

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 H. DACANAY-DATUON

(Contact Person)

(02) 523-3055

(Company Telephone Number)

1 2

Month

3 1

Day

SEC FORM 17-Q

(Form Type)

0 8

Month

1 8

Day

(Secondary License Type, If Applicable)

Dept. Requiring this Doc

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowing

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 SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: **September 30, 2020**
2. Commission 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. Province, country or other jurisdiction of incorporation or organization: **Philippines**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office: **No. 900 Romualdez Street, Paco, Manila** Postal Code: **1007**
8. Issuer's telephone number, including area code: **(632) 8522-8801 to 04/ (632) 8523-3055**
9. Former name, former address and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	2,884,232,615 Debt: P12,000,000,000.00

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

Yes No

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

The Philippine Stock Exchange

Common Shares

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

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 2020	December 2019
Current Ratio ⁽¹⁾	4.64:1	2.58:1
Asset to Equity Ratio ⁽²⁾	1.80:1	1.76:1
Debt to Equity Ratio ⁽³⁾	0.80:1	0.76:1
Debt to Total Assets Ratio ⁽⁴⁾	0.45:1	0.43:1
Book Value per Share ⁽⁵⁾	P23.33	P21.57

	September 2020	September 2019
Earnings per Share ⁽⁶⁾	P1.76	P1.59
Price Earnings Ratio ⁽⁷⁾	*20.89x	*18.38x
Return on Assets ⁽⁸⁾	4.4%	4.6%
Return on Equity ⁽⁹⁾	7.8%	7.9%

** Based on annualized EPS*

- (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) Net income after tax over Weighted Average Common Shares Outstanding
- (7) Market Value per Share over Earnings per Share
- (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, 2020, the Group earned a consolidated net income of P5,050 million at 4.2% net margin and an increase of 10.9% from P4,553 million at 4.1% net margin in the same period of 2019. This was principally driven by the continuous organic expansion of the Group's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores.

The Group's comparative financial performance is presented below:

<i>(In millions)</i>	For the Nine-month Periods Ended September 30					For the Three-month Periods July 1 to September 30			
	2020		2019		% Change	2020		2019	
		% to Sales		% to Sales			% to Sales		% to Sales
Net Sales	P121,138	100.0%	P109,981	100.0%	10.1%	P39,173	100.0%	P38,749	100.0%
Cost of Sales	101,293	83.6%	91,592	83.3%	10.6%	32,708	83.5%	32,271	83.3%
Gross Profit	19,844	16.4%	18,390	16.7%	7.9%	6,465	16.5%	6,478	16.7%
Other Operating Income	2,298	1.9%	2,307	2.1%	-0.4%	686	1.8%	816	2.1%
Gross Income	22,142	18.3%	20,697	18.8%	7.0%	7,151	18.3%	7,295	18.8%
Operating Expenses	13,645	11.3%	13,097	11.9%	4.2%	4,368	11.2%	4,488	11.6%
Operating Income	8,497	7.0%	7,600	6.9%	11.8%	2,783	7.1%	2,807	7.2%
Other income (expenses) – net	(1,366)	-1.1%	(1,162)	-1.1%	17.5%	(455)	-1.2%	(368)	-0.9%
Net Income before tax	7,131	5.9%	6,437	5.9%	10.8%	2,328	5.9%	2,440	6.3%
Income tax expense	2,081	1.7%	1,884	1.7%	10.5%	676	1.7%	714	1.8%
Net Income after tax	P5,050	4.2%	P4,553	4.1%	10.9%	P1,652	4.2%	P1,725	4.5%

Net Sales

For the period ended September 30, 2020, the Group posted a consolidated net sales of P121,138 million for an increase of P11,156 million or a growth of 10.1% compared to P109,981 million in the same period of 2019. The full operation of new organic stores put up in 2019 boost the increase in consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the nine months of 2020.

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

	PGOLD		S&R	
	2020	2019	2020	2019
Net Sales	4.5%	5.6%	6.4%	8.4%
Net Ticket	46.1%	9.2%	9.2%	7.6%
Traffic	-28.4%	-3.3%	-2.5%	0.7%

Gross Profit

For the period ended September 30, 2020, the Group realized an increase of 7.9% in consolidated gross profit from P18,390 million in 2019 at 16.7% margin to P19,844 million at 16.4% margin in the same period of 2020, 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 decreased by P10 million or 0.4% from P2,307 million in the nine months of 2019 to P2,298 million in the same period of 2020. This is attributable to decrease in rent income due to considerations given to tenants affected by the pandemic (COVID-19). This is partially offset by the increase in concession income and membership income driven mainly by new stores opened during the period and full operation of new stores opened in 2019.

Gross Operating Income

Gross operating income for the nine months of 2020 amounted to P22,142 million at a gross operating margin of 18.3% which grew by 7.0% from P20,697 million at 18.8% margin in the same period of 2019.

Operating Expenses

Operating expenses increased by P548 million or 4.2% from P13,097 million in the nine-month period ended September 30, 2019 to P13,645 million in the same period of 2020. The increase in operating expenses were mainly attributable to depreciation expense, taxes and licenses and utilities principally related to the establishment and operation of new organic stores. Utilities and manpower expenses are declining due to the lockdown period enforced by the government and the skeletal workforce being implemented by the Company.

Other Expense - net

Other expenses net of other income amounted to P1,366 million and P1,162 million for the nine-month periods ended September 30, 2020 and 2019, respectively. Interest expense increased due to accretion of interest, pertaining to *PFRS 16 – Leases*, for both old and new stores.

Net Income

For the period ended September 30, 2020, the Group earned a consolidated net income of P5,050 million at 4.2% net margin and an increase of 10.9% from P4,553 million at 4.1% net margin in the same period of 2019. This was principally driven by the continuous organic expansion of the Group's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores.

II. Financial Condition

The Group's consolidated statements of financial position as at September 30, 2020 and December 31, 2019 are presented below:

<i>(In millions)</i>	2020		2019		
		% to Total Assets		% to Total Assets	% Change
Cash & Cash Equivalents	P26,716	22.1%	P17,083	15.7%	56.4%
Receivables – net	2,030	1.7%	2,676	2.5%	-24.1%
Merchandise inventory	23,255	19.2%	19,526	18.0%	19.1%
Investments in trading securities	23	0.0%	35	0.0%	-33.6%
Prepaid expenses and other current assets	1,027	0.9%	720	0.7%	42.6%
Total Current Assets	53,052	43.9%	40,040	36.9%	32.5%
Investments in associates and joint venture	623	0.5%	623	0.6%	0.0%
Property and equipment- net	20,991	17.4%	21,162	19.5%	-0.8%
Intangibles and goodwill	19,713	16.3%	19,731	18.2%	-0.1%
Right-of-use assets – net	23,084	19.1%	23,825	21.9%	-3.1%
Deferred tax assets – net	980	0.8%	850	0.8%	15.3%
Other noncurrent assets	2,368	2.0%	2,405	2.2%	-1.5%
Total Noncurrent Assets	67,759	56.1%	68,594	63.1%	-1.2%
	P120,811	100.0%	P108,635	100.0%	11.2%
Accounts payable and accrued expenses	P9,421	7.8%	P13,080	12.0%	-28.0%
Short-term loans payable	-	0.0%	502	0.5%	-100.0%
Income tax payable	730	0.6%	937	0.9%	-22.2%
Due to related parties	45	0.0%	47	0.0%	-3.6%
Lease liabilities due within one year	801	0.7%	490	0.5%	63.4%
Other current liabilities	434	0.4%	435	0.4%	-0.3%
Total Current Liabilities	11,431	9.5%	15,491	14.3%	-26.2%
Long-term loans - net of current maturities and debt issue costs	12,000	9.9%	400	0.4%	2900.0%
Lease liabilities	29,515	24.4%	29,926	27.5%	-1.4%
Retirement benefits liability	916	0.8%	919	0.8%	-0.3%
Total Noncurrent Liabilities	42,431	35.1%	31,245	28.8%	35.8%
Total Liabilities	53,862	44.6%	46,735	43.0%	15.2%
Capital stock	2,904	2.4%	2,904	2.7%	0.0%
Additional paid in capital	25,362	21.0%	25,362	23.3%	0.0%
Remeasurements of retirement liability - net of tax	54	0.0%	54	0.1%	0.0%
Treasury stock, at cost	(71)	-0.1%	(71)	-0.1%	0.0%
Retained earnings	38,700	32.0%	33,650	31.0%	15.0%
Total Equity	66,949	55.4%	61,899	57.0%	8.2%
	P120,811	100.0%	P108,635	100.0%	11.2%

Working Capital

As at September 30, 2020 and December 31, 2019, the Group's working capital stood at P41,621 million and P24,550 million, respectively while its current ratio improved to 4.64 as at September 2020 from 2.58 as at December 2019.

Current Assets

As at September 30, 2020 and December 31, 2019, total current assets amounted to P53,052 million or 43.9% of total assets and P40,040 million or 36.9% of total assets, respectively, for an increase of P13,012 million or 32.5% as at September 30, 2020.

Cash and cash equivalents as at September 30, 2020 amounted to P26,716 million or 22.1% of total assets and increased by P9,632 million or 56.4% compared to previous year-end balance. The account increase is attributable mainly to the cash received from the issuance of a P12 billion notes payable to various banks. This is partially offset by settlement of trade and non-trade payables, payment for cash dividend, partial settlement of loans and capital expenditures for 2020 new organic stores.

Receivables amounted to P2,030 million as at September 30, 2020 or 1.7% of total assets, with a decrease of P645 million or 24.1% from P2,676 million in December 2019. The decrease was due to collections made during the period, bulk of which came from the high year end receivables.

Merchandise inventory amounted to P23,255 million or 19.2% of total assets at the end of September 2020. Total inventory increased by P3,729 million or 19.1% principally due to increase in Puregold and S&R stores stocking requirements for existing and new operating stores.

Investments in trading securities amounted to P23 million and P35 million as at September 30, 2020 and December 31, 2019, respectively. The decrease of P12 million was due to recognition of unrealized loss from change in fair market value.

Prepaid expenses and other current assets amounted to P1,027 million and P720 million as at September 30, 2020 and December 31, 2019, respectively. The increase was mainly due to advance payment of taxes and payment for advertising expenses.

Noncurrent Assets

As at September 30, 2020 and December 31, 2019, total noncurrent assets amounted to P67,759 million or 56.1% of total assets, and P68,594 million or 63.1% of total assets, respectively, for a decrease of P836 million or 1.2% as at September 30, 2020.

