

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Robinsons Retail Holdings, Inc.

Opinion

We have audited the consolidated financial statements of Robinsons Retail Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted the new lease standard, PFRS 16, *Leases*, under the modified retrospective approach which resulted to significant changes in the Group's lease recognition policies, processes, procedures and controls. The Group's adoption of PFRS 16 is significant to our audit because the Group's nature of activities entails high volume of lease agreements covering its stores, warehouses, distribution centers, land and office spaces, and the resulting recorded amounts are material to the consolidated financial statements. In addition, the implementation of PFRS 16 involves application of significant management judgement and estimation in the following areas: (1) whether the contract contains a lease; (2) determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease; (3) determining the incremental borrowing rates; and (4) selection and application of accounting policy elections and practical expedients available under modified retrospective approach.

The Group recognized an increase in right-of-use (ROU) asset and lease liability amounting to ₱28.19 billion and ₱28.28 billion, respectively, as of January 1, 2019. In addition, the Group also recognized amortization expense and interest expense of ₱3.80 billion and ₱2.28 billion, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Group, are included in Note 28 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the selection of the transition approach and any election of available practical expedients. We selected sample lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements in 2019) from the lease contract database and identified their contractual terms and conditions. We traced these selected contracts to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

We tested the underlying lease data used (e.g., lease payments, lease term) by agreeing the terms of the selected contracts with the lease calculation. For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management, including the transition adjustments.

We reviewed the disclosures related to leases, including the transition adjustments, based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Existence and completeness of inventory

The Group's inventories comprise 14% of its total assets as of December 31, 2019, as disclosed in Note 9 of the consolidated financial statements. The Group has 1,938 company-owned stores and warehouses throughout the country as of December 31, 2019. We focused on this area since inventories are material to the consolidated financial statements and are located in various sites across the country.

Audit Response

We obtained an understanding of the inventory management process which includes inventory count procedures. We assessed and tested the relevant inventory controls, and observed the conduct of the inventory count procedures for selected stores and warehouses and performed test counts. We traced test counts to the inventory compilation to determine if the inventory compilation reflects actual inventory count results. We reviewed the reconciliation of the valued physical inventory compilation with the general ledger account balances and evaluated the disposition of the reconciling items. We tested the roll forward procedures on inventory quantities from the date of inventory count to reporting date on a sample basis.

Impairment assessment of trademarks and goodwill

As of December 31, 2019, the Group's trademarks and goodwill arising from business combinations amounted to ₱6.40 billion and ₱12.49 billion, respectively, which are significant to the consolidated financial statements. Under PFRS, the Group is required to annually test the amount of trademarks with indefinite useful lives and goodwill for impairment. The recoverability of trademarks and goodwill is considered a key audit matter as the balances of these assets are considered material to the consolidated financial statements. In addition, the management's assessment process requires significant judgment and is based on assumptions, specifically gross margins, revenue growth and discount rates for value-in-use calculation and selected comparable entities for EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) multiple. The Group's disclosures about trademarks and goodwill are included in Note 14 of the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used and performed a recalculation of the value-in-use and EV/EBITDA multiples provided. For value-in-use, these assumptions include gross margins, revenue growth and discount rates. We compared the key assumptions used against the historical performance of the subsidiaries, industry or market outlook and other relevant external data. We tested the parameters used in determining the discount rate against market data. For EV/EBITDA, we assessed if the selected comparable entities obtained by the Group closely represent each cash generating unit to which the goodwill is allocated.

We also reviewed the Group's disclosures about the assumptions that have the most significant effect in determining the recoverable amounts of trademarks and goodwill.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wenda Lynn M. Loyola.

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola

Partner

CPA Certificate No. 109952

SEC Accreditation No. 1540-AR-1 (Group A),

January 10, 2019, valid until January 9, 2022

Tax Identification No. 242-019-387

BIR Accreditation No. 08-001998-117-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125250, January 7, 2020, Makati City

March 23, 2020

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

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 27)	₱20,292,913,953	₱14,788,040,613
Trade and other receivables (Notes 8, 24 and 27)	3,865,460,884	3,171,595,504
Merchandise inventories (Note 9)	19,810,252,511	18,628,013,928
Other current assets (Note 10)	2,951,281,172	3,159,661,090
Total Current Assets	46,919,908,520	39,747,311,135
Noncurrent Assets		
Debt and equity instrument financial assets (Notes 11 and 27)	14,857,352,941	19,751,466,722
Property and equipment (Note 12)	19,289,528,200	19,269,212,908
Right-of-use assets (Notes 3 and 28)	26,317,960,761	—
Investment in associates (Note 13)	7,845,458,176	6,814,297,383
Intangible assets (Notes 14 and 19)	19,039,174,367	19,106,289,393
Deferred tax assets - net (Note 25)	1,009,492,860	413,459,629
Retirement plan asset (Notes 22 and 23)	72,103,151	91,253,643
Other noncurrent assets (Notes 15 and 27)	2,515,091,337	2,583,816,381
Total Noncurrent Assets	90,946,161,793	68,029,796,059
	₱137,866,070,313	₱107,777,107,194
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 16, 24 and 27)	₱25,101,993,192	₱24,577,110,455
Short-term loans payable (Notes 17 and 27)	4,634,000,000	6,794,000,000
Lease liabilities - current portion (Note 28)	2,163,735,524	—
Income tax payable	797,969,171	837,681,888
Other current liabilities (Note 27)	267,245,302	279,844,005
Total Current Liabilities	32,964,943,189	32,488,636,348
Noncurrent Liabilities		
Lease liabilities - net of current portion (Note 28)	25,889,035,549	—
Deferred tax liabilities - net (Note 25)	2,065,854,524	1,954,819,590
Retirement obligation (Notes 22 and 23)	419,840,441	325,461,329
Other noncurrent liabilities (Note 27)	—	304,021,928
Total Noncurrent Liabilities	28,374,730,514	2,584,302,847
Total Liabilities	61,339,673,703	35,072,939,195
Equity (Note 18)		
Capital stock	1,576,489,360	1,576,489,360
Additional paid-in capital	40,768,202,897	40,768,202,897
Other comprehensive income (loss) (Notes 11, 13 and 23)	272,839,305	(563,817,037)
Equity reserve	(989,776,800)	(970,435,361)
Retained earnings		
Appropriated	26,944,852,847	24,151,852,847
Unappropriated	3,548,986,390	3,558,435,683
Total equity attributable to equity holders of the Parent Company	72,121,593,999	68,520,728,389
Non-controlling interest in consolidated subsidiaries	4,404,802,611	4,183,439,610
Total Equity	76,526,396,610	72,704,167,999
	₱137,866,070,313	₱107,777,107,194

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2019	2018	2017
SALES - Net of sales discounts and returns (Notes 6, 20 and 24)	₱162,915,687,301	₱132,680,466,776	₱115,238,459,529
COST OF MERCHANDISE SOLD (Notes 6 and 9)	125,734,533,662	102,845,384,354	89,446,079,938
GROSS PROFIT (Note 6)	37,181,153,639	29,835,082,422	25,792,379,591
ROYALTY, RENT AND OTHER REVENUE (Notes 6, 20, 24 and 29)	2,740,181,024	2,422,195,884	2,262,158,547
GROSS PROFIT INCLUDING OTHER REVENUE (Note 6)	39,921,334,663	32,257,278,306	28,054,538,138
OPERATING EXPENSES (Notes 21, 22, 23, 28 and 29)	(32,123,178,669)	(25,631,402,164)	(21,749,155,955)
OTHER INCOME (CHARGES)			
Interest income (Notes 6, 7 and 11)	1,015,573,149	981,862,604	873,425,105
Equity in net earnings in associates (Notes 6 and 13)	104,749,733	108,739,236	123,639,511
Dividend income (Notes 6 and 11)	100,315,156	111,500,000	111,500,000
Foreign currency exchange gains (loss) - net (Note 6)	(134,619,196)	200,867,038	16,104,012
Interest expense (Notes 6 and 17)	(2,578,499,847)	(159,071,734)	(127,384,471)
Others (Notes 11 and 14)	(196,094,467)	(272,614,314)	—
	(1,688,575,472)	971,282,830	997,284,157
INCOME BEFORE INCOME TAX (Note 6)	6,109,580,522	7,597,158,972	7,302,666,340
PROVISION FOR INCOME TAX (Note 25)			
Current	2,056,973,505	1,807,600,901	1,785,241,581
Deferred	(497,680,792)	(35,579,353)	(81,928,619)
	1,559,292,713	1,772,021,548	1,703,312,962
NET INCOME	4,550,287,809	5,825,137,424	5,599,353,378
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of debt securities at fair value through other comprehensive income (FVOCI) (Note 11)	769,066,737	(922,610,678)	—
Share in change in fair value of debt and equity financial assets in associates (Note 13)	411,345,068	(23,818,458)	(65,350,499)
Share in change in translation adjustment in associates (Note 13)	3,656,329	(6,962,641)	3,690,356
Changes in fair value of available-for-sale (AFS) financial assets	—	—	(18,823,208)
Cumulative translation adjustment	(40,371,837)	36,670,185	(549,999)
Income tax effect	(124,500,419)	9,234,330	18,498,043
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity securities at FVOCI (Note 11)	67,083,500	(153,600,000)	—
Share in actuarial gain (losses) on retirement obligation in associates (Note 13)	(8,190,337)	(1,243,379)	6,640,844
Remeasurement gain (losses) on retirement obligation (Note 23)	(364,536,075)	342,862,134	(4,389,439)
Income tax effect	111,817,924	(102,485,627)	(675,421)
	825,370,890	(821,954,134)	(60,959,323)
TOTAL COMPREHENSIVE INCOME	₱5,375,658,699	₱5,003,183,290	₱5,538,394,055

Years Ended December 31			
	2019	2018	2017
Net income attributable to:			
Equity holders of the Parent Company	₱3,918,623,046	₱5,107,328,539	₱4,978,039,066
Non-controlling interest in consolidated subsidiaries	631,664,763	717,808,885	621,314,312
	₱4,550,287,809	₱5,825,137,424	₱5,599,353,378
Total comprehensive income attributable to:			
Equity holders of the Parent Company	₱4,755,279,388	₱4,253,812,839	₱4,915,344,317
Non-controlling interest in consolidated subsidiaries	620,379,311	749,370,451	623,049,738
	₱5,375,658,699	₱5,003,183,290	₱5,538,394,055
Basic/Diluted Earnings Per Share (Note 26)	₱2.49	₱3.65	₱3.59

See accompanying Notes to Consolidated Financial Statements.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Total Equity Attributable to Equity Holders of the Parent Company
For the Year Ended December 31, 2019

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Other Comprehensive Income (Loss) (Notes 11, 13, and 23)	Equity Reserve (Note 18)	Retained Earnings		Total	Non-controlling Interest in Consolidated Subsidiaries (Note 18)	Total
					Appropriated (Note 18)	Unappropriated (Note 18)			
Balance at beginning of year	₱1,576,489,360	₱40,768,202,897	(₱563,817,037)	(₱970,435,361)	₱24,151,852,847	₱3,558,435,683	₱68,520,728,389	₱4,183,439,610	₱72,704,167,999
Net income	—	—	—	—	—	3,918,623,046	3,918,623,046	631,664,763	4,550,287,809
Other comprehensive income	—	—	836,656,342	—	—	—	836,656,342	(11,285,452)	825,370,890
Total comprehensive income	—	—	836,656,342	—	—	—	4,755,279,388	620,379,311	5,375,658,699
Acquisition of non-controlling interest	—	—	—	(19,341,439)	—	—	(19,341,439)	(49,605,929)	(68,947,368)
Dividends declared (Note 18)	—	—	—	—	—	(1,135,072,339)	(1,135,072,339)	(349,410,381)	(1,484,482,720)
Appropriations	—	—	—	—	3,186,000,000	(3,186,000,000)	—	—	—
Reversal of appropriations	—	—	—	—	(393,000,000)	393,000,000	—	—	—
Balance at end of year	₱1,576,489,360	₱40,768,202,897	₱272,839,305	(₱989,776,800)	₱26,944,852,847	₱3,548,986,390	₱72,121,593,999	₱4,404,802,611	₱76,526,396,610

For the Year Ended December 31, 2018

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Other Comprehensive Income (Loss) (Notes 11, 13, and 23)	Equity Reserve (Note 18)	Retained Earnings		Total	Non-controlling Interest in Consolidated Subsidiaries (Note 18)	Total
					Appropriated (Note 18)	Unappropriated (Note 18)			
Balance at beginning of year, as previously stated	₱1,385,000,000	₱27,227,385,090	₱289,698,663	(₱1,021,894,669)	₱15,212,852,847	₱8,440,230,328	₱51,533,272,259	₱3,733,366,825	₱55,266,639,084
Effect of adoption of new standards	—	—	—	—	—	(52,923,184)	(52,923,184)	4,298,559	(48,624,625)
Balance at beginning of year, as restated	1,385,000,000	27,227,385,090	289,698,663	(1,021,894,669)	15,212,852,847	8,387,307,144	51,480,349,075	3,737,665,384	55,218,014,459
Net income	—	—	—	—	—	5,107,328,539	5,107,328,539	717,808,885	5,825,137,424
Other comprehensive loss	—	—	(853,515,700)	—	—	—	(853,515,700)	31,561,566	(821,954,134)
Total comprehensive income (loss)	—	—	(853,515,700)	—	—	—	4,253,812,839	749,370,451	5,003,183,290
Acquisition of a subsidiary- net of transaction cost	191,489,360	13,540,817,807	—	—	—	—	13,732,307,167	—	13,732,307,167
Additional investment in a subsidiary (Notes 2, 18 and 19)	—	—	—	—	—	—	—	14,700,000	14,700,000
Acquisition of non-controlling interest	—	—	—	51,459,308	—	—	51,459,308	(51,459,308)	—
Dividends declared (Note 18)	—	—	—	—	—	(997,200,000)	(997,200,000)	(266,836,917)	(1,264,036,917)
Appropriations	—	—	—	—	9,222,000,000	(9,222,000,000)	—	—	—
Reversal of appropriation	—	—	—	—	(283,000,000)	283,000,000	—	—	—
Balance at end of year	₱1,576,489,360	₱40,768,202,897	(₱563,817,037)	(₱970,435,361)	₱24,151,852,847	₱3,558,435,683	₱68,520,728,389	₱4,183,439,610	₱72,704,167,999

