

COVER SHEET

for FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S													

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

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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

8635-0751

Mobile Number

N/A

No. of Stockholders

42

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

8635-0751 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

PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

- A. Unaudited Consolidated Statements of Financial Position as of September 30, 2020 and Audited Consolidated Statements of Financial Position as of December 31, 2019.
- B. Unaudited Consolidated Statements of Comprehensive Income for the Nine months Ended September 30, 2020 and 2019.
- C. Unaudited Consolidated Statements of Changes in Equity for the Nine months Ended September 30, 2020 and 2019
- D. Unaudited Consolidated Statements of Cash Flow for the Nine months Ended September 30, 2020 and 2019
- E. Notes to Unaudited Consolidated Financial Statements

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 27)	₱15,604,470,479	₱20,292,913,953
Trade and other receivables (Notes 8, 24 and 27)	3,418,755,085	3,865,460,884
Merchandise inventories (Note 9)	20,183,166,973	19,810,252,511
Other current assets (Note 10)	2,902,119,743	2,951,281,172
Total Current Assets	42,108,512,280	46,919,908,520
Noncurrent Assets		
Debt and equity instrument financial assets (Notes 11 and 27)	13,904,922,296	14,857,352,941
Property and equipment (Note 12)	18,346,878,194	19,289,528,200
Right-of-use assets (Notes 3 and 28)	25,661,354,674	26,317,960,761
Investment in associates (Note 13)	8,370,593,354	7,845,458,176
Intangible assets (Notes 14 and 19)	18,944,442,616	19,039,174,367
Deferred tax assets - net (Note 25)	1,620,082,324	1,009,492,860
Retirement plan asset (Notes 22 and 23)	74,063,064	72,103,151
Other noncurrent assets (Notes 15 and 27)	2,206,223,109	2,515,091,337
Total Noncurrent Assets	89,128,559,631	90,946,161,793
	₱131,237,071,911	₱137,866,070,313
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 16, 24 and 27)	₱19,364,219,333	₱25,101,993,192
Short-term loans payable (Notes 17 and 27)	3,079,000,000	4,634,000,000
Lease liabilities - current portion (Note 28)	2,772,265,995	2,163,735,524
Income tax payable	755,352,746	797,969,171
Other current liabilities (Note 27)	451,994,429	267,245,302
Total Current Liabilities	26,422,832,503	32,964,943,189
Noncurrent Liabilities		
Lease liabilities - net of current portion (Note 28)	25,650,062,335	25,889,035,549
Deferred tax liabilities - net (Note 25)	2,056,740,933	2,065,854,524
Retirement obligation (Notes 22 and 23)	343,158,576	419,840,441
Total Noncurrent Liabilities	28,049,961,844	28,374,730,514
Total Liabilities	54,472,794,347	61,339,673,703
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
Treasury stock	(680,696,842)	—
Other comprehensive income (loss) (Notes 11, 13 and 23)	317,623,280	272,839,305
Equity reserve	(995,284,977)	(989,776,800)
Retained earnings		
Appropriated	26,944,852,847	26,944,852,847
Unappropriated	4,367,825,501	3,548,986,390
Total equity attributable to equity holders of the Parent Company	72,299,012,066	72,121,593,999
Non-controlling interest in consolidated subsidiaries	4,465,265,498	4,404,802,611
Total Equity	76,764,277,564	76,526,396,610
	₱131,237,071,911	₱137,866,070,313

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 (Unaudited)		For the Nine months Ended September 30 (Unaudited)	
	2020 (Unaudited)	2019 As Restated (Note 3)	2020 (Unaudited)	2019 As Restated (Note 3)
SALES - Net of sales discounts and returns (Notes 6, 20 and 24)	₱34,613,778,935	₱38,947,763,290	₱109,576,423,344	₱116,158,686,248
COST OF MERCHANDISE SOLD (Notes 6 and 9)	26,674,742,363	29,918,875,920	85,978,047,419	89,468,599,070
GROSS PROFIT (Note 6)	7,939,036,572	9,028,887,370	23,598,375,925	26,690,087,178
ROYALTY, RENT AND OTHER REVENUE (Notes 6, 24 and 29)	384,168,465	725,528,476	1,424,204,676	1,978,080,773
GROSS PROFIT INCLUDING OTHER REVENUE (Note 6)	8,323,205,037	9,754,415,846	25,022,580,601	28,668,167,951
OPERATING EXPENSES (Notes 21, 22, 23, 28 and 29)	(6,866,203,859)	(7,802,752,862)	(20,755,715,706)	(23,306,591,192)
OTHER INCOME (CHARGES)				
Interest income (Notes 6, 7 and 11)	147,641,576	245,809,479	521,467,815	808,364,094
Equity in net earnings in associates (Notes 6 and 13)	17,645,461	85,109,415	187,752,802	142,714,861
Dividend income (Notes 6 and 11)	14,434,066	27,875,000	40,788,659	83,625,000
Interest expense (Notes 6 and 17)	(525,192,801)	(645,705,952)	(1,683,635,812)	(1,972,920,549)
Foreign currency exchange gain (losses) (Note 6)	(87,739,220)	47,535,655	(136,015,752)	(43,766,450)
Others (Notes 6 and 14)	(37,888,323)	(50,033,761)	25,535,889	(43,908,575)
	(471,099,241)	(289,410,164)	(1,044,106,399)	(1,025,891,619)
INCOME BEFORE INCOME TAX (Note 6)	985,901,937	1,662,252,820	3,222,758,496	4,335,685,140
PROVISION FOR INCOME TAX (Note 25)				
Current	383,197,328	571,887,578	1,253,535,185	1,503,428,078
Deferred	(233,715,887)	(125,655,778)	(630,010,293)	(401,456,989)
	149,481,441	446,231,800	623,524,892	1,101,971,089
NET INCOME	836,420,496	1,216,021,020	2,599,233,604	3,233,714,051
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)	123,893,731	344,758,818	93,730,799	759,672,735
Share in change in fair value of debt and equity financial assets on associates (Note 13)	8,381,851	63,597,220	(3,531,322)	407,855,598
Share in change in translation adjustment in associates (Note 13)	3,826	66,273	(809,303)	5,939,977
Cumulative translation adjustment	(26,721,736)	12,574,205	(44,444,376)	(14,269,041)
Income tax effect	(2,515,703)	(19,099,048)	1,302,188	(124,138,673)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Changes in fair value equity securities at FVOCI	—	—	—	—
Share in actuarial gains (loss) on retirement obligation in associates (Note 13)	—	(3,396,000)	(2,091,444)	5,530,022
Income tax effect	—	1,018,800	627,433	(1,659,007)
	103,041,969	399,520,268	44,783,975	1,038,931,611
TOTAL COMPREHENSIVE INCOME	₱939,462,465	₱1,615,541,288	₱2,644,017,579	₱4,272,645,662

	For the Three Months Ended September 30		For the Nine months Ended September 30	
	2020	2019 As Restated (Note 3)	2020	2019 As Restated (Note 3)
	(Unaudited)		(Unaudited)	
Net income attributable to:				
Equity holders of the Parent Company	P749,843,503	P1,063,733,030	P2,391,770,561	P2,776,283,173
Non-controlling interest in consolidated subsidiaries	86,576,993	152,287,990	207,463,041	457,430,878
	836,420,496	1,216,021,020	2,599,233,602	3,233,714,051
Total comprehensive income attributable to:				
Equity holders of the Parent Company	852,885,472	1,463,253,298	2,436,554,538	3,815,214,784
Non-controlling interest in consolidated subsidiaries	86,576,993	152,287,990	207,463,041	457,430,878
	P939,462,465	P1,615,541,288	P2,644,017,579	P4,272,645,662
Basic/Diluted Earnings Per Share (Note 26)	0.48	0.67	1.52	1.76

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, 2020 Unaudited										
	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Treasury Stock (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	P—	P272,839,305	(P989,776,800)	P26,944,852,847	P3,548,986,390	P72,121,593,999	P4,404,802,611	P76,526,396,610
Net income	—	—	—	—	—	—	2,391,770,561	2,391,770,561	207,463,041	2,599,233,602
Dividends	—	—	—	—	—	—	(1,572,931,450)	(1,572,931,450)	(147,000,154)	(1,719,931,604)
Other comprehensive loss	—	—	—	44,783,975	—	—	—	44,783,975	—	44,783,975
Total comprehensive income	—	—	—	44,783,975	—	—	818,839,111	863,623,086	60,462,887	924,085,973
Acquisition of own shares	—	—	(680,696,842)	—	—	—	—	(680,696,842)	—	(680,696,842)
Disposal of a subsidiary	—	—	—	—	(5,508,177)	—	—	(5,508,177)	—	(5,508,177)
Balance at end of year	P1,576,489,360	P40,768,202,897	(P680,696,842)	P317,623,280	(P995,284,977)	P26,944,852,847	P4,367,825,501	P72,299,012,066	P4,465,265,498	P76,764,277,564

For the Nine months Ended September 30, 2019 Unaudited As Restated (Note 3)

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Treasury Stock (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	P—	(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	—	—	—	—	—	—	2,776,283,173	2,776,283,173	457,430,878	3,233,714,051
Other comprehensive income	—	—	—	1,038,931,611	—	—	—	1,038,931,611	—	1,038,931,611
Total comprehensive income	—	—	—	1,038,931,611	—	—	2,776,283,173	3,815,214,784	457,430,878	4,272,645,662
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	P—	P475,114,574	(P988,417,129)	P24,151,852,847	P5,199,646,517	P71,182,889,066	P4,436,845,102	P75,619,734,168

See accompanying Notes to Consolidated Financial Statements.

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

	Nine months Ended September 30 (Unaudited)	
	2020	2019 As Restated (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P3,222,758,496	P4,335,685,140
Adjustments for:		
Depreciation and amortization (Notes 6, 12, 14, 21 and 28)	5,077,141,888	5,090,385,827
Interest expense (Notes 6, 17 and 28)	1,683,635,812	1,972,920,549
Retirement expense (Notes 22 and 23)	120,008,679	106,712,564
Changes in fair value of debt instruments value through profit or loss (FVTPL) (Note 11)	547,120	38,938,019
Gain on disposal of debt security	(17,191,570)	(70,156,524)
Gain on disposal of a subsidiary (Note 18)	(58,900,769)	—
Unrealized foreign currency exchange loss (gain) - net (Note 6)	136,015,752	43,766,450
Equity in net earnings in associates (Notes 6 and 13)	(187,752,802)	(142,714,861)
Dividend income (Notes 6 and 11)	(40,788,659)	(83,625,000)
Interest income (Notes 6, 7 and 11)	(521,467,815)	(808,364,094)
Operating income before working capital changes	9,414,006,132	10,483,548,071
Decrease (increase) in:		
Trade and other receivables	607,510,226	(297,524,592)
Merchandise inventories	(372,914,462)	(1,427,288,337)
Other current assets	49,161,429	104,550,505
Increase (decrease) in:		
Trade and other payables	(5,849,598,496)	(5,249,092,876)
Other current liabilities	184,749,127	(56,733,314)
Other noncurrent liabilities		17,582,847
Net cash flows generated from operations	4,032,913,956	3,575,042,304
Interest received	507,002,681	808,804,841
Retirement contributions and benefits paid (Note 23)	(176,780,604)	(170,654,451)
Income tax paid	(1,296,151,610)	(1,645,655,315)
Net cash flows (used in) provided by operating activities	3,066,984,423	2,567,537,379
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment in associates (Note 13)	(343,814,445)	(529,800,000)
Debt and equity instrument financial assets (Note 11)	(2,704,038,715)	(563,656,662)
Property and equipment (Note 12)	(1,303,337,565)	(2,241,987,134)
Proceeds from disposals of debt and equity instrument financial assets (Note 11)	3,470,531,698	5,352,268,181
Dividends received (Note 11)	40,788,659	83,625,000

(Forward)

Nine months Ended September 30
(Unaudited)

	2020	2019 As Restated (Note 3)
Disposal of a subsidiary (Note 18)	P199,671,350	P-
Decrease (increase) in other noncurrent assets	308,868,228	155,672,312
Net cash flows provided by (used in) investing activities	(331,330,790)	2,256,121,697
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan availments (Notes 17 and 30)	845,000,000	1,284,532,534
Interest paid (Notes 17 and 30)	(97,854,406)	(266,091,692)
Dividends paid (Notes 18 and 30)	(1,759,105,485)	(1,357,079,492)
Acquisition of treasury shares (Note 18)	(680,696,842)	-
Payment of loans (Notes 17 and 30)	(2,400,000,000)	(5,399,532,534)
Lease payments (Notes 28 and 30)	(3,345,398,242)	(3,286,805,065)
Net cash flows used in financing activities	(7,438,054,975)	(9,024,976,249)
EFFECTS OF FOREIGN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	13,957,865	(43,766,450)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,688,443,477)	(4,245,083,623)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,292,913,956	14,788,040,613
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	P15,604,470,479	P10,542,956,990

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, 2019, the Parent Company is 30.75% owned by JE Holdings, Inc., 36.71% owned by PCD Nominee Corporation, 12.15% 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 2, 18 and 19). As of December 31, 2019, DF through MCBV/GCH has 20.00% interest in the Parent Company.

