
Share in fair value changes of financial assets at FVOCI	407,855,598	(23,818,458)
Balance at end of year	(9,167,446)	(417,023,044)
Share in translation loss adjustments:		
Balance at beginning of year	(48,006,938)	(41,044,297)
Share in translation adjustments	5,939,977	(6,962,641)
Balance at end of year	(42,066,961)	(48,006,938)
Share in remeasurement losses on retirement obligation:		
Balance at beginning of year	(5,386,823)	(4,143,444)
Share in remeasurement gain (loss) on retirement obligation	5,530,022	(1,243,379)
Balance at end of year	143,199	(5,386,823)
	P7,046,719,479	P6,440,203,060

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

Summarized financial information of RBC follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Total assets	₱110,409,384,644	₱121,356,956,413
Total liabilities	93,565,915,362	109,157,896,832
Net income	467,977,055	313,556,517
Other comprehensive income (loss)	1,019,638,995	(59,546,145)

The consolidated statements of comprehensive income follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Total operating income	₱3,580,929,337	₱4,125,255,244
Total operating expenses and tax	3,112,952,282	3,811,698,727
Net income	467,977,055	313,556,517
Other comprehensive income (loss)	1,019,638,995	(59,546,145)
Total comprehensive income	₱1,487,616,050	₱254,010,372
Group's share of profit for the year	₱187,190,822	₱125,422,607

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Net assets of RBC	₱16,894,724,133	₱15,378,433,085
Proportionate ownership in the associate	40%	40%
Total share in net assets	6,757,889,653	6,151,373,234
Carrying amount of the investment	7,046,719,479	6,440,203,060
Difference	₱288,829,826	₱288,829,826

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

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Changes in fair value of financial assets of associates:		
Balances at beginning of year	(P426,604,312)	(P373,495,977)
Change in fair value during the year	287,997,895	(53,108,335)
Balances at end of year	(138,606,417)	(426,604,312)
Remeasurement losses on retirement obligation of associates:		
Balances at beginning of year	(8,299,655)	(7,056,276)
Remeasurement gain (loss) during the year	5,530,022	(1,243,379)
Balances at end of year	(2,769,633)	(8,299,655)
	(P141,376,050)	(P434,903,967)

TCCI

On March 28, 2019, the Parent Company made additional investment in TCCI amounting to P280.00 million, which increases the Parent Company's stake in TCCI from 20% to 30%.

On December 13, 2017, the Parent Company acquired 20.00% ownership interest in TCCI or 1.00 million shares for a total consideration amounting to P125.00 million or P25.00 per share. TCCI is incorporated in the Philippines and is the operator of BeautyMNL, an e-commerce site.

Carrying value of TCCI's investment as of September 30, 2019 and December 31, 2018 amounted to P347.60 million and P112.08 million, respectively. Details follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Shares of stock - at equity:		
Balance at beginning of year	P125,000,000	P125,000,000
Additional investment	280,000,000	—
Balance at end of year	405,000,000	P125,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	(12,924,701)	(272,735)
Equity in net loss	(44,475,961)	(12,651,966)
Balance at end of year	(57,400,662)	(12,924,701)
	P347,599,338	P112,075,299

DAVI

On August 14, 2019, the Parent Company made additional capital infusion to DAVI amounting to P249.80 million.

On November 16, 2018, the Parent Company subscribed 40% ownership interest in DAVI of which P0.40 million was paid in 2018. As of December 31, 2018, DAVI has not yet started commercial operations. DAVI's principal activities include processing, managing and analyzing data.

G2M

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

GrowSari

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

14. Intangible Assets

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Goodwill (Note 19)	₱12,490,800,027	₱12,490,800,027
Trademarks (Note 19)	6,554,145,001	6,591,363,481
Franchise	6,825,086	24,125,885
	₱19,051,770,114	₱19,106,289,393

Goodwill

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

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

Trademarks

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
SSDI	₱1,566,917,532	₱1,566,917,532
TGPPI	1,264,098,435	1,264,098,435
SEWI	364,914,493	364,914,493
	3,195,930,460	3,195,930,460
RSCI (Note 19)	3,358,214,541	3,395,433,021
	₱6,554,145,001	₱6,591,363,481

For the nine months ended September 30, 2019 and for the year ended December 31, 2018, amortization related to trademarks acquired through acquisition of RSCI amounted to ₱37.22 million and ₱3.17 million, respectively.

Licenses

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 ₱121.21 million. Due to such acquisition, RSSI was able to secure a franchise/license to exclusively use the similar known international mark in the Philippines. The franchise/license agreement is for an initial period of five (5) years which can be renewed for another five (5) years upon mutual agreement of the parties. Amortization amounted to nil and ₱6.06 million for the nine months ended September 30, 2019 and 2018, respectively (Note 21). For the year ended December 31, 2018, RSSI impaired the remaining value of the license amounting to ₱48.48 million due to debranding.

Franchise

On July 29, 2014, Costa International Limited granted the Group the development and operating rights to carry on the Costa business in the Philippines. The development agreement includes a development fee, 60.00% of which is payable upon execution of the agreement and the remaining 40.00% is payable one (1) year after the date of the agreement, and a service fee equal to a certain percentage of sales. In 2019, the Group written off one its franchise amounting to ₱14.87 million. As of September 30, 2019 and December 31, 2018, the Group has franchise amounting to nil and ₱16.73 million, respectively.

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

The rollforward analysis of the franchise follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Beginning balance	P24,125,885	P19,279,385
Addition	—	7,583,430
Amortization (Note 21)	(2,431,377)	(2,736,930)
Write off	(14,869,422)	—
	P6,825,086	P24,125,885

15. Other Noncurrent Assets

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Security and other deposits	P2,396,518,863	P2,550,724,180
Construction bonds	31,625,206	33,092,201
	P2,428,144,069	P2,583,816,381

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

For the year ended December 31, 2018, the Group impaired other noncurrent assets amounting to P68.75 million.

16. Trade and Other Payables

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade	₱13,107,768,033	₱17,130,764,045
Nontrade (Note 24)	4,932,371,957	6,537,222,971
Others	1,167,751,440	909,123,439
	₱19,207,891,430	₱24,577,110,455

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

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

Others mainly consist of taxes and licenses payable.

Contract Liabilities

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Gift check outstanding	₱107,232,299	₱140,165,250
Accrued customer loyalty reward	83,821,067	40,713,870
Deferred revenue	13,950,332	17,020,098
	₱205,003,698	₱197,899,218

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
At January 1	₱197,899,218	₱—
Reclassification from deferred revenue upon adoption of PFRS 15	—	275,042,623
Deferred during the year	391,565,242	848,807,808
Recognized as revenue during the year	(384,460,762)	(925,951,213)
At December 31	₱205,003,698	₱197,899,218

17. Short-term Loans Payable

Details of short-term loans follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	P6,794,000,000	P6,377,954,863
Additions through business combination (Note 19)	–	1,500,000,000
Availments	1,284,532,534	7,508,045,137
Payments	(5,399,532,534)	(8,592,000,000)
	P2,679,000,000	P6,794,000,000

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
SSDI	P1,964,000,000	P2,182,000,000
RHDDS	400,000,000	220,000,000
RGFBI	190,000,000	190,000,000
RHIB	75,000,000	–
HPTD	50,000,000	50,000,000
RSCI	–	1,750,000,000
RI	–	1,352,000,000
RRHI	–	1,050,000,000
	P2,679,000,000	P6,794,000,000

