PUREGOLD PRICE CLUB, INC.

November 14, 2016

Securities and Exchange Commission
SEC Building, EDSA, Mandaluyong City

Attention: Director Vicente Graciano P. Felizmenio, Jr.
Markets and Securities Regulation Division

Ms. Trixie Posadas
SEC Examiner

Philippine Stock Exchange
Ayala Avenue, Makati City

Attention: Mr. Jose Valeriano B. Zuño III
OIC - Head, Disclosure Department

Subject: SEC 17-Q as of September 30, 2016

GENTLEMEN:

For submission is the attached SEC 17-Q / Third Quarter Consolidated Financial Statements of Puregold Price Club, Inc. for CY 2016.

Very truly yours,

Atty. Candy H. Dacanay-Datuon
Assistant Corporate Secretary

No. 900 D. Romualdez St., Paco, Manila, Philippines, 1007
Tel.: (632) 522-88-01 to 04 Telefax: (632)523-3055

COVER SHEET

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SEC Registration Number

PUREGOLD PRICE CLUB, INC.

(Company's Full Name)

NO. 900 ROMUALDEZ ST., PACO,
MANILA

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

CANDY DACANAY-DATUON	(02) 523-3055
(Contact Person)	(Company Telephone Number)

1	2	3	1	SEC FORM 17-Q	0	5	1	0
Month		Day		(Form Type)	Month		Day	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc

Amended Articles Number/Section

Total Amount of Borrowing

Total No. of Stockholders

Domestic

Foreign

SEC Personnel concerned

File Number

LCU

Document ID

Cashier

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the quarterly period ended: **September 30, 2016**
2. SEC Identification Number: **A199813754**
3. BIR Tax Identification No: **201-277-095**
4. Exact name of issuer as specified in its charter: **PUREGOLD PRICE CLUB, INC.**

5. ..... 6. [ ] (SEC Use Only)

Province, Country or other jurisdiction of incorporation or organization — Industry Classification Code:

7. **2/F Tabacalera Building, No. 900 Romualdez St., Paco, Manila** — **1007**
Address of principal office — Postal Code

8. **(632) 882-8801-04 / (632) 523-3055**
Issuer's telephone number, including area code

9. **N/A**
Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	**2,765,381,406**

11. Are any or all of these securities listed on a Stock Exchange.
Yes [/] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein: **PHILIPPINE STOCK EXCHANGE - COMMON SHARE**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [/] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [/] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

DOCUMENTS INCORPORATED BY REFERENCE

13. If any of the following documents are incorporated by reference.

MANAGEMENT DISCUSSION AND ANALYSIS AND PLAN OF OPERATION
ANNEX "A" - CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL INFORMATION

Item 1. Financial Statements

Please see attached **SECTION A**

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

The following should be read in conjunction with the accompanying interim financial statements and notes thereto which form part of this Quarterly Report. The interim financial statements and notes thereto have been prepared in accordance with Philippine Financial Reporting Standards particularly PAS 34, Interim Financial Statements.

Top Key Performance Indicators

The following are the financial soundness indicators used by the Group as at September 30 and December 31 and for the nine-month periods ended September 30:

	September 2016	December 2015
Current Ratio [1]	**1.99:1**	1.58:1
Asset to Equity Ratio [2]	**1.40:1**	1.53:1
Debt to Equity Ratio [3]	**0.40:1**	0.53:1
Debt to Total Assets Ratio [4]	**0.29:1**	0.35:1
Book Value per Share [5]	**P15.21**	P13.89
Price Earnings Ratio [6]	***24.18x**	19.19x

** Based on annualized EPS*

	September 2016	September 2015
Earnings per Share [7]	**P1.32**	P1.16
Return on Assets [8]	**6.2%**	6.0%
Return on Equity [9]	**9.1%**	8.9%

(1) Current Assets over Current Liabilities

(2) Total Assets over Total Equity

(3) Total Liabilities over Total Equity

(4) Total Liabilities over Total Assets

(5) Total Equity over Total Common Shares Outstanding

(6) Market Value per Share over Earnings per Share

(7) Net income after tax over Weighted Average Common Shares Outstanding

(8) Net income after tax over Average Total Assets

(9) Net income after tax over Average Total Equity

I. Results of Operations

For the period ended September 30, 2016, the Group earned a consolidated net income of P3,645 million at 4.6% net margin and an increase of 13.8% from P3,203 million at 4.8% net margin in the same period of 2015. This was principally driven by the continuous expansion of the Group both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

The Group's comparative financial results for the nine-month and three-month periods are presented below:

	For the Nine-month Periods Ended September 30					For the Three-month Periods July 1 to September 30			
(In millions)	**2016**		2015			**2016**		2015	
		% to Sales		% to Sales	**% Change**		**% to Sales**		% to Sales
Net Sales	**P78,737**	**100.0%**	P67,334	100.0%	**16.9%**	**P27,680**	**100.0%**	P24,191	100.0%
Cost of Sales	**65,834**	**83.6%**	56,091	83.3%	**17.4%**	**23,061**	**83.3%**	20,171	83.4%
Gross Profit	**12,904**	**16.4%**	11,243	16.7%	**14.8%**	**4,618**	**16.7%**	4,020	16.6%
Other Operating Income	**2,272**	**2.9%**	2,061	3.1%	**10.2%**	**791**	**2.9%**	724	3.0%
Gross Income	**15,175**	**19.3%**	13,304	19.8%	**14.1%**	**5,409**	**19.5%**	4,743	19.6%
Operating Expenses	**9,912**	**12.6%**	8,727	13.0%	**13.6%**	**3,415**	**12.3%**	3,026	12.5%
Operating Income	**5,263**	**6.7%**	4,578	6.8%	**15.0%**	**1,993**	**7.2%**	1,718	7.1%
Other income(expenses)	**(74)**	**-0.1%**	(29)	0.0%	**151.1%**	**(30)**	**-0.1%**	(18)	-0.1%
Net Income before tax	**5,189**	**6.6%**	4,548	6.8%	**14.1%**	**1,964**	**7.1%**	1,700	7.0%
Income tax expense	**1,544**	**2.0%**	1,345	2.0%	**14.7%**	**585**	**2.1%**	503	2.1%
Net Income after tax	**P3,645**	**4.6%**	P3,203	4.8%	**13.8%**	**P1,378**	**5.0%**	P1,196	4.9%

Net Sales

For the period ended September 30, 2016, the Group posted a consolidated net sales of P78,737 million for an increase of P11,403 million or a growth of 16.9% compared to P67,334 million in the same period of 2015. New stores put up in 2015 were fully operating in 2016 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made in 2015.

Like for like sales performance indicators for the period ended September 30 are as follow:

	PGOLD		S&R	
	2016	2015	**2016**	2015
Net Sales	**6.6%**	3.6%	**1.4%**	-1.5%
Net Ticket	**6.5%**	5.7%	**-1.0%**	-3.6%
Traffic	**0.2%**	-2.0%	**2.5%**	2.2%

Gross Profit
For the period ended September 30, 2016, the Group realized an increase of 14.8% in consolidated gross profit from P11,243 million in 2015 at 16.7% margin to P12,904 million at 16.4% margin in the same period of 2015, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period.

Other Operating Income
Other operating income increased by P211 million or 10.2% from P2,061 million in the first half of 2015 to P2,272 million in the same period of 2016. This is attributable to increase in display allowance, listing fee and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers, new product listings and other promotions to increase customer and supplier's supports.

Gross Operating Income
Gross operating income realized during the nine months of 2016 amounted to P15,175 at a gross operating margin of 19.3% which grew by 14.1% from the 2015 level of P13,304 at 19.8% margin.

Operating Expenses
Operating expenses increased by P1,186 million or 13.6% from P8,727 million in the nine-month period ended September 30, 2015 to P9,912 million in the same period of 2016. The incremental operating expenses were mainly attributable to manpower costs, as well as rent expenses covering new lease contracts, depreciation expense and taxes, all related to the establishment and operation of new organic and acquired stores.

Other Expense - net
Other expenses net of other income amounted to P74 million and P29 million for the nine-month periods ended September 30, 2016 and 2015, respectively. Interest expense increased in September 2016 due to additional loans availed in late 2015 and for the nine-month period ended September 30, 2016.

Net Income
For the period ended September 30, 2016, the Group earned a consolidated net income of P3,645 million at 4.6% net margin and an increase of 13.8% from P3,203 million at 4.8% net margin in the same period of 2015.

II. Financial Condition

The Group's consolidated statements of financial position as at September 30, 2016 and December 31, 2015 are presented below:

(In millions)	**September 2016**	**% to Total Assets**	December 2015	% to Total Assets	**% Change**
Cash & cash equivalents	**P1,181**	**2.0%**	P6,246	10.6%	**-81.1%**
Receivables – net	**2,731**	**4.6%**	2,683	4.6%	**1.8%**
Merchandise inventory	**16,472**	**27.9%**	12,983	22.1%	**26.9%**
Investments in trading securities	**37**	**0.1%**	34	0.1%	**8.3%**
Prepaid expenses and other current assets	**1,123**	**1.9%**	1,067	1.8%	**5.2%**
Total Current Assets	**21,544**	**36.6%**	23,014	39.1%	**-6.4%**
Investments and acquisitions of subsidiaries	**868**	**1.5%**	868	1.5%	**0.0%**
Property and equipment - net	**15,474**	**26.3%**	14,034	23.8%	**10.3%**
Intangibles and goodwill	**19,553**	**33.2%**	19,521	33.2%	**0.2%**
Other noncurrent assets	**1,504**	**2.6%**	1,406	2.4%	**6.9%**
Total Noncurrent Assets	**37,399**	**63.4%**	35,829	60.9%	**4.4%**
	P58,943	**100.0%**	P58,844	100.0%	**0.2%**
Accounts payable and accrued expenses	**6,043**	**10.3%**	9,778	16.6%	**-38.2%**
Short-term loans payable	**3,688**	**6.3%**	3,138	5.3%	**17.5%**
Income tax payable	**612**	**1.0%**	759	1.3%	**-19.5%**
Trust receipts payable	**-**	**0.0%**	5	0.0%	**-100.0%**
Due to related parties	**30**	**0.1%**	30	0.1%	**0.6%**
Current maturities of long-term loans, net of debt issue costs	**120**	**0.2%**	570	1.0%	**-78.9%**
Other current liabilities	**346**	**0.6%**	327	0.6%	**5.7%**
Total Current Liabilities	**10,838**	**18.4%**	14,606	24.8%	**-25.8%**
Noncurrent accrued rent	**2,795**	**4.7%**	2,493	4.2%	**12.1%**
Long-term loans - net of current maturities and debt issue costs	**2,397**	**4.1%**	2,395	4.1%	**0.1%**
Deferred tax liabilities – net	**417**	**0.7%**	496	0.8%	**-15.9%**
Retirement benefits liability	**440**	**0.7%**	440	0.7%	**0.0%**
Total Noncurrent Liabilities	**6,048**	**10.3%**	5,824	9.9%	**3.9%**
Total Liabilities	**P16,886**	**28.6%**	P20,430	34.7%	**-17.3%**
Capital stock	**2,785**	**4.7%**	2,785	4.7%	**0.0%**
Additional paid in capital	**20,830**	**35.3%**	20,830	35.4%	**0.0%**
Remeasurements of retirement liability - net of tax	**(1)**	**0.0%**	(1)	0.0%	**0.0%**
Treasury stock – at cost	**(57)**	**-0.1%**	(57)	-0.1%	**0.0%**
Retained earnings	**18,498**	**31.4%**	14,855	25.2%	**24.5%**
Total Equity	**42,057**	**71.4%**	38,413	65.3%	**9.5%**
	P58,943	**100.0%**	P58,844	100.0%	**0.2%**

Working Capital

As at September 30, 2016 and December 31, 2015, the Group's working capital stood at P10,706 million and P8,408 million, respectively while its current ratio improved to 1.99 as at September 2016 from 1.58 as at December 2015.

Current Assets
As at September 30, 2016 and December 31, 2015, total current assets amounted to P21,544 million or 36.6% of total assets, and P23,014 million or 39.1% of total assets, respectively, for a decrease of P1,471 million or 6.4% as at September 30, 2016.

Cash and cash equivalents as at September 30, 2016 amounted to P1,181 million or 2.0% of total assets and decreased by P5,066 million or 81.1% compared to previous year-end balance. Decrease in the Group's cash position was attributable mainly to the net settlement of trade and non-trade payables, payment for 2015 cash dividend, partial settlement of loans and capital expenditures for 2016 new stores.

Receivables amounted to P2,731 million as at September 30, 2016 or 4.6% of total assets, with an increase of P48 million or 1.8% from P2,683 million in December 2015, representing nontrade receivables which include rent and other supplier support. This account includes trade and non-trade receivables, net of P7 million allowance for impairment losses.

Merchandise inventory amounted to P16,472 million or 27.9% of total assets at the end of September 2016. Total inventory increased by P3,489 million or 26.9% principally due to stocking requirements of existing and new operating stores. This also includes the purchased inventory of S&R allocated for the 3-day sale, Members' Treat, held last September 30 to October 2, 2016.

Investments in trading securities amounted to P37 million as at September 30, 2016 and P34 million in December 2015. The increase was due to recognition of unrealized gain on changes in fair value of the investments.

Prepaid expenses and other current assets increased by P55 million or 5.2% due to increase in prepaid expenses from availment of new policies for insurance of new stores, creditable withholding tax and advance payment of rent for soon to open stores.

Noncurrent Assets
As at September 30, 2016 and December 31, 2015, total noncurrent assets amounted to P37,399 million or 63.4% of total assets, and P35,829 million or 60.9% of total assets, respectively, for an increase of P1,570 million or 4.4% as at September 30, 2016.

