



111142016001501

**SECURITIES AND EXCHANGE COMMISSION**

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**Company Information**

**SEC Registration No.** A200201756

**Company Name** ROBINSONS RETAIL HOLDINGS, INC.

**Industry Classification**

**Company Type** Stock Corporation

**Document Information**

**Document ID** 111142016001501

**Document Type** 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

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**Department** CFD

**Remarks**

## COVER SHEET

SEC Registration Number

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Company Name

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

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Form Type

1	7	-	Q
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Department requiring the report

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Secondary License Type, If Applicable

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### COMPANY INFORMATION

Company's Email Address

Company's Telephone Number/s

Mobile Number

No. of Stockholders

Annual Meeting  
Month/Day

Fiscal Year  
Month/Day

### CONTACT PERSON INFORMATION

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

Name of Contact Person

Email Address

Telephone Number/s

Mobile Number

Contact Person's Address

**Note:** 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.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2016
2. Commission identification number A200201756
3. BIR Tax Identification No 216-303-212-000
4. Exact name of issuer as specified in its charter **ROBINSONS RETAIL HOLDINGS, INC.**
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code:  (SEC Use Only)
- 
7. Address of issuer's principal office Postal Code  
110 E. Rodriguez, Jr. Avenue, Bagumbayan, 1110  
Quezon City, Philippines
8. Issuer's telephone number, including area code (02) 635-07-51
9. Former name, former address and former fiscal year, if changed since last report Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	1,385,000,000

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

Yes [ / ] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange - Common Share

12. Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

## PART I--FINANCIAL INFORMATION

### Item 1. Financial Statements

Please refer to the attached.

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

Please refer to the attached.

## PART II--OTHER INFORMATION

Attachment 1 – Use of Proceeds from Initial Public Offering as of September 30, 2016

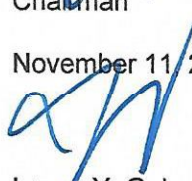
### SIGNATURES

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


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

Signature and Title:  Lance Y. Gokongwei  
Chairman

Date: November 11, 2016

Signature and Title:  Lance Y. Gokongwei  
Chief Executive Officer

Date: November 11, 2016

Signature and Title:  Graciela A. Banatao  
Treasurer

Date: November 11, 2016

Signature and Title:  Mylene A. Kasiban  
Chief Financial Officer

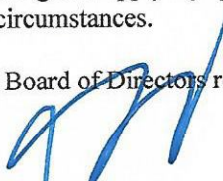
Date:  November 11, 2016

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY


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

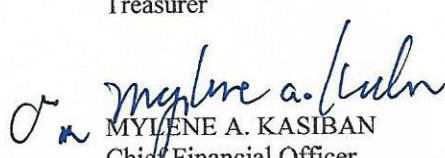
The Management of **Robinsons Retail Holdings, Inc. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the period ended September 30, 2016 and 2015, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

  
MR. LANCE Y. GOKONGWEI  
Chairman

  
MR. LANCE Y. GOKONGWEI  
Chief Executive Officer

  
GRACIELA A. BANATAO  
Treasurer

  
MYLENE A. KASIBAN  
Chief Financial Officer

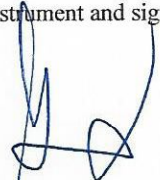
Before me, a notary public in the city named above, personally appeared:

Name	Competent Proof of Identity	Place/Date of Issue
Lance Y. Gokongwei	TIN No. 116-312-586	
Graciela A. Banatao	TIN No. 907-401-098	
Mylene A. Kasiban	TIN No. 127-019-194	

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

Witness my hand and seal this Nov 10 2016.

Doc. No. 643 ;  
Page No. 129 ;  
Book No. II ;  
Series of 20 16 .

  
ATTY. GILBERT S. MILLADO, JR.  
Roll No. 45039  
Notary Public

Until December 31, 2016

110 E. Rodriguez Jr. Ave., Bagumbayan, Quezon City  
PTR No. 2286024; Jan. 14, 2016; Quezon City  
IBP No. 1023802; Jan. 8, 2016; CALMANA  
TIN 166-215-465  
Commission-Adm. No. 174 (2015-2016)  
MCLE Compliance No. V-0014038

## **PART 1 – FINANCIAL INFORMATION**

### **Item 1 – Financial Statements**

- A. Unaudited Consolidated Statements of Financial Position as of September 30, 2016 and Audited Consolidated Statements of Financial Position as of December 31, 2015.
- B. Unaudited Consolidated Statements of Comprehensive Income for the Nine Months Ended September 30, 2016 and 2015.
- C. Unaudited Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2016 and 2015
- D. Unaudited Consolidated Statements of Cash Flow for the Nine Months Ended September 30, 2016 and 2015
- E. Notes to Unaudited Consolidated Financial Statement.

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

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 7, 18 and 28)	P6,370,941,149	P9,757,351,816
Short-term investments (Notes 8 and 28)	–	7,059,000
Trade and other receivables (Notes 9, 25 and 28)	1,543,180,272	1,773,723,242
Merchandise inventories (Notes 9 and 10)	12,684,475,032	10,575,687,802
Other current assets (Note 11)	2,095,592,577	1,688,402,315
Total Current Assets	22,694,189,030	23,802,224,175
<b>Noncurrent Assets</b>		
Available-for-sale (AFS) financial assets (Notes 12 and 28)	20,536,517,316	19,511,313,846
Property and equipment (Notes 9 and 13)	12,077,607,183	11,149,374,301
Investments in shares of stock (Note 14)	5,355,493,556	5,079,302,654
Intangible assets (Notes 15 and 20)	6,699,998,039	4,109,178,069
Deferred tax assets - net (Note 26)	212,499,416	180,129,573
Other noncurrent assets (Notes 16 and 28)	1,439,136,610	1,328,102,855
Total Noncurrent Assets	46,321,252,120	41,357,401,298
	<b>P69,015,441,150</b>	<b>P65,159,625,473</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Notes 17, 25 and 28)	P11,930,132,945	P14,795,536,013
Short-term loans and current portion of loans payable (Notes 18 and 28)	4,812,000,663	2,844,872,558
Income tax payable	581,174,542	687,844,946
Other current liabilities (Note 28)	249,901,832	197,583,490
Total Current Liabilities	17,573,209,982	18,525,837,007
<b>Noncurrent Liabilities</b>		
Deferred tax liability - net (Note 26)	1,085,866,851	655,165,987
Net pension liabilities (Notes 23 and 24)	560,481,034	473,346,631
Total Noncurrent Liabilities	1,646,347,885	1,128,512,618
Total Liabilities	19,219,557,867	19,654,349,625
<b>Equity (Note 19)</b>		
Capital stock	1,385,000,000	1,385,000,000
Additional paid-in capital	27,227,385,090	27,227,385,090
Other comprehensive income (loss) (Notes 12, 14 and 24)	841,899,123	251,829,136
Equity reserve	(1,027,402,846)	(1,027,402,846)
Retained earnings		
Appropriated	12,997,451,453	12,997,451,453
Unappropriated	5,118,262,065	2,689,501,691
Total equity attributable to equity holders of the Parent Company	46,542,594,885	43,523,764,524
Non-controlling interest in consolidated subsidiaries	3,253,288,398	1,981,511,324
Total Equity	49,795,883,283	45,505,275,848
	<b>P69,015,441,150</b>	<b>P65,159,625,473</b>

*See accompanying Notes to Consolidated Financial Statements.*

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME**

	Unaudited			
	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
<b>SALES</b> - Net of sales discounts and returns (Notes 6, 21 and 25)	<b>P25,478,578,508</b>	P21,935,245,624	<b>P73,812,302,275</b>	P63,289,235,216
<b>COST OF MERCHANDISE SOLD</b> (Notes 6 and 10)	<b>19,903,887,988</b>	17,183,667,756	<b>57,845,324,919</b>	49,522,044,248
<b>GROSS PROFIT</b> (Note 6)	<b>5,574,690,520</b>	4,751,577,868	<b>15,966,977,356</b>	13,767,190,968
<b>ROYALTY, RENT AND OTHER REVENUE</b> (Notes 6, 25 and 30)	<b>518,963,051</b>	490,160,619	<b>1,572,253,312</b>	1,357,014,159
<b>GROSS PROFIT INCLUDING OTHER REVENUE</b> (Note 6)	<b>6,093,653,571</b>	5,241,738,487	<b>17,539,230,668</b>	15,124,205,127
<b>OPERATING EXPENSES</b> (Notes 22, 23, 24, 29 and 30)	<b>(4,753,768,702)</b>	(4,104,609,329)	<b>(13,899,589,607)</b>	(12,022,542,796)
<b>OTHER INCOME (CHARGES)</b>				
Interest income (Notes 6, 7, 8 and 12)	225,487,306	196,295,380	613,996,584	597,262,121
Foreign currency exchange gain - net (Note 6)	118,041,582	129,337,103	115,409,153	160,453,229
Dividend income (Notes 6 and 12)	27,875,000	27,874,409	83,625,000	83,625,000
Equity in net earnings of an associate (Note 14)	33,645,304	24,649,926	87,292,497	50,538,760
Interest expense (Notes 6 and 18)	(28,736,926)	(4,373,991)	(54,471,476)	(7,270,181)
	<b>376,312,266</b>	373,782,827	<b>845,851,758</b>	884,608,929
<b>INCOME BEFORE INCOME TAX</b> (Note 6)	<b>1,716,197,135</b>	1,510,911,985	<b>4,485,492,819</b>	3,986,271,260
<b>PROVISION FOR INCOME TAX</b> (Note 26)				
Current	380,644,012	347,790,298	1,051,587,331	925,868,079
Deferred	(26,235,311)	277,418	(93,324,628)	(55,175,935)
	<b>354,408,701</b>	348,067,716	<b>958,262,703</b>	870,692,144
<b>NET INCOME</b>	<b>1,361,788,434</b>	1,162,844,269	<b>3,527,230,116</b>	3,115,579,116
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</b>				
Changes in fair value and share in change in fair value of available-for-sale (AFS) financial assets (Notes 12 and 14)	37,116,421	(74,866,914)	647,316,321	303,242,870
Share in change in translation adjustment of an associate (Note 14)	(892,874)	(248,717)	(3,035,025)	(352,620)
Income tax effect	2,750,540	22,534,689	(55,932,058)	(90,867,075)
<b>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</b>				
Share in an associate actuarial losses on pension liability (Note 14)	2,364,165	—	2,458,213	(4,047,749)
Income tax effect	(709,250)	—	(737,464)	1,214,325
	<b>40,629,002</b>	(52,580,942)	<b>590,069,987</b>	209,189,751
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P1,402,417,436</b>	P1,110,263,327	<b>P4,117,300,103</b>	P3,324,768,867
Net income attributable to:				
Equity holders of the Parent Company	<b>P1,278,462,934</b>	P1,108,845,824	<b>P3,301,310,374</b>	P2,972,168,086
Non-controlling interest in consolidated Subsidiaries	<b>83,325,500</b>	53,998,445	<b>225,919,742</b>	143,411,030
	<b>P1,361,788,434</b>	P1,162,844,269	<b>P3,527,230,116</b>	P3,115,579,116

(Forward)



Unaudited				
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Total comprehensive income attributable to:				
Equity holders of the Parent Company	<b>₱1,319,091,936</b>	₱1,056,264,882	<b>₱3,891,380,361</b>	₱3,181,357,837
Non-controlling interest in consolidated Subsidiaries	<b>83,325,500</b>	53,998,445	<b>225,919,742</b>	143,411,030
	<b>₱1,402,417,436</b>	₱1,110,263,327	<b>₱4,117,300,103</b>	₱3,324,768,867
	<b>0.92</b>	0.80	<b>2.38</b>	2.15

*See accompanying Notes to Consolidated Financial Statements.*

# ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Nine Months Ended September 30, 2016

	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Other Comprehensive Income (Loss) (Notes 12,14 and 24)	Equity Reserve (Note 19)	Retained Earnings		Treasury Stock (Note 19)	Total	Non-controlling Interest in Consolidated Subsidiaries	Total
					Appropriated (Note 19)	Unappropriated (Note 19)				
At January 1, 2016	₱1,385,000,000	₱27,227,385,090	₱251,829,136	(₱1,027,402,846)	₱12,997,451,453	₱2,689,501,691	₱—	₱43,523,764,524	₱1,981,511,324	₱45,505,275,848
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	1,045,857,332	1,045,857,332
Dividends	—	—	—	—	—	(872,550,000)	—	(872,550,000)	—	(872,550,000)
Net income	—	—	—	—	—	3,301,310,374	—	3,301,310,374	225,919,742	3,527,230,116
Other comprehensive income	—	—	590,069,987	—	—	—	—	590,069,987	—	590,069,987
Total comprehensive income	—	—	590,069,987	—	—	3,301,310,374	—	3,891,380,361	225,919,742	4,117,300,103
<b>Balance at September 30, 2016</b>	<b>₱1,385,000,000</b>	<b>₱27,227,385,090</b>	<b>₱841,899,123</b>	<b>(₱1,027,402,846)</b>	<b>₱12,997,451,453</b>	<b>₱5,118,262,065</b>	<b>₱—</b>	<b>₱46,542,594,885</b>	<b>₱3,253,288,398</b>	<b>₱49,795,883,283</b>

For the Nine Months Ended September 30, 2015

	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Other Comprehensive Income (Loss) (Notes 12,14 and 24)	Equity Reserve (Note 19)	Retained Earnings		Treasury Stock (Note 19)	Total	Non-controlling Interest in Consolidated Subsidiaries	Total
					Appropriated (Note 19)	Unappropriated (Note 19)				
At January 1, 2015	₱1,385,000,000	₱27,227,385,090	(₱23,641,261)	(₱991,931,906)	₱10,311,451,453	₱1,740,057,473	₱—	₱39,648,320,849	₱1,587,916,974	₱41,236,237,823
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	40,000,000	40,000,000
Additional investment in a Subsidiary	—	—	—	—	—	—	—	—	148,000,000	148,000,000
Acquisition of non controlling interest	—	—	—	(27,250,714)	—	—	—	(27,250,714)	—	(27,250,714)
Dividends paid	—	—	—	—	—	(706,350,000)	—	(706,350,000)	—	(706,350,000)
Net income	—	—	—	—	—	2,972,168,086	—	2,972,168,086	143,411,030	3,115,579,116
Other comprehensive income	—	—	209,189,751	—	—	—	—	209,189,751	—	209,189,751
Total comprehensive income	—	—	209,189,751	—	—	2,972,168,086	—	3,181,357,837	143,411,030	3,324,768,867
<b>Balance at September 30, 2015</b>	<b>₱1,385,000,000</b>	<b>₱27,227,385,090</b>	<b>₱185,548,490</b>	<b>(₱1,019,182,620)</b>	<b>₱10,311,451,453</b>	<b>₱4,005,875,559</b>	<b>₱—</b>	<b>₱42,096,077,972</b>	<b>₱1,919,328,004</b>	<b>₱44,015,405,976</b>