- a.) SSDI's short-term loans payable consist of loans availed from local commercial banks at interest rates of 4.80%-4.95% per annum. In 2019 and 2018, SSDI availed short-term loans amounting to nil and P100.0 million, respectively. In addition, SSDI paid P218.00 million and P135.00 million of the outstanding loan balance in 2019 and 2018, respectively. The short-term loans payable of SSDI as of September 30, 2019 and December 31, 2018 amounted to P1.96 billion and P2.18 billion, respectively.
- b.) RHDDS's short-term loans payable consist of a loan availed from a local commercial bank at an interest rates of 5.30%-6.13% per annum. In 2019 and 2018, RHDDS availed short-term loan amounting P180.00 million and P145.00 million, respectively. In addition, RHDDS paid P155.00 million on the outstanding loan balance in 2018. The short-term loans payable as of September 30, 2019 and December 31, 2018 to P400.00 million and P220.00 million, respectively.
- c.) RGFBI's short-term loans payable consists of loans availed from a local commercial bank at an interest rates of 5.75%-6.13% per annum. In 2019 and 2018, RGFBI availed short-term loans amounting to nil and P420.05 million, respectively. In 2018 RGFBI paid P317.00 million. The short-term loans payable of RGFBI as of September 30, 2019 and December 31, 2018 amounted to P190.00 million.

- d.) In 2019, RHIB availed short term loans amounting to ₱75.00 million at an interest rate of 6.13%-6.25% per annum.
- e.) HPTD paid outstanding short-term loan amounting to ₱8.00 million in 2018. The short-term loans payable as of September 30, 2019 and December 31, 2018 amounted to ₱50.00 million.
- f.) In 2019, RSCI's short-term loans payable consist of loans availed from a local commercial bank at interest rates 5.50%-6.75% per annum. The loans were obtained to finance RSCI's working capital requirements. In 2019 and 2018, RSCI availed short term loans amounting to ₱380 million and ₱2,050 million. Short-term loans payable acquired through acquisition amounting to ₱1.05 billion. In 2019, RSCI settled its outstanding loans payable. The short-term loans payable as of September 30, 2019 and December 31, 2018 amounted to nil and ₱1.75 billion, respectively.
- g.) RI's short-term loans payable consist of loans availed from a local commercial bank at an interest rates of 5.65%-5.90% per annum. These loans are renewable before the end of each lease term at the option of RI. In 2019 and 2018, RI availed short-term loan amounting to ₱649.53 million and ₱3.34 billion, respectively. In addition, RI paid ₱2.00 billion and ₱3.41 billion on the outstanding loan balance in 2019 and 2018, respectively. The loans were obtained to support the working capital requirements of RI. The short-term loans payable as of September 30, 2019 and December 31, 2018 amounted to nil and ₱1.35 billion, respectively.
- h.) In 2019, RRHI's short-term loans payable consist of a loan availed from a local commercial bank amounting to ₱1.05 billion at an interest rates of 5.65%-5.90% per annum. The loans were obtained to support the working capital requirements of RRHI. In 2019, RRHI settled all of its loans payable.

Total interest expense charged to operations amounted to ₱266.09 million and ₱92.18 million for the nine months ended September 30, 2019 and 2018, respectively.

The above loans are not subject to any loan covenants.

18. Equity

Capital Stock

The details of this account follow:

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

Registration Track Record

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

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

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

Equity Reserve

Details of equity reserve follow:

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

Acquisition of a Subsidiary under Common Control

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

Acquisition of Additional Shares from a Non-Controlling Shareholder

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

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

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

The Group recognized equity reserve from the acquisition amounting to ₱1.02 billion included in “Equity reserve” in the consolidated statements of changes in equity representing the excess of consideration paid over the carrying amount of the non-controlling interest acquired. The equity

reserve from the acquisition will only be recycled to the consolidated statements of comprehensive income in the event that RSC will lose its control over RHMI.

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

Retained Earnings

The income of the subsidiaries and accumulated equity in net income of the associates that are recognized in the consolidated statements of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and associates. The accumulated earnings of subsidiaries included in retained earnings amounted to ₱29.45 billion and ₱27.71 billion as of September 30, 2019 and December 31, 2018, respectively, while the accumulated equity in net income of the associates amounted to ₱1,086.14 million and ₱943.42 million as of September 30, 2019 and December 31, 2018, respectively (Note 13).

Dividend Declaration

Details of the Parent Company's dividend declarations follow:

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

Appropriation of Retained Earnings

Rollforward analysis of appropriated retained earnings follows:

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

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

Entity	Appropriations				
	February 20	March 7	March 8	December 20	Total
RRHI	₱2,800,000,000	₱—	₱—	₱—	₱2,800,000,000
RSC	—	1,250,000,000	—	1,100,000,000	2,350,000,000
RHMI	—	553,000,000	—	617,000,000	1,170,000,000
SSDI	—	300,000,000	—	500,000,000	800,000,000
RI	—	400,000,000	—	250,000,000	650,000,000
RAC	—	260,000,000	—	—	260,000,000
RTSHPI	—	93,000,000	—	105,000,000	198,000,000
SEWI	—	—	180,000,000	15,000,000	195,000,000
RHDDS	—	114,000,000	—	65,000,000	179,000,000

RTI	—	150,000,000	—	220,000,000	370,000,000
WHMI	—	50,000,000	—	97,000,000	147,000,000
CC	—	—	—	40,000,000	40,000,000
RDDC	—	—	—	33,000,000	33,000,000
ASI	—	—	—	15,000,000	15,000,000
HEMI	—	7,000,000	—	8,000,000	15,000,000
	₱2,800,000,000	₱3,177,000,000	₱180,000,000	₱3,065,000,000	₱9,222,000,000

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

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

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

Declaration of Dividends of the Subsidiaries

In 2019, the BOD of the below subsidiaries approved the declaration of cash dividends as follows:

Entity	Date of declaration	Amount
TGP	June 21	₱300,007,000
RHMI	June 14	200,000,000
HEMI	June 14	20,000,000
WHMI	June 14	80,000,000
Total		₱600,007,000

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

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

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

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

NCI

Acquisitions of NCI from Business Combinations

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

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

Investment from NCI

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

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

In 2016, no additional investment was recognized from NCI.

Dividends to NCI

In 2019, 2018 and 2017, dividends declared attributable to NCI amounted to ₱266.84 million, ₱266.84 million and ₱357.80 million, respectively.

Capital Management

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

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

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Capital stock	₱1,576,489,360	₱1,576,489,360
Additional paid-in capital	40,768,202,897	40,768,202,897
Other comprehensive income (loss)	475,114,574	(563,817,037)
Equity reserve	(988,417,129)	(970,435,361)
Retained earnings		
Appropriated	24,151,852,847	24,151,852,847
Unappropriated	5,297,952,584	3,558,435,683
Total equity attributable to equity holders of the Parent Company	71,281,195,133	68,520,728,389
Non-controlling interest in consolidated subsidiaries	4,463,029,041	4,183,439,610
Total Equity	₱75,744,224,174	₱72,704,167,999

19. Business Combinations

Business Combination and Goodwill

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

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

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

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

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

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

	Provisional fair values recognized on acquisition
Assets	
Cash	₱103,162,382
Trade and other receivables	384,075,105
Merchandise inventories	3,073,734,206
Other current assets	912,897,897
Property and equipment (Note 12)	3,897,725,011
Trademarks arising from acquisition (Note 14)	3,398,600,050
Other noncurrent assets	684,781,136
	<u>12,454,975,787</u>
Liabilities	
Trade and other payables	(4,633,625,787)
Loans payable	(1,500,000,000)
Income tax payable	(39,346,173)
Other current liabilities	(60,595,212)
Retirement obligation	(283,655,342)
Deferred tax liability	(961,623,483)
Other noncurrent liabilities	(288,707,463)
	<u>(7,767,553,460)</u>
Net assets acquired	4,687,422,327
Provisional goodwill from the acquisition (Note 14)	9,109,386,061
Purchase consideration transferred	<u><u>₱13,796,808,388</u></u>