For the Year Ended December 31, 2017

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Other Comprehensive Income (Loss) (Notes 11, 13, and 23)	Equity Reserve (Note 18)	Retained Earnings		Total	Non-controlling Interest in Consolidated Subsidiaries (Note 18)	Total
					Appropriated (Note 18)	Unappropriated (Note 18)			
Balance at beginning of year	₱1,385,000,000	₱27,227,385,090	₱352,393,412	(₱1,021,894,669)	₱15,262,852,847	₱4,381,691,262	₱47,587,427,942	₱2,978,117,087	₱50,565,545,029
Net income	—	—	—	—	—	4,978,039,066	4,978,039,066	621,314,312	5,599,353,378
Other comprehensive income	—	—	(62,694,749)	—	—	—	(62,694,749)	1,735,426	(60,959,323)
Total comprehensive income (loss)	—	—	(62,694,749)	—	—	—	4,915,344,317	623,049,738	5,538,394,055
Additional investment in a subsidiary (Notes 2, 18 and 19)	—	—	—	—	—	—	—	—	—
Dividends declared (Note 18)	—	—	—	—	—	(969,500,000)	(969,500,000)	490,000,000	490,000,000
Reversal of appropriation	—	—	—	—	(50,000,000)	50,000,000	—	(357,800,000)	(1,327,300,000)
Balance at end of year	₱1,385,000,000	₱27,227,385,090	₱289,698,663	(₱1,021,894,669)	₱15,212,852,847	₱8,440,230,328	₱51,533,272,259	₱3,733,366,825	₱55,266,639,084

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱6,109,580,522	₱7,597,158,972	₱7,302,666,340
Adjustments for:			
Depreciation and amortization (Notes 6, 12, 14, 21 and 28)	6,879,793,222	2,395,085,036	2,073,037,176
Interest expense (Notes 6, 17 and 28)	2,578,499,847	159,071,734	127,384,471
Retirement expense (Notes 22 and 23)	192,082,476	155,999,283	170,952,296
Unrealized foreign currency exchange loss (gain) - net (Note 6)	134,619,196	(200,867,038)	(16,104,012)
Loss on impairment of assets (Notes 14 and 15)	15,046,221	117,234,205	—
Loss on sale of AFS financial assets (Note 11)	—	—	4,235,786
Provision for (reversal of) expected credit losses (Notes 8 and 11)	(6,173,028)	59,878,944	21,514,165
Loss (gain) on sale of debt instruments at FVOCI (Note 11)	(7,655,666)	21,587,505	—
Changes in fair value of debt instruments value through profit or loss (FVTPL) (Note 11)	(18,936,056)	18,528,989	—
Equity in net earnings in associates (Notes 6 and 13)	(104,749,733)	(108,739,236)	(123,639,511)
Dividend income (Notes 6 and 11)	(100,315,156)	(111,500,000)	(111,500,000)
Interest income (Notes 6, 7 and 11)	(1,015,573,149)	(981,862,604)	(873,425,105)
Operating income before working capital changes	14,656,218,696	9,121,575,790	8,575,121,606
Decrease (increase) in:			
Trade and other receivables	(419,271,938)	(229,620,430)	(251,303,489)
Merchandise inventories	(1,182,238,583)	(707,718,702)	(1,504,876,035)
Other current assets	152,411,971	176,931,590	(238,982,676)
Increase (decrease) in:			
Trade and other payables	489,656,809	2,076,894,127	1,285,521,931
Other current liabilities	(12,598,703)	(20,759,045)	(29,919,251)
Other noncurrent liabilities	(152,155,543)	15,314,465	—
Net cash flows generated from operations	13,532,022,709	10,432,617,795	7,835,562,086
Interest received	1,052,577,024	997,459,296	864,071,329
Retirement contributions and benefits paid (Note 23)	(438,934,567)	(408,772,972)	(238,682,816)
Income tax paid	(2,096,686,222)	(1,934,225,139)	(1,656,583,782)
Net cash flows provided by operating activities	12,048,978,944	9,087,078,980	6,804,366,817
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investment in associates (Note 13)	(519,600,000)	(1,466,050,429)	(125,000,000)
Debt and equity instrument financial assets (Note 11)	(1,761,156,662)	(847,021,924)	(408,551,798)
Property and equipment (Note 12)	(3,346,395,390)	(4,419,447,522)	(3,104,719,693)
Franchise (Note 14)	—	(7,583,430)	—
Proceeds from disposals of debt and equity instrument financial assets (Note 11)	7,344,882,499	734,662,184	141,871,049
Dividends received (Note 11)	100,315,156	111,500,000	111,500,000

(Forward)

	Years Ended December 31		
	2019	2018	2017
Acquisitions from non-controlling interest (Notes 2 and 18)	(₱68,947,368)	₱–	₱–
Acquisition through business combination - net of cash received (Note 19)	–	38,661,161	–
Decrease (increase) in other noncurrent assets	68,725,044	(518,493,215)	(127,411,107)
Net cash flows provided by (used in) investing activities	1,817,823,279	(6,373,773,175)	(3,512,311,549)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availments (Notes 17 and 30)	915,000,000	7,508,045,137	3,724,954,863
Additional investments from non-controlling interest (Notes 2 and 18)	–	14,700,000	490,000,000
Interest paid (Notes 17 and 30)	(300,683,731)	(159,071,734)	(127,384,471)
Dividends paid (Notes 18 and 30)	(1,456,975,501)	(1,266,370,255)	(1,624,143,333)
Payment of loans (Notes 17 and 30)	(3,075,000,000)	(8,592,000,000)	(3,922,698,733)
Lease payments (Notes 28 and 30)	(4,442,136,373)	–	–
Net cash flows used in financing activities	(8,359,795,605)	(2,494,696,852)	(1,459,271,674)
EFFECTS OF FOREIGN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(2,133,278)	4,393,754	14,254,085
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,504,873,340	223,002,707	1,847,037,679
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,788,040,613	14,565,037,906	12,718,000,227
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱20,292,913,953	₱14,788,040,613	₱14,565,037,906

See accompanying Notes to Consolidated Financial Statements.

ROBINSONS RETAIL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

As of December 31, 2019, the Parent Company is 30.75% owned by JE Holdings, Inc., 36.71% owned by PCD Nominee Corporation, 12.15% by Mulgrave Corporation B.V. (MCBV) and the rest by the public.

In November 2018, the Parent Company completed the acquisition of MCBV’s 100% stake in Rustan Supercenters, Inc. (RSCI) through a share for share swap involving 34,968,437 shares of RSCI in exchange for 191,489,360 primary common shares of the Parent Company or 12.15% interest. In addition, GCH Investments Pte. Ltd. (GCH) also acquired 96,219,950 shares or 6.10% interest in the enlarged share capital from the existing controlling shareholders of the Parent Company. MCBV and GCH are wholly-owned subsidiaries of Dairy Farm International Holdings, Ltd. (DF) Group of companies. After the transaction, DF through MCBV will have an 18.25% interest in the Parent Company (Notes 2, 18 and 19). As of December 31, 2019, DF through MCBV/GCH has 20.00% interest in the Parent Company.

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

2. Basis of Preparation

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements as of December 31, 2019 and 2018 and for each of the three (3) years in the period ended December 31, 2019 represent the consolidation of the financial statements of RRHI and the following subsidiaries directly and indirectly owned by the Parent Company.

Investee Companies	Effective Percentages of Ownership					
	2019		2018		2017	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Robinson's, Incorporated (RI)	100.00%	—	100.00%	—	100.00%	—
Robinsons Ventures Corporation (RVC)	—	65.00%	—	65.00%	—	65.00%
Robinsons Toys, Inc. (RTI)	—	100.00%	—	100.00%	—	100.00%
Robinsons Convenience Stores, Inc. (RCSI/Ministop)	—	60.00%	—	59.05%	—	51.00%
South Star Drug, Inc. (SSDI)	—	45.00%	—	45.00%	—	45.00%
TGP Pharma, Inc. (TGPPI)	—	45.90%	—	45.90%	—	45.90%
TGP Franchising Corp. (TFC)	—	—	—	45.90%	—	45.90%
TheGenerics Pharmacy Inc. (TPI)	—	45.90%	—	45.90%	—	45.90%
Robinsons Gourmet Food and Beverages, Inc. (RGFBI)	—	100.00%	—	100.00%	—	100.00%
Savers Electronic World, Inc. (SEWI)	—	90.00%	—	90.00%	—	90.00%
Chic Centre Corporation (CCC)	—	100.00%	—	100.00%	—	100.00%
Super50 Corporation (Super50)	—	51.00%	—	51.00%	—	—
Robinson's Supermarket Corporation (RSC)	100.00%	—	100.00%	—	100.00%	—
Angeles Supercenter, Inc. (ASI)	—	100.00%	—	67.00%	—	67.00%
Robinsons Appliances Corp. (RAC)	—	67.00%	—	67.00%	—	67.00%
South Star Drug, Inc. (SSDI)	—	45.00%	—	45.00%	—	45.00%
TGP Pharma, Inc. (TGPPI)	—	45.90%	—	45.90%	—	45.90%
TGP Franchising Corp. (TFC)	—	—	—	45.90%	—	45.90%
TheGenerics Pharmacy Inc. (TPI)	—	45.90%	—	45.90%	—	45.90%
Robinson's Handyman, Inc. (RHMI)	—	80.00%	—	80.00%	—	80.00%
Handyman Express Mart, Inc. (HEMI)	—	52.00%	—	52.00%	—	52.00%
Walmart-Handyman, Inc. (WHI)	—	52.00%	—	52.00%	—	52.00%
Robinsons True Serve Hardware Philippines, Inc. (RTSHPI)	—	53.33%	—	53.33%	—	53.33%
RHI Builders and Contractors Depot Corp. (RHIB)	—	53.60%	—	53.60%	—	53.60%
Home Plus Trading Depot, Inc. (HPTDI)	—	40.20%	—	40.20%	—	40.20%
Robinsons Lifestyle Stores, Inc. (RLSI)	—	80.00%	—	80.00%	—	—
Everyday Convenience Stores, Inc. (ECSI)	100.00%	—	100.00%	—	100.00%	—
Robinsons Specialty Stores, Inc. (RSSI)	100.00%	—	100.00%	—	100.00%	—
Robinsons Daiso Diversified Corp. (RDDC)	90.00%	—	90.00%	—	90.00%	—
RHD Daiso-Saizen, Inc. (RHDDS)	59.40%	—	59.40%	—	59.40%	—
RHMI Management and Consulting, Inc.	100.00%	—	100.00%	—	100.00%	—
RRHI Management and Consulting, Inc.	100.00%	—	100.00%	—	100.00%	—
RRG Trademarks and Private Labels, Inc.	100.00%	—	100.00%	—	100.00%	—
RRHI Trademarks Management, Inc. (RRHI-TMI)	100.00%	—	100.00%	—	100.00%	—
New Day Ventures Limited (NDV Limited)	100.00%	—	100.00%	—	100.00%	—
Rustan Supercenters, Inc. (RSCI)	100.00%	—	100.00%	—	—	—

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

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

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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

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

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

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

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

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

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

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

Additional Investments, Acquisitions and Mergers

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

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

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

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

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

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

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

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

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

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

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

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

On December 13, 2017, RRHI acquired 20% ownership in Taste Central Curators, Inc. (TCCI), operator of BeautyMNL, e-commerce site. Accordingly, the Group accounted the acquisition of TCCI using the equity method under investment in associates (Note 13). On March 28, 2019, RRHI made additional capital infusion to TCCI amounting to ₱280.00 million, this increases RRHI stake in TCCI from 20% to 30% (Note 13).

3. Changes in Accounting Policies

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

- PFRS 16, *Leases*

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

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

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

	Increase (Decrease)
Consolidated statement of financial position	
ASSETS	
Right-of-use (ROU) assets	₱28,188,970,775
Other current assets	(55,967,947)
Net impact in total assets	₱28,133,002,828
LIABILITIES	
Lease liabilities	₱28,284,869,213
Other noncurrent liabilities	(151,866,385)
Net impact in total liabilities	₱28,133,002,828

Leases previously accounted for as operating leases

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

The Group also applied the available practical expedients wherein it:

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

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

- Right-of-use assets ₱28.19 billion of were recognized and presented separately in the consolidated statement of financial position.
- Additional lease liabilities of ₱28.28 billion were recognized.
- Prepayments of ₱55.97 million and accrued rental of ₱151.87 million related to previous operating leases arising from straight lining under PAS 17 were derecognized.

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

Operating lease commitments as at December 31, 2018	₱35,676,610,054
Weighted average incremental borrowing rate at January 1, 2019	7.88%
Discounted operating lease commitments at January 1, 2019	22,665,384,738
Add: Lease payments relating to renewal periods not included as of December 31, 2018	5,619,484,475
Lease liabilities recognized at January 1, 2019	₱28,284,869,213

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

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

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

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

The interpretation specifically addresses the following:

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

The entity is required to determine whether to consider each certain tax treatments separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

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

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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

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

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

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

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in

profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income

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

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

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

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

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

- Annual Improvements to PFRSs 2015-2017 Cycle

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

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

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

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions

to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

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

Standards Issued But Not Yet Effective

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

Effective beginning on or after January 1, 2020

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

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

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

These amendments will apply on future business combinations of the Group.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

PFRS 17 is not applicable to the Group since it is not engaged in providing insurance nor issuing insurance contracts.