Investments amounted to P623 million as at September 30, 2020 and December 31, 2019.

Net book values of property and equipment slightly decreased by P171 million or 0.8% from P21,162 million in December 2019 to P20,991 million in September 2020. Total depreciation during the period amounted to P1,710 million while new acquisitions amounted to P1,540 million.

Intangibles amounted to P19,713 million as at September 30, 2020 and P19,731 million as at December 31, 2019.

Right-of-use asset amounted to P23,084 million or 19.1% of total assets and P23,825 million or 21.9% of total assets as at September 30, 2020 and December 31, 2019, respectively.

Deferred tax assets – net amounted to P980 million and P850 million or 0.8% of total assets as at September 30, 2020 and December 31, 2019, for an increase of 15.3% or P130 million. The increase was due to recognition of deferred tax in compliance with PFRS 16 – Leases.

Other noncurrent assets amounted P2,368 million as at September 30, 2020 and P2,405 million as at December 31, 2019.

Current Liabilities

As at September 30, 2020 and December 31, 2019, total current liabilities amounted to P11,431 million or 9.5% of total assets and P15,491 million or 14.3% of total assets, respectively, for a decrease of P4,060 million or 26.2% as at September 30, 2020.

Accounts payable and accrued expenses amounted to P9,421 million and P13,080 million as at September 30, 2020 and December 31, 2019, respectively, and decreased by P3,659 million or 28.0% primarily due to settlement of trade and nontrade liabilities, bulk of which came from the high year end payables.

Short-term loans payable amounted P502 million as at December 31, 2019. As of September 30, 2020, the outstanding balance of loan amount was fully settled.

Income tax payable decreased by P208 million from P937 million in December 2019 to P730 million in September 2020 due to settlement of income tax liability for the year ended December 2019 and first half of 2020.

Due to related parties, representing royalty fees, amounted to P45 million for the period ended September 2020 and P47 million for the year ended December 2019. The decrease was due to settlement of liability incurred as at December 2019.

Other current liabilities amounted to P435 million in December 2019 to P434 million in September 2020.

Noncurrent Liabilities

As at September 30, 2020 and December 31, 2019, total noncurrent liabilities amounted to P42,431 million or 35.1% of total assets and P31,245 million or 28.8% of total assets, respectively, for an increase of P11,186 million or 35.8% as at September 30, 2020.

Long-term debt – net of current maturities and debt issue costs amounted to P12,000 million and P400 million as at September 30, 2020 and December 31, 2019, respectively. During the period, the Group issued a P12 billion long-term notes payable to various banks with average interest rate of 4.13% and terms of 7 and 10 years.

Lease liabilities amounted to P29,515 million or 24.4% of total assets and P29,926 million or 27.5% of total assets as at September 30, 2020 and December 31, 2019, respectively, or a decrease of P411 million or 1.4%. The decrease is largely due to reclassification of long-term lease liabilities to current as of September 2020.

Retirement benefits liability amounted to P916 million and P919 million as at September 30, 2020 and December 31, 2019, respectively.

Equity

As at September 30, 2020 and December 31, 2019, total equity amounted to P66,949 million and P61,899 million, respectively, for an increase of P5,050 million or 8.2%.

Capital stock amounted to P2,904 million as at September 30, 2020 and December 31, 2019.

Additional paid in capital amounted to P25,362 million as at September 30, 2020 and December 31, 2019.

Retained earnings amounted to P38,700 million and P33,650 million as at September 30, 2020 and December 31, 2019, respectively, or an increase of P5,050 million or 15.0% due to income made during the period.

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 requirements, 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:

<i>(In millions)</i>	For the Nine-month Periods Ended September 30	
	2020	2019
Net cash provided by operating activities	P3,387	P4,284
Net cash used in investing activities	(1,441)	(2,650)
Net cash provided by (used in) financing activities	7,685	(3,775)
Net increase (decrease) in cash and cash equivalents	P9,632	(P2,140)

Net cash provided by operating activities amounted to P3,387 million and P4,284 million for the nine-month periods ended September 30, 2020 and 2019, respectively.

Net cash used in investing activities for the nine-month period ended September 30, 2020 amounting to P1,441 million were utilized mainly for the acquisition of equipment, furniture & fixtures, construction of buildings and improvements on leased assets.

Net cash provided by financing activities for the nine-month period ended September 30, 2020 amounting to P7,685 million pertain to issuance of notes payable during the period net of settlement of short term loans, dividend and lease liabilities 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.

SIGNATURES


Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this Third Quarter Financial Statements of Puregold Price Club, Inc. and its subsidiaries for the year 2020 to be signed on its behalf by the undersigned thereunto duly authorized.

October 27, 2020 in the City of Manila

PUREGOLD PRICE CLUB, INC.

By:


FERDINAND VINCENT P. CO
President



GRACE E. SY
Treasurer

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and December 31, 2019
and for the Nine Months Ended September 30, 2020 and 2019

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

	<i>Note</i>	September 2020 <i>(Unaudited)</i>	December 2019
ASSETS			
Current Assets			
Cash and cash equivalents	4	P26,715,874,398	P17,083,459,430
Receivables – net	5	2,030,067,566	2,675,551,867
Merchandise inventories	6	23,255,373,059	19,526,196,704
Financial assets at fair value through profit or loss	7	23,173,498	34,920,601
Prepaid expenses and other current assets	8	1,027,372,858	720,226,148
Total Current Assets		53,051,861,379	40,040,354,750
Noncurrent Assets			
Investments in associate and joint venture	9	622,981,277	622,981,277
Property and equipment – net	10	20,990,899,984	21,161,690,865
Intangibles and goodwill	12	19,713,152,447	19,730,635,701
Right-of-use assets - net	11, 19	23,083,583,724	23,824,682,048
Deferred tax assets - net	25	980,018,324	849,739,274
Other noncurrent assets	13, 19	2,368,107,773	2,404,713,843
Total Noncurrent Assets		67,758,743,529	68,594,443,008
		P120,810,604,908	P108,634,797,758
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	14, 23, 26	P9,421,343,360	P13,079,847,582
Income tax payable		729,657,955	937,278,214
Short-term loans	15	-	501,570,353
Lease liabilities due within one year	19	800,730,059	490,191,528
Due to related parties	23	45,428,575	47,117,438
Other current liabilities	16	433,532,072	434,803,665
Total Current Liabilities		11,430,692,021	15,490,808,780
Noncurrent Liabilities			
Long-term loans	15	12,000,000,000	400,000,000
Lease liabilities	19	29,514,869,121	29,925,553,649
Retirement benefits liability	24	916,129,804	919,085,396
Total Noncurrent Liabilities		42,430,998,925	31,244,639,045
Total Liabilities		53,861,690,946	46,735,447,825
Equity			
Capital stock	26	2,904,214,086	2,904,214,086
Additional paid-in capital		25,361,670,581	25,361,670,581
Retirement benefits reserve		54,467,541	54,467,541
Treasury stock		(71,253,489)	(71,253,489)
Retained earnings		38,699,815,243	33,650,251,214
Total Equity		66,948,913,962	61,899,349,933
		P120,810,604,908	P108,634,797,758

See Notes to the Interim Consolidated Financial Statements.

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

	Note	For the Nine-month Periods Ended		For the Three-Month Periods	
		2020	2019	2020	2019
NET SALES	17	P121,137,647,596	P109,981,343,042	P39,173,196,068	P38,749,363,738
COST OF SALES	6, 18	101,293,231,493	91,591,751,157	32,707,812,768	32,271,081,828
GROSS INCOME		19,844,416,103	18,389,591,885	6,465,383,300	6,478,281,910
OTHER REVENUE	17, 19, 20	2,297,556,769	2,307,270,947	685,878,260	816,396,059
TOTAL GROSS INCOME AND OTHER REVENUE		22,141,972,872	20,696,862,832	7,151,261,560	7,294,677,969
OPERATING EXPENSES	21	13,645,236,442	13,097,264,740	4,368,353,263	4,487,506,642
INCOME FROM OPERATIONS		8,496,736,430	7,599,598,092	2,782,908,297	2,807,171,327
OTHER CHARGES					
Interest expense	15, 19	1,567,895,959	1,321,664,003	524,939,187	426,234,990
Interest income	4	(176,508,110)	(170,258,965)	(41,708,886)	(56,664,780)
Others – net	22	(25,268,390)	11,013,900	(28,590,236)	(1,929,202)
		1,366,119,459	1,162,418,938	454,640,065	367,641,008
INCOME BEFORE INCOME TAX		7,130,616,971	6,437,179,154	2,328,268,232	2,439,530,319
PROVISION FOR INCOME TAX					
Current		2,286,665,190	2,028,445,191	725,739,576	760,425,157
Deferred		(205,612,248)	(144,335,805)	(49,674,488)	(46,226,272)
	25	2,081,052,942	1,884,109,386	676,065,088	714,198,885
NET INCOME		P5,049,564,029	P4,553,069,768	P1,652,203,144	P1,725,331,434
Basic and diluted earnings per share	28	P1.76	P1.59	P0.58	P0.60

See Notes to the Interim Consolidated Financial Statements.