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

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

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

Material Partly-Owned Subsidiary

In 2018 and 2017, the Group has 49.00% proportion of equity interest held by non-controlling interests attributable to TGPPI. Accumulated balances of material non-controlling interest amounted to ₱580.69 million, ₱408.86 million and ₱624.99 million in 2018, 2017 and 2016, respectively. Profit allocated to material non-controlling interest amounted to ₱238.68 million, ₱237.23 million and ₱155.08 million in 2018, 2017 and 2016, respectively. Total assets of TGPPI as of December 31, 2018 and 2017 amounted to ₱1,818.38 million and ₱1,716.11 million, respectively, while total

liabilities as of December 31, 2018 and 2017 amounted to ₱679.77 million and ₱625.49 million, respectively. Total sales in 2018, 2017 and 2016 amounted to ₱4,335.08 million, ₱4,193.39 million and ₱3,893.20 million, respectively. Net income in 2018, 2017 and 2016 amounted to ₱464.73 million, ₱464.85 million and ₱305.34 million, respectively.

20. Sales Revenue

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

Sales returns and sales discounts deducted from the sales to arrive at the net sales amounted to ₱3.25 billion and ₱3.14 billion for the nine months ended September 30, 2019 and 2018, respectively.

Disaggregated revenue information

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

For the nine months ended September 30, 2019							
Segments	Supermarket	Department Store	DIY	Convenience Store	Drug Store	Specialty Store	Total
Type of goods or service							
Sale of goods - retail	₱63,720,371,657	₱11,918,081,779	₱10,372,973,381	₱—	₱12,988,990,359	₱13,386,677,591	₱112,387,094,767
Sale of merchandise to franchisees	—	—	—	4,908,612,958	—	—	4,908,612,958
Franchise revenue	—	—	—	4,006,663	36,783,483	—	42,317,534
Royalty fee	—	—	—	843,782,242	42,270,957	—	1,367,167,442
	₱63,720,371,657	₱11,918,081,779	₱10,372,973,381	₱5,756,401,863	₱13,068,044,799	₱13,386,677,591	₱118,705,192,701
Timing of revenue recognition							
Goods transferred at point in time	₱63,720,371,657	₱11,918,081,779	₱10,372,973,381	₱4,908,612,958	₱12,988,990,359	₱13,386,677,591	₱117,295,707,725
Services transferred over time	—	—	—	847,788,905	79,054,440	—	1,409,484,976
	₱63,720,371,657	₱11,918,081,779	₱10,372,973,381	₱5,756,401,863	₱13,068,044,799	₱13,386,677,591	₱118,705,192,701

Intersegment eliminating adjustments related to sale of goods amounted to ₱1.14 billion (Note 6).

21. Operating Expenses

This account consists of:

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Rental and utilities (Notes 24 and 28)	₱6,587,132,229	₱7,488,252,296
Personnel costs and contracted services (Notes 22 and 23)	7,041,624,344	5,213,785,398
Depreciation and amortization (Notes 12 and 14)	5,074,524,279	1,729,066,859
Transportation and travel	1,112,311,239	815,233,693
Supplies	686,047,212	538,397,623
Advertising	573,343,313	486,305,117
Bank and credit charges	533,729,859	459,447,506
Repairs and maintenance	556,130,032	342,258,317
Royalty expense (Note 29)	143,077,499	117,441,884
Others	1,027,997,923	612,753,238
	₱23,335,917,929	₱17,802,941,931

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

Depreciation and amortization pertains to:

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Property and equipment (Note 12)	₱2,207,082,004	₱1,718,065,452
Right-of-use asset	2,827,792,418	—
Franchise and license fees (Note 14)	39,649,857	11,001,407
	₱5,074,524,279	₱1,729,066,859

22. Personnel Costs and Contracted Services

This account consists of:

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Salaries, allowances and benefits (Note 21)	₱4,135,743,186	₱2,902,356,607
Contracted services (Note 21)	2,905,881,158	2,311,428,791
	₱7,041,624,344	₱5,213,785,398

Details of salaries, allowances and benefits:

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Salaries, wages and allowances	P4,029,030,622	P2,785,747,838
Retirement expense (Note 23)	106,712,564	116,608,769
	P4,135,743,186	P2,902,356,607

23. Employee Benefits

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

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

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

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

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

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

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Current service cost	P107,408,226	P113,823,913
Net interest cost	(695,662)	2,784,856
Retirement expense	P106,712,564	P116,608,769

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Present value of defined benefit obligation	₱1,107,542,405	₱1,052,484,292
Fair value of plan assets	(937,276,606)	(818,276,606)
Net retirement obligation	₱170,265,799	₱234,207,686

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	₱234,207,686	₱546,188,167
Additions arising from business combination (Note 19)	—	283,655,342
Retirement expense	106,712,564	155,999,283
Remeasurement gain	—	(342,862,134)
Actual contribution	(119,000,000)	(387,521,455)
Benefits paid from direct payments	(51,654,451)	(21,251,517)
Balance at end of year	₱170,265,799	₱234,207,686

Remeasurement effects recognized in OCI:

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

Movements of cumulative remeasurement effect recognized in OCI:

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

Movements in the fair value of plan assets follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	P818,276,606	P421,598,614
Additions arising from business combination (Note 19)	—	40,897,816
Actual contribution	119,000,000	387,521,455
Benefits paid	—	(1,145,647)
Interest income included in net interest cost	—	33,406,467
Remeasurement loss	—	(64,002,099)
Balance at end of year	P937,276,606	P818,276,606

Changes in the present value of defined benefit obligation follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	P1,052,484,292	P967,786,781
Additions arising from business combination (Note 19)	—	324,553,158
Current service cost	107,408,226	135,673,669
Interest cost	(695,662)	53,732,081
Remeasurement gain arising from:		
Changes in financial assumptions	—	(307,538,498)
Experience adjustments	—	(82,362,765)
Changes in demographic assumptions	—	(16,962,970)
Benefits paid	(51,654,451)	(22,397,164)
Balance at end of year	P1,107,542,405	P1,052,484,292

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash and cash equivalents		
Savings deposit	P1,688,422	P1,688,422
Investments in government securities		
Fixed rate treasury notes	16,439,885	16,439,885
Investments in UITF	919,037,660	800,037,660
Other receivables	133,151	133,151
Accrued trust fee payable	(22,512)	(22,512)
	P937,276,606	P818,276,606

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

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

The carrying amounts disclosed above reasonably approximate fair values at each reporting period. The actual return (loss) on plan assets amounted to (P30.60 million), (P15.64 million) and P22.67 million in 2018, 2017 and 2016, respectively.

The Group expects to contribute P299.18 million to the defined benefit plan in 2019.