See accompanying Notes to Consolidated Financial Statements

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

	<b>Nine Months Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱4,485,492,819</b>	<b>₱3,986,271,260</b>
Adjustments for:		
Depreciation and amortization		
(Notes 13, 15 and 22)	<b>1,430,926,050</b>	<b>1,204,120,184</b>
Interest expense (Note 18)	<b>54,471,476</b>	<b>7,270,181</b>
Equity in net earnings of an associate (Note 14)	<b>(87,292,497)</b>	<b>(50,538,760)</b>
Dividend income (Note 12)	<b>(83,625,000)</b>	<b>(83,625,000)</b>
Unrealized foreign currency exchange loss- net	<b>(119,644,438)</b>	<b>(160,453,229)</b>
Interest income (Notes 7, 8 and 12)	<b>(613,996,584)</b>	<b>(597,262,121)</b>
Operating income before working capital changes	<b>5,066,331,826</b>	<b>4,305,782,515</b>
Decrease (increase) in:		
Trade and other receivables	<b>838,948,080</b>	<b>(2,763,465,264)</b>
Merchandise inventories	<b>(1,634,569,049)</b>	<b>(1,568,026,703)</b>
Other current assets	<b>(390,447,164)</b>	<b>(367,841,683)</b>
Short term investment	<b>7,059,000</b>	<b>1,673,856,205</b>
Increase (decrease) in:		
Trade and other payables	<b>(3,070,565,703)</b>	<b>(1,669,646,868)</b>
Other current liabilities	<b>52,318,342</b>	<b>(36,913,492)</b>
Pension liability	<b>87,134,403</b>	<b>68,081,537</b>
Net cash flows generated from (used in) operations	<b>956,209,735</b>	<b>(358,173,753)</b>
Interest received	<b>517,360,322</b>	<b>503,165,882</b>
Income tax paid	<b>(1,158,257,735)</b>	<b>(1,006,509,217)</b>
Net cash flows provided by (used in) operating activities	<b>315,312,322</b>	<b>(861,517,088)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Available-for-sale (AFS) financial assets (Note 12)	<b>(455,184,132)</b>	<b>(1,264,350,000)</b>
Property and equipment (Note 13)	<b>(2,207,600,978)</b>	<b>(2,327,031,456)</b>
Franchise (Note 15)	<b>(1,118,597)</b>	<b>(13,549,763)</b>
Acquisition through business combination	<b>(2,076,493,203)</b>	<b>(945,168,750)</b>
Proceeds from disposals of property and equipment (Note 13)	<b>—</b>	<b>2,828,621</b>
Dividends received (Note 12)	<b>83,625,000</b>	<b>55,750,000</b>
Increase in other noncurrent assets	<b>(106,367,237)</b>	<b>(102,455,223)</b>
Net cash flows used in investing activities	<b>(4,763,139,147)</b>	<b>(4,593,976,571)</b>

(Forward)

	<b>Nine Months Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availment of loans (Note 18)	<b>2,445,000,000</b>	₱1,793,000,000
Payment of loans (Note 18)	<b>(477,871,895)</b>	(41,888,974)
Interest paid (Note 18)	<b>(33,161,947)</b>	(7,157,056)
Dividend paid	<b>(872,550,000)</b>	(706,350,000)
Increase (decrease) in:		
Noncontrolling interest	–	188,000,000
Equity reserves	–	(27,250,714)
Net cash flows provided by financing activities	<b>1,061,416,158</b>	1,198,353,256
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,386,410,667)</b>	(4,257,140,403)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>9,757,351,816</b>	9,969,823,164
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
(Note 7)	<b>₱6,370,941,149</b>	₱5,712,682,761

*See accompanying Notes to Consolidated Financial Statements.*

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

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## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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### **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 Parent Company is 35.00% owned by JE Holdings, Inc., 27.87% owned by PCD Nominee Corporation and the rest by the public. The primary purpose of the Parent Company and its subsidiaries (herein referred to as “the Group”) is to engage in the business of trading goods, commodities and merchandise of any kind.

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

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### **2. Basis of Preparation**

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

The Group’s management opted to change the presentation of its consolidated statements of comprehensive income. “Gross profit” and “Gross profit including other revenue” have been presented to assist users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes and computation of financial ratios. The Group’s management believes that the inclusion of “Gross profit” and “Gross profit including other revenue”, which included the “royalty, rent and other revenue” line item, for the nine months ended September 30, 2016 and 2015 would be more useful to the users of the consolidated financial statements.

#### Statement of Compliance

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

#### *Finalization of Purchase Price Allocation*

In 2015, the Group finalized the purchase price allocation of its acquisitions of GNC Pharma Corporation (GPC) and RHI Builders and Contractors Depot Corp. (RHIB) through business combinations on June 2, 2014 and July 3, 2014, respectively. The December 31, 2014 comparative information was restated to reflect the adjustments to the provisional amounts and the effects to the consolidated financial statements (Note 20).

#### Basis of Consolidation

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

Investee Companies	Effective Percentages of Ownership			
	September 30, 2016		December 31, 2015	
	Direct	Indirect	Direct	Indirect
Robinson's, Incorporated. (RI)	100.00%	—	100.00%	—
Robinsons Ventures Corporation (RVC)	—	65.00%	—	65.00%
Robinsons Toys, Inc. (RTI)	—	100.00%	—	100.00%
Robinsons Convenience Stores, Inc. (RCSI)	—	51.00%	—	51.00%
South Star Drug, Inc. (SSDI)	—	45.00%	—	45.00%
TGP Pharma, Inc. (TGP)	—	45.90%	—	—
TGP Franchising Corp. (TFC)	—	45.90%	—	—
TheGenerics Pharmacy Inc. (TPI)	—	45.90%	—	—
Robinsons Gourmet Food and Beverages, Inc. (RGFBI)	—	100.00%	—	100.00%
Savers Electronic World, Inc. (SEWI)	90.00%	—	90.00%	—
Robinson's Supermarket Corporation (RSC)	100.00%	—	100.00%	—
Angeles Supercenter, Inc. (ASI)	—	67.00%	—	67.00%
Robinsons Appliances Corp. (RAC)	—	67.00%	—	67.00%
South Star Drugs, Inc. (SSDI)	—	45.00%	—	45.00%
Robinsons Handyman, Inc. (RHMI)	—	80.00%	—	80.00%
Handyman Express Mart, Inc. (HEMI)	—	52.00%	—	52.00%
Walmart-Handyman, Inc. (WHI)	—	52.00%	—	52.00%
Robinsons True Serve Hardware Philippines, Inc. (RTSHPI)	—	53.33%	—	53.33%
RHI Builders and Contractors Depot Corp (RHIB)	—	53.60%	—	53.60%
Home Plus Trading Depot, Inc. (HPTDI)	—	40.20%	—	—
Everyday Convenience Stores, Inc. (ECSEI)	100.00%	—	100.00%	—
Robinsons Specialty Stores, Inc. (RSSI)	100.00%	—	100.00%	—
Robinsons Daiso Diversified Corp. (RDDC)	90.00%	—	90.00%	—
RHD Daiso-Saizen, Inc. (RHDDS)	59.40%	—	59.40%	—
RHMI Management and Consulting, Inc.	100.00%	—	100.00%	—
RRHI Management and Consulting, Inc.	100.00%	—	100.00%	—
RRG Trademarks and Private Labels, Inc.	100.00%	—	100.00%	—
RRHI Trademarks Management, Inc.	100.00%	—	100.00%	—

All subsidiaries are incorporated in the Philippines.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group 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
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. 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 Group gains control until the date the Group 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 of the Group and to the non-controlling interests, even if this results in the non-controlling interests 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.

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

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

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

#### *Additional Investments and Acquisitions*

On August 1, 2016, RHIB acquired 75.00% of Home Plus Trading Depot, Inc. (HPTDI) for a total consideration of ₱58.50 million.

On May 17, 2016, SSDI acquired 51.00% of TGP Pharma, Inc. for a total consideration of ₱2,195.0 million.

On September 18, 2015, RRHI made additional investments to RSSI amounting to ₱390.97 million.

On September 18, 2015, additional capital amounting to ₱315.00 million to SEWI was made by RI. Corresponding additional investment coming from NCI of SEWI amounted to ₱35.00 million (Note 19).

On September 1, 2015, RI acquired 90.00% ownership of SEWI, a Company engaged in the business of consumer electronics and home appliance (Note 20). The NCI is measured based on the proportionate share in fair values of the net assets acquired amounting to ₱30.54 million.

On June 8, 2015, capital call amounting to ₱202.00 million to RHIB was made by RHMI. Corresponding additional investment coming from NCI of RHIB amounted to ₱98.00 million (Note 19).

On March 6, 2015, the Subscription Contract between RRHI and RSC was executed. RRHI subscribed 108,370,796 shares of common stock of the RSC with a par value of ₱1.00 per share for a total consideration of ₱2.86 billion or at ₱26.4051 per share.

On February 23, 2015, capital call amounting to ₱100.00 million to RHIB was made by RHMI. Corresponding additional investment coming from NCI of RHIB amounted to ₱50.00 million (Note 19).

On December 17, 2014 and July 3, 2014, capital call amounting to ₱295.00 million and ₱59.40 million, respectively to RSSI and RHDDS was made by RRHI. Corresponding additional investments coming from NCI of RHDDS amounted to ₱40.60 million (Note 19).

On December 5, 2014, RSC acquired additional 25.00% ownership of RHMI increasing its total ownership to 80.00%.

In 2014, RHMI acquired 67.00% ownership of RHIB, a Company engaged in the business of hardware retailing (Note 20). The NCI is measured based on the proportionate share in fair values of the net assets acquired amounting to ₱27.72 million. Also in 2014, RHMI and NCI made additional investments amounting to ₱100.00 million and ₱50.00 million, respectively.

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

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

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

On July 8, 2013, RGFBI, wholly-owned subsidiary of RI, was incorporated to engage in the business of establishing, operating and managing of retail coffee shops and espresso shops. RI provided equity funding to RGFBI amounting ₱100.00 million.

On May 23, 2013, RRG Trademarks and Private Labels, Inc., wholly-owned subsidiary of the Parent Company, was incorporated to administer and own trademarks that are registered to companies with shareholding owned by third parties. The Parent Company provided equity funding to RRG Trademarks and Private Labels, Inc. amounting ₱0.19 million.

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

On May 27, 2013, RHMI Management and Consulting, Inc., wholly-owned subsidiary of the Parent Company, was incorporated to handle management agreements in relation to companies with shareholdings owned by third parties. The Parent Company provided equity funding to RHMI Management and Consulting, Inc. amounting ₱0.19 million.

On May 27, 2013, RRHI Management and Consulting, Inc., wholly-owned subsidiary of the Parent Company, was incorporated to handle management agreements that are registered to companies that are wholly-owned by the Parent Company. The Parent Company provided equity funding to RRHI Management and Consulting, Inc. amounting ₱0.19 million.



On July 4, 2012, RSC and RI, wholly-owned subsidiaries of RRHI, each acquired 45.00% interest in SSDI, aggregating to 90.00%.

#### *Mergers*

Merger of EC and JRMC to RSC and GPC to SSDI

On October 24, 2014, the Board of Directors (BOD) of the Group approved the plan of the Group to merge RSC, EC and JRMC with RSC as the surviving entity. The purpose of the merger is to centralize the Group's supermarket operations. On November 14, 2014, the plan of merger was presented to and approved by the Stockholders. The Plan and Articles of Merger were filed with SEC in April 2015. In 2016, the DOJ and SEC approved the application for merger.

On October 24, 2014, the BOD approved the plan of the Group to merge SSDI with its subsidiary, GPC, whereby the entire assets and liabilities of GPC will be transferred and absorbed by SSDI doing business under the name of South Star Drugs and Manson Drug.

On November 25, 2014, the plans of merger was presented to and approved by the Stockholders. The Plan and Article of Merger were filed with the DOJ and SEC on April 24, 2015 and were approved on August 26, 2015.

#### *Merger of RDCI to RCSI*

On May 24, 2012, the SEC approved the Plans and Articles of Merger (Merger) between RDCI and RCSI, the latter being the surviving entity. The merger was approved and ratified by the respective Board of Directors (BOD) and stockholders on April 10, 2012. Under the approved merger, the entire assets and liabilities of RDCI as of December 31, 2011 were merged and absorbed by RCSI with effective date of January 1, 2012.

The merger was undertaken to enhance and promote operating efficiencies and economies, and increase financial strength through pooling of resources to achieve more favorable financing and greater credit facilities.

No RCSI shares were issued in exchange for the net assets of the RDCI, considering that the latter is a wholly-owned subsidiary of the former. The total retained earnings of RDCI amounting P4.37 million as of December 31, 2010 was recognized as a reduction from RCSI's deficit.

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### **3. Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS and Philippine Interpretations which became effective beginning January 1, 2015. Except as otherwise indicated, the adoption of amended PFRS and Philippine Interpretations did not have any effect on the financial statements of the Group.

- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions*(Amendments)  
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments are effective for annual periods beginning on or after July 1, 2014.

These amendments are not relevant to the Group since none of the entities within the Group has defined benefit plan with contributions from employees or third parties.

*Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group.

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

This amendment is not applicable to the Group as it has no share-based payments.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group will consider this amendment for future business combinations.

- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendment has no impact on the Group's financial position or performance.

- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendment has no impact on the Group's financial position or performance.

- *PAS 24, Related Party Disclosures - Key Management Personnel*

The amendment is applied retrospectively and clarifies that a management entity, which is an

entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments have an affect in disclosures only and have no impact on the Group's financial position or performance.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group.

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The amendment has no impact on the Group's financial position or performance.

- *PFRS 13, Fair Value Measurement - Portfolio Exception*  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39. The amendment has no significant impact on the Group's financial position or performance.
- *PAS 40, Investment Property*  
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment has no significant impact on the Group's financial position or performance.

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2015 and these will be adopted on their effectivity dates in accordance with the transition provisions. Except as otherwise stated, these amendments and improvements to PFRS and new standards are not expected to have any significant impact on the consolidated financial statements.

Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

*Deferred*

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under

PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission (SEC) and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements.

*Effective January 1, 2016*

- PAS 1, *Presentation of Financial Statements* – Disclosure Initiative (Amendments)  
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets-Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)  
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will have no significant impact on the Group's financial position or performance.
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture-Bearer Plants* (Amendments)  
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of

PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants* and Disclosure of Government Assistance, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will have no significant impact on the Group's financial position or performance.

- *PAS 27, Separate Financial Statements-Equity Method in Separate Financial Statements*(Amendments)  
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. These amendments are not expected to have any impact to the Group.
- *PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*  
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. The amendment will have no significant impact on the Group's financial position or performance.
- *PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)  
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.  
  
The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.
- *PFRS 14, Regulatory Deferral Accounts*  
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that

rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard will not apply.

*Annual Improvements to PFRSs (2012-2014 cycle)*

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group.

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*  
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment will have no significant impact on the Group's financial position or performance.
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*  
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment will have no significant impact on the Group's financial position or performance.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*  
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report. The amendment will have no significant impact on the Group's financial position or performance.
- *PAS 19, Employee Benefits - Regional Market Issue regarding Discount Rate*  
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment will have no significant impact on the Group's financial position or performance.
- *PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*  
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The amendment will have no significant impact on the Group's financial position or performance.