Investments amounted to P868 million as at September 30, 2016 and December 31, 2015.

Net book values of property and equipment increased by P1,440 million or 10.3% from P14,034 million in December 2015 to P15,474 million in September 2016.

Intangibles amounted to P19,553 million as at September 30, 2016 and P19,521 million as at December 31, 2015.

Other noncurrent assets amounted P1,504 million as at September 30, 2016 and P1,406 million as at December 31, 2015.

Current Liabilities
As at September 30, 2016 and December 31, 2015, total current liabilities amounted to P10,838 million or 18.4% of total assets, and P14,606 million or 24.8% of total assets, respectively, for a decrease of P3,769 million or 25.8% as at September 30, 2016.

Accounts payable and accrued expenses decreased by P3,735 million or 38.2% primarily due to settlement of trade and nontrade liabilities, bulk of which came from the high year end payables and payment of cash dividend to stockholders.

Loans payable increased by P550 million or 17.5% from P3,138 million in December 2015 to P3,688 million in September 2016 due to net availment of short term loans during the period.

Income tax payable decreased by P148 million from P759 million in December 2015 to P612 million in September 2016 due to settlement of income tax liabilities in the year ended December 2015 and 1st half of 2016.

Trust receipts payable was fully paid as at September 30, 2016.

Due to related parties, representing royalty fees, amounted to P30 million for the period ended September 2016 and December 2015.

Current maturities of long term debt amounted to P120 million as at September 30, 2016. The decrease was due to partial settlement of the loan amount during the period.

Other current liabilities increased by P19 million or 5.7% from P327 million in December 2015 to P346 million in September 2016 primarily due to increase in gift check liability and other promotional activity fund.

Noncurrent Liabilities
As at September 30, 2016 and December 31, 2015, total noncurrent liabilities amounted to P6,048 million or 10.3% of total assets, and P5,824 million or 9.9% of total assets, respectively, for an increase of P225 million or 3.9% as at September 30, 2016.

Noncurrent accrued rent increased by P302 million or 12.1% from P2,493 million in December 2015 to P2,795 million in September 2016 due to recognition of rent expense for lease contracts entered into by the Parent Company and its subsidiaries in compliance with PAS 17 – *Leases*.

Deferred tax liabilities net of deferred tax assets amounted to P417 million and P496 million as at September 30, 2016 and December 31, 2015, respectively. The decrease was due to increase in deferred tax asset related to accrual of lease liability.

III. Sources and Uses of Cash

The Group's primary sources of liquidity are basically its net operating cash inflows augmented by availments from banks loan facilities as and when required.

Principal uses of cash are working capital expenses, capital expenditures for stores expansion as well as investments in strategic business acquisitions of existing and operating supermarket store outlets.

A brief summary of cash flows during the comparative periods is shown below:

	For the Nine-month Periods Ended September 30	
(In millions)	**2016**	2015
Net cash used in operating activities	**(P1,727)**	(P1,416)
Net cash used in investing activities	**(2,609)**	(3,094)
Net cash used in financing activities	**(730)**	(286)
Net decrease in cash and cash equivalents	**(P5,066)**	(P4,796)

Net cash used in operating activities for the nine-month period ended September 30, 2016 amounted to P1,727 million. This was mainly attributable to settlement of payables to both trade and nontrade suppliers, purchase of inventories and other related current operating items to support the Group's expansion.

Net cash used in investing activities for the nine-month period ended September 30, 2016 amounted to P2,609 million. This was utilized for the acquisition of equipment, furniture & fixtures, construction of buildings and improvements on leased assets as at the end of the period.

Net cash used in financing activities for the nine-month period ended September 30, 2016 amounted to P730 million. This pertains to payment of 2015 cash dividends to stockholders amounting to P830 million and net settlement of loans during the period.

IV. Material Events and Uncertainties

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way.

There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation;

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the year.

There are no material commitments for capital expenditures other than those performed in the ordinary course of trade of business in line with the Group's retail outlets expansion program.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations.

There are no significant elements of income not arising from continuing operations.

The Group experiences the fourth quarter of the year as the peak season relating to increased sales resulting from Christmas and New Year holidays.

SIGNATURE

Pursuant to the requirements of the Securities and Regulation Code, the Issuer has duly caused this Third Quarter Financial Statements of Puregold Price Club, Inc. and its subsidiaries for the year 2016 to be signed on its behalf by the undersigned thereunto duly authorized.

November 11, 2016 in the City of Manila.

PUREGOLD PRICE CLUB, INC.

By:

FERDINAND VINCENT P. CO
President

TEODORO A. POLINGA
Comptroller

SECTION A

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and December 31, 2015
and for the Nine Months Ended September 30, 2016 and 2015

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	September 2016 (Unaudited)	December 2015 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	*4*	**P1,180,750,634**	P6,246,493,017
Receivables – net	*5, 21*	**2,730,829,277**	2,683,095,896
Merchandise inventory	*6*	**16,472,082,170**	12,982,832,312
Investments in trading securities	*7*	**37,283,771**	34,432,591
Prepaid expenses and other current assets	*8*	**1,122,810,833**	1,067,412,107
Total Current Assets		**21,543,756,685**	23,014,265,923
Noncurrent Assets			
Investments	*9*	**868,090,606**	868,090,606
Property and equipment – net	*10*	**15,474,035,956**	14,033,740,857
Intangibles and goodwill	*11*	**19,553,173,054**	19,521,120,953
Other noncurrent assets	*12, 17*	**1,503,926,720**	1,406,322,979
Total Noncurrent Assets		**37,399,226,336**	35,829,275,395
		P58,942,983,021	P58,843,541,318
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*13, 21, 24*	**P6,042,977,785**	P9,777,695,220
Short-term loans payable	*14*	**3,687,500,000**	3,137,500,000
Income tax payable		**611,506,055**	759,221,135
Trust receipts payable		**-**	5,182,021
Due to related parties	*21*	**29,940,868**	29,769,412
Current maturities of long-term loans, net of debt issue costs	*14*	**120,000,000**	570,000,000
Other current liabilities	*15*	**345,737,395**	327,126,019
Total Current Liabilities		**10,837,662,103**	14,606,493,807
Noncurrent Liabilities			
Noncurrent accrued rent		**2,794,687,694**	2,492,888,910
Long-term loans - net of current maturities and debt issue costs	*14*	**2,396,578,877**	2,395,062,298
Deferred tax liabilities – net	*23*	**417,324,103**	496,007,867
Retirement benefits liability	*22*	**439,871,673**	439,871,673
Total Noncurrent Liabilities		**6,048,462,347**	5,823,830,748
Total Liabilities		**16,886,124,450**	20,430,324,555
Equity			
Capital stock	*24*	**2,785,362,877**	2,785,362,877
Additional paid-in capital	*24*	**20,830,391,081**	20,830,391,081
Remeasurements of retirement benefits liability - net of tax	*22*	**(650,846)**	(650,846)
Treasury stock, at cost	*24*	**(56,702,280)**	(56,702,280)
Retained earnings	*24*	**18,498,457,739**	14,854,815,931
Total Equity		**42,056,858,571**	38,413,216,763
		P58,942,983,021	P58,843,541,318

See Notes to the Interim Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

		For the Nine-month Periods Ended September 30		For the Three-Month Periods July 1 to September 30	
	Note	**2016**	2015	**2016**	**2015**
NET SALES					
Gross sales		**P78,890,951,613**	P67,469,892,693	**P27,731,940,766**	P24,239,813,530
Sales discount		**153,620,808**	135,696,070	**52,354,184**	48,631,976
		78,737,330,805	67,334,196,623	**27,679,586,582**	24,191,181,554
COST OF SALES	*6, 16, 29*	**65,833,567,971**	56,090,908,908	**23,061,444,207**	20,171,443,649
GROSS PROFIT		**12,903,762,834**	11,243,287,715	**4,618,142,375**	4,019,737,905
OTHER OPERATING INCOME	*18, 29*	**2,271,593,134**	2,060,829,536	**790,634,250**	723,754,719
		15,175,355,968	13,304,117,251	**5,408,776,625**	4,743,492,624
OPERATING EXPENSES	*19*	**9,912,497,916**	8,726,540,968	**3,415,479,254**	3,025,694,572
INCOME FROM OPERATIONS		**5,262,858,052**	4,577,576,283	**1,993,297,371**	1,717,798,052
OTHER INCOME (EXPENSES)					
Interest income	*4*	**10,163,979**	16,216,205	**1,079,067**	2,564,525
Interest expense	*14*	**(69,359,139)**	(49,829,239)	**(24,455,328)**	(12,345,989)
Others – net	*7, 20*	**(14,884,912)**	4,113,561	**(6,289,230)**	(8,212,740)
		(74,080,072)	(29,499,473)	**(29,665,491)**	(17,994,204)
INCOME BEFORE INCOME TAX		5,188,777,980	4,548,076,810	1,963,631,880	1,699,803,848
INCOME TAX EXPENSE					
Current		**1,630,213,343**	1,434,396,404	**615,713,621**	535,076,611
Deferred		**(86,506,415)**	(89,106,208)	**(30,334,524)**	(31,613,689)
	23	**1,543,706,928**	1,345,290,196	**585,379,097**	503,462,922
NET INCOME		**P3,645,071,052**	P3,202,786,614	**P1,378,252,783**	P1,196,340,926
Basic and diluted earnings per share	*26*	P1.32	P1.16	**P0.50**	P0.43

See Notes to the Interim Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

		Periods Ended September 30					
	Note	Capital Stock	Additional Paid-in Capital	Remeasurements of Retirement Liability	Retained Earnings	Treasury Stocks - At Cost	Total Equity
Balance at December 31, 2014		P2,783,317,412	P20,830,391,081	(P41,961,983)	P10,682,558,767	(P20,810,608)	P34,233,494,669
Total comprehensive income							
Net income for the year		-	-	-	3,202,786,614	-	3,202,786,614
Total comprehensive income		-	-	-	3,202,786,614	-	3,202,786,614
Transactions with owners of the Parent Company							
Issuance of ordinary shares/effect of merger with Company E	*24*	2,045,465	-	-	-	-	2,045,465
Treasury shares - at cost	*24*	-	-	-	-	(18,840,206)	(18,840,206)
Total transactions with owners of the Parent Company		2,045,465	-	-	-	(18,840,206)	(16,794,741)
Balance at September 30, 2015		**P2,785,362,877**	**P20,830,391,081**	**(P41,961,983)**	**13,885,345,381**	**(P39,650,814)**	**P37,419,486,542**
Balance at December 31, 2015		P2,785,362,877	P20,830,391,081	(P650,846)	P14,854,815,931	(P56,702,280)	P38,413,216,763
Total comprehensive income							
Net income for the year		-	-	-	3,645,071,052	-	3,645,071,052
Adjustment		-	-	-	(1,429,244)	-	(1,429,244)
Total comprehensive income		-	-	-	3,643,641,808	-	3,643,641,808
Balance at September 30, 2016		**P2,785,362,877**	**P20,830,391,081**	**(P650,846)**	**P18,498,457,739**	**(P56,702,280)**	**P42,056,858,571**

See Notes to the Interim Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATE STATEMENTS OF CASH FLOWS
(Unaudited)

		Periods Ended September 30	
	Note	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P5,188,777,980**	P4,548,076,810
Adjustments for:			
Depreciation and amortization	*10, 11, 19*	**1,041,680,399**	943,081,579
Rent expense in excess of billings		**301,798,784**	313,733,303
Interest expense	*14*	**69,359,139**	49,829,239
Share in results of joint ventures and associate	*9*	**-**	(20,050,582)
Loss on disposal of property and equipment	*20*	**-**	423,262
Dividend income	*20*	**(849,991)**	(892,591)
Unrealized valuation loss (gain) in trading securities	*7, 20*	**(2,851,179)**	3,913,185
Interest income	*4*	**(10,163,979)**	(16,216,205)
Operating income before changes in working capital		**6,587,751,153**	5,821,898,000
Decrease (increase) in:			
Receivables		**(54,629,173)**	145,390,540
Investments in trading securities		**-**	(837,092)
Merchandise inventory		**(3,489,249,858)**	(1,687,245,082)
Prepaid expenses and other current assets		**(55,398,728)**	(405,030,590)
Increase (decrease) in:			
Accounts payable and accrued expenses		**(2,902,068,549)**	(3,648,701,533)
Trust receipts payable		**(5,182,021)**	1,573,230
Due to related parties	*21*	**171,456**	(423,446)
Other current liabilities		**18,611,376**	(84,143,825)
Cash generated from operations		**100,005,656**	142,480,202
Interest received		**10,163,979**	16,216,205
Interest paid		**(72,393,605)**	(47,639,986)
Income taxes paid		**(1,764,639,221)**	(1,527,305,405)
Net cash used in operating activities		**(1,726,863,191)**	(1,416,248,984)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	*10*	**(2,460,587,459)**	(1,948,232,466)
Additions to investments		**-**	(50,000,000)
Increase in intangibles	*11*	**(53,947,993)**	(973,977,363)
Increase in other noncurrent assets		**(97,603,741)**	(139,213,034)
Dividends received		**849,991**	892,591
Proceeds from disposal of property and equipment		**2,024,432**	16,569,666
Net cash used in investing activities		**(2,609,264,770)**	(3,093,960,606)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of long-term loans payable	*14*	**(450,000,000)**	(433,700,000)
Payment of short-term loans payable		**(930,000,000)**	(583,500,000)
Availment of short-term loans payable	*14*	**1,480,000,000**	1,577,500,000
Payments for treasury shares	*24*	**-**	(16,794,741)
Cash dividends paid	*24*	**(829,614,422)**	(829,614,422)
Net cash used in financing activities		**(729,614,422)**	(286,109,163)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,065,742,383)**	(4,796,318,753)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*4*	**6,246,493,017**	6,758,425,910
CASH AND CASH EQUIVALENTS AT END OF YEAR	*4*	**P1,180,750,634**	P1,962,107,157

See Notes to the Interim Consolidated Financial Statements

1. Reporting Entity

Puregold Price Club, Inc. (the "Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1998. Its shares are listed in the Philippine Stock Exchange (PSE) since October 5, 2011 with stock symbol of PGOLD. Its immediate and ultimate parent company is Cosco Capital, Inc. (Cosco) which is incorporated in the Philippines. Cosco is formerly named Alcorn Gold Resources Corporation and is also listed with the PSE since September 26, 1998.