Deferred effectivity

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

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

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

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

4. Summary of Significant Accounting Policies

Revenue Recognition Effective January 1, 2018

Revenue from Contracts with Customers

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

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

Sale of Goods - Retail Customers

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

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

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

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

Sale of Goods - Wholesale Market

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

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

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

Sale of Loyalty Points and Gift Checks

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

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

Sale of Merchandise - Franchisees

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

Franchise Revenue

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

Contract Balances

Receivables

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

Contract Liabilities

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

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

Revenue Recognition Prior to January 1, 2018

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:

Sale of Goods

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.

Accounting Policies Effective from and prior to January 1, 2018

Royalty Fee

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

Rental Income

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

Interest Income

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

Dividend Income

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

Cost of Merchandise Sold

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

Operating Expenses

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

Financial Instruments - Initial Recognition and Subsequent Measurement Effective January 1, 2018

Financial Assets

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

Initial Recognition and Measurement

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

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

the case of a FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

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

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

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

Subsequent Measurement

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

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

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

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

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

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

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

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

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

the cumulative fair value change recognized in other comprehensive income is recycled to profit or loss in the consolidated statement of comprehensive income.

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

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018

Financial Assets

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

Initial Recognition

Financial instruments are recognized initially at the fair value of the consideration given. Except for financial instruments at fair value through profit or loss (FVTPL), 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.

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.

Subsequent Measurement

The subsequent measurement of financial assets and financial liabilities depend on their classification as follows:

AFS Financial Asset. 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 subsequently measured at fair value. However, AFS financial assets in unquoted debt securities whose fair values cannot be reliably measured are carried at cost, less any impairment loss. The effective yield component of AFS debt securities, as well as the impact of translation on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS financial assets and the impact of translation on foreign currency-denominated AFS debt instruments are reported as part of OCI in the equity section of the consolidated statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized is recognized in profit or loss in the other 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. Interest earned on holding AFS financial assets are reported as interest income using effective interest rate (EIR). Dividends earned on holding AFS financial assets are recognized in profit or loss in the consolidated statement of comprehensive income. The losses arising from impairment of such investments are recognized in profit or loss in the consolidated statement of comprehensive income.

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 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 EIR.

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 the consolidated statement of comprehensive income.

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 OCI and recognized in the profit or loss in the consolidated statement of comprehensive income.

Impairment losses on equity investments are not reversed through profit or loss in the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly as part of other OCI in the consolidated statement of comprehensive income.

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 and 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.

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to and After January 1, 2018

Financial Liabilities

Initial Recognition

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

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

Subsequent Measurement

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

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

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

Offsetting of Financial Assets and Liabilities

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

Derecognition of Financial Assets and Liabilities

Financial Asset

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

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

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

Financial Liability

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

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Merchandise Inventories

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

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

Investment in Associates

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

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

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

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

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

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

Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

Combination of Entities under Common Control

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

Property and Equipment

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

the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

Licenses

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

Trademarks

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

Franchise

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

Impairment of Nonfinancial Assets

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

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

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

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

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

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

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

Investment in Associates

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

Impairment Testing of Goodwill and Trademarks

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

The Group performed its annual impairment test for the years ended December 31, 2019 and 2018. The CGU are concluded to be the entire entities acquired by the Group. The impairment testing may be performed at any time in the annual reporting period, but it must be performed at the same time every year and when circumstances indicate that the carrying amount is impaired. The impairment testing also requires an estimation of the recoverable amount, which is the net selling price or value-in-use of the CGU to which the goodwill and intangibles are allocated.

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

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

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

Retirement Cost

Defined Benefit Plan

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Value-Added Taxes (VAT)

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

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

Creditable Withholding Taxes (CWT)

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

Income Tax

Current Tax

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

Deferred Tax

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

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

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

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

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

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

Capital Stock

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

Equity Reserve

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

Retained Earnings

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

Leases Effective January 1, 2019

Leases

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

Group as a Lessee

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

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

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

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

Lease liabilities. At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

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

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

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

Group as Lessor

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

Leases prior January 1, 2019

Leases

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

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

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

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

Group as Lessee

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

Group as Lessor

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

Foreign Currency Transactions

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the prevailing closing exchange rate as of the date of initial transaction.

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

Earnings Per Share (EPS)

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

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

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

The Parent Company does not have any potential dilutive ordinary shares for the years ended December 31, 2019, 2018 and 2017 (Note 26).

Provisions

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

Contingencies

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

Segment Reporting

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

Events After the Reporting Date

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Determination of lease term of contracts with renewal and termination options - Company as a lessee (Applicable Beginning January 1, 2019)

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

Operating Lease Commitments - Group as Lessee (Applicable prior January 1, 2019)

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

Right to Access - Performance Obligation Satisfied Over Time (Upon Adoption of PFRS 15)

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

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

Determination if Consideration Received from Suppliers is Not Distinct

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

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

Accounting for Investment in GrowSari and G2M through Convertible Note

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

Determination of Control

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

The following were also considered:

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

Contingencies

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

Estimates and Assumptions

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

Recoverability of Goodwill and Trademarks

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

The Group performed its annual impairment test as at December 31, 2019 and 2018. The recoverable amounts of the CGUs have been determined based on value in use (VIU) and enterprise value or earnings before interest, taxes, depreciation and amortization (EV/EBITDA) multiple calculations.

As of December 31, 2019 and 2018, below are the CGUs from which trademarks with indefinite useful life are allocated and tested for annual impairment:

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

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

	Basis	Amount
RSCI	VIU	₱9,109,386,061
TGPPI	EV/EBITDA	1,281,428,830
SSDI	EV/EBITDA	745,887,131
SEWI	VIU	715,103,869
EC	EV/EBITDA	199,870,222
RHIB	VIU	145,655,320
RTSHPI	EV/EBITDA	85,161,468
Beauty Skininnovations Retail, Inc. (BSRI)	VIU	83,324,691
JRMC	EV/EBITDA	71,732,435
HPTDI	VIU	30,000,000
GPC	EV/EBITDA	23,250,000
		<u>₱12,490,800,027</u>

Value In Use

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

The pre-tax discount rate applied to cash flow projections is 5.7% to 10% in 2019 (9.70% in 2018) and cash flows beyond the five-year period are extrapolated using a 1% to 5% in 2019 growth rate (5.00% to 10.00% in 2018) that is the same as the long-term average growth rate for the respective industries. As a result of this analysis, management concluded that the goodwill and trademarks are not impaired.

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

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

Gross Margins

Gross margins are based on average values achieved in one (1) to five (5) years preceding the beginning of the budget period. These are increased over the budget period for anticipated efficiency improvements. A 24.0% to 30.0% gross margin per annum was applied. A decreased demand can lead to a decline in gross margin. A decrease in gross margin by 1.36% to 4.81% for 2019 and 2.80% to 5.0% for 2018 would result in impairment.

Discount Rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in pre-tax discount rate of 2.74% to 17.10% and 2.40% to 20.20%, in 2019 and 2018, respectively, would result in impairment.

Price Inflation

Forecast price inflation which impacts the forecast for operating expenses lies within a range of 2.25% to 6.00% in 2019 and 2018. If price increases greater than the forecast price inflation and the Group is unable to pass on or absorb these increases through efficiency improvements, then the Group will have to recognize an impairment.

Growth Rate Estimates

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

EV/EBITDA Multiple

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

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

In 2019 and 2018, the Group used the EV/EBITDA multiple ranging from 10.69 to 11.20 and 10.00 to 15.00 multiples for impairment testing of goodwill and concluded and satisfied that goodwill from the acquired entities are not impaired.

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

Leases - Estimating the incremental borrowing rate (Applicable Beginning January 1, 2019)

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

Provision for ECL of Trade and Other Receivables

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

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

Provision for expected credit losses in 2019 and 2018 amounted to nil and ₱46.75 million, respectively. As of December 31, 2019 and 2018, allowance for expected credit losses on trade and other receivables amounted to ₱79.34 million and ₱156.35 million, respectively.

As of December 31, 2019 and 2018, the carrying value of the Group's trade and other receivables amounted to ₱3.87 billion and ₱3.17 billion, respectively (Note 8).

Estimating NRV of Merchandise Inventories

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

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

Provision for inventory obsolescence amounted to ₱7.38 million in 2019 and ₱59.50 million in 2018 and nil in 2017.

Merchandise inventories amounted to ₱19.81 billion and ₱18.63 billion as of December 31, 2019 and 2018, respectively (Note 9).

Evaluation of Impairment of Nonfinancial Assets

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

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

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

Based on management assessment as of December 31, 2019 and 2018, there are no additional impairment provision required for property and equipment other than those already recorded in the books while there are none for investment in associates. In 2019, 2018 and 2017, the Group recognized impairment on assets amounting to ₱65.93 million, ₱117.23 million and nil, respectively (Notes 12, 14 and 15).

As of December 31, 2019 and 2018, the carrying value of the Group's property and equipment amounted to ₱19.29 billion and ₱19.27 billion, respectively (Note 12), ROU assets amounted to ₱26.32 billion (Note 28), investment in associates amounted to ₱7.85 billion and ₱6.81 billion, respectively (Note 13) and trademarks and franchise with definite useful life amounted to ₱0.15 billion and ₱0.21 billion, respectively (Note 14).

Retirement and Other Benefits

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

As of December 31, 2019, the carrying value of the retirement plan amounted to ₱72.10 million asset and ₱419.84 million obligation. As of December 31, 2018 the carrying value of the retirement plan amounted to ₱91.25 million asset and ₱325.46 million obligation.

Deferred Tax Assets

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

As of December 31, 2019, and 2018, the Group has deferred tax assets amounting ₱1,009.49 million and ₱413.46 million, respectively. Unrecognized deferred tax assets amounted to ₱71.18 million and ₱100.67 million as of December 31, 2019 and 2018, respectively (Note 25).

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

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

As of December 31, 2019 and 2018, contract liabilities arising from customer loyalty program and gift checks amounted to ₱273.60 million and ₱180.88 million, respectively (Note 16). Contract liabilities are classified under “Trade and other payables”.

6. Operating Segments

Business Segment

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

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

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

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

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

The Group derives its revenue from the following reportable units:

- *Supermarket Division*
The supermarket division operates under seven (7) formats with the acquisition of Rustan Supercenters, Inc. in 2018. It has Robinsons Supermarket, Robinsons Easymart, Robinsons Selections, The Marketplace by Rustan’s, Shopwise, Wellcome and Jaynith’s Supermarket. Robinsons Supermarket is a major supermarket chain in the country that focuses on health and wellness. It also offers fresh food products at competitive prices. RSC actively encourages consumers to adopt a healthy lifestyle by providing a wide range of high quality health and wellness products. Such products are given a specifically allocated section within each of the supermarkets and are made highly visible to consumers.
- *Department Store Division*
Robinsons Department Store (RDS) offers a large selection of local and international brands that are grouped into categories such as shoes, bags and accessories (including beauty and personal care), ladies’ and men’s wear, children’s wear, household items and others. RDS is focused on catering to middle-income customers.
- *Do-It-Yourself (DIY) Division*
The five (5) DIY brands Handyman Do it Best, True Value, True Home, Robinsons Builders and Home Plus have grown to have a reputation of quality and dependability in the Philippine retail market, as well as being aggressive in terms of expansion among mall and big box hardware and home improvement centers in the country. The DIY segment aims to cover the Philippine landscape with more branches in key commercial centers to promote self-reliance among do-it

yourselves, as well as offer a wide selection of construction materials for contractors and builders.

- *Convenience Store Division*

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

- *Drug Store Division*

The Drug Store segment operates two (2) formats namely: South Star Drug and TGP which primarily offer high quality pharmaceutical drugs, which constitutes to over a thousand reputable branded and affordable options including TGP's house brands for generic medicines. The segment's other major product categories are staged milk and non-pharmaceutical selections, which include a vast array personal care items, food and beverage, and other convenience store grocery items.

- *Specialty Store Division*

The Specialty Store format is the lifestyle arm of the Group. It is committed to bringing a diverse spectrum of products and services to the Philippine market. The segment operates six (6) formats of specialty stores, namely: 1) toys and juvenile products retail under Toys "R" Us; 2) consumer electronics and appliances stores operated under Robinsons Appliances and Savers Appliance, 3) international fashion and beauty retail, 4) mass merchandise stores under Daiso Japan, Arcova and Super50, 5) pet retail under Pet Lovers Centre; and 6) Korean hard discount store No Brand.

