



April 16, 2018

**Securities and Exchange Commission**  
PICC Grounds, Pasay City

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**  
Director, Market and Securities Regulation Division

**Philippine Stock Exchange**  
6/F PSE Tower, BGC, Taguig City

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

**Re: PUREGOLD ANNUAL REPORT (SEC 17-A)**

Gentlemen:

Please see attached Annual Report (SEC 17-A) and the Audited Consolidated Financial Statements of Puregold Price Club, Inc. as of December 31, 2017.

Thank you.

Yours truly,

  
**Candy H. Decanay-Datuon**  
Assistant Corporate Secretary

# 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-A

(Form Type)

0 5

Month

0 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

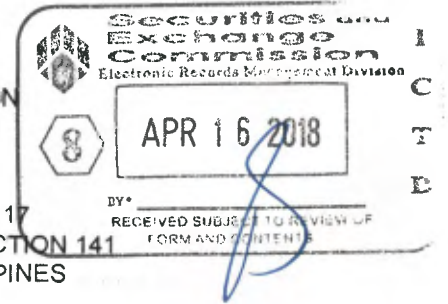
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## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: December 31, 2017
2. SEC Identification Number: A199813754
3. BIR Tax Identification No.: 201-277-095
4. Exact name of issuer as specified in its charter: Puregold Price Club, Inc.
5. Province, country or other jurisdiction of incorporation or organization: Manila, Philippines
6. Industry Classification Code: XXXXXXXXXX (SEC Use Only)
7. Address of principal office: No. 900 Romualdez St., Paco, Manila, 1007
8. Registrant's telephone number, including area code: 02-522-8801 to 04
9. Former name, former address and former fiscal year, if changed since last report: None
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|----------------|-----------------------------------------------------------------------------|
| Common         | 2,765,381,406                                                               |
| Debt           | 5,812,500,000                                                               |

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

Yes ☒ No ☐

12. Check whether the issuer:

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

#### DOCUMENTS INCORPORATED BY REFERENCE

14. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

Annex "A" - Management Discussion and Analysis

Annex "B" - Consolidated Audited Financial Statements

Annex "C" - Supplementary Schedules

Annex "D" - Summary of SEC 17-C Reports

## **PART 1 : BUSINESS AND GENERAL INFORMATION**

### **ITEM 1 BUSINESS**

#### **(1) Business Development**

Puregold Price Club, Inc. ("Puregold" or "the Company") was incorporated on September 8, 1998 and opened its first Puregold hypermarket store in Mandaluyong City in December of the same year. In 2001, it began its expansion by building 2 additional hypermarket stores in Manila and Paranaque. It also launched its loyalty program, which was eventually renamed as "Tindahan ni Aling Puring" in 2004. Between 2002 to 2006, Puregold continued its expansion at an average of 3 new stores every year and established operations in North and South Luzon.

In 2008, Puregold was recognized by Reader's Digest Asia's as the Most Trusted Brand in supermarket category. To expedite market coverage, a new format called "Puregold Jr. Supermarket" was introduced in the 4<sup>th</sup> quarter of 2008. By mid-2009, the Company gained market leadership being the second largest hypermarket and supermarket retailer in the Philippines in terms of net sales. By 2010, it was already operating 62 stores, and launched another format called, "Puregold Extra". In the same year and henceforth, Puregold was recognized by Retail Asia Pacific as one of the top 500 retailers among the 14 economies of the region.

2011 saw the highest number of store openings in Puregold history with the launch of 38 new stores making its number of stores to a total of 100. In the succeeding year, Puregold acquired a related retail company, now Kareila Management Corporation, with 6 S&R Membership Shopping Warehouses (patterned after the Costco and Sam's Club in the USA), opened 31 new Puregold organic stores and acquired Gant Group of Companies known as "Parco Supermarkets" with 19 stores.

In 2013, Puregold acquired another supermarket chain, Company E Corporation, with 15 stores and opened 40 new organic stores. S&R opened 2 warehouses located in Davao Province and Mandaluyong City. Company E and Gant Group of Companies were later merged with Puregold<sup>1</sup>.

In 2014, Puregold opened 28 new organic stores, 1 S&R warehouse and 4 S&R New York Style Pizza/quick service restaurants (QSR). It also partnered with Lawson, Inc. and Lawson Asia Pacific Pte Ltd. through a joint venture company called PG Lawson, Inc. which paved the way for its entry into the convenience store space. PG Lawson plans to build and operate a chain of Lawson convenient stores all over the Philippines. The parties' investment share is 70% Puregold and 30% Lawson.

In 2015, Puregold opened 15 hypermarkets, 11 supermarkets, 1 S&R Warehouse and 10 QSRs. During the year, it also acquired a chain of 9 NE Bodega Supermarkets located in Central & North Luzon and 8 Budgetlane Supermarkets located in Eastern GMA, Laguna and Batangas.

In 2016, Puregold opened another 15 hypermarkets, 8 supermarkets, 2 extras, 1 minimart, 2 S&R Warehouses and 7 QSRs.

In 2017, Puregold opened a total of 35 new organic stores comprising of 25 hypermarkets, 5 minimarts and 5 supermarkets.; 2 S&R warehouses and 9 QSR outlets

Puregold also acquired a chain of 5 B & W supermarket stores in Roxas City, Panay Island which paved the way for the company's expansion in the Visayas region.

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<sup>1</sup> Approved by the Securities and Exchange Commission on March 17, 2015.

In November 2017, the SEC approved the merger of Goldtempo Company, Inc., First Lane Super Traders Co., Inc. and Daily Commodities, Inc. with Puregold which paves the way for the full conversion and operational integration of the 9 NE Bodega Supermarkets and 8 Budgetlane Supermarkets into Puregold Supermarkets brand starting in early 2018.