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 retirement plan asset, financial assets at FVTPL and financial assets at 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, 2020 and December 31, 2019 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					
	2020		2019		2018	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Robinson's Supermarket Corporation (RSC)	100.00%	—	100.00%	—	100.00%	—
Angeles Supercenter, Inc. (ASI)	—	100.00%	—	100.00%	—	67.00%
Robinsons Appliances Corp. (RAC)	—	67.00%	—	67.00%	—	67.00%
South Star Drug, Inc. (SSDI)	—	90.00%	—	45.00%	—	45.00%
TGP Pharma, Inc. (TGPPI)	—	45.90%	—	45.90%	—	45.90%
TGP Franchising Corp. (TFC)	—	—	—	—	—	45.90%
TheGenerics Pharmacy Inc. (TPI)	—	45.90%	—	45.90%	—	45.90%
Robinson's Handyman, Inc. (RHMI)	—	80.00%	—	80.00%	—	80.00%
Handyman Express Mart, Inc. (HEMI)	—	52.00%	—	52.00%	—	52.00%
Walmart-Handyman, Inc. (WHI)	—	52.00%	—	52.00%	—	52.00%
Robinsons True Serve Hardware Philippines, Inc. (RTSHPI)	—	53.33%	—	53.33%	—	53.33%
RHI Builders and Contractors Depot Corp. (RHIB)	—	53.60%	—	53.60%	—	53.60%
Home Plus Trading Depot, Inc. (HPTDI)	—	40.20%	—	40.20%	—	40.20%
Robinsons Lifestyle Stores, Inc. (RLSI)	—	80.00%	—	80.00%	—	80.00%
Robinson's, Incorporated (RI)	—	—	100.00%	—	100.00%	—
Robinsons Ventures Corporation (RVC)	—	65.00%	—	65.00%	—	65.00%
Robinsons Toys, Inc. (RTI)	—	100.00%	—	100.00%	—	100.00%
Robinsons Convenience Stores, Inc. (RCSI/Ministop)	—	60.00%	—	60.00%	—	59.05%
Savers Electronic World, Inc. (SEWI)	—	90.00%	—	90.00%	—	90.00%
Super50 Corporation (Super50)	—	51.00%	—	51.00%	—	51.00%
South Star Drug, Inc. (SSDI)	—	—	—	45.00%	—	45.00%
TGP Pharma, Inc. (TGPPI)	—	—	—	45.90%	—	45.90%
TGP Franchising Corp. (TFC)	—	—	—	—	—	45.90%
TheGenerics Pharmacy Inc. (TPI)	—	—	—	45.90%	—	45.90%
Robinsons Gourmet Food and Beverages, Inc. (RGFBI)	—	—	—	100.00%	—	100.00%
Chic Centre Corporation (CCC)	—	—	—	100.00%	—	100.00%
Everyday Convenience Stores, Inc. (ECSI)	100.00%	—	100.00%	—	100.00%	—
Robinsons Specialty Stores, Inc. (RSSI)	100.00%	—	100.00%	—	100.00%	—
Robinsons Daiso Diversified Corp. (RDDC)	90.00%	—	90.00%	—	90.00%	—
RHD Daiso-Saizen, Inc. (RHDDS)	59.40%	—	59.40%	—	59.40%	—
RHMI Management and Consulting, Inc.	100.00%	—	100.00%	—	100.00%	—
RRHI Management and Consulting, Inc.	100.00%	—	100.00%	—	100.00%	—
RRG Trademarks and Private Labels, Inc.	100.00%	—	100.00%	—	100.00%	—
RRHI Trademarks Management, Inc. (RRHI-TMI)	100.00%	—	100.00%	—	100.00%	—
New Day Ventures Limited (NDV Limited)	100.00%	—	100.00%	—	100.00%	—
Rustan Supercenters, Inc. (RSCI)	100.00%	—	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, 2020 and December 31, 2019. 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, Acquisitions and Mergers

On February 17, 2020, the BOD of RSC approved the sale of 100% of the shares of stocks owned in CCC for a total consideration of ₱230.00 million.

On March 4, 2019, the stockholders of RSC with RI, RTI and RGFBI approved the plan of merger of the companies with RSC as the surviving company. This was approved by the stockholders representing at least 2/3 vote of the outstanding capital stock of the companies.

On September 30, 2019, the SEC approved the merger of RSC with RI, RTI and RGFBI with RSC as the surviving entity effective January 1, 2020.

On November 4, 2019, RI purchased 18,947,368 RCSI shares from Ministop Co.,Ltd for a consideration of ₱18.95 million. As a result of the transaction, RI's ownership interest to RCSI increased from 59.05% to 60.00% (Note 18).

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

On February 1, 2019, the Board of Directors (BOD) and stockholders of TGPPI and TFC representing at least 2/3 vote of the outstanding capital stock of the companies approved the plan of merger between the companies with TGPPI as the surviving company. The Plan of Merger was approved by the SEC on July 22, 2019 and was implemented on August 1, 2019.

On November 23, 2018, RRHI acquired 100.00% ownership in RSCI, a company engaged in the business of food retailing (Notes 1, 18 and 19).

On November 16, 2018, RRHI subscribed 40% ownership interest in Data Analytics Ventures, Inc. (DAVI) of which ₱0.40 million was paid. DAVI's principal activities include building a digital rewards program and creating a robust data infrastructure and analytics business. Accordingly, the Group accounted the investment in DAVI under investment in associates (Note 13). On August 14, 2019, RRHI made additional capital infusion to DAVI amounting to ₱239.60 million (Note 13).

On September 20, 2018, RRHI made an investment in G2M Solutions Philippines Pte. Ltd. (G2M) amounting to ₱160.65 million through convertible note which will provide the RRHI 14.90% ownership interest upon conversion of the note. The terms of the agreement entitled 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 January 22, 2020, RRHI made additional capital infusion to G2M amounting to ₱151.81 million (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 the RCSI increased from 51.0% to 59.05% while Ministop ownership increased from 36.9% to 40.9% (Note 18).

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

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

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

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

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

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.

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases in the consolidated statement of financial position.

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. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application as at January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized only at the date of initial application. The comparative information was not restated and continues to be reported under PAS 17 and related interpretation. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease as at January 1, 2019. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effect of adoption PFRS 16 as at January 1, 2019 is as follows:

	Increase (Decrease)
Consolidated statement of financial position	
ASSETS	
Right-of-use (ROU) assets	P28,188,970,775
Other current assets	(55,967,947)
Net impact in total assets	P28,133,002,828
LIABILITIES	
Lease liabilities	P28,284,869,213
Other noncurrent liabilities	(151,866,385)
Net impact in total liabilities	P28,133,002,828

Leases previously accounted for as operating leases

The Company recognized ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The ROU assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the ROU asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of -use assets of P28.19 billion were recognized and presented separately in the consolidated statement of financial position.
- Additional lease liabilities of P28.28 billion were recognized.
- Prepayments of P55.97 million and accrued rental of P151.87 million related to previous operating leases arising from straight lining under PAS 17 were derecognized.

The lease liability at as January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follows:

Operating lease commitments as at December 31, 2018	P35,676,610,054
Weighted average incremental borrowing rate at January 1, 2019	7.88%
Discounted operating lease commitments at January 1, 2019	22,665,384,738
Add: Lease payments relating to renewal periods not included as of December 31, 2018	5,619,484,475
Lease liabilities recognized at January 1, 2019	P28,284,869,213

Due to the adoption of PFRS 16, the Group's operating profit in 2019 will improve, while its interest expense will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 will not have an impact on equity as at January 1, 2019, since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

The Group has restated its comparative figure for the nine months ended September 30, 2019 to enhance comparability with the current year's financial statements after adoption of PFRS 16. As a result, certain line items have been restated in the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, and the related notes to the financial statements.

The following items were restated as follows:

	September 30, 2019	
	Previously reported	As restated
<u>Consolidated statement of financial position</u>		
ROU assets	P23,038,365,436	P26,670,569,010
Deferred tax assets	745,728,306	799,081,165
Lease liabilities	24,123,316,964	28,029,309,482
Unappropriated retained earnings	5,297,952,584	5,199,646,517
Non-controlling interest in consolidated subsidiaries	4,463,029,041	4,436,845,103
<u>Consolidated statement of comprehensive income</u>		
Rental and utilities	4,772,647,847	6,541,943,943
Depreciation and amortization	5,074,524,279	5,090,385,827
Interest expense	1,765,750,947	1,972,920,549
Net income	3,358,204,056	3,233,714,051

- 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

The entity is required to determine whether to consider each certain tax treatments separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when

making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Group's assessment, it has no material uncertain tax treatments, accordingly, the adoption of this interpretation has no significant impact on the consolidated financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (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.

These amendments had no impact on the consolidated financial statements of the Group.

- 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 other comprehensive income

The Group considered in its actuarial valuation and computation for employee benefits its amended retirement plan benefits during the period.

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

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*.

These amendments had no significant impact on the consolidated financial statements of the Group.

- *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 had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- 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 permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- 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 had no significant impact on the consolidated financial statements of the Group.

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 will apply on future business combinations of the Group.

- 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 not applicable to the Group since it is not engaged in providing insurance nor issuing insurance contracts.

Deferred effectivity

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

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 and available-for-sale (AFS) financial assets 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 not at 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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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, Short-term loans, Lease liabilities 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.

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, ROU assets, 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, 2019 and 2018. 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.

Retirement plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Retirement 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).

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

ROU assets. The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follows:

	Years
Land	10-25
Warehouses	10-15
Store spaces	6-10
Office spaces	6-10
Building	10

ROU assets are presented separately in the consolidated financial position and are also subject to impairment test.

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 lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. 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.

Lease liabilities (current and noncurrent) are presented separately in the consolidated statement of financial position.

Short-term leases and leases of low-value assets. The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value (e.g. ₱250,000 or below). Lease payments on short-term leases and leases of low-value assets are recognized as expense 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. 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, 2020 and 2019 (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:

Determination of lease term of contracts with renewal and termination options - Company as a lessee

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option (eg. construction of significant leasehold improvements). After the commencement date, the Group reassess the lease term if there is

a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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.

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, 2019 and 2018. 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, 2019 and 2018, below are the CGUs from which trademarks with indefinite useful life are allocated and tested for annual impairment:

	Basis	Amount
RSCI	VIU	₱3,205,411,607
SSDI	VIU	1,566,917,532
TGPPI	VIU	1,264,098,435
SEWI	VIU	364,914,493
		<u>₱6,401,342,067</u>

As of December 31, 2019 and 2018, below are the CGUs from which goodwill is allocated and tested for annual impairment:

	Basis	Amount
RSCI	VIU	₱9,109,386,061
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>₱12,490,800,027</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 is 5.7% to 10% in 2019 (9.70% in 2018) and cash flows beyond the five-year period are extrapolated using a 1% to 5% in 2019 growth rate

(5.00% to 10.00% in 2018) 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. A 24.0% to 30.0% gross margin per annum was applied. A decreased demand can lead to a decline in gross margin. A decrease in gross margin by 1.36% to 4.81% for 2019 and 2.80% to 5.0% for 2018 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 2.74% to 17.10% and 2.40% to 20.20%, in 2019 and 2018, respectively, would result in impairment.

Price Inflation

Forecast price inflation which impacts the forecast for operating expenses lies within a range of 2.25% to 6.00% in 2019 and 2018. 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 2019 and 2018, the Group used the EV/EBITDA multiple ranging from 10.69 to 11.20 and 10.00 to 15.00 multiples for impairment testing of goodwill and concluded and satisfied that goodwill from the acquired entities are not impaired.

In 2019 and 2018, if such EV/EBITDA multiple used falls lower than 2.93 multiple and 4.45 multiple, respectively, goodwill will be impaired.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain estimates based on the Group credit worthiness.

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.

Provision for expected credit losses recognized amounted to ₱92.94 million and nil in 2020 and 2019. As of September 30, 2020 and December 31, 2019, allowance for expected credit losses on trade and other receivables amounted to ₱120.20 million and ₱79.34 million, respectively.

As of September 30, 2020 and December 31, 2019, the carrying value of the Group's trade and other receivables amounted to ₱3.42 billion and ₱3.87 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.

Provision for inventory obsolescence amounted to ₱2.36 million and ₱18.00 million in 2020 and 2019, respectively.

Merchandise inventories amounted to ₱20.18 billion and ₱19.81 billion as of September 30, 2020 and December 31, 2019, respectively (Note 9).

Evaluation of Impairment of Nonfinancial Assets

The Group reviews property and equipment, ROU assets, 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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, the carrying value of the Group's property and equipment amounted to ₱18.35 billion and ₱19.29 billion, respectively (Note 12), ROU assets amounted to ₱25.66 billion and ₱26.32 billion, respectively (Note 28), investment in associates amounted to ₱8.37 billion and ₱7.85 billion, respectively (Note 13) and trademarks and franchise with definite useful life amounted to ₱0.10 billion and ₱0.15 billion, 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, 2020, the carrying value of the retirement plan amounted to ₱74.06 million asset and ₱343.16 million obligation. As of December 31, 2019 the carrying value of the retirement plan amounted to ₱72.10 million asset and ₱419.84 million obligation.

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, 2020, and December 31, 2019, the Group has deferred tax assets amounting ₱1,620.08 million and ₱1,009.49 million, respectively. Unrecognized deferred tax assets amounted to ₱37.37 million and ₱71.18 million as of September 30, 2020 and December 31, 2019, respectively (Note 25).

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, 2020 and December 31, 2019, contract liabilities arising from customer loyalty program and gift checks amounted to ₱259.17 million and ₱273.60 million, respectively (Note 16). Contract liabilities are classified under "Trade and other payables".

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*

The supermarket division operates under seven (7) formats with the acquisition of Rustan Supercenters, Inc. in 2018. It has Robinsons Supermarket, Robinsons Easymart, Robinsons Selections, The Marketplace by Rustan's, Shopwise, Wellcome and Jaynith's Supermarket. 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.

- *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 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 operates two (2) formats namely: South Star Drug and TGP which primarily offer high quality pharmaceutical drugs, which constitutes to over a thousand reputable branded and affordable options including TGP's house brands for 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. The segment operates six (6) formats of specialty stores, namely: 1) toys and juvenile products retail under Toys "R" Us; 2) consumer electronics and appliances stores operated under Robinsons Appliances and Savers Appliance, 3) international fashion and beauty retail, 4) mass merchandise stores under Daiso Japan, Arcova and Super50, 5) pet retail under Pet Lovers Centre; and 6) Korean hard discount store No Brand.