*Effective January 1, 2018*

- *PFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of International Financial Reporting Standards (IFRS) 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

In addition, the IASB has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Group is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

- *IFRS 15, Revenue from Contracts with Customers* (effective January 1, 2018)

IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principals in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

- *IFRS 16, Leases* (effective January 1, 2019)

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces PAS 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, Revenue from Contracts with Customers. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

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#### 4. **Summary of Significant Accounting Policies**

##### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and other sales taxes.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

##### *Sales Revenue*

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

##### *Royalty Fee*

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

##### *Rental Income*

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

##### *Interest Income*

Interest on cash in bank, cash equivalents and short-term cash investments and AFS financial assets is recognized as the interest accrues using the effective interest method.

##### *Dividend Income and Other Income*

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

##### Cost of Merchandise Sold

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

##### Operating Expenses

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



## Financial Instruments

### *Date of Recognition*

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

### *Initial Recognition of Financial Instruments*

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

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

### *Determination of Fair Value*

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

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

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

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

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

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

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

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

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

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

As of September 30, 2016 and December 31, 2015, the financial instruments of the Group are classified as loans and receivables, AFS financial assets and other financial liabilities.

#### *Day 1 Difference*

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

#### *AFS Financial Assets*

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

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

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

This accounting policy relates primarily to the Group's AFS investments in equity and debt securities (Note 12).

#### *Loans and Receivables*

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

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

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

#### *Financial Liabilities*

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

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

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

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

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

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

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

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

#### Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. 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.

#### Impairment of Financial Assets

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

#### *AFS Financial Assets*

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

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

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

#### *Loans and Receivables*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The

carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. Loans receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as the borrower's payment history, past-due status and term.

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial Asset*

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

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

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

##### *Financial Liability*

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

#### Embedded Derivative

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

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

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets or liabilities at FVPL. Changes in fair values are included in the profit and loss.

As of September 30, 2016 and December 31, 2015, the Group's interest rate swap is assessed as clearly and closely related and no bifurcation is required to recognize either gain or loss on embedded derivative.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and are subject to an insignificant risk of change in value. Cash and cash equivalents, excluding cash on hand, are classified and accounted for as loans and receivables.

#### Short-term Investments

Short-term investments pertains to money market placements with maturities of more than 3 months to 1 year from dates of placement and are subject to an insignificant risk of change in values.

#### Merchandise Inventories

Merchandise inventories are stated at the lower of cost or 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 an Associate/Shares of Stocks

Investment in an associate is accounted for under the equity method of accounting.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associate 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 associate, less any impairment in value. The profit or loss reflects the share of the results of the operations of the associate reflected as "Equity in net earnings of an associate" under "Other income (charges)" in the consolidated statement of comprehensive income. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group's share in the investee's post acquisition movements in the investee's equity reserves is recognized directly in equity. Profit and losses resulting from transactions between the Group and the associate 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 their investment in associate is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associate. When the associate subsequently reports net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the associate 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 associate. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount under "Other expenses" in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of 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 acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

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

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



### Property and Equipment

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

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

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

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

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

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

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

### Intangible Assets

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

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

The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

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

#### *License*

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

#### *Trademark*

Trademark, which was acquired through business combination in 2016 (SSDI) and 2015 (SEWI), was recognized at fair value at the date of acquisition and assessed to have an indefinite useful life. Following initial recognition, the trademark is 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 statement of comprehensive income under “Operating expenses” account.

#### Impairment of Nonfinancial Assets

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

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

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

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

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

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

#### *Investment in an Associate*

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

#### *Impairment of Goodwill*

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

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

#### Pension 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. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

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

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

#### 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 and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from excess MCIT and NOLCO can be utilized.

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

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

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

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

#### Capital Stock

Capital stock is measured at par value for all shares issued. When the Group issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC) (Note 19). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC. If APIC is not sufficient, the excess is charged against retained earnings.

#### Retained Earnings

Retained earnings represent accumulated earnings of the Group less dividends declared 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 (Note 19).

#### Treasury Shares

Treasury shares are own equity instruments which are reacquired, recognized at cost and deducted from equity. Any gain or loss on the purchase, sale, issue or cancellation or re-issuance is recognized in APIC. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to APIC to the extent of the specific or average APIC when the shares were issued and to retained earnings for the remaining balance. The retained earnings account is restricted to payment of dividends to the extent of the cost of treasury shares (Note 19).

#### Leases

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

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

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

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

#### *Group as Lessee*

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases.

Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

#### *Group as Lessor*

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

#### Foreign Currency Transactions

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

#### Earnings Per Share (EPS)

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

Diluted EPS is calculated by dividing the net income for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The calculation of diluted EPS does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on EPS.

The Parent Company does not have any potential dilutive ordinary shares for the periods ended September 30, 2016 and December 31, 2015 (Note 27).

#### Provisions

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

#### Contingencies

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

### Segment Reporting

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

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## **5. Significant Accounting Judgments, Estimates and Assumptions**

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

### Judgments

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

#### *Going Concern*

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

#### *Operating Lease Commitments - Group as Lessee*

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

#### *Operating Lease Commitments - Group as Lessor*

The Group has entered into lease agreements to provide store facilities and equipment (Note 29). The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

#### *Revenue Recognition*

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

#### *Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 31).

The Group has contingent assets arising from an ongoing damage claims pending final assessment. The outcome of certain cases is not presently determinable in the opinion of the management, eventual asset, if any, will not have material or adverse effect on the Group's financial position and results of operations (Note 31).

#### Estimates and Assumptions

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

#### *Determining Fair Values of Financial Assets and Liabilities*

Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time (Note 28).

#### *Allowance for Impairment Losses on Trade and Other Receivables*

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

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

As of September 30, 2016 and December 31, 2015, the carrying value of the Group's trade and other receivables amounted to ₱1.54 billion and ₱1.77 billion, respectively (Note 9).

#### *Impairment of AFS Financial Assets*

The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value of the investment below its cost or whether other objective evidence of impairment exists. The determination of what is significant or prolonged requires



judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' greater than six (6) months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of AFS financial assets amounted to ₱20.54 billion and ₱19.51 billion as of September 30, 2016 and December 31, 2015 (Note 12).

*Estimating Net Realizable Value (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.

No provision for impairment losses on merchandise inventories was recognized as of September 30, 2016 and December 31, 2015.

Merchandise inventories amounted to ₱12.68 billion and ₱10.58 billion as of September 30, 2016 and December 31, 2015, respectively (Note 10).

*EUL of Property and Equipment*

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

As of September 30, 2016 and December 31, 2015, the carrying value of the Group's property and equipment amounted to ₱12.08 billion and ₱11.15 billion, respectively (Note 13).

*Evaluation of Impairment of Nonfinancial Assets*

The Group reviews property and equipment, investment in associate 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 an associate and intangible assets.

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

Based on management assessment as of September 30, 2016 and December 31, 2015, 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 an associate and intangible assets with definite useful lives.

As of September 30, 2016 and December 31, 2015, the carrying value of the Group's property and equipment amounted to ₱12.08 billion and ₱11.15 billion (Note 13), investments in share of stock amounted to ₱5.36 billion and ₱5.08 billion (Note 14), licenses amounted to ₱75.76 million and ₱84.85 million, and franchise amounted to ₱21.79 million and ₱22.51 million, respectively (Note 15).

#### *Pension and Other Retirement Benefits*

The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24, and include, among others, discount rate and salary rates increase.

As of September 30, 2016 and December 31, 2015, the carrying value of the net pension liabilities amounted to ₱560.48 million and ₱473.35 million, respectively (Note 24).

#### *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, 2016 and December 31, 2015, the Group has deferred tax assets amounting ₱212.50 million and ₱180.13 million respectively (Note 26).

#### *Goodwill and Trademarks*

In the course of the Group's business combinations, goodwill and trademarks were acquired (Note 15). These assets have indefinite useful lives. The Goodwill and Trademarks of the Group came from the following Companies:

	Trademark	Goodwill
SSDI	₱1,566,917,528	₱745,887,132
TGP	1,454,294,641	1,116,342,368
SEWI	364,914,493	715,103,869
EC	—	199,870,222
RHIB	—	145,655,320
HPTD	—	30,000,000
RTSHPI	—	85,161,468
BSRI	—	83,324,691
JRMC	—	71,732,435
GPC	—	23,250,000
	<b>₱3,386,126,662</b>	<b>₱3,216,327,505</b>

#### Impairment Testing of Goodwill and Trademarks

The Group performed its annual impairment test for the years ended December 31, 2015 and 2014. The cash generating units (CGU) are concluded to be the entire entities invested in. 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 changes 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.

#### Value in Use

The recoverable amount of the 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 to 10.00% in 2015(8.65% to 10.05% in 2014) and cash flows beyond the five-year period are extrapolated using a 5.00% to 10.00% growth rate (5.00%to 18.00% in 2014) 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 to five years preceding the beginning of the budget period. These are increased over the budget period for anticipated efficiency improvements. An increase of 10.00% to 18.00% per annum was applied. A decreased demand can lead to a decline in gross margin. A decrease in gross margin from 11.00% to 11.60% for 2015 and 12.25% to 23.10% for 2014 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 to 11.00% to 14.61% and 11.00% to 15.05%, in 2015 and 2014, respectively, would result in impairment.

#### *Price Inflation*

Forecast price inflation which impacts the forecast for operating expenses lies within a range of 1.00% to 5.00% in 2015 and 2016. 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% 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 2015, the Group used the EV/EBITDA multiple ranging from 10 to 15 multiples for impairment testing of goodwill and concluded and satisfied that goodwill from the acquired entities are not impaired.

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

#### *Revenue Recognition - Points for Loyalty Programme*

The Group estimates the fair value of points awarded under the Robinsons Rewards Card programme by determining the equivalent peso earned for a particular level of points. These points expire after a specified period and the Group has adjusted its liability for the estimated portion that will not be redeemed, such estimates are subject to significant uncertainty. As of September 30, 2016 and December 31, 2015, the estimated liability for unredeemed points was approximately ₱111.4 million and ₱81.96 million, respectively.

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## **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 PFRS.

The Group derives its revenue from the following reportable units:

- *Supermarket Division*  
The first major retailer to promote health and wellness. Robinson's Supermarket commits to bring together healthy options and affordable prices in a refreshingly clean and organized shopping destination. It makes a bold lifelong commitment to educate and empower its customers to make healthy choices.
- *Department Store Division*  
Robinson's department store is one of the premier shopping destinations in the country today. It offers an exceptional selection of merchandise from top international and local brands. From the trendiest fashion pieces, the most coveted lifestyle products, the latest items for the home, to playthings and necessities for the little ones. It provides experience that goes beyond ordinary shopping.
- *DIY Division*  
Handyman Do it Best has grown to be one of the most aggressive hardware and home improvement centers in the country. It aims to cover the Philippine landscape with more branches in key commercial centers to promote self-reliance among do-it yourselfers.
- *Convenience Store Division*  
Ministop is a 24 - hour convenience store chain and is a franchise of Ministop Co. Ltd.- Japan, 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 is composed of South Star Drug and The Generics Pharmacy (TGP). South Star Drug offers over a thousand brands from food and pharmaceuticals to personal care products, while TGP is the largest and fastest growing generics drugstore chain.
- *Specialty Store Division*  
Specialty Store is the lifestyle retail arm of the Group. It is committed to bringing the best loved international lifestyle brands, top entertainment systems, coffee shops and unparalleled selection of toys and games.

The financial information about these operating segments as of and for the nine months ended September 30, 2016 and 2015 and for the year ended December 31, 2015 is summarized below:

**September 30, 2016**

	Supermarket Division	Department StoreDivision	DIY Division	Convenience StoreDivision	Drug Store Division	SpecialtyStore Division	Parent Company	Intersegment Eliminating Adjustments	Consolidated
Segment net sales	P34,681,096,069	P10,414,416,628	P7,919,449,783	P4,157,789,308	P8,412,229,582	P8,227,320,905	P-	P-	P73,812,302,275
Intersegment sales	-	-	-	-	-	716,035,618	-	(716,035,618)	-
Total net sales	34,681,096,069	10,414,416,628	7,919,449,783	4,157,789,308	8,412,229,582	8,943,356,523	-	(716,035,618)	73,812,302,275
Segment cost of merchandise sold	28,048,944,272	6,971,742,256	5,388,260,893	3,761,091,731	6,993,576,030	6,681,709,737	-	-	57,845,324,919
Intersegment cost of merchandise sold	-	716,035,618	-	-	-	-	-	(716,035,618)	-
Total cost of merchandise sold	28,048,944,272	7,687,777,874	5,388,260,893	3,761,091,731	6,993,576,030	6,681,709,737	-	(716,035,618)	57,845,324,919
Gross profit	6,632,151,797	2,726,638,754	2,531,188,890	396,697,577	1,418,653,552	2,261,646,786	-	-	15,966,977,356
Segment other income	80,562,607	73,468,508	-	1,280,967,082	125,247,414	12,007,701	-	-	1,572,253,312
Intersegment other income	91,278,965	21,905,197	-	-	-	-	-	(113,184,162)	-
Total other income	171,841,572	95,373,705	-	1,280,967,082	125,247,414	12,007,701	-	(113,184,162)	1,572,253,312
Gross profit including other income	6,803,993,369	2,822,012,459	2,531,188,890	1,677,664,659	1,543,900,966	2,273,654,487	-	(113,184,162)	17,539,230,668
Segment operating expenses	4,298,324,079	2,097,800,513	1,767,100,486	1,426,999,379	1,039,362,121	1,830,834,619	8,242,360	-	12,468,663,557
Intersegment operating expenses	16,218,615	33,016,978	23,507,332	-	20,911,651	19,529,586	-	(113,184,162)	-
Total operating expenses	4,314,542,694	2,130,817,491	1,790,607,818	1,426,999,379	1,060,273,772	1,850,364,205	8,242,360	(113,184,162)	12,468,663,557
Earnings before interest, taxes and depreciation and amortization	2,489,450,675	691,194,968	740,581,072	250,665,280	483,627,194	423,290,282	(8,242,360)	-	5,070,567,111
Depreciation and amortization	549,859,109	214,374,686	144,663,365	254,319,723	56,726,345	210,982,822	-	-	1,430,926,050
Earnings before interest and taxes	1,939,591,566	476,820,282	595,917,707	(3,654,443)	426,900,849	212,307,460	(8,242,360)	-	3,639,641,061
Interest expense	(7,192,292)	(21,430,625)	-	(8,639,583)	(19,077,865)	(25,969,655)	-	27,838,544	(54,471,476)
Interest income	9,306,608	7,954,880	14,114,919	247,674	807,961	10,632,563	598,770,523	(27,838,544)	613,996,584
Dividend income	-	-	-	-	-	-	1,432,225,000	(1,348,600,000)	83,625,000
Unrealized forex gain	-	-	-	-	-	-	115,409,153	-	115,409,153
Equity in net earnings of an associate	-	-	-	-	-	-	87,292,497	-	87,292,497
Income before income tax	P1,941,705,882	P 463,344,537	P610,032,626	(P12,046,352)	P408,630,945	P196,970,368	P2,225,454,813	(P1,348,600,000)	P4,485,492,819
Assets and Liabilities									
Segment assets	14,446,575,490	3,713,918,727	5,149,926,363	2,222,471,211	7,758,925,696	5,735,354,081	32,748,820,880	(2,760,551,298)	69,015,441,150
Investment in subsidiaries - at cost	2,790,607,224	3,239,770,374	-	-	-	-	5,286,030,763	(11,316,408,361)	-
Total segment assets	P17,237,182,714	P6,953,689,101	P5,149,926,363	P2,222,471,211	P7,758,925,696	P5,735,354,081	P 38,034,851,643	(P14,076,959,659)	P69,015,441,150
Total segment liabilities	P7,079,333,020	P3,213,135,549	P1,966,815,741	P1,462,836,255	P4,858,315,001	P3,258,333,987	P 1,561,768,597	(P4,180,980,283)	P19,219,557,867
Other segment information:									
Capital expenditures	P1,002,182,472	P453,776,142	P244,165,506	P176,434,644	P214,087,528	P257,577,008	P-	P-	P2,348,223,300