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

Periods Ended September 30

	Note	Capital Stock	Additional Paid-in Capital	Retirement Benefits Reserve	Treasury Stock	Retained Earnings	Total Equity
Balance at January 1, 2019 <i>(Unaudited, as restated)</i>		P2,799,914,086	P20,830,391,081	P273,741,007	(P71,253,489)	P29,748,900,516	P53,581,693,201
Total comprehensive income							
Net income for the year		-	-	-	-	4,553,069,768	4,553,069,768
Other comprehensive income - net of tax		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	4,553,069,768	4,553,069,768
Transactions with owners of the Parent Company							
Issuance of shares of stocks	25	104,300,000	4,531,279,500	-	-	-	4,635,579,500
Cash dividends	25	-	-	-	-	(1,147,872,562)	(1,147,872,562)
Total transaction with owners of the Parent Company		104,300,000	4,531,279,500	-	-	(1,147,872,562)	3,487,706,938
Balance at September 30, 2019		P2,904,214,086	P25,361,670,581	P273,741,007	(P71,253,489)	P33,154,097,722	P61,622,469,907
Balance at December 31, 2019,		P2,904,214,086	P25,361,670,581	P54,467,541	(P71,253,489)	P33,650,251,214	P61,899,349,933
Total comprehensive income for the year							
Net income for the year		-	-	-	-	5,049,564,029	5,049,564,029
Other comprehensive income		-	-	-	-	-	-
		-	-	-	-	5,049,564,029	5,049,564,029
Transactions with owners of the Parent Company	26						
Issuance of common shares		-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-
		-	-	-	-	-	-
Balance at September 30, 2020		P2,904,214,086	P25,361,670,581	P54,467,541	(P71,253,489)	P38,699,815,243	P66,948,913,962

See Notes to the Interim Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

		Periods Ended September 30	
	<i>Note</i>	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P7,130,616,971	P6,437,179,154
Adjustments for:			
Depreciation and amortization	10, 11, 12, 19, 21	3,097,193,874	2,816,475,451
Interest expense	15, 19	1,567,895,959	1,321,664,002
Interest income	4	(176,508,110)	(170,258,965)
Gain on insurance claim	22	(513,124)	(1,369,601)
Gain on disposal of property and equipment		-	(286,927)
Unrealized loss (gain) on financial assets at FVPL	7, 22	11,747,103	(1,047,435)
Dividend income	22	(676,873)	(689,858)
Operating income before changes in working capital		11,629,755,800	10,401,665,821
Decrease (increase) in:			
Receivables		645,484,301	3,272,498,139
Merchandise inventories		(3,729,176,355)	(846,093,067)
Prepaid expenses and other current assets		(307,146,710)	(157,953,371)
Increase (decrease) in:			
Trade and other payables		(2,510,631,660)	(6,358,827,785)
Due to related parties		(1,688,863)	(1,307,914)
Other current liabilities		(1,271,593)	(11,340,956)
Cash generated from operations		5,725,324,920	6,298,640,867
Income taxes paid		(2,494,285,449)	(2,097,631,676)
Interest paid		(19,561,520)	(86,941,293)
Interest received		176,508,110	170,258,965
Net cash provided by operating activities		3,387,986,061	4,284,326,863
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment	10	(1,540,214,093)	(2,639,269,275)
Proceeds from (payment to):			
Disposal of property and equipment		1,034,689	128,484,342
Insurance claim	22	513,124	1,369,601
Increase in:			
Other noncurrent assets		111,939,268	(103,180,360)
Intangibles	12	(14,862,624)	(38,326,446)
Dividends received		676,873	689,858
Net cash used in investing activities		(1,440,912,763)	(2,650,232,280)

Forward

		Periods Ended September 30	
	Note	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common shares	26	P-	P4,635,579,500
Repayments of:			
Short-term loans	15	(501,570,353)	(3,865,984,278)
Long-term loans	15	(400,000,000)	(1,440,000,000)
Repayments of lease:	19	(2,262,259,823)	(1,970,086,137)
Payments of:			
Cash dividends	26	(1,147,872,562)	(1,147,872,562)
Retirement benefits		(2,955,592)	(2,530,022)
Availments of:			
Short-term loans	15	-	16,370,000
Long-term loans	15	12,000,000,000	-
Net cash provided by (used in) financing activities		7,685,341,670	(3,774,523,499)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		9,632,414,968	(2,140,428,916)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		17,083,459,430	10,687,359,234
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	P26,715,874,398	P8,546,930,318

See Notes to the Interim Consolidated Financial Statements

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
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 address is 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	
	2020	2019
Kareila Management Corporation	100	100
S&R Pizza (Harbor Point), Inc.	100	100
S&R Pizza, Inc.	100	100
PPCI Subic, Inc. (PSI)	100	100
Entenso Equities Incorporated (Entenso)	100	100
Goldtempo Company Incorporated (Goldtempo) ^(b)	-	-
Daily Commodities, Inc. (DCI) ^(b)	-	-
First Lane Super Traders Co., Inc. (FLSTCI) ^(b)	-	-
Purepadala, Inc. (Purepadala) ^(a)	100	100

(a) Newly incorporated and has not started operations yet

(b) Merged into the Parent Company in 2018

All subsidiaries are engaged in the same business as the Parent Company, except for Entenso and Purepadala.

Entenso’s primary purpose is to invest in, purchase, subscribe 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.

Purepadala’s primary purpose is to engage in business of money remittance or service as defined in the Bank Sentral ng Pilipinas (BSP) Circular No. 942, Series of 2017.

2. Basis of Preparation

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

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on October 22, 2020.

Historical cost is used as the measurement basis except for:

Items	Measurement Bases
Financial assets at FVPL	Fair value
Retirement benefits liability	Present value of defined benefit obligation less fair value of the plan asset
Financial assets at FVOCI	Fair value

These consolidated financial statements are presented in Philippine peso (P), unless otherwise stated.

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.

Significant Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities which, by definition, will seldom equal the actual results. All assumptions, expectations and forecasts used as a basis for certain estimates within these financial statements represent good faith assessments of the Group's current and future performance for which management believes there is a reasonable basis. They involve risks, uncertainties and other factors that could cause the Group's actual future results, performance and achievements to differ materially from those forecasted

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:

Determining Term and Discount Rate of Lease Arrangements (Notes 19 and 30)

Where the Group is the lessee, management is required to make judgments about whether an arrangement contains a lease, the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Group as lessee, management uses the incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of parcels of land, stores, warehouses, distribution centers and parking spaces, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term

Operating Leases - Group as a Lessor (Notes 19 and 20)

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 P234.9 million and P345.0 million in September 2020 and 2019, respectively.

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 Vendor Allowances (Notes 3 and 18)

When vendor allowances cannot specifically be identified in the purchase price of products, the Group must estimate the allowances that are earned based on the fulfillment of its related obligations. These estimates may require management to estimate the volume of purchases that will be made during a period of time.

Estimating Allowance for Impairment Losses on Receivables (Note 5 and 29)

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, 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 carrying amount of receivables amounted to P2.0 billion and P2.7 billion as at September 30, 2020 and December 31, 2019.

Estimating Net Realizable Value (NRV) of Merchandise Inventories (Note 6)

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. 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 inventories amounted to P23.3 billion and P19.5 billion as at September 30, 2020 and December 31, 2019.

Impairment of Goodwill and Other Intangibles with Indefinite Lives (Note 12)

The Group determines whether goodwill and other intangibles with indefinite lives are impaired at least annually. This requires the estimation of their recoverable amounts. Estimating recoverable amounts requires management to make an estimate of the expected future cash flows from the cash-generating unit to which they relate and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill and other intangibles with indefinite lives totaled P19.7 billion as at September 30, 2020 and December 31, 2019.

Impairment of Non-financial Assets Other than Goodwill

The Group assesses impairment on non-financial assets, other than inventories and deferred tax assets when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

Determining the net recoverable amount of assets requires the 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 fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the results of operations.

There are no impairment indicators affecting the Group's non-financial assets as at September 30, 2020 and December 31, 2019.

As at September 30, 2020 and December 31, 2019, the following are the carrying amounts of nonfinancial assets:

	Note	2020	2019
Right-of-use assets – net	11, 19	P23,083,583,724	P23,824,682,048
Property and equipment – net	10	20,990,899,984	21,161,690,865
Investments in joint venture and associate	9	622,981,277	622,981,277
Computer software and licenses, and leasehold rights	12	211,615,598	229,098,852

Estimating Realizability of Deferred Tax Assets (Note 25)

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces deferred tax assets 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. The Group also reviews the expected timing and tax rates upon reversal of the temporary differences and adjusts the impact of deferred tax accordingly. The Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses.

As at September 30, 2020 and December 31, 2019, the Group recognized deferred tax assets amounting to P980.0 million and P849.7 million.

Estimating Retirement Benefits Liability (Note 24)

The present value of the retirement benefits liability depends on a number of assumptions that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for retirement benefits include the discount rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefits liability. Other key assumptions include future salary, mortality and attrition. Additional information is disclosed in Note 24

Retirement benefits liability amounted to P916.1 million and P919.1 million as at September 30, 2020 and December 31, 2019, respectively.

3. Summary of Significant Accounting Policies

The Group has consistently applied the accounting policies to all years presented in these consolidated financial statements, except for the changes below.

Adoption of New or Revised Standards, Amendments to Standards, and Interpretations

The Group adopted the following relevant new standards, amendments to standards and interpretations starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- PFRS 16, *Leases*

The Group applied PFRS 16 with a date of initial application of January 1, 2019. As a result, the Group changed its accounting policies for lease contracts as detailed below.

The Group applied PFRS 16 using the retrospective approach. The adoption of PFRS 16 has resulted in restatements of the Group's 2018 and 2017 comparative amounts.

- Previously held interest in a joint operation (Amendments to IFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*)

The amendments to PFRS 3 and PFRS 11 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 3 apply prospectively for annual periods beginning on or after January 1, 2019. These amendments have no impact on the consolidated financial statements.

- Borrowing costs eligible for capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool. These amendments have no impact on the consolidated financial statements.

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

The amendments to PAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: (i) calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; (ii) recognize any reduction in a surplus immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; and (iii) separately recognize any changes in the asset ceiling through other comprehensive income. These amendments have no impact on the consolidated financial statements.

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

The amendments to PAS 28 were made to clarify that PFRS 9, “Financial Instruments,” applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments have no impact on the consolidated financial statements.

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

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, while also aiming to enhance transparency. IFRIC 23 became effective on January 1, 2019. The interpretation does not have an impact on the consolidated financial statements.

New Accounting Policies Not Yet Effective for 2019

A number of standards, or revisions to standards, that are not yet effective for 2019, but will become effective in coming years.

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

The amendments to PAS 1 and PAS 8 clarify the definition of material and how it should be applied by stating that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to PAS 1 and PAS 8 apply prospectively for annual periods beginning on or after January 1, 2020. The Group does not anticipate that the application of these amendments will have a significant effect on the future consolidated financial statements.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*)

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term “outputs” is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments to PFRS 3 apply prospectively for annual periods beginning on or after January 1, 2020. The Group anticipates that the amendments could result in more acquisitions being accounted for as asset acquisitions.

Consolidation

The consolidated financial statements incorporate the financial amounts of the Parent Company and its subsidiaries. Subsidiaries are entities over which the Parent Company has control. The Parent Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated upon consolidation. Unrealized losses on intragroup transactions are eliminated, unless the transaction provides evidence of an impairment of the assets transferred.

Business Combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and the liabilities assumed. Transaction costs are expensed as incurred.