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balances at the beginning of year	P477,196,974	P236,820,467
Remeasurement gain during the year	—	240,376,507
Balances at end of year	P477,196,974	P477,196,974

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

		Increase (Decrease)	Effect in Defined Benefit Obligation
2018	Salary increase	+1.00%	P96,724,955
		-1.00%	(82,990,856)
	Discount rates	+1.00%	(77,198,339)
		-1.00%	66,855,480
2017	Salary increase	+1.00%	P290,936,127
		-1.00%	(161,085,306)
	Discount rates	+1.00%	(133,966,262)
		-1.00%	328,900,041

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

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

	2018	2017
Less than 1 year	P93,327,604	P47,864,692
More than 1 year but less than 5 years	255,986,130	148,976,023
More than 5 years but less than 10 years	517,995,321	416,750,644

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

24. Related Party Disclosures

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

Significant Related Party Transactions

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

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

	Amount		Due from (Due to)	
	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Other affiliates under common control				
a. Trade and other receivables				
Sales	₱2,854,904,570	₱3,214,288,927	₱523,626,755	₱325,303,347
Royalty income	1,009,955,882	1,443,589,170	—	—
b. Trade and other payable				
Purchases – net	(2,209,693,661)	(2,896,390,334)	—	—
Rent and utilities	(3,337,736,742)	(4,462,345,647)	(1,339,821,430)	(541,174,032)

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

- As of September 30, 2019 and December 31, 2018, the Group has outstanding balances from its other affiliates amounting to ₱523.63 million and ₱325.30 million, respectively, arising primarily from sales of merchandise inventories and royalty income for grant of use and right to operate stores of the Group.

For the nine months ended September 30, 2019 and for the year ended December 31, 2018, sales of merchandise inventories to related parties amounted to ₱2.85 billion and ₱3.21 billion respectively, and royalty income amounted to ₱1.00 billion and ₱1.44 billion, respectively (Note 29).

- As of September 30, 2019 and December 31, 2018, the Group has outstanding payable to its other affiliates amounting to ₱1.34 billion and ₱541.17 million, respectively, arising from purchases of merchandise inventories for resale to its customers which are normally paid within the year and expenses for rent and utilities relative to the Group's operations. Lease agreements are cancellable and normally have terms of 5 to 20 years with escalation clauses ranging from 5% to 10% every year and renewable every year.

For the nine months ended September 30, 2019 and year ended December 31, 2018, purchases of merchandise inventories for resale to customers amounted ₱2.21 billion and ₱2.90 billion, respectively while expenses for rent and utilities amounted to ₱3.34 billion and ₱4.46 billion, respectively.

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

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

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

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

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

Terms and Conditions of Transactions with Related Parties

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

25. Income Tax

Provision for income tax for the nine months ended September 30 follows:

	2019 (Unaudited)	2018 (Unaudited)
Current	₱1,503,428,078	₱1,396,138,439
Deferred	(348,104,130)	(146,156,163)
	₱1,155,323,948	₱1,249,982,276

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Tax effects of:		
<i>Items recognized in profit or loss:</i>		
Lease liabilities	₱325,221,996	—
MCIT	128,575,884	₱123,082,937
NOLCO	73,384,693	77,184,991
Unamortized past service cost	66,928,669	66,962,036
Accrued rent	61,078,099	61,078,099

Allowance for expected credit losses	42,223,338	40,894,445
Deferred revenue	15,087,884	16,971,298
Retirement expense	26,438,942	10,535,727
Allowance for inventory write-down	14,185,126	23,384,581
Others	3,787,903	4,549,743
	756,912,534	424,643,857
<i>Item recognized directly in other comprehensive income:</i>		
Remeasurement loss on retirement obligation	(11,184,228)	(11,184,228)
	P745,728,306	P413,459,629

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

Items recognized in profit or loss	P91,398,505
Items recognized in other comprehensive income	14,185,789
	P105,584,294

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Tax effect of:		
<i>Items recognized in profit or loss:</i>		
Business combination (Note 19)	P1,921,295,422	P1,921,295,422
Asset revaluation	40,485,930	47,669,901
Unrealized forex gains	—	1,318,126
	1,961,781,352	1,970,283,449
<i>Item recognized directly in other comprehensive income:</i>		
Fair value adjustments on investment in an associate	110,333,820	(15,463,859)
	P2,072,115,172	P1,954,819,590

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Tax effects of:		
Allowance for impairment losses	P22,739,980	P22,739,980
NOLCO	55,493,633	55,174,650
Allowance for doubtful accounts	5,928,982	22,751,697
Retirement expense	417,669	—
	P84,580,264	P100,666,327

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

Inception Year	Beginning Balance	Applied/Expired	Addition	Ending Balance	Expiry Year
2019	P–	P–	P46,630,786	P46,630,786	2022
2018	166,466,045	–	–	166,466,045	2021
2017	170,325,860	20,164,635	–	150,161,225	2020
2016	113,954,603	47,618,239	–	66,336,364	2019
2015	104,903,471	104,903,471	–	–	2018
Total	P555,649,979	P172,686,345	P46,630,786	P429,594,420	

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

Inception Year	Beginning Balance	Applied/Expired	Additions	Ending Balance	Expiry Year
2019	P–	P–	P8,861,307	P8,861,307	2022
2018	100,297,401	3,368,360	–	96,929,041	2021
2017	16,911,569	–	–	16,911,569	2020
2016	5,873,967	–	–	5,873,967	2019
2015	5,229,059	5,229,059	–	–	2018
Total	P128,311,996	P8,597,419	P8,861,307	P128,575,884	

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

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

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

On November 26, 2008, the BIR issued Revenue Regulation No. 16-2008 which implemented the provisions of RA No. 9504 on Optional Standard Deduction (OSD). This regulation allowed both individual and corporate taxpayers to use OSD in computing their taxable income. For corporations,

they may elect standard deduction in an amount equivalent to 40% of the gross income, as provided by law, in lieu of the itemized allowable deductions. In 2018, 2017 and 2016 certain subsidiaries elected OSD in the computation of its taxable income.

26. Earnings Per Share

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

	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Net income attributable to equity holders of the Parent Company	P2,874,589,240	P3,832,462,376
Weighted average number of common shares	1,576,489,360	1,385,000,000
Basic and Diluted EPS	P1.82	P2.77

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

27. Risk Management and Financial Instruments

Governance Framework

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

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

Financial Risk

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

Market Risk

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

Interest Rate Risk

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

Price Interest Rate Risk

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

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

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

Foreign Currency Risk

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

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

	Increase (decrease) in foreign currency rate		Effect on income before income tax (₱)	
	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
USD	+1.02%	+1.13%	₱49,506,231	₱48,071,706
	-1.02%	-1.13%	(49,506,231)	(48,071,706)

The Group used foreign exchange rate of ₱51.83:USD1 and ₱52.58: USD1 as of September 30, 2019 and December 31, 2018, respectively, in converting its dollar-denominated financial assets to peso.

The sensitivity analyses shown above are based on the assumption that the movements in US dollars will more likely be limited to the upward or downward fluctuation of 1.02% and 1.13% in 2019 and 2018 respectively. The forecasted movements in percentages used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months.

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

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	USD	PHP	USD	PHP
Cash and cash equivalents	\$1,880,686	₱97,475,955	\$1,447,926	₱76,131,949
Receivables	1,086,198	56,297,642	766,277	40,290,845
FVOCI with recycling	90,284,513	4,679,446,309	78,704,449	4,138,279,928
Total	\$93,251,397	₱4,833,219,906	\$80,918,652	₱4,254,702,722

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

Equity Price Risk

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

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

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

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

	Change in variable	Effect on equity- Other comprehensive income
2019		
	+14.71%	₱47,722,608
	-14.71%	(47,722,608)
2018		
	+17.95%	₱68,645,011
	-17.95%	(68,645,011)

The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index and other quoted equity securities will be most likely be limited to an upward or downward fluctuation of 14.71% and 17.95% in 2019 and 2018, respectively.