**September 30, 2015**

	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	P30,793,957,861	P9,801,353,740	P7,078,959,581	P4,036,724,039	P5,899,268,162	P5,678,971,833	P-	P-	P63,289,235,216
Intersegment net sales	(9,727,350)	-	(3,858,309)	-	-	746,029,643	-	(732,443,984)	-
Total net sales	30,784,230,511	9,801,353,740	7,075,101,272	4,036,724,039	5,899,268,162	6,425,001,476	-	(732,443,984)	63,289,235,216
Segment cost of merchandise sold	24,923,021,194	6,458,426,982	4,853,765,110	3,652,607,306	4,956,792,970	4,677,430,686	-	-	49,522,044,248
Intersegment cost of merchandise sold	-	748,356,137	-	-	-	-	-	(748,356,137)	-
Total cost of merchandise sold	24,923,021,194	7,206,783,119	4,853,765,110	3,652,607,306	4,956,792,970	4,677,430,686	-	(748,356,137)	49,522,044,248
Gross profit	5,861,209,317	2,594,570,621	2,221,336,162	384,116,733	942,475,192	1,747,570,790	-	15,912,153	13,767,190,968
Segment other income	76,371,441	54,727,742	-	1,115,491,950	98,841,187	11,581,839	-	-	1,357,014,159
Intersegment other income	91,537,007	15,912,153	-	-	-	-	-	(107,449,160)	-
Total other income	167,908,448	70,639,895	-	1,115,491,950	98,841,187	11,581,839	-	(107,449,160)	1,357,014,159
Gross profit including other income	6,029,117,765	2,665,210,516	2,221,336,162	1,499,608,683	1,041,316,379	1,759,152,629	-	(91,537,007)	15,124,205,127
Segment operating expenses	3,852,569,772	1,918,323,591	1,525,201,133	1,310,049,349	748,557,018	1,455,539,005	8,182,744	-	10,818,422,612
Intersegment operating expenses	917,878	41,423,818	18,128,001	-	18,461,155	12,606,155	-	(91,537,007)	-
Total operating expenses	3,853,487,650	1,959,747,409	1,543,329,134	1,310,049,349	767,018,173	1,468,145,160	8,182,744	(91,537,007)	10,818,422,612
Earnings before interest, taxes and depreciation and amortization	2,175,630,115	705,463,107	678,007,028	189,559,334	274,298,206	291,007,469	(8,182,744)	-	4,305,782,515
Depreciation and amortization	470,004,656	169,799,798	147,718,491	173,022,226	43,986,278	199,588,735	-	-	1,204,120,184
Earnings before interest and taxes	1,705,625,459	535,663,309	530,288,537	16,537,108	230,311,928	91,418,734	(8,182,744)	-	3,101,662,331
Interest expense	(910,417)	(1,969,375)	(2,944,139)	(18,282,528)	(5,157,589)	(23,170,489)	(495,833)	45,660,189	(7,270,181)
Interest income	5,301,542	7,194,145	9,440,586	199,974	920,742	6,995,187	612,870,134	(45,660,189)	597,262,121
Dividend Income	-	-	-	-	-	-	83,625,000	-	83,625,000
Unrealized forex gain	-	-	-	-	-	-	160,453,229	-	160,453,229
Equity in net earnings of an associate	-	-	-	-	-	-	50,538,760	-	50,538,760
Income before income tax	P1,710,016,584	P540,888,079	P536,784,984	(P1,545,446)	P226,075,081	P75,243,432	P898,808,546	P-	P3,986,271,260
Assets and Liabilities									
Segment assets	12,508,568,815	3,907,047,016	4,421,664,625	2,376,860,636	3,435,298,503	5,958,564,855	28,126,535,274	(429,272,750)	60,305,266,974
Investment in subsidiaries - at cost	2,798,886,997	3,139,939,124	-	-	-	-	5,283,780,763	(11,222,606,884)	-
Total segment assets	P15,307,455,812	P7,046,986,140	P4,421,664,625	P2,376,860,636	P3,435,298,503	P5,958,564,855	P33,410,316,037	(P11,651,879,634)	P60,305,266,974
Total segment liabilities	P6,505,932,771	P3,898,643,965	P1,753,254,825	P1,605,416,392	P1,897,948,233	P3,047,150,766	P108,978,645	(P2,527,464,599)	P16,289,860,998
Other segment information:									
Capital expenditures	P1,014,628,622	P289,141,972	P232,945,515	P323,147,674	P101,591,032	P380,890,648	P-	P-	P2,342,345,463

The revenue of the Group consists mainly of sales to external customers. Inter-segment revenue arising from purchase arrangements amounting P716.04 million and P732.44 million for the nine months ended September 30, 2016 and 2015, respectively were eliminated on consolidation.

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

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

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

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## **7. Cash and Cash Equivalents**

This account consists of cash on hand and in banks and short-term investments amounting to P6.37 billion and P9.76 billion as of September 30, 2016 and December 31, 2015, 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 0.30% to 2.20% and 0.24% to 2.75% for the nine months ended September 30, 2016 and for the year ended December 31, 2015, respectively.

Interest income arising from cash in banks and cash equivalents amounted to P54.4 million and P51.62 million for the nine months ended September 30, 2016 and 2015, respectively.

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## **8. Short-Term Investments**

This account consists of dollar-denominated money market investments amounting to nil and P7.06 million as of September 30, 2016 and December 31, 2015, respectively.

Short-term investments are made for varying periods of up to one (1) year, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates based on annual interest rates of 3.80% for the nine months ended September 30, 2016 and for the year ended December 31, 2015, respectively.

Interest income arising from short-term investments amounted to nil and P2.42 million for the nine months ended September 30, 2016 and 2015, respectively.



## 9. Trade and Other Receivables

This account consists of:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	<b>December 31, 2015</b> <b>(Audited)</b>
Trade (Note 25)	<b>₱896,498,733</b>	₱905,655,683
Nontrade (Notes 10 and 25)	<b>436,413,235</b>	601,820,649
Due from franchisees (Note 30)	<b>240,310,405</b>	296,289,011
	<b>1,573,222,373</b>	1,803,765,343
Less allowance for impairment losses (Note 30)	<b>30,042,101</b>	30,042,101
	<b>₱1,543,180,272</b>	₱1,773,723,242

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

Nontrade receivables include receivable from insurance companies amounting to ₱86.00 million and ₱112.25 million as of September 30, 2016 and December 31, 2015. Receivable from insurance companies represents amounts recoverable within one year from the reporting period from the latter for the insured properties that were damaged due to fire and typhoon (Notes 10 and 13). The remaining balance consists of operational advances and interest receivable arising from short-term investments.

As of September 30, 2016 and December 31, 2015, allowance for impairment losses on trade receivables and due from franchisees amounted to ₱30.04 million (Note 30).

## 10. Merchandise Inventories

The rollforward analysis of this account follow:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	<b>December 31, 2015</b> <b>(Audited)</b>
Balance at beginning of year	<b>₱10,575,687,802</b>	₱8,993,411,437
Add: purchases - net of purchase discounts and allowances	<b>59,954,112,149</b>	72,715,861,729
Cost of goods available for sale	<b>70,529,799,951</b>	81,709,273,166
Cost of merchandise sold	<b>57,845,324,919</b>	71,133,585,364
Balance at end of year	<b>₱12,684,475,032</b>	₱10,575,687,802

In 2015, the Group had disposed inventories amounting to ₱69.90million which were damaged during a fire. These amounts are fully recoverable from the insurance companies (Note 9).

There are no merchandise inventories pledged as security for liabilities.

The cost of merchandise inventories charged to the consolidated statements of comprehensive income amounted to ₱57.85 billion and ₱49.52 billion for the nine months ended September 30, 2016 and 2015, respectively.

There are no inventories which net realizable values are below cost.

## 11. Other Current Assets

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Input value added tax (VAT) - net	<b>P1,664,670,655</b>	P1,387,283,936
Creditable withholding taxes	<b>220,810,386</b>	174,606,863
Prepayments	<b>210,111,536</b>	126,511,516
	<b>P2,095,592,577</b>	P1,688,402,315

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

Creditable withholding taxes (CWT) will be applied against income tax payable in future periods.

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

## 12. Available-for-Sale (AFS) Financial Assets

Roll-forward analysis of AFS financial assets follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cost		
At beginning of year	<b>P19,063,599,821</b>	P17,704,262,593
Additions	<b>455,184,132</b>	1,359,337,228
At end of year	<b>19,518,783,953</b>	19,063,599,821
Accretion of interest income from premium on debt securities	<b>(36,578,670)</b>	(29,112,466)
Change in fair value of AFS financial assets		
At beginning of year	<b>270,092,376</b>	(12,131,857)
Changes in fair value during the year	<b>457,841,104</b>	282,224,233
At end of year	<b>727,933,480</b>	270,092,376
Foreign exchange gains	<b>326,378,553</b>	206,734,115
	<b>P20,536,517,316</b>	P19,511,313,846

As of September 30, 2016 and December 31, 2015, investments in AFS financial assets consist of investment in shares amounting to P2.15 billion and P2.08 billion, respectively, and debt securities amounting to P18.38 billion and P17.43 billion, respectively (Note 28).

Dividend income earned by the Group amounted to P83.63 million for the nine months ended September 30, 2016 and 2015, respectively.

Quoted debt securities consist of peso and dollar-denominated corporate bonds with fixed coupon rate per annum ranging from 4.38% to 7.88% and terms of 5 to 10 years.

Interest income arising from AFS financial assets amounted to ₱559.59 million and ₱543.24 million for the nine months ended September 30, 2016 and 2015, respectively.

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

### 13. Property and Equipment

The roll-forward analysis of this account follows:

#### September 30, 2016

	Leasehold Improvements	Store Furniture and Fixtures	Office Furniture and Fixtures	Transportation Equipment	Building and Other Equipment	Computer Equipment	Construction in Progress	Total
<b>Cost</b>								
At January 1	₱10,443,772,361	₱7,635,219,254	₱1,166,650,417	₱148,608,875	₱1,592,152,864	₱1,889,939,378	₱1,737,563	₱22,878,080,712
Additions through business combination (note 20)	54,322,391	—	11,998,078	32,531,955	34,391,615	7,378,282	—	140,622,321
Additions	1,067,539,151	602,028,145	262,017,041	2,394,031	58,939,617	214,117,936	565,057	2,207,600,978
Transfers	—	—	—	—	—	—	—	—
Disposals and Derecognition	(33,427,037)	(12,924,732)	(957,508)	—	—	(503,648)	—	(47,812,925)
At September 30	11,532,206,866	8,224,322,667	1,439,708,028	183,534,861	1,685,484,096	2,110,931,948	2,302,620	25,178,491,086
<b>Accumulated Depreciation and Amortization</b>								
At January 1	5,200,301,916	4,314,599,834	238,834,811	84,511,884	657,431,659	1,157,226,375	—	11,652,906,479
Depreciation and amortization (Note 22)	695,866,216	422,215,595	98,710,294	24,268,546	35,299,665	143,630,101	—	1,419,990,417
Disposals and Derecognition	(33,427,037)	(12,924,732)	(957,508)	—	—	(503,648)	—	(47,812,925)
At September 30	5,862,741,095	4,723,890,697	336,587,597	108,780,430	692,731,324	1,300,352,828	—	13,025,083,971
<b>Allowance for impairment losses</b>								
At beginning and end of year	49,567,673	25,882,986	—	—	—	349,273	—	75,799,932
	₱5,619,898,098	₱3,474,548,984	₱1,103,120,431	₱74,754,431	₱992,752,772	₱810,229,847	₱2,302,620	₱12,077,607,183

#### December 31, 2015

	Leasehold Improvements	Store Furniture and Fixtures	Office Furniture and Fixtures	Transportation Equipment	Building and Other Equipment	Computer Equipment	Construction in Progress	Total
<b>Cost</b>								
At January 1	₱8,991,092,550	₱6,939,918,610	₱820,876,405	₱114,971,723	₱1,483,565,334	₱1,577,978,948	₱518,599	₱19,928,922,169
Additions through business combination (Note 20)	11,151,701	—	19,431,520	14,275,494	—	—	—	44,858,715
Additions	1,555,906,189	765,119,424	326,795,089	19,361,658	107,535,209	317,925,045	6,459,518	3,099,102,132
Transfers	2,380,575	1,717,801	—	—	1,052,321	89,857	(5,240,554)	—
Disposals and Derecognition	(116,758,654)	(71,536,581)	(452,597)	—	—	(6,054,472)	—	(194,802,304)
At December 31	10,443,772,361	7,635,219,254	1,166,650,417	148,608,875	1,592,152,864	1,889,939,378	1,737,563	22,878,080,712
<b>Accumulated Depreciation and Amortization</b>								
At January 1	4,527,417,236	3,833,452,256	138,533,034	73,194,357	618,094,076	1,005,045,974	—	10,195,736,933
Depreciation and amortization (Note 22)	780,951,752	541,141,399	100,551,484	11,317,527	39,337,583	156,693,106	—	1,629,992,851
Disposals and Derecognition	(108,067,072)	(59,993,821)	(249,707)	—	—	(4,512,705)	—	(172,823,305)
At December 31	5,200,301,916	4,314,599,834	238,834,811	84,511,884	657,431,659	1,157,226,375	—	11,652,906,479
<b>Allowance for impairment losses</b>								
At beginning and end of year	49,567,673	25,882,986	—	—	—	349,273	—	75,799,932
	₱5,193,902,772	₱3,294,736,434	₱927,815,606	₱64,096,991	₱934,721,205	₱732,363,730	₱1,737,563	₱11,149,374,301

There are no items of property and equipment as of September 30, 2016 and December 31, 2015 that are pledged as security for liabilities.

In 2015, the Group had disposed property and equipment with net book values amounting ₱21.90 million which were damaged due to fire. These amounts are fully recoverable from the insurance company (Note 9).

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

Cost of fully depreciated property and equipment still in use amounted to ₱4.13 billion and ₱3.51 billion as of September 30, 2016 and December 31, 2015, respectively.

#### 14. Investments in Shares of Stock

This account consists of investments in shares of stock of Robinsons Bank Corporation (RBC):

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 <b>(Audited)</b>
Investment in preferred stock	<b>₱1,654,364,339</b>	₱1,654,364,339
Investment in common stock	<b>3,701,129,217</b>	3,424,938,315
	<b>₱5,355,493,556</b>	₱5,079,302,654

The preferred stock has the following features:

- Preferred stockholders are entitled to receive preferential but non-cumulative dividends at the rate to be determined by the Board of Directors (BOD) of RBC.
- Preferred stocks are redeemable at the option of RBC at any time provided that the redemption price shall not be lower than the par value or higher than 110.00% of said par value.
- In the event of any voluntary or involuntary liquidation, the preferred stockholders are entitled to receive the liquidation value of the said shares equivalent to 110.00% of the par value plus any unpaid but declared dividends thereon. If the net assets of RBC shall be insufficient to pay in full the liquidation value of all the preferred stock, then such net resources shall be distributed among such preferred stock ratably in accordance with the respective liquidation value of the shares they are holding.