2019

	Supermarket Division	Department Store Division	DIY Division	Convenience Store Division	Drug Store Division	Specialty Store Division	Parent Company	Intersegment Eliminating Adjustments	Consolidated
Segment net sales	₱88,514,715,048	₱18,039,637,214	₱14,382,541,311	₱6,744,155,713	₱17,684,834,470	₱17,549,803,545	₱—	₱—	₱162,915,687,301
Intersegment net sales	—	—	—	—	—	1,733,507,154	—	(1,733,507,154)	—
Total net sales	88,514,715,048	18,039,637,214	14,382,541,311	6,744,155,713	17,684,834,470	19,283,307,699	—	(1,733,507,154)	162,915,687,301
Segment cost of merchandise sold	69,902,996,664	11,317,374,859	9,707,107,667	6,223,507,105	14,266,050,062	14,317,497,305	—	—	125,734,533,662
Intersegment cost of merchandise sold	—	1,733,507,154	—	—	—	—	—	(1,733,507,154)	—
Total cost of merchandise sold	69,902,996,664	13,050,882,013	9,707,107,667	6,223,507,105	14,266,050,062	14,317,497,305	—	(1,733,507,154)	125,734,533,662
Gross profit	18,611,718,384	4,988,755,201	4,675,433,644	520,648,608	3,418,784,408	4,965,813,394	—	—	37,181,153,639
Segment other income	635,713,065	66,708,741	—	1,846,781,976	184,814,712	6,162,530	—	—	2,740,181,024
Intersegment other income	151,042,982	16,190,774	—	—	—	—	—	(167,233,756)	—
Total other income	786,756,047	82,899,515	—	1,846,781,976	184,814,712	6,162,530	—	(167,233,756)	2,740,181,024
Gross profit including other income	19,398,474,431	5,071,654,716	4,675,433,644	2,367,430,584	3,603,599,120	4,971,975,924	—	(167,233,756)	39,921,334,663
Segment operating expenses	12,487,678,031	3,696,369,137	2,304,072,907	1,790,025,263	1,898,210,428	3,019,707,906	47,321,775	—	25,243,385,447
Intersegment operating expenses	13,880,355	45,259,787	32,015,211	—	48,500,765	27,577,638	—	(167,233,756)	—
Total operating expenses	12,501,558,386	3,741,628,924	2,336,088,118	1,790,025,263	1,946,711,193	3,047,285,544	47,321,775	(167,233,756)	25,243,385,447
Earnings before interest, taxes and depreciation and amortization									
Depreciation and amortization	6,896,916,045	1,330,025,792	2,339,345,526	577,405,321	1,656,887,927	1,924,690,380	(47,321,775)	—	14,677,949,216
Earnings before interest and taxes	3,235,289,418	729,798,334	1,016,146,334	590,493,211	385,963,873	922,102,052	—	—	6,879,793,222
Interest income	3,661,626,627	600,227,458	1,323,199,192	(13,087,890)	1,270,924,054	1,002,588,328	(47,321,775)	—	7,798,155,994
Equity in net earnings of an associate	83,324,817	40,772,404	73,211,287	17,696,102	26,660,346	29,503,503	774,657,635	(30,252,945)	1,015,573,149
Dividend income	(53,622,712)	—	—	—	—	—	158,372,445	—	104,749,733
Foreign exchange gain (loss) - net	(1,849,148)	—	—	—	—	—	100,315,156	—	100,315,156
Interest expense	(1,402,546,324)	(218,541,965)	(312,547,186)	(81,939,518)	(224,246,955)	(325,963,626)	(132,770,048)	—	(134,619,196)
Others	(153,000,603)	—	—	—	—	(75,858,614)	(42,967,218)	30,252,945	(2,578,499,847)
Income before income tax	₱2,133,932,657	₱422,457,897	₱1,083,863,293	(₱77,331,306)	₱1,073,337,445	₱630,269,591	₱843,050,945	₱—	₱6,109,580,522
Assets and liabilities									
Segment assets	₱48,077,501,547	₱6,990,849,907	₱10,791,258,928	₱3,961,746,250	₱10,326,202,964	₱12,596,289,253	₱32,367,134,542	₱12,755,086,922	₱137,866,070,313
Investment in subsidiaries - at cost	2,840,607,224	3,907,012,333	—	—	—	—	21,632,839,151	(28,380,458,708)	—
Total segment assets	₱50,918,108,771	₱10,897,862,240	₱10,791,258,928	₱3,961,746,250	₱10,326,202,964	₱12,596,289,253	₱53,999,973,693	(₱15,625,371,786)	₱137,866,070,313
Total segment liabilities	₱30,658,205,176	₱5,681,493,878	₱5,854,617,277	₱2,356,267,743	₱6,029,724,180	₱8,766,432,844	₱170,329,510	₱1,822,603,095	₱61,339,673,703
Other segment information:									
Capital expenditures	₱1,459,447,307	₱333,015,880	₱461,289,318	₱474,754,257	₱141,239,470	₱476,649,158	₱—	₱—	₱3,346,395,390

	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	₱62,362,494,774	₱17,780,879,313	₱13,905,046,303	₱6,176,910,080	₱15,823,983,850	₱16,631,152,456	₱—	₱—	₱132,680,466,776
Intersegment net sales	—	—	—	—	—	1,568,651,424	—	(1,568,651,424)	—
Total net sales	62,362,494,774	17,780,879,313	13,905,046,303	6,176,910,080	15,823,983,850	18,199,803,880	—	(1,568,651,424)	132,680,466,776
Segment cost of merchandise sold	50,173,801,793	11,443,464,329	9,460,319,004	5,618,210,168	12,747,050,339	13,402,538,721	—	—	102,845,384,354
Intersegment cost of merchandise sold	—	1,568,651,424	—	—	—	—	—	(1,568,651,424)	—
Total cost of merchandise sold	50,173,801,793	13,012,115,753	9,460,319,004	5,618,210,168	12,747,050,339	13,402,538,721	—	(1,568,651,424)	102,845,384,354
Gross profit	12,188,692,981	4,768,763,560	4,444,727,299	558,699,912	3,076,933,511	4,797,265,159	—	—	29,835,082,422
Segment other income	162,751,481	198,958,936	—	1,889,319,320	164,641,071	6,525,076	—	—	2,422,195,884
Intersegment other income	144,495,404	44,841,440	—	—	—	—	—	(189,336,844)	—
Total other income	307,246,885	243,800,376	—	1,889,319,320	164,641,071	6,525,076	—	(189,336,844)	2,422,195,884
Gross profit including other income	12,495,939,866	5,012,563,936	4,444,727,299	2,448,019,232	3,241,574,582	4,803,790,235	—	(189,336,844)	32,257,278,306
Segment operating expenses	8,579,889,094	4,040,030,422	2,981,694,608	2,107,644,276	2,012,498,291	3,487,345,939	27,214,498	—	23,236,317,128
Intersegment operating expenses	32,609,266	51,205,816	35,245,707	—	36,905,778	33,370,277	—	(189,336,844)	—
Total operating expenses	8,612,498,360	4,091,236,238	3,016,940,315	2,107,644,276	2,049,404,069	3,520,716,216	27,214,498	(189,336,844)	23,236,317,128
Earnings before interest, taxes and depreciation and amortization	3,883,441,506	921,327,698	1,427,786,984	340,374,956	1,192,170,513	1,283,074,019	(27,214,498)	—	9,020,961,178
Depreciation and amortization	1,015,186,857	420,756,132	228,641,219	239,384,103	121,015,571	370,101,154	—	—	2,395,085,036
Earnings before interest and taxes	2,868,254,649	500,571,566	1,199,145,765	100,990,853	1,071,154,942	912,972,865	(27,214,498)	—	6,625,876,142
Interest expense	(7,527,908)	(30,348,756)	(3,250,945)	—	(89,640,324)	(41,799,314)	(17,398,472)	30,893,985	(159,071,734)
Interest income	37,536,597	22,019,745	51,216,724	20,774,167	21,398,014	19,549,062	840,262,280	(30,893,985)	981,862,604
Dividend income	—	—	—	—	—	—	111,500,000	—	111,500,000
Foreign exchange gain - net	—	—	—	—	—	—	200,867,038	—	200,867,038
Equity in net earnings of an associate	(4,031,405)	—	—	—	—	—	112,770,641	—	108,739,236
Others	(58,645,174)	(17,004,745)	(7,700,105)	(5,132,025)	(8,907,987)	(127,158,744)	(48,065,534)	—	(272,614,314)
Income before income tax	₱2,835,586,759	₱475,237,810	₱1,239,411,439	₱116,632,995	₱994,004,645	₱763,563,869	₱1,172,721,455	₱—	₱7,597,158,972
Assets and liabilities									
Segment assets	₱30,641,562,719	₱5,107,770,668	₱6,528,041,665	₱3,111,410,150	₱8,983,261,961	₱9,252,631,153	₱31,697,362,422	₱12,455,066,456	₱107,777,107,194
Investment in subsidiaries - at cost	2,790,607,224	3,878,258,269	62,500,000	—	—	—	21,632,839,151	(28,364,204,644)	—
Total segment assets	₱33,432,169,943	₱8,986,028,937	₱6,590,541,665	₱3,111,410,150	₱8,983,261,961	₱9,252,631,153	₱53,330,201,573	(₱15,909,138,188)	₱107,777,107,194
Total segment liabilities	₱15,061,073,844	₱3,937,639,289	₱2,097,554,693	₱1,381,766,940	₱5,178,010,004	₱5,788,948,538	₱1,594,271,333	₱33,674,554	₱35,072,939,195
Other segment information:									
Capital expenditures	₱2,300,718,232	₱598,770,330	₱447,306,797	₱211,404,175	₱133,088,174	₱728,159,814	₱—	₱—	₱4,419,447,522

	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	₱52,363,396,276	₱16,115,725,158	₱12,322,762,318	₱5,710,247,583	₱14,518,058,506	₱14,208,269,688	₱—	₱—	₱115,238,459,529
Intersegment net sales	—	—	—	—	—	1,341,616,164	—	(1,341,616,164)	—
Total net sales	52,363,396,276	16,115,725,158	12,322,762,318	5,710,247,583	14,518,058,506	15,549,885,852	—	(1,341,616,164)	115,238,459,529
Segment cost of merchandise sold	42,209,389,308	10,538,329,174	8,376,741,667	5,164,856,833	11,806,367,512	11,350,395,444	—	—	89,446,079,938
Intersegment cost of merchandise sold	—	1,341,616,164	—	—	—	—	—	(1,341,616,164)	—
Total cost of merchandise sold	42,209,389,308	11,879,945,338	8,376,741,667	5,164,856,833	11,806,367,512	11,350,395,444	—	(1,341,616,164)	89,446,079,938
Gross profit	10,154,006,968	4,235,779,820	3,946,020,651	545,390,750	2,711,690,994	4,199,490,408	—	—	25,792,379,591
Segment other income	120,868,029	138,074,608	—	1,725,718,541	270,727,657	6,769,712	—	—	2,262,158,547
Intersegment other income	133,949,774	39,483,612	—	—	—	—	—	(173,433,386)	—
Total other income	254,817,803	177,558,220	—	1,725,718,541	270,727,657	6,769,712	—	(173,433,386)	2,262,158,547
Gross profit including other income	10,408,824,771	4,413,338,040	3,946,020,651	2,271,109,291	2,982,418,651	4,206,260,120	—	(173,433,386)	28,054,538,138
Segment operating expenses	6,719,660,260	3,387,373,060	2,707,420,540	1,967,946,315	1,857,091,371	3,005,556,758	31,070,475	—	19,676,118,779
Intersegment operating expenses	27,646,477	49,936,472	33,717,792	—	29,989,079	32,143,566	—	(173,433,386)	—
Total operating expenses	6,747,306,737	3,437,309,532	2,741,138,332	1,967,946,315	1,887,080,450	3,037,700,324	31,070,475	(173,433,386)	19,676,118,779
Earnings before interest, taxes and depreciation and amortization	3,661,518,034	976,028,508	1,204,882,319	303,162,976	1,095,338,201	1,168,559,796	(31,070,475)	—	8,378,419,359
Depreciation and amortization	836,921,560	357,966,174	194,730,487	260,947,950	105,255,226	317,215,779	—	—	2,073,037,176
Earnings before interest and taxes	2,824,596,474	618,062,334	1,010,151,832	42,215,026	990,082,975	851,344,017	(31,070,475)	—	6,305,382,183
Interest expense	(3,102,201)	(30,916,715)	(2,329,834)	(1,620,135)	(76,451,034)	(43,340,288)	—	30,375,736	(127,384,471)
Interest income	22,249,950	10,478,717	26,726,722	8,284,275	8,777,648	15,735,288	811,548,241	(30,375,736)	873,425,105
Dividend income	—	—	—	—	—	—	111,500,000	—	111,500,000
Foreign exchange gain - net	—	—	—	—	—	—	16,104,012	—	16,104,012
Equity in net earnings of an associate	—	—	—	—	—	—	123,639,511	—	123,639,511
Income before income tax	₱2,843,744,223	₱597,624,336	₱1,034,548,720	₱48,879,166	₱922,409,589	₱823,739,017	₱1,031,721,289	₱—	₱7,302,666,340
Assets and liabilities									
Segment assets	₱19,576,200,337	₱4,668,650,988	₱6,167,594,985	₱2,983,587,925	₱8,449,541,079	₱7,922,952,804	₱29,968,508,062	₱2,443,690,652	₱82,180,726,832
Investment in subsidiaries - at cost	2,790,607,224	3,777,600,374	—	—	—	—	5,286,030,763	(11,854,238,361)	—
Total segment assets	₱22,366,807,561	₱8,446,251,362	₱6,167,594,985	₱2,983,587,925	₱8,449,541,079	₱7,922,952,804	₱35,254,538,825	₱9,410,547,709	₱82,180,726,832
Total segment liabilities	₱9,438,322,396	₱3,695,163,782	₱2,479,559,578	₱1,296,096,948	₱5,172,322,481	₱4,927,876,020	₱98,435,577	(₱193,689,034)	₱26,914,087,748
Other segment information:									
Capital expenditures	₱1,267,354,339	₱752,664,136	₱344,385,945	₱114,748,739	₱242,003,566	₱383,562,968	₱—	₱—	₱3,104,719,693

The revenue of the Group consists mainly of sales to external customers through its retail and internet channels. Inter-segment revenue arising from purchase arrangements amounting ₱1.73 billion, ₱1.57 billion and ₱1.34 billion in 2019, 2018 and 2017, respectively, were eliminated on consolidation.

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

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

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

7. Cash and Cash Equivalents

This account consists of cash on hand and in banks and cash equivalents amounting to ₱20.29 billion and ₱14.79 billion as of December 31, 2019, and 2018, respectively.

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of one (1) to three (3) months, depending on the immediate cash requirements of the Group, and earn annual interest at the respective short-term investment rates that ranges from 0.80% to 5.40%, 0.90% to 5.52% and 0.90% to 3.50% in 2019, 2018 and 2017, respectively.

Interest income arising from cash in banks and cash equivalents amounted to ₱292.85 million, ₱193.64 million and ₱107.55 million in 2019, 2018 and 2017, respectively.