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

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

Liquidity Risk

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

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

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

September 30, 2019

	On Demand	One (1) year	More than One (1) year	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents	P10,542,956,990	P—	P—	P10,542,956,990
Trade receivables	80,507,860	2,040,261,476	—	2,120,769,336
Nontrade receivables	—	582,624,917	—	582,624,917
Due from franchisees	19,763,272	851,927,486	—	871,690,758
Other noncurrent assets:				
Security and other deposits	—	—	2,396,518,863	2,396,518,863
Construction bonds	—	—	31,625,206	31,625,206
FVOCI	—	—	15,590,267,327	15,590,267,327
FVTPL	—	—	101,093,523	101,093,523
	P10,643,228,121	P3,474,813,880	P18,119,504,919	P32,237,546,920
Financial Liabilities				
Other financial liabilities				
Trade and other payables*	P—	P18,113,286,630	P—	P18,113,286,630
Loans payable	—	2,679,000,000	—	2,679,000,000
Other current liabilities	—	223,110,691	—	223,110,691
Other noncurrent liabilities	—	321,604,775	—	321,604,775
	P—	P21,337,002,096	P—	P21,337,002,096

*Excluding statutory liabilities amounting P1,094,604,800.

December 31, 2018

	On Demand	One (1) year	More than One (1) year	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents	P14,788,040,613	P—	P—	P14,788,040,613
Trade receivables	173,451,559	1,935,168,711	—	2,108,620,270
Nontrade receivables	—	734,264,185	—	734,264,185
Due from franchisees	75,838,989	409,218,908	—	485,057,897
Other noncurrent assets:				
Security and other deposits	—	—	2,550,724,180	2,550,724,180
Construction bonds	—	—	33,092,201	33,092,201
FVOCI	—	—	18,086,295,711	18,086,295,711
FVTPL	—	—	1,665,171,011	1,665,171,011
	P15,037,331,161	P3,078,651,804	P22,335,283,103	P40,451,266,068
Financial Liabilities				
Other financial liabilities				
Trade and other payables*	P—	P24,046,700,951	P—	P24,046,700,951
Loans payable	—	6,794,000,000	—	6,794,000,000
Other current liabilities	—	279,844,005	—	279,844,005
Other noncurrent liabilities	—	304,021,928	—	304,021,928
	P—	P31,424,566,884	P—	P31,424,566,884

*Excluding statutory liabilities amounting P530,409,504.

Credit Risk

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

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

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

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

The Group's maximum exposure in financial assets (excluding cash on hand amounting to ₱282.56 million and ₱2.17 billion in 2019 and 2018, respectively) are equal to their carrying amounts. This was determined based on the nature of the counterparty and the Group's experience.

Credit Quality

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

- Grade A are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.
- Grade B are active accounts with minimal to regular instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to the Group's collection efforts and update their payments accordingly.

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

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

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

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

The Group's financial assets considered as neither past due nor impaired amounting to ₱31.75 billion and ₱36.46 billion as of September 30, 2019 and December 31, 2018, respectively are all graded "A" based on the Group's assessment.

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

2019

	Neither past due nor impaired	Past due but not impaired	Impaired Financial Assets	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents (excluding cash on hand)	P10,260,400,878	P–	P–	P10,260,400,878
Trade receivables	2,040,261,477	–	80,507,859	2,120,769,336
Nontrade receivables	582,624,917	–	–	582,624,917
Due from franchisees	851,927,486	–	19,763,272	871,690,758
Other noncurrent assets:				
Security and other deposits	2,396,518,863	–	–	2,396,518,863
Construction bond	31,625,206	–	–	31,625,206
FVOCI	15,590,267,327	–	–	15,590,267,327
	P31,753,626,154	P–	P100,271,131	P31,853,897,285

2018

	Neither past due nor impaired	Past due but not impaired	Impaired Financial Assets	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents (excluding cash on hand)	P12,613,663,128	P–	P–	P12,613,663,128
Trade receivables	2,028,112,411	–	80,507,859	2,108,620,270
Nontrade receivables	734,264,185	–	–	734,264,185
Due from franchisees	409,218,908	–	75,838,989	485,057,897
Other noncurrent assets:				
Security and other deposits	2,550,724,180	–	–	2,550,724,180
Construction bond	33,092,201	–	–	33,092,201
FVOCI	18,086,295,712	–	–	18,086,295,712
	P36,455,370,725	P–	P156,346,848	P36,611,717,573

Impairment of Financial Assets

The Company has the following financial assets that are subject to the expected credit loss model under PFRS 9:

- Cash and cash equivalents;
- Trade receivables;
- Debt securities at FVOCI; and
- Other debt instruments carried at amortized cost

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

Cash and Cash Equivalents and Debt Securities at FVOCI. Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The Group invests only on quoted debt securities with very low credit risk. The Group's debt instruments at FVOCI comprised solely of quoted bonds that have a minimum BBB- credit rating by S&P Global Ratings and, therefore, are considered to be low credit risk investments. The Group recognized provision for expected credit losses on its debt instruments at FVOCI amounting to P13.13 million in 2018 (Note 11).

Trade Receivables. The Group applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses,

trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group recognized provision for expected credit losses on its trade receivables amounting to P46.75 million in 2018 (Note 8).

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

2019

	General Approach			Simplified Approach
	Stage 1	Stage 2	Stage 3	
Amortized cost				
Cash and cash equivalents	P10,260,400,878	P-	P-	P-
Trade receivables	-	-	-	2,120,769,336
Due from franchisees	-	-	-	871,690,758
Nontrade receivables	582,624,917	-	-	-
Security and other deposits	2,428,144,069	-	-	-
FVOCI	15,590,267,327	-	-	-
Total gross carrying amounts	28,861,437,191	-	-	2,992,460,094
Less allowance	13,130,750	-	-	100,271,131
	P28,848,306,441	P-	P-	P2,892,188,963

2018

	General Approach			Simplified Approach
	Stage 1	Stage 2	Stage 3	
Amortized cost				
Cash and cash equivalents	P12,613,663,128	P-	P-	P-
Trade receivables	-	-	-	2,108,620,270
Due from franchisees	-	-	-	485,057,897
Nontrade receivables	734,264,185	-	-	-
Security and other deposits	2,583,816,381	-	-	-
FVOCI	18,086,295,711	-	-	-
Total gross carrying amounts	34,018,039,405	-	-	2,593,678,167
Less allowance	13,130,750	-	-	156,346,848
	P34,004,908,655	P-	P-	P2,437,331,319

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

Fair Values of Financial Assets and Liabilities

The methods and assumptions used by the Group in estimating the fair value of financial asset and other financial liabilities are:

- Due to the short-term nature of the transaction, the fair value of cash and cash equivalents and trade and other receivables approximates the carrying values at year-end.
- Security and other deposits and construction bond are presented at cost since the timing and amounts of future cash flows related to the refundable deposits are linked to the termination of the contract which cannot be reasonably and reliably estimated.
- Debt and equity instrument financial assets amounting to P15.59 billion and P19.75 billion as at September 30, 2019 and December 31, 2018, respectively were carried at fair values.

Investments in bonds and quoted equity securities are derived from quoted market prices in active markets.

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

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

28. Lease Commitments

Group as Lessee

The Group has entered into cancellable lease agreements as a lessee with terms of one (1) year up to twenty-five (25) years. Most leases contain renewal options and a clause enabling annual upward revision of the rental charges based on prevailing market conditions. Other leases provide for the percentage rent which is a certain percentage of actual monthly sales. Rental expense for the nine months ended September 30, 2019 and 2018 amounted to ₱3.24 billion and ₱4.42 billion, respectively (Notes 21 and 24).