The roll-forward of the investment in preferred stock of RBC follow:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 <b>(Audited)</b>
At beginning of year	<b>₱1,654,364,339</b>	₱1,470,083,439
Additional investment during the year	–	184,280,900
At end of year	<b>₱1,654,364,339</b>	₱1,654,364,339

In 2015, the Parent Company made additional investments in the preferred stocks of RBC for a total consideration of ₱184.28 million which was paid in cash.

The details of the investment in common stock follow:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 <b>(Audited)</b>
Shares of stock - at equity:		
Acquisition cost	<b>₱3,095,874,563</b>	₱124,933,383
Additional investment during the year	–	2,970,941,180
Balance at end of year	<b>3,095,874,563</b>	3,095,874,563
Accumulated equity in net earnings:		
Balance at beginning of year	<b>608,386,399</b>	568,093,465
Equity in net earnings	<b>87,292,497</b>	40,292,934
Balance at end of year	<b>695,678,896</b>	608,386,399

(Forward)

	<b>September 30, 2016</b> <b>(Unaudited)</b>	<b>December 31, 2015</b> <b>(Audited)</b>
Share in fair value changes of AFS financial assets of RBC:		
Balance at beginning of year	<b>(P224,679,587)</b>	(P122,558,084)
Share in fair value changes of AFS investments	<b>189,475,217</b>	(102,121,503)
Balance at end of year	<b>(35,204,370)</b>	(224,679,587)
Share in translation loss adjustments:		
Balance at beginning of year	<b>(41,314,642)</b>	(41,129,697)
Share in translation adjustments	<b>(3,035,025)</b>	(184,945)
Balance at end of year	<b>(44,349,667)</b>	(41,314,642)
Share in remeasurement loss on pension liability:		
Balance at beginning of year	<b>(13,328,418)</b>	(9,186,621)
Share in remeasurement loss on pension liability	<b>2,458,213</b>	(4,141,797)
Balance at end of year	<b>(10,870,205)</b>	(13,328,418)
	<b>(90,424,242)</b>	(279,322,647)
	<b>P3,701,129,217</b>	P3,424,938,315

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.

On December 2, 2015, the BOD of the Parent Company approved and authorized the Parent Company to subscribe to additional 297,094,118 shares of RBC for a total consideration of P2.97 billion in order for the Parent Company to maintain its ownership interest of 40.00%.

No dividends have been declared and paid by RBC in 2016 and 2015.

Summarized financial information of RBC follows:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	<b>December 31, 2015</b> <b>(Audited)</b>
Total assets	<b>P68,581,442,820</b>	P57,949,720,628
Total liabilities	<b>55,980,032,029</b>	46,069,908,888
Net income	<b>218,231,243</b>	100,732,335

The consolidated statements of comprehensive income follow:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	<b>December 31, 2015</b> <b>(Audited)</b>
Total operating income	<b>P2,645,841,821</b>	P3,172,291,682
Total operating expenses and tax	<b>2,427,610,578</b>	3,071,559,347
Net income	<b>P218,231,243</b>	P100,732,335

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, 2016 (Unaudited)	December 31, 2015 (Audited)
Net assets of RBC	<b>P8,530,748,478</b>	P7,840,271,223
Proportionate ownership in the associate	<b>40%</b>	40%
Carrying amount of the investment	<b>3,412,299,391</b>	3,136,108,489
Total share in net assets	<b>3,701,129,217</b>	3,424,938,315
Difference	<b>P288,829,826</b>	P288,829,826

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

## 15. Intangible Assets

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Goodwill (Note 20)	<b>P3,216,327,505</b>	P2,069,985,136
Trademarks (Note 20)	<b>3,386,126,662</b>	1,931,832,025
Licenses	<b>75,757,576</b>	84,848,486
Franchise	<b>21,786,296</b>	22,512,422
	<b>P6,699,998,039</b>	P4,109,178,069

### Trademarks

The trademarks were acquired through business combination in 2016 and 2015 and were recognized at fair value at the date of acquisition (Note 20).

### Goodwill

The Group's goodwill pertains to the excess of the acquisition cost over the fair value of the net assets of TGP, SEWI, SSDI, EC, RHIB, HPTDI, RTSHP, BSRI, JRMC and GPC as follows (Note 20):

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
TGP	<b>P1,116,342,368</b>	P-
SSDI	<b>745,887,132</b>	745,887,131
SEWI	<b>715,103,869</b>	715,103,869
EC	<b>199,870,222</b>	199,870,222
RHIB	<b>145,655,320</b>	145,655,320
RTSHP	<b>85,161,468</b>	85,161,468
BSRI	<b>83,324,691</b>	83,324,691
JRMC	<b>71,732,435</b>	71,732,435
HPTDI	<b>30,000,000</b>	-
GPC	<b>23,250,000</b>	23,250,000
	<b>P3,216,327,505</b>	P2,069,985,136

Acquisition of HPTDI by RHIB

On August 1, 2016, RHIB acquired 75.00% of Home Plus Trading Depot, Inc. for a total consideration of ₱58.50 million.

Acquisition of TGP by SSDI

On May 17, 2016, RRHI acquired 51% of The Generics Pharmacy.

Acquisition of SEWI by RI

SEWI was acquired on September 1, 2015. The acquisition represents 90% ownership interest on the shares of stock of SEWI.

Acquisition of RHIB by RHMI

RHIB was acquired on July 3, 2014. The acquisition represents 67.00% ownership interest on the shares of stock of RHIB.

Acquisition of GPC by SSDI

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

Acquisition of JRMC by RSC

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

Acquisition of EC by RSC

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

Acquisition of RTSHPI by RHMI

RTSHPI was acquired by RHMI on February 19, 2007. The acquisition represents 66.67% ownership interest on the shares of stock of RTSHPI.

Acquisition of BSRI by RSSI

On December 5, 2013, RSSI acquired the business of BSRI. The transaction was accounted for as a business combination.

Acquisition of SSDI by RSC and RI

SSDI was acquired by RSC and RI in July 4, 2012. The acquisition represents 90% ownership interest on the shares of stock of SSDI (Note 20).

*Licenses*

Acquisition of Trademark by RSSI to Secure a Franchise/License

On September 21, 2012, RSSI acquired a local trademark registered in the Philippine Intellectual Property Rights Office which is similar to a known international mark for ₱121.21 million. Due to such acquisition, RSSI was able to secure a franchise/license to exclusively use the similar known international mark in the Philippines. The franchise/license agreement is for an initial period of five (5) years which can be renewed for another five (5) years upon mutual agreement of the parties. Amortization amounted to ₱9.09 million for the nine months ending September 30, 2016 and 2015.

The roll-forward analysis of this account follows:

	<b>September 30, 2016</b> (Unaudited)	December 31, 2015 (Audited)
Beginning balance	<b>P84,848,486</b>	<b>P96,969,698</b>
Less: Amortization (Note 22)	<b>9,090,910</b>	<b>12,121,212</b>
	<b>P75,757,576</b>	<b>P84,848,486</b>

#### *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 year after the date of the agreement, and service fee equal to a certain percentage of sales.

As of September 30, 2016 and December 31, 2015, the Group has franchise amounting to P21.79 million and P22.51 million, respectively.

The roll-forward analysis of the franchise follows:

	<b>September 30, 2016</b> (Unaudited)	December 31, 2015 (Audited)
Beginning balance	<b>P22,512,422</b>	P13,805,165
Additions	<b>1,118,597</b>	9,877,677
Amortization (Note 22)	<b>(1,844,723)</b>	(1,170,422)
	<b>P21,786,296</b>	<b>P22,512,420</b>

In 2015, Group started recording amortization relating to franchise amounting to P1.17 million following the commencement of the Group's Costa operations.

## **16. Other Noncurrent Assets**

This account consists of:

	<b>September 30, 2016</b> (Unaudited)	December 31, 2015 (Audited)
Security and other deposits	<b>P1,411,477,420</b>	P1,292,797,568
Construction bond	<b>27,659,190</b>	35,305,287
	<b>P1,439,136,610</b>	<b>P1,328,102,855</b>

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



## 17. Trade and Other Payables

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Trade	<b>₱8,887,657,249</b>	₱11,046,137,738
Nontrade (Note 25)	<b>2,695,619,442</b>	3,469,168,376
Others	<b>346,856,254</b>	280,229,899
	<b>₱11,930,132,945</b>	₱14,795,536,013

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

Nontrade payables also include dividend payable amounting to ₱45 million.

Others consist of taxes and licenses payable.

## 18. Short term and Long term loans payable

Details of short-term loans follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Balance at beginning of year	<b>₱2,844,872,558</b>	₱111,686,997
Availments	<b>2,445,000,000</b>	2,939,000,000
Payments	<b>(477,871,895)</b>	(205,814,439)
Current portion	<b>₱4,812,000,663</b>	₱2,844,872,558

Details of long-term loans follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Balance at beginning of year	<b>₱2,844,872,558</b>	₱111,686,997
Availments	<b>2,445,000,000</b>	2,939,000,000
Payments	<b>(477,871,895)</b>	(205,814,439)
Balance at end of year	<b>4,812,000,663</b>	2,844,872,558
Less current portion	<b>4,812,000,663</b>	2,844,872,558
Noncurrent portion	<b>₱—</b>	₱—

The balances of loans of the subsidiaries follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
RI	<b>₱1,206,000,000</b>	₱1,206,000,000
RSC	<b>437,000,000</b>	1,023,000,000
RCSI	<b>660,000,000</b>	410,000,000
RHDDS	<b>150,000,000</b>	150,000,000
SSDI	<b>2,359,000,663</b>	55,872,558
	<b>₱4,812,000,663</b>	₱2,844,872,558

- a.) RI loans payable consists of loans from local banks which will mature within three (3) months and with interest rate at 2.50% per annum. The proceeds of loans were used in the acquisition of SEWI (Note 20).
- b.) RSC availed short-term promissory notes amounting to ₱1.02 billion from local banks with interest rate at 2.50% per annum which is renewable every three (3) months at the option of the Company. The short-term notes were obtained to support working capital requirements of the Company.
- c.) RCSI loans payable pertains to short-term loans from a local bank amounting to ₱410.00 million. Interest on the loans is computed at prevailing market interest rates. The Parent Company acts as the guarantor of RCSI. The bank restricted ₱410.00 million from RRHI's bank accounts as guarantee for the loan.
- d.) RHDDS obtained a short-term loan from a local commercial bank which will mature within three (3) months and with interest rate at 2.50% per annum. The Parent Company acts as the guarantor for the outstanding loans of RHDDS.
- e.) SSD obtained a short-term amounting to ₱2.20 billion from local banks with interest rate at 2.50% per annum, which will mature within three (3) months. The proceeds of loans were used in the acquisition of TGP (Note 20).

Total interest expense charged to operations amounted to ₱54.47 million and ₱7.27 million for the nine months ended September 30, 2016 and 2015, respectively

The above loans are not subject to any loan covenants.

## 19. Equity

### *Capital Stock*

The details of this account follows:

	September 30, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Amount	No. of shares	Amount	No. of shares
Common stock - ₱1 par value				
Authorized shares	<b>₱2,000,000,000</b>	<b>2,000,000,000</b>	₱2,000,000,000	2,000,000,000
Issued shares	<b>1,385,000,000</b>	<b>1,385,000,000</b>	1,385,000,000	1,385,000,000
Treasury shares	—	—	—	—

The rollforward of issued shares account follows:

	No. of Shares		Amount	
	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
At beginning of year	<b>1,385,000,000</b>	1,385,000,000	<b>₱1,385,000,000</b>	₱1,385,000,000
Issuance	–	–	–	–
At end of year	<b>1,385,000,000</b>	1,385,000,000	<b>₱1,385,000,000</b>	₱1,385,000,000

#### Increase in Authorized Capital Stock

As approved by the BOD on June 7, 2013, the Parent Company increased its authorized capital stock from ₱500.00 million divided into 500,000,000 common shares with par value of ₱1.00 per share to ₱2.00 billion divided into 2,000,000,000 common shares with par value of ₱1.00 per share.

Of the said increase in the authorized capital stock, 485,250,000 shares have been subscribed amounting ₱485.25 million on the same date.

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

#### Registration Track Record

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

#### Equity Reserve

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 ₱1.03 billion included in “Equity Reserve” in the consolidated statement 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. As a result, outstanding balance from ₱136.44 million increased to ₱171.91 million. This was fully settled in cash in 2015.

#### Treasury Shares

On September 7, 2013 the BOD of the Parent Company approved the buyback of its common shares sold during the IPO. Of the total shares sold to the public, 18,971,950 common shares were reacquired by the Parent Company at ₱58.00 per share or an aggregate cost of ₱1.10 billion.

On December 9, 2014, the Parent Company sold all its treasury shares consisting of 18,971,950 common shares at ₱69.00 per share or ₱1.31 billion, incurring transaction costs amounting to ₱8.22 million.

### *Retained Earnings*

The income of the subsidiaries and accumulated equity in net income of the associate that are recognized in the consolidated statement of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and associates. The accumulated earnings of subsidiaries included in retained earnings amounted to ₱13.3 billion and ₱12.38 billion as at September 30, 2016 and December 31, 2015, respectively, while the accumulated equity in net income of the associate amounted to ₱662.0 million.

Also, retained earnings were restricted to payments of dividends to the extent of cost of treasury shares in the amount of ₱1.10 billion as at December 31, 2013.

On June 9, 2016, the BOD approved the declaration of cash dividend of ₱0.63 per share or an aggregate amount of ₱872.55 million to all stockholders of record as of June 29, 2016 which was paid on July 25, 2016.

On July 16, 2015, the BOD approved the declaration of cash dividend of ₱0.51 per share or an aggregate amount of ₱706.35 million to all stockholders of record as of August 7, 2015 which was paid on September 4, 2015.

On June 25, 2014, the BOD approved the declaration of cash dividend of ₱0.41 per share or an aggregate amount of ₱560.07 million to all stockholders of record as of July 17, 2014 which was paid on August 12, 2014.

### Appropriation of Retained Earnings

On May 22, 2015, the BOD approved the appropriation of ASI amounting to ₱11.00 million to be used to augment new stores with the Group's nationwide expansion within 2 years in line with the Group's nationwide expansion.

On December 7, 2015, the Group's BOD approved the appropriation of ₱2.25 billion. The appropriated retained earnings shall be used to augment new stores with the Group's nationwide expansion within 2 years in line with the Group's nationwide expansion.

Entity	Amount
RSC	₱1,195,000,000
RHI	460,000,000
SSDI	300,000,000
RI	375,000,000
RTI	110,000,000
RTSHPI	70,000,000
RSSI	30,000,000
EC	13,000,000
	<u>₱2,553,000,000</u>

On December 7, 2015, the BOD approved the reversal of appropriated retained earnings amounting to ₱127.00 million. Details are as follows:

Entity	Amount
WHMI	₱70,000,000
RHI	50,000,000
HEMI	7,000,000
	<u>₱127,000,000</u>

On December 8, 2015, the Group's BOD approved the appropriation of P249.00 million. The appropriated retained earnings shall be used to augment new stores with the Group's nationwide expansion.