Statement of Cash Flows

The Group has chosen to prepare the consolidated statement of cash flows using the indirect method, which presents cash flows from operating activities as the income from operations adjusted for non-cash transactions, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Interest paid on loans is presented as a financing activity. The Group has chosen to present dividends paid to its stockholders as a financing activity cash flow. In the cash flow statement, the Group has classified the principal portion of lease payments, as well as the interest portion, within financing activities. Lease payments are split between interest and principal portions in the cash flow statement. Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. The Group has classified cash flows from operating leases as operating activities.

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.

Financial Instruments

Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets expire, or if the Group transfers the financial asset to another party and does not retain control or substantially all risks and rewards of the asset. Regular-way purchases and sales of financial assets in the normal course of business are accounted for at settlement date (i.e., the date that the asset is delivered to or by the Group). At initial recognition, the Group measures its financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as fair value through profit or loss (FVTPL), includes transaction costs. A trade receivable without significant financing component is initially measured at the transaction price.

After initial recognition, the Group classifies its financial assets as subsequently measured at either i) amortized cost, ii) fair value through other comprehensive (FVOCI) income or iii) FVTPL on the basis of both:

- The Group's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

Subsequent to initial recognition, financial assets are measured as described below. At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognizes a loss allowance for expected credit losses for financial assets measured at either amortized costs or at fair value through other comprehensive income. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months of expected credit losses. If, at the reporting date, the credit risk on a financial instrument has increased significantly since initial recognition, the Group measures the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses. The Group always measures the loss allowance at an amount equal to lifetime expected credit losses for receivables.

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, credit assessment and including forward-looking information.

The information analyzed by the Group includes the following, among others:

- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.
- payment record - this includes overdue status as well as a range of variables about payment ratios.
- existing and forecast changes in the business, financial and economic conditions.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the debtor is past due more than 90 days on any material credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Trade and other receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction cost directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, less any impairment losses.

Financial assets at amortized cost are classified as current assets when the Group expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

Cash and cash equivalents, receivables and security deposits are included in this category.

Financial Assets at FVOCI

A debt financial asset is measured at FVOCI if both i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI.

The financial asset is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included in other comprehensive income. For debt instruments, interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other gains and losses recognized in OCI. Accumulated gains or losses recognized through other comprehensive income are reclassified to profit or loss when the asset is derecognized. For equity investments, dividends are recognized in profit or loss while other gains and losses are recognized in OCI and are never reclassified to profit or loss.

The Group's unquoted equity securities are included in this category. The Group has no financial assets at FVOCI with recycling of cumulative gains or losses (debt instruments) as at September 30, 2020 and December 31, 2019.

Financial Assets at FVTPL

When any of the above-mentioned conditions for classification of financial assets are not met, a financial asset is classified as at FVTPL and measured at fair value with changes in fair value recognized in profit or loss.

A financial asset measured at FVTPL is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognized in the consolidated statement of income for the reporting period in which it arises.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases

The Group's investments in equity securities traded in the PSE is included under this category (see Note 7).

Financial Liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for:

- (a) financial liabilities designated by the Group at initial recognition as at fair value through profit or loss, when doing so results in more relevant information.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Group in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.

- (d) financial guarantee contracts and commitments to provide a loan at a below-market interest rate which are initially measured at fair value and subsequently at the higher of amortized amount and amount of loss allowance.

Any difference between the proceeds and redemption value is recognized in the income statement over the period of the loans and short-term borrowings using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables, short-term loans, long-term loans, lease liabilities, due to related parties and deposits from tenants are generally included in this category.

Offsetting Financial Instruments

Financial assets and 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 right to offset the recognized amounts and there is 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 gross in the consolidated statements of financial position.

Fair Value Measurements

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.

Merchandise Inventories

Merchandise inventories are 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 inventories to their 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.

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 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 Associates and Joint Arrangements

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is defined as the power to participate in the financial and operating policy decisions of the entity but not control or joint control over those policies. Associates are accounted for using the equity method.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Joint operations arise where the Group has both rights to the assets and obligations for the liabilities relating to the arrangement and, therefore, the Group accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the Group has rights to the net assets of the arrangement and, therefore, the Group equity accounts for its interest.

Under the equity method, investments in associates and joint ventures are measured initially at cost and subsequently adjusted for post-acquisition changes in the Group's share of the net assets of the investment (net of any accumulated impairment in the value of individual investments). Where necessary, adjustments are made to the financial amounts of the associates and joint ventures to ensure consistency with the accounting policies of the Group. Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of Group's stake in these investments. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Intangible Assets

Goodwill and Impairment of Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and assumed contingent liabilities at the date of acquisition. It is carried at cost less accumulated impairment losses. Goodwill on acquisitions of joint ventures and associates is included in the carrying amount of the investment. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of a business combination. Goodwill is allocated to a cash-generating unit (or group of cash-generating units) representing the lowest level within the Group at which the goodwill is monitored for internal management purposes and is never larger than an operating segment before aggregation. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. Goodwill on acquisitions of associates and joint ventures is assessed for impairment as part of the investment whenever there is an indication that the investment may be impaired. An impairment loss is recognized for the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a cash-generating unit's fair value less costs of disposal or its value in use. An impairment loss is allocated first to reduce the carrying amount of the goodwill and then to the other assets of the cash generating unit pro rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Other Intangible Assets

Separately acquired intangible assets are carried at cost less accumulated amortization and impairment losses. Intangible assets acquired in a business combination are recognized at fair value at the date of acquisition. Trademarks and customer relationships acquired in business acquisitions are stated at acquisition date fair value determined using an income approach.

Trademarks and other intangible asset with indefinite lives are assessed for impairment annually, or whenever there is an indication that the asset may be impaired.

Impairment of Non-current Assets Other than Goodwill

The Group assesses whether there is any indication that non-current assets may be impaired. If indicators of impairment exist, the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. The carrying value of the store includes mainly its property, plant and equipment and right-of-use assets (if held under a lease arrangement). The recoverable amount is the higher of an asset's fair value less costs of disposal or the asset's value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 has a non-contributory multi-employer plan which is accounted for as a defined benefit plan. The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Group's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Group to the Retirement Fund.

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 Recognition

The Group identifies each distinct performance obligation to transfer goods (or bundle of goods) or services. The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring the control of goods or services to the customer. The transaction price is the amount of consideration the Group expects to receive under the arrangement. The Group concluded that it is acting as principal for all its revenue arrangements below, except for concession fee income.

- *Merchandise Sales* - The Group generally recognizes sale of merchandise at the point of sale when customer takes possession of goods and tenders payment. At point of sale, the performance obligation is satisfied because control of the merchandise transfers to the customer. Revenue is recorded at the point of sale based on the transaction price on the merchandise tag, net of any applicable discounts, sales taxes and refunds. For e-commerce sales, the Group recognizes sales upon delivery of goods through its online channel.
- *Concession Fee Income* - The Group enters into certain agreements with concessionaires that offer goods to the Group's customers. In exchange, the Group receives payment in the form of commissions based on a specified percentage of the merchandise sales. The Group serves as agent in these contracts and recognizes the net amount earned as commissions in the period in which the event or condition that triggers the payment occurs.
- *Membership* - The Group charges a membership fee to its customers. The fee allows the customer to shop in the Group's stores for the duration of the membership, which is generally 12 months. The Group recognizes the fee in the period in which it occurs.
- *Gift Certificates* - The Group recognizes revenue from the sale of gift certificates when the gift certificate is redeemed by customer.
- *Other Income* - The Group recognizes various incidental income in the period in which the services/goods were rendered/delivered.

Contract Balances

Receivables

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

The sales activities of the Group do not result in a material amount of unperformed obligations of the Group and, therefore, no contract assets are recognized separately from receivables.

Contract Liabilities

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

The Group does enter into transactions with customers where contract liabilities result from consideration being received from the customer prior to the Group satisfying its performance obligations. These contract liabilities are presented on the statement of financial position and in the notes as unredeemed gift certificate

liabilities.

Cost and Expense Recognition

The Group's cost of sales includes the direct costs of sold merchandise, which includes custom, taxes, duties and inbound shipping costs, inventory shrinkage and adjustments and reserves for excess, aged and obsolete inventory. Cost of sales also includes certain distribution center costs.

Vendor Rebates and Allowances

The Group receives various types of cash consideration from vendors, principally in the form of rebates, based on purchasing or selling certain volumes of product, time-based rebates or allowances, which may include product placement allowances or exclusivity arrangements covering a predetermined period of time, price protection rebates and allowances for retail price reductions on certain merchandise and salvage allowances for product that is damaged, defective or becomes out-of-date.

Such vendor rebates and allowances are recognized based on a systematic and rational allocation of the cash consideration offered to the underlying transaction that results in progress by the Group's toward earning the rebates and allowances, provided the amounts to be earned are probable and reasonably estimable. Otherwise, rebates and allowances are recognized only when predetermined milestones are met. The Group recognizes product placement allowances also as a reduction of cost of sales in the period in which the product placement is completed. Time-based rebates or allowances are recognized as a reduction of cost of sales over the performance period on a straight-line basis. All other vendor rebates and allowances are recognized as a reduction of cost of sales when the merchandise is sold or otherwise disposed.

Operating Expenses

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

Leases

The Group has applied PFRS 16 using the retrospective approach.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physical distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or

- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group has applied this approach to contracts entered into or changed on or after January 1, 2019. The Group's approach to other contracts is explained in Note 3.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single component.

As a Lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove or restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rates as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if

the carrying amount of the right-of-use asset has been reduced to zero.

Variable Lease Payments

Variable lease payments not based on an index or rate are not part of the lease liability. These include payments linked to a lessee's performance derived from the underlying asset. Such payments are recognized in profit or loss in the period in which the event or condition that triggers those payments occurs.

Lease Modifications as a Lessee

The Group accounts for a lease modification as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group allocates the consideration in the modified contract based on stand-alone prices, determines the lease term and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

Short-term Leases and Leases of Low-value Assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a Lessor

When the Group act as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risk and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies exemption described above, then it classifies sub-lease as operating lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other income.

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 and deferred tax are recognized in the statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Uncertainties related to taxes that are not income taxes are recognized and measured in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* unless they are dealt with specifically in another standard.

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.

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.

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.

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.

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:

	<i>Note</i>	September 2020	December 2019
Cash on hand		P225,032,154	P1,373,834,685
Cash in banks	29	15,582,084,159	5,280,614,006
Money market placements	29	10,908,758,085	10,429,010,739
	29	P26,715,874,398	P17,083,459,430

Cash in banks earn 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 2.6% to 5.8% in September 2020 and December 2019,.