Group as a Lessor

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

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

Accrued rent recognized in the consolidated statements of financial position as of September 30, 2019 and December 31, 2018 amounting to ₱321.60 million and ₱304.02 million, respectively pertains to RSCI's lease agreements arising from lease straight-lining.

29. Agreements

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

Royalty expense amounted to ₱64.30 million and ₱52.76 million for the nine months ended September 30, 2019 and 2018, respectively (Note 21). Royalty payable to Ministop included under "Other current liabilities" as of September 30, 2019 and December 31, 2018 amounted to ₱24.49 million and ₱7.91 million, respectively (Note 16).

- b) The Group has franchise agreements which mainly include providing store facilities and equipment to franchisees. Other services rendered by Ministop consist of providing personnel and utilities. The lease/royalty fee is based on a certain percentage of the gross profit of the lessee/franchisee. The related royalty income amounted to ₱1.00 billion and ₱1.37 billion for the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019 and December 31, 2018, amounts due from franchisees amounted to P851.93 million and P409.22 million, respectively. These amounts are net of allowance for impairment losses on due from franchisees amounting to P19.76 million and P75.84 million as of September 30, 2019 and December 31, 2018 (Note 8).

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

Royalty expenses amounted to P8.13 million and P6.87 million for the nine months ended September 30, 2019 and 2018, respectively.

- d.) On September 21, 2012, RSSI paid P121.21 million in exchange for the trademarks that were duly registered in the Philippine Intellectual Rights Office. The trademark allows the Group to use the brand and operate its stores in the Philippines (Note 14).
- e.) The Group is a sub-licensee of Toys R Us in the Philippines. The royalty fee is based on fixed percentage of gross monthly sales of sub-licensee. Royalty expense amounted to P55.02 million, and P52.47 million for the nine months ended September 30, 2019 and 2018, respectively.
- f.) On July 29, 2014, Costa International Limited granted the Group the development and operating rights to carry on the Costa business in the Philippines (Note 14). As of September 30, 2019, all Costa Coffee stores were closed.

The Group started Costa operations in June 2015. Royalty expenses amounted to P4.39 million and P5.35 million for the nine months ended September 30, 2019 and 2018, respectively.

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

30. Changes in Liabilities Arising from Financing Activities

2019

	January 1, 2019	Net Cash Flows	Dividend Declaration	Others	September 30, 2019
Loans payable	P6,794,000,000	P4,115,000,000	P-	P-	P2,679,000,000
Dividends payable	11,666,662	(1,326,746,155)	1,357,079,493	-	42,000,000
Total liabilities from financing activities	P6,805,666,662	P2,788,253,845	P1,357,079,493	P-	P2,721,000,000

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

2018

	January 1, 2018	Net Cash Flows	Dividend Declaration	Others	December 31, 2018
Loans payable	P6,377,954,863	(P1,083,954,863)	P-	P1,500,000,000	P6,794,000,000
Dividends payable	14,000,000	(1,266,370,255)	1,264,036,917	-	11,666,662
Total liabilities from financing activities	P6,391,954,863	(P2,350,325,118)	P1,264,036,917	P1,500,000,000	P6,805,666,662

Interest paid for the nine months ended September 30, 2019 and 2018 amounted to ₱266.09 million and ₱92.18 million, respectively.

31. Contingencies

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

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

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

SUPPLEMENTARY SCHEDULES

- I. Supplementary schedules required by Annex 68-E
 - A. Financial Assets (Other Short-term Cash Investments)
 - B. Amounts Receivable from Directors, Officers, Employees,
Related Parties and Principal Stockholders (Other than Related Parties)
 - C. Amounts Receivable/Payable From/To Related Parties which are Eliminated during the
Consolidation of Financial Statements
 - D. Intangible Assets
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- II. Schedule of all of the effective standards and interpretations (Part 1, 4J)
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ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE A: FINANCIAL ASSETS (OTHER SHORT-TERM CASH INVESTMENTS)****SEPTEMBER 30, 2019**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotation at end of reporting period	Income received and accrued
Debt and Equity Securities				
Various bonds	₱13,617,475,101	₱13,570,267,327	₱13,570,267,327	₱543,143,868
Notes	100,000,000	101,093,523	101,093,523	37,139,550
Investment in preferred shares	2,000,000,000	2,020,000,000	2,020,000,000	83,625,000
	₱15,717,475,101	₱15,691,360,850	₱15,691,360,850	₱663,908,418

See Note 11 of the Consolidated Financial Statements.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)****SEPTEMBER 30, 2019**

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

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE C: AMOUNTS RECEIVABLE/PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE
CONSOLIDATION OF FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

Entity with Receivable Balance	Balance at Beginning of Period	Net Movement	Write-offs	Current	Noncurrent	Balance at end of period
Robinsons Retail Holdings, Inc.	₱545,075,446	₱5,435,577,203	₱—	₱5,980,652,649	₱—	₱5,980,652,649
Robinsons Toys, Inc.	213,995,712	(163,016,240)	—	50,979,472	—	50,979,472
Robinsons Convenience Stores, Inc.	39,106,088	—	—	39,106,088	—	39,106,088
Robinson's Supermarket Corporation	27,770,762	(1,722,611)	—	26,048,151	—	26,048,151
Robinson's Incorporated	15,279,270	205,180,057	—	220,459,327	—	220,459,327
Robinsons Handyman, Inc.	7,383,979	(7,383,979)	—	—	—	—
RHD Daiso - Saizen, Inc.	370,881,028	(31,190,473)	—	339,690,555	—	339,690,555
	₱1,219,492,285	₱5,437,443,957	₱—	₱6,656,936,242	₱—	₱6,656,936,242

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE D: INTANGIBLE ASSETS****SEPTEMBER 30, 2019**

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Charged to other accounts	Other changes	Ending balance
Goodwill	P12,490,800,027	P—	P—	P—	P—	P12,490,800,027
Trademarks	6,591,363,481	—	(37,218,480)	—	—	6,554,145,001
License	—	—	—	—	—	—
Franchise	24,125,885	—	(17,300,799)	—	—	6,825,086
	P19,106,289,393	P—	(P54,519,279)	P—	P—	P19,051,770,114

See Note 14 of the Consolidated Financial Statements.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE E: SHORT TERM AND LONG TERM DEBT****SEPTEMBER 30, 2019**

Title of issue and type of obligation	Amount authorized by indenture	Interest rates	Current portion	Noncurrent portion
Bank loans	₱2,679,000,000	4.80%-6.25%	₱2,679,000,000	₱—
	₱2,679,000,000		₱2,679,000,000	₱—

See Note 17 of the Consolidated Financial Statements.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES****SEPTEMBER 30, 2019**

Name of related party	Balance at beginning of period	Balance at end of period
Robinsons Land Corporation	₱259,085,303	₱218,320,927
Universal Robina Corporation	282,088,729	1,121,500,503
JG Summit Holdings, Inc.	—	—
	₱541,174,032	₱1,339,821,430

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS

SEPTEMBER 30, 2019

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount of owned by person for which statement is filed	Nature of guarantee
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NOT APPLICABLE

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE H: CAPITAL STOCK****SEPTEMBER 30, 2019**

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

See Note 18 of the Consolidated Financial Statements

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

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

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

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of January 1, 2019		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		

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

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

Standards tagged as “Not applicable” have been adopted by the Company but have no significant covered transactions for the nine months ended September 30, 2019.