Entity	Amount
RVC	P9,000,000
ASI	13,000,000
RAC	140,000,000
HEMI	9,000,000
WHMI	78,000,000
	<u>P249,000,000</u>

On February 6, 2014, the Group's BOD approved the appropriation of P1.76 billion. The appropriated retained earnings shall be used to augment funds to construct 69 new stores and renovate 3 stores during the year in line with the Group's nationwide expansion.

Details follow:

Entity	Amount
RSC	P1,000,000,000
RHMI	325,000,000
RI	200,000,000
RTSHPI	80,000,000
WHMI	55,000,000
RAC	47,000,000
RSSI	25,000,000
RTI	32,000,000
Total	<u>P1,764,000,000</u>

On November 25, 2014, the Group's BOD approved the additional appropriation of P2.27 billion. The appropriated retained earnings shall be used to augment funds in construction, renovation and strategic acquisitions in the next 2 years in line with the Group's nationwide expansion.

Details follow:

Entity	Amount
RSC	P900,000,000
RRHI TMI	440,200,000
RHMI	430,000,000
RI	410,000,000
SSDI	190,000,000
RAC	106,000,000
RTI	86,000,000
RTSHPI	60,000,000
WHMI	60,000,000
EC	25,000,000
RVC	10,000,000
HEMI	5,000,000
Total	<u>P2,722,200,000</u>

On November 25, 2014, the BOD approved the reversal of the appropriated retained earnings of RSSI amounting P15.00 million.

On December 1, 2014, the BOD approved the additional appropriation of ₱1.50 billion for RRHI. The appropriated retained earnings shall be used to continue RRHI's investment programs for the next 3 years.

On July 4, 2013, the BOD approved the reversal of the appropriated retained earnings amounting ₱1.40 billion. The appropriation was made in 2011 for continuing investment in subsidiaries.

Declaration of Dividends of the Subsidiaries

On December 7, 2015, the BOD of the subsidiaries of the Group approved the declaration of cash dividends as follows:

Entity	Amount
WHMI	₱70,000,000
RHMI	50,000,000
RTI	30,000,000
RTSHPI	30,000,000
SSDI	20,000,000
HEMI	7,000,000
<b>Total</b>	<b>₱207,000,000</b>

The cash dividends above are to be paid in 2016.

On August 20, 2014, the BOD of the subsidiaries of the Group approved the declaration of cash dividends as follows:

Entity	Amount
RSC	₱200,000,000
RI	100,000,000
RTSHPI	35,000,000
<b>Total</b>	<b>₱335,000,000</b>

The cash dividends were paid early 2015.

On January 30, 2014, the BOD of the subsidiaries of the Group approved the declaration of cash dividends of RTSHPI amounting to ₱8.00 million. The dividends were paid on February 28, 2014.

On July 17, 2013, the BOD of the subsidiaries of the Group approved the declaration of cash dividends as follows:

Entity	Amount
RI	₱360,000,000
RSC	240,000,000
RTI	150,000,000
<b>Total</b>	<b>₱750,000,000</b>

On January 4, 2013, the BOD of the subsidiaries of the Group approved the declaration of cash dividends of RTHSPI amounting to ₱8.00 million. The dividends were paid on February 28, 2013.

## NCI

### *Investment from non-controlling interest*

In 2015 and 2014, transactions relating to NCI pertain to capital call for each investee summarized as follows (Note 2):

Entity	December 31, 2015 (Audited)
SEWI	₱35,000,000
RHIB	148,000,000
RHDDS	—
<b>Total</b>	<b>₱183,000,000</b>

### *Acquisition of NCI from Business Combinations*

In 2015 and 2014, the Group has acquired NCI through business combinations on the acquisition of SEWI and RHIB amounting ₱30.54 million and ₱27.26 million, respectively.

In May 2016, the Group acquired NCI on the acquisition of TGP Pharma, Inc. amounting to ₱1,036.4 million.

In August 2016, the Group acquired NCI on the acquisition of HPTDI amounting to ₱9.5 million.

### *Dividends to NCI*

In 2015 and 2014, dividends declared attributable to NCI amounted to ₱62.96 million and ₱27.32 million, respectively.

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## **20. Business Combinations**

In 2015 and 2014, the Group acquired various entities through business combinations from which the Group has recognized goodwill. The goodwill is concluded to be attributable to each entity acquired and comprises the fair value of the expected synergies from each acquisition.

### *Acquisition of HPTD*

On August 1, 2016, RHIB acquired 75% ownership of HPTD for a total consideration of ₱58.50 million.

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

Assets	
Property and equipment (Note 13)	₱33,928,571
Input VAT	4,071,429
Net assets before non-controlling interest	38,000,000
Non-controlling interest measured at share of net assets (25%)	9,500,000
Net assets (75%)	28,500,000
Goodwill (Note 15)	30,000,000
<b>Acquisition cost</b>	<b>₱58,500,000</b>

#### *Acquisition of TGP*

On May 17, 2016, SSDI acquired 51% of TGP Pharma, Inc. for a total consideration of ₱2.20 billion. The purchase price allocation has been prepared on a preliminary basis as the fair value of the net assets are being finalized.

	FairValues recognized on acquisition
Current Assets	₱1,162,349,292
Trademarks	1,454,294,641
Other non-current Assets	111,360,270
Liabilities	(176,700,847)
Deferred tax Liability	(436,288,392)
Net assets before non-controlling interest	2,115,014,964
Non-controlling interest measured at share of net assets (49%)	1,036,357,332
Net Assets (51%)	1,078,657,632
Goodwill arising on acquisition (Note 15)	1,116,342,368
Consideration	₱2,195,000,000

#### *Acquisition of SEWI*

On September 1, 2015, RI a wholly-owned subsidiary of RRHI, acquired 90% ownership of SEWI for a total consideration of ₱990.0 million.

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

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

	FairValues recognized on acquisition
Assets	
Cash	₱1,650,000
Other current assets	5,393,352
Property and equipment (Note 13)	44,858,715
Trademarks arising on acquisition (Note 15)	364,914,493
	416,816,560
Liabilities	
Advances from stockholders*	1,902,066
Deferred tax liability	109,474,348
Net assets before non-controlling interest	305,440,146
Non-controlling interest measured at share of net assets (10%)	30,544,015
Net assets (90%)	274,896,131
Goodwill arising on acquisition (Note 15)	715,103,869
Acquisition cost	₱990,000,000

\*Presented under trade and other payables account

The goodwill of ₱715.10 million comprises the fair value of expected synergies arising from acquisition. The goodwill recognized is not expected to be deductible for income tax purposes.



*Acquisition of GPC*

On June 2, 2014, SSDI acquired 100% ownership of GPC for a total consideration of ₱24.50 million.

Below are the fair values of the identifiable assets acquired:

Assets	
Property and equipment (Note 13)	₱1,250,000
Net assets	1,250,000
Goodwill (Note 15)	23,250,000
Acquisition cost	₱24,500,000

In 2015, 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 ₱23.25 million.

GPC is incorporated on December 6, 2013 and started its commercial operation on May 17, 2014.

The goodwill of ₱23.25 million comprises the fair value of expected synergies arising from acquisition. The goodwill recognized is not expected to be deductible for income tax purposes.

*Acquisition of JRMC*

On January 29, 2014, RSC acquired 100% ownership of JRMC for a total consideration of ₱131.71 million.

The fair values of the identifiable assets of JRMC at the date of acquisition follow:

	Fair Values recognized on acquisition
Assets	
Property and equipment (Note 13)	₱84,617,057
Liability	
Deferred tax liability	24,635,117
Net assets	59,981,940
Goodwill (Note 15)	71,732,435
Acquisition cost	₱131,714,375

As of December 31, 2014, 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 ₱71.73 million.

The goodwill of ₱71.73 million comprises the fair value of expected synergies arising from acquisition. The goodwill recognized is not expected to be deductible for income tax purposes.

*Acquisition of RHIB*

On July 3, 2014, RHMI acquired 67% ownership of RHIB for a total consideration of ₱201.00 million.

In 2015, RHIB finalized the purchase price allocation of the acquisition. Below are the fair values of the identifiable assets acquired:

Assets	
Property and equipment (Note 13)	₱80,224,117
Security deposits	3,495,883
Liability	
Deferred tax liability	1,116,000
Net assets before non-controlling interest	82,604,000
Non-controlling interest measured at share of net assets (33%)	27,259,320
Net assets (67%)	55,344,680
Goodwill (Note 15)	145,655,320
Acquisition cost	₱201,000,000

As a result, property and equipment and non-controlling interest increased by ₱3.72 million and ₱0.86 million, respectively. The final purchase price allocation resulted in goodwill of ₱145.66 million from the previously determined provisional amount of ₱147.40 million.

The goodwill of ₱147.40 million comprises the fair value of expected synergies arising from acquisition. The goodwill recognized is not expected to be deductible for income tax purposes.

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## 21. Sales Revenue

Sales are recognized from retail customers at the point of sale in the stores.

Sales returns and sales discounts deducted from the sales to arrive at the net sales amounted to ₱1.80billion and ₱1.68billion in September 30, 2016 and 2015, respectively.

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## 22. Operating Expenses

Operating expenses for the nine months ended September 30 consist of:

	2016 (Unaudited)	2015 (Unaudited)
Rental and utilities (Notes 25, 29 and 30)	₱5,996,112,906	₱5,362,456,900
Personnel costs and contracted services (Notes 23 and 24)	3,986,095,818	3,398,463,966
Depreciation and amortization (Notes 13, 15 and 16)	1,430,926,050	1,204,120,184
Transportation and travel	686,526,132	563,835,463
Supplies	412,595,784	368,779,625
Bank and credit charges	341,281,823	292,723,531
Advertising	342,864,866	234,403,385
Repairs and maintenance	237,893,500	221,463,771
Royalty expense (Note 30)	105,901,374	91,217,096
Others	359,391,354	285,078,875
	₱13,899,589,607	₱12,022,542,796

Depreciation and amortization expense pertains to the depreciation and amortization of property and equipment and amortization of franchise fees and license fees which amounted to ₱1.42 billion and ₱10.94 million, respectively, in 2016 and ₱1.19 billion and ₱13.75 million, respectively, in 2015.

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

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## 23. Personnel Costs and Contracted Services

This account consists of:

	<b>2016</b> <b>(Unaudited)</b>	2015 (Unaudited)
Salaries, allowances and benefits (Note 22)	<b>₱1,916,513,280</b>	₱1,615,872,989
Contracted services (Note 22)	<b>2,069,582,538</b>	1,782,590,977
	<b>₱3,986,095,818</b>	₱3,398,463,966

Details of salaries, allowances and benefits:

	<b>2016</b> <b>(Unaudited)</b>	2015 (Unaudited)
Salaries, wages and allowances	<b>₱1,829,378,876</b>	₱1,547,453,119
Net pension expense (Note 24)	<b>87,134,404</b>	68,419,870
	<b>₱1,916,513,280</b>	₱1,615,872,989

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## 24. 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 (the Plan).

The Group computes the actuarial valuation every year by hiring the services of a professional third party qualified actuary. The latest actuarial valuation report for the retirement plan was issued on February 16, 2016.

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

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

Under the existing regulatory framework, Republic Act 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 pension expense under “Operating expenses” account in the consolidated statements of comprehensive income are as follows:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 (Audited)
Current service cost	<b>P84,888,314</b>	P88,276,155
Net interest cost	<b>2,246,090</b>	27,624,333
Pension expense	<b>P87,134,404</b>	P115,900,488

Net pension liabilities

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 (Audited)
Pension obligation	<b>P748,870,815</b>	P661,736,412
Fair value of plan assets	<b>(188,389,781)</b>	(188,389,781)
Net pension liabilities	<b>P560,481,034</b>	P473,346,631

Remeasurement effects recognized in OCI

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 (Audited)
Remeasurement gains in pension liability	<b>P–</b>	P107,094,186
Remeasurement losses in pension assets	<b>–</b>	(608,638)
	<b>P–</b>	P106,485,548

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

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 (Audited)
Balance at beginning of year	<b>P473,346,631</b>	P634,701,436
Pension expense	<b>87,134,403</b>	115,900,488
Remeasurement gains	<b>–</b>	(106,485,548)
Actual contribution	<b>–</b>	(170,769,745)
Balance at end of year	<b>P560,481,034</b>	P473,346,631

Movements in the fair value of plan assets follow:

	<b>September 30, 2016</b> <b>(Unaudited)</b>	December 31, 2015 (Audited)
Balance at beginning of year	<b>P188,389,781</b>	17,425,365
Actual contribution	<b>–</b>	170,769,745
Interest income included in net interest cost	<b>–</b>	803,309
Remeasurement losses	<b>–</b>	(608,638)
Balance at end of year	<b>P188,389,781</b>	P188,389,781

Changes in the present value of defined benefit obligation follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Balance at beginning of year	<b>₱661,736,412</b>	₱652,126,801
Current service cost	<b>84,888,315</b>	88,276,155
Interest cost	<b>2,246,088</b>	28,427,642
Remeasurement losses arising from:		
Changes in financial assumptions	—	(174,709,623)
Experience adjustments	—	66,556,851
Changes in demographic assumptions	—	1,058,586
Balance at end of year	<b>₱748,870,815</b>	₱661,736,412

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, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash and cash equivalents		
Savings deposit	<b>₱170,789,617</b>	₱170,789,617
Time deposit	<b>1,100,611</b>	1,100,611
	<b>171,890,228</b>	171,890,228
Investments in government securities		
Fixed rate treasury notes	<b>9,573,392</b>	9,573,392
Retail treasury bonds	<b>6,055,657</b>	6,055,657
	<b>15,629,049</b>	15,629,049
Investments in UITF	<b>891,530</b>	891,530
Accrued trust fee payable	<b>(21,026)</b>	(21,026)
	<b>₱188,389,781</b>	₱188,389,781

The Group expects to contribute about ₱199.61 million into the pension fund in 2016.

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

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Discount rates	<b>5.00%-5.99%</b>	5.00%-5.99%
Salary increase rates	<b>5.70%</b>	5.70%

The carrying amounts disclosed above reasonably approximate fair value at each reporting period. The actual return on plan assets amounted ₱0.19 million in 2015.