By the end of 2017, Puregold was operating a total of 171 hypermarkets, 103 supermarkets, 29 extra, 6 minimarts, 14 S&R warehouse clubs, 32 S&R-QSRs, for a total of 355 stores located in the following areas:

|              | Puregold | S&R | QSR | Total |
|--------------|----------|-----|-----|-------|
| Metro Manila | 114      | 6   | 22  | 142   |
| North Luzon  | 77       | 2   | 4   | 83    |
| South Luzon  | 90       | 2   | 4   | 96    |
| Visayas      | 20       | 2   | 1   | 23    |
| Mindanao     | 8        | 2   | 1   | 11    |
| Total        | 309      | 14  | 9   | 355   |

Since its incorporation, Puregold has never been subjected to nor has been involved in any bankruptcy, receivership or similar proceedings.

## (2) Business of Issuer

### (a) Description of the Registrant

- (i) **Principal Products and Services.** The Company conducts its operations through the following retail formats and store brands, each of which is strategically located to target distinct price points and demographics:
- **Hypermarkets.** The Company conducts its operations primarily through a hypermarket format known as "Puregold Price Club". These hypermarkets are mostly located in major commercial centers and near transportation hubs. Puregold Price Club offers a broad variety of food and non-food products, and generally caters to both retail customers and resellers such as members of the Company's pioneering *Tindahan ni AlingPuring* ("TNAP") loyalty/marketing program. The average net selling space of the Company's hypermarket is 2,000 to 2,500 square meters. Each hypermarket offers more than 25,000 stock-keeping units (SKU).
  - **Supermarkets.** The Company also established a supermarket format known as "Puregold Junior", which are mostly located in residential areas and offer a higher proportion of food to non-food products vis-a-vis the Company's hypermarkets. The supermarkets have a store layout similar to the Company's hypermarkets but on a smaller scale. Puregold Junior stores generally cater to retail consumers. The average net selling space of the Puregold Junior supermarkets is around 800 square meters. SKUs of product assortment ranges from 4,000 to 5,000.
  - **Discounters.** "Puregold Extra" is the Company's small store format which offers a more limited number of goods, comprising the Company's top-selling SKUs ranging from 3,000 to 5,000. The average net selling space of these stores is around 400 square meters.
  - **S & R Membership Shopping** – S&R Membership Shopping started operations with 4 locations in Metro Manila in 2006. It opened its Cebu warehouse in November 2010, Pampanga warehouse in November 2011, Davao warehouse in May 2013, Mandaluyong warehouse in November 2013 and Imus warehouse in December 2014. In 2015, it opened 1 warehouse in Nuvali, Sta. Rosa, Laguna and 10 QSR outlets. It opened 2 warehouses located in the provinces of Iloilo and Cagayan de Oro and 7 QSR outlets in 2016. In 2017, S&R opened 2 warehouses in Dau, Pampanga and Commonwealth, Quezon City. By the end of 2017, S&R operates 14 warehouses and 32 QSRs.

S&R has adopted a warehouse club concept where most of the products offered are in club packs. Majority of the merchandise are imported brand names mostly sourced from the

United States. Currently, S&R is the biggest reseller of imported quality products at very competitive prices.

- *Entenso Equities, Inc.* is wholly owned subsidiary of Puregold holding equity interests in three (3) companies under its umbrella operating the following retail formats and brands:

- 1) *PG Lawson, Inc.* with 29 opened "LAWSON" convenience stores all located in Metro Manila;
- 2) *Ayagold Retailers, Inc.*, a 50/50 joint venture with Ayala Land. It opened mall-based supermarket in July 2015 called "Merkado" located at UP Town Center, Quezon City and Vertis North Mall, Quezon City on December 8, 2017.
- 3) *San Roque Supermarkets* which operates 20 supermarkets located mostly in Metro Manila.

- *PPCI Subic, Inc.* is operating one Puregold branch within the Subic Freeport Zone in Subic Bay, Olongapo City. It has 4,917.70 square meters in selling area.

Puregold focuses on two customer segments: retail consumers and resellers. S&R, on the other hand, serves the "A", "B" and aspirational "C" market segments whose monthly income is over P80,000. The acquisition of S&R enabled the Company to widen its market spectrum comprising practically all the socio-economic brackets.

For resellers, the Company has its TNAP loyalty/marketing program. It started in 2001 and as of December 31, 2017, the Company served over 350,000 *sari-sari* stores and small to medium-size businesses, and engaged over 3,000 suppliers and trade partners.

For retail end consumers, the Company has implemented a loyalty Perks program. Among the many other programs and promotions, Puregold returns favor to the loyal customers through its "Perks Card". It is a loyalty program open to all Puregold shoppers who are 18 years old and above. It is specifically designed for customers who do not own *sari-sari* stores or related businesses. Points earned have an equivalent peso value which can be converted to a rebate or treat. To further enhance customer experience, Puregold has even tapped its affiliates into doing partnerships so customer can enjoy more benefits. Furthermore, with over 1.1 Million members as of December 2017 Puregold tapped various multi-national suppliers to create exclusive programs for Perks card holders for the entire year.

As of December 2017, S&R has a total active members of over 600,000. To effectively serve its customer base, the Company maintains strong relationship with suppliers and trade partners, working closely with them to satisfy customers with reliable on-time deliveries.

**Foreign Sales.** The Company has no branches or stores outside the Philippines.

**(ii) Distribution Methods.** For Puregold, replenishment and distribution are undertaken as follows:

*Direct-to-store delivery* - A substantial portion of the Company's inventory and other supplies and materials are delivered directly by suppliers to the Company's stores. Considering the bulk of business, the Company is able to order truck load. Orders and merchandise deliveries are received just in time with a 3-day lead time from PO date.

*Cross-dock facilities* – About 12% of the suppliers who are unable to directly deliver to the Company's stores delivers their products to the Company's 2 out-sourced cross-dock facilities for onward distribution to Puregold stores.

*Store-to-store transfer* - All of the Company's stores have a stockroom on premises with warehousing capabilities for additional inventory. However, there are hypermarkets with large warehouses which can accommodate merchandise intended for nearby small-format stores. As needed, goods are transferred from a large store to a small store.

S&R sends out buyers all over the world to source for its best products. Around 60-65% of the merchandise that S&R sells are bought and imported directly by S&R. It currently operates its own 5 distribution centers.