8. Trade and Other Receivables

This account consists of:

	2019	2018
Trade (Notes 24 and 27)	₱2,460,624,381	₱2,108,620,270
Nontrade (Notes 24 and 27)	874,803,571	734,264,185
Due from franchisees (Notes 27 and 29)	609,368,201	485,057,897
	3,944,796,153	3,327,942,352
Less allowance for impairment losses (Notes 27 and 29)	79,335,269	156,346,848
	₱3,865,460,884	₱3,171,595,504

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

Nontrade receivables include receivable from insurance companies amounting to ₱280.38 million and ₱145.97 million as of December 31, 2019, and 2018, respectively. The remaining balance consists of operational advances, receivable from lessees and interest receivable arising from short-term investments.

Movement in the allowance for impairment losses is as follows:

	2019	2018
Balance at beginning of year	₱156,346,848	₱110,387,770
Provision for impairment losses (Note 21)	–	46,748,194
Reversals and write-off	(77,011,579)	(789,116)
Balance at end of year	₱79,335,269	₱156,346,848

9. Merchandise Inventories

The rollforward analysis of this account follows:

	2019	2018
Balance at beginning of year	₱18,628,013,928	₱14,846,561,020
Acquisition through business combination	–	3,073,734,206
Add purchases - net of purchase discounts and allowances	126,941,727,050	103,596,280,274
Cost of goods available for sale	145,569,740,978	121,516,575,500
Less cost of merchandise sold	125,734,533,662	102,845,384,354
Allowance for inventory obsolescence	24,954,805	43,177,218
Balance at end of year	₱19,810,252,511	₱18,628,013,928

The cost of merchandise inventories charged to the consolidated statements of comprehensive income amounted to ₱125.73 billion, ₱102.85 billion and ₱89.45 billion in 2019, 2018 and 2017, respectively.

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

	2019	2018
Balance at beginning of year	₱43,177,218	₱–
Provisions (Note 21)	7,377,588	59,503,049
Write-off	(25,600,001)	(16,325,831)
Balance at end of year	₱24,954,805	₱43,177,218

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

10. Other Current Assets

This account consists of:

	2019	2018
Input VAT - net	₱1,977,497,856	₱2,246,748,776
Prepayments	513,735,800	490,482,729
CWT	432,017,049	410,508,668
Others	28,030,467	11,920,917
	₱2,951,281,172	₱3,159,661,090

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

Prepayments consist of advance payments for insurance, taxes and utilities. In 2018, prepayments also include advance payments for rental. In 2019, advance payments for rental are included as part of ROU assets (Notes 2 and 28).

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

Others consist mainly of excess payments of income taxes.

11. Debt and Equity Instrument Financial Assets

The Group's debt and equity instrument financial assets classified as FVOCI and FVTPL which are carried at fair value is as follows:

	2019	2018
Debt securities		
FVOCI with recycling	(a) ₱13,541,822,321	₱16,135,895,711
FVTPL	(b) 100,547,120	1,665,171,011
	13,642,369,441	17,801,066,722
Equity securities at FVOCI without recycling	1,214,983,500	1,950,400,000
	₱14,857,352,941	₱19,751,466,722

Debt Securities

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

Rollforward analysis of debt securities at FVOCI with recycling as of December 31, 2019 and 2018 follows:

	2019	2018
Amortized cost:		
At beginning of year	₱16,817,785,321	₱16,593,843,811
Additions	563,656,662	847,021,924
Disposals	(3,753,666,886)	(756,249,689)
Foreign exchange gain	(170,129,152)	133,169,275
At end of year	13,457,645,945	16,817,785,321
Amortization of premium on debt securities	(84,597,284)	(75,423,505)
Change in fair value of financial assets:		
At beginning of year	(593,335,355)	329,275,323
Changes in fair value recognized in OCI	775,460,132	(965,569,116)
Transfer to profit or loss	(6,393,395)	42,958,438
At end of year	175,731,382	(593,335,355)
Allowance for expected credit losses	(6,957,722)	(13,130,750)
	168,773,660	(606,466,105)
	₱13,541,822,321	₱16,135,895,711

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

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

	2019	2018
At beginning of year	₱1,665,171,011	₱1,683,700,000
Disposals	(1,583,559,947)	—
Changes in fair value recognized in profit or loss	18,936,056	(18,528,989)
	₱100,547,120	₱1,665,171,011

In 2019, 2018 and 2017, the Group recognized gain or loss on disposal of debt instrument financial assets amounting to ₱7.66 million gain, ₱21.59 million loss and ₱4.24 million loss, respectively.

Interest income arising from debt instrument financial assets amounted to ₱722.72 million, ₱788.22 million and ₱765.88 million in 2019, 2018 and 2017, respectively.

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

Equity Securities

Quoted equity securities pertain to investment in stock listed in the PSE. The Group elected to classify irrevocably its listed equity investments under FVOCI in 2019 and 2018 as it intends to hold these investments for the foreseeable future.

Rollforward analysis of equity securities at FVOCI without recycling for the years ended December 31, 2019 and 2018 follows:

	2019	2018
Cost		
At beginning of year	₱2,000,000,000	₱2,000,000,000
Additions	1,197,500,000	—
Disposals	(2,000,000,000)	—
	1,197,500,000	2,000,000,000
Change in fair value of equity instrument financial assets:		
At beginning of year	(49,600,000)	104,000,000
Disposals	(20,000,000)	—
Changes in fair value	87,083,500	(153,600,000)
At end of year	17,483,500	(49,600,000)
	₱1,214,983,500	₱1,950,400,000

Dividend income earned by the Group amounted to ₱100.32 million in 2019 and ₱111.50 million in 2018 and 2017.

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

	2019	2018
Balances at the beginning of year	(₱642,230,230)	₱433,980,448
Change in fair value during the year - OCI	842,543,632	(1,119,169,116)
Transfers to profit or loss	(6,393,395)	42,958,438
Balances at the end of year	₱193,920,007	(₱642,230,230)

12. Property and Equipment

2019

	Land	Building and Other Equipment	Leasehold Improvements	Store Furniture and Fixtures	Office Furniture and Fixtures	Transportation Equipment	Computer Equipment	Total
Cost								
At beginning of year	₱ 609,382,477	₱ 2,806,347,351	₱ 16,184,847,447	₱ 10,943,361,979	₱ 2,749,061,388	₱ 214,640,752	₱ 3,204,209,258	₱ 36,711,850,652
Additions	–	18,502,392	1,917,798,691	644,800,383	417,762,818	15,223,857	332,307,249	3,346,395,390
Disposals and derecognition	–	(47,500)	(655,284,538)	(433,398,981)	(17,365,735)	(4,841,036)	(71,599,065)	(1,182,536,855)
At end of year	609,382,477	2,824,802,243	17,447,361,600	11,154,763,381	3,149,458,471	225,023,573	3,464,917,442	38,875,709,187
Accumulated depreciation and amortization								
At beginning of year	–	827,792,789	7,720,367,463	5,990,962,008	908,288,918	143,590,710	1,775,835,924	17,366,837,812
Depreciation and amortization (Note 21)	–	64,937,554	1,752,528,369	617,850,135	291,598,137	14,320,733	282,421,632	3,023,656,560
Disposals and derecognition	–	(47,500)	(452,389,638)	(343,960,505)	(18,374,958)	(5,308,651)	(60,032,065)	(880,113,317)
At end of year	–	892,682,843	9,020,506,194	6,264,851,638	1,181,512,097	152,602,792	1,998,225,491	19,510,381,055
Allowance for impairment losses								
At beginning and end of year	–	–	49,567,673	25,882,986	–	–	349,273	75,799,932
	₱ 609,382,477	₱ 1,932,119,400	₱ 8,377,287,733	₱ 4,864,028,757	₱ 1,967,946,374	₱ 72,420,781	₱ 1,466,342,678	₱ 19,289,528,200

2018

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

Allowance for impairment losses pertain to closing of non-performing stores. Cost of fully depreciated property and equipment still in use amounted to ₱11.27 billion and ₱7.64 billion as of December 31, 2019 and 2018, respectively.

13. Investment in Associates

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

	2019	2018
RBC	₱7,119,421,401	₱6,440,203,060
TCCI	326,689,847	112,075,299
DAVI	191,350,616	400,000
G2M	160,650,429	160,650,429
GrowSari	47,345,883	100,968,595
	₱7,845,458,176	₱6,814,297,383

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

	2019	2018
Shares of stock - at equity:		
At beginning and end of year	₱5,950,238,902	₱4,750,238,902
Additional investment (Note 2)	–	1,200,000,000
Balance at end of year	₱5,950,238,902	5,950,238,902
Accumulated equity in net earnings:		
Balance at beginning of year	960,380,963	834,958,356
Equity in net earnings	272,407,281	125,422,607
Balance at end of year	1,232,788,244	960,380,963
Share in fair value changes of financial assets of RBC:		
Balance at beginning of year	(417,023,044)	(393,204,586)
Share in fair value changes of financial assets at FVOCI	411,345,068	(23,818,458)
Balance at end of year	(5,677,976)	(417,023,044)
Share in translation loss adjustments:		
Balance at beginning of year	(48,006,938)	(41,044,297)
Share in translation adjustments	3,656,329	(6,962,641)
Balance at end of year	(44,350,609)	(48,006,938)
Share in remeasurement losses on retirement obligation:		
Balance at beginning of year	(5,386,823)	(4,143,444)
Share in remeasurement loss on retirement obligation	(8,190,337)	(1,243,379)
Balance at end of year	(13,577,160)	(5,386,823)
	₱7,119,421,401	₱6,440,203,060

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

Summarized financial information of RBC follows:

	2019	2018
Total assets	₱131,108,212,486	₱121,356,956,413
Total liabilities	114,082,988,400	109,157,896,832
Net income	681,018,202	313,556,517
Other comprehensive income (loss)	1,028,362,670	(59,546,145)

The consolidated statements of comprehensive income follow:

	2019	2018	2017
Total operating income	₱4,992,311,801	₱4,125,255,244	₱3,484,195,685
Total operating expenses and tax	4,311,293,599	3,811,698,727	3,174,415,070
Net income	681,018,202	313,556,517	309,780,615
Other comprehensive income (loss)	1,028,362,670	(59,546,145)	(163,376,248)
Total comprehensive income	₱1,709,380,872	₱254,010,372	₱146,404,367
Group's share of profit for the year	₱272,407,281	₱125,422,607	₱123,912,246

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

	2019	2018
Net assets of RBC	₱17,076,478,938	₱15,378,433,085
Proportionate ownership in the associate	40%	40%
Total share in net assets	6,830,591,575	6,151,373,234
Carrying amount of the investment	7,119,421,401	6,440,203,060
Difference	₱288,829,826	₱288,829,826

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

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

	2019	2018
Changes in fair value of financial assets of associates:		
Balances at the beginning of year	(₱394,669,733)	(₱373,495,977)
Change in fair value during the year	292,958,080	(21,173,756)
Balances at end of year	(101,711,653)	(394,669,733)
Remeasurement losses on retirement obligation of associates:		
Balances at the beginning of year	(8,299,655)	(7,056,276)
Remeasurement loss during the year	(8,190,337)	(1,243,379)
Balances at end of year	(16,489,992)	(8,299,655)
	(₱118,201,645)	(₱402,969,388)

TCCI

On December 13, 2017, the Parent Company acquired 20.00% ownership interest in TCCI or 1.00 million shares for a total consideration amounting to ₱125.00 million or ₱25.00 per share. On March 28, 2019, the Parent Company acquired additional 875,011 common shares representing 10% ownership interest for a total consideration amounting to ₱280.00 million. Ownership interest of the Parent Company in TCCI as of December 31, 2019 is 30%. TCCI is incorporated in the Philippines and is the operator of BeautyMNL, an e-commerce site.

Carrying value of TCCI's investment as of December 31, 2019 and 2018 amounted to ₱326.69 million and ₱112.08 million, respectively. Details follow:

	2019	2018
Shares of stock - at equity:		
Balance at beginning of year	₱125,000,000	₱125,000,000
Additional investment (Note 2)	280,000,000	—
Balance at end of year	405,000,000	125,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	(12,924,701)	(272,735)
Equity in net loss	(65,385,452)	(12,651,966)
Balance at end of year	(78,310,153)	(12,924,701)
	₱326,689,847	₱112,075,299

DAVI

On November 16, 2018, the Parent Company subscribed 40% ownership interest in DAVI of which ₱0.40 million was paid in 2018. DAVI's principal activities include processing, managing and analyzing data. DAVI is incorporated in the Philippines.

Carrying value of DAVI's investment as of December 31, 2019 and 2018 amounted to ₱191.35 million and ₱0.40 million, respectively. Details follow:

	2019	2018
Shares of stock - at equity:		
Balance at beginning of year	₱400,000	₱—
Additional investment (Note 2)	239,600,000	400,000
Balance at end of year	240,000,000	400,000
Accumulated equity in net earnings:		
Equity in net loss	(48,649,384)	—
Balance at end of year	(48,649,384)	—
	₱191,350,616	₱400,000

G2M

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

GrowSari

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

Carrying value of Growsari's investment as of December 31, 2019 and 2018 amounted to ₱47.35 million and ₱100.97 million, respectively. Details follow:

	2019	2018
Shares of stock - at equity:		
At beginning and end of year	₱105,000,000	₱105,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	(4,031,405)	—
Equity in net loss	(53,622,712)	(4,031,405)
Balance at end of year	(57,654,117)	(4,031,405)
	₱47,345,883	₱100,968,595

14. Intangible Assets

This account consists of:

	2019	2018
Goodwill (Note 19)	₱12,490,800,027	₱12,490,800,027
Trademarks (Note 19)	6,541,738,841	6,591,363,481
Franchise	6,635,499	24,125,885
	₱19,039,174,367	₱19,106,289,393

Goodwill

The Group's goodwill as of December 31, 2019 and 2018 pertains to the excess of the acquisition cost over the fair value of the net assets of acquired subsidiaries which also represents separate CGUs. Details follow (Note 19):

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

Trademarks

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

	2019	2018
RSCI (Note 19)	₱3,345,808,381	₱3,395,433,021
SSDI	1,566,917,532	1,566,917,532
TGPPI	1,264,098,435	1,264,098,435
SEWI	364,914,493	364,914,493
	₱6,541,738,841	₱6,591,363,481

Included in the trademarks acquired through acquisition of RSCI in 2018 is the right to use a brand and trademark for a period of almost five (5) years. In 2019 and 2018, amortization related to trademarks acquired through acquisition of RSCI amounted to ₱49.62 million and ₱3.17 million, respectively. As of December 31, 2019 and 2018, the carrying value of the trademarks with definite useful life amounted to ₱140.40 million and ₱190.02 million, respectively.