September 30, 2020

	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	P70,494,601,510	P5,096,583,614	P7,706,782,637	P3,411,302,406	P13,669,302,291	P9,197,850,885	P-	P-	P109,576,423,344
Intersegment net sales	-	-	-	-	-	-	-	-	-
Total net sales	70,494,601,510	5,096,583,614	7,706,782,637	3,411,302,406	13,669,302,291	9,197,850,885	-	-	109,576,423,344
Segment cost of merchandise sold	56,113,918,584	3,513,991,891	5,080,207,663	3,051,515,259	10,946,817,295	7,271,596,726	-	-	85,978,047,419
Intersegment cost of merchandise sold	-	-	-	-	-	-	-	-	-
Total cost of merchandise sold	56,113,918,584	3,513,991,891	5,080,207,663	3,051,515,259	10,946,817,295	7,271,596,726	-	-	85,978,047,419
Gross profit	14,380,682,926	1,582,591,723	2,626,574,974	359,787,147	2,722,484,996	1,926,254,159	-	-	23,598,375,925
Segment other income	329,656,810	13,201,878	-	944,610,205	101,595,528	35,140,257	-	-	1,424,204,676
Intersegment other income	87,086,690	-	-	-	-	-	-	(87,086,690)	-
Total other income	416,743,500	13,201,878	-	944,610,205	101,595,528	35,140,257	-	(87,086,690)	1,424,204,676
Gross profit including other income	14,797,426,426	1,595,793,601	2,626,574,974	1,304,397,352	2,824,080,524	1,961,394,416	-	(87,086,690)	25,022,580,603
Segment operating expenses	8,935,178,871	1,466,421,919	1,372,001,764	1,102,522,361	1,403,084,088	1,357,852,104	41,512,714	-	15,678,573,821
Intersegment operating expenses	-	25,308,260	14,079,115	-	34,555,064	13,144,251	-	(87,086,690)	-
Total operating expenses	8,935,178,871	1,491,730,179	1,386,080,879	1,102,522,361	1,437,639,152	1,370,996,355	41,512,714	(87,086,690)	15,678,573,821
Earnings before interest, taxes and depreciation and amortization	5,862,247,555	104,063,422	1,240,494,095	201,874,991	1,386,441,372	590,398,061	(41,512,714)	-	9,344,006,782
Depreciation and amortization	2,537,842,279	562,256,634	705,981,324	308,421,365	273,382,602	689,257,682	-	-	5,077,141,886
Earnings before interest and taxes	3,324,405,276	(458,193,212)	534,512,771	(106,546,374)	1,113,058,770	(98,859,621)	(41,512,714)	-	4,266,864,896
Interest income	36,953,184	5,611,728	22,145,064	703,767	11,054,683	12,768,564	432,230,824	-	521,467,814
Equity in net earnings of an associate	-	-	-	-	-	-	187,752,802	-	187,752,802
Dividend income	-	-	-	-	-	-	40,788,659	-	40,788,659
Interest expense	(964,167,004)	(135,212,763)	(208,241,566)	(34,437,138)	(134,523,872)	(206,968,308)	(85,161)	-	(1,683,635,812)
Foreign exchange gain (loss) – net	11,365,724	2,602,055	-	-	-	-	(149,983,531)	-	(136,015,752)
Others	-	58,900,769	-	-	-	(50,009,330)	16,644,450	-	25,535,889
Income (loss) before income tax	2,408,557,181	(526,291,423)	348,416,269	(140,279,745)	989,589,581	(343,068,695)	485,835,329	-	3,222,758,496
Assets and liabilities									
Segment assets	P49,567,233,803	P5,680,398,622	P10,254,443,144	P3,797,631,229	P10,480,551,178	P10,904,476,327	P25,126,586,334	P15,425,751,274	P131,237,071,911
Investment in subsidiaries - at cost	3,340,607,474	3,879,212,333	-	-	-	-	21,632,839,151	(28,852,658,958)	-
Total segment assets	P52,907,841,277	P9,559,610,955	P10,254,443,144	P3,797,631,229	P10,480,551,178	P10,904,476,327	P46,759,425,485	(P13,426,907,684)	P131,237,071,911
Total segment liabilities	P33,189,538,044	P5,213,424,332	P5,109,603,859	P2,324,716,561	P5,632,418,914	P7,215,817,116	(P5,128,518,847)	P915,794,384	P54,472,794,363
Other segment information:									
Capital expenditures	P786,342,597	P128,444,393	P113,079,088	P119,941,510	P102,212,378	P53,317,599	P-	P-	P1,303,337,565

September 30, 2019 As Restated (Note 3)

	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	9,136,253,977	2,591,815,211	1,713,211,635	1,295,278,391	1,416,395,165	2,013,340,570	49,910,416	-	18,216,205,364
Intersegment operating expenses	10,597,388	33,314,494	24,289,307	-	33,205,451	20,428,952	-	(121,835,592)	-
Total operating expenses	9,146,851,365	2,625,129,705	1,737,500,942	1,295,278,391	1,449,600,616	2,033,769,522	49,910,416	(121,835,592)	18,216,205,364
Earnings before interest, taxes and depreciation and amortization	4,742,806,313	777,717,905	1,704,508,331	515,356,690	1,237,518,784	1,523,964,979	(49,910,416)	-	10,451,962,586
Depreciation and amortization	2,405,592,127	546,540,251	770,211,677	406,376,625	280,297,901	681,367,246	-	-	5,090,385,828
Earnings before interest and taxes	2,337,214,186	231,177,654	934,296,654	108,980,065	957,220,883	842,597,733	(49,910,416)	-	5,361,576,758
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
Equity in net earnings of an associate	-	-	-	-	-	-	142,714,861	-	142,714,861
Dividend income	-	-	-	-	-	-	83,625,000	-	83,625,000
Interest expense	(1,070,307,543)	(171,225,465)	(238,286,005)	(62,016,497)	(165,290,241)	(245,998,068)	(42,967,218)	23,170,489	(1,972,920,549)
Foreign exchange gain - net	7,787,708	-	-	-	-	(50,354)	(51,503,804)	-	(43,766,450)
Others	-	-	-	-	-	(75,127,079)	31,218,504	-	(43,908,575)
Income before income tax	P1,328,500,772	P95,781,309	P754,147,148	P63,406,867	P813,308,154	P546,085,556	P734,455,335	P-	P4,335,685,140
December 31, 2019 (Audited)									
Assets and liabilities									
Segment assets	P48,077,501,547	P6,990,849,907	P10,791,258,928	P3,961,746,250	P10,326,202,964	P12,596,289,253	P32,367,134,542	P12,755,086,922	P137,866,070,313
Investment in subsidiaries - at cost	2,840,607,224	3,907,012,333	-	-	-	-	21,632,839,151	28,380,458,708)	-
Total segment assets	P50,918,108,771	P10,897,862,240	P10,791,258,928	P3,961,746,250	P10,326,202,964	P12,596,289,253	P53,999,973,693	P(15,625,371,786)	P137,866,070,313
Total segment liabilities	P30,658,205,176	P5,681,493,878	P5,854,617,277	P2,356,267,743	P6,029,724,180	P8,766,432,844	P170,329,510	P1,822,603,095	P61,339,673,703
Other segment information:									
Capital expenditures	P1,459,447,307	P333,015,880	P461,289,318	P474,754,257	P141,239,470	P476,649,158	P-	P-	P3,346,395,390

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 in 2019 was 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 ₱15.60 billion and ₱20.29 billion as of September 30, 2020, and December 31, 2019, 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 0.13% to 3.5% and 0.80% to 5.40% in 2020 and 2019, respectively.

Interest income arising from cash in banks and cash equivalents amounted to ₱151.98 million, and ₱228.08 million for the nine months ended September 30, 2020 and 2019, respectively.

8. Trade and Other Receivables

This account consists of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade (Notes 24 and 27)	₱2,549,831,520	₱2,460,624,381
Nontrade (Notes 24 and 27)	950,016,757	874,803,571
Due from franchisees (Notes 27 and 29)	39,106,088	609,368,201
	3,538,954,365	3,944,796,153
Less allowance for impairment losses (Notes 27 and 29)	120,199,280	79,335,269
	₱3,418,755,085	₱3,865,460,884

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 ₱280.38 million as of December 31, 2019. The remaining balance consists of operational advances, receivable from lessees and interest receivable arising from short-term investments.

Movement in the allowance for impairment losses is as follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	₱79,335,269	₱156,346,848
Provision	92,943,700	–
Reversals and write-off	(52,079,689)	(77,011,579)
Balance at end of year	₱120,199,280	₱79,335,269

9. Merchandise Inventories

The rollforward analysis of this account follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	₱19,810,252,511	₱18,628,013,928
Add purchases - net of purchase discounts and allowances	86,366,465,229	126,941,727,050
Cost of goods available for sale	106,176,717,740	145,569,740,978
Less cost of merchandise sold	85,978,047,419	125,734,533,662
Allowance for inventory obsolescence	15,503,348	24,954,805
Balance at end of year	₱20,183,166,973	₱19,810,252,511

The cost of merchandise inventories charged to the consolidated statements of comprehensive income amounted to ₱85.98 billion and ₱89.47 billion in 2020 and 2019, respectively.

Movements in the allowance for shrinkage, obsolescence and other losses is as follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	₱24,954,805	₱43,177,218
Provisions (Note 21)	2,364,093	7,377,588
Reversals and write-off	(11,815,550)	(25,600,001)
Balance at end of year	₱15,503,348	₱24,954,805

There are no merchandise inventories pledged as security for liabilities as of September 30, 2020 and December 31, 2019.

10. Other Current Assets

This account consists of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Input VAT - net	P1,918,752,196	P1,977,497,856
Prepayments	432,138,972	513,735,800
CWT	543,662,872	432,017,049
Others	7,565,703	28,030,467
	P2,902,119,743	P2,951,281,172

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

Prepayments consist of advance payments for insurance, taxes and utilities. In 2019, advance payments for rental are included as part of ROU assets (Notes 2 and 28).

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 is as follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Debt securities		
FVOCI with recycling	(a) P12,671,497,296	P13,541,822,321
FVTPL	(b) —	100,547,120
	12,671,497,295	13,642,369,441
Equity securities at FVOCI without recycling	1,233,425,000	1,214,983,500
	P13,904,922,296	P14,857,352,941

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 at FVOCI with recycling as of September 30, 2020 and December 31, 2019 follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Amortized cost:		
At beginning of year	₱13,457,645,944	₱16,817,785,321
Additions	2,704,038,715	563,656,662
Disposals	(3,438,999,127)	(3,753,666,886)
Foreign exchange gain (loss)	(64,314,619)	(170,129,152)
At end of year	12,658,370,913	13,457,645,945
Amortization of premium on debt securities	(230,936,576)	(84,597,284)
Change in fair value of financial assets:		
At beginning of year	175,731,382	(593,335,355)
Changes in fair value recognized in OCI	87,460,899	775,460,132
Transfer to profit or loss	(12,171,600)	(6,393,395)
At end of year	251,020,681	175,731,382
Allowance for expected credit losses	(6,957,722)	(6,957,722)
	244,062,959	168,773,660
	₱12,671,497,296	₱13,541,822,321

- b. The Group's debt securities at FVTPL 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.

On March 10, 2020, BDO Unibank, Inc. (BDO) has exercised its right to redeem its Tier 2 Notes at a redemption price equal to the face value of the Tier 2 Notes plus accrued interest.

On February 13, 2019, the BOD of Metropolitan Bank & Trust Company (Metrobank) approved to exercise the call option on the subordinated debt on June 27, 2019.

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
At beginning of year	₱100,547,120	₱1,665,171,011
Disposals	(100,000,000)	(1,583,559,947)
Changes in fair value recognized in profit or loss	(547,120)	18,936,056
	₱—	₱100,547,120

Interest income arising from debt instrument financial assets amounted to ₱369.48 million, ₱580.23 million for the nine months ended September 30, 2020 and 2019, 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 2020 and 2019 as it intends to hold these investments for the foreseeable future.

Rollforward analysis of equity securities at FVOCI without recycling as of September 30, 2020 and December 31, 2019 follows:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Cost		
At beginning of year	P1,197,500,000	P2,000,000,000
Additions	—	1,197,500,000
Disposals	—	(2,000,000,000)
	1,197,500,000	1,197,500,000
Change in fair value of equity instrument financial assets:		
At beginning of year	17,483,500	(49,600,000)
Disposals	—	(20,000,000)
Changes in fair value	18,441,500	87,083,500
At end of year	35,925,000	17,483,500
	P1,233,425,000	P1,214,983,500

Dividend income earned by the Group amounted to P40.79 million and P83.63 million for the nine months ended September 30, 2020 and 2019, respectively.

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balances at the beginning of year	P193,920,007	(P642,230,230)
Change in fair value during the year - OCI	105,902,399	842,543,632
Transfers to profit or loss	(12,171,600)	(6,393,395)
Balances at the end of year	P287,650,806	P193,920,007

12. Property and Equipment

September 30, 2020 (Unaudited)

	Land	Building and Other Equipment	Leasehold Improvements	Store Furniture and Fixtures	Office Furniture and Fixtures	Transportation Equipment	Computer Equipment	Total
Cost								
At beginning of year	P609,382,477	P2,824,802,243	P17,447,361,600	P11,154,763,381	P3,149,458,471	P225,023,573	P3,464,917,442	P38,875,709,187
Additions	350,000,250	30,407,083	386,132,914	294,351,419	59,454,499	943,140	182,048,260	1,303,337,565
Disposals and derecognition	42,560,000	(43,215,686)	(174,627,605)	(100,944,296)	(12,921,920)	(6,220,687)	(7,751,360)	(303,121,554)
At end of year	1,001,942,727	2,811,993,640	17,658,866,909	11,348,170,504	3,195,991,050	219,746,026	3,639,214,342	39,875,925,198
Accumulated depreciation and amortization								
At beginning of year	—	892,682,843	9,020,506,194	6,264,851,638	1,181,512,097	152,602,792	1,998,225,491	19,510,381,055
Depreciation and amortization (Note 21)	—	95,217,344	1,008,389,852	595,596,590	238,423,650	12,183,457	244,513,384	2,194,324,277
Disposals and derecognition	—	(35,296,417)	(91,039,968)	(93,557,026)	(25,591,963)	(2,940,708)	(3,032,179)	(251,458,260)
At end of year	—	952,603,770	9,937,856,078	6,766,891,202	1,394,343,784	161,845,541	2,239,706,696	21,453,247,072
Allowance for impairment losses								
At beginning and end of year	—	—	49,567,673	25,882,986	—	—	349,273	75,799,932
	P1,001,942,727	P1,859,389,870	P7,671,443,158	P4,555,396,316	P1,801,647,266	P57,900,485	P1,399,158,373	P18,346,878,194

December 31, 2019 (Audited)

	Land	Building and Other Equipment	Leasehold Improvements	Store Furniture and Fixtures	Office Furniture and Fixtures	Transportation Equipment	Computer Equipment	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	P36,711,850,652
Additions	—	18,502,392	1,917,798,691	644,800,383	417,762,818	15,223,857	332,307,249	3,346,395,390
Disposals and derecognition	—	(47,500)	(655,284,538)	(433,398,981)	(17,365,735)	(4,841,036)	(71,599,065)	(1,182,536,855)
At end of year	609,382,477	2,824,802,243	17,447,361,600	11,154,763,381	3,149,458,471	225,023,573	3,464,917,442	38,875,709,187
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)	—	64,937,554	1,752,528,369	617,850,135	291,598,137	14,320,733	282,421,632	3,023,656,560
Disposals and derecognition	—	(47,500)	(452,389,638)	(343,960,505)	(18,374,958)	(5,308,651)	(60,032,065)	(880,113,317)
At end of year	—	892,682,843	9,020,506,194	6,264,851,638	1,181,512,097	152,602,792	1,998,225,491	19,510,381,055
Allowance for impairment losses								
At beginning and end of year	—	—	49,567,673	25,882,986	—	—	349,273	75,799,932
	P609,382,477	P1,932,119,400	P8,377,287,733	P4,864,028,757	P1,967,946,374	P72,420,781	P1,466,342,678	P19,289,528,200

Allowance for impairment losses pertain to closing of non-performing stores. Cost of fully depreciated property and equipment still in use amounted to ₱10.07 billion and ₱11.27 billion as of September 30, 2020 and December 31, 2019, respectively.