- (i) **New Product and Services.** The Company has been in partnership with Globe G Cash for the implementation of its "Pure Padala" program where Filipino overseas workers can send money as direct payment for groceries which their families can buy from any Puregold branch. Moving forward, this program could be expanded into a full service money remittance to better serve the needs of our customers.
- (ii) **Competition.** SM Supermarkets, Savemore, SM Hypermarkets, Shopwise/Rustan's, Robinsons, and Walter-Mart are among the top and dominant market participants in the retail sector among the hypermarket, supermarket, neighborhood store, and cash & carry formats.
- (iii) **Suppliers.** With over 3,000 regular suppliers, the Company's supplier base is diversified between local suppliers such as San Miguel Corporation, Universal Robina Corporation, Monde Nissin, and multinational corporations such as Nestle, Unilever and Procter & Gamble. The Company selects its suppliers using a number of criteria, including product assortment and quality, market share of the Company in a particular supplier's location, brand reputation, supplier's capacity, Company business plans and budgets, logistic possibilities, and compliance with the Company's commercial principles.

S&R sources majority of its merchandise from global vendors who have been supplying to membership clubs worldwide. Most of its products are sourced from the United States.

- (iv) **Dependence upon single or few supplier or customer.** The Company believes that its business as a whole is not dependent on any single supplier. The Company's three largest food suppliers are Nestlé Philippines, Universal Robina Corporation and Monde Nissin. The Company's three largest non-food suppliers are Procter & Gamble, Unilever Philippines and Colgate-Palmolive.

Further, the Company is not reliant on a single or few customers but to the buying public in general. The Company's stores target customers who live within walking distance of its stores and those who use personal or public transport to shop. The Company provides suitable car parking facilities to accommodate customers who travel to stores by car, and also locates its stores in areas close to main transportation hubs. The Company also offers delivery services to resellers who are unable to travel to the Company's stores.

Likewise S&R is not dependent on a single or few customers but caters to its growing number of active members.

The Company believes that its stores can address the needs of all of its customers through its wide product range, large selection of food as well as non-food products and increasing share of private label products. The Company divides its customers into several categories:

- *Retail consumers ("C" and "D" class):* These consumers have an average income of P12,000 to P80,000. A typical ticket for retail consumers ranges from P500 to P3,000 per shopping trip at an average frequency of two to four times per month.
- *Resellers:* Consisting of resellers, small to medium size *sari-sari* stores, as well as canteens, restaurant, bakeries, convenience and drug stores. As of December 31, 2017, there were over 350,000 business owners registered with the Company.
- *Retail Consumers ("A" and "B" class):* For S&R, it is targeting that 4% population of the Philippines which comprise the A and B market segment. This segment has an average income of over 80,000 per month.

- (v) **Transactions with Related Parties.** The Group, in the ordinary course of its business, engages in a variety of arms-length transactions with related parties<sup>2</sup>. Certain related party transactions are described below:

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

The Parent Company is a party to a trademark Licensing Agreement (the "Licensing Agreement") with Mr. Lucio Co, under which Mr. Co licenses the use of tradenames and trademarks related to the "Puregold" brand and other Company affiliates, including Puregold Finance, Inc., Puregold Duty Free-Subic, Inc., Puregold Realty Leasing and Management Inc., Puregold Duty Free, Inc. and Puregold Properties, Inc. (the "Licensed Affiliates"). The Parent Company pays Mr. Co royalty fees of 1/20 of 1% of the Company's net sales for the use of tradenames and trademarks. This Licensing Agreement is for a period of 30 years and is exclusive. Consequently, during the term of the Licensing Agreement, Mr. Co cannot license the tradenames and trademarks under this agreement except to Puregold Junior and the Licensed Affiliates. None of the tradenames and trademarks can also be transferred by Mr. Co.

In 2007, Kareila entered into a concession contract with PSMT Phils., Inc., a company owned by Mr. Co, for the 4 locations of S&R in Manila. Instead of paying rental to PSMT, Kareila paid a concession fee of 15% of revenue. The contract was for 5 years and renewable thereafter. In March 2012, concession fee was reduced to 4%. The concession fee covered the cost of lease rental, utilities, manpower, security services, maintenance costs and marketing expenses.

The Group has an agreement with Puregold Finance, Inc., pursuant to which the employees are able to avail salary loans from Puregold Finance, Inc., and loan repayments are made by the Group through salary deductions, which are withheld from employees to repay Puregold Finance, Inc. The Group is not a guarantor to any of these loans.

Transactions between related parties are on arm's length basis in a manner similar to transactions with non-related parties. The terms under which the Group binds itself with related parties are comparable to those available from unrelated third parties. To ensure this, the Group uses the terms and provisions it has in place for similar contracts with unrelated third parties as a benchmark for its agreements with related parties.

- (vi) **Trademarks.** The Company is a party to a trademark Licensing Agreement with Mr. Lucio Co, under which Mr. Co licenses the use of tradenames and trademarks related to the "Puregold" brand. The Company pays Mr. Co royalty fees of 1/20 of 1% of the Company's net sales for the use of the tradenames and trademarks. This Licensing Agreement is for a period of 30 years, and is exclusive. The list of the tradenames and trademarks subject of the Licensing Agreement is set out below.