Licenses

Acquisition of trademark by RSSI to secure a franchise/license

On September 21, 2012, RSSI acquired a local trademark registered in the Philippine Intellectual Property Rights Office which is similar to a known international mark for ₱121.21 million. Due to such acquisition, RSSI was able to secure a franchise/license to exclusively use the similar known international mark in the Philippines. The franchise/license agreement is for an initial period of five (5) years which can be renewed for another five (5) years upon mutual agreement of the parties. Amortization amounted to ₱12.12 million in 2018 and 2017 (Note 21). In 2018, RSSI written off the remaining value of the license amounting to ₱48.48 million due to debranding.

Franchise

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

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

The rollforward analysis of the franchise follows:

	2019	2018
Beginning balance	₱24,125,885	₱19,279,385
Addition	—	7,583,430
Amortization (Note 21)	(2,444,165)	(2,736,930)
Write-off	(15,046,221)	—
	₱6,635,499	₱24,125,885

15. Other Noncurrent Assets

This account consists of:

	2019	2018
Security and other deposits	₱2,479,555,628	₱2,550,724,180
Construction bonds	35,535,709	33,092,201
	₱2,515,091,337	₱2,583,816,381

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

In 2018, the Group impaired other noncurrent assets amounting to ₱68.75 million.

16. Trade and Other Payables

This account consists of:

	2019	2018
Trade	₱16,866,916,950	₱17,130,764,045
Nontrade (Note 24)	7,264,214,185	6,537,222,971
Others	970,862,057	909,123,439
	₱25,101,993,192	₱24,577,110,455

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

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

Others mainly consist of taxes and licenses payable.

Contract Liabilities

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

	2019	2018
Gift check outstanding	₱155,168,913	₱140,165,250
Accrued customer loyalty reward	118,434,504	40,713,870
Deferred revenue	13,450,713	17,020,098
	₱287,054,130	₱197,899,218

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

	2019	2018
At January 1	₱197,899,218	₱–
Reclassification from deferred revenue upon adoption of PFRS 15	–	275,042,623
Deferred during the year	658,570,734	848,807,808
Recognized as revenue during the year	(569,415,822)	(925,951,213)
At December 31	₱287,054,130	₱197,899,218

17. Short-term Loans Payable

Details of short-term loans follow:

	2019	2018
Balance at beginning of year	₱6,794,000,000	₱6,377,954,863
Availments	915,000,000	7,508,045,137
Additions through business combination (Note 19)	–	1,500,000,000
Payments	(3,075,000,000)	(8,592,000,000)
	₱4,634,000,000	₱6,794,000,000

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

	2019	2018
SSDI	₱1,929,000,000	₱2,182,000,000
RSCI	1,900,000,000	1,750,000,000
RHDDS	400,000,000	220,000,000
RSC	300,000,000	–
RHIB	55,000,000	–
HPTD	50,000,000	50,000,000
RI	–	1,352,000,000
RRHI	–	1,050,000,000
RGFBI	–	190,000,000
	₱4,634,000,000	₱6,794,000,000

- a.) SSDI's short-term loans payable consist of loans availed from local commercial banks at interest rates of 4.35%-5.90% per annum in 2019 and 5.10%-5.50% per annum in 2018. In 2018, SSDI availed short-term loans amounting to ₱100.0 million. In addition, SSDI paid ₱253.0 million and ₱135.0 million of the outstanding loan balance in 2019 and 2018, respectively. The short-term loans payable of SSDI as of December 31, 2019 and 2018 amounted to ₱1.93 billion and ₱2.18 billion, respectively.
- b.) RSCI's short-term loans payable consist of loans availed from a local commercial bank at interest rates of 4.60%-6.75% per annum in 2019 and 5.50%-5.95% per annum in 2018. The loans were obtained to finance RSCI's working capital requirements. In 2019, RSCI availed short-term loans amounting to ₱380.0 million and paid ₱230.0 million of the outstanding loan balance. The short-term loans payable of RSCI as of December 31, 2019 and 2018 amounted to ₱1.90 billion and ₱1.75 billion, respectively.

- c.) RHDDS's short-term loans payable consist of a loan availed from a local commercial bank at an interest rates of 4.70%-6.75% per annum in 2019 and 5.50%-6.50% per annum in 2018. In 2019 and 2018, RHDDS availed short-term loan amounting ₱180.0 million and ₱145.0 million, respectively. In addition, RHDDS paid ₱155.0 million on the outstanding loan balance in 2018. The short-term loans payable as of December 31, 2019 and 2018 amounted to ₱400.0 million and ₱220.0 million, respectively.
- d.) RSC's short-term loans payable consists of loans availed from local commercial banks at an interest rate of 4.40% per annum in 2019 and 5.30% per annum in 2018 which are renewable every three (3) months. In 2019, RSC availed short-term loans amounting to ₱300.0 million.
- e.) RHIB's short-term loans payable consists of loans availed from a local commercial bank at an interest rate of 4.70%-6.75% per annum in 2019 and 3.10%-4.00% per annum in 2018. In 2019, RHIB availed short-term loan amounting to ₱55.0 million.
- f.) HPTD's short-term loans payable consist of loans availed from local commercial banks at an interest rates of 4.70%-6.75% per annum. No payment of short-term loan was made during the year. The short-term loans payable as of December 31, 2019 and 2018 amounted to ₱50.0 million.
- g.) RI's short-term loans payable consist of loans availed from a local commercial bank at an interest rates of 5.65%-5.90% per annum in 2019 and 5.50%-5.55% per annum in 2018. These loans are renewable before the end of each lease term at the option of RI. In 2018, RI availed short-term loans amounting to ₱3.34 billion. In addition, RI paid ₱1.35 billion and ₱3.41 billion on the outstanding loan balance in 2019 and 2018, respectively. The loans were obtained to support the working capital requirements of RI. The loans were fully settled in 2019.
- h.) In 2018, RRHI's short-term loans payable consist of a loan availed from a local commercial bank amounting to ₱1.05 billion at an interest rates of 4.35%-5.55% per annum. The loans were obtained to support the working capital requirements of RRHI. The loans were fully settled in 2019.
- i.) RGFBI's short-term loans payable consists of loans availed from a local commercial bank at an interest rates of 5.75%-6.75% per annum in 2019 and 2018. In 2018, RGFBI availed short-term loans amounting to ₱420.05 million. In 2019 and 2018, RGFBI paid ₱190.0 million and ₱317.0 million, respectively. The loans were fully settled in 2019.

Total interest expense charged to operations amounted to ₱300.68 million, ₱159.07 million and ₱127.38 million in 2019, 2018 and 2017, respectively.

The above loans are not subject to any loan covenants.

18. Equity

Capital Stock

The details of this account follow:

	2019		2018		2017	
	Amount	No. of shares	Amount	No. of shares	Amount	No. of shares
Common stock - ₱1 par value						
Authorized shares	₱2,000,000,000	2,000,000,000	₱2,000,000,000	2,000,000,000	₱2,000,000,000	2,000,000,000
Issued shares	1,576,489,360	1,576,489,360	1,576,489,360	1,576,489,360	1,385,000,000	1,385,000,000

Registration Track Record

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

On December 9, 2014, the Parent Company sold its treasury shares at ₱69.0 per share or ₱1,309.06 million, incurring transaction costs amounting to ₱8.22 million.

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

Equity Reserve

Details of equity reserve follow:

	2019	2018	2017
Acquisition of additional shares from non-controlling interest			
Beginning	(₱975,943,538)	(₱1,027,402,846)	(₱1,027,402,846)
Additions/Deductions	(19,341,439)	51,459,308	—
	(995,284,977)	(975,943,538)	(1,027,402,846)
Acquisition of subsidiary under common control	5,508,177	5,508,177	5,508,177
	(₱989,776,800)	(₱970,435,361)	(₱1,021,894,669)

Acquisition of a Subsidiary under Common Control

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

Acquisition of Additional Shares from a Non-Controlling Shareholder

On November 4, 2019, RI acquired additional 18,947,368 common shares, representing 0.95% of RCSI from a non-controlling shareholder for ₱18.95 million. As a result of the acquisition, RI then holds 60.00% interest in RCSI. The Group recognized equity reserve from the acquisition amounting

to ₱1.36 million included in “Equity reserve” representing the excess consideration paid for the carrying amount of the non-controlling interest

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

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

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

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

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

Retained Earnings

The income of the subsidiaries and accumulated equity in net income of the associates that are recognized in the consolidated statements of comprehensive income are not available for dividend declaration unless these are declared by the subsidiaries and associates. The accumulated earnings of subsidiaries included in retained earnings amounted to ₱30.49 billion and ₱27.71 billion as of December 31, 2019 and 2018, respectively, while the accumulated equity in net income of the associates amounted to ₱1,048.17 million and ₱943.42 million as of December 31, 2019 and 2018, respectively (Note 13).

Dividend Declaration

Details of the Parent Company’s dividend declarations follow:

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

Appropriation of Retained Earnings

Rollforward analysis of appropriated retained earnings follows:

	2019	2018	2017
Balance at beginning of year	₱24,151,852,847	₱15,212,852,847	₱15,262,852,847
Appropriation	3,186,000,000	9,222,000,000	—
Reversal of appropriation	(393,000,000)	(283,000,000)	(50,000,000)
Balance at end of year	₱26,944,852,847	₱24,151,852,847	₱15,212,852,847

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

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

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

In 2018, the Group's BOD approved the appropriation of retained earnings which shall be used to augment new stores with the Group's nationwide expansion which is expected to complete in next two (2) to five (5) years. Details are as follow:

Entity	Appropriations				
	February 20	March 7	March 8	December 20	Total
RRHI	₱2,800,000,000	₱—	₱—	₱—	₱2,800,000,000
RSC	—	1,250,000,000	—	1,100,000,000	2,350,000,000
RHMI	—	553,000,000	—	617,000,000	1,170,000,000
SSDI	—	300,000,000	—	500,000,000	800,000,000
RI	—	400,000,000	—	250,000,000	650,000,000
RAC	—	260,000,000	—	—	260,000,000
RTSHPI	—	93,000,000	—	105,000,000	198,000,000
SEWI	—	—	180,000,000	15,000,000	195,000,000
RHDDS	—	114,000,000	—	65,000,000	179,000,000
RTI	—	150,000,000	—	220,000,000	370,000,000
WHMI	—	50,000,000	—	97,000,000	147,000,000
CC	—	—	—	40,000,000	40,000,000
RDDC	—	—	—	33,000,000	33,000,000
ASI	—	—	—	15,000,000	15,000,000
HEMI	—	7,000,000	—	8,000,000	15,000,000
	₱2,800,000,000	₱3,177,000,000	₱180,000,000	₱3,065,000,000	₱9,222,000,000

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

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

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

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

On December 12, 2017 the BOD of the subsidiaries of the Group approved the reversal of appropriated retained earnings of RSSI amounting to ₱50.0 million due to completion of certain store expansions and renovations.

Declaration of Dividends of the Subsidiaries

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

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

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

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

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

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

NCI

Acquisition of NCI

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

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

Investment from NCI

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

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

Dividends to NCI

In 2019, 2018 and 2017, dividends declared attributable to NCI amounted to ₱349.41 million, ₱266.84 million and ₱357.80 million, respectively.

Material Partly-Owned Subsidiary

In 2019 and 2018, the Group has 49.00% proportion of equity interest held by non-controlling interests attributable to TGPPI. Accumulated balances of material non-controlling interest amounted to ₱942.16 million, ₱580.69 million and ₱408.86 million in 2019, 2018 and 2017, respectively. Profit allocated to material non-controlling interest amounted to ₱322.28 million, ₱238.68 million and ₱237.23 million in 2019, 2018 and 2017, respectively. Total assets of TGPPI as of December 31, 2019 and 2018 amounted to ₱2,127.47 million and ₱1,818.38 million, respectively, while total liabilities as of December 31, 2019 and 2018 amounted to ₱881.32 million and ₱679.77 million, respectively. Total sales in 2019, 2018 and 2017 amounted to ₱4,783.81 million, ₱4,335.08 million and ₱4,193.39 million, respectively. Net income in 2019, 2018 and 2017 amounted to ₱631.93 million, ₱464.73 million and ₱464.85 million, respectively.

Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to

shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2019 and 2018.

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

	2019	2018
Capital stock	₱1,576,489,360	₱1,576,489,360
Additional paid-in capital	40,768,202,897	40,768,202,897
Other comprehensive income (loss)	272,839,305	(563,817,037)
Equity reserve	(989,776,800)	(970,435,361)
Retained earnings		
Appropriated	26,944,852,847	24,151,852,847
Unappropriated	3,548,986,390	3,558,435,683
Total equity attributable to equity holders of the Parent Company	72,121,593,999	68,520,728,389
Non-controlling interest in consolidated subsidiaries	4,404,802,611	4,183,439,610
Total Equity	₱76,526,396,610	₱72,704,167,999

19. Business Combinations

Business Combination and Goodwill

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

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

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

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

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

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

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

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

20. Sales Revenue

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

Sales returns and sales discounts deducted from the sales to arrive at the net sales amounted to £4.64 billion, £4.55 billion and £3.77 billion in 2019, 2018 and 2017, respectively.