The Parent Company is principally involved in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, pharmaceutical and medical goods, etc.) on a wholesale and retail basis. Its registered office is located at 900 Romualdez Street, Paco, Manila.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as "the Group") which are all incorporated in the Philippines:

	Percentage of Ownership	
	2016	2015
Kareila Management Corporation (KMC) [(a)]	100	100
S&R Pizza (Harbor Point), Inc. [(d)]	100	100
PPCI Subic, Inc. (PSI) [(b)]	100	100
Entenso Equities Incorporated (Entenso) [(c)]	100	100
Goldtempo Company Incorporated (Goldtempo) [(e)]	100	100
Daily Commodities, Inc. (DCI) [(f)]	100	100
First Lane Super Traders Co., Inc. (FLSTCI) [(f)]	100	100

(a) Operator of S&R Membership Shopping; incorporated and registered with the Philippine SEC in 2004; acquired by the Parent Company on May 28, 2012 through a Share Swap Agreement (see Note 9).
(b) Incorporated and registered with the Philippine SEC on May 31, 2012 and started commercial operations on September 20, 2012 (see Note 9).
(c) Incorporated and registered with the Philippine SEC on May 22, 2013 as a holding company (see Note 9).
(d) A wholly-owned subsidiary of KMC incorporated on May 25, 2015 (see Note 9).
(e) Acquired on August 26, 2015 through Entenso which subsequently acquired the significant assets of Bargain City, Inc. Multi-Merchantrade Inc. and Superplus Corporation. (see Note 9).
(f) Acquired on February 3, 2015 through Entenso through a stock acquisition (see Note 9).

All subsidiaries are engaged in the same business as the Parent Company except for Entenso whose primary purpose is to invest in, purchase, subscribed for, or otherwise acquire and own, hold, use, develop, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose real and personal property of every kind of description.

Acquisition of Company E

On January 14, 2013, the Parent Company's BOD approved the acquisition of Company E (the company behind the Eunilaine Foodmart and Grocer E Supermart chains) via share acquisition.

Acquisition of Entenso

On July 3, 2013, the Parent Company's Board of Directors (BOD) approved the acquisition of Entenso's entire outstanding capital stock. On the same day, Entenso's BOD approved the increase in Entenso's authorized capital stock from P5 million divided

into 50,000 shares at P100 par value to P1 billion divided into 10,000,000 shares at P100 par value.

Acquisition of Subic

The Parent Company invested P3.13 million in PPCI Subic Inc., an entity incorporated in the Philippines on May 31, 2012. The investment represents 100% of the issued capital stock of Subic (see Note 9).

Acquisition of Kareila

On May 28, 2012, the Parent Company issued 766,406,250 new common shares, with P1 par value, from its own authorized but unissued capital in exchange for 1,703,125 common shares, with P100 par value per share of Kareila representing 100% of its outstanding capital stock (see Note 9). The fair market value of the Parent Company's shares based on the observable market price as at the date of acquisition is P21.50 per share or P16,477.73 million.

Merger with Company E

On March 25, 2014, the BOD approved the merger of Company E Corporation with the Parent Company. It was then ratified by at least two-thirds (2/3) votes of the stockholders on May 13, 2014 during the annual stockholders' meeting. On March 12, 2015, the Plan and Articles of Merger by and between the Parent Company and Company E Corporation was approved by SEC. Effective April 1, 2015, the entire assets and liabilities of Company E Corporation were transferred to and absorbed by the Parent Company.

Salient features of the Plan of Merger are as follows:

- The Parent Company shall be the surviving entity and the existence of Company E shall cease. The effective date of the merger shall be the date when the SEC approves and issues the Certificate of Merger.

- All the assets, rights, powers, privileges, immunities, franchises and businesses of Company E as at the effective date of the merger, shall be deemed assigned, transferred to and vested to the Parent Company as discussed per Section 80(A) of the Corporation Code, without need of any further act or deed.

- Upon the effective date of merger, the Parent Company shall assume all outstanding liabilities, obligations and undertakings of Company E as at the effective date of merger.

- All issued and outstanding capital stock of Company E on the effective date of the merger shall be cancelled but no new shares of stock shall be issued to the stockholders of Company E considering that the constituent entity is a wholly-owned subsidiary of the Parent Company. The net assets of Company E shall form part of the retained earnings of the Parent Company as the surviving entity.

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

Basis of Measurement

The Group's consolidated financial statements have been prepared on the historical cost basis of accounting, except for:

Items	Measurement Bases
Investments in trading securities	Fair value
Retirement benefits liability	Present value of defined benefit obligation less fair value of the plan asset

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. All financial information expressed in Philippine peso has been rounded off to the nearest peso, unless otherwise stated.

Use of Judgments, Estimates and Assumptions

The Group's consolidated financial statements prepared in accordance with PFRSs require management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

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:

Classifying Financial Instruments

The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, loans and receivables and available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities.

Determining the Fair Value of Financial Instruments

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

The fair value of an asset or 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.

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 consolidated 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 prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

The determination of fair values of the Group's financial instruments is presented in Note 28 to the consolidated financial statements.

Assessing Joint Arrangements
The Group determines the type of joint arrangement in which it is involved by considering its rights and obligations. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances. Joint arrangements is classified into two types: joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint venturers) have rights to the net assets of the arrangement.

The Group has determined that its investments in joint arrangements are classified as investments in joint ventures.

As at September 30, 2016 and December 31, 2015, the carrying amount of its investments in joint ventures amounted to P432.40 million (see Note 9).

Distinction between Investment Property and Property and Equipment
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Property and equipment or owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

The Group has determined that its properties are classified as owner-occupied properties.

Assessing Lease Agreements
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires assessment of 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.

Operating Leases - Group as a Lessee
The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent expense recognized in profit or loss amounted to P1,844.14 million, and P1,685.34 million in September 2016 and 2015, respectively (see Notes 17 and 19).

Operating Leases - Group as a Lessor
The Group has entered into various lease agreements as a lessor to sublease portion of its stores to various lessees. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent income recognized in profit or loss amounted to P282.35 million and P281.08 million in September 2016 and 2015, respectively (see Notes 17 and 18).

Assessment of Computer Software and Licenses and Leasehold Rights
The Group acquired computer software and licenses and leasehold rights to be used for its primary line of business. Based on the following attributes, the Group assessed that the computer software and licenses and leasehold rights are intangible assets since: (1) these are separable; in the case of computer software and licenses, these are not integral part of the related hardware, thus, the Group can sell the software and licenses individually or together with a related contract, asset or liability, and (2) they arose from contractual or other legal rights.

Estimates
The key estimates and assumptions used in the consolidated financial statements are based on management's evaluation of relevant facts and circumstances as at the reporting date. Actual results could differ from such estimates.

Estimating Allowance for Impairment Losses on Receivables
The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors and, their payment behavior and known market factors. The

Group reviews the age and status of the receivable, and identifies accounts that are to be provided with allowance on a regular basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses on receivables would increase the Group's recorded operating expenses and decrease current assets.

The allowance for impairment losses on receivables amounted to P7.46 million as at September 30, 2016 and December 31, 2015. The Group did not recognize an additional allowance for impairment losses on receivables because the Group believes that all outstanding receivables are recoverable. The carrying amount of receivables amounted to P2,730.83 million and P2,683.10 million as at September 30, 2016 and December 31, 2015, respectively (see Note 5).

Estimating Net Realizable Value (NRV) of Merchandise Inventory
The Group carries merchandise inventory at NRV whenever the selling price less costs to sell becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). 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 prices or costs directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The NRV is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying amount of merchandise inventory amounted to P16,472.08 million and P12,982.83 million as at September 30, 2016 and December 31, 2015, respectively (see Note 6).

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.
In addition, the estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease noncurrent assets.

Depreciation and amortization recognized in profit or loss amounted to P1,019.76 million and P925.30 million in September 30, 2016 and 2015, respectively (see Note 10 and 19). Property and equipment, net of accumulated depreciation, amounted to P15,474.04 million and P14,033.74 million as at September 30, 2016 and December 31, 2015, respectively (see Note 10).

Estimating Useful Lives of Computer Software and Licenses and Leasehold Rights
The Group estimates the useful lives and amortization methods of computer software and licenses and leasehold rights based on the period and pattern in which the assets' future economic benefits are expected to be consumed by the Group. The estimated useful lives

and amortization period of computer software and licenses and leasehold rights are reviewed at each reporting date and are updated if there are changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the computer software and licenses and leasehold rights. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the assumptions used.

Amortization recognized in profit or loss amounted to P21.90 million and P17.78 million in September 30, 2016 and 2015, respectively (see Note 11 and 19). Net carrying value of computer software and licenses and leasehold rights amounted to P235.93 million and P237.92 million as at September 30, 2016 and December 31, 2015, respectively (see Note 11).

Impairment of Goodwill, Trademarks and Customer Relationships with Indefinite Lives
The Group determines whether goodwill, trademarks and customer relationships are impaired at least annually. This requires the estimation of the recoverable amounts of the goodwill, trademarks and customer relationships. Estimating recoverable amounts requires management to make an estimate of the expected future cash flows from the cash-generating unit to which the goodwill, trademarks and customer relationships relate and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill, trademarks and customer relationships with indefinite useful lives amounted to P19,317.24 million and P19,283.20 million as at September 30, 2016 and December 31, 2015, respectively. (see Note 11).

Estimating Realizability of Deferred Tax Assets
The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The Group reviews its projected performance in assessing the sufficiency of future taxable income.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Impairment of Non-financial Assets
PFRSs require that an impairment review be performed on non-financial assets other than merchandise inventory and deferred tax assets when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the recoverable amount of assets requires estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the Group's results of operations.

There were no impairment losses on property and equipment and other non-financial assets recognized in September 2016 and December 2015.

Estimating Retirement Benefits Liability and Cost
The determination of the Group's obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rate and salary increase rates. Remeasurements of the retirement benefits liability are recognized in other comprehensive income and comprise of actuarial gains and losses on the retirement benefit obligation, return on plan assets, excluding amounts included in the net interest of the pension benefit obligation and any change in the effect of the asset ceiling.

Retirement benefits liability amounted to P439.87 million as at September 30, 2016 and December 31, 2015 (see Note 22).

Estimating Provisions and Contingencies
The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risks and uncertainties into account.

As at September 30, 2016 and December 31, 2015, the Group does not have any contingent legal or constructive obligation that requires provision.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except for the change in accounting policy as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Group has adopted the following relevant and applicable amendments starting January 1, 2015 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments did not have any significant impact on the Group's consolidated financial statements.

- *Defined Benefit Plans: Employee Contributions (Amendments to PAS 19).* The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 - 2013 Cycles* - Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the consolidated financial statements of the Group:

    - *Classification and measurement of contingent consideration (Amendments to PFRS 3).* The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent

consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, *Financial Instruments: Presentation*, rather than to any other PFRSs. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss.

Consequential amendments are also made to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9, *Financial Instruments* to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* is amended to exclude provisions related to contingent consideration.

- *Scope exclusion for the formation of joint arrangements (Amendment to PFRS 3).* PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e. including joint operations - in the financial statements of the joint arrangements themselves.

- *Definition of 'related party' (Amendment to PAS 24).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g. loans.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2015. However, the Group has not applied these new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective July 1, 2016

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to PFRS 11).* The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

  The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38).* The amendments to PAS 38, *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

  The amendments to PAS 16, *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

  The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

- *Investment Entities: Applying the Consolidation Exception (Amendments to PFRS 10, PFRS 12 and PAS 28)* clarifies that:

  - A subsidiary that provides investment–related services should not be consolidated if the subsidiary itself is an investment entity.

  - The exemption from preparing consolidated financial statements for an intermediate held by an investment entity, even though the investment entity does not consolidate the intermediate.

  - When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:

  - Information should not be obscured by aggregating or by providing immaterial information.

  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

  - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

Effective January 1, 2018

- PFRS 9, *Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

To be Adopted on January 1, 2019

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement

of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15.

The Group will assess the impact of the above new and revised standards and amendments to standards on the separate financial statements upon their adoption on their respective effective dates.

Basis of Consolidation

Business Combinations Under Common Control

Business combinations arising from transfer of interest in entities under control are accounted for using the pooling of interest method, prospectively from the acquisition date as allowed under PIC Q&A 2012-01. Under the prospective pooling of interest method, the assets and liabilities acquired are recognized at the book values or carrying amounts recognized in the acquiree's stand alone financial statements from the acquisition date. The difference between the book value of net assets acquired and the consideration paid or equity instruments issued is recognized in equity, under retained earnings. The profit or loss of the acquirees are consolidated from the acquisition date. Comparative periods are not restated.

Business Combinations other than Under Common Control

Business combinations and acquisition of entities other than those under common control are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Subsidiaries

Subsidiaries are entities controlled by the Group. In accordance with PFRS 10 *Consolidated Financial Statements*, the Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Loss of Control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value on the date that control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

Transactions Eliminated on Consolidation
All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets and liabilities, are eliminated in preparing the consolidated financial statements, in accordance with the accounting policy on consolidation. Unrealized losses are eliminated unless costs cannot be recovered.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies for like transactions and other events in similar circumstances.