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
<b>2015</b>	<b>Salary increase</b>	<b>+1.00%</b>	<b>(P123,209,060)</b>
		<b>-1.00%</b>	<b>163,963,824</b>
	<b>Discount rates</b>	<b>+1.00%</b>	<b>135,581,554</b>
		<b>-1.00%</b>	<b>(95,932,180)</b>

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. The distribution of plan assets are as follow 4% of debt instruments, 5% of equity instruments, and 11% for cash and receivables. 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:

	<b>2015</b>
Less than 1 year	<b>P28,803,690</b>
More than 1 year but less than 5 years	<b>85,482,842</b>
More than 5 years but less than 10 years	<b>290,966,650</b>
More than 10 years but less than 15 years	<b>390,789,771</b>
More than 15 years but less than 20 years	<b>524,268,277</b>
More than 20 years	<b>4,718,387,484</b>

## 25. 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:

Category	Amount		Due from (Due to)		Terms and Conditions
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	
<b>Other affiliates under common control</b>					
a. Trade receivable and other receivables	<b>P-</b>	<b>P-</b>	<b>P182,437,425</b>	<b>P223,015,830</b>	<b>Noninterest bearing and due in 30 days, not impaired</b>
Sales	<b>2,219,804,379</b>	2,657,101,055	—	—	
Royalty income	<b>932,543,243</b>	1,029,055,789	—	—	
b. Trade and other payable	<b>P-</b>	<b>P-</b>	<b>(P387,297,727)</b>	<b>(P408,827,740)</b>	<b>Noninterest bearing and payable in 30 days, unsecured</b>
Purchases - net	<b>(1,933,603,769)</b>	(2,345,176,138)	—	—	
Rent and utilities	<b>(2,070,197,174)</b>	(3,366,122,925)	—	—	

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

- a. As of September 30, 2016 and December 31, 2015, the Group has outstanding balances from its other affiliates amounting to ₱182.44million and ₱ 223.02 million arising primarily from sales of merchandise inventories and royalty income for grant of use and right to operate stores of the Group.

Sales of merchandise inventories to related parties amounted to ₱2.22 billion and ₱2.66 billion, and royalty income amounted to ₱932.54 million and ₱1.03 billion for the nine months ended September 30, 2016 and for the year ended December 31, 2015, respectively (Note 30).

- b. As of September 30, 2016 and December 31, 2015,, the Group has outstanding payable to its other affiliates amounting to ₱387.3 million and ₱408.83 million arising from purchases of merchandise inventories for resale to its customers which are normally paid within the year and expenses for rent and utilities relative to the Group's operations. Lease agreements are cancellable and normally have terms of 5 to 20 years with escalation clauses ranging from 5% to 10% every year and renewable every year.

Purchases of merchandise inventories for resale to customers amounted to ₱1.70billion and ₱2.35 billion while payment for rent and utilities amounted to ₱1.80 billion and ₱3.37 billion for the nine months ended September 30, 2016 and for the year ended December 31, 2015, respectively.

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

*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 has not recognized any impairment losses on amounts due from related parties for the nine months ended September 30, 2016 and for the year ended December 31, 2015. This assessment is undertaken each financial yearthrough a review of the financial position of the related party and the market in which the related party operates.

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## 26. Income Tax

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

	<b>2016</b> <b>(Unaudited)</b>	2015 (Unaudited)
Current	<b>₱1,051,587,331</b>	₱925,868,079
Deferred	<b>(93,324,628)</b>	(55,175,935)
	<b>₱958,262,703</b>	₱870,692,144

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

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Tax effects of:		
Pension liability	<b>P168,144,310</b>	P142,003,989
NOLCO	<b>95,784,873</b>	41,785,925
MCIT	<b>12,830,250</b>	4,900,088
Accrued rent	<b>5,491,754</b>	4,518,461
Allowance for inventory write-down	<b>2,052,550</b>	2,052,550
Derivative liability	<b>145,629</b>	145,629
Allowance for impairment losses	<b>199,568</b>	25,241
Fair value adjustment on AFS financial assets and investment in an associate	<b>(64,073,659)</b>	(7,226,451)
Unrealized foreign exchange gain	<b>(8,075,859)</b>	(8,075,859)
	<b>P212,499,416</b>	P180,129,573

As of September 30, 2016 and December 31, 2015, the deferred tax liability of the Group amounting to P1.09 billion and P655.17 million, respectively, pertains to deferred taxes attributable to trademarks and difference in the fair values and carrying values of the net assets acquired through business combinations (Note 20).

## 27. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company for the nine months ended September 30, 2016 and 2015:

	2016	2015
Net income attributable equity holder of the Parent Company	<b>P3,301,310,374</b>	P2,972,168,086
Weighted average number of common shares	<b>1,385,000,000</b>	1,385,000,000
Adjusted weighted average number EPS	<b>1,385,000,000</b>	1,385,000,000
Basic and Diluted EPS	<b>P2.38</b>	P2.15

The Parent Company has no dilutive potential common shares in 2016 and 2015.

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transaction during the year.

## 28. Risk Management and Financial Instruments

### Governance Framework

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



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

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the AFS financial assets and noncurrent loans payable as of September 30, 2016 and December 31, 2015.

#### Fair Value Information

As of September 30, 2016 and December 31, 2015, the carrying values and fair values of the AFS financial assets amounted to ₱20.54 billion and ₱19.51 billion, respectively (Note 12).

As of September 30, 2016 and December 31, 2015, the carrying values of loans payable amounted to ₱4.81 billion and ₱2.84 billion, respectively. Corresponding fair values amounted to ₱4.81 billion and ₱2.84 billion, respectively (Note 18).

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

#### *Financial Assets*

Due to the short-term nature of the transaction, the fair value of cash and cash equivalents, trade and other receivables and security deposits approximates the carrying values at year-end. The fair value of the AFS financial assets has been determined based on prevailing market quotes.

#### *Financial Liabilities*

Due to the short-term nature of trade and other payables and other current liabilities, their carrying values approximate fair value. The fair values of loans payable are based on the discounted value of future cash flows using the applicable rates for similar types of loans.

#### Fair Value Hierarchy

As of September 30, 2016 and December 31, 2015, the Group has AFS financial assets valued under Level 1 amounting ₱20.54 billion and ₱19.51 billion, respectively (Note 12). These financial assets are measured at fair value.

As of September 30, 2016 and December 31, 2015, the Group has loans payable for which fair values are disclosed under level 3 amounting ₱4.81 billion and ₱2.84 billion, respectively (Note 18).

There were no transfers among levels 1, 2 and 3 in 2015 and 2014.

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

## Financial Risk

### *Interest Rate Risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to market risk for interest rates relates primarily to the amounts due to related parties at current market rates and loans payable at floating rates.

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

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

### *Liquidity Risk*

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

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

The table below shows the maturity profile of the financial instruments of the Group as of September 30, 2016 and December 31, 2015 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, 2016

	On Demand	1 year	More than 1 year	Total
<b>Financial Assets</b>				
<b>Loans and receivables</b>				
Cash and cash equivalents	<b>P6,370,941,149</b>	<b>P-</b>	<b>P-</b>	<b>P6,370,941,149</b>
Trade receivables	-	896,498,733	-	896,498,733
Nontrade receivables	-	436,413,235	-	436,413,235
Due from franchises	-	240,310,405	-	240,310,405
Other noncurrent assets				
Security and other deposits	-	161,765,620	1,249,711,800	1,411,477,420
Construction bond	-	-	27,659,190	27,659,190
<b>AFS financial assets</b>	-	-	20,536,517,316	20,536,517,316
	<b>P6,370,941,149</b>	<b>P1,734,987,993</b>	<b>P21,813,888,306</b>	<b>P29,919,817,448</b>
<b>Financial Liabilities</b>				
<b>Other financial liabilities</b>				
Trade and other payables*	P-	P11,804,610,997	P-	P11,804,610,997
Loans payable	-	4,812,000,663	-	4,812,000,663
Other current liabilities	-	249,901,832	-	249,901,832
	<b>P-</b>	<b>P16,866,513,492</b>	<b>P-</b>	<b>P16,866,513,492</b>

\*excluding statutory liabilities amounting P125,521,948

December 31, 2015

	On Demand	1 year	More than 1 year	Total
Financial Assets				
Loans and receivables				
Cash and cash equivalents	P9,757,351,816	P-	P-	P9,757,351,816
Short -term investments	-	7,059,000	-	7,059,000
Trade receivables	-	905,655,683	-	905,655,683
Nontrade receivables	-	601,820,649	-	601,820,649
Due from franchises	-	266,828,000	-	266,828,000
Other noncurrent assets				
Security and other deposits	-	69,172,817	1,223,624,751	1,292,797,568
Construction bond	-	-	35,305,287	35,305,287
AFS financial assets	-	-	19,511,313,846	19,511,313,846
	P9,757,351,816	P1,850,536,149	P20,770,243,884	P32,378,131,849
Financial Liabilities				
Other financial liabilities				
Trade and other payables*	P-	P14,580,321,689	P-	P14,580,321,689
Loans payable	-	2,844,872,558	-	2,844,872,558
Other current liabilities	-	197,583,490	-	197,583,490
	P-	P17,622,777,737	P-	P17,622,777,737

\*excluding statutory liabilities amounting P215,214,324.

As of September 30, 2016 and December 31, 2015, the Group has outstanding loans amounting P4.81 billion and P2.84 billion, respectively (Note 18).

*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 tables below show the aging analysis of loans and receivables and AFS financial assets as at September 30, 2016 and December 31, 2015.

### September 30, 2016

	Neither past due nor impaired	1 year	More than 1 year	Impaired Financial Assets	Total
Financial Assets					
Loans and receivables					
Cash in bank and cash equivalents	<b>P6,058,179,718</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P6,058,179,718</b>
Trade receivables	<b>895,917,643</b>	-	-	<b>581,090</b>	<b>896,498,733</b>
Nontrade receivables	<b>436,413,235</b>	-	-	-	<b>436,413,235</b>
Due from franchises	<b>218,849,394</b>	-	-	<b>21,461,011</b>	<b>240,310,405</b>
Other noncurrent assets					
Security and other deposits	<b>1,411,477,420</b>	-	-	-	<b>1,411,477,420</b>
Construction bond	<b>27,659,190</b>	-	-	-	<b>27,659,190</b>
AFS financial assets	<b>20,536,517,316</b>	-	-	-	<b>20,536,517,316</b>
	<b>P29,585,013,916</b>	<b>P-</b>	<b>P-</b>	<b>P22,042,101</b>	<b>P29,607,056,017</b>

### December 31, 2015

	Neither past due nor impaired	1 year	More than 1 year	Impaired Financial Assets	Total
Financial Assets					
Loans and receivables					
Cash in bank and cash equivalents	<b>P9,757,351,816</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P9,757,351,816</b>
Short -term investments	<b>7,059,000</b>	-	-	-	<b>7,059,000</b>
Trade receivables	<b>845,124,849</b>	<b>59,949,744</b>	-	<b>581,090</b>	<b>905,655,683</b>
Nontrade receivables	<b>597,533,345</b>	<b>4,287,304</b>	-	-	<b>601,820,649</b>
Due from franchises	<b>266,828,000</b>	-	-	<b>29,461,011</b>	<b>296,289,011</b>
Other noncurrent assets					
Security and other deposits	<b>1,292,797,568</b>	-	-	-	<b>1,292,797,568</b>
Construction bond	<b>35,305,287</b>	-	-	-	<b>35,305,287</b>
AFS financial assets	<b>19,511,313,846</b>	-	-	-	<b>19,511,313,846</b>
	<b>P32,313,313,711</b>	<b>P64,237,048</b>	<b>P-</b>	<b>P30,042,101</b>	<b>P32,407,592,860</b>

As of September 30, 2016 and December 31, 2015, all trade and other receivables are expected to be settled within one (1) year.

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

### *Credit Quality*

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 short-term investments 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.

The Group's financial assets considered as neither past due nor impaired amounting to P29.61 billion and P32.31 billion as of September 30, 2016 and December 31, 2015, respectively are all graded "A" based on the Group's assessment.

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## 29. Lease Commitments

### *Group as Lessee*

The Group has entered into cancellable lease agreements as a lessee with terms of one (1) year up to twenty five(25) years. Most leases contain renewal options and a clause enabling annual upward revision of the rental charges based on prevailing market conditions. Other leases provide for the percentage rent which is a certain percentage of actual monthly sales. Rent expense for the period ended September 30, 2016 and 2015 amounted to ₱3.53 billion and ₱3.10 billion, respectively (Notes 22 and 25).

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## 30. 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 ₱54.24 million and ₱47.99 million for the period ended September 30, 2016 and 2015, respectively (Note 22). Royalty payable to Ministop included under “Nontrade payable” as of September 30, 2016 and December 31, 2015 amounted to ₱5.68 million and ₱6.29 million, respectively (Note 17).

- b) The Group has franchise agreements which mainly include providing store facilities and equipment to franchisees. Other services rendered by Ministop consist of providing personnel and utilities. The lease/royalty fee is based on a certain percentage of the gross profit of the lessee/franchisee. The related royalty income amounted to ₱1,274.53 million and ₱1,110.30 million for the period ended September 30, 2016 and 2015, respectively.

As of September 30, 2016 and December 31, 2015, amounts due from franchisees amounted to ₱210.85 million and ₱266.83 million, respectively. These amounts are net of allowance for impairment losses on due from franchisees amounting ₱29.46 million as of September 30, 2016 and for the year ended December 31, 2015 (Note 9).

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

Royalty expenses amounted to ₱4.22 million and ₱2.95 million for the nine months ended September 30, 2016 and 2015, respectively.

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

Amortization amounted to ₱9.09 million for the nine months ending September 30, 2016 and 2015.

- e.) The Group is a sub-licensee of Toys R Us in the Philippines. The royalty fee is based on fixed percentage of gross monthly sales of sub-licensee. Royalty expense amounted to

₱43.09 million and ₱33.43 million for the nine months ended September 30, 2016 and 2015, respectively.

- f.) On July 29, 2014, Costa International Limited granted the Group the development and operating rights to carry on the Costa business in the Philippines (Note 15).

The Group started Costa operations in June 2015 and royalty expenses amounted to ₱3.01 million and nil for the nine months ended September 30, 2016 and 2015, respectively.

- g.) The Group has other licenses and franchises to carry various global brands.
- h.) The Group has franchise agreements which mainly include the use of TGP branding and access to TGP house brand generics.

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### **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 Company, 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 Company's financial position and results of operations.

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### **32. Subsequent Events**

On October 1, 2016, Robinson's Incorporated acquired 100% stake in Chic Centre Corporation.