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<sup>2</sup> For more detailed information please refer to the related party transactions in the Audited Consolidated Financial Statements for the year 2017 hereto attached as Annex "B".

| TRADE NAMES         |                     | TRADE MARKS         |                     |
|---------------------|---------------------|---------------------|---------------------|
| Puregold            | Puregold Jr.        | Aling Puring        | Puregold Junior     |
| Puregold Price Club | Puregold Bulilit    | Puregold            | Puregold Price Club |
| Puregold Choice     | Puregold Suki       | Puregold Exclusives | Puregold Choice     |
| Puregold Extra      | Barangay Puregold   | Puregold Express    | Barangay Puregold   |
| Puregold Jackpot    | Puregold Exclusives | Puregold Jackpot    | Puregold Bulilit    |
| Puregold Junior     |                     | Puregold Jr.        | Puregold Suki       |

- (i) **Government approvals.** Puregold and its subsidiaries have obtained all permits, licenses and approvals from national and local government units and other government agencies necessary to construct and/or lease supermarket buildings and operate the same.
- (ii) **Effect of existing governmental regulations.** Puregold and its subsidiaries have no knowledge of recent or probable government regulation that may have material adverse effect on the business operation or financial position of the Company and its subsidiaries.
- (iii) **Cost and effect of compliance with environmental laws.** The Company estimates its annual cost for maintaining and renewing the ECCs and other environmental permits for all its existing stores to be about P4 million.
- (iv) **Employees.** As of 31 December 2017, the Company has approximately 6,497 employees. The following table sets out certain details of the Company's employees by location, function and status:

| Department       |              |
|------------------|--------------|
| Store Operations | 5,388        |
| Head Office      | 1,109        |
| <b>Total</b>     | <b>6,497</b> |

| Rank           |              |
|----------------|--------------|
| Executive      | 6            |
| Senior Manager | 25           |
| Manager        | 266          |
| Officer        | 441          |
| Supervisory    | 2,568        |
| Rank & File    | 3,191        |
| <b>Total</b>   | <b>6,497</b> |

| Employment Status |              |
|-------------------|--------------|
| Regular           | 4,621        |
| Probationary      | 844          |
| Contractual       | 1,032        |
| <b>Total</b>      | <b>6,497</b> |

The Company anticipates that it will employ approximately 600 employees within the next 12 months for the planned 25 store openings in 2018, and the Company does not expect to encounter any difficulty in sourcing the manpower for these additional positions. The Company believes that its relations with its employees are generally good. The Company has experienced no material work stoppages or strikes in the past. The Company currently has no labor union nor any collective bargaining agreement with any group of employees.

- (v) **Major Risks.** The Company considers the following major risks that may have potential adverse effect on its financial condition and operation, as follows:

***The Company may experience difficulty in implementing its growth strategy.*** The Company's growth is dependent on its strategy to continue to build stores and successfully operate stores in new locations in the Philippines. Successful implementation of this strategy depends upon, among other things:

- favorable economic conditions and regulatory environment;
- the identification and acquisition of suitable sites for store locations;
- its ability to purchase or lease appropriate real estate for store locations;
- its ability to open new stores in a timely manner;
- its ability to continue to attract customers to its stores;
- the hiring, training and retention of skilled store personnel;
- the identification and relocation of experienced store management personnel;
- the effective management of inventory to meet the needs of its stores on a timely basis;
- the availability of sufficient levels of cash flow or necessary financing to support the Company's expansion; and
- the ability to successfully address competitive merchandising, distribution and other challenges encountered in connection with expansion into new geographic areas and markets.

Failure by the Company to successfully implement its growth strategy due to any of the reasons identified above or otherwise may have a material adverse effect on its financial condition and results of operations.

However, the Company believes it is well-positioned to take advantage of continued growth opportunities in the Philippine retail market. The Philippines has one of the lowest penetration rates in Asia in the modern food retail sector, which comprises modern organized store formats such as hypermarkets and supermarkets.

***The Company may experience difficulties in expanding into the Visayas and Mindanao.*** Expansion into these areas exposes the Company to operational, logistical and other risks of doing business in new territories. The Company may find it difficult to obtain regulatory or local government approvals for new stores in these areas due to differences in local requirements and processes. The Company may also experience difficulty in building the "Puregold" brand name in these new areas. Operationally, the Company may experience supply, distribution, transportation and/or inventory management issues due to the limited presence of large retailers and underdevelopment of distribution networks. Any difficulties the Company experiences with respect to developing its business presence in the Visayas and Mindanao areas could materially affect its growth strategy, financial condition and results of operations.

But with the Company's well-recognized brand that has become associated with low prices, value and a wide assortment of goods, the Company believes it can manage the risk and successfully expand in Visayas and Mindanao Region. The Company believes this strong brand equity attracts customers to the Company's newly opened stores within a shorter time period than brands that are not as well-recognized, and contributes to the Company's ability to achieve profitability from new stores within a short time period.

***The Company may not be able to maintain or improve store sales.*** The Company may not be able to maintain or increase the level of store sales that it has experienced in the previous years. The Company's overall store sales have fluctuated in the past and will likely fluctuate in the future; a variety of factors affect store sales, including consumer preferences, competition, economic conditions, pricing, in-store merchandising-related activities and the Company's ability to source and distribute products efficiently.

The Company, however, plans to continue to improve and renovate existing stores by upgrading them to address the changing needs and preferences of customers and enhance their overall shopping experience. These efforts include, among others, re-modelling store layouts by optimizing and/or expanding the sales floor areas of existing stores to further improve the visitor traffic, optimally positioning promotional items and continually maintaining and upgrading store decor. The Company believes that these efforts make the stores more attractive to customers and contribute to customer loyalty and to the Puregold brand name.

***New stores may place a greater burden on the Company's existing resources and adversely affect its business.*** The Company's proposed expansion will place increased demands on its operational, managerial, financial and administrative resources. These increased demands could cause the Company to operate its business less effectively, which in turn could cause deterioration in the financial performance of its existing stores. New store openings in markets where the Company has existing stores may also result in reduced sales volumes at its existing stores in those markets. In addition, the Company, or its third party vendors and suppliers, may not be able to adapt its distribution, management information and other operating systems to adequately supply products to new stores at competitive prices. Any expansion may adversely affect the efficiency of the Company's existing operations and quality of its customer service and may materially affect its financial condition and results of operations.

However, the Company's strong relationship with suppliers and trade partners is a key feature in maintaining its price competitiveness while offering a comprehensive range of products. The Company sources products from over 3,000 domestic and multinational suppliers and has maintained a stable relationship with its top suppliers since it was first established in 1998. The Company believes that these suppliers are able to provide the Company with valuable discounts on merchandise partly because of its long-standing relationships and good credit history. The Company also collaborates with these top suppliers through regular meetings and other programs to further improve the Company's service. The Company believes that these relationships are an important part of its success in maintaining a stable supplier base.