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

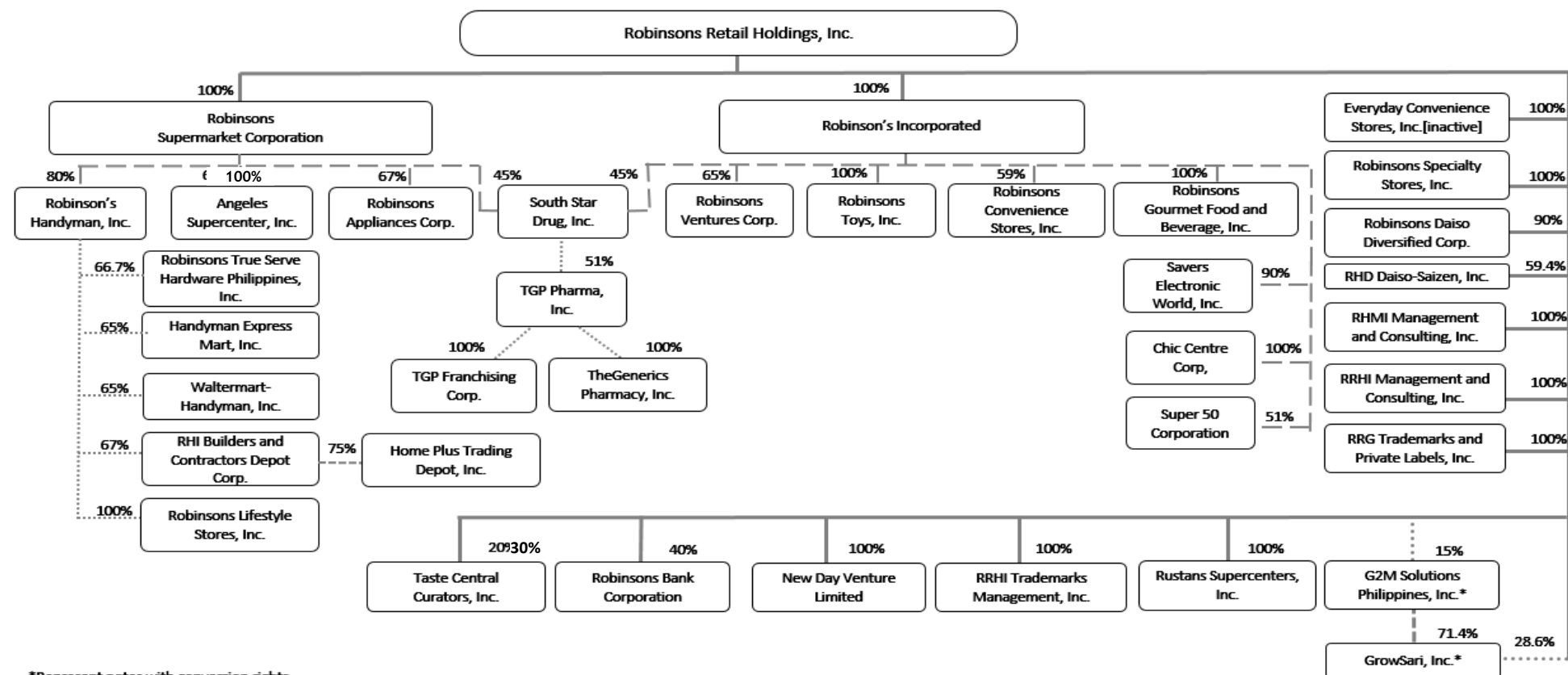
ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

SEPTEMBER 30, 2019

Group Structure

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



ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND YEAR ENDED
DECEMBER 31, 2018

Financial Soundness Indicator	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
i. Liquidity ratio:		
Current ratio	1.49	1.22
ii. Profitability ratio:		
Gross profit margin	0.23	0.22
Return on assets	0.03	0.06
Return on equity	0.04	0.09
iii. Stability ratio:		
Solvency ratio	0.17	0.23
Debt to equity ratio	0.65	0.48
Asset to equity ratio	1.65	1.48
Interest rate coverage ratio	3.02	41.65

**See attached reporting computation.*

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND YEAR ENDED
DECEMBER 31, 2018**

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Current assets	₱37,128,183,720	₱39,747,311,135
Current liabilities	24,927,187,087	32,488,636,348
Current ratio	1.49	1.22
Gross profit	26,690,087,178	29,835,082,422
Net sales	116,158,686,248	132,680,466,776
Gross profit margin	0.23	0.22
After tax net profit	3,358,204,056	5,825,137,424
Depreciation and amortization	5,074,524,279	2,395,085,036
	8,432,728,335	8,220,222,460
Total liabilities	49,557,982,508	35,072,939,195
Solvency ratio	0.17	0.23
Total liabilities	49,557,982,508	35,072,939,195
Total equity	75,744,224,174	72,704,167,999
Debt to equity ratio	0.65	0.48
Total assets	125,302,206,682	107,777,107,194
Total equity	75,744,224,174	72,704,167,999
Asset to equity ratio	1.65	1.48
Earnings before interest and taxes	5,332,250,021	6,625,876,142
Interest expense	1,765,750,947	159,071,734
Interest rate coverage ratio	3.02	41.65
Net income	3,358,204,056	5,825,137,424
Average total assets	116,539,656,938	94,978,917,013
Return on assets	0.03	0.06
Net income	3,358,204,056	5,825,137,424
Average total equity	74,224,196,087	63,985,403,542
Return on equity	0.05	0.09

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING
AS OF SEPTEMBER 30, 2019

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

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

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

Use of Proceeds	Amount in Pesos
Expansion of store network	₱850,495,843
Renovation of existing stores	564,128,108
Repayment of bank loans	271,268,034
Other corporate purposes	370,292,286
Total	₱2,056,184,271

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

Consolidated Results of Operations

(Amounts in Million Pesos)

Robinsons Retail Holdings, Inc. registered net sales growth of 26.5% to ₱116.2 billion in the first nine months of the 2019. The increase was attributable to same store sales growth (SSSG) of 3.2%, additional sales coming from new stores opened in the last 12 months and the consolidation of Rustan Supercenters. The share of the supermarket segment expanded to 55% of the entire business, from 47% in the same period last year pre-Rustan. Consolidated net sales for the quarter increased by 24.2% to ₱38.9 billion.

Blended SSSG for the quarter was at 1.9%, coming from a high base of 6.4% last year. In 2018, Robinsons Retail felt the positive impact of higher consumption spending resulting from the implementation of the TRAIN law. In addition, there was a surge in bulk sales in third quarter of last year due to typhoon Mangkhut/Ompong. Despite this, SSSG for 9M 2019 stood at 3.2%, still within our SSSG target of 2.0%-4.0%, mainly driven by the remarkable performance of drugstore at 10.7%, followed by supermarket at 3.6%, convenience store at 2.7%, DIY at 2.6%, and specialty stores at 1.3%.

Blended gross profit for 9M 2019 expanded by 29.0% to ₱26.7 billion, with gross margin up by 50bps to 23.0%. The improvement in gross margins was attributable to our larger scale, improvement in category mix and the consolidation of higher margin business of Rustan.

On a comparable basis, EBITDA pre-PFRS16 increased by 12.2% to ₱7.2 billion in 9M19, with EBITDA margins at 6.2%. This was an improvement from the 6.0% EBITDA margin recorded in the first half of 2019. Including the impact of PFRS16 adjustments, EBITDA accelerated by 63.0% to ₱10.4 billion, with EBITDA margin at 9.0% in 9M19.

Before PFRS 16, net income attributable to parent was up by 10.5% to ₱1.3 billion for the quarter, lifted by the better performance of Rustan which registered positive net income. Net income attributable to parent for 9M19 reached ₱3.6 billion. After PFRS16, net income attributable to parent was at ₱1.1 billion and ₱2.9 billion for 3Q19 and 9M19, respectively.