Disaggregated revenue information

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

For the year ended December 31, 2019

Segments	Supermarket	Department Store	DIY	Convenience Store	Drug Store	Specialty Store	Total
Type of goods or service							
Sale of goods - retail	¥88,514,715,048	¥18,039,637,214	¥14,382,541,311	¥-	¥17,684,834,470	¥19,283,310,699	¥157,905,038,742
Sale of merchandise to franchisees	-	-	-	6,744,155,713	-	-	6,744,155,713
Franchise revenue	-	-	-	6,676,528	49,168,502	-	55,845,030
Royalty fee	-	-	-	1,840,105,448	60,181,952	-	1,900,287,400
	¥88,514,715,048	¥18,039,637,214	¥14,382,541,311	¥8,590,937,689	¥17,794,184,924	¥19,283,310,699	¥166,605,326,885

Timing of revenue recognition

[illegible]

For the year ended December 31, 2018

Segments	Supermarket	Department Store	DIY	Convenience Store	Drug Store	Specialty Store	Total
Type of goods or service							
Sale of goods - retail	₱62,362,494,774	₱17,780,879,313	₱13,905,046,303	₱-	₱15,823,983,850	₱18,199,803,880	₱128,072,208,120
Sale of merchandise to franchisees	-	-	-	6,176,910,080	-	-	6,176,910,080
Franchise revenue	-	-	-	7,221,915	42,472,718	-	49,694,633
Royalty fee	-	-	-	1,882,097,405	59,926,262	-	1,942,023,667
	₱62,362,494,774	₱17,780,879,313	₱13,905,046,303	₱8,066,229,400	₱15,926,382,830	₱18,199,803,880	₱136,240,836,500
Timing of revenue recognition							
Goods transferred at point in time	₱62,362,494,774	₱17,780,879,313	₱13,905,046,303	₱6,176,910,080	₱15,823,983,850	₱18,199,803,880	₱134,249,118,200
Services transferred over time	-	-	-	1,889,319,320	102,398,980	-	1,991,718,300
	₱62,362,494,774	₱17,780,879,313	₱13,905,046,303	₱8,066,229,400	₱15,926,382,830	₱18,199,803,880	₱136,240,836,500

Intersegment eliminating adjustments related to sale of goods amounted to ₱1.73 billion in 2019 and 2018, respectively (Note 6).

21. Operating Expenses

This account consists of:

	2019	2018	2017
Rental and utilities (Notes 24 and 28)	₱8,884,787,244	₱10,508,824,120	₱8,959,404,658
Personnel costs and contracted services (Notes 22 and 23)	9,801,982,310	7,585,433,667	6,431,793,533
Depreciation and amortization (Notes 12, 14 and 28)	6,879,793,222	2,395,085,036	2,073,037,176
Transportation and travel	1,666,796,549	1,241,660,822	1,083,492,425
Supplies	1,013,015,415	806,241,418	760,801,644
Repairs and maintenance	830,280,835	587,624,491	438,011,103
Advertising	755,776,814	705,204,990	723,145,718
Bank and credit charges	754,389,132	663,624,324	547,994,430
Royalty expense (Note 29)	213,685,744	189,196,515	169,747,191
Others	1,322,671,404	948,506,781	561,728,077
	₱32,123,178,669	₱25,631,402,164	₱21,749,155,955

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

Depreciation and amortization pertains to:

	2019	2018	2017
Property and equipment (Note 12)	₱3,023,656,560	₱2,377,059,872	₱2,058,368,620
Trademarks, franchise and license fees (Note 14)	52,068,805	18,025,164	14,668,556
Amortization of ROU assets (Note 28)	3,804,067,857	—	—
	₱6,879,793,222	₱2,395,085,036	₱2,073,037,176

22. Personnel Costs and Contracted Services

This account consists of:

	2019	2018	2017
Salaries, allowances and benefits (Note 21)	₱5,570,643,300	₱4,162,098,867	₱3,418,503,809
Contracted services (Note 21)	4,231,339,010	3,423,334,800	3,013,289,724
	₱9,801,982,310	₱7,585,433,667	₱6,431,793,533

Details of salaries, allowances and benefits:

	2019	2018	2017
Salaries, wages and allowances	₱5,378,560,824	₱4,006,099,584	₱3,247,551,513
Retirement expense (Note 23)	192,082,476	155,999,283	170,952,296
	₱5,570,643,300	₱4,162,098,867	₱3,418,503,809

23. Employee Benefits

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

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

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

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

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

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

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

	2019	2018	2017
Current service cost	₱143,133,157	₱135,673,669	₱142,074,946
Net interest cost	(19,202,019)	20,325,614	28,877,350
Past service cost	56,379,082	—	—
Net settlement gain	11,772,256	—	—
Retirement expense	₱192,082,476	₱155,999,283	₱170,952,296

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

	2019	2018
Present value of defined benefit obligation	₱1,410,838,083	₱1,052,484,292
Fair value of plan assets	(1,063,100,793)	(818,276,606)
Net retirement obligation	₱347,737,290	₱234,207,686

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

	2019	2018
Balance at beginning of year	₱234,207,686	₱546,188,167
Remeasurement (gain) loss	364,536,075	(342,862,134)
Retirement expense	192,082,476	155,999,283
Additions arising from business combination (Note 19)	–	283,655,342
Derecognition of retirement obligation	(4,154,380)	
Benefits paid from direct payments	(51,320,069)	(21,251,517)
Actual contribution	(387,614,498)	(387,521,455)
Balance at end of year	₱347,737,290	₱234,207,686

Remeasurement effects recognized in OCI:

	2019	2018
Remeasurement gains (losses) on:		
Retirement obligation	(₱336,546,144)	₱406,864,233
Retirement plan assets	(23,835,551)	(64,002,099)
Derecognition of cumulative gain	(4,154,380)	–
	(₱364,536,075)	₱342,862,134

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

Movements of cumulative remeasurement effect recognized in OCI:

	2019	2018
Balance at beginning of year	₱37,280,758	(₱305,581,376)
Actuarial gain (loss)	(336,546,144)	406,864,233
Derecognition of cumulative gain	(4,154,380)	–
Return on assets excluding amount included in net interest cost	(23,835,551)	(64,002,099)
Total remeasurement	(327,255,317)	37,280,758
Income tax effect	98,176,595	(11,184,228)
	(₱229,078,722)	₱26,096,530

Movements in the fair value of plan assets follow:

	2019	2018
Balance at beginning of year	₱818,276,606	₱421,598,614
Actual contribution	387,614,498	387,521,455
Interest income included in net interest cost	94,778,879	33,406,467
Benefits paid	(213,733,639)	(1,145,647)
Remeasurement loss	(23,835,551)	(64,002,099)
Additions arising from business combination (Note 19)	–	40,897,816
Balance at end of year	₱1,063,100,793	₱818,276,606

Changes in the present value of defined benefit obligation follow:

	2019	2018
Balance at beginning of year	₱1,052,484,292	₱967,786,781
Current service cost	143,133,157	135,673,669
Interest cost	75,576,860	53,732,081
Past service cost	56,379,082	—
Remeasurement (gain) loss arising from:		
Changes in financial assumptions	310,057,697	(307,538,498)
Experience adjustments	10,986,395	(82,362,765)
Changes in demographic assumptions	15,502,052	(16,962,970)
Benefits paid	(265,053,708)	(22,397,164)
Effect of curtailment	(181,030,230)	—
Settlement	192,802,486	—
Additions arising from business combination (Note 19)	—	324,553,158
Balance at end of year	₱1,410,838,083	₱1,052,484,292

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

	2019	2018
Cash and cash equivalents		
Savings deposit	₱1,533,873	₱1,688,422
Investments in government securities		
Fixed rate treasury notes	16,823,198	16,439,885
Investments in UITF	1,023,540,040	800,037,660
Other receivables	21,425,167	133,151
Accrued trust fee payable	(221,485)	(22,512)
	₱1,063,100,793	₱818,276,606

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

	2019	2018
Discount rates	4.80% - 7.40%	7.19% - 7.46%
Salary increase rates	2.50% - 9.00%	3.00% - 7.70%

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

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

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

	2019	2018
Balances at the beginning of year	₱445,262,395	₱236,820,467
Remeasurement gains (losses) during the year	(243,889,801)	208,441,928
Balances at end of year	₱201,372,594	₱445,262,395

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

		Increase (Decrease)	Effect in Defined Benefit Obligation
2019	Salary increase	+1.00%	₱173,337,407
		-1.00%	(147,799,483)
	Discount rates	+1.00%	(141,379,808)
		-1.00%	168,739,864
2018	Salary increase	+1.00%	96,724,955
		-1.00%	(82,990,856)
	Discount rates	+1.00%	(77,198,339)
		-1.00%	66,855,480

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

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

	2019	2018
Less than 1 year	₱73,004,268	₱93,327,604
More than 1 year but less than 5 years	274,556,901	255,986,130
More than 5 years but less than 10 years	607,497,556	517,995,321
More than 10 years but less than 15 years	985,217,891	767,895,040
More than 15 years but less than 20 years	1,466,962,240	1,134,757,501
More than 20 years	6,421,733,661	5,596,509,099

24. Related Party Disclosures

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

Significant Related Party Transactions

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

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

	Amount			Due from (Due to)	
	2019	2018	2017	2019	2018
Other affiliates under common control					
a. Trade and other receivables					
Sales	₱4,158,993,927	₱3,214,288,927	₱2,804,711,625	₱574,940,992	₱325,303,347
Royalty income	1,681,857,691	1,443,589,170	1,261,104,503	—	—
b. Trade and other payable					
Purchases - net	(2,925,027,729)	(2,896,390,334)	(2,832,232,330)	—	—
Rent and utilities	(4,694,100,343)	(4,462,345,647)	(3,949,827,999)	(626,847,493)	(541,174,032)

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

- As of December 31, 2019 and 2018, the Group has outstanding balances from its other affiliates arising primarily from sales of merchandise inventories and royalty income for grant of use and right to operate stores of the Group.
- As of December 31, 2019 and 2018, the Group has outstanding payable to its other affiliates arising from purchases of merchandise inventories for resale to its customers which are normally paid within the year and expenses for rent and utilities relative to the Group's operations. Lease agreements normally have terms of 5 to 20 years with escalation clauses ranging from 5% to 10% every year.
- The Group maintains savings and current accounts and money market placements with RBC. Cash and cash equivalents earns interest at the prevailing bank deposit rates.

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

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

The details of compensation and benefits of key management personnel for 2019, 2018 and 2017 follow:

	2019	2018	2017
Short-term employee benefits	₱174,301,314	₱144,741,622	₱140,592,485
Post-employment benefits	44,379,656	25,737,872	37,004,324
	₱218,680,970	₱170,479,494	₱177,596,809

Terms and Conditions of Transactions with Related Parties

Outstanding balances at year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Group did not recognize provision for expected credit losses relating to amounts due from related parties for the years ended December 31, 2019, 2018 and 2017. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

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

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

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

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

25. Income Tax

Provision for income tax for the years ended December 31 follows:

	2019	2018	2017
Current	₱2,056,973,505	₱1,807,600,901	₱1,785,241,581
Deferred	(497,680,792)	(35,579,353)	(81,928,619)
	₱1,559,292,713	₱1,772,021,548	₱1,703,312,962

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

	2019	2018
Tax effects of:		
<i>Items recognized in profit or loss:</i>		
Lease liabilities	₱532,370,210	₱–
MCIT	180,183,648	123,082,937
Unamortized past service cost	106,529,705	66,962,036
NOLCO	57,471,277	77,184,991
Allowance for expected credit losses	40,162,454	40,894,445
Deferred revenue	14,527,365	16,971,298
Allowance for inventory write-obsolescence	8,977,236	23,384,581
Accrued expenses	1,446,846	61,078,099
Unrealized foreign exchange - net	(2,687,617)	4,549,743
Retirement expense	(27,664,859)	10,535,727
	911,316,265	424,643,857
<i>Item recognized directly in other comprehensive income:</i>		
Remeasurement loss on retirement obligation	98,176,595	(11,184,228)
	₱1,009,492,860	₱413,459,629

In 2019, the Group derecognized deferred tax assets amounting to ₱1.25 million related to the retirement obligation of RGBFI.

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

	2019	2018
Tax effect of:		
<i>Items recognized in profit or loss:</i>		
Business combination (Note 19)	₱1,921,295,422	₱1,921,295,422
Asset revaluation	37,979,643	47,669,901
Unrealized forex gains	–	1,318,126
	1,959,275,065	1,970,283,449
<i>Item recognized directly in other comprehensive income:</i>		
Fair value adjustments on investment in an associate	106,579,459	(15,463,859)
	₱2,065,854,524	₱1,954,819,590

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

	2019	2018
Tax effects of:		
Allowance for impairment losses	₱22,739,980	₱22,739,980
Retirement obligation	33,809,451	–
NOLCO	13,936,252	55,174,650
MCIT	697,208	–
Allowance for expected credit losses	–	22,751,697
	₱71,182,891	₱100,666,327

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

Inception Year	Beginning Balance	Applied/Expired	Addition	Reversals	Ending Balance	Expiry Year
2019	₱–	₱–	₱213,280,729	₱–	₱213,280,729	2022
2018	166,466,045	1,500	–	162,504,028	3,960,517	2021
2017	170,325,860	7,196,117	–	142,345,894	20,783,849	2020
2016	104,406,899	64,023,704	–	40,383,195	–	2019
Total	₱441,198,804	₱71,221,321	₱213,280,729	₱345,233,117	₱238,025,095	

In 2019, RLSI recognized deferred tax assets pertaining to NOLCO amounting to ₱0.42 million which was unrecognized in prior year.