Interest income earned from cash in banks and money market placements totaled P176.5 million and P170.3 million in September 2020 and 2019, respectively.

5. Receivables

This account consists of:

	<i>Note</i>	September 2020	December 2019
Trade receivables	23	P429,458,162	P2,168,828,499
Nontrade receivables	23	1,608,071,731	514,185,695
		2,037,529,893	2,683,014,194
Less allowance for impairment losses on trade receivables		7,462,327	7,462,327
	29	P2,030,067,566	P2,675,551,867

Trade receivables generally have a one-to-30-day credit terms.

Non-trade receivables consists mainly of e-wallet balance, accrued vendor allowance income and rent due from store tenants.

6. Merchandise Inventories

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 or retail basis.

The Group's merchandise inventories at cost as at September 30, 2020 and December 31, 2019 amounted to P23.3 billion and P19.5 billion.

Inventory charged to the cost of sales amounted to P101.3 billion and P91.6 billion in September 2020 and 2019, respectively (see Note 18).

7. Financial Assets at Fair Value through Profit or Loss

This account represents the Group's investments in equity securities traded in the PSE. The fair values of these securities are based on their closing market prices as at the reporting dates.

The movements in these securities are as follows:

	<i>Note</i>	September 2020	December 2019
Cost		P15,355,998	P15,355,998
Valuation Adjustments			
Balance at beginning of year		19,564,603	21,146,594
Unrealized valuation loss for the year	22	(11,747,103)	(1,581,991)
Balance at end of year		7,817,500	19,564,603
	29	P23,173,498	P34,920,601

8. Prepaid Expenses and Other Current Assets

This account consists of:

	September 2020	December 2019
Prepaid expenses	P708,662,894	P375,442,671
Input VAT	318,709,964	344,783,477
	P1,027,372,858	P720,226,148

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:

	September 2020	December 2019
Taxes and licenses	P371,248,460	P111,921,997
Rent	170,079,767	-
Insurance	64,488,523	115,612,404
Advertising and promotion	42,778,559	79,304,978
Supplies	25,536,611	36,554,953
Repairs and maintenance	5,064,611	9,050,863
Others	29,466,363	22,997,476
	P708,662,894	P375,442,671

Prepaid insurance pertains to the unamortized portion of premiums paid for insurance coverage on merchandise inventories, property and equipment, etc.

Prepaid taxes and licenses pertain to the unamortized portion of registration fees and other taxes paid to the Government.

Prepaid advertising and promotion pertain to payments made in advance for advertisements and product promotions.

9. Investments in Associate and Joint Venture

The details of investments are as follows:

	September 2020	December 2019
Associate	P447,585,544	P447,585,544
Joint venture	175,395,733	175,395,733
	P622,981,277	P622,981,277

Investment in Associate

In 2013, the Group through Entenso acquired 49.34% equity interest in San Roque Supermarkets, a local entity that operates a chain of supermarkets in Metro Manila and nearby areas.

The changes in the carrying amount of the investment in associate are as follows:

	September 2020	December 2019
Balance at beginning of the year	P447,585,544	P433,542,656
Share in net income	-	14,042,888
Balance at end of year	P447,585,544	P447,585,544

The information presented below summarizes the financial information of San Roque and shows the reconciliation of the Group's share in net assets of such investee to the carrying amount of its investment.

	December 2019
Percentage of ownership	49.34%
Current assets	P4,816,374,206
Noncurrent assets	239,124,495
Current liabilities	(4,687,331,252)
Noncurrent liabilities	(20,523,736)
Net assets	347,643,713
Group's share in net assets	171,527,408
Goodwill	276,058,136
Carrying amount of interest in associate	P447,585,544
Net sales	P517,583,465
Net income	28,461,467
Group's share in net income	P14,042,888

Investment in Joint Ventures

AyaGold Retailers, Inc.

In 2013, the Group through Entenso partnered with Varejo Corp., an entity engaged in operations of small convenience stores, to incorporate a new company, AyaGold Retailers, Inc. (AyaGold). This is the joint venture vehicle for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as may be agreed by both parties. AyaGold was incorporated in the Philippines on July 8, 2013 and started its operation on July 31, 2015 with the opening of its first supermarket called "Merkado" which is located in U.P. Town Center. The second supermarket opened on December 14, 2017.

The Group and its partner each initially invested P60 million or acquired 50% interest in AyaGold by subscribing to 6,000,000 common shares at P1 par value and 54,000,000 redeemable preferred shares at P1 par value. In February 2018, each party invested additional P32.5 million for 32,500,000 common shares at P1.00 par value.

The redeemable preferred shares shall have the following features: voting rights; 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; 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 redeemable at the option of the joint venture.

The changes in the carrying amount of the investment in AyaGold are as follows:

	September 2020	December 2019
Balance at beginning of year	P175,395,733	P169,631,896
Additions	-	-
Share in net income	-	5,763,837
Balance at end of year	P175,395,733	P175,395,733

The following table summarizes the financial information of AyaGold and shows the reconciliation of the Group's share in net assets of such investee to the carrying amount of its investment:

	December 2019
Percentage of ownership	50%
Current assets	P258,601,155
Noncurrent assets	347,629,885
Total liabilities	(396,934,811)
Net assets	209,296,229
Group's share in net assets	104,648,114
Impact of adoption of PFRS 16	70,747,619
Other	-
Carrying amount of interest in joint venture	P175,395,733
Net sales	P639,968,431
Net income	11,527,674
Group's share in net income	P5,763,837

PG Lawson Company, Inc.

In 2014, the Parent Company partnered 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 to operate convenience stores in the Philippines.

In April 2018, the Parent Company sold its entire investment in PLCI for P600 million. This resulted in a P363 million gain from the sale of such investment.

10. Property and Equipment

The movements in this account are as follows:

	Building	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction in Progress	Total
Cost							
Balance, December 31, 2018	P6,375,288,413	P2,683,519,542	P8,878,327,402	P10,595,667,994	P436,227,845	P1,123,997,986	P30,093,029,182
Additions	154,562,267	257,214,883	865,180,081	467,808,757	-	2,087,812,498	3,832,578,486
Reclassifications	130,924,329	64,224,370	365,583,130	1,247,220,904	-	(1,807,952,733)	-
Disposals	-	(931,592)	(178,442,220)	(7,341,493)	-	-	(186,715,305)
Balance, December 31, 2019	6,660,775,009	3,004,027,203	9,930,648,393	12,303,356,162	436,227,845	1,403,857,751	33,738,892,363
Additions	84,131,437	160,804,741	535,860,188	786,958,273	-	(27,161,776)	1,540,592,863
Disposals	(473,214)	(120,063)	(7,929,856)	(366,073)	-	-	(8,889,206)
Reclassifications	(365,625)	9,965,359	162,522,816	599,290,381	-	(771,412,931)	-
Adjustments	(368,933)	(9,837)	-	-	-	-	(378,770)
Balance, September 30, 2020	6,743,698,674	3,174,667,403	10,621,101,541	13,689,238,743	436,227,845	605,283,044	35,270,217,250
Accumulated Depreciation and Amortization							
Balance, December 31, 2018	P1,288,599,650	P1,327,701,808	P5,747,713,168	P2,239,940,776	P-	P-	P10,603,955,402
Depreciation and amortization	216,985,291	219,285,661	1,027,741,384	565,646,244	-	-	2,029,658,580
Reclassifications	-	(1,366,304)	1,311,536	54,768	-	-	-
Disposals	-	(876,077)	(53,321,627)	(2,214,780)	-	-	(56,412,484)
Balance, December 31, 2019	1,505,584,941	1,544,745,088	6,723,444,461	2,803,427,008	-	-	12,577,201,498
Depreciation and amortization	167,549,528	192,929,329	855,404,357	494,087,071	-	-	1,709,970,285
Disposals	(473,213)	(112,921)	(6,902,313)	(366,070)	-	-	(7,854,517)
Balance, September 30, 2020	1,672,661,256	1,737,561,496	7,571,946,505	3,297,148,009	-	-	14,279,317,266
Carrying Amount							
December 31, 2019	P5,155,190,068	P1,459,282,115	P3,207,203,932	P9,499,929,154	P436,227,845	P1,403,857,751	P21,161,690,865
September 30, 2020	P5,071,037,418	P1,437,105,907	P3,049,155,036	P10,392,090,734	P436,227,845	P605,283,044	P20,990,899,984

Interest expense on loans capitalized as part of property and equipment amounted to P12 million in December 2019 (see Note 15). As of September 2020, all loans with capitalized interest are fully paid.

11. Right-of-Use Assets

The movements in this account are as follows:

	September 2020	December 2019
Cost		
Balance at January 1	P33,014,871,924	P30,150,419,773
Additions	501,556,835	3,325,233,861
Modifications to leases	68,936,907	89,043,702
Terminated leases	(529,746)	(163,201,984)
Derecognition of right-of-use assets	(12,862,321)	(386,623,428)
Ending Balance	33,571,973,599	33,014,871,924
Accumulated Depreciation		
Balance at January 1	9,190,189,876	7,879,973,086
Depreciation	1,354,877,711	1,748,512,654
Modifications to leases	(43,444,569)	-
Terminated leases	(370,822)	(51,672,436)
Derecognition of right-of-use assets	(12,862,321)	(386,623,428)
Ending Balance	10,488,389,875	9,190,189,876
Carrying Amount	P23,083,583,724	P23,824,682,048

. The right-of-use assets mainly pertain to leases of stores and also include leases of parcels of land, warehouses, distribution centers and parking spaces.

12. Goodwill and Other Intangibles

This account consists of:

	September 2020	December 2019
Goodwill	P14,902,423,321	P14,902,423,321
Trademark	3,709,660,547	3,709,660,547
Customer relationships	889,452,981	889,452,981
Computer software and licenses - net	163,327,616	177,985,058
Leasehold rights – net	48,287,982	51,113,794
	P19,713,152,447	P19,730,635,701

Goodwill

Goodwill acquired in business combinations represents the excess of the purchase price over the fair value of net identifiable assets of acquired subsidiaries which represent the separate CGUs expected to benefit from that business combination. The details are as follows:

	September 2020	Dece 2019
Kareila	P12,079,473,835	P12,079,473,835
Budgetlane Supermarkets	837,974,199	837,974,199
Gant	742,340,804	742,340,804
DCI and FLSTCI	685,904,317	685,904,317
Company E	358,152,015	358,152,015
B&W	187,203,888	187,203,888
PJSI	11,374,263	11,374,263
	P14,902,423,321	P14,902,423,321

Other Intangibles with Indefinite Lives

Trademarks and customer relationships acquired through a business combination represent the fair value at the date of acquisition of Kareila, which is the CGU for these intangibles.