In Metro Manila's local retail market, the Company has also fostered its relationship with suppliers through programs such as TNAP, which puts small business owners directly in contact with suppliers at an annual trade show. To facilitate delivery from smaller scale suppliers with limited distribution capabilities, the Company engages third parties to provide cross-docking services. This allows certain suppliers to benefit from a cost effective supply chain as the Company assists them to conveniently outsource part of their delivery obligations. This focus on supplier relationships has enabled the Company to take advantage of additional supplier discounts that the Company is then able to reflect by offering competitively priced goods to customers. These supplier discounts are key to the Company's pricing advantage over its competitors.

Furthermore, the Company has well-established relationships with key tenants at its stores such as Jollibee, McDonald's, and Mercury Drug as well as major real estate companies, such as Ayala Land, Inc., which offers the Company anchor tenant opportunities at their real estate developments. These relationships serve as key business partnerships enabling both the Company and its partners to attract customers to their businesses.

***The Company may face increased competition from other hypermarket or supermarket companies in the Philippines.*** The retail industry in the Philippines is highly competitive. The intensity of the competition in the Philippine retail industry varies from region to region,

with Metro Manila generally considered to be the most competitive market in the Philippines. Metro Manila is the Company's largest market in terms of revenue. The Company's growth depends on its ability to attract and retain customers, predict consumer trends and upgrade its facilities. Current major competitors with several hypermarkets, supermarkets, department stores and malls, include the SM Retail Group, Robinsons Retail Group and Metro Gaisano, among others. Each of these brands competes with the Company on the basis of product selection, product quality, customer service, price, store location or a combination of these factors. In addition, some competitors are also aggressively expanding their number of stores or their product offerings. There can be no assurance that the Company will be able to compete successfully against current competitors or new entrants.

The Company believes that its ability to achieve a strong track record of growth has largely been due to a business model that emphasizes the following: (1) a multi-format offering of hypermarket, supermarket and discounter stores; (2) strategic store locations, and (3) efficient and scalable operations. The Company believes that this business model differentiates it from its competitors and places it in a position to achieve further expansion. The Company has strategically-located stores tailored to maximize coverage and penetration of its targeted market segments. The Company offers distinct store formats that are suitable for different localities such as in commercial areas or residential areas. In terms of location, the Company assesses through informal market research whether a proposed store will be within the catchment area of, and easily accessible by, its target customers. The Company believes that its careful selection of store locations and focus on specific markets has enabled it to build brand strength and loyalty across its targeted customer base.

***The Company's retail business depends on its ability to source and sell the appropriate mix of products to suit consumer preferences.*** The Company's success depends in part on its ability to source and sell products that both meet its standards for quality and appeal to customers' preferences. A small number of the Company's employees are primarily responsible for both sourcing products that meet the Company's specifications and identifying and responding to changing customer preferences. Failure to source and market such products, or to accurately forecast changing customer preferences, could lead to a decrease in the number of customer transactions at the Company's stores and a decrease in the amount customers spend when they visit these stores.

Consumer demand for the Company's products is directly affected by consumer preferences. Consumer preferences in the markets in which the Company operates or intends to operate may cease to favor the Company's store formats and/or the products offered by the Company as a result of changes in lifestyle and dietary preferences or as a result of national or regional economic conditions. Similarly, local conditions may cause customer preferences to vary from region to region. If the Company's management is unable to identify and adapt to such changes in consumer preferences quickly, consumer demand for the Company's products may decline, which could have a material adverse effect on the Company's business, financial condition and results of operations.

However, the Company has an advanced management information technology system that allows real-time monitoring of critical business information from merchandising, inventory and point-of-sale data to customers, to financial management systems and business intelligence. This system allows the Company to improve its operational efficiency and adjust product offerings in line with market demand based on the sales data accumulated by its information systems. The system also enables automated order replenishment and ensures just-in-time delivery of products from suppliers. As a result, the Company's management information system is a key contributor to the Company's growth, providing an in-depth understanding of local demographics and ability to respond quickly to changing consumer preferences.

***The success of the Company's business depends in part on the Company's ability to develop and maintain good relationships with its current and future suppliers.*** The sourcing of the Company's products is dependent, in part, on its relationships with its suppliers. The Company has had long working relationships with a broad range of multinational companies such as Procter & Gamble, Unilever, Nestlé, Del Monte and other

multinational companies, which provide approximately 38% of its in store merchandise. The Company also has long working relationships with domestic companies such as San Miguel Corporation and Universal Robina Corporation. If the Company is unable to maintain these relationships, it may not be able to continue to source products at competitive prices that both meet its standards and appeal to its customers.

To mitigate this risk, the Company intends to continue entering into strategic partnerships and other business relationships with its suppliers, tenants and other business partners, such as established real estate developers, with a view to raising its brand awareness and supporting its growth objectives. The Company also aims to continue developing its relationships with these suppliers, tenants and other business partners to capitalize on any further opportunities for synergy and consolidate key relationships. In addition, the Company intends to enhance its unique relationship with its customers by further improving its TNAP program and sharing store management practices with resellers and putting them in contact with key suppliers. The Company also plans to continue providing customer loyalty incentives to strengthen its market position across its broad customer base.