Financial Instruments
Date of Recognition
The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments
Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes directly attributable transaction costs.

Subsequent to initial recognition, the Group classifies its financial assets into the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, FVPL financial assets, and loans and receivables. The Group classifies its financial liabilities as either FVPL financial liabilities or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of the Group's financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group had no HTM investments and FVPL financial liabilities as at September 30, 2016 and December 31, 2015.

Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL and those classified under this category through the fair value option.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition at FVPL or reclassified under this category through fair value option, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using fair values. Fair value changes and realized gains and losses are recognized as part of profit or loss.

The Group's investments in trading securities are classified under this category (see Note 7).

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

The Group's cash and cash equivalents, receivables and security deposits are included in this category (see Notes 4, 5, 12, 21, 27 and 28).

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

AFS Financial Assets
The Group's investment in equity securities is classified as AFS financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on AFS financial assets monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The Group's AFS equity instrument is carried at cost since its fair value cannot be determined reliably in the absence of observable market data on the related assets (see Note 9).

Other Financial Liabilities
This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Group's accounts payable and accrued expenses, short-term loans and long-term loans payable, due to related parties, trust receipts payable, other current liabilities and noncurrent accrued rent are included in this category (see Notes 13, 14, 15, 21, 27 and 28).

Debt Issue Costs

Debt issue costs are considered as directly attributable transaction costs upon initial measurement of the related debt and are subsequently considered as an adjustment to the amortized cost and effective yield of the related debt using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of 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 pay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, or cancelled or expired. When 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 profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated statements of financial position.

Fair Value Measurements

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market

observable price exist, options pricing models and other relevant valuation modes.

Merchandise Inventory
Merchandise inventory is stated at the lower of cost and 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 the estimated costs necessary to make the sale.

Property and Equipment
Property and equipment, excluding land and construction in progress, are carried at cost less accumulated depreciation, amortization and impairment losses, if any. Land is carried at cost. Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. All other subsequent expenditures are recognized in profit or loss.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets as follows:

	Number of Years
Building	15 - 30
Furniture and fixtures	3 - 20
Office and store equipment	2 - 15
Leasehold improvements	15 - 20 or term of the lease, whichever is shorter

The useful lives and depreciation and amortization method are reviewed at each reporting date to ensure that they are consistent with the expected pattern of economic benefits from those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Investments in Joint Ventures and Associates
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control on an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an enterprise in which the investor has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

The Group's investments in joint ventures and associates are accounted for under the equity method of accounting. Under the equity method, investments in joint ventures and associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investments in joint ventures and associates after the date of acquisition. The Group's share in profit or loss of the joint ventures and associates are recognized in the Group's profit or loss. Dividends received from the investments in joint ventures and associates reduce the carrying amount of the investments.

Investment in a Joint Operation

A joint arrangement is classified as joint operations when the Group has rights to the assets and obligations for the liabilities relating to the arrangement. The Group recognizes its share in the results of the joint arrangement aside from the compensation from the use of its land and building. The Group has no capital commitments or contingent liabilities in relation to its interests in joint arrangements.

Intangible Assets and Goodwill

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

The Group assessed the useful life of trademark and customer relationship to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Trademark and customer relationship with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Computer software and licenses and leasehold rights are separately acquired by the Group that has finite useful life is measured at cost less accumulated amortization and impairment losses, if any.

Subsequent costs are capitalized only when they increase the future economic benefits embodied in the assets to which they relate. All other expenditures are recognized in profit or loss when incurred.

The amortization is computed using the straight-line method over the estimated useful life of the capitalized software from the date it is available for use and amortized over five (5) years. Leasehold rights are amortized on a straight-line basis over the lease period of twenty (20) years. The estimated useful life and the amortization method of an intangible asset with finite useful life are reviewed at each reporting date.

Gain or loss on disposal or retirement of an intangible asset with finite useful life is recognized in profit or loss when the asset is disposed of or retired.

Goodwill
Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see policy on basis of consolidation. Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

Impairment of Assets
Financial Assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to 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 profit or loss, to the extent that the carrying value of the assets does not exceed its amortized cost at the reversal date.

AFS Financial Assets
If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

All impairment losses are recognized in profit or loss.

Non-financial Assets
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Employee Benefits
Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits Cost
The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan, if any.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit

liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Equity

Capital Stock

Capital stock is classified as equity. Incremental costs directly attributable to the issuance of capital stock are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital

The amount of contribution in excess of par value is accounted for as "Additional paid-in capital." Additional paid-in capital also arises from additional capital contributions from the shareholders.

Retained Earnings and Dividend Distribution

Retained earnings include current and prior years' results, net of transactions with shareholders and dividends declared, if any.

Dividend distribution to the Group's shareholders is recognized as a liability, and deducted from equity in the Group's consolidated statements of financial position in the period in which the dividends are approved and declared by the Group's BOD.

Treasury Stock

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. When the shares of stock are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is charged to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares of stock were issued and to retained earnings for the remaining balance.

Other Comprehensive Income

Other comprehensive income are items of income and expense (including reclassification adjustments, if any) such as remeasurements of defined benefit plans that are not recognized in profit or loss as required or permitted by the related accounting standards.

Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at fair value of consideration received or receivable, net of sales discounts. The following specific recognition criteria must also be met before revenue is recognized:

- *Sale of Goods* is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount

can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Accordingly, advances received prior to delivery of goods are recorded as unearned revenues and are earned upon physical delivery and acceptance by customer. Unearned revenues are classified as current liabilities.

- *Concession Income* pertains to the fixed percentage income from sales of concessionaire supplier's goods sold inside the store. The income is recognized when earned.

- *Membership Income* refers to fees from members wherein such fees permit only membership, and all other services or products are paid for separately. The fee is recognized as revenue when no uncertainty as to its collectability exists.

- *Interest Income* is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition. Interest income is presented net of final tax.

- *Rent Income* from property and equipment is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income, over the term of the lease.

- *Dividends* are recognized when the Group's right as a shareholder to receive the payment is established.

- *Other Income* from display, demonstration or sampling, endcap or palette income, merchandise support and miscellaneous income are recognized when earned.

Cost of Sales
Cost of sales 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. These costs include the cost of storing and transporting the products (i.e., freight costs or trucking costs, cross-dock delivery fees, and other direct costs). Vendor returns and allowances are generally deducted from cost of sales.

Operating Expenses
Operating expenses constitute costs of administering the business. These are recognized as expenses as incurred.

Borrowing Costs
Borrowing costs are recognized as expenses when incurred, except to the extent capitalized. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Income Taxes
Current Tax
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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 profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in 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.

Value Added Tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the

taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" in the consolidated statements of financial position.

Leases

Group as Lessee

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

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. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income.

Related Parties

Parties are considered to be 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. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising from foreign currency transactions are recognized in profit or loss.

Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group determines and presents operating segments based on the information that is internally provided to the Chairman and the President, collectively as the Group's chief operating decision maker. The Group assessed that its retailing business as a whole represents a single segment.

Provisions and Contingencies
A provision is recognized when the Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made on the amount of the obligation.

Provisions are revisited at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects the current market assessment 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 interest expense.

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

Basic and Diluted Earnings Per Share (EPS)
Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after retroactive adjustment for stock dividend declared in the current period, if any. Diluted EPS is also computed in the same manner as the aforementioned, except that, the net income and the number of common shares outstanding is adjusted for the effects of all potential dilutive debt or equity instruments.

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 recognized in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Cash and Cash Equivalents

This account consists of:

	Note	**September 2016**	December 2015
Cash on hand		**P568,761,227**	P735,964,181
Cash in banks	*27, 28*	**500,903,609**	1,577,093,521
Money market placements	*27, 28*	**111,085,798**	3,933,435,315
	28	**P1,180,750,634**	P6,246,493,017

Cash in banks earns annual interest at the respective bank deposit rates. Money market placements are highly liquid investments that are readily convertible into cash and are subjected to insignificant risk of changes in value. These investments have maturity dates of an average of 30 days with an annual interest rates ranging from 0.50% to 2.08% in 2016 and from 1.60% to 2.08% in 2015. Interest income earned from cash in banks and money market placements amounted to P10.16 million and P16.22 million in September 2016 and 2015, respectively.

5. Receivables

This account consists of:

	Note	September 2016	December 2015
Trade receivables:	*a, 21*	**P916,417,669**	P1,471,239,823
Non-trade receivables	*b, 21*	**1,821,873,935**	1,219,318,400
		2,738,291,604	2,690,558,223
Less allowance for impairment losses on trade receivables from third parties	*a*	**7,462,327**	7,462,327
	27, 28	P2,730,829,277	P2,683,095,896

a. Majority of trade receivables pertain to credit card transactions which are due within 30 days or its normal credit period. The Group partners only with reputable credit card companies affiliated with major banks. Management believes that except for the accounts provided with allowance for impairment losses amounting to P7.46 million as at September 30, 2016 and December 31, 2015, all other receivables are collectible and therefore, no additional allowance is necessary.

b. Non-trade receivables represent the amounts due from tenants in relation to rentals of store spaces. This account also includes due from suppliers with respect to "demo" or "sampling" conducted by suppliers' representatives and strategic locations granted to suppliers with regard to the display of their products in the selling area of the stores. It also includes advances to employees which are collected by the Group through salary deduction.

6. Merchandise Inventory

This account consists of groceries and other consumer products (canned goods, housewares, toiletries, dry goods, food products, etc.) held for sale in the ordinary course of business on wholesale and retail bases.

Inventory cost as at September 30, 2016 and December 31, 2015 is lower than NRV.

The Group's merchandise inventory as at September 30, 2016 and December 31, 2015 amounted to P16,472.08 million and P12,982.83 million, respectively.

Inventory charged to the cost of sales amounted to P65,833.57 million and P56,090.91 million in September 2016 and 2015, respectively (see Note 16).

7. Investments in Trading Securities

The investments in trading securities represent the Parent Company's investments in marketable securities that are traded in the PSE. The fair values of these listed shares are based on their closing market prices as at the reporting dates.

The movements and balances of these investments in trading securities are as follows:

	Note	**September 2016**	December 2015
Cost			
Balance at beginning of the year		**P15,355,998**	P14,518,906
Additions		**-**	837,092
		15,355,998	15,355,998
Valuation Adjustments			
Balance at beginning of the year		**19,076,593**	22,929,563
Unrealized valuation gain (loss) on financial assets at FVPL for the year	*20*	**2,851,180**	(3,852,970)
		21,927,773	19,076,593
	28	**P37,283,771**	P34,432,591

8. Prepaid Expenses and Other Current Assets

This account consists of:

	September 2016	December 2015
Prepaid expenses	**P584,270,458**	P457,252,639
Input value added tax (VAT)	**450,219,474**	569,408,292
Deferred input VAT	**46,072,942**	40,751,176
Creditable withholding tax	**42,247,959**	-
	P1,122,810,833	P1,067,412,107

Input VAT represents accumulated input taxes from purchases of goods and services for business operation and purchases of materials and services for the building and leasehold construction which can be applied against future output VAT.

The details of prepaid expenses are as follows:

	Note	**September 2016**	December 2015
Rent	*17*	**P374,492,287**	P318,620,368
Taxes and licenses		**142,033,636**	64,648,390
Insurance		**51,266,289**	47,019,465
Repairs and maintenance		**2,436,750**	5,818,365
Advances to contractors		**-**	16,160,000
Others		**14,041,496**	4,986,051
		P584,270,458	P457,252,639

Prepaid taxes and licenses pertain to payments made to government for registration fees and other taxes.

Prepaid insurance refers to payments made in advance in return for insurance services covering the Group's merchandise inventory, property and equipment and others.

Deferred input VAT represents accumulated input taxes for purchases of capital assets more than P1.00 million and unbilled services for the building and leasehold construction which can be applied against future output VAT.

9. Investments; Acquisitions of Subsidiaries

Investments

The details of investments are as follows:

	Note	**September 2016**	December 2015
Investments in joint ventures	*a*	**P432,398,357**	P432,398,357
Investment in associate	*b, 28*	**427,813,089**	427,813,089
AFS financial assets	*c, 28*	**7,879,160**	7,879,160
		P868,090,606	P868,090,606

a. Investments in Joint Ventures

PG Lawson Company, Inc.
On June 12, 2014, the Parent Company entered into a joint venture agreement with Lawson Asia Pacific Holdings Pte. Ltd. and Lawson, Inc. (Lawson), both engaged in the operation of convenience stores in Japan and other Asian countries, to establish PG Lawson Company, Inc. (PLCI), a joint venture company that will operate convenience stores in the Philippines.

The Parent Company subscribed a total of 3,500,000 common shares at P100.00 par value for a total investment of P350.00 million representing a 70% interest while Lawson subscribed to a total of 1,500,000 common shares at P100.00 par value for a total investment of P150.00 million or 30% interest in the joint venture. PLCI was incorporated in the Philippines on June 2, 2014.

The movement in carrying amount of investment with PLCI follows:

	September 2016	December 2015
Balance at beginning of the year	P318,276,913	P350,000,000
Additions	-	-
Share in net loss	-	(31,723,087)
	P318,276,913	P318,276,913

AyaGold Retailers, Inc.
On July 8, 2013, the Group through Entenso entered into a joint venture agreement with Varejo Corp., an entity engaged in operations of small convenience stores, to incorporate a new company, AyaGold Retailers, Inc. (AyaGold), for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as both parties may agree. AyaGold was incorporated in the Philippines on July 8, 2013 and started operation on July 31, 2015 with the opening of its first supermarket "Merkado" located at U.P. Town Center.

Both parties subscribed to 6,000,000 common shares and 54,000,000 redeemable preferred shares each with a par value of P1.00 for a total investment of P60.00 million representing 50% interest each to the joint venture.