CGUs to which goodwill and other intangibles with indefinite lives have been allocated are tested for impairment annually or more frequently if there are indications that a particular CGU might be impaired. Upon adoption of PFRS 16, the carrying values of the CGUs tested for impairment include their right-of-use assets and associated lease liabilities. Cash flow projections used in determining recoverable amounts include the lease payments in both the explicit forecast period and in terminal value. The recoverable amounts for the CGUs have been determined based on value in use.

VIU

Value in use is determined using discounted cash flow projections that generally cover a period of five years and are based on the financial plans approved by the Group's management. The key assumptions for the value-in-use calculations relate to the weighted average cost of capital (discount rate), sales growth, operating margin and growth rate (terminal value). The discount rates reflect the key assumptions used in the cash flow projections. The pre-tax discount rates ranged between 9.1% and 11%% in 2019 and 13% to 13.6% in 2018. The sales growth rates and operating margins used to estimate future performance are based on past performance and experience of growth rates and operating margins achievable in the Group's markets. The average annual compound sales growth rates applied in the projected periods ranged between 5% and 22% for the CGUs. The average operating margins applied in the projected periods ranged between 1.3% and 14.8% for the CGUs. The terminal value to extrapolate cash flows beyond the explicit forecast period ranged between 2.9% and 5% for the CGUs.

Key assumptions relating to CGUs to which a significant amount of goodwill or intangible assets with indefinite useful lives is allocated are as follows:

	Pre-tax Discount Rate		Growth Rate (Terminal Value)	
	2019	2018	2019	2018
Kareila	11.0%	13.3%	3.0%	5.0%
Budgetlane Supermarkets	11.0%	13.1%	3.0%	5.0%
Gant	10.9%	13.6%	3.0%	5.0%
DCI and FLSTCI	10.6%	13.6%	3.0%	5.0%

As at December 31, 2019, management assessed that a reasonably possible change in key assumptions of B&W Supermart would result in the headroom being reduced to nil if either of the following change occurs: discount rate increased by 0.3% or growth rate decreased by 1%.

Computer Software and Licenses

The movements in computer software and licenses are as follows:

	September 2020	December 2019
Cost		
Balance at January 1	P417,158,774	P376,186,458
Additions	14,862,624	41,306,299
Transfers to a related party	-	(333,983)
Ending balance	432,021,398	417,158,774
Accumulated Amortization		
Balance at January 1	239,173,716	196,353,782
Amortization	29,520,066	42,819,934
Ending balance	268,693,782	239,173,716
Carrying Amount	P163,327,616	P177,985,058

Leasehold Rights

The movements in leasehold rights are as follows:

	September 2020	December 2019
Cost		
Balance at December 31	P75,355,005	P75,355,005
Accumulated Amortization		
Balance at January 1	24,241,211	20,473,460
Amortization	2,825,812	3,767,751
Ending balance	27,067,023	24,241,211
Carrying Amount	P48,287,982	P51,113,794

On January 25, 2013, the Parent Company entered into a memorandum of agreement with various parties that paved the way for the acquisition of five stores previously owned and operated by the parties. Under the agreement, the parties 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 parties for a period of 20 years. As a result of the transaction, the Parent Company recognized the excess of the purchase price over the fair value of tangible assets acquired as leasehold rights, which is amortized on a straight-line basis over the lease term.

13. Other Noncurrent Assets

This account consists of:

	<i>Note</i>	September 2020	December 2019
Security deposits	29	P1,946,335,943	P2,072,158,962
Advances to contractors		380,206,543	290,709,396
Accrued rent income	19, 25	33,686,127	33,966,325
Others		7,879,160	7,879,160
		P2,368,107,773	P2,404,713,843

Security deposits consist of payments for leases that are refundable at the end of the lease term.

Advances to contractors pertain to payments made in advance for the construction of new stores.

14. Trade and Other Payables

This account consists of:

	<i>Note</i>	September 2020	December 2019
Trade	23, 29	P4,441,158,352	P8,640,007,681
Nontrade	23, 29	2,615,040,736	1,833,971,720
Dividends payable	26, 29	-	1,147,872,562
Withholding taxes payable		163,867,074	147,596,464
Accrued expenses:	29		
Manpower agency services		1,329,589,513	851,648,159
Utilities		388,643,068	193,320,785
Rent		118,543,463	63,272,765
Others		364,501,154	202,157,446
		P9,421,343,360	P13,079,847,582

The average credit terms on purchases of certain goods from suppliers is 30 days.

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

15. Loans Payable

This account consists of:

a. Short-term Loans

	Note	September 2020	December 2019
Metrobank		P-	P500,000,000
Cosco Capital	24	-	-
BDO		-	-
AUB		-	-
Puregold Finance	24	-	1,570,353
		P-	P501,570,353

Short-term loans are payable from three to twelve months and bear interest from 4.00% to 6.40% in December 2019.

The loan proceeds were used for working capital requirements.

b. Long-term Loans

	Note	September 2020	December 2019
Unsecured Peso Denominated			
Fixed-rate note of Parent Company		P12,000,000,000	P-
Fixed-rate note of Kareila		-	400,000,000
	29	P12,000,000,000	P400,000,000

Fixed-rate Note of Parent Company

On June 13, 2013, the Parent Company obtained a P2 billion unsecured loan from a local bank, which is payable on May 21, 2018 and bears interest at 3.50% per annum. The interest is due every month.

On May 2, 2018, the Parent Company partially paid the loan amounting to P660 million and the maturity for the outstanding balance of P1.4 billion was renewed for 7 years at 6.4% interest per annum.

In 2019, the Parent Company fully paid the remaining balance.

On September 30, 2020, the Parent Company obtained a total of P12 billion unsecured loans bearing an interest rate of 4.00% to 4.51% and terms of 7 and 10 years.

Fixed-rate Note of Kareila

On July 23, 2013, Kareila obtained a P500 million unsecured loan from a local bank. The loan is payable after 5 years and bears interest at 3.50% per annum. The interest is due every month.

In 2015, Kareila partially paid the loan amounting to P100 million.

On May 2, 2018, the maturity for the outstanding balance of P400 million was renewed for 7 years at 6.4% interest rate per annum.

As of September 2020, all outstanding loan balance was fully paid.

The following are the contractual maturities of the long-term loans, including estimated interest payments and excluding the impact of netting agreements:

	September 2020				
	Carrying Amount	Contractual Cash Flows	1 Year or Less	Within 1 - 5 Years	More than 5 Years
Long-term loans	P12,000,000,000	P16,216,500,000	P42,137,500	P168,550,000	P16,005,812,500

	December 2019				
	Carrying Amount	Contractual Cash Flows	1 Year or Less	Within 1 - 5 Years	More than 5 Years
Long-term loans	P400,000,000	P531,840,000	P25,173,333	P506,666,667	P -

The loans are not subject to any covenants.

Interest expense charged to profit or loss amounted to P19.6 million and P81.1 million in September 2020 and 2019, respectively.

Interest expense capitalized as part of property and equipment is discussed in Note 10.

16. Other Current Liabilities

This account consists of:

	Note	September 2020	December 2019
Deposits from tenants	19, 29	P202,014,495	P189,508,497
Unredeemed gift certificates		172,635,316	157,477,311
VAT payable		45,717,759	78,225,030
Promotion fund		8,843,263	1,934,210
Others	29	4,321,239	7,658,617
		P433,532,072	P434,803,665

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 the Group's obligation to provide goods or services to the customers for which the Group has received consideration from the customers.

17. Revenue from Contract with Customers

The Group generates revenue primarily from trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, etc.) on a wholesale or retail basis. For the period ended September 30, the revenue from contracts with customers is disaggregated by revenue streams.

	Note	2020	2019
Net sales from stores		P121,137,647,596	P109,981,343,042
Concession fee income	20	1,509,677,352	1,450,519,715
Membership fee income	20	441,832,852	400,661,272
Revenue from contract with customers		P123,089,157,800	P111,832,524,029

18. Cost of Sales

This account for the years ended September 30 consists of:

	Note	2020	2019
Beginning inventory	6	P19,526,196,704	P19,731,823,439
Add: Purchases		105,022,407,848	92,437,844,224
Total goods available for sale		124,548,604,552	112,169,667,663
Less: Ending inventory	6	23,255,373,059	20,577,916,506
		P101,293,231,493	P91,591,751,157

19. Leases

Lessee

The Group leases parcels of land, stores, warehouses, distribution centers, and parking spaces. The lease terms range from 5 years to 42 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or per square meter subject to 1%-10% escalation or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

Lease liabilities included in the statements of financial position are as follows:

	September 2020	December 2019
Due within one year	P800,730,059	P490,191,528
Due beyond one year	29,514,869,121	29,925,553,649
	P30,315,599,180	P30,415,745,177

The movements in lease liabilities are as follows:

	Note	September 2020	December 2019
Beginning balance	29	P30,415,745,178	P27,913,135,119
Additions		472,457,642	3,171,598,765
Accretion of interest expense		1,548,334,439	1,968,625,600
Repayments		(2,133,430,676)	(2,572,668,416)
Terminations		(185,750)	(153,989,593)
Modifications		12,678,347	89,043,702
Ending balance		30,315,599,180	30,415,745,177
Less due within one year		800,730,059	490,191,528
		P29,514,869,121	P29,925,553,649

Shown below is the maturity analysis of the undiscounted lease payments for the period and year ended:

	September 2020	December 2019
Less than one year	P2,321,449,036	P2,336,995,275
One to five years	11,619,050,006	9,672,106,532
More than five years	38,750,101,721	34,949,127,659
	P52,690,600,763	P46,958,229,466

The following are the amounts recognized in profit or loss as at September 30:

	2020	2019
Variable lease payments not included in the measurement of lease liabilities*	P427,720,970	P461,005,238
Expenses related to leases of low-value assets	24,751,161	21,915,667
Expenses related to short-term leases	5,197,102	2,848,907
Total rent expense	457,669,233	485,769,812
Interest accretion on lease liabilities	1,548,334,439	1,240,606,956
Depreciation charge for right-of-use assets	1,354,877,711	1,302,923,505
Gain from lease terminations	26,826	-

*This includes the concession fee expense presented as separate line item under "Operating expenses" in the statements of comprehensive income.