13. Investment in Associates

This account consists of investments in shares of stocks as follow (Note 2):

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
RBC	₱7,427,455,395	₱7,119,421,401
TCCI	306,130,986	326,689,847
G2M	310,229,880	160,650,429
DAVI	317,740,087	191,350,616
GrowSari	9,037,006	47,345,883
	₱8,370,593,354	₱7,845,458,176

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Shares of stock - at equity:		
At beginning and end of year	₱5,950,238,902	₱5,950,238,902
Additional investment (Note 2)	—	—
Balance at end of year	₱5,950,238,902	₱5,950,238,902
Accumulated equity in net earnings:		
Balance at beginning of year	1,232,788,244	960,380,963
Equity in net earnings	314,466,063	272,407,281
Balance at end of year	1,547,254,307	1,232,788,244
Share in fair value changes of financial assets of RBC:		
Balance at beginning of year	(5,677,976)	(417,023,044)
Share in fair value changes of financial assets at FVOCI	(3,531,322)	411,345,068
Balance at end of year	(9,209,298)	(5,677,976)
Share in translation loss adjustments:		
Balance at beginning of year	(44,350,609)	(48,006,938)
Share in translation adjustments	(809,303)	3,656,329
Balance at end of year	(45,159,912)	(44,350,609)
Share in remeasurement losses on retirement obligation:		
Balance at beginning of year	(13,577,160)	(5,386,823)
Share in remeasurement loss on retirement obligation	(2,091,444)	(8,190,337)
Balance at end of year	(15,668,604)	(13,577,160)
	₱7,427,455,395	₱7,119,421,401

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, 2020 (Unaudited)	December 31, 2019 (Audited)
Total assets	₱141,383,287,764	₱131,108,212,486
Total liabilities	123,549,570,385	114,082,988,400
Net income	786,165,158	681,018,202
Other comprehensive income (loss)	(8,828,305)	1,028,362,670

The consolidated statements of comprehensive income follow:

	2020	2019	2018
Total operating income	₱6,827,461,587	₱4,992,311,801	₱4,125,255,244
Total operating expenses and tax	6,041,296,429	4,311,293,599	3,811,698,727
Net income	786,165,158	681,018,202	313,556,517
Other comprehensive income (loss)	(8,828,305)	1,028,362,670	(59,546,145)
Total comprehensive income	₱777,336,853	₱1,709,380,872	₱254,010,372
Group's share of profit for the year	₱314,466,063	₱272,407,281	₱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, 2020 (Unaudited)	December 31, 2019 (Audited)
Net assets of RBC	₱17,846,563,923	₱17,076,478,938
Proportionate ownership in the associate	40%	40%
Total share in net assets	7,138,625,569	6,830,591,575
Carrying amount of the investment	7,427,455,395	7,119,421,401
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, 2020 (Unaudited)	December 31, 2019 (Audited)
Changes in fair value of financial assets of associates:		
Balances at the beginning of year	(P101,711,653)	(P394,669,733)
Change in fair value during the year	(3,038,438)	292,958,080
Balances at end of year	(104,750,091)	(101,711,653)
Remeasurement losses on retirement obligation of associates:		
Balances at the beginning of year	(16,489,992)	(8,299,655)
Remeasurement loss during the year	(1,464,011)	(8,190,337)
Balances at end of year	(17,954,003)	(16,489,992)
	(P122,704,094)	(P118,201,645)

G2M

On September 20, 2018, the Parent Company made an investment in G2M amounting to P160.65 million through convertible note which will provide the Parent Company 14.90% ownership interest upon conversion of the note. The terms of the agreement also provide and entitled the Parent 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. G2M is incorporated in Singapore. On January 22, 2020, RRHI made additional capital infusion to G2M amounting to P151.81 million.

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Shares of stock - at equity:		
Balance at beginning of year	P160,650,429	P160,650,429
Additional investment (Note 2)	151,814,445	—
Balance at end of year	312,464,874	160,650,429
Accumulated equity in net earnings:		
Balance at beginning of year	—	—
Equity in net loss	(2,234,994)	—
Balance at end of year	(2,234,994)	—
	P310,229,880	P160,650,429

TCCI

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. On March 28, 2019, the Parent Company acquired additional 875,011 common shares representing 10% ownership interest for a total consideration amounting to P280.00 million. Ownership interest of the Parent Company in TCCI as of December 31, 2019 is 30%. 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, 2020 and December 31, 2019 amounted to P306.13 million and P326.69 million, respectively. Details follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Shares of stock - at equity:		
Balance at beginning of year	₱405,000,000	₱125,000,000
Additional investment (Note 2)	—	280,000,000
Balance at end of year	405,000,000	405,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	(78,310,153)	(12,924,701)
Equity in net loss	(20,558,861)	(65,385,452)
Balance at end of year	(98,869,014)	(78,310,153)
	₱306,130,986	₱326,689,847

DAVI

On November 16, 2018, the Parent Company subscribed 40% ownership interest in DAVI of which ₱0.40 million was paid in 2018. DAVI's principal activities include processing, managing and analyzing data. DAVI is incorporated in the Philippines. On June 5, 2020, RRHI made additional capital infusion to DAVI amounting to ₱192.00 million.

Carrying value of DAVI's investment as of September 30, 2020 and December 31, 2019 amounted to ₱317.74 million and ₱191.35 million, respectively. Details follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Shares of stock - at equity:		
Balance at beginning of year	₱240,000,000	₱400,000
Additional investment (Note 2)	192,000,000	239,600,000
Balance at end of year	432,000,000	240,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	(48,649,384)	—
Equity in net loss	(65,610,529)	(48,649,384)
Balance at end of year	(114,259,913)	(48,649,384)
	₱317,740,087	₱191,350,616

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. GrowSari is incorporated in the Philippines.

Carrying value of Growsari's investment as of September 30, 2019 and December 31, 2019 amounted to P9.04 million and P47.35 million, respectively. Details follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Shares of stock - at equity:		
At beginning and end of year	P105,000,000	P105,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	(57,654,117)	(4,031,405)
Equity in net loss	(38,308,877)	(53,622,712)
Balance at end of year	(95,962,994)	(57,654,117)
	P9,037,006	P47,345,883

14. Intangible Assets

This account consists of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Goodwill (Note 19)	P12,490,800,027	P12,490,800,027
Trademarks (Note 19)	6,447,575,848	6,541,738,841
Franchise	6,066,741	6,635,499
	P18,944,442,616	P19,039,174,367

Goodwill

The Group's goodwill as of September 30, 2020 and December 31, 2019 pertains to the excess of the acquisition cost over the fair value of the net assets of acquired subsidiaries which also represents separate CGUs. Details follow (Note 19):

	Amount
RSCI (Note 19)	P9,109,386,061
TGPPI	1,281,428,830
SSDI	745,887,131
SEWI	715,103,869
EC	199,870,222
RHIB	145,655,320
RTSHPI	85,161,468
BSRI	83,324,691
JRMC	71,732,435
HPTDI	30,000,000
GPC	23,250,000
	P12,490,800,027

Trademarks

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
RSCI (Note 19)	₱3,251,645,388	₱3,345,808,381
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
	₱6,447,575,848	₱6,541,738,841

Included in the trademarks acquired through acquisition of RSCI in 2018 is the right to use a brand and trademark for a period of almost five (5) years. Amortization related to trademarks acquired through acquisition of RSCI amounted to ₱94.16 million and ₱37.22 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and December 31, 2019, the carrying value of the trademarks with definite useful life amounted to ₱46.23 million and ₱140.40 million, respectively.

Franchise

On July 29, 2014, Costa International Limited granted the Group the development and operating rights to carry on the Costa business in the Philippines. The development agreement includes a development fee, 60.00% of which is payable upon execution of the agreement and the remaining 40.00% is payable one (1) year after the date of the agreement, and a service fee equal to a certain percentage of sales. As of December 31, 2018, the Group has franchise amounting to ₱16.73 million. In 2019, the Group wrote off the remaining value of its franchise amounting to ₱15.05 million due to permanent store closure.

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, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning balance	₱6,635,499	₱24,125,885
Amortization (Note 21)	(568,758)	(2,444,165)
Write-off	—	(15,046,221)
	₱6,066,741	₱6,635,499

15. Other Noncurrent Assets

This account consists of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Security and other deposits	₱2,158,937,286	₱2,479,555,628
Construction bonds	47,285,823	35,535,709
	₱2,206,223,109	₱2,515,091,337

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

16. Trade and Other Payables

This account consists of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade	₱10,846,357,042	₱16,866,916,950
Nontrade (Note 24)	6,123,441,281	7,264,214,185
Others	2,394,421,010	970,862,057
	₱19,364,219,333	₱25,101,993,192

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 nontrade payables, as contract liabilities as of September 30, 2020 and December 31, 2019. 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, 2020 (Unaudited)	December 31, 2019 (Audited)
Gift check outstanding	₱140,733,445	₱155,168,913
Accrued customer loyalty reward	118,434,504	118,434,504
Deferred revenue	—	13,450,713
	₱259,167,949	₱287,054,130

Below is the rollforward of contract liabilities from the date of initial application of the adoption of PFRS 15 in 2020 and 2019:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
At January 1	₱287,054,130	₱197,899,218
Deferred during the year	207,603,300	658,570,734
Recognized as revenue during the year	(235,489,481)	(569,415,822)
Derecognition	—	—
At December 31	₱259,167,949	₱287,054,130

17. Short-term Loans Payable

Details of short-term loans follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	₱4,634,000,000	₱6,794,000,000
Availments	845,000,000	915,000,000
Payments	(2,400,000,000)	(3,075,000,000)
	₱3,079,000,000	₱4,634,000,000

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
SSDI	₱1,979,000,000	₱1,929,000,000
RHDDS	400,000,000	400,000,000
RCSI	595,000,000	—
RHIB	55,000,000	55,000,000
HPTD	50,000,000	50,000,000
RSCI	—	1,900,000,000
RSC	—	300,000,000
	₱3,079,000,000	₱4,634,000,000

- SSDI's short-term loans payable consist of loans availed from local commercial banks at interest rates of 4.40%-5.00% per annum in 2020 and 4.35%-5.90% per annum in 2019. In addition, SSDI paid ₱200.0 million and ₱253.0 million of the outstanding loan balance in 2020 and 2019, respectively. The short-term loans payable of SSDI as of September 30, 2020 and December 31, 2019 amounted to ₱1.98 billion and ₱1.93 billion, respectively.
- RHDDS's short-term loans payable consist of a loan availed from a local commercial bank at an interest rates of 4.60%-5.50% per annum in 2020 and 4.60%-4.90% per annum in 2019. In 2019, RHDDS availed short-term loan amounting ₱180.0 million. The short-term loans payable as of September 30, 2020 and December 31, 2019 amounted to ₱400.0 million.
- RHIB's short-term loans payable consists of loans availed in 2019 from a local commercial bank at an interest rate of 4.60%-5.50% per annum. No payment of short-term loan was made during

the year. The short-term loans payable as of September 30, 2020 and December 31, 2019 amounted to ₱55.0 million.

- d.) HPTD's short-term loans payable consist of loans availed from local commercial banks at an interest rates of 4.60%-5.50% per annum. No payment of short-term loan was made during the year. The short-term loans payable as of September 30, 2020 and December 31, 2019 amounted to ₱50.0 million.
- e.) RSCI's short-term loans payable consist of loans availed from a local commercial bank at interest rates of 4.60%-6.75% per annum in 2019. The loans were obtained to finance RSCI's working capital requirements. In 2019, RSCI availed short-term loans amounting to ₱380.0 million of the outstanding loan balance. The loans were fully settled in 2020. The short-term loans payable of RSCI as of September 30, 2020 and December 31, 2019 amounted to nil and ₱1.90 billion, respectively.
- f.) RSC's short-term loans payable consists of loans availed from local commercial banks at an interest rate of 4.40% per annum in 2019 which are renewable every three (3) months. In 2019, RSC availed short-term loans amounting to ₱300.0 million. The loans were fully settled in 2020.

Total interest expense charged to operations amounted to ₱97.85 million and ₱266.09 million for the nine months ended September 30, 2020 and 2019, respectively.

The above loans are not subject to any loan covenants.

18. Equity

Capital Stock

The details of this account follow:

	September 30, 2020 (Unaudited)		December 31, 2019 (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 ₱69.0 per share or ₱1,309.06 million, incurring transaction costs amounting to ₱8.22 million.

The Group acquired 11,059,490 of its own shares in 2020. The total amount paid to acquire the shares amounted to ₱680.70 million and has been deducted from shareholder's equity.