The redeemable preferred shares shall have the following features:

(a) Voting rights;

(b) Participating in dividends declaration for common shares and may be entitled to such dividends as may be determined and approved by the Board of Directors;

(c) Entitled to receive out of the assets of the joint venture available for distribution to the parties, before any distribution of assets is made to holders of common shares, distributions in the amount of the issue value per outstanding redeemable preferred share, plus declared and unpaid dividends to the date of distribution; and

(d) Redeemable at the option of the joint venture.

The carrying amount of its investment and its share in the losses of AyaGold follow:

	September 2016	December 2015
Balance at beginning of the year	**P114,121,444**	P42,726,149
Additions	-	87,500,000
Share in net loss	-	(16,104,705)
	P114,121,444	P114,121,444

b. Investment in Associate

On December 4, 2013, the Group through Entenso acquired equity interest in San Roque Supermarkets (SRS) for a total cost of P371,896,077. SRS is a local entity currently engaged in the business of trading goods on a wholesale and retail basis.

On October 31, 2014, the Group through Entenso subscribed and paid additional one hundred ninety thousand eight (190,008) common shares from the unissued capital stock of the SRS for total cost of P19,000,800.

The carrying amount of its investment and its share in the net income of SRS follow:

	September 2016	December 2015
Carrying amount		
Balance at beginning of the year	**P427,813,089**	P390,896,877
Additions	-	-
Share in net income	-	36,916,212
	P427,813,089	P427,813,089

c. AFS Financial Assets

AFS financial assets also include Tower Club shares amounting to P617,500 and Meralco preferred shares amounting to P7,261,660 which is acquired in connection with the installation of telephone lines and electrical systems for the different stores and offices of the Parent Company.

The AFS Financial assets pertaining to Tower Club are carried at cost since the fair value cannot be determined reliably in the absence of an observable market data on these related assets.

Acquisitions of Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2016 and 2015:

Entenso Equities Incorporated (Entenso)

On July 3, 2013, the Parent Company's BOD approved the acquisition of Entenso's entire outstanding capital stock. On the same day, the BOD of Entenso approved the increase in Entenso's authorized capital stock from P5.00 million divided into 50,000 shares at P100 par value to P1.00 billion divided into 10,000,000 shares at P100 par value.

In 2015, the Parent Company made an additional investment to Entenso amounting to P1.7 billion. Entenso is in the process of filing application for an increase in its authorized capital stock with the SEC.

Company E Corporation

On January 14, 2013, the Parent Company's BOD approved the acquisition of Company E Corporation (the company behind the Eunilaine Foodmart and Grocer E Supermart chains). The Parent Company acquired 290,000 common shares of Company E representing its total outstanding shares at P1,137.93 per share through cash. Company E has seven supermarkets within Metro Manila, six in Rizal province and two in the province of Cavite which will operate the same store as the Parent Company. As at December 31, 2014, there are fourteen stores in operation, one store in Rizal was closed in the same year.

On March 25, 2014, the BOD approved the merger of the Parent Company with Company E Corporation. It was then ratified by at least two-thirds (2/3) votes of the stockholders on May 13, 2014 during the annual stockholders' meeting with its salient features discussed in Note 1. In April 2015, upon approval by the SEC of the merger, the existence of Company E ceased and all its assets and liabilities were merged with the Parent Company.

Kareila Management Corporation

On December 21, 2012, the BOD of Kareila approved the declaration of stock dividends amounting to P329.69 million from its unrestricted retained earnings as at December 31, 2012. The date of record and date of payment are April 15, 2013 and April 30, 2013, respectively.

On November 28, 2013, the BOD of Kareila resolved to increase its authorized capital stock from P500 million divided into 5 million shares, with par value of P100 per share to P3,000 million pesos divided into 30 million shares with a par value of P100 per share. Out of the increase in the authorized capital stock of P2,500 million, 25% of which or P625 million had been actually subscribed by the Parent company out of the stock dividend declared by Kareila. On the same date, the Kareila amended its articles of incorporation. Subsequently, on December 13, 2013, SEC approved the Kareila's application of its increase in authorized capital stock.

The BOD of Kareila approved the declaration of dividends from its unrestricted retained earnings as follow:

December 31, 2015

Type of Dividend	Date of Dividend Declaration	Shareholders of Record as of	Amount
Cash	December 18, 2015	December 18, 2015	P475,000,000

December 31, 2014

Type of Dividend	Date of Dividend Declaration	Shareholders of Record as of	Amount
Cash	December 18, 2014	December 18, 2014	P475,000,000
Stock	December 18, 2014	December 18, 2014	1,000,000,000
			P1,475,000,000

Gant Group of Companies Incorporated (Gant)
On May 30, 2012, the Parent Company acquired 519,111 shares or 100% of the outstanding capital stock of Gant, owner and operator of Parco Supermarket. The investee is engaged in the business of trading consumer products. Acquisition cost amounted to P743.84 million. The Parent Company incurred acquisition-related cost of P0.19 million.

On February 26, 2013, the SEC approved the application for the merger of the Parent Company with PJSI and Gant. Upon approval by the SEC of the merger, the existence of Gant ceased and all its assets and liabilities were merged with the Parent Company.

Puregold Junior Supermarket, Inc. (PJSI)
The Parent Company owns 100% equity interest in PJSI, an entity engaged in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, etc.) on a wholesale and retail basis. Acquisition cost amounted to P50.00 million. On April 30, 2012, the Parent Company paid P550.00 million to PJSI, a subsidiary, as deposit for future stock subscription for 5,500,000 common shares. Upon approval by the SEC of the merger, the existence of PJSI ceased and all its assets and liabilities were merged with the Parent Company.

PPCI Subic Inc.
The Parent Company invested P3.13 million in PPCI Subic Inc., an entity incorporated on May 31, 2012. The investment represents 100% of the outstanding capital stock of the investee. PPCI Subic Inc. will operate as a Puregold store within the area of the Subic Bay Economic Zone, Zambales. It started commercial operations on September 20, 2012.

10. Property and Equipment

The movements and balances of this account consist of:

	Building	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction in Progress	Total
Cost							
Balance, December 31, 2014	P4,500,979,213	P1,836,712,324	P4,995,484,709	P5,631,087,179	P386,605,815	P179,177,517	P17,530,046,757
Transfer in	-	101,245,684	264,808,649	107,455,093	-	-	473,509,426
Additions	316,900,386	130,651,366	454,673,843	690,487,865	17,134,337	628,817,024	2,238,664,821
Reclassifications	97,748,986	23,683,528	144,025,168	142,622,232	-	(408,079,914)	-
Disposals	(196,429)	(2,761,009)	(14,682,613)	(2,935,742)	-	-	(20,575,793)
Adjustment	-	-	-	(231,348,170)	-	(142,136,607)	(373,484,777)
Balance, December 31, 2015	4,915,432,156	2,089,531,893	5,844,309,756	6,337,368,457	403,740,152	257,778,020	19,848,160,434
Additions	595,696,166	130,932,732	697,012,751	598,701,610	938,721	438,822,058	2,462,104,038
Reclassifications	(346,423,273)	3,851	(161,352)	6,087,422	(24,869,686)	365,363,038	-
Disposals	-	(64,476)	(2,460,145)	(575,768)	-	-	(3,100,389)
Adjustment	-	-	-	(1,062,857)	-	-	(1,062,857)
Balance, September 30, 2016	5,164,705,049	2,220,404,000	**6,538,701,010**	**6,940,518,864**	**379,809,187**	**1,061,963,116**	**22,306,101,226**
Accumulated Depreciation and Amortization							
Balance, December 31, 2014	557,883,359	599,971,805	2,482,949,880	757,728,763	-	-	4,398,533,807
Transfer in	815,531	37,401,315	121,453,274	36,371,352	-	-	196,041,472
Depreciation and amortization	157,929,518	149,688,596	680,421,199	266,070,714	-	-	1,254,110,027
Reclassifications	73,491	(24,615)	(1,231)	(47,645)	-	-	-
Disposals	(147,321)	(443,113)	(2,627,625)	(251,911)	-	-	(3,469,970)
Adjustment	-	(2,487)	-	(30,793,272)	-	-	(30,795,759)
Balance, December 31, 2015	716,554,578	786,591,501	3,282,195,497	1,029,078,001	-	-	5,814,419,577
Depreciation and amortization	127,529,126	118,583,922	532,950,896	240,700,216			1,019,764,160
Reclassifications	-	7,378	(7,378)	-	-	-	-
Disposals	-	(54,893)	(2,063,574)	-	-	-	(2,118,467)
Balance, September 30, 2016	**844,083,704**	**905,127,908**	**3,813,075,441**	**1,269,778,217**	-	-	**6,832,065,270**
Carrying Amount							
December 31, 2015	P4,198,877,578	P1,302,940,392	**P2,562,114,259**	P5,308,290,456	P403,740,152	P257,778,020	P14,033,740,857
September 30, 2016	P4,320,621,345	P1,315,276,092	P2,725,625,569	P5,670,740,647	P379,809,187	P1,061,963,116	P15,474,035,956

Transfer-in pertains to property and equipment of acquired and merged entities upon its acquisition as mentioned in Note 1.

The adjustments resulted from the evaluation made by the Parent Company to its subsidiaries' property and equipment. The Group's assets were aligned with Parent Company's asset recognition policy. Assets were either recorded into its proper classification or expensed if it did not meet the criteria of capitalization.

No impairment loss was recognized in 2016 and 2015.

11. Intangibles and Goodwill

This account consists of:

	Note	**September 2016**	December 2015
Goodwill	*a*	**P14,718,129,154**	P14,684,084,973
Trademark	*b*	**3,709,660,547**	3,709,660,547
Customer relationship	*b*	**889,452,981**	889,452,981
Computer software and licenses - net	*c*	**172,571,389**	171,737,656
Leasehold rights	*c*	**63,358,983**	66,184,796
		P19,553,173,054	P19,521,120,953

a. Goodwill

The goodwill represents the excess of the total acquisition cost over the fair value of the identifiable assets and liabilities assumed on the acquisition of the following Subsidiaries.

2012	*Note*	**Cost**
PJSI	*a.1*	**P11,370,121**
Kareila	*a.2*	**12,079,473,835**
Gant	*a.3*	**742,340,804**
		12,833,184,760
2013		
Merger of PJSI and Gant to Parent Company	*a.1, a.4*	**4,142**
Company E	*a.5*	**358,152,015**
		358,156,157
2015		
DCI and FLSTCI	*a.6*	**685,904,317**
Budgetlane Supermarkets	*a.7*	**840,883,920**
		1,526,788,237
		P14,718,129,154

Details are as follows:

a.1. Acquisition of PJSI

Acquisition cost*	P50,003,542
Fair value of net assets (June 30, 2010)	38,629,279
Goodwill	**P11,374,263**

**The amount disclosed was after the additional shares issued to reflect the effects of merger of PJSI and the Parent Company.*

a.2. Acquisition of Kareila

The following summarizes the consideration transferred and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred	**P16,477,734,375**
Assets	
Current assets	1,651,017,012
Property and equipment – net	928,294,217
Other noncurrent assets	50,500,198
Liabilities	
Current liabilities	(1,431,714,792)
Noncurrent liabilities	(4,389,307)
Deferred tax liability	(1,379,734,058)
Total fair value of net tangible liabilities	**(186,026,730)**
S&R trade name	3,709,660,547
Customer relationship	889,452,981
Fair value of identifiable intangible assets	**4,599,113,528**
Total fair value of net assets*	**4,413,086,798**
Adjustment for PAS 19 adoption	**(14,826,258)**
Total adjusted fair value net asset	**4,398,260,540**
Goodwill	**P12,079,473,835**

*The amount disclosed is before the restatement of Kareila's balance due to prior period adjustment as a result of the adoption of PAS 19, *Employee Benefits*.

The purchase price of P4,599.11 million represents the fair value of S&R trade name and customer relationship determined after considering various factors and performing valuation methodologies including the independent valuation study and analysis prepared by an independent valuation specialist (see Note 11.b).

The Group incurred acquisition-related cost of P3.83 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income in 2012.

a.3. Acquisition of Gant

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on the Gant group at the acquisition date:

Consideration transferred	P743,840,962
Fair value of net assets	1,500,158
Goodwill	**P742,340,804**

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the fair value of the acquired assets and liabilities assumed is attributable to goodwill amounting to P742.34 million.

The Group incurred acquisition-related cost of P0.19 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income in 2012.

a.4. Merger of PJSI and Gant

As mentioned in Note 9, on February 26, 2013, the SEC approved the application for merger of the Parent Company, PJSI and Gant. As a consideration for the said merger, the Parent Company paid the owner of PJSI amounting to P4,142.

a.5. Acquisition of Company E

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on Company E at the acquisition date:

Acquisition cost	P404,065,000
Fair value of net assets	45,912,985
Goodwill	**P358,152,015**

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the assets acquired and the liabilities assumed is attributable to goodwill amounting to P358.15 million.

The Group incurred acquisition-related cost of P0.19 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income in 2013.

a.6. Acquisition of Daily Commodities Inc. (DCI) and First Lane Super Traders Co., Inc. (FLST)

On February 3, 2015, the Group through Entenso acquired 100% interest in DCI and FLST for a total cost of P768.49 million. DCI and FLST is a local entity currently engaged in the business of trading goods on a wholesale and retail basis.

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on DCI and FLST at the acquisition date:

Acquisition cost	P768,485,000
Fair value of net assets	82,580,683
Goodwill	P685,904,317

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the assets acquired and the liabilities assumed is attributable to goodwill amounting to P690.90 million.

a.7. Acquisition of Bargain City Inc. (BCI), Multi-Merchantrade Inc. (MMI) and Superplus Corporation (SC) (collectively as "Budgetlane Supermarkets")

On August 6, 2015, the Group through Goldtempo Corporation, a wholly owned subsidiary of Entenso, acquired substantially all of the assets of BCI, MMI and SC. Goldtempo took over the operations of 8 supermarkets located mainly in Metro Manila and Luzon.