## **ITEM 2 PROPERTIES**

As of December 31, 2017, the Company has the following properties:

Fourteen (14) owned parcels of land with a total of 33,327.57 square meters located at the following areas:

|              |    |
|--------------|----|
| North Luzon  | 2  |
| South Luzon  | 8  |
| Metro Manila | 2  |
| Visayas      | 2  |
| Mindanao     | 0  |
| Total        | 14 |

Sixty three (63) owned buildings with a total of 273,527.34 square meters located at the following areas:

|              |    |
|--------------|----|
| North Luzon  | 17 |
| South Luzon  | 21 |
| Metro Manila | 23 |
| Visayas      | 1  |
| Mindanao     | 1  |
| Total        | 63 |

Sixty Two (62) leased parcels of land with a total of 277,841.29 square meters located at the following areas:

|              |    |
|--------------|----|
| North Luzon  | 18 |
| South Luzon  | 20 |
| Metro Manila | 22 |
| Visayas      | 1  |
| Mindanao     | 1  |
| Total        | 62 |

Two Hundred Fifty Three (253) leased buildings with a total of 557,147.85 square meters located at the following areas:

|              |     |
|--------------|-----|
| North Luzon  | 62  |
| South Luzon  | 65  |
| Metro Manila | 92  |
| Visayas      | 22  |
| Mindanao     | 12  |
| Total        | 253 |

### **ITEM 3 LEGAL PROCEEDINGS**

Neither the Company nor any of its subsidiaries has been involved or is involved in any governmental, legal or arbitration proceedings that may have or have had a material effect on the Company's business, financial position or profitability.

None of the properties of the Company and its subsidiaries, nor any property of its affiliates has been or is a subject of any governmental, legal or arbitration proceedings.

### **ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

During the Annual Stockholders' Meeting in 2017, the following matters were submitted to a vote of security holders:

1. Proof of Notice, Existence of Quorum and Call to order
2. Approval of Minutes of the 2016 Annual Stockholders' Meeting and Ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting
3. Annual Report
4. Election of Regular and Independent Directors
5. Appointment of External Auditor
6. Approval of Merger of the Company with Goldtempo Company, Incorporated, Daily Commodities, Inc. and First Lane Super Traders Co., Inc.
7. Other Matters
8. Adjournment

## **PART II**

### **OPERATIONAL AND FINANCIAL INFORMATION**

#### **Item 5. MARKET FOR ISSUER COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS**

The following table shows the high and low prices of the Company's shares in the Philippine Stock Exchange for the years 2016 and 2017, respectively.

*(Source: Daily Quotation Reports of the Philippine Stock Exchange)*

| <b>2017</b> | <b>High</b> | <b>Low</b> |
|-------------|-------------|------------|
| January     | 44.25       | 38.85      |
| February    | 46.30       | 43.00      |
| March       | 46.10       | 43.35      |
| April       | 44.15       | 41.70      |
| May         | 43.70       | 42.55      |
| June        | 45.80       | 44.00      |

|           |       |       |
|-----------|-------|-------|
| July      | 47.30 | 44.95 |
| August    | 48.30 | 47.00 |
| September | 53.50 | 48.55 |
| October   | 54.90 | 50.85 |
| November  | 52.00 | 47.30 |
| December  | 51.00 | 48.00 |

| 2016      | High  | Low   |
|-----------|-------|-------|
| January   | 34.20 | 30.50 |
| February  | 34.50 | 33.15 |
| March     | 37.65 | 33.30 |
| April     | 41.50 | 36.35 |
| May       | 42.90 | 38.10 |
| June      | 43.40 | 41.00 |
| July      | 49.20 | 42.50 |
| August    | 48.75 | 44.90 |
| September | 45.15 | 41.65 |
| October   | 43.50 | 40.40 |
| November  | 44.00 | 39.05 |
| December  | 40.00 | 36.00 |

The market capitalization of the Company's common shares as of December 31, 2017 based on the closing price of P53.15 per share, was approximately P147 billion. There are approximately 42 registered holders of common shares owning at least 1 board lot per 100 share as of December 31, 2017.

The following are the top 20 registered holders of the Company's securities, number of shares and percentage to the outstanding shares as of December 31, 2017:

|                                     |               |     |
|-------------------------------------|---------------|-----|
| Cosco Capital, Inc.                 | 1,410,867,188 | 51% |
| The HSBC                            | 321,057,429   | 12% |
| Deutsche Bank Manila                | 277,178,216   | 10% |
| Lucio L. Co                         | 211,088,022   | 8%  |
| Susan P. Co                         | 178,242,585   | 6%  |
| Citibank N.A.                       | 118,757,249   | 4%  |
| Government Service Insurance System | 47,507,702    | 2%  |
| Standard Chartered Bank             | 28,341,272    | 1%  |
| Ferdinand Vincent P. Co             | 26,709,460    | 1%  |
| Pamela Justine P. Co                | 26,709,460    | 1%  |
| Banco De Oro-Trust Banking Group    | 23,872,575    | 1%  |
| COL Financial Group, Inc.           | 9,727,575     | 0%  |
| MBTC – Trust Banking Group          | 9,218,991     | 0%  |
| BPI Securities Corporation          | 8,769,047     | 0%  |
| Camille Clarisse P. Co              | 8,155,288     | 0%  |
| Social Security System              | 6,713,420     | 0%  |
| Wealth Securities, Inc.             | 6,204,360     | 0%  |
| RCBC Trust & Investment Division    | 4,677,270     | 0%  |

|                      |           |    |
|----------------------|-----------|----|
| SB Equities, Inc.    | 4,173,589 | 0% |
| A&A Securities, Inc. | 4,021,200 | 0% |

## **Dividend**

The Company declared the following dividends from the year 2012 to 2017:

| Dividend and Declaration Date        | Record Date      | Payment Date     |
|--------------------------------------|------------------|------------------|
| P 0.20 per share / May 8, 2012       | May 22, 2012     | June 5, 2012     |
| P 0.20 per share / December 27, 2012 | January 14, 2013 | February 7, 2013 |
| P 0.30 per share / December 16, 2013 | January 6, 2014  | January 30, 2014 |
| P 0.30 per share / December 18, 2014 | January 12, 2015 | February 5, 2015 |
| P 0.30 per share / December 18, 2015 | January 8, 2016  | January 18, 2016 |
| P 0.30 per share / December 22, 2016 | January 12, 2017 | January 20, 2017 |
| P 0.40 per share / December 15, 2017 | January 2, 2018  | January 26, 2018 |

**Securities Sold.** There were no recent sales of unregistered or exempt securities, including issuance of securities constituting an exempt transaction.

## **ITEM 6 MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

The information requested by item 6 is attached herewith as Annex "A"

## **ITEM 7 FINANCIAL STATEMENTS**

The Audited Consolidated Financial Statements for 2017 is hereto attached as Annex "B".