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

Inception Year	Beginning Balance	Applied/Expired	Additions	Ending Balance	Expiry Year
2019	₱–	₱–	₱67,040,246	₱67,040,246	2022
2018	100,297,401	3,368,360	–	96,929,041	2021
2017	16,911,569	–	–	16,911,569	2020
2016	5,873,967	5,873,967	–	–	2019
Total	₱123,082,937	₱9,242,327	₱67,040,246	₱180,880,856	

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

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

On December 19, 2017, the RA No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changed existing tax law and includes several provisions that generally affected businesses on a prospective basis, the management assessed that the same did not have any significant impact on the financial statement balances as of December 31, 2018.

On November 26, 2008, the BIR issued Revenue Regulation No. 16-2008 which implemented the provisions of RA No. 9504 on Optional Standard Deduction (OSD). This regulation allowed both individual and corporate taxpayers to use OSD in computing their taxable income. For corporations, they may elect standard deduction in an amount equivalent to 40% of the gross income, as provided by law, in lieu of the itemized allowable deductions. In 2019, 2018 and 2017 certain subsidiaries elected OSD in the computation of its taxable income.

26. Earnings Per Share

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

	2019	2018	2017
Net income attributable to equity holders of the Parent Company	₱3,918,623,046	₱5,107,328,539	₱4,978,039,066
Weighted average number of common shares	1,576,489,360	1,400,957,447	1,385,000,000
Basic and Diluted EPS	₱2.49	₱3.65	₱3.59

	2019	2018	2017
No. of shares at the beginning of year	1,576,489,360	1,385,000,000	1,385,000,000
Weighted average number of shares issued during the year	–	15,957,447	–
Weighted average number of common shares	1,576,489,360	1,400,957,447	1,385,000,000

The Parent Company has no dilutive potential common shares in 2019, 2018 and 2017.

27. Risk Management and Financial Instruments

Governance Framework

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

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

Financial Risk

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

Market Risk

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

Interest Rate Risk

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

Price Interest Rate Risk

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

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

Reasonably Possible Changes in Interest Rates	Change in Income Before Income Tax	
	2019	2018
+100 basis points (bps)	₱7,091,164	₱9,198,181
-100 bps	(7,091,164)	(9,198,181)

Foreign Currency Risk

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

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

	Increase (decrease) in foreign currency rate		Effect on income before income tax (₱)	
	2019	2018	2019	2018
USD	+0.99%	+1.13%	₱47,902,028	₱48,071,706
	-0.99%	-1.13%	(47,902,028)	(48,071,706)

The Group used foreign exchange rate of ₱50:64:USD1 and ₱52.58: USD1 as of December 31, 2019, and 2018, respectively, in converting its dollar-denominated financial assets to peso.

The sensitivity analyses shown above are based on the assumption that the movements in US dollars will more likely be limited to the upward or downward fluctuation of 0.99% and 1.13% in 2019 and 2018 respectively. The forecasted movements in percentages used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months.

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

	2019		2018	
	USD	PHP	USD	PHP
Cash and cash equivalents	\$4,136,036	₱209,428,183	\$1,447,926	₱76,131,949
Receivables	1,043,879	52,856,813	766,277	40,290,845
FVOCI with recycling	90,618,545	4,588,470,026	78,704,449	4,138,279,928
Total	\$95,798,460	₱4,850,755,022	\$80,918,652	₱4,254,702,722

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

Equity Price Risk

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

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

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

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

	Change in variable	Effect on equity- Other comprehensive income
2019	+14.70%	₱28,693,491
	-14.70%	(28,693,491)
 2018	 +17.95%	 ₱68,645,011
	-17.95%	(68,645,011)

The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index and other quoted equity securities will be most likely be limited to an upward or downward fluctuation of 14.70% and 17.95% in 2019 and 2018, respectively.

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

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

Liquidity Risk

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

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

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

December 31, 2019

	On Demand	One (1) year	More than One (1) year	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents	₱20,292,913,953	₱–	₱–	₱20,292,913,953
Trade receivables	79,335,269	2,381,289,112	–	2,460,624,381
Nontrade receivables	–	874,803,571	–	874,803,571
Due from franchisees	–	609,368,201	–	609,368,201
Other noncurrent assets:				
Security and other deposits	–	–	2,479,555,628	2,479,555,628
Construction bonds	–	–	35,535,709	35,535,709
FVOCI	–	–	14,756,805,821	14,756,805,821
FVTPL	–	100,547,120	–	100,547,120
	₱20,372,249,222	₱3,966,008,004	₱17,271,897,158	₱41,610,154,384
Financial Liabilities				
Other financial liabilities				
Trade and other payables*	₱–	₱24,326,887,881	₱–	₱24,326,887,881
Short-term loans payable	–	4,634,000,000	–	4,634,000,000
Lease liabilities	–	2,163,735,524	25,889,035,549	28,052,771,073
Other current liabilities	–	267,245,302	–	267,245,302
	₱–	₱31,391,868,707	₱25,889,035,549	₱57,280,904,256

*Excluding statutory liabilities amounting ₱775,105,311.

December 31, 2018

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

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

Credit Risk

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

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

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

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

The Group's maximum exposure in financial assets (excluding cash on hand amounting to ₱1.47 billion and ₱2.17 billion in 2019 and 2018, respectively) are equal to their carrying amounts. This was determined based on the nature of the counterparty and the Group's experience.

Credit Quality

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

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

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

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

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

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

The Group's financial assets considered as neither past due nor impaired amounting to ₱39.96 billion and ₱36.46 billion as of December 31, 2019 and 2018, respectively are all graded "A" based on the Group's assessment.

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

2019

	Neither past due nor impaired	Past due but not impaired	Impaired Financial Assets	Total
Financial Assets				
Amortized cost				
Cash and cash equivalents (excluding cash on hand)	₱18,825,510,649	₱—	₱—	₱18,825,510,649
Trade receivables	2,381,289,112	—	79,335,269	2,460,624,381
Nontrade receivables	874,803,571	—	—	874,803,571
Due from franchisees	609,368,201	—	—	609,368,201
Other noncurrent assets:				
Security and other deposits	2,479,555,628	—	—	2,479,555,628
Construction bond	35,535,709	—	—	35,535,709
FVOCI	14,756,805,821	—	—	14,756,805,821
	₱39,962,868,691	₱—	₱79,335,269	₱40,042,203,960

2018

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

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

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

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

Cash and Cash Equivalents and Debt Securities at FVOCI. Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The Group invests only on quoted debt securities with very low credit risk. The Group's debt instruments at FVOCI comprised solely of quoted bonds that are have a minimum BBB- credit rating by S&P Global Ratings and, therefore, are considered to be low credit risk investments. The Group recognized recoveries of (provision for) expected credit losses on its debt instruments at FVOCI amounting to ₱6.17 million and (₱13.13 million) in 2019 and 2018, respectively (Note 11).

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

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

2019

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

2018

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

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

Fair Values of Financial Assets and Liabilities

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

- Due to the short-term nature of the transaction, the fair value of cash and cash equivalents and trade and other receivables approximates the carrying values at year-end.
- Security and other deposits and construction bond are presented at cost since the timing and amounts of future cash flows related to the refundable deposits are linked to the termination of the contract which cannot be reasonably and reliably estimated.
- Debt and equity instrument financial assets amounting to ₱14.86 billion and ₱19.75 billion as at December 31, 2019 and 2018, respectively were carried at fair values. Investments in bonds and quoted equity securities are derived from quoted market prices in active markets.
- Due to the short-term nature of trade and other payables, short-term loans payable and other current liabilities, their carrying values approximate fair values.

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

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

28. Lease Commitments

Group as Lessee (Effective Beginning January 1, 2019)

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

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the year ended December 31, 2019:

Beginning balance, as restated (Note 3)	₱28,188,970,775
Additions	1,933,057,843
Amortization of ROU assets (Note 21)	(3,804,067,857)
	<u>₱26,317,960,761</u>

Set out below are the carrying amounts of lease liabilities and the movements during the year ended December 31, 2019:

Beginning balance, as restated (Notes 3 and 30)	₱28,284,869,213
New leases during the year (Note 30)	1,932,222,117
Accretion of interest expense	2,277,816,116
Payments	(4,442,136,373)
	<u>28,052,771,073</u>
Less current portion of lease liabilities	<u>2,163,735,524</u>
Noncurrent portion of lease liabilities	<u>₱25,889,035,549</u>

The following are the amounts recognized in profit or loss for the year ended December 31, 2019:

Amortization of ROU assets (Note 21)	₱3,804,067,857
Interest expense on lease liabilities	2,277,816,116
Expenses relating to short-term leases and variable lease payments (Note 21)	3,469,829,538
	<u>₱9,551,713,511</u>

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2019:

Within one (1) year	₱4,569,408,586
After one (1) year but not more than five (5) years	17,979,615,424
More than five (5) years	<u>20,577,246,970</u>
	<u>₱43,126,270,980</u>

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

Rental expense in 2018 and 2017 amounted to ₱6.26 billion and ₱5.49 billion, respectively (Notes 21 and 24).

Group as a Lessor

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

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

Accrued rent recognized in the consolidated statements of financial position as of December 31, 2018 amounting to ₱151.87 million pertains to RSCI’s lease agreements arising from lease straight-lining.

29. Agreements

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

Royalty expense amounted to ₱87.96 million, ₱82.17 million and ₱74.12 million in 2019, 2018 and 2017, respectively (Note 21). Royalty payable to Ministop included under “Other current liabilities” as of December 31, 2019 and 2018 amounted to ₱7.43 million and ₱7.91 million, respectively (Note 16).

- b) The Group has franchise agreements which mainly include providing store facilities and equipment to franchisees. Other services rendered by Ministop consist of providing personnel and utilities. The lease/royalty fee is based on a certain percentage of the gross profit of the lessee/franchisee. The related royalty income amounted to ₱1.84 billion, ₱1.88 billion and ₱1.72 billion in 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, amounts due from franchisees amounted to ₱609.37 million and ₱409.22 million, respectively. These amounts are net of allowance for impairment losses on due from franchisees amounting to nil and ₱75.84 million as of December 31, 2019 and 2018 (Note 8).

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

Royalty expenses amounted to ₱11.42 million, ₱10.11 million and ₱7.95 million in 2019, 2018 and 2017, respectively.

- d.) The Group is a sub-licensee of Toys R Us in the Philippines. The royalty fee is based on fixed percentage of gross monthly sales of sub-licensee. Royalty expense amounted to ₱93.52 million, ₱89.78 million and ₱82.15 million in 2019, 2018 and 2017, respectively.
- e.) On July 29, 2014, Costa International Limited granted the Group the development and operating rights to carry on the Costa business in the Philippines (Note 14).

The Group started Costa operations in June 2015. Royalty expenses amounted to ₱4.39 million, ₱7.04 million and ₱5.52 million in 2019, 2018 and 2017, respectively.

- f.) On April 25, 2019, Emart Inc., granted the Group, an exclusive and non-transferrable right to carry on the “NO BRAND” business in the Philippines. The Group pays royalty fee amounting to ₱139,868 for 2019 representing 0.5% of the net revenue arising from sale of “NO BRAND” products and EMART sourced products in the Philippines.
- g.) In 2019, the Group paid royalty fee in the amount of ₱15.70 million. This represents 0.5% royalty fee on net sales for the use of “Rustan’s” trademarks. The royalty fee is payable to a third party.
- h.) The Group has other licenses and franchises to carry various global brands.

30. Changes in Liabilities Arising from Financing Activities

2019

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

2018

	January 1, 2018	Net Cash Flows	Dividend Declaration	Others	December 31, 2018
Loans payable	₱6,377,954,863	(₱1,083,954,863)	₱–	₱1,500,000,000	₱6,794,000,000
Dividends payable	14,000,000	(1,266,370,255)	1,264,036,917	–	11,666,662
Total liabilities from financing activities	₱6,391,954,863	(₱2,350,325,118)	₱1,264,036,917	₱1,500,000,000	₱6,805,666,662

In 2019, others pertain to the new leases of the Group and accretion of interest expense on lease liabilities amounted to ₱1.93 billion and ₱2.28 billion, respectively.

In 2018, others pertain to the short-term loans assumed in the acquisition of RSCI. Interest paid in 2019 and 2018 amounted to ₱300.68 million and ₱159.07 million, respectively. Interest

31. Contingencies

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

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

32. Events After the Reporting Period

Significant non-adjusting events follows:

Merger of RSC, RI, RTI and RGFBI

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

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

Sale of Investment in CCC

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

Buy-back of Common Shares of RRHI

On March 9, 2020, the BOD of RRHI approved the creation and implementation of a share buyback program involving up to Philippine Pesos: Two Billion (₱2.0 billion) worth of the RRHI's common shares to enhance shareholder value and to manifest confidence in the Group's value and prospects through the repurchase of its common shares and the return of a portion of the Group's capital to its shareholders.

The program will not involve any active and widespread solicitation from the stockholders and will be implemented in the open market through the trading facilities of the PSE. It will not affect any of the Group's prospective and existing projects and investments and will be supervised by Robina Y. Gokongwei-Pe, President and Chief Executive Officer and Mylene A. Kasiban, Chief Financial Officer, as authorized by the BOD.

Any significant development in the share buyback program will be duly disclosed to the SEC and the PSE.

COVID-19 Impact, Risks and Mitigation in RRHI

On March 16, 2020, the President of the Philippines issued Proclamation No. 929 declaring a state of calamity throughout the Philippines due to COVID-19 which resulted to the imposition of an Enhanced Community Quarantine throughout Luzon starting midnight of March 16, 2020 until April 12, 2020. The Group considers the measure taken by the government as a non-adjusting subsequent event.

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

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019.

33. Approval of the Consolidated Financial Statements

The accompanying consolidated financial statements were approved and authorized for issue by the BOD on March 23, 2020.