The following summarizes the consideration transferred, and the recognized amounts of assets acquired assumed on BCI, MMI and SC at the acquisition date:

Acquisition cost	P1,496,500,821
Fair value of net assets	655,616,901
Goodwill	**P840,883,920**

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the assets acquired and the liabilities assumed is attributable to goodwill amounting to P838.58 million.

The Group used provisionary fair values of the identifiable net assets in calculating the goodwill of DCI, FLST, BCI, MMI and SC as at the acquisition date. Upon finalization of the purchase price allocation exercise, the Group will restate the amounts of the net assets acquired and goodwill, in accordance with PFRS 3.

b. *Trademark and Customer Relationship*

The fair value of the trademark and customer relationship was determined after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by an independent valuation specialist. The Parent Company, after considering the said valuation methodologies, viewed the royalty relief (based on commercial rates) and multi-period excess earnings methodologies to be generally more relevant, compared to other methodologies that may be used to value the Parent Company's trademarks and customer relationships, on the basis that such methodologies require fewer assumptions and less reliance on subjective reasoning since key assumptions come from primary sources based on the Parent Company's filings and projections, actual industry precedents and industry common practice.

Impairment of Goodwill, Trademark and Customer Relationship

The recoverable amount of goodwill, trademark and customer relationship has been determined based on value in use (VIU), using cash flow projections covering a five-year period. It is based on a long range plans approved by management. The VIU is based on a 2% terminal growth rate and discount rate of 10%. The terminal growth rate used is consistent with the long-term average growth rate for the Group's industry. The discount rate is based on the weighted average cost of capital (WACC) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium. The financial projection used in the VIU is highly dependent on the gross sales and gross profit margin. For purposes of growth rate sensitivity, a growth rate scenario of 2% and 3% is applied on the discounted cash flow analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill, trademark and customer relationship to exceed its recoverable amount.

Management assessed that there is no impairment in the value of goodwill, trademark and customer relationship as at September 30, 2016 and December 2015.

c. *Leasehold Rights and Computer Software and Licenses*

On January 25, 2013, the Parent Company executed a memorandum of agreement with various lessors, namely, BHF Family Plaza, Inc. (BHF), Lim Y-U Group, Inc., and R&A Malvar Trading Company, Inc. which paved the way for the establishment of five (5) Puregold stores previously owned and operated by these lessors. Under the agreement, the lessors agreed to sell to the Parent Company all merchandise inventories, equipment, furniture and fixtures as well as granting of rights to lease the buildings owned by each lessor for a period of twenty (20) years upon compliance of the conditions set forth in the memorandum of agreement. As a result of the transaction, the Parent Company recognized leasehold rights representing the excess of cost paid over the fair value of all assets acquired which will be amortized on a straight-line basis over the lease period.

The movements and balances of leasehold rights and computer software and licenses consists of:

	Computer Software and Licenses	Leasehold Rights	Total
Cost			
Balance, January 1, 2015	P232,841,987	P75,355,005	P308,196,992
Transfer in	9,387,434	-	9,387,434
Additions	79,290,672	-	79,290,672
Adjustments	(51,867,660)	-	(51,867,660)
Balance, December 31, 2015	269,652,433	75,355,005	345,007,438
Additions	22,199,698	-	22,199,698
Adjustments	(2,295,886)	-	(2,295,886)
Balance, September 30, 2016	**289,556,245**	75,355,005	**364,911,250**
Accumulated Amortization			
Balance, January 1, 2015	76,330,197	5,402,458	81,732,655
Amortization	21,584,580	3,767,751	25,352,331
Balance, December 31, 2015	97,914,777	9,170,209	107,084,986
Amortization	19,070,079	2,825,813	21,895,892
Balance, September 30, 2016	**116,984,856**	**11,996,022**	**128,980,878**
Carrying Amount			
December 31, 2015	P171,737,656	P66,184,796	P237,922,452
September 30, 2016	**P172,571,389**	P63,358,983	P235,930,372

12. Other Noncurrent Assets

This account consists of:

	Note	September 2016	December 2015
Security deposits	*17, 27, 28*	**P1,376,051,007**	P1,279,453,908
Prepaid rent	*17*	**92,543,043**	94,950,257
Accrued rent income	*17, 23*	**35,332,670**	31,918,814
		P1,503,926,720	P1,406,322,979

Accrued rent income pertains to the excess of rent income over billing to tenants in accordance with PAS 17, *Leases*.

13. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**September 2016**	December 2015
Trade	*21, 27, 28*	**P3,190,191,236**	P6,061,498,485
Non-trade	*21, 27, 28*	**1,931,285,392**	1,662,591,104
Dividends payable	*24, 27, 28*	**-**	829,614,422
Withholding taxes payable		**135,786,037**	154,284,063
Accrued expenses:	*27, 28*		
Manpower agency services		**497,882,612**	434,949,042
Utilities		**89,887,805**	115,318,825
Professional fees		**44,643,913**	50,152,059
Rent		**17,728,193**	17,797,247
Fixed asset acquisition	*10*	**3,399,214**	4,886,038
Interest		**2,131,224**	5,165,690
Inventory		**-**	396,500,821
Others		**130,042,159**	44,937,424
		P6,042,977,785	P9,777,695,220

The average credit period on purchases of certain goods from suppliers is 30 days. No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame (see Note 27).

Non-trade payables consist of claims arising from billed expenditures in relation to operations other than purchases of goods, fixed asset acquisitions and structures under construction.

Fixed asset acquisition pertains to amounts payable to Parent Company's contractor of store establishments. The Group is bound by the terms of the contract and payables are due upon completion of certain work to be done.

14. Loans Payable

The Group has the following outstanding loans payable:

a. Short-term Loans Payable

The Group entered into the following loan facilities to be used as additional working capital:

	Note	**September 2016**	December 2015
Short-term note based on 2.38%		**P2,597,500,000**	P2,247,500,000
Short-term note based on 2.50%		**890,000,000**	890,000,000
Short-term note based on 2.00%		**200,000,000**	-
	27, 28	**P3,687,500,000**	P3,137,500,000

Principal amounts will be due on lump sum on their maturity dates. Extension

and/or renewal of the notes are granted by the financial institution to the Parent Company. The proceeds of these loans will be used primarily to augment general working capital requirements.

b. Long-term Loans Payable

b.1. The outstanding loans are as follows:

	Note	September 2016	December 2015
Unsecured Peso Denominated			
Fixed rate note based on 3.5%	*I*	P1,996,578,877	P1,995,062,298
Fixed rate note based on 3.25%	*ii*	120,000,000	570,000,000
Fixed rate note based on 3.5%	*iii*	400,000,000	400,000,000
	27, 28	2,516,578,877	2,965,062,298
Less current portion		120,000,000	570,000,000
		P2,396,578,877	P2,395,062,298

i. On June 13, 2013, the Parent Company issued a P2 billion promissory note. Interest is computed as 3.50% per annum of the principal amount. The debt has a term of 1,803 days and will be paid on a lump sum on May 21, 2018.

ii. On April 14, 2013, the Parent Company signed and executed a two (2) year promissory note amounting to P963.70 million. The debt bears a 3.25% interest rate per annum and shall be repaid in a single payment on maturity. As at September 30, 2016, a total of P843.70 million of the loan amount was already paid. The balance was renewed at 2.38% interest rate per annum and payable on January 4, 2017.

The movements in debt issue costs are as follows:

	September 2016	December 2015
Balance at beginning of the year	P4,937,702	P7,665,410
Amortizations	(1,516,578)	(2,727,708)
Balance at end of year	P3,421,124	P4,937,702

iii. On July 23, 2013, Kareila signed and executed a P500.00 million unsecured loan agreement with a local bank. The loan shall be repaid in lump sum after five (5) years. Its related interest is at 3.50% per annum. As at September 30, 2016, P100.00 million of the loan amount was already paid.

Repayment Schedule

The annual maturities of long-term loans are as follows:

Year	September 2016	December 2015
2016	P120,000,000	P570,000,000
2018	2,000,000,000	2,000,000,000
	P2,120,000,000	P2,570,000,000

There are no debt covenants for above unsecured loans entered into by the Group.

Interest expense from these loans amounting to P57.69 million and P92.22 million were capitalized in September 2016 and December 2015 and recognized in building and leasehold improvements under property and equipment accounts (see Note 10). Remaining interest expense that was charged to profit and loss amounted to P69.36 million and P70.30 million in September 2016 and December 2015, respectively.

15. Other Current Liabilities

This account consists of:

	Note	September 2016	December 2015
Deposits	*17, 27, 28*	P138,506,027	P137,849,852
Loyalty and rewards		87,743,325	15,100,407
Unredeemed gift certificates		73,298,979	89,430,184
Promotion fund		22,329,084	35,578,785
VAT payable		22,113,428	46,178,424
Others	*27, 28*	1,746,552	2,988,367
		P345,737,395	P327,126,019

Deposits represent amounts paid by the store tenants for the lease of store spaces which are refundable upon termination of the lease.

Unredeemed gift certificates represent issued yet unused gift certificates. These will be closed to sales account upon redemption and are due and demandable.

Promotion fund is promotional discount granted for the Group's promotion and advertising activities in partnership with suppliers.

Loyalty and rewards are provided for the point's redemption of "Tindahan ni Aling Puring" members. Points are earned upon purchase of participating items and may be used as payments of their purchases which make it due and demandable.

Others include cashier's bond withheld from each cashier to compensate for any possible cash shortages in the store.

16. Cost of Sales

This account for the periods ended September 30 consists of:

	Note	2016	2015
Beginning inventory	*6*	**P12,982,832,312**	P11,166,772,652
Add: Purchases		**69,322,817,829**	57,778,153,990
Total goods available for sale		**82,305,650,141**	68,944,926,642
Less ending inventory	*6*	**16,472,082,170**	12,854,017,734
		P65,833,567,971	P56,090,908,908

17. Lease Agreements

As Lessee

The Group leases warehouses, parking spaces and certain lands and buildings where some of its stores are situated or constructed. The terms of the lease are for the periods ranging from ten to forty (10-40) years, renewable for the same period under the same terms and conditions. The rent shall escalate by an average of 1% to 7%. Rental payments are fixed amounts which are calculated either fixed monthly rent or is calculated in reference to a fixed sum per square meter of area leased based on the contracts.

The Group is required to pay advance rental payments and security deposits on the above leases which are either fixed monthly rent or are calculated in reference to a fixed sum per square meter of area leased. These are shown under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts, respectively, in the consolidated statements of financial position (see Notes 8 and 12).

The scheduled maturities of non-cancellable minimum future rental payments are as follows:

	September 2016	December 2015
Due within one year	**P2,039,161,613**	P1,875,675,972
Due more than one year but not more than five years	**8,693,165,722**	7,989,235,677
Due more than five years	**33,288,203,009**	32,171,881,713
	P44,020,530,344	P42,036,793,362

As Lessor

The Group subleases portion of its store space to various lessees for an average lease term of one to ten (1-10) years. The lease contracts may be renewed upon mutual agreement by the parties. Rental payments are computed either based on monthly sales or a certain fixed amount, whichever is higher. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is shown under "Other current liabilities" account in the consolidated statements of financial position (see Note 15).

The scheduled maturities of non-cancellable minimum future rental collections are as follows:

	September 2016	December 2015
Due within one year	**P200,043,239**	P221,218,520
Due more than one year but not more than five years	**267,292,113**	296,252,472
Due more than five years	**158,075,564**	167,316,410
	P625,410,916	P684,787,402

18. Other Operating Income

This account for the periods ended September 30 consists of:

	Note	**2016**	2015
Concession income		**P1,053,927,086**	P995,034,785
Display allowance		**451,830,730**	380,984,352
Rent income	*17*	**282,353,541**	281,078,448
Membership income		**271,369,123**	257,642,045
Listing fee		**62,434,498**	20,597,593
Merchandising support		**58,524,243**	55,726,923
Miscellaneous		**91,153,913**	69,765,390
		P2,271,593,134	P2,060,829,536

Concession income pertains to the fixed percentage income from sales of concessionaire suppliers' goods sold inside the store.

Display allowance refers to the income received from the suppliers for the additional space for display of the items in the selling area such as end cap modules and mass display.

Rent income relates to the income earned for the store spaces occupied by the tenants.

Merchandising support pertains to income generated from promotional activities.

Membership income pertains to fees from members of Kareila, Company E and Subic wherein such fees permit only membership, and all other services or products are paid for separately.

Listing fee pertains to the amount collected from the supplier for enrolling their products in the classified business line.

Miscellaneous account consists of amounts collected from the customers for delivering their purchases, cashiers' overages, sale of used packaging materials and others. This also includes demo/sampling income which pertains to the fee paid by the suppliers for the privilege granted by Kareila in allowing a representative of the supplier to conduct a demo or give away samples of their products inside the selling area of the stores.