## **ITEM 8 CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The External Auditor of the Company for fiscal year 2017 is R.G. Manabat & Co. (KPMG). The partner-in-charge is Mr. Darwin Virocel. The Company has engaged R.S. Manabat & Co. (KPMG) since 2007 and there has been no disagreements on accounting and financial disclosure. Prior to 2016, the partner handling the account of the Company was Mr. Arthur Machacon.

In compliance with SRC Rule 68, (3), (b), (iv) where it states that changes should be made in assignment of external auditor or assigned partner at least every five (5) years.

### **Audit and Audit Related Fees**

The Company and subsidiaries paid R.G. Manabat & Co. (KPMG) the total amount of P4,800,000.00 for services rendered in 2016 and P4,800,000.00 for services rendered in 2017. The Company did not engage R.G. Manabat & Co. in any non-audit services.

It has been the policy of the Company, based on its Audit Committee Charter, that the Audit Committee reviews the reports of the external auditors including the audit and non-audit services rendered and fees collected by them.

## **ITEM 9 CONTROL AND COMPENSATION INFORMATION**

Below are the profile of the incumbent directors and executive officers of the Company, indicating their respective business experience for the past five (5) years:

MR. LUCIO L. CO, 63 years old, Filipino, Chairman of the Board

Mr. Co has been a Director and Chairman of the Company since it was incorporated in September 1998.

Mr. Co currently holds the following positions in other publicly-listed companies: Chairman of Cosco Capital, Inc., Da Vinci Capital Holdings, Inc., and Director of Philippine Bank of Communications.

Mr. Co is also the Chairman of the following privately-owned companies: Alcorn Petroleum & Minerals Corporation, Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Entenso Equities Incorporated, Invescap Incorporated, Liquigaz Philippines Corp., NE Pacific Shopping Centers Corporation, P.G. Holdings, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp. San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc.,

He is also a Director of the following privately-owned companies: Alphaland Makati Tower, Inc., Catuiran Hydropower Corporation, Karayan Hydropower Corporation, Kareila Management Corp., LCCK & Sons Realty Corporation, League One Finance and Leasing Corporation, Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., PG Lawson Company, Inc., PPCI Subic, Inc., Patagonia Holdings Corp., Premier Wine & Spirits, Inc., S&R Pizza (Harbor Point), Inc., and S&R Pizza, Inc.

He is a member of the Board of Trustees of Adamson University and Luis Co Chi Kiat Foundation, Inc.

Mr. Co has been an entrepreneur for the past 40 years.

MRS. SUSAN P. CO, 60 years old, Filipino, Vice-Chairman

Mrs. Co has been a Director, Vice-Chairman of Puregold Price Club, Inc. since it was incorporated in September 1998.

Mrs. Co currently holds the following positions in other publicly-listed companies: Vice-Chairman of Cosco Capital, Inc. and Director of Philippine Bank of Communications.

She is currently the Chairman of Alphaland Makati Tower, Inc. and Director of the following private companies: Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Kareila Management Corp., KMC Realty Corp., Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Montosco, Inc., Nation Realty, Inc., NE Pacific Shopping Center Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PG Lawson Company, Inc., PPCI Subic Inc., Premier Wines and Spirits, Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp., Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., San Jose City I Power Corp., Union Energy Corporation and Union Equities, Inc.

Mrs. Co received a Bachelor of Science Degree in Commerce from the University of Santo Tomas.

MR. FERDINAND VINCENT P. CO, 36 years old, Filipino, President

Mr. Co has been a Director of the Company since 2003. He was first elected President of the Company on May 12, 2015.

Mr. Ferdinand Vincent P. Co currently holds the following positions: Chairman and President of Alerce Holdings Corp., Invesco Company, Inc., KMC Realty Corporation, League One, Inc., Meritus Prime Distributions, Nation Realty, Inc., Patagonia Holdings Corp., PPCI Subic, Inc., VFC Land Resources, Inc.; President of Ayagold Retailers, Entenso Equities Incorporated, PG Lawson Company, Inc. and Union Equities, Inc.; and Director of Alphaland Makati Tower, Inc., Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Daily

Commodities, Inc., Ellimac Prime Holdings, Inc., Entenso Equities, Inc., Kareila Management Corp., P.G. Holdings, Inc., PSMT Philippines, Inc., Premier Wine & Spirits, Inc., Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp., San Jose City Power Corp., and Union Energy Corporation.

Mr. Co received a Bachelor of Science Degree in Entrepreneurial Management from the University of Asia and the Pacific.

MR. LEONARDO B. DAYAO, 74 years old, Filipino, Director

Mr. Dayao was the President of the Company from 2005 to 2014. He was first elected as one of the members of the Board in 1998.

Mr. Dayao currently holds the following positions in other publicly listed companies: President of Cosco Capital, Inc. and Vice-Chairman of the Philippine Bank of Communications.

He also holds the following positions in private companies: Chairman of Catuiran Hydropower Corporation, Fertuna Holdings Corp., Kareila Management Corporation, League One Finance and Leasing Corporation, PSMT Philippines, Inc., PG Lawson Company, Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc.; President of Alcorn Petroleum Minerals Corporation, NE Pacific Shopping Centers Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., San Jose City I Power Corp., Union Energy Corporation; Vice-President of Alece Holdings Corp., Bellagio Holdings, Inc., KMC Realty Corporation, Puregold Properties, Inc., Union Equities, Inc., VFC Land Resources, Inc.; and Director of Canaria Holdings Corporation Entenso Equities Incorporated, Karayan Hydropower Corporation, Liquigaz Philippines Corp., and Puregold Realty Leasing & Management, Inc.

He received a Bachelor of Science Degree in Commerce from the Far Eastern University. He is a Certified Public Accountant and has completed Basic Management Program at Asian Institute of Management and earned units in MBA from University of the Philippines-Cebu.

MS. PAMELA JUSTINE P. CO, 33 years old, Filipino, Director

Ms. Co has been a Director of the Company since 2003.