## **SUPPLEMENTARY SCHEDULES**

### **Report of Independent Auditors on Supplementary Schedules**

- I. Supplementary schedules required by Annex 68-E
  - A. Financial Assets (Other Short-Term Cash Investments)
  - B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
  - C. Amounts Receivable/Payable From/To Related Parties which are Eliminated During the Consolidation of Financial Statements
  - D. Intangible Assets
  - E. Short term and Long term Debt
  - F. Indebtedness to Related Parties
  - G. Guarantees of Securities of Other Issuers
  - H. Capital Stock
- II. Schedule of Financial Soundness Indicators
- III. Use of Proceeds from Initial Public Offering

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE A: FINANCIAL ASSETS (OTHER SHORT-TERM CASH INVESTMENTS)****SEPTEMBER 30, 2016**

<b>Name of issuing entity and association of each issue</b>	<b>Number of shares or principal amount of bonds and notes</b>	<b>Amount shown in the balance sheet</b>	<b>Value based on market quotation at end of reporting period</b>	<b>Income received and accrued</b>
AFS Financial Assets				
Various bonds	P15,433,566,050	P16,700,817,316	P16,700,817,316	P495,747,882
Notes	1,683,700,000	1,683,700,000	1,683,700,000	63,842,907
Investment in preferred shares	2,000,000,000	2,152,000,000	2,152,000,000	83,625,000
	P19,117,266,050	P20,536,517,316	P20,536,517,316	P643,215,789



**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDER (OTHER THAN RELATED PARTIES)****SEPTEMBER 30, 2016**

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

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**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE C: AMOUNTS RECEIVABLES/PAYABLES FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING  
THE CONSOLIDATION OF FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

<b>Entity with Receivable Balance</b>	<b>Balance at Beginning of Period</b>	<b>Net Movement</b>	<b>Write-offs</b>	<b>Current</b>	<b>Noncurrent</b>	<b>Balance at end of period</b>
Robinsons Retail Holdings Inc.	P323,154,022	P2,232,966,113	P–	P2,556,120,135	P–	P2,556,120,135
Robinsons Toys Inc.	186,302,596	(147,138,498)	–	39,164,098	–	39,164,098
Robinsons Supermarket Corporation	27,334,511	(11,548,118)	–	15,786,393	–	15,786,393
Robinson's Incorporated	17,689,258	(7,728,113)	–	9,961,145	–	9,961,145
RHD Daiso- Saizen Inc.	123,902,882	(92,986,808)	–	30,916,074	–	30,916,074
	P678,383,269	P1,973,564,576	P–	P2,651,947,845	P–	P2,651,947,845

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE D: INTANGIBLE ASSETS****SEPTEMBER 30, 2016**

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Charged to other accounts	Other changes	Ending balance
Trademarks	P1,931,832,025	P1,454,294,637	P–	P–	P–	P3,386,126,662
Goodwill	2,069,985,136	1,146,342,369	–	–	–	3,216,327,505
License	84,848,486	–	(9,090,910)	–	–	75,757,576
Franchise	22,512,422	1,118,597	(1,844,723)	–	–	21,786,296
	P4,109,178,069	P2,601,755,603	(P10,935,633)	P–	P–	P6,699,998,039

Other changes in the intangible assets pertain to the effects of the finalization of the fair values of the net assets acquired of the investees.

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE E: SHORT TERM AND LONG TERM DEBT****SEPTEMBER 30, 2016**

<b>Title of issue and type of obligation</b>	<b>Amount authorized by indenture</b>	<b>Interest rates</b>	<b>Current portion</b>	<b>Noncurrent portion</b>
Bank loans	P4,812,000,663	2.5%	P4,812,000,663	P-
	P4,812,000,663		P4,812,000,663	P-

See Note 18 of the Consolidated Financial Statements.

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES****SEPTEMBER 30, 2016**

<b>Name of related party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
Universal Robina Corporation	₱163,433,775	₱193,849,693
Robinsons Land Corporation	240,296,367	184,611,898
JG Summit Holdings, Inc.	5,097,598	8,836,137
	₱408,827,740	₱387,297,728

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS****SEPTEMBER 30, 2016**

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

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE H: CAPITAL STOCK****SEPTEMBER 30, 2016**

Title of issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common stock - ₱1 par value	2,000,000,000	1,385,000,000	–	484,749,997	380,183,003	520,067,000
	2,000,000,000	1,385,000,000	–	484,749,997	380,183,003	520,067,000

See Note 19 of the Consolidated Financial Statements

**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF SOUNDNESS INDICATORS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 and SEPTEMBER 30, 2015**

Financial Soundness Indicator	September 30, 2016	September 30 2015
i. Liquidity ratio:		
Current ratio	<b>1.29</b>	1.51
ii. Profitability ratio:		
Operating margin ratio	<b>0.22</b>	0.22
iii. Stability ratio:		
Solvency ratio	<b>0.26</b>	0.27
Net debt to equity ratio	<b>0.39</b>	0.37
Asset to equity ratio	<b>1.39</b>	1.37
Interest rate coverage rate ratio	<b>66.82</b>	426.63
iii. Other ratios		
Return on assets	<b>0.05</b>	0.05
Return on equity	<b>0.07</b>	0.07

*\*See attached reporting computation.*



**ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL RATIOS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015**

	<b>2016</b>	<b>2015</b>
Current assets	<b>P22,694,189,030</b>	P22,631,677,117
Current liabilities	<b>17,573,209,982</b>	15,028,259,919
Current ratio	<b>1.29</b>	1.51
Operating income	<b>P15,966,977,356</b>	P13,767,190,968
Net sales	<b>73,812,302,275</b>	63,289,235,216
Operating margin ratio	<b>0.22</b>	0.22
After tax net profit	<b>P3,527,230,116</b>	P3,115,579,116
Depreciation and amortization	<b>1,430,926,050</b>	1,204,120,184
	<b>4,958,156,166</b>	4,319,699,300
Total liabilities	<b>19,219,557,867</b>	16,289,860,998
Solvency ratio	<b>0.26</b>	0.27
Total liabilities	<b>P19,219,557,867</b>	P16,289,860,998
Total equity	<b>49,795,883,283</b>	44,015,405,976
Debt to equity ratio	<b>0.39</b>	0.37
Total assets	<b>P69,015,441,150</b>	P60,305,266,974
Total equity	<b>49,795,883,283</b>	44,015,405,976
Asset to equity ratio	<b>1.39</b>	1.37
Earnings before interest and taxes	<b>P3,639,641,061</b>	P3,101,662,331
Interest expense	<b>54,471,476</b>	7,270,181
Interest rate coverage ratio	<b>66.82</b>	426.63
Net income	<b>P3,527,230,116</b>	P3,115,579,116
Average total assets	<b>69,015,441,150</b>	60,305,266,974
Return on assets	<b>0.05</b>	0.05
Net income	<b>P3,527,230,116</b>	P3,115,579,116
Average total equity	<b>49,795,883,283</b>	44,015,405,976
Return on equity	<b>0.07</b>	0.07

**USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING**  
**September 30, 2016**

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.

The net proceeds has not been fully disbursed as of September 30, 2016. For the period covering January 1, 2016 to September 30, 2016, the application of net proceeds is broken down as follows:

<b>Use of Proceeds</b>	<b>Amount in Pesos</b>
Expansion of store network	₱3,596,383,761
Renovation of existing stores	560,382,716
Other corporate purposes	182,237,339
Repayment of bank loans	58,717,122
Total	₱4,397,720,938

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

### **Consolidated Results of Operations**

*(Amounts in Million Pesos)*

Robinsons Retail Holdings, Inc. recorded net income of ₱3,527 million for the nine months ended September 30, 2016, an increase of 13.2% as compared to ₱3,116 million for the same period ended September 30, 2015. The increase was largely due to increased income from operations, boosted by the high same stores sales growth. Net income attributable to parent amounted to ₱3,301 million for the nine months ended September 30, 2016, an increase of 11.1% as compared to ₱2,972 million for the same period last year.

Consolidated revenues increased by 16.6% from ₱63,289 million for the nine months ended September 30, 2015 to ₱73,812 million for the nine months ended September 30, 2016. The robust revenue growth was largely due to increase in sales volume from the following: a) new stores that were added this year, b) the nine month sales contribution of the stores that opened in 2015, c) sales from new acquisitions Savers Appliances (acquired in September 2015) and The Generics Pharmacy (acquired in May) and d) strong same stores sales growth. Royalty, rent and other income also increased from ₱1,357 million to ₱1,572 million or a 15.9% growth due to higher royalty fee income of the convenience store segment.

Gross profit for the nine months ended September 30, 2016 amounted to ₱15,967 million, 16.0% higher than ₱13,767 million for the nine months ended September 30, 2015. The increase was on the back of higher sales and vendor discounts.

Operating expenses grew by 15.6% from ₱12,022 million to ₱13,890 million for the nine months ended September 30, 2016 due to higher rent and utilities expenses and the accelerated store network expansion.

Earnings before interests and taxes (EBIT) grew by 17.3% from ₱3,102 million to ₱3,640 million for the nine months ended September 30, 2016. As a percentage of sales, EBIT is at 4.9% this year which is the same as last year.

Other income and charges decreased by 4.4% from ₱885 million to ₱846 million for the nine months ended September 30, 2016 primarily due to the increase in interest expenses and foreign exchange loss.

Earnings before interests, taxes, depreciation, amortization and other non-cash items (EBITDA) expanded by 17.6% from ₱4,306 million for the first nine months of 2015 to ₱5,065 million for the nine months ended September 30, 2016. Likewise, EBITDA margin increased to 6.9%, from 6.8% same period last year.

## **Supermarket**

Robinsons Supermarket, the biggest segment of the group, generated net sales of ₱34,681 million for the nine months ended September 2016, representing 12.7% growth from last year's net sales of ₱30,785 million. The growth was driven by sustained performance of the existing stores and the sales contribution of the 15 new stores that opened after end of September 2015 coupled with the robust store sales growth of 7.2% as of end of the third quarter of 2016.

The cost of merchandise sold as of end of September 2016 grew by 12.5% from ₱24,923 million to ₱28,049 million for the same period last year which was proportionate to the increase in the volume of sales. The segment continued to benefit from increasing scale, efficiency and sustained vendor discounts. As a percentage to sales, gross margin improved by 10 bps to 19.1% this year versus 19.0% last year.

Supermarket recorded an EBIT of ₱1,940 million as of the nine months ended September 2016, 13.7% jump from ₱1,706 million in the same period last year. Accordingly, EBITDA grew by 14.4% to ₱2,489 million this year against ₱2,176 million last year. As a percentage to sales, EBITDA margin improved by 10 bps to 7.2% this year versus 7.1% last year.

## **Department Store**

Robinsons Department Store (RDS) generated ₱10,414 million net sales for the nine months ended September 30, 2016. This year's net sales achieved a growth of 6.25% from ₱9,801 million for the same period last year. The improvement in net sales was attributable to the gain in same stores sales and the sales contribution of the new stores.

RDS' cost of sales amounted to ₱7,688 million for the nine months ended September 30, 2016, an increase of 6.67% from ₱7,207 million for the same period last year. The growth in cost of sales could be directly attributable to the growth in net sales. The resulting gross margins of ₱2,727 million for the period, also improved by 5.09% against ₱2,595 million for the same period last year.

The escalation in operating expenses resulted to the decrease of RDS' EBIT (earnings before interests and taxes) for the period. EBIT as of September 30, 2016 amounted to ₱477 million, which is lower by 10.96% against ₱535 million in the same period last year. The EBITDA for the period amounted to ₱691 million, which is 2.0% lower than last year's EBITDA of ₱705 million.

## **DIY Division**

The DIY segment ended the nine month period of 2016 with healthy increases in sales and gross profit. Net sales lifted by 11.9% from ₱7,075 million to ₱7,920 million for the nine months ended September 30, 2015 and September 30, 2016, respectively.

The improvement was driven primarily by the strong performance of the existing stores coupled with the thirteen new store additions for the period ended September 30, 2016.

DIY's cost of sales grew by 11.0% from ₱4,854 million for the nine month period of 2015 to ₱5,389 million for the nine month period of 2016, a slight decrease versus the growth in net sales. Consequently, the, gross profit increased at high teens or 14.0% to ₱2,531million for the nine months ended September 30, 2016 from ₱2,221 million in the same period last year. As a percentage to sales, gross profit was at 32.0% against 31.4% last year. Operating expenses as a percentage to sales was up 0.5 percentage points from 23.9% to 24.4% but still lower than the increase in gross profit margin of 0.6 percentage points.

As a result, EBIT jumped by 12.4% at ₱596 million for nine months of 2016 versus ₱530 million in same period last year. EBITDA improved by 9.2% to ₱741 million for the nine months ended September 30, 2016 against ₱678 million for the same period in 2015.

## **Convenience Store**

The convenience stores segment registered a system wide sales and merchandise sales of ₱6,311 million and ₱4,158 million, respectively for the nine months ended September 30, 2016, an 8.1% and 3.0% growth from ₱5,839 million and ₱4,037 million of the same period last year, respectively.

Other Income which mainly consist of Royalty Fee grew by 14.9% from ₱1,115 million last year to ₱1,281 million this year. Royalty Fee is computed as a percentage of system wide Gross Profit and is about 99% of the total Other Income.

Cost of Sales grew by ₱108 million or 3.0%, to ₱3,761 million for the nine months ended September 30, 2016 from ₱3,653 million in 2015. Gross Margin this year is 9.5%. Operating expenses expanded by 13.4% which outweighed the increase in gross profit and other income of 11.9%. Convenience stores recorded a negative EBIT of ₱4 million this year versus last year's positive EBIT ₱17 million.

EBITDA generated for the nine months ended September 30, 2016 was ₱251 million, 32.1% lower than the ₱190 million recorded in the same period last year.

## **Drug Store**

The drug store segment registered net sales of ₱8,412.2 Million as of September 30, 2016, representing a growth of 42.6% from last year's net sales of ₱5,899.3 Million. The growth was mainly driven by strong same store sales growth of 7.9%, as well as the sales contribution of TGP Pharma Inc. in the amount of ₱1,538.0 Million. South Star Drug acquired 51% share in TGP Pharma, Inc. in May 2016.

The segment's cost of sales as of September 30, 2016 grew by 41.1% from ₱4,956.8 Million to ₱6,993.6 Million. Consequently, gross profit expanded by 50.5% from ₱942.5 Million in 2015 to ₱1,418.7 Million this year. In terms of margins, gross profit expanded by 90bps to 16.9% in 2016 against 16.0% last year.

EBIT as of September 30, 2016 reached ₱426.9 Million, a 85.4% increase from last year. Likewise, EBITDA also grew by 76.3% from ₱274.3 Million in 2015 to ₱483.6 Million this year.

## **Specialty Segment**

The net sales of the Specialty Stores segment increased by 39.2% from ₱6,425 million to ₱8,943 million for the nine months ended September 30, 2015 and September 30, 2016, respectively. The higher net sales were attributed to sales contribution from the new stores and Savers Appliance Depot with 25 stores which were acquired last September 2015. The Specialty segment added 16 net new stores after end of September 2015 bringing the store network to 297 by the end of September 2016.

The cost of merchandise sold of Specialty Stores segment grew by 42.9% from ₱4,677 million to ₱6,682 million for the nine months ended September 30, 2015 and September 30, 2016, respectively. This resulted in gross profit rising at slightly slower clip than net sales at 29.4% from ₱1,748 million to ₱2,262 million.

For the nine months ended September 30, 2016, the Specialty Stores segment generated an EBITDA of ₱423 million, an increase of 45.5% from last year's first three quarter EBITDA of ₱291 million.

## **Financial Position**

September 30, 2016 versus December 31, 2015

As of September 30, 2016, the Company's balance sheet showed consolidated assets of ₱69,015 million, which is 5.9% higher than the total consolidated assets of ₱65,160 million as of December 31, 2015.

Cash and cash equivalents significantly decreased from ₱9,757 million as of December 31, 2015 to ₱6,371 million as of September 30, 2016. Net cash from operating activities totaled ₱315 million. Net cash used in investing activities amounted to ₱4,763 million, ₱2,208 million of which were used to acquire properties

and equipment, ₱2,076 million to acquire TGP Pharma Inc. and Home Plus Trading Depot, Inc. and ₱455 million to acquire available-for-sale investments. Net cash from financing activities amounted to ₱1,061 million.

Trade and other receivables decreased by 13% from ₱1,774 million to ₱1,543 million as of September 30, 2016.

Other noncurrent assets also increased from ₱1,328 million to ₱1,439 million due to additional security deposit for new stores.

Trade and other payables decreased from ₱14,796 million to ₱11,930 million as of September 30, 2016.

Current loans payable increased due to availment of loans during the period.

Stockholder's equity grew from ₱45,505 million as of December 31, 2015 to ₱49,796 million as of September 30, 2016 due to higher net income during the period.