As Lessor

The Group subleases a portion of its stores to various lessees. The lease terms range from 1 year to 10 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

Rent income recognized in profit or loss amounted to P234.9 million and P345.0 million in September 2020 and 2019, respectively (see Note 20).

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

	September 2020	December 2019
Due within one year	P217,302,625	P275,981,653
Due more than one year but not more than five years	363,766,244	480,306,729
Due more than five years	47,818,616	82,851,945
	P628,887,485	P839,140,327

20. Other Revenue

This account for the periods ended September 30 consists of:

	Note	2020	2019
Concession fee income	17	P1,509,677,352	P1,450,519,715
Membership fee income	17	441,832,852	400,661,272
Rent income	19	234,941,869	344,964,271
Miscellaneous		111,104,696	111,125,689
		P2,297,556,769	P2,307,270,947

Miscellaneous consist of delivery fee income, income from sale of used packaging materials, e-wallet rebates and other individually insignificant items.

21. Operating Expenses

This account for the periods ended September 30 consists of:

	Note	2020	2019
Depreciation and amortization	10, 11, 12, 19	P3,067,744,032	P2,783,373,096
Manpower agency services		2,609,434,132	2,556,235,212
Salaries and wages		1,668,214,160	1,575,177,872
Communication, light and water		1,606,930,754	1,806,145,404
Security services		702,594,367	691,811,671
Taxes and licenses		675,475,969	609,776,421
Rent	19	457,669,233	485,769,812
Store and office supplies		397,998,081	420,568,542
Repairs and maintenance		360,735,744	378,850,709
Advertising and marketing		342,305,311	260,082,531
Credit card charges		309,434,610	245,956,940
Transportation		165,635,497	104,743,772
Insurance		163,489,222	153,186,531
Input VAT allocable to exempt sales		148,223,156	141,975,503
Janitorial and messengerial services		146,522,279	152,227,380
SSS/Medicare and HDMF contributions		135,700,129	122,032,889
Other selling expenses		132,793,735	144,305,588
Representation and entertainment		84,231,987	78,144,462
Fuel and oil		53,087,731	57,177,781
Royalty	23	45,428,575	42,166,618
Professional fee		18,514,999	25,390,334
Miscellaneous		353,072,739	262,165,672
		P13,645,236,442	P13,097,264,740

22. Others

This account as at September 30 consists of:

	Note	2020	2019
Unrealized valuation gain (loss) on financial assets at FVPL	7	(P11,747,103)	P1,047,435
Gain on sale of investment in bonds	9	36,229,953	-
Bank charges		(1,706,825)	(13,948,391)
Foreign exchange losses		1,275,542	(459,330)
Dividend income	9	676,873	689,858
Gain on insurance claims		513,124	1,369,601
Gain on pretermination of lease contract		26,826	-
Gain on disposal of property and equipment		-	286,927
		P25,268,390	(P11,013,900)

23. Related Party Transactions

Other than the items disclosed in Note 9, the Group's significant transactions and balances with related parties for the period ended September 30 and year ended December 31 are as follows:

Related Party	Year	Note	Amount of Transactions for the Period	Trade Receivable (see Note 5)	Non Trade Receivable (see Note 5)	Trade Payable (see Note 14)	Nontrade Payable, Loans and Lease Liabilities (see Notes 14, 15 and 19)	Due to Related Parties	Terms	Conditions
Parent										
Dividends	2019		P564,137,807	P -	P -	P -	P564,137,807	P -	Due and demandable	Unsecured
Loans	2020	d	400,000,000	-	-	-	-	-	6 months; interest bearing at 4.5%-5%	
	2019		1,400,000,000	-	-	-	500,000,000	-		
Entities under Common Control										
Leases	2020	a	715,203,314	-	1,208,299	-	87,534,559	-	Due and demandable	Unsecured;
	2019		601,260,857	-	316,068	-	44,015,083	-		no impairment
Concession expense	2020	b	289,149,102	-	-	-	-	-	Due and Demandable	Unsecured
	2019		329,745,239	-	-	-	-	-		
Purchase of merchandise	2020		1,253,432,426	-	-	171,373,674	-	-	Due and Demandable	Unsecured
	2019		1,872,664,550	-	-	1,008,628,015	-	-		
Sale of merchandise	2020		87,809,128	69,447,983	-	-	-	-	Due and Demandable	Unsecured;
	2019		33,919,992	41,985,248	-	-	-	-		no impairment
Security deposits	2020	a	74,668,628	-	6,474	-	39,312,881	-	Due and Demandable	Unsecured;
	2019		6,780,832	-	18,721	-	631,629	-		no impairment
Management fee	2020		7,938,766	-	-	-	950,256	-	Due and Demandable	Unsecured;
	2019		10,016,246	-	-	-	659,687	-		
Advances	2020		-	-	116,000,000	-	-	-	Due and demandable	Unsecured;
	2019		-	-	116,000,000	-	-	-		no impairment
Fixed asset	2020		123,605,248	-	123,605,248	-	185,560	-	Due and demandable	Unsecured
	2019		-	-	123,605,957	-	-	-		
Loans	2020	d	1,570,353	-	-	-	-	-	Due and demandable	Unsecured;
	2019		18,484,278	-	-	-	1,570,353	-		
Expense reimbursement	2020		133,416,913	-	6,225,175	-	22,114,941	-	Due and demandable	Unsecured;
	2019		202,757,510	-	6,924,032	-	9,427,419	-		
Stockholder										
Royalty expense	2020	c	45,428,575	-	-	-	-	45,428,575	30 years and subject to renewal	Unsecured
	2019		42,166,618	-	-	-	-	47,117,438		
Leases	2020	a	18,420,235	-	-	-	-	-		
	2019		17,883,723	-	-	-	-	-		
Key Management Personnel										
Short-term benefits	2020		36,888,385	-	-	-	-	-		
	2019		37,880,867	-	-	-	-	-		
Total	2019			P41,985,248	P246,864,778	P1,008,628,015	P1,120,441,978	P47,117,438		
Total	2020			P69,447,983	P247,045,196	P171,373,674	P150,098,197	P45,428,575		

a. Leases - Group as a Lessee

The Group leases certain stores from related parties. Lease terms range from 10 to 42 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or per square meter subject to 1%-7% escalation.

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 4 stores, (i) Fort Bonifacio Global City, Taguig City, Metro Manila; (ii) Congressional Avenue, Bago-Bantay, Quezon City; (iii) Aseana Business Park, Brgy. Tambo, Paranaque City; and (iv) Westgate, Filinvest Alabang, Muntinlupa City, including all the furniture, fixtures and equipment therein.

Under the contract, the Consignor offered to consign goods at the aforesaid 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 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.
- In exchange, the consignor gives the consignee a trade or volume discount in the amount equivalent to 5% of the consignee's gross sales which was increased to 15% on November 9, 2006. On January 1, 2011, the contract was further amended giving the consignee a trade or volume discount of 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 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 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. The contract was renewed for a period of five (5) years effective March 1, 2017 until February 28, 2022.

On April 22, 2019, the Consignee assigned to the consignor its lease of land located at Westgate, Filinvest Alabang, Muntinlupa City with a lease term from January 1, 2019 until November 15, 2022. The term has been extended until November 15, 2037.

c. License Agreement

On August 15, 2011, the Parent Company entered into a license agreement for the use of trademark and logo. In exchange, the Parent Company pays the owner royalty based on a percentage of sales.

d. Loans

Cosco

In 2017, Kareila obtained an unsecured short-term loan from COSCO amounting to P300 million at 2.50% interest per annum.

In 2018, the loan was renewed for another six months at 4.75% interest per annum. Kareila obtained additional short-term loan during the year amounting to P600.00 million at 5.00% interest per annum. The loans matured and were fully paid in 2019.

In 2019, Kareila obtained an unsecured short-term loan with term of 6 months from Cosco amounting to P1.4 billion at 5.5% interest per annum.

Puregold Finance

In 2018, the Parent Company obtained an unsecured short-term loan from Puregold Finance amounting to P8.8 million. This was fully paid in 2019.

In 2019, the Parent Company obtained an unsecured short-term loan from Puregold Finance amounting to P9.0 million.

Amounts owed by and owed to related parties are to be settled in cash.

24. Retirement Benefits Liability

The Parent Company and its subsidiaries has 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, 2019. 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 as is as follows:

	September 2020	December 2019
Present value of defined benefit obligation	P944,580,042	P947,535,634
Fair value of plan assets	(P28,450,238)	(28,450,238)
Retirement benefits liability	P916,129,804	P919,085,396

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

	September 2020	December 2019
Beginning balance	P947,535,634	P504,207,438
Included in profit or loss		
Current service cost	-	95,464,319
Interest cost	-	37,966,821
	-	133,431,140
Benefits paid	(2,955,592)	(3,952,095)
Included in other comprehensive income		
Remeasurements gain:		
Actuarial losses (gains) arising from:		
Financial assumptions	-	338,118,445
Experience adjustments	-	(24,269,294)
	-	313,849,151
Ending balance	P944,580,042	P947,535,634

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

	September 2020	December 2019
Beginning balance	P28,450,238	P25,711,784
Interest income	-	1,936,097
Remeasurement gain (loss)	-	802,357
Ending balance	P28,450,238	P28,450,238

The movements in cumulative actuarial gains, before income tax effect, recognized in other comprehensive income are as follows:

	September 2020	December 2019
Beginning of year	(P77,605,077)	(P390,651,871)
Actuarial losses (gains) for the year	-	313,046,794
Ending balance	(P77,605,077)	(P77,605,077)

The cumulative actuarial gains, net of income tax effect, amounted to P54.47 million as at September 30, 2020 and December 31, 2019, which are presented as retirement benefits reserve in the equity section of the consolidated statements of financial position.

The Group's plan assets consist of the following:

	September 2020	December 2019
Cash in banks	P2,460,784	P2,460,784
Debt instruments - government bonds	25,725,898	25,725,898
Trust fees payable	(14,143)	(14,143)
Other	277,699	277,699
	P28,450,238	P28,450,238

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

The Group does not expect to contribute to the plan in 2020.

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

	2019
Discount rate	5.22%
Future salary increases	8.00%

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

The weighted average duration of the defined benefit obligation as at December 31, 2019 and 2018 is 20.8 years and 19.4 years, respectively.