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, 2020 (Unaudited)	December 31, 2019 (Audited)
Acquisition of additional shares from non-controlling interest		
Beginning	(₱995,284,977)	(₱975,943,538)
Additions/Deductions	–	(19,341,439)
	(995,284,977)	(995,284,977)
Acquisition of subsidiary under common control		
Beginning	5,508,177	5,508,177
Additions/Deductions	(5,508,177)	–
	–	5,508,177
	(₱995,284,977)	(₱989,776,800)

Acquisition of a Subsidiary under Common Control

On February 17, 2020, the BOD of RSC approved the sale of 100% of the shares of stocks owned in CCC for a total consideration of ₱230.00 million.

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 November 4, 2019, RI acquired additional 18,947,368 common shares, representing 0.95% of RCSI from a non-controlling shareholder for ₱18.95 million. As a result of the acquisition, RI then holds 60.00% interest in RCSI. The Group recognized equity reserve from the acquisition amounting to ₱1.36 million included in “Equity reserve” representing the excess consideration paid for the carrying amount of the non-controlling interest.

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 consideration paid for the carrying amount of the non-controlling interest.

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 ₱31.31 billion and ₱30.49 billion as of September 30, 2020 and December 31, 2019, respectively, while the accumulated equity in net income of the associates amounted to ₱1,238.16 million and ₱1,048.17 million as of September 30, 2020 and December 31, 2019 (Note 13).

Dividend Declaration

Details of the Parent Company’s dividend declarations follow:

	2020	2019
Date of declaration	May 13, 2020	May 30, 2019
Dividend per share	₱1.00	₱0.72
Total dividends	₱1,572,931,450	₱1,135,072,339
Date of record	June 03, 2020	June 20, 2019
Date of payment	June 30, 2020	July 12, 2019

Appropriation of Retained Earnings

Rollforward analysis of appropriated retained earnings follows:

	2020	2019
Balance at beginning of year	₱26,944,852,847	₱24,151,852,847
Appropriation	—	3,186,000,000
Reversal of appropriation	—	(393,000,000)
Balance at end of year	₱26,944,852,847	₱26,944,852,847

On November 8, 2019, the Group's BOD approved the appropriation of retained earnings which shall be used to augment new stores with the Group's nationwide expansion which is expected to complete in next two (2) to five (5) years. Details are as follow:

Entity	Amount
RSC	₱1,000,000,000
RHMI	674,000,000
RTI	310,000,000
SSDI	300,000,000
RAC	235,000,000
RHDDS	162,000,000
SEWI	110,000,000
RTSHPI	90,000,000
WHMI	87,000,000
HEMI	3,000,000
	<u>₱2,971,000,000</u>

On March 14, 2019, the Group's BOD approved the appropriation of retained earnings of RAC amounting to ₱215.00 million which shall be used to augment new stores with the Group's nationwide expansion which is expected to complete in next two (2) to five (5) years.

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 which is expected to complete in next two (2) to five (5) years. Details are as follow:

Entity	Appropriations					Total
	February 20	March 7	March 8	December 20		
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
	<u>₱2,800,000,000</u>	<u>₱3,177,000,000</u>	<u>₱180,000,000</u>	<u>₱3,065,000,000</u>		<u>₱9,222,000,000</u>

In 2019, the BOD of the subsidiaries of the Group approved the reversal of appropriated retained earnings due to completion of certain store expansions and renovations. Details are as follow:

Entity	Date of reversal	Amount
RHMI	June 14	₱191,000,000
WHMI	June 14	77,000,000
RSSI	November 8	75,000,000
RDDC	November 8	33,000,000
HEMI	June 14	17,000,000
Total		₱393,000,000

In 2018, the BOD of the subsidiaries of the Group approved the reversal of appropriated retained earnings due to completion of certain store expansions and renovations. 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

Declaration of Dividends of the Subsidiaries

On May 15, 2020, the BOD of TGP approved the declaration of cash dividends amounting to ₱300.00 million which was paid on June 19, 2020.

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

Entity	Date of declaration	Amount
RRHI TMI	November 8	₱600,000,000
TGP	June 10	560,007,000
RHMI	June 14	200,000,000
HEMI	June 14	20,000,000
WHMI	June 14	80,000,000
CCC	September 30	2,585,332
Total		₱1,462,592,332

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

NCI

Acquisition of NCI

In November 2019, the Group acquired NCI in RCSI increasing the Group's ownership stake from 59.05% to 60.00%.

In April 2019, the Group acquired NCI in ASI increasing the Group's ownership stake from 67% to 100%.

Investment from NCI

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

Dividends to NCI

In 2020, 2019, and 2018, dividends declared attributable to NCI amounted to ₱147.00 million, ₱349.41 million and ₱266.84 million, respectively.

Material Partly-Owned Subsidiary

In 2019 and 2018, 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 ₱942.16 million, ₱580.69 million and ₱408.86 million in 2019, 2018 and 2017, respectively. Profit allocated to material non-controlling interest amounted to ₱322.28 million, ₱238.68 million and ₱237.23 million in 2019, 2018 and 2017, respectively. Total assets of TGPPI as of December 31, 2019 and 2018 amounted to ₱2,127.47 million and ₱1,818.38 million, respectively, while total liabilities as of December 31, 2019 and 2018 amounted to ₱881.32 million and ₱679.77 million, respectively. Total sales in 2019, 2018 and 2017 amounted to ₱4,783.81 million, ₱4,335.08 million and ₱4,193.39 million, respectively. Net income in 2019, 2018 and 2017 amounted to ₱631.93 million, ₱464.73 million and ₱464.85 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 as of September 30, 2020 and December 31, 2019.

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Capital stock	P1,576,489,360	P1,576,489,360
Additional paid-in capital	40,768,202,897	40,768,202,897
Treasury stock	(680,696,842)	—
Other comprehensive income (loss)	317,623,280	272,839,305
Equity reserve	(995,284,977)	(989,776,800)
Retained earnings		
Appropriated	26,944,852,847	26,944,852,847
Unappropriated	4,367,825,501	3,548,986,390
Total equity attributable to equity holders of the Parent Company	72,299,012,066	72,121,593,999
Non-controlling interest in consolidated subsidiaries	4,465,265,498	4,404,802,611
Total Equity	P76,764,277,564	P76,526,396,610

19. Business Combinations

Business Combination and Goodwill

On March 23, 2018, the BOD 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 was incorporated in the Philippines and 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'.

In 2019, the Group finalized the purchase price allocation and the fair value computation of goodwill. There were no adjustments to the provisional amounts that were made during the measurement period. The final purchase price allocation resulted in goodwill of ₱9.11 billion. The goodwill of ₱9.11 billion comprises the fair value of expected synergies arising from acquisition.

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

	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	<u>4,687,422,327</u>
Goodwill from the acquisition (Note 14)	<u>9,109,386,061</u>
Purchase consideration transferred	<u><u>₱13,796,808,388</u></u>

20. Sales Revenue

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

Sales returns and sales discounts deducted from the sales to arrive at the net sales amounted to ₱2.78 billion and ₱3.25 billion for the nine months ended September 30, 2020 and 2019, respectively.

Disaggregated revenue information

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

Segments	For the nine months ended September 30, 2020						Total
	Supermarket	Department Store	DIY	Convenience Store	Drug Store	Specialty Store	
Type of goods or service							
Sale of goods – retail	₱70,494,601,510	₱5,096,583,614	₱7,706,782,637	₱–	₱13,669,302,291	₱9,197,850,885	₱106,165,120,937
Sale of merchandise to franchisees	–	–	–	3,411,302,406	–	–	3,411,302,406
Franchise revenue	–	–	–	4,572,351	15,140,358	–	19,712,709
Royalty fee	–	–	–	940,037,854	44,030,524	–	984,068,378
	₱70,494,601,510	₱5,096,583,614	₱7,706,782,637	₱4,355,912,611	₱13,728,473,172	₱9,197,850,885	₱110,580,204,429
Timing of revenue recognition							
Goods transferred at point in time	₱70,494,601,510	₱5,096,583,614	₱7,706,782,637	₱3,411,302,406	₱13,669,302,291	₱9,197,850,885	₱109,576,423,343
Services transferred over time	–	–	–	944,610,205	59,170,881	–	1,003,781,086
	₱70,494,601,510	₱5,096,583,614	₱7,706,782,637	₱4,355,912,611	₱13,728,473,172	₱9,197,850,885	₱110,580,204,429

For the year 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	P63,720,371,657	P11,918,081,779	P10,372,973,381	P—	P12,988,990,359	P13,386,677,591	P112,387,094,767
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
	P63,720,371,657	P11,918,081,779	P10,372,973,381	P5,756,401,863	P13,068,044,799	P13,386,677,591	P118,705,192,701
Timing of revenue recognition							
Goods transferred at point in time	P63,720,371,657	P11,918,081,779	P10,372,973,381	P4,908,612,958	P12,988,990,359	P13,386,677,591	P117,295,707,725
Services transferred over time	—	—	—	847,788,905	79,054,440	—	1,409,484,976
	P63,720,371,657	P11,918,081,779	P10,372,973,381	P5,756,401,863	P13,068,044,799	P13,386,677,591	P118,705,192,701

Intersegment eliminating adjustments related to sale of goods amounted to P1.14 billion in 2019 (Note 6).

21. Operating Expenses

This account consists of:

	Nine months Ended September 30 (Unaudited)	
	2020	2019 As Restated (Note 3)
Rental and utilities (Notes 24 and 28)	P4,772,647,847	P6,541,943,943
Personnel costs and contracted services (Notes 22 and 23)	6,534,721,172	7,041,624,344
Depreciation and amortization (Notes 12, 14 and 28)	5,077,141,888	5,090,385,827
Transportation and travel	1,305,095,066	1,112,311,239
Supplies	617,597,689	686,047,212
Repairs and maintenance	392,899,209	556,130,032
Advertising	388,201,594	573,343,313
Bank and credit charges	497,065,637	533,729,859
Royalty expense (Note 29)	78,081,272	143,077,499
Others	1,092,264,332	1,027,997,923
	P20,755,715,706	P23,306,591,191

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:

	Nine months Ended September 30 (Unaudited)	
	2020	2019 As Restated (Note 3)
Property and equipment (Note 12)	P2,194,324,277	P2,207,082,004
Trademarks, franchise and license fees (Note 14)	94,731,749	39,649,857
Amortization of ROU assets (Note 28)	2,788,085,862	2,843,653,966
	P5,077,141,888	P5,090,385,827

22. Personnel Costs and Contracted Services

This account consists of:

	Nine months Ended September 30 (Unaudited)	
	2020	2019
Salaries, allowances and benefits (Note 21)	P3,949,288,450	P4,135,743,186
Contracted services (Note 21)	2,585,432,722	2,905,881,158
	P6,534,721,172	P7,041,624,344

Details of salaries, allowances and benefits:

	Nine months Ended September 30 (Unaudited)	
	2020	2019
Salaries, wages and allowances	P3,829,279,771	P4,029,030,622
Retirement expense (Note 23)	120,008,679	106,712,564
	P3,949,288,450	P4,135,743,186

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.

The Plan was amended effective April 1, 2019. The effect of the change in retirement plan is reflected as past service cost and recognized immediately in the 2019 retirement expense. During the year, certain number of employees were involuntarily separated. The settlement gain, as a result of the event, is also reflected in the retirement expense.

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:

	Nine months Ended September 30 (Unaudited)	
	2020	2019
Current service cost	₱119,915,741	₱107,408,226
Net interest cost	(1,249,605)	(695,662)
Past service cost	1,342,543	—
Retirement expense	₱120,008,679	₱106,712,564

Net retirement obligation as of September 30, 2020 and December 31, 2019 recognized in the consolidated statements of financial position follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Present value of defined benefit obligation	₱1,486,137,104	₱1,410,838,083
Fair value of plan assets	(1,217,041,589)	(1,063,100,793)
Net retirement obligation	₱269,095,515	₱347,737,290

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	₱347,737,290	₱234,207,686
Remeasurement (gain) loss	—	364,536,075
Retirement expense	120,008,679	192,082,476
Benefits paid from direct payments	(13,651,343)	(55,474,449)
Actual contribution	(163,129,261)	(387,614,498)
Derecognition	(21,869,850)	—
Balance at end of year	₱269,095,515	₱347,737,290

Remeasurement effects recognized in OCI:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Remeasurement gains (losses) on:		
Retirement obligation	₱—	(₱336,546,144)
Retirement plan assets	—	(23,835,551)
Derecognition of cumulative gain	—	(4,154,380)
	₱—	(₱364,536,075)

In 2019, cumulative gain amounting to ₱4.15 million were derecognized from RGFBI. Cumulative gains are not to be reclassified in profit or loss in the consolidated financial statements of comprehensive income.

Movements of cumulative remeasurement effect recognized in OCI:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	(P229,078,722)	P37,280,758
Actuarial gain (loss)	–	(336,546,144)
Derecognition of cumulative gain	–	(4,154,380)
Return on assets excluding amount included in net interest cost	–	(23,835,551)
Total remeasurement	(229,078,722)	(327,255,317)
Income tax effect	–	98,176,595
	(P229,078,722)	(P229,078,722)

Movements in the fair value of plan assets follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	P1,063,100,793	P818,276,606
Actual contribution	55,987,240	387,614,498
Interest income included in net interest cost	–	94,778,879
Benefits paid	107,142,021	(213,733,639)
Remeasurement loss	–	(23,835,551)
Derecognition	(9,188,465)	–
Balance at end of year	P1,217,041,589	P1,063,100,793

Changes in the present value of defined benefit obligation follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	P1,410,838,083	P1,052,484,292
Current service cost	119,915,741	143,133,157
Interest cost	(1,249,605)	75,576,860
Past service cost	1,342,543	56,379,082
Remeasurement (gain) loss arising from:		
Changes in financial assumptions	–	310,057,697
Experience adjustments	–	10,986,395
Changes in demographic assumptions	–	15,502,052
Benefits paid	(13,651,343)	(265,053,708)
Effect of curtailment	–	(181,030,230)
Settlement	–	192,802,486
Derecognition	(31,058,316)	–
Balance at end of year	P1,486,137,104	P1,410,838,083

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, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash and cash equivalents		
Savings deposit	₱1,533,873	₱1,533,873
Investments in government securities		
Fixed rate treasury notes	16,823,198	16,823,198
Investments in UITF	1,177,480,836	1,023,540,040
Other receivables	21,425,167	21,425,167
Accrued trust fee payable	(221,485)	(221,485)
	₱1,217,041,589	₱1,063,100,793

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

	December 31, 2019 (Audited)
Discount rates	4.80% - 7.40%
Salary increase rates	2.50% - 9.00%

The carrying amounts disclosed above reasonably approximate fair values at each reporting period. The actual return (loss) on plan assets amounted to ₱70.94 million, (₱30.60 million) and (₱15.64 million) in 2019, 2018 and 2017, respectively.