Supermarket

Net sales grew 46.6% to ₱21.8 billion in the 3rd quarter and 49.2% to ₱63.7 billion as of September 2019, boosted by the consolidation of Rustan, which accounted for 28.0% of total supermarket sales. Excluding Rustan, Robinsons Supermarket's net sales rose 6.3% to ₱15.8 billion in the 3rd quarter and 7.5% to ₱45.9 billion as of September 2019 driven by the sales contribution of new stores and healthy SSSG.

Gross Margin expanded to 21.5% in the 3rd quarter (vs. 19.7% same period last year) and 21.1% in the 2nd quarter (vs. 19.4% same period last year) driven by the alignment of trading terms between Robinsons Supermarket and Rustan and higher DC fees and listing fees due to a number of new product launches by suppliers.

With the recognition of PFRS 16, year-to-date EBIT reached ₱2.4 billion, a 13.7% increase from ₱2.1 billion in the same period last year. Excluding PFRS 16, year-to-date EBIT increased by 2.7% as a result of incremental increase of new store opening support, higher enlistment fees, and full implementation of new negotiated rates. However, this is significantly higher coming from a 6.3% decline as of June 2019.

EBITDA margin after PFRS 16 increased to 8.3% in Q3 (vs. 7.0% in Q3 2018) and 7.5% as of September 2019 (vs. 6.5% as of September 2018) mainly due to the shift in accounting standard. Excluding this adjustment, EBITDA would have dropped to 5.2% but higher vs. as of June 2019 of 4.8%.

Department Store

Robinsons Department Store (RDS) sales for the period ended September 2019 grew 2.0% from last year's ₱11.7 billion to this year's ₱11.9 billion. This flattish increase in net sales was mainly driven by new stores and offset by four store closures.

Gross margin of ₱3.3 billion for the period ended September 2019 is above last year's ₱3.2 billion by 3.0% driven by higher sales.

RDS generated EBITDA of ₱813.2 million for the period ended September 30, 2019, an increase of 50.3% against ₱540.9 million in the same period last year. This is mainly due to the effect of the application of PFRS 16.

DIY Stores

Net sales grew by 4.7% from Net sales grew by 4.7% from ₱9.9 billion to ₱10.4 billion as of September 2019 with a soft SSSG at 2.6% due to stock replenishment issues in hardware category.

Gross profit as of September 2019 increased by 6.7% to ₱3.4 billion (from ₱3.2 billion as of September 2018) or 33.2% of sales which is 60 bps higher than last year.

As a result, excluding PFRS 16, EBIT grew by 5.5% at ₱886.8 million as of September 2019 versus ₱841.0 million in the same period last year. EBITDA grew faster at 7.0% to ₱1.1 billion as of September 2019. EBITDA margin as of September 2019 including PFRS 16 was at 16.5% of sales.

Convenience Store

Ministop's system-wide sales and merchandise sales as of September 2019 increased by 7.8% to ₱7.2 billion and 8.0% to ₱4.9 billion, respectively, as we increase the number of operating stores to 509.

Total gross profit and royalty income margin is at 38.8% and 36.9% in Q3 and as of September 30, 2019. EBIT and EBITDA margins as of September 2019 before PFRS is at 1.9% of sales and 5.8% of sales, respectively. With the impact of the new accounting standard, EBIT margin was at 2.0% of sales and EBITDA margin at 10.8% of sales.

Drug Store Segment

The drug store segment registered net sales of ₱13.0 billion as of September 30, 2019, representing a growth of 11.8% from last year's net sales of ₱11.6 billion. The growth was mainly driven by the strong same store sales performance of South Star Drug (SSD) at 10.7% resulting from an increase in demand for medicines caused by an unexpected epidemic that swept through the country in the 1st quarter of 2019, as well as the increase in purchasing power resulting from election spending. SSD accounted for 73.2% of the drugstore segment's total sales with the balance contributed by TGP Pharma, Inc.

Gross profit expanded by 12.8% from ₱2.3 billion in 2018 to ₱2.6 billion this year. The growth is attributable to the increase in the front margins of pharma category in SSD; offset by the declining supplier support in view of regulatory changes concerning senior citizen discount and VAT.

EBIT as of Q32019 after applying the PFRS16 adjustments reached ₱982.1 million, representing an increase of 17.2% from last year's ₱838.0 million. Likewise, EBITDA also grew by 34.2% from ₱927.6 million in Q32018 to ₱1.2 billion this year. Rent adjustments and amortization of right-of-use assets amounted to ₱197.6 million and ₱157.9 million, respectively.

Specialty Segment

The combined net sales of the specialty store segment grew 8.9% to ₱13.4 billion as of September 2019, primarily due to sales contribution of new stores. The consumer appliances and electronics format contributed the most to specialty segment's sales with 59% share.

Gross margins for 9M19 deflated by 50bps to 26.5%, caused by the margin compression in the fashion specialty stores. Gross margins for 3Q19 increased by 50bps to 26.7%, primarily driven by the appliances format.

EBITDA after PFRS16 was at 9.1% and 10.5% in 3Q19 and 9M19, respectively. EBITDA before PFRS16 went down by 70bps to 6.6% in 3Q19 and 40bps to 7.0% in 9M19, mainly due to the challenged SSSG in 3Q and the poor earnings performance of Costa Coffee shops leading to the store closures in late August.

Balance Sheet

As of September 30, 2019, the Company's balance sheet showed consolidated assets of ₱125.3 billion, which is 16.3% higher than the total consolidated assets of ₱107.8 billion as of December 31, 2018.

Cash and cash equivalents decreased from ₱14.8 billion as of December 31, 2018, to ₱10.5 billion as of September 30, 2019. Net cash provided by operating activities totaled ₱2.5 billion. Net cash flows from investing activities amounted to ₱2.3 billion, primarily from proceeds from disposal/redemption of debt investments of ₱5.4 billion, offset by the ₱2.2 billion acquisition of properties and equipment and ₱529.8 million additional investment in an associate. Net cash spent from financing activities amounted to ₱9.0 billion.

Effective January 1, 2019, right-of-use assets (ROU) and lease liability amounting to ₱23.0 billion were recognized in accordance to the new lease accounting standard PFRS 16. For the nine months ended September 30, 2019, amortization and interest expense amounted to ₱2.2 billion and ₱2.8 billion, respectively.

Investment in debt and equity instrument financial assets decreased by 20.6% from ₱19.8 billion in 2018 to ₱15.7 billion as of September 30, 2019 due to the redemption of a debt security amounting to ₱5.4 billion offset by additions in 2019 amounting to ₱563.7 million and the fair value gains for the nine months ended September 30, 2019 of ₱765.8 million.

Investment in associates increased by 16.0% from ₱6.8 billion in 2018 to ₱7.9 billion as of September 30, 2019 mainly driven by additional capital infusion to Taste Central Curators, Inc., Data Analytics Ventures Inc., equity on net earnings of ₱142.7 million and the share in associates fair value gains on its financial assets at FVOCI amounting to ₱407.9 million.

Deferred tax assets increased by 80.4% from ₱413.5 million in 2018 to ₱745.7 million, ₱325.8 million of which pertains to PFRS 16 adjustments.

Current loans payable decreased from payment of loans during the period amounting to ₱5.4 billion offset by availment of ₱1.4 billion.

Stockholder's equity grew from ₱72.7 billion as of December 31, 2018, to ₱75.7 billion as of September 30, 2019, due to net income recognized during the period partially offset by the declaration of cash dividend of ₱0.72 per share.