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:

2019	Increase	Decrease
Discount rate (1% movement)	(P215,392,002)	P169,071,712
Future salary increase rate (1% movement)	207,545,305	(166,935,629)

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.

Maturity analysis of the benefit payments:

	Carrying Amount	Contractual Cash Flows	2019		
			Within 1 Year	Within 1 - 5 Years	Within 5 - 10 Years
Defined benefit obligation	P947,535,634	P209,175,795	P35,986,562	P34,030,679	P139,158,554

25. Income Taxes

The components of income tax expense as at September 30 are as follows:

	2020	2019
Current tax expense	P2,286,665,190	P2,028,445,191
Deferred tax benefit	(205,612,248)	(144,335,805)
	P2,081,052,942	P1,884,109,386

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 as at September 30 is as follows:

	2020	2019
Income before income tax	P7,130,616,971	P6,437,179,154
Income tax expense at the statutory income tax rate:		
30%	P2,127,216,914	P1,908,013,828
5%	1,994,696	3,856,653
Income tax effects of:		
Interest income subject to final tax	(51,926,870)	-
Changes in unrecognized DTA/DTL	1,895,327	897,047
Nondeductible interest expense	420,250	3,867,077
Nontaxable income	(604,984)	(314,231)
Dividend income	(203,062)	-
Other income subject to final tax	(10,868,986)	(49,860,359)
Nondeductible other expenses	13,129,657	17,649,371
	P2,081,052,942	P1,884,109,386

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 2020		December 2019	
	Amount	DTA (DTL)	Amount	DTA (DTL)
PFRS 16*	P6,976,436,478	P2,092,930,942	P6,540,330,847	P1,962,099,254
Retirement benefits liability	992,449,708	297,734,912	994,519,533	298,355,860
Allowance for impairment losses on receivables	7,462,327	2,238,698	7,462,327	2,238,698
Recognition of DTA due to Merger	389,731	116,919	389,731	116,919
DTA	7,976,738,244	2,393,021,471	7,542,702,438	2,262,810,731
Fair value of intangible assets from business combination	(4,599,113,528)	(1,379,734,058)	(4,599,113,528)	(1,379,734,058)
Actuarial loss (gains)	(77,630,792)	(23,163,251)	(77,630,792)	(23,163,251)
Accrued rent income	(33,686,127)	(10,105,838)	(33,913,825)	(10,174,148)
DTL	(4,710,430,447)	(1,413,003,147)	(4,710,658,145)	(1,413,071,457)
Net	P3,266,307,797	P980,018,324	P2,832,044,293	P849,739,274

*Excluding net lease liabilities 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.

26. Equity

Capital Stock and Additional Paid-in Capital

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

	September 2020	December 2019
Authorized - 3,000,000,000 shares (P1 par value)		
Issued and outstanding:		
Balance at beginning of year	2,904,214,086	2,799,914,086
Issuances during the year	-	104,300,000
Balance at end of year	2,904,214,086	2,904,214,086

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 January 16, 2019, the Parent Company conducted a P4,693,500,000 top up placement of 104,300,000 million common shares at a price of P45.00 per share. The Parent Company completed the placement upon approval of the BOD. The additional shares were issued effective March 5, 2019.

On February 20, 2019, the BOD approved to increase the authorize capital stock of the Parent Company from 3 billion shares to 5 billion shares with par value of One Peso (P1.00) per share. The shareholders approved the amendment to articles of incorporation on May 14, 2019.

Treasury Stock

The Group's treasury shares are as follows:

	September 2020	December 2019
Balance at beginning of year	34,532,680	34,532,680
Additions	-	-
Balance at end of year	34,532,680	34,532,680

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 issued shares of stocks equivalent to 16,911,162 shares at P26.55 per share. Considering that the ultimate owner of PJSI and Gant is the Parent Company, the shares issued were recognized as treasury stock.

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, 2018 and 2017, the Parent Company already bought P34.53 million worth of shares as treasury stock.

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 issued shares of stocks equivalent to 2,045,465 shares at par value. Considering that the ultimate owner of Company E is the Parent Company, the stock shares issued were recognized.

On November 22, 2017, SEC approved the application of the merger of Parent Company, Goldtempo Group Incorporated, Daily Commodities, Inc., and First Lane Super Traders Co., Inc. As a consideration for the merger, the Parent Company issued shares of stocks equivalent to 14,551,209 shares at P39.00 per share. Considering that the ultimate owner is the Parent Company, the shares issued were recognized as treasury stock in the consolidated financial statements.

Retained Earnings

On December 15, 2017, the Group's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.20 per share on record date of January 2, 2018 and payment date of January 26, 2018. The total amount of dividends is P1.1 billion.

On February 1, 2019, the Group's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.20 per share on record date of February 15, 2019 and payment date of March 1, 2019. The total amount of dividends is P1.1 billion.

On December 10, 2019, the Group's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.20 per share on record date of December 27, 2019 and payment date of January 24, 2019. The total amount of dividends is P1.2 billion

27. Segment Information

The Group operates through stores in several locations. The combined financial statements of all stores are 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*.

28. Basic/Diluted EPS

Basic/Diluted EPS as at September 30 is computed as follows:

	2020	2019
Net income (a)	P5,049,564,029	P4,553,069,768
Weighted average number of ordinary shares (b)	2,869,681,406	2,858,092,517
Basic/diluted EPS (a/b)	P1.76	P1.59

As at September 30, 2020 and December 31, 2019, the Group has no dilutive debt or equity instruments.

29. 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.

	<i>Note</i>	September 2020	December 2019
Cash in banks and cash equivalents	4	P26,490,842,244	P15,709,624,745
Receivables - net	5	2,030,067,566	2,675,551,867
Security deposits*	12	1,946,335,943	2,072,158,962
		P30,467,245,753	P20,457,335,574

*Included under noncurrent assets.

The credit quality of the Group's financial assets based on its historical experience is as follows:

	As of September 30, 2020			Total
	Grade A	Grade B	Grade C	
At amortized cost:				
Cash in banks and cash equivalents	P26,490,842,244	P -	P -	P26,490,842,244
Receivables – net	2,030,067,566	-	-	2,030,067,566
Security deposits*	1,946,335,943	-	-	1,946,335,943
	P30,467,245,753	P -	P -	P30,467,245,753

*Included under noncurrent assets.

	As of December 31, 2019			Total
	Grade A	Grade B	Grade C	
At amortized cost:				
Cash in banks and cash equivalents	P15,709,624,745	P -	P -	P15,709,624,745
Receivables - net	2,675,551,867	-	-	2,675,551,867
Security deposits*	2,072,158,962	-	-	2,072,158,962
	P20,457,335,574	P -	P -	P20,457,335,574

*Included under noncurrent assets.

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 probability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- b. Trade receivables were classified as standard grade, since these pertain to receivables considered as unsecured from third parties with good paying habits. 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. Security deposits were assessed as high grade since these have a high probability of collection and there is no history of default.

The Group applies the simplified approach using provision matrix in providing for ECL which permits the use of the lifetime expected loss provision for trade and other receivables. The expected loss rates are based on the Group's historical observed default rates. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of this macroeconomic factor identified has not been considered significant within the reporting period.

The aging of receivables - net at the reporting date are as follows:

	September 2020		December 2019	
	Gross Amount	Impairment	Gross Amount	Impairment
Current	P854,747,866	P -	P1,125,529,821	P -
Past due 1-30 days	745,438,093	-	981,590,990	-
Past due 31-60 days	83,804,278	-	110,353,261	-
More than 60 days	353,539,656	7,462,327	465,540,122	7,462,327
	P2,037,529,893	P7,462,327	P2,683,014,194	P7,462,327

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, 2020				
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year - 5 Years	More than 5 Years
Financial Liabilities					
Accounts payable and accrued expenses*	P9,257,476,286	P9,257,476,286	P9,257,476,286	P -	P -
Short-term loans payable	-	-	-	-	-
Due to related parties	45,428,575	45,428,575	45,428,575	-	-
Lease liabilities	30,315,599,180	52,690,600,763	2,321,449,036	11,619,050,006	38,750,101,721
Long-term debt including current portion	12,000,000,000	16,216,500,000	42,137,500	168,550,000	16,005,812,500
Other current liabilities**	247,732,254	247,732,254	247,732,254	-	-

*excluding statutory payables to the government

**excluding promotion fund, loyalty and rewards, unredeemed gift certificates VAT payable and other current liabilities of Ka reila

	As at December 31, 2019				
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year - 5 Years	More than 5 Years
Financial Liabilities					
Accounts payable and accrued expenses*	P12,932,251,118	P12,932,251,118	P12,932,251,118	P -	P -
Short-term loans payable	501,570,353	501,570,353	501,570,353	-	-
Due to related parties	47,117,438	47,117,438	47,117,438	-	-
Lease liabilities	30,415,715,143	46,958,229,466	2,336,995,275	9,672,106,532	34,949,127,659
Long-term debt including current portion	400,000,000	536,533,333	25,600,000	510,933,333	-
Other current liabilities**	197,167,114	197,167,114	197,167,114	-	-

*excluding statutory payables to the government

**excluding promotion fund, loyalty and rewards, unredeemed gift certificates VAT payable and other current liabilities of Ka reila

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 2020	December 2019
Financial assets (cash deposits):		
Cash in banks	P15,582,084,159	P5,280,614,006
Money market placements	10,908,758,085	10,429,010,739
	P26,490,842,244	P15,709,624,745

Sensitivity Analysis

A 2% increase in interest rates would have increased equity and net income by P37.1 million and P22.0 million in September 2020 and December 2019, respectively. A 2% decrease in interest rates would have had the equal but opposite effect. Assuming a 10% interest rate and 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 consolidated 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.

Fair Values of Financial Assets and Liabilities

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

Cash and Cash Equivalents, Receivables, Accounts Payable and Accrued Expenses, Short-term Loans, Due to Related Parties and Other Current Liabilities
The carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

Financial Assets at FVPL

The fair values are based on quoted market prices in an active market.

Security Deposits

The carrying amount approximates its fair value as the effect of discounting is not considered material.

Long-term Loans and Lease Liabilities

The carrying amounts approximate their fair values because the difference between the interest rates of these instruments and the prevailing market rates for similar instruments is not considered significant.

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, 2020 and December 31, 2019, the Group's investment in financial assets at FVPL were measured based on Level 1.