The Group expects to contribute ₱240.88 million to the defined benefit plan in 2020.

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balances at the beginning of year	₱201,372,594	₱445,262,395
Remeasurement gains (losses) during the year	—	(243,889,801)
Balances at end of year	₱201,372,594	₱201,372,594

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
2019	Salary increase	+1.00%	₱173,337,407
		-1.00%	(147,799,483)
	Discount rates	+1.00%	(141,379,808)
		-1.00%	168,739,864

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:

	December 31, 2019 (Audited)
Less than 1 year	P73,004,268
More than 1 year but less than 5 years	274,556,901
More than 5 years but less than 10 years	607,497,556
More than 10 years but less than 15 years	985,217,891
More than 15 years but less than 20 years	1,466,962,240
More than 20 years	6,421,733,661

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, 2020 (Unaudited)	December 31, 2019 (Audited)	December 31, 2018 (Audited)	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Other affiliates under common control					
a. Trade and other receivables					
Sales	P2,004,610,018	P4,158,993,927	P3,214,288,927	P605,625,237	P574,940,992
Royalty income	817,935,951	1,681,857,691	1,443,589,170	—	—
b. Trade and other payable					
Purchases - net	(2,316,304,273)	(2,925,027,729)	(2,896,390,334)	—	—
Rent and utilities	(2,304,981,566)	(4,694,100,343)	(4,462,345,647)	(611,381,994)	(626,847,493)

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

- As of September 30, 2020 and December 31, 2019, the Group has outstanding balances from its other affiliates arising primarily from sales of merchandise inventories and royalty income for grant of use and right to operate stores of the Group.
- As of September 30, 2020 and December 31, 2019, the Group has outstanding payable to its other affiliates 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 normally have terms of 5 to 20 years with escalation clauses ranging from 5% to 10% every year.

- 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 2019 follows:

	December 31, 2019 (Audited)
Short-term employee benefits	₱174,301,314
Post-employment benefits	44,379,656
	<u>₱218,680,970</u>

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, 2020 and year ended December 31, 2019. 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.

Approval Requirements and Limits on the Amount and Extent of Related Party Transactions

Material related party transactions (MRPT) refers to any related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited financial statements.

All individual MRPT's shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the Independent Directors voting to approve the MRPT. In case that a majority of the Independent Directors' vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

Aggregate RPT transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.

25. Income Tax

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

	2020	2019 As Restated (Note 3)
Current	P1,253,535,185	P1,503,428,078
Deferred	(630,010,293)	(401,456,989)
	P623,524,892	P1,101,971,089

The components of the net deferred tax assets of the Group as of September 30, 2020 and December 31, 2019 pertain to the deferred tax effects of the following:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Tax effects of:		
<i>Items recognized in profit or loss:</i>		
Lease liabilities	840,219,214	P532,370,210
MCIT	440,424,935	180,183,648
Unamortized past service cost	103,844,534	106,529,705
NOLCO	93,450,942	57,471,277
Allowance for expected credit losses	39,723,559	40,162,454
Deferred revenue	1,455,555	14,527,365
Allowance for inventory write-obsolescence	19,090,991	8,977,236
Accrued expenses	1,446,846	1,446,846
Unrealized foreign exchange - net	(302,905)	(2,687,617)
Retirement expense	(18,623,293)	(27,664,859)
		911,316,265
<i>Item recognized directly in other comprehensive income:</i>		
Remeasurement loss on retirement obligation	99,351,946	98,176,595
	1,620,082,324	P1,009,492,860

In 2020, the Group derecognized deferred tax assets amounting to P13.41 million related to the retirement obligation and allowance for expected credit losses of CC.

In 2019, the Group derecognized deferred tax assets amounting to P1.25 million related to the retirement obligation of RGBFI.

The components of the net deferred tax liabilities of the Group as of September 30, 2020 and December 31, 2019 represent deferred tax effects of the following:

	September 30, 2020 (Unaudited)	December 31, 2019 (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	30,795,671	37,979,643
	1,952,091,093	1,959,275,065
<i>Item recognized directly in other comprehensive income:</i>		
Fair value adjustments on investment in an associate	104,649,840	106,579,459
	P2,056,740,933	P2,065,854,524

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, 2020 (Unaudited)	December 31, 2019 (Audited)
Tax effects of:		
Allowance for impairment losses	P22,739,980	P22,739,980
Retirement obligation	–	33,809,451
NOLCO	13,936,252	13,936,252
MCIT	697,208	697,208
	P37,373,440	P71,182,891

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

Inception Year	Beginning Balance	Applied/Expired	Addition	Reversals	Ending Balance	Expiry Year
2020	P–	P–	P125,648,073	P–	P125,648,073	2023
2019	213,280,729	–	–	–	213,280,729	2022
2018	3,960,517	–	–	–	3,960,517	2021
2017	20,783,849	5,715,854	–	–	15,067,995	2020
Total	P238,025,095	P5,715,854	P125,648,073	P–	P357,957,314	

In 2019, RLSI recognized deferred tax assets pertaining to NOLCO amounting to P0.42 million which was unrecognized in prior year.

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

Inception Year	Beginning Balance	Applied/ Expired	Additions	Ending Balance	Expiry Year
2020	P–	P–	P260,241,287	P260,241,287	2023
2019	67,040,246	–	–	67,040,246	2022
2018	96,929,041	–	–	96,929,041	2021
2017	16,911,569	–	–	16,911,569	2020
Total	P180,880,856	P–	260,241,287	P441,122,143	

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

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Add (deduct) tax effects of:			
Nondeductible interest expense	–	–	1.74
Nondeductible expense	4.92	0.17	–
Change in unrecognized deferred tax assets	(0.14)	(0.15)	(0.77)
Effect of PFRS 9 and 15 adoption	–	(0.24)	–
Dividend income	(0.49)	(0.44)	(0.46)
Effect of OSD	(0.69)	(0.50)	(3.67)
Nontaxable income subject to final tax	(0.70)	(0.82)	–
Nontaxable income not subject to final tax	(0.07)	–	–
Franchise income	(0.22)	–	–
Derecognized DTA for NOLCO	(1.70)	(0.82)	–
Expired MCIT and NOLCO	(0.40)		
Interest income subject to final tax	(4.99)	(3.88)	(3.59)
Effective income tax rate	25.52%	23.32%	23.25%

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 December 31, 2018.

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 2020, 2019 and 2018 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:

	Nine months Ended September 30 (Unaudited)	
		2019 As Restated (Note 3)
	2020	
Net income attributable to equity holders of the Parent Company	₱2,391,770,561	₱2,776,283,173
Weighted average number of common shares	1,572,562,188	1,576,489,360
Basic and Diluted EPS	₱1.52	₱1.76

The Parent Company has no dilutive potential common shares in 2020 and 2019.

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 and FVOCI.

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 and FVOCI using a sensitivity approach.

	Change in Income Before Income Tax	
	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Reasonably Possible Changes in Interest Rates		
+100 basis points (bps)	₱5,404,920	₱7,091,164
-100 bps	(5,404,920)	(7,091,164)

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, and financial assets at FVOCI 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, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
USD	+0.65%	+0.99%	₱31,225,282	₱47,902,028
	-0.65%	-0.99%	(31,225,284)	(47,902,028)

The Group used foreign exchange rate of ₱49.83:USD1 and ₱50.64:USD1 as of September 30, 2020, and December 31, 2019, respectively, in converting its dollar-denominated financial assets to peso.

The sensitivity analyses shown above are based on the assumption that the movements in US dollars will more likely be limited to the upward or downward fluctuation of 0.41% and 0.99% in 2020 and 2019 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 2020 and 2019 are as follows:

	September 30, 2020 (Unaudited)		December 31, 2019 (Audited)	
	USD	PHP	USD	PHP
Cash and cash equivalents	\$5,632,861	₱280,685,464	\$4,136,036	₱209,428,183
Receivables	1,048,038	52,223,734	1,043,879	52,856,813
FVOCI with recycling	89,556,529	4,462,601,840	90,618,545	4,588,470,026
Total	\$96,237,428	₱4,795,511,038	\$95,798,460	₱4,850,755,022

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, 2020 and December 31, 2019. 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 2020 and 2019.

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, 2020 and December 31, 2019.

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
2020	+21.21%	₱59,347,677
	-21.21%	(59,347,677)
2019	+14.70%	₱28,693,491
	-14.70%	(28,693,491)

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 21.21% and 14.70% in 2020 and 2019, 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 on the next page shows the maturity profile of the financial instruments of the Group as of September 30, 2020 and December 31, 2019 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, 2020 (Unaudited)

	On Demand	One (1) year	More than One (1) year	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents	P15,604,470,479	P–	P–	P15,604,470,479
Trade receivables	120,199,280	2,429,632,240	–	2,549,831,520
Nontrade receivables	–	950,016,755	–	950,016,755
Due from franchisees	–	39,106,088	–	39,106,088
Other noncurrent assets:				
Security and other deposits	–	–	2,158,937,286	2,158,937,286
Construction bonds	–	–	47,285,822	47,285,822
FVOCI	–	–	13,904,922,295	13,904,922,295
	P15,724,669,759	P3,418,755,083	P16,111,145,403	P35,254,570,245
Financial Liabilities				
Other financial liabilities				
Trade and other payables*	P–	P18,135,417,964	P–	P18,135,417,964
Short-term loans payable	–	2,772,265,995	25,650,062,335	28,422,328,330
Lease liabilities	–	3,079,000,000	–	3,079,000,000
Other current liabilities	–	451,994,429	–	451,994,429
	P–	P24,438,678,388	P25,650,062,335.00	P50,088,740,723

*Excluding statutory liabilities amounting P1,228,801,384.

December 31, 2019 (Audited)

	On Demand	One (1) year	More than One (1) year	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents	P20,292,913,953	P–	P–	P20,292,913,953
Trade receivables	79,335,269	2,381,289,112	–	2,460,624,381
Nontrade receivables	–	874,803,571	–	874,803,571
Due from franchisees	–	609,368,201	–	609,368,201
Other noncurrent assets:				
Security and other deposits	–	–	2,479,555,628	2,479,555,628
Construction bonds	–	–	35,535,709	35,535,709
FVOCI	–	–	14,756,805,821	14,756,805,821
FVTPL	–	100,547,120	–	100,547,120
	P20,372,249,222	P3,966,008,004	P17,271,897,158	P41,610,154,384
Financial Liabilities				
Other financial liabilities				
Trade and other payables*	P–	P24,326,887,881	P–	P24,326,887,881
Short-term loans payable	–	4,634,000,000	–	4,634,000,000
Lease liabilities	–	2,163,735,524	25,889,035,549	28,052,771,073
Other current liabilities	–	267,245,302	–	267,245,302
	P–	P31,391,868,707	P25,889,035,549	P57,280,904,256

*Excluding statutory liabilities amounting P775,105,311.

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 ₱202.15 million and ₱1.47 billion in 2020 and 2019, 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 ₱34.61 billion and ₱39.96 billion as of September 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019.

2020

	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)	₱15,082,680,536	₱—	₱—	₱15,082,680,536
Trade receivables	2,429,632,240	—	120,199,280	2,549,831,520
Nontrade receivables	950,016,755	—	—	950,016,755
Due from franchisees	39,106,088	—	—	39,106,088
Other noncurrent assets:				
Security and other deposits	2,158,937,286	—	—	2,158,937,286
Construction bond	47,285,822	—	—	47,285,822
FVOCI	13,904,922,295	—	—	13,904,922,295
	₱34,612,581,022	₱—	₱120,199,280	₱34,732,780,302

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)	P18,825,510,649	P—	P—	P18,825,510,649
Trade receivables	2,381,289,112	—	79,335,269	2,460,624,381
Nontrade receivables	874,803,571	—	—	874,803,571
Due from franchisees	609,368,201	—	—	609,368,201
Other noncurrent assets:				
Security and other deposits	2,479,555,628	—	—	2,479,555,628
Construction bond	35,535,709	—	—	35,535,709
FVOCI	14,756,805,821	—	—	14,756,805,821
	P39,962,868,691	P—	P79,335,269	P40,042,203,960

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.

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 (Note 8).

A summary of Group exposure to credit risk under general and general approach as of September 30, 2020 and December 31, 2019 follows:

2020

	General Approach			Simplified Approach
	Stage 1	Stage 2	Stage 3	
Amortized cost				
Cash and cash equivalents	₱15,082,680,536	₱-	₱-	₱-
Trade receivables	—	—	—	2,549,831,520
Due from franchisees	—	—	—	39,106,088
Nontrade receivables	950,016,755	—	—	—
Security and other deposits	2,206,223,108	—	—	—
FVOCI	13,904,922,295	—	—	—
Total gross carrying amounts	32,143,842,694	—	—	2,588,937,608
Less allowance	6,957,722	—	—	120,199,280
	₱32,136,884,972	₱-	₱-	₱2,468,738,328

2019

	General Approach			Simplified Approach
	Stage 1	Stage 2	Stage 3	
Amortized cost				
Cash and cash equivalents	₱18,825,510,649	₱-	₱-	₱-
Trade receivables	—	—	—	2,460,624,381
Due from franchisees	—	—	—	609,368,201
Nontrade receivables	874,803,571	—	—	—
Security and other deposits	2,515,091,337	—	—	—
FVOCI	14,756,805,821	—	—	—
Total gross carrying amounts	36,972,211,378	—	—	3,069,992,582
Less allowance	6,957,722	—	—	79,335,269
	₱36,965,253,656	₱-	₱-	₱2,990,657,313

In 2020 and 2019, 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 ₱13.90 billion and ₱14.86 billion as at September 30, 2020 and December 31, 2019, 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.

- Due to the long-term nature of lease contracts, lease payments are discounted using an incremental borrowing rate to approximate the fair value of lease liabilities.