19. Operating Expenses

This account for the periods ended September 30 consists of:

	Note	**2016**	2015
Rent	*17*	**P1,844,137,489**	P1,685,337,846
Manpower agency services		**1,539,360,057**	1,285,389,221
Communication, light and water		**1,258,573,067**	1,204,092,565
Salaries and wages		**1,180,713,562**	1,001,983,259
Depreciation and amortization	*10, 11*	**1,041,680,399**	943,081,579
Security services		**625,181,298**	513,364,204
Taxes and licenses		**395,204,443**	330,238,021
Store and office supplies		**353,527,450**	304,739,409
Concession expense	*21*	**319,828,251**	324,628,323
Janitorial and messengerial services		**299,493,354**	241,269,693
Repairs and maintenance		**279,036,778**	227,824,245
Advertising and marketing		**113,233,210**	89,935,074
Other selling expenses		**111,338,877**	105,988,419
Insurance		**110,204,207**	98,205,006
SSS/Medicare and HDMF contributions		**85,537,972**	73,330,808
Input VAT allocable to exempt sales		**75,651,395**	53,661,385
Transportation		**45,876,798**	36,692,765
Representation and entertainment		**35,204,239**	48,776,920
Fuel and oil		**32,890,211**	30,424,844
Royalty	*21*	**29,940,530**	26,230,195
Professional fee		**19,496,771**	15,929,116
Miscellaneous		**116,387,558**	85,418,071
		P9,912,497,916	P8,726,540,968

20. Others

This account for the periods ended September 30 consists of:

	Note	**2016**	2015
Bank charges		**(P18,397,894)**	(P12,448,554)
Unrealized valuation gain (loss) on trading securities	*7*	**2,851,180**	(3,913,185)
Dividend income		**849,991**	892,591
Foreign exchange loss		**(188,189)**	(44,613)
Loss on disposal of property and equipment	*10*	-	(423,262)
Equity in net earnings of associate		-	20,050,582
		(P14,884,912)	P4,113,561

21. Related Party Transactions

In the normal course of business, the Group has transactions with its related parties. These transactions and account balances as at September 30, 2016 and December 31, 2015 follow:

Related Party	Year	*Note*	Amount of Transactions for the Nine-month Period	Outstanding Balances: Trade Receivable (see Note 5)	Outstanding Balances: Non Trade Receivable (see Note 5)	Outstanding Balances: Trade Payable (see Note 13)	Outstanding Balances: Non Trade Payable (see Note 13)	Outstanding Balances: Due to Related Parties	Terms	Conditions
Parent										
Dividends	**2016**		**P -**	**P -**	**P -**	**P -**	**P -**	**P -**	Due and	Unsecured
	2015		-	-	-	-	423,103,355	-	demandable	
Other Related Parties*										
Rent expense	**2016**	*a*	**472,891,314**	-	-	-	**31,481,855**	-	Due and	Unsecured
	2015		418,616,550	-	-	-	14,380,058	-	demandable	
Concession expense	**2016**	*b*	**319,828,251**	-	-	-	-	-	Due and	Unsecured
	2015		324,628,323	-	-	-	-	-	demandable	
Purchase of merchandise	**2016**	*c*	**718,766,551**	-	-	**125,441,900**	-	-	Due and	Unsecured
	2015		485,879,751	-	-	494,342,576	-	-	demandable	
Sale of merchandise	**2016**	*c*	**37,577,149**	**5,286,698**	-	-	-	-	Due and	Unsecured;
	2015		53,416,953	19,407,252	-	-	-	-	demandable	no impairment
Other income	**2016**	*c*	-	-	-	-	-	-	Due and	Unsecured;
	2015		-	-	2,520,217	-	-	-	demandable	no impairment
Security deposits received	**2016**	*a/c*	**12,410,066**	-	-	-	**635,640**	-	Due and	Unsecured
	2015		7,935,810	-	-	-	79,545	-	demandable	
Repairs and maintenance	**2016**	*c*	**1,924,106**	-	**4,260**	-	**949,446**	-	Due and	Unsecured
	2015		1,493,312	-	-	-	223,308	-	demandable	

Forward

Related Party	Year	*Note*	Amount of Transactions for the Year	Outstanding Balances: Trade Receivable (see Note 5)	Outstanding Balances: Non Trade Receivable (see Note 5)	Outstanding Balances: Trade Payable (see Note 13)	Outstanding Balances: Non Trade Payable (see Note 13)	Due to Related Parties	Terms	Conditions
Utilities expense	**2016**	*c*	**P138,769,527**	**P -**	**P -**	**P -**	**P9,825,817**	**P -**	Due and	Unsecured
	2015		139,140,333	-	-	-	16,631,640	-	demandable	
Communications	**2016**	*c*	**374,388**	-	-	-	**18,504**	-	Due and	Unsecured
	2015		206,767	-	-	-	11,167	-	demandable	
Management fee	**2016**	*c*	**14,099,592**	-	-	-	**921,527**	-	Due and	Unsecured
	2015		12,135,986	-	-	-	5,332,398	-	demandable	
Supplies	**2016**		**7,556,312**	-	-	-	**1,880,106**	-	Due and	Unsecured
	2015		3,453,792	-	-	-	2,093,305	-	demandable	
Fix asset	**2016**		**80,000**	-	**80,000**	-	-	-	Due and	Unsecured
	2015		-	-	-	-	600,000	-	demandable	
Key Management Personnel										
Royalty expense	**2016**	*d*	**29,940,530**	-	-	-	-	29,940,868	Due and	Unsecured
	2015		26,230,195	-	-	-	-	29,769,412	demandable	
Rent expense	**2016**		**16,366,140**	-	-	-	-	-	Due and	Unsecured
	2015		16,366,140	-	-	-	-	-	demandable	
Short-term benefits	**2016**		**70,115,876**	-	-	-	-	-		
	2015		55,578,354	-	-	-	-	-		
Post-employment benefits	**2016**		-	-	-	-	-	-		
	2015		-	-	-	-	-	-		
Total	**2016**			**P5,286,698**	**P84,260**	**P125,441,900**	**P45,712,895**	**P29,940,868**		
Total	2015			P19,407,252	P2,520,217	P494,342,576	P462,454,776	P29,769,412		

**Other related parties pertain to entities under common control.*

The Group, in the normal course of business, has transactions with its related parties as follows:

a. Lease of Building

The Group leases the building from its related parties where some stores are located. The Group pays its related parties a minimum fixed amount or is calculated in reference to a fixed sum per square meter of area leased. The terms of the lease are for the periods ranging from ten to thirty-five (10 -35) years, renewable for the same period under the same terms and conditions. The rent shall escalate by the range from 1% to 7%. Rental payments are fixed amounts based on the contracts.

b. Consignment and Concession

On September 27, 2006, PSMT Philippine, Inc. (PriceSmart), referred to as the "Consignee," an entity under common control, entered into a consignment and concession contract with Kareila, referred to as the "Consignor." The Consignee is the owner and operator of four (4) Warehouse, (1) Fort Bonifacio Global City, Taguig City, Metro Manila; (2) Congressional Avenue, Bago-Bantay, Quezon City; (3) Aseana Business Park, Brgy. Tambo, Paranaque City; and (4) Westgate, Filinvest Alabang, Muntinlupa City, including all the furniture, fixtures and equipment presently situated therein.

Under the contract, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignee hereby grants to the Consignor the right to consign, display and offer for sale, and sell goods and merchandise as normally offered for sale by Consignee, at the selling areas at the four (4) stores.

- The Consignor shall give the Consignee a trade or volume discount of its gross sales.

- The proceeds of sale of the Consignor shall remain the sole property of the Consignor and shall be kept by the Consignee strictly as money in trust until remitted to the Consignor after deducting the amounts due to the Consignee.

- The term of the contract shall be for a period of five (5) years beginning on the date/s of the signing of the agreement or of the opening of the four (4) stores whichever is later, renewable upon mutual agreement of the parties.

- For and in consideration of the consignment/concession right granted, the consignor gives the consignee a trade or volume discount in the amount equivalent to five percent (5%) of the consignee's gross sales which was increased to fifteen percent (15%) on November 9, 2006. On January 1, 2011, the contract was further amended giving the consignee a trade or volume discount of ten percent (10%) of the consignee's gross sales.

On February 23, 2012, a new agreement was made between the Consignor and Consignee. Under the new agreement, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignor shall pay the Consignee four percent (4%) monthly

consignment/concession fee based on the Consignor's monthly gross sales.

- Goods sold by the consignor shall be checked-out and paid at the check-out counters of and be manned and operated by the Consignor and issued receipts through the point-of-sale (POS) machines in the name of the Consignor. The proceeds of the sale are and shall remain as the sole property of the Consignor subject to its obligation to pay the consideration stipulated.

- Ownership of the goods delivered to the Consignor at the stores shall remain with the Consignor. Except for the right of Consignee to the payment of the consideration in the amount, manner and within the periods stipulated.

- The Consignment/Concession Contract shall be for a period of five (5) years beginning on March 1, 2012, renewable upon mutual agreement of the parties.

c. Other Significant Transactions

These pertain to purchases and sale of merchandise, rent income, security deposits paid, repairs and maintenance, utilities, communications, management fee and employee benefits which are unsecured, noninterest-bearing and due and demandable. The Group has not made any allowance for impairment losses relating to receivables from related parties as at September 30, 2016 and December 31, 2015. This assessment is undertaken annually by management through examination of the financial position of related parties and the market in which they operate.

d. Royalty Agreement

On August 15, 2011, the Group ("licensee") entered into a license agreement with a stockholder ("licensor") for its use of trademark and logo. The licensee will pay the licensor royalties in an amount equivalent to 1/20 of 1% of net sales for the period of thirty (30) years, renewable upon mutual written consent of the parties. These royalty fees and payables are unsecured, non-interest bearing and due and demandable.

22. Retirement Benefits Liability

The Parent Company has an unfunded, noncontributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2015. Valuations are obtained on a periodic basis.

Salient Provisions of the Retirement Plan

Normal Retirement (Minimum Retirement Law, RA 7641)

The plan provides retirement benefits under Republic Act No. 7641 (the Act) upon compulsory retirement at the age of sixty five (65) or upon optional retirement at age sixty (60) or more but not more than age sixty five (65) with at least five (5) years in service. The benefits as required by the Act are equivalent to at least one-half month (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The term one-half (1/2) month salary shall mean: (a) 50% of the pay salary; (b) one-twelfth (1/12) of the thirteenth (13th) month pay; and (c) one-twelfth (1/12) cash equivalent of not more than five (5) days of service incentive leaves.

The reconciliation of the liability recognized in the statements of financial position is as follows:

	September 2016	December 2015
Present value of defined benefit obligation	**P465,327,210**	P465,327,210
Fair value of plan assets	**(25,455,537)**	(25,455,537)
Retirement benefits liability	**P439,871,673**	P439,871,673

The following table shows reconciliation from the opening balances to the closing balances for present value of defined benefit obligation:

	September 2016	December 2015
Balance at beginning of period	**P465,327,210**	P419,338,336
Included in Profit or Loss		
Current service cost	-	86,869,563
Interest cost	-	18,802,184
	-	105,671,747
Included in other Comprehensive Income		
Remeasurements loss (gain):		
Actuarial loss (gain) arising from:		
Financial assumptions	-	(61,216,545)
Experience adjustment	-	1,533,672
	-	(59,682,873)
Balance at end of period	**P465,327,210**	P465,327,210

The movements in the fair value of plan assets are as follows:

	September 2016	December 2015
Beginning of the year	**P25,455,537**	P25,000,000
Interest income	-	1,122,500
Contributions during the year	-	-
Remeasurement loss	-	(666,963)
End of the year	**P25,455,537**	P25,455,537

The movements of actuarial losses, before deferred income taxes recognized in other comprehensive income are as follows:

	September 2016	December 2015
Remeasurements of retirement liability at beginning of year	**P929,780**	P59,945,690
Actuarial loss (gain) due to increase in defined benefit obligation	-	(59,015,910)
Remeasurements of retirement liability at end of year	**P929,780**	P929,780

The cumulative remeasurements of retirement benefits liability, net of deferred income taxes, amounted to P0.65 million as at September 30, 2016 and December 31, 2015, as presented in the consolidated statements of changes in equity.

The Company's plan assets consist of the following:

	December 2015
Cash in banks	P18,853,459
Debt instruments - government bonds	6,528,968
Trust fees payable	(12,727)
Other	85,837
	P25,455,537

The following were the principal actuarial assumptions at the reporting date:

	December 2015
Discount rate	4.89%
Future salary increases	9.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 26.3 years.

Sensitivity Analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

2016

	Increase	**Decrease**
Discount rate (1% movement)	**(P55,684,579)**	**P50,070,316**
Future salary increase rate (1% movement)	**54,281,683**	**(43,277,285)**

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

Funding Arrangements
Since the Group does not have a formal retirement plan, funding to the plan are paid by the Group when needed.

Maturity analysis of the benefit payments:

	2016				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	Within 5 - 10 Years
Defined benefit obligation	P465,327,210	P86,522,673	P12,059,433	P19,337,430	P55,125,810

On February 17, 2014, the Parent Company entered into a multi-employer retirement plan agreement with a trust company. The Parent Company made an initial cash contribution of P25 million pesos.

The Group does not expect to contribute to the plan in 2016.