In 2020 and 2019, 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 lease contracts for various land and building wherein the offices, stores and warehouses are located and built. Lease terms are generally between one (1) year up to thirty (30) years. Most lease are renewable at certain agreed terms and conditions. The monthly fees are based on fixed rate subject to 2%-5% escalation rate or percentage of sales, whichever is higher.

Set out below are the carrying amounts of right-of-use assets recognized and the movements as at September 30, 2020 and December 31, 2019 follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning balance, as restated (Note 3)	P26,317,960,761	P28,188,970,775
Additions	2,171,434,387	1,933,057,843
Reductions	(39,954,613)	—
Amortization of ROU assets (Note 21)	(2,788,085,862)	(3,804,067,857)
	P25,661,354,674	P26,317,960,761

Set out below are the carrying amounts of lease liabilities and the movements as at September 30, 2020 and December 31, 2019 follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning balance, as restated (Notes 3 and 30)	P28,052,771,073	P28,284,869,213
New leases during the year (Note 30)	2,171,434,387	1,932,222,117
Reductions (Note 30)	(42,260,297)	—
Accretion of interest expense	1,585,781,406	2,277,816,116
Payments	(3,345,398,242)	(4,442,136,373)
	28,422,328,330	28,052,771,073
Less current portion of lease liabilities	2,772,265,995	2,163,735,524
Noncurrent portion of lease liabilities	P25,650,062,335	P25,889,035,549

The following are the amounts recognized in profit or loss for the nine months ended September 30, 2020 and 2019 follow:

	2020	2019 As Restated (Note 3)
Amortization of ROU assets (Note 21)	₱2,788,085,862	₱1,885,402,111
Interest expense on lease liabilities	1,585,781,406	1,139,334,347
Expenses relating to short-term leases and variable lease payments (Note 21)	879,640,547	1,700,624,407
	₱5,253,507,815	₱4,725,360,865

Shown below is the maturity analysis of the undiscounted lease payments as of 2020 and 2019 follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Within one (1) year	₱3,808,025,113	₱4,569,408,586
After one (1) year but not more than five (5) years	16,610,484,402	17,979,615,424
More than five (5) years	15,490,769,988	20,577,246,970
	₱35,909,279,503	₱43,126,270,980

The Company's additions to ROU assets and lease liabilities as of January 1, 2019 are considered non-cash activities.

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 ₱43.00 million and ₱64.43 million in 2020 and 2019, respectively (Note 21). Royalty payable to Ministop included under "Other current liabilities" as of September 30, 2020 and December 31, 2019 amounted to ₱10.43 million and ₱7.43 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 ₱940.04 million and ₱1.00 billion for the nine months ended September 30, 2020 and 2019, respectively.

As of September 30, 2020 and December 31, 2019, amounts due from franchisees amounted to ₱421.81 million and ₱609.37 million, respectively.

- 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. (DACL) in Japan. In accordance with the license

agreement, the Group agrees to pay, among others, royalties to DICL based on a certain percentage of monthly net sales.

Royalty expenses amounted to ₱5.56 million and ₱8.13 million for the nine months ended September 30, 2020 and 2019, respectively.

- d.) 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 ₱28.95 million, and ₱55.02 million for the nine months ended September 30, 2020 and 2019, respectively.
- e.) On April 25, 2019, Emart Inc., granted the Group, an exclusive and non-transferrable right to carry on the “NO BRAND” business in the Philippines. The Group pays royalty fee amounting to ₱319,812 for the nine months ended September 30, 2020 representing 0.5% of the net revenue arising from sale of “NO BRAND” products and EMART sourced products in the Philippines.
- f.) The Group has other licenses and franchises to carry various global brands.

30. Changes in Liabilities Arising from Financing Activities

2020

	January 1, 2019	Net Cash Flows	Dividend Declaration	Others	September 30, 2020
Lease liabilities	₱28,052,771,073	(₱3,345,398,242)	₱—	₱3,714,955,497	₱28,422,328,328
Loans payable	4,634,000,000	(1,555,000,000)	—	—	3,079,000,000
Dividends payable	39,173,881	(1,759,105,485)	1,719,931,604	—	—
Total liabilities from financing activities	₱32,725,944,954	(₱6,659,503,727)	₱1,719,931,604	₱3,714,955,497	₱31,501,328,328

2019

	January 1, 2019	Net Cash Flows	Dividend Declaration	Others	December 31, 2019
Lease liabilities	₱28,284,869,213	(₱4,442,136,373)	₱—	₱4,210,038,233	₱28,052,771,073
Loans payable	6,794,000,000	(2,160,000,000)	—	—	4,634,000,000
Dividends payable	11,666,662	(1,456,975,501)	1,484,482,720	—	39,173,881
Total liabilities from financing activities	₱35,090,535,875	(₱8,059,111,874)	₱1,484,482,720	₱4,210,038,233	₱32,725,944,954

For the nine months ended September 30, 2020, others pertain to new leases net of reduction of the Group and accretion of interest expense on lease liabilities amounting to ₱2.13 billion and ₱1.59 billion, respectively. For the twelve months ended December 31, 2019, others pertain to the new leases of the Group and accretion of interest expense on lease liabilities amounting to ₱1.93 billion and ₱2.28 billion, respectively.

Interest paid for the nine months ended September 30, 2020 and 2019 amounted to ₱97.85 million and ₱266.09 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.

32. Covid 19 Impact, Risks and Mitigation

On March 16, 2020, the President of the Philippines issued Proclamation No. 929 declaring a state of calamity throughout the Philippines due to COVID 19 which resulted to the imposition of an Enhanced Community Quarantine throughout Luzon starting midnight of March 16, 2020.

The Group has recognized the health and business risks posed by the virus to the general public and the need to join the collective effort in mitigating the spread of COVID-19. Its supermarkets, convenience stores and drugstores formats, which are considered essential to the nationwide effort, remain open to serve the public. In the face of this global crisis, the Group remains collected and vigilant as it operates and maintains mitigation efforts to help safeguard the health and safety of its employees and customers.

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

SUPPLEMENTARY SCHEDULES

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 - B. Amounts Receivable from Directors, Officers, Employees,
Related Parties and Principal Stockholders (Other than Related Parties)
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Consolidation of Financial Statements
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 - F. Guarantees of Securities of Other Issuers
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- III. Schedule of Financial Soundness Indicators
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ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE A: FINANCIAL ASSETS (OTHER SHORT-TERM CASH INVESTMENTS)****SEPTEMBER 30, 2020**

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	₱12,722,685,532	₱12,671,497,296	₱12,671,497,296	₱369,483,258
Notes	—	—	—	—
Investment in preferred shares	2,295,000	1,233,425,000	1,233,425,000	40,788,659
	₱12,724,980,532	₱13,904,922,296	₱13,904,922,296	₱410,271,917

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, 2020**

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, 2020**

Entity with Receivable Balance	Balance at Beginning of Period	Net Movement	Write-offs	Current	Noncurrent	Balance at end of period
Robinsons Retail Holdings, Inc.	₱505,084,308	₱4,774,471,470	₱—	₱5,279,555,778	₱—	₱5,279,555,778
Robinsons Toys, Inc.	213,034,576	(9,907,224)	—	203,127,352	—	203,127,352
Robinsons Convenience Stores, Inc.	39,106,088	—	—	39,106,088	—	39,106,088
Robinson's Supermarket Corporation	21,282,927	(137,471,620)	—	(116,188,693)	—	(116,188,693)
Robinson's Incorporated	220,459,327	2,264,201,000	—	2,484,660,327	—	2,484,660,327
Robinsons Handyman, Inc.	—	32,720,092	—	32,720,092	—	32,720,092
RHD Daiso - Saizen, Inc.	339,690,555	147,275,814	—	486,966,369	—	486,966,369
	₱1,338,657,781	₱7,071,289,532	₱—	₱8,409,947,313	₱—	₱8,409,947,313

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE D: LONG TERM DEBT

SEPTEMBER 30, 2020

Title of issue and type of obligation	Amount authorized by indenture	Interest rates	Current portion	Noncurrent portion
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NOT APPLICABLE

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE E: INDEBTEDNESS TO RELATED PARTIES****SEPTEMBER 30, 2020**

Name of related party	Balance at beginning of period	Balance at end of period
Robinsons Land Corporation	₱308,146,985	₱428,128,651
Universal Robina Corporation	318,533,093	183,253,343
JG Summit Holdings, Inc.	167,415	—
	₱626,847,493	₱611,381,994

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE F: GUARANTEES OF SECURITIES OF OTHER ISSUERS**SEPTEMBER 30, 2020**

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 G: CAPITAL STOCK****SEPTEMBER 30, 2020**

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	1,565,429,870	—	491,299,997	229,375,208	844,754,665

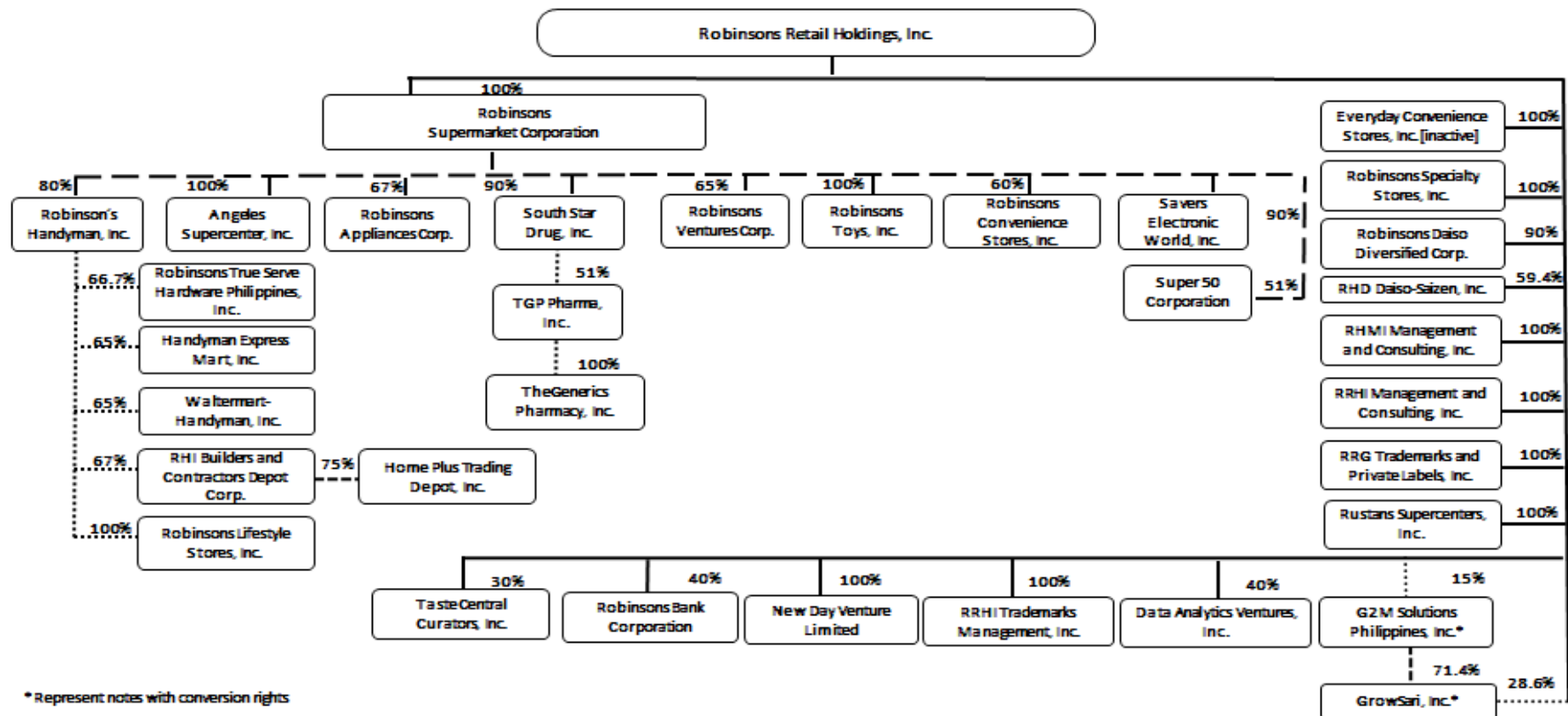
See Note 18 of the Consolidated Financial Statements

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP SEPTEMBER 30, 2020

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, 2020:



ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
AS OF SEPTEMBER 30, 2020 and DECEMBER 31, 2019

Financial Soundness Indicator	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
i. Liquidity ratio:		
Current ratio	1.59	1.42
ii. Profitability ratio:		
Gross profit margin	0.22	0.23
Return on assets	0.02	0.04
Return on equity	0.03	0.06
iii. Stability ratio:		
Solvency ratio	0.14	0.19
Debt to equity ratio	0.71	0.80
Asset to equity ratio	1.71	1.80
Interest rate coverage ratio	2.53	3.02

**See attached reporting computation.*

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Current assets	42,108,512,280	P46,919,908,520
Current liabilities	26,422,832,503	32,964,943,189
Current ratio	1.59	1.42
Gross profit	23,598,375,925	P37,181,153,639
Net sales	109,576,423,344	162,915,687,301
Gross profit margin	0.22	0.23
After tax net profit	2,599,233,604	P4,550,287,809
Depreciation and amortization	5,077,141,888	6,879,793,222
	7,676,375,492	11,430,081,031
Total liabilities	54,472,794,347	61,339,673,703
Solvency ratio	0.14	0.19
Total liabilities	54,472,794,347	P61,339,673,703
Total equity	76,764,277,564	76,526,396,610
Debt to equity ratio	0.71	0.80
Total assets	131,237,071,911	P137,866,070,313
Total equity	76,764,277,564	76,526,396,610
Asset to equity ratio	1.71	1.80
Earnings before interest and taxes	4,266,864,895	P7,798,155,994
Interest expense	1,683,635,812	2,578,499,847
Interest rate coverage ratio	2.53	3.02
Net income	2,599,233,604	P4,550,287,809
Average total assets	134,551,571,112	122,821,588,754
Return on assets	0.02	0.04
Net income	2,599,233,604	P4,550,287,809
Average total equity	76,645,337,087	74,615,282,305
Return on equity	0.03	0.06

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

In 2019, the Group adopted Philippine Financial Reporting Standards (PFRS) 16-Leases in accounting for its operating leases where the Group is the lessee. The Group recognized an asset representing right of use of the leased property (ROU) and a liability for lease payments (Lease Liability). Effects of the new standards for September 30, 2020 results are as follows:

	Period Ended September 30			
	2020		2019	% Change
	Under PFRS 16 (A)	Under Previous Standard (B)	Under PFRS 16, As Restated (C)	2020 (A) vs. 2019 (C)
Financial Summary (Amount in million Pesos except EPS)				
<u>Consolidated Statement of Comprehensive Income Data</u>				
Sales- net of sales discounts and returns	109,576.4	109,576.4	116,158.7	-5.7%
Cost of merchandise sold	85,978.0	85,978.0	89,468.6	-3.9%
Operating expenses	20,755.7	21,313.0	23,306.6	-10.9%
Interest expense	1,683.6	97.9	1,972.9	-14.7%
Income before income tax	3,222.8	4,251.2	4,335.7	-25.7%
Provision for income tax	623.5	932.1	1,102.0	-43.4%
Net income	2,599.2	3,319.2	3,233.7	-19.6%
Net income attributable to Parent Company	2,391.8	3,060.3	2,776.3	-13.8%
EPS	1.52	1.94	1.76	-13.6%
<u>Consolidated Statement of Cash Flow Data</u>				
Net cash provided by (used in) operating activities	3,067.0	(278.4)	2,560.1	19.8%
Net cash provided by (used in) investing activities	(331.3)	(331.3)	2,256.1	-114.7%
Net cash used in financing activities	(7,438.1)	(4,092.7)	(9,017.5)	-17.5%
<u>Consolidated Statement of Financial Position Data</u>				
Total assets	131,237.1	104,774.0	128,931.8	1.8%
Total liabilities	54,472.8	26,185.3	53,312.1	2.2%
Total stockholder's equity	76,764.3	78,588.7	75,619.7	1.5%

Robinsons Retail Holdings, Inc. recorded net income at ₱2,599 million for the nine months ended September 30, 2020, a decrease of 19.6% as compared to ₱3,234 million for the nine months ended September 30, 2019. Without the impact of PFRS 16, net income would have been ₱3,319 million, this year vs. ₱4,117 last year. Net income attributable to parent amounted to ₱2,392 million for the nine months ended September 30, 2020, a decline of 13.8% vs. same period last year as business performance was affected by store closures due to the various lockdowns imposed by the government.

Consolidated net sales decreased by 5.7% from ₱116,159 million for the nine months ended September 30, 2019 to ₱109,576 million for the nine months ended September 30, 2020. Sales were impacted by the temporary closure of the stores considered nonessential during the Enhanced Community Quarantine (ECQ) imposed by government starting March 17, 2020. Majority of the Company's stores across all formats resumed operations only in May 16, 2020 following relaxed quarantine restrictions save for a reimposition of MECQ in Metro Manila and nearby provinces in the 1st 2 weeks of August. However, operating hours have been shortened and foot traffic is down. Limited transportation and consumer mobility also affected foot traffic in malls.

Blended same store sales growth (SSSG) was negative 6.4% in the nine months of 2020 and negative 11.7% in the 3rd quarter. From a double-digit growth in the 2nd Quarter, the SSSG of the supermarket segment eased to 2.1% in the 3rd Quarter. This was attributed to weaker consumer spending given the overall decline in disposable income and rise in hyperlocals and social commerce. Meanwhile, the drugstore segment posted negative SSSG in the 3rd Quarter due to the high base effect coming from 9.8% during the same quarter of last year. It was also affected by the drop in sales of prescription flu and anti-bacterial medicines. The rest of the formats registered negative SSSG in the 3rd Quarter but with a notable lift from SSSG in the 2nd Quarter of 2020.

Gross profit for the nine months ended September 30, 2020 amounted to ₱23,598 million, 11.6% lower than ₱26,690 million for the same period last year. Gross profit margins compressed by 150bps to 21.5%

in the nine months of 2020 and 30bps to 22.9% in the 3rd quarter, due to sales decline in higher margin discretionary formats. This is significantly better than the 330bps decline in 2Q20. EBITDA margin dropped by 50bps to 8.5% as of September 2020 and 30bps to 9.4% in the 3rd Quarter, already an improvement from the 100bps drop in the 2nd Quarter this year. The year-on-year drop in EBITDA margin was due to lower store productivity from reduced operating hours and low foot traffic, despite efficiencies from the integration of Rustan in the Supermarket business.

Net income attributable to equity holders of the parent company declined by 29.5% to ₱750 million in the 3rd Quarter and by 13.9% to ₱2,392 million as of September 2020. The 3rd Quarter overall results show an upward trend compared to the previous quarter, signifying that the retail climate bottomed out in the 2nd Quarter, which had stricter lockdown restrictions.

COVID 19 Impact, Risks and Mitigation

On March 16, 2020, the President of the Philippines issued Proclamation No. 929 declaring a state of calamity throughout the Philippines due to COVID 19 which resulted to the imposition of an Enhanced Community Quarantine throughout Luzon starting midnight of March 16, 2020 until May 16, 2020 when quarantine restrictions were relaxed save for a reimposition of MECQ in Metro Manila and nearby provinces in the 1st 2 weeks of August.

The Group has recognized the health and business risks posed by the virus to the general public and the need to join the collective effort in mitigating the spread of COVID-19. In the face of this global crisis, the Group remains collected and vigilant as it operates and maintains mitigation efforts to help safeguard the health and safety of its employees and customers.

Segment Operations

- (i) **Supermarket.** The Supermarket segment continued to account for the largest share in the group's sales, EBIT and EBITDA for the first nine months of 2020. Net sales was at ₱70,495 million for the nine months ended September 30, 2020 expanding by 10.6% from ₱63,720 million for the same period last year. SSSG is at 2.1% in the 3rd quarter, bringing SSSG for the nine months ended to 11.5%. Online sales from our 3 platforms (GoRobinsons, Metromart, Grabmart) accounted for 0.9% of sales as of September 2020 from 0.6% in the same period last year. Coming from 14.2% SSSG in the 2nd Quarter, SSSG eased to 2.1% in the 3rd Quarter as sales were affected by the following: a) increased consumer mobility as most parts of the country are now under GCQ; b) rise in hyperlocals and social commerce (communities trading within and among themselves); c) increased online sales with the proliferation of more online platforms and merchants; d) weak consumer spending exacerbated by rising unemployment, lower OFW remittances, additional household expenses attributable to blended e-learning, low tourism receipts, lower FDIs, etc; and e) the closure of POGOs.

Gross margins expanded from 21.5% to 21.8% in the 3rd Quarter, reversing the flattish/declining trend seen in previous quarters. This was driven by the recovery of our vendor promo fees, lift in enlistments fees for more new product launches, increase in DC fees due to higher volumes brought about by the building up of stocks. Gross margin as of September was lower at 20.4% from 21.0% of the same period last year. EBITDA margin improved to 8.8% and 8.3% in the 3rd quarter and as of September, respectively, driven by the cost-efficiencies from the Rustan integration and robust year-to-date SSSG.

- (ii) **Department Stores.** Robinsons Department Store recorded net sales of ₱1,433 million in the 3rd Quarter, bringing year-to-date September net sales to ₱5,097 million. Online sales from Lazada and We Shop for You (our call and collect/deliver service) totaled 1.0% of sales as of

September 2020 from only 0.04% last year. Although SSSG for the 3rd quarter was still weak at -59.0%, this was an improvement from the -79.6% recorded in the 2nd Quarter, as all 49 stores are opened for 3 months versus 1.5 months last quarter. The reinstatement of MECQ in the first two weeks of August affected 3rd Quarter recovery. SSSG as of September 2020 was at -55.4%.

Gross margin jumped to 34.1% in the 3rd Quarter and to 31.1% as of September 2020. The improvement was attributable to higher DC fees since 4th Quarter of 2019 and improved category mix resulting from better buying. Despite the significant gains in gross margins, EBITDA margins contracted by 3.9 percentage points to 1.5% in the 3rd Quarter and 4.8 percentage points to 2.0% in the first 9 months of 2020 mainly due to weakness in SSSG.

- (iii) **Convenience stores.** Ministop generated system-wide sales of ₱1.3 billion in the 3rd Quarter and ₱4.9 billion as of September 2020, down by 47.0% and 31.3%, respectively, caused by the lockdown imposed by the government to contain the spread of the pandemic. SSSG fell by 44.3% in the 3rd Quarter, and 29.6% as of September due to lower operating hours because of curfews and no dine in resulting to the drop in share of high margin ready-to-eat food sales which used to account for a third of total sales. During the 3rd Quarter, Ministop introduced more financial services such as e-cash top-up by Gcash, Paymaya and bills payments to provide greater convenience to our customers, in addition to our food delivery and CVS delivery tie-up with Grabfood and Grabmart. Total E-commerce sales as of September 2020 accounted for 1.1% of sales.

EBITDA margin turned negative 0.1% in the 3rd Quarter due to the steep decline in sales which was not sufficiently offset by the decline in operating costs.

- (iv) **Drug Stores.** The drugstore segment registered net sales of ₱4,324 million in the 3rd Quarter, bringing net sales as of September to ₱13,669 million, up by 5.2% vs. last year. The topline of Southstar Drug and TGP for the first 9 months of the year accelerated by 4.9% to ₱9,979 million and 6.2% to ₱3,690 million, respectively. Total online sales from our own platform, Metromart, call & collect/delivery service continue to grow and now account for 0.8% of sales for the 3rd Quarter (at 0.3% of sales as of September 2020). Southstar Drug's SSSG dipped to -3.0% in the 3rd Quarter, coming from a high base of 9.8% last year, bringing SSSG as of September to 3.5%. Sales were affected by the drop in outpatient visits to hospitals as more people stay home during the pandemic. This in turn led to a decline in demand for prescription medicine at the drugstores.

Blended gross margins declined to 19.8% in the 3rd Quarter. Meanwhile, gross margins as of September expanded to 19.9% driven by the improvement in supplier negotiation and shift in sales mix in favor of pharma products, particularly for generic medicines, which have higher-than-average margins. EBITDA margin declined to 10.2% in the 3rd Quarter, but increased to 10.1% in the first 9 months as we were able to keep our operating costs low while meeting the higher sales demand.

- (v) **DIY Stores.** The DIY segment generated net sales of ₱2,858 million in the 3rd Quarter, lower by 18.0% vs. last year. This was a significant improvement from the 47.3% decline recorded last quarter. Net sales for the first 9 months reached ₱7,707 million. Our online sales from 3rd party merchants (Lazada and Metromart) and call & collect/delivery rose to 1.4% of sales for the first 9 months of the year from 0.4% last year. 3Q SSSG was -18.6%. The drop in sales is due to the low foot traffic further hampered by the reinstatement of MECQ for two weeks last August. The 17.6% increase in basket size was not enough to recover from the 30.8% decline in transaction count. SSSG as of September was at -27.7%.

Meanwhile, gross margins increased by 2.0 percentage points to 35.6% in the 3rd Quarter, and up by 0.90 percentage point to 34.1%, driven by lesser sales event, better category mix and additional trade discounts negotiated from suppliers. Following two consecutive quarters of decline, EBITDA margin finally improved by 2.0 percentage points to 19.0% in the 3rd Quarter, mainly due to the gains in gross margins. EBITDA margin as of September was still down at 16.1% vs. 16.6% last year.

- (vi) ***Specialty Stores Segment.*** Net sales of the specialty segment declined by 31.3% to ₱9,198 million as of September, with 3rd Quarter sales down by 26.0% to ₱3,181 million, but this was higher than the 47.3% drop in net sales in the 2nd Quarter. The year-on-year decline is due to the low foot traffic which was further hampered by the reinstatement of MECQ for the first two weeks in August. E-commerce rose to 1.6% of sales for the first 9 months from 0.6% last year. SSSG of the specialty segment was at -22.1% in the 3rd Quarter, but with a notable lift from record low of -44.7% in the 2nd Quarter. SSSG as of September registered at -28.1%.

Gross margins for the 3rd Quarter and as of September shrank by 5.8 percentage points to 20.9% and 5.6 percentage points to 20.9%, caused by the margin compression in appliances and toys. The decline was also attributed to the consolidation of the sales in our supermarket hubs for the B2B business of Growsari. EBITDA margin went down by 3.4 percentage points to 7.1% in the 3rd Quarter and 4.2 percentage points to 6.4% in the first 9 months, mainly due to the challenged SSSG.

Financial Position

In 2019, the Company adopted PFRS 16, leases which resulted in recognition of right of use asset (ROU) of ₱26,317 million and lease liability of ₱28,053 million as of December 31, 2019.

As of September 30, 2020, after the impact of the new accounting standards, the Company's balance sheet showed consolidated assets of ₱131,237 million. Without the new standard, consolidated assets amounted to ₱104,774 million.

Cash and cash equivalents as of September 30, 2020 is at ₱15,604 million. Net cash provided by operating activities totaled ₱3,067 million. Net cash spent from investing activities amounted to ₱331 million, ₱1,303 million of which was used to acquire properties and equipment and net proceeds of ₱766 million from debt and equity instrument financial assets. Net cash spent from financing activities amounted to ₱7,438 million of which ₱1,759 million was spent for cash dividends and ₱2,400 million to pay loans. Payment of lease liabilities amounted to ₱3,345 million.

Trade and other receivables decreased by 11.6% from ₱3,865 million to ₱3,419 million as of September 30, 2020.

Debt and equity instrument financial assets declined by 6.4% for the nine months of 2020 due to redemptions during the period.

Trade and other payables decreased from ₱25,102 million to ₱19,364 million as of September 30, 2020 mainly driven by tempered purchases and spending. Current loans payable declined due to payments from ₱4,634 million to ₱3,079 million.

Stockholder's equity stood at ₱76,764 million as of September 30, 2020.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

AS OF SEPTEMBER 30, 2020

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, 2020, the application of the net proceeds is broken as follows:

Use of Proceeds	Amount in Pesos
Expansion of store network	₱402,306,635
Renovation of existing stores	72,912,874
Other corporate purposes	30,254,466
Repayment of bank loans	16,473,973
Total	₱521,947,947