23. Income Taxes

The components of income tax expense for the periods ended September 30 are as follows:

	2016	2015
Current tax expense	P1,630,213,343	P1,434,396,404
Deferred tax benefit	(86,506,415)	(89,106,208)
	P1,543,706,928	P1,345,290,196

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense as shown in profit or loss for the periods ended September 30 is as follows:

	2016	2015
Income before income tax	P5,188,777,980	P4,548,076,810
Income tax expense at the statutory income tax rate:		
30%	P1,541,293,247	P1,351,653,633
5%	2,556,691	2,623,188
Income tax effects of:		
Non-deductible other expenses	2,841,053	108,030
Non-deductible interest expense	363,023	699,541
Changes in unrecognized DTA/DTL	527,651	-
Dividend income subjected to final tax	(254,997)	(267,777)
Interest income subjected to final tax	(2,764,387)	(4,812,178)
Non-taxable income	(855,353)	(4,714,241)
	P1,543,706,928	P1,345,290,196

The components of the Group's deferred tax liabilities (DTL) net of deferred tax assets (DTA) in respect to the following temporary differences are shown below:

	September 2016		December 2015	
	Amount	**DTA (DTL)**	Amount	DTA (DTL)
Accrued rent expense*	**P2,770,642,123**	**P831,192,637**	P2,478,843,164	P743,652,948
Retirement benefits liability	**463,941,893**	139,182,568	463,941,893	139,182,568
NOLCO	-	-	26,105,892	7,831,768
Allowance for impairment losses on receivables	**7,462,327**	**2,238,698**	7,462,327	2,238,698
Actuarial losses	**929,780**	**278,934**	929,780	278,934
Recognition of DTA	**389,730**	**116,919**	389,730	116,919
DTA	**3,243,365,853**	**973,009,756**	2,977,672,786	893,301,835
Fair value of intangible assets from business combination	**(4,599,113,528)**	**(1,379,734,058)**	(4,599,113,528)	(1,379,734,058)
Accrued rent income	**(35,332,670)**	**(10,599,801)**	(31,918,814)	(9,575,644)
DTL	**(4,634,446,198)**	**(1,390,333,859)**	(4,631,032,342)	(1,389,309,702)
Net	**(P1,391,080,345)**	**(P417,324,103)**	(P1,653,359,556)	(P496,007,867)

**Excluding accrued rent expense of PPCI Subic which is subject to SBMA tax rules*

The realization of these deferred tax assets is dependent upon future taxable income that temporary differences and carry forward benefits are expected to be recovered or applied.

Deferred tax asset includes P5.04 million net deferred tax assets transferred by Company E to the Company as a result of the merger. It includes the following:

	Amount	DTA (DTL)
Accrued rent expense	P18,086,366	P5,425,910
Accrued rent income	(74,892)	(22,468)
Net	(P18,011,474)	P5,403,442

The Group has unrecognized net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT) amounting to P38.43 million and P3.39 million, respectively. This was transferred through the merger of Gant with the Parent Company. In December 31, 2015, the remaining balance of NOLCO and MCIT was fully applied against the taxable income.

24. Equity

Capital Stock and Additional Paid-in Capital

On June 7, 2011, the BOD approved the issuance of 50,000,000 shares. These were subscribed and paid in full on June 10, 2011.

The initial public offering of the Parent Company's shares with an offer price of P12.50 per share resulted to the issuance of 500,000,000 common shares in 2011. The additional paid-in capital net of direct transaction costs amounted to P5,168.82 million.

The Parent Company acquired 100% equity interest of Kareila in exchange for the 766,406,250 common shares of the Parent Company's authorized but unissued capital

stock on May 28, 2012. The fair value of shares as at the acquisition date is P21.50 per share. The additional paid-in capital net of direct transaction costs amounted to P15,661.57 million.

On February 26, 2013, the SEC approved the application for merger of the Parent Company, PJSI and Gant. As a consideration for the said merger, the Parent Company paid the owner of PJSI and Gant shares of stocks equivalent to 16,911,162 shares at P26.55 per share. Considering that the owner of PJSI and Gant is the Parent Company, 16,911,006 of the total shares issued were classified in the Parent Company's book as treasury shares.

On March 12, 2015, the SEC approved the application of merger of the Parent Company and Company E. As a consideration for the said merger, the Parent Company paid the owner of Company E shares of stocks equivalent to 2,045,465 shares at par value. Considering that the owner of Company E is the Parent Company, total shares of stocks issued were classified in the Parent Company's book as treasury shares.

The Parent Company's authorized, issued and outstanding common stocks as at September 30 are as follow:

	September 2016	December 2015
Authorized - 3,000,000,000 shares (P1 par value)		
Issued and outstanding		
Balance at beginning of year	**2,765,381,406**	2,766,306,406
Stock issuances during the period	-	2,045,465
Balance at end of year	**2,765,381,406**	2,768,351,871
Treasury shares	-	(2,970,465)
	2,765,**381,406**	2,765,381,406

On December 18, 2014, the BOD approved to buy back the Parent Company's shares up to P1.00 billion or approximately 30.0 million shares within one year from the approval or until November 4, 2015. As at December 31, 2015, the Parent Company already bought P37.75 million worth of shares and was classified in the Parent Company's book as treasury shares.

Retained Earnings

On December 16, 2013, the Parent Company's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.10 per share on record date of January 6, 2014 and payment date of January 30, 2014. The total amount of dividend is P829.92 million.

On December 18, 2014, the Parent Company's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.10 per share on record date of January 12, 2015 and payment date of February 5, 2015. The total amount of dividends is P829.92 million.

On December 18, 2015, the Company's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.10 per share on record date of January 8, 2016 and payment date of February 18, 2016. The total amount of dividends is P829.61 million.

The summary of dividends declared is as follows:

December 31, 2015

Type of Dividend	Date of Dividend Declaration	Date of Record	Date of Payment	Amount
Cash	**December 18, 2015**	**January 8, 2016**	**February 18, 2016**	**P829,614,422**

December 31, 2014

Type of Dividend	Date of Dividend Declaration	Date of Record	Date of Payment	Amount
Cash	December 18, 2014	January 12, 2015	February 5, 2015	P829,921,923

Due to the effect of merger, retained earnings of PJSI and Gant amounting to P445.29 million formed part of the retained earnings of the Parent Company. PJSI and Gant were 100% wholly-owned by the Parent Company before merger.

Due to the effect of merger, retained earnings of Company E amounting to P116.89 million formed part of the retained earnings of the Parent Company. Company E was 100% wholly-owned by the Parent Company before merger.

25. Segment Information

The Group operates through stores in several locations. The combined financial statements of all per stores is reviewed by the Chief Operating Decision Maker on a monthly basis and assesses the Group's profitability and financial position of the whole retail business. The nature of products, class of customers, and regulatory environment is the same for all the stores.

Accordingly, management has assessed that the Group, as a whole, is considered as a single business and hence there are no operating segments required to be disclosed under PFRS 8, *Operating Segments.*

26. Basic/Diluted EPS

Basic/Diluted EPS for the periods ended September 30 is computed as follows:

	2016	2015
Net income (a)	**P3,645,071,052**	P3,202,786,614
Weighted average number of ordinary shares (b)	**2,765,381,406**	2,766,779,894
Basic/diluted EPS (a/b)	**P1.32**	P1.16

As at September 30, 2016 and December 31, 2015, the Group has no dilutive debt or equity instruments.

27. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Other Market Price Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

The Group's principal financial instruments include cash and cash equivalents and investments in trading securities. These financial instruments are used to fund the Group's operations and capital expenditures.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. They are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. All risks faced by the Group are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and detriment forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk represents the risk of loss the Group would incur if credit customers and counterparties fail to perform their contractual obligations.

Exposure to credit risk is monitored on an ongoing basis. Credit is not extended beyond authorized limits. Credit granted is subject to regular review, to ensure it remains consistent with the customer's credit worthiness and appropriate to the anticipated volume of business.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The credit risk for due from related parties and security deposits was considered negligible since these accounts have high probability of collection and there is no current history of default.

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

	Note	**September 2016**	December 2015
Cash in banks and cash equivalents	*4*	**P611,989,407**	P5,510,528,836
Receivables – net	*5*	**2,730,829,277**	2,683,095,896
Security deposits*	*12*	**1,376,051,007**	1,279,453,908
		P4,718,869,691	P9,473,078,640

**Included under noncurrent assets.*

The following is the aging analysis per class of financial assets:

September 2016	Neither Past Due nor Impaired	Past Due but not Impaired 1 to 30 Days	31 to 60 Days	More than 60 Days	Impaired	Total
Cash in bank and cash equivalents	**P611,989,407**	P -	P -	**P -**	P -	**P611,989,407**
Receivables	**1,471,867,739**	507,206,857	247,725,497	**504,029,184**	7,462,327	**2,738,291,604**
Security deposits	**1,376,051,007**	-	-	**-**	-	**1,376,051,007**
	P3,459,908,153	P507,206,857	P247,725,497	**P504,029,184**	P7,462,327	P4,726,332,018

December 2015	Neither Past Due nor Impaired	Past Due but not Impaired 1 to 30 Days	31 to 60 Days	More than 60 Days	Impaired	Total
Cash in bank and cash equivalents	**P5,510,528,836**	P -	P -	P -	P -	**P5,510,528,836**
Receivables	**1,446,116,202**	498,377,580	243,391,336	495,210,778	7,462,327	**2,690,558,223**
Security deposits	**1,279,453,908**	-	-	-	-	**1,279,453,908**
	P8,236,098,946	**P498,377,580**	P243,391,336	P495,210,778	**P7,462,327**	**P9,480,540,967**

The Group has assessed the credit quality of the following financial assets that are neither past due nor impaired as high grade:

a. Cash in bank and cash equivalents were assessed as high grade since these are deposited in reputable banks with good credit standing, which have a low profitability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.

b. Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.

c. Due from related parties and security deposits were assessed as high grade since these have a high profitability of collection and there is no history of default.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by forecasting projected cash flows and maintaining balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained

to cover daily operational working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	As at September 30, 2016				
	Carrying Amount	Contractual Cash Flow	**1 Year or Less**	**More than 1 Year - 5 Years**	**More than 5 Years**
Financial Liabilities					
Accounts payable and accrued expenses*	**P5,907,191,748**	**P5,907,191,748**	**P5,907,191,748**	**P -**	**P -**
Short-term loans payable	**3,687,500,000**	**3,746,830,279**	**3,746,830,279**	**-**	**-**
Due to related parties	**29,940,868**	**29,940,868**	**29,940,868**	**-**	**-**
Long-term debt including current portion	**2,516,578,877**	**2,600,706,251**	**134,104,079**	**2,466,602,172**	**-**
Other current liabilities**	**140,252,579**	**140,252,579**	**140,252,579**	**-**	**-**
Noncurrent accrued rent	**2,794,687,694**	**2,794,687,694**	**36,394,919**	**328,883,895**	**2,429,408,880**

excluding statutory payables to the government
****excluding promotion fund, loyalty and rewards, gift cheques VAT payable and other current liabilities of Kareila***

	As at December 31, 2015				
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year - 5 Years	More than 5 Years
Financial Liabilities					
Accounts payable and accrued expenses*	P9,621,952,021	P9,621,952,021	P9,621,952,021	P -	P -
Short-term loans payable	3,137,500,000	3,145,362,083	3,145,362,083	-	-
Due to related parties	29,769,412	29,769,412	29,769,412	-	-
Long-term debt including current portion	2,965,062,298	2,739,969,202	640,413,646	2,099,555,556	-
Other current liabilities**	140,838,219	140,838,219	140,838,219	-	-
Noncurrent accrued rent	2,492,888,910	2,492,888,910	18,684,176	272,574,829	2,201,629,905

excluding statutory payables to the government
****excluding promotion fund, loyalty and rewards, gift cheques VAT payable and other current liabilities of Kareila***

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on interest earned on cash deposits in banks. Cash deposits with variable rates expose the Group to cash flow interest rate risk. The Group is not exposed to interest rate risk since its short and long-term loans with fixed rates are carried at amortized cost. The Group's policy is to obtain the most favorable interest available without increasing its foreign currency exchange exposure.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	September 2016	December 2015
Financial assets (cash deposits):		
Cash in banks	**P500,903,609**	P1,577,093,521
Money market placement	**111,085,798**	3,933,435,315
	P611,989,407	P5,510,528,836

Sensitivity Analysis

A 2% increase in interest rates would have increased equity and net income by P0.86 million and P7.71 million, for the periods ended September 30, 2016 and December 31,

2015, respectively. A 2% decrease in interest rates would have had the equal but opposite effect, on the basis that all other variables remain constant.

Other Market Price Risk
The Group's market price risk arises from its investments in trading securities carried at fair value. The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management
The Group's objectives when managing capital are to increase the value of shareholders' investment and maintain steady growth by applying free cash flow to selective investments. The Group set strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Group's President has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Group defines capital as paid-up capital, additional paid-in capital, remeasurements and retained earnings as shown in the statements of financial position.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed requirements.

28. Financial Instruments

The carrying amounts of Company's financial instruments approximate their fair values as at September 30, 2016 and December 31, 2015.

The following methods and assumptions are used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables and Security Deposits
The carrying amounts of cash and cash equivalents, short-term investments and receivables approximate fair values due to the relatively short-term maturities of these financial instruments. In the case of security deposits, the difference between the carrying amounts and fair values is considered immaterial by management.

Investments in Trading Securities and Available-for-Sale Financial Assets
The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates. Unquoted equity securities and derivative instruments linked to unquoted stock are carried at cost less impairment.

Accounts Payable and Accrued Expenses, Short-term Loans, Due to Related Parties, Other Current Liabilities and Noncurrent Accrued Rent
The carrying amounts of accounts payable and accrued expenses, due to related parties, and short-term loans approximate fair value due to the relatively short-term maturities of these financial instruments. The difference between the carrying amounts and fair values of noncurrent accrued rent and other current liabilities is considered immaterial by management.

Long-term Loans including Current Maturities
The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Effective rates used in 2016 and 2015 range from 3.50% to 3.61%.

Fair Value Hierarchy
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at September 30, 2016 and December 31, 2015, the Group's investment in trading securities were measured based on Level 1 classification and available for sale financial assets were carried at cost since the fair value cannot be determined reliably in the absence of any market data.

As at September 30, 2016 and December 31, 2015, the Group has not introduced any movement among Levels 1, 2 and 3 classifications.

29. Reclassification of Accounts

Certain accounts in 2015 financial statements have been reclassified to conform with the 2016 financial statements presentation as follows:

	September 2015		
	As Previously Presented	Reclassification	As Reclassified
Statement of Profit or Loss			
Cost of sales	P56,382,211,158	(P291,302,250)	P56,090,908,908
Other operating income	(2,352,131,586)	291,302,250	(2,060,829,536)
	(P54,030,079,572)	P -	(P54,030,079,372)