Ms. Pamela Co is currently holding the following positions in privately-owned companies: Director of Alerce Holdings Corp., Bellagio Holdings, Inc., Blue Ocean Holding, Inc., Ellimac Prime Holdings, Inc., Fertuna Holdings Corp., Invesco Company, Inc., Kareila Management Corporation, KMC Realty Corporation, League One, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., P.G. Holdings, Inc., Patagonia Holdings Corp., PSMT Philippines, Inc., Pure Petroleum Corp., Premier Wine & Spirits, Inc., Puregold Duty Free (Subic), Inc., Puregold Properties, Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., SPC Resources, Inc., Union Energy Corporation, Union Equities, Inc., and VFC Land Resources, Inc.

She graduated from Thames International School with a Bachelor's Degree of Entrepreneurship.

MR. JACK HUANG, 64 years old, Filipino, Director

Mr. Huang is currently the Operations Manager and Vice-President for Visayas & Mindanao area of Abacus Securities Corporation. He is also a member of the Board of Trustees of Sacred Heart School – Ateneo de Cebu.

Mr. Huang started in Abacus in 1992. Before working with Abacus, Mr. Huang worked in Ayala Investment and Development Corporation from 1975 to 1983. He also worked in the Bank of the Philippine Islands from 1983 to 1990.

He also serves as Director of Cebu Business Continuous Forms and Richmedia Network, Inc., both privately-owned companies.

Mr. Huang graduated from Ateneo De Manila University in 1975 with a degree of Bachelor of Arts in Economics.

MS. MARILYN V. PARDO, 79 years old, Filipino, Independent Director

Mrs. Pardo was first elected as an Independent Director of the Company on October 5, 2010.

Mrs. Pardo held the following positions from the Company's incorporation to December 2016: Chief Executive Officer of Asian Holdings Corporation, Downtown Properties, Inc., Casa Catalina Corporation, Catalina Commercial Properties, Inc.

Mrs. Pardo received a Bachelor of Liberal Arts and an Associates Degree in Business from Assumption College in 1960.

MR. EDGARDO G. LACSON, 74 years old, Filipino, Independent Director

Mr. Lacson was first elected as an Independent Director of the Company on October 5, 2010.

Mr. Lacson is currently holding the following positions in privately-owned companies: Chairman of MIL Export Philippines, Inc., Metrostore Corporation, EML realty corp, and the Employers Confederation of the Philippines; President of MIS Maritime Corp., Safe Seas Shipping Agency Co., Inc., Member of Management Association of the Philippine, member of the Board of Trustees of De La Salle, former Trustee of Home Development Mutual Fund. Past President and Honorary Chair of Philippine Chamber of Commerce and Industry.

He also serves as a Director of the Philippine Stock Exchange representing Other market participants, director/treasurer of Link Edge and Independent Director of Global Ferro Nickel, Inc.

Mr. Lacson graduated from the De La Salle University with a Degree of Bachelor of Science in Commerce.

MR. JAIME DELA ROSA, 74 years old, Filipino, Independent Director

He is a former Director of Alcorn Gold Resources Corporation, PNCC – Skyway Corporation of the Philippines, and Development Bank of the Philippines. He also used to be the President of Portman Mining Philippines, Cabaluan Chromite Corp., and Food Terminal, Inc. He also worked as Head of Ayala Investment and Development Corporation and Philsec Investment Corporation for Visayas and Mindanao and Assistant Vice-President of Citibank.

He used to be an Associate Executive Trustee of the Asset Privatization Trust and former Director of Coco Life Insurance and Coco Life General Insurance.

Mr. Dela Rosa graduated from the Far Eastern University with a degree of Bachelor of Science, major in Accounting in 1964. He finished the Program on Global Financial Systems in 2002 at the John F. Kennedy School of Government, Harvard University.

MS. BABY GERLIE SACRO, 40 years old, Filipino, Corporate Secretary

Ms. Sacro has been the Corporate Secretary of the Company since 2000. Prior to joining the Company, she was employed by Plaza Fair, Inc. in the Compensation and Benefit Section of the Human Resources Department. Ms. Sacro received a Bachelor of Science degree in Entrepreneurial Management as well as completing a post-baccalaureate course in Management from the Polytechnic University of the Philippines.

ATTY. CANDY H. DACANAY-DATUON, 39 years old, Filipino, Assistant Corporate Secretary, Compliance Officer and Data Protection Officer

Atty. Dacanay-Datuon has been the Compliance Officer and Assistant Corporate Secretary of the Company since November 25, 2011. Ms. Dacanay-Datuon is a lawyer and a member of the Philippine Bar since 2004. On the same year, she was employed as counsel for the Company. She is currently the Corporate Secretary of Kareila Management Corporation (S&R) and League One Finance and Leasing Corporation. In 2018, she was appointed Data Protection Officer of the Company.

She received a Bachelor of Arts, Cum Laude, in Political Science from the Colegio de San Juan de Letran and a Bachelor of Laws Degree from the University of Santo Tomas.

MR. TEODORO A. POLINGA, 59 years old, Filipino, Comptroller

Mr. Polinga has been the Company's Comptroller since March 2015. Concurrently, he has also been the Group Controller of Cosco Capital, Inc. since July 2014 up to the present.

Prior to joining Cosco, he was engaged as one of the founding directors and President of MTM Ship Management Philippines from October 2013 up to June 2014. He was a founding member, Executive Director & CFO of Singapore registered companies Alchem Energy Limited and Summit Minerals, Pte. Ltd from 2010 to 2012. He was Chief Finance Officer and Director of Phoenix Petroleum Philippines from 2007 to 2008; Deputy CFO for PT Citramegah Karya Gemilang – Libya branch from 2008 to 2010; Senior Vice President for Finance of Citadel Commercial Group, 2001 to 2003; Senior Vice-President for Business Development of Citadel Commercial Group, 2003 to 2005; Executive Vice President of Citadel Commercial Group; Vice-President, CFO and Director of Unicol Management Services, 1989 to 2001.

Mr. Polinga is a Certified Public Accountant and started his career in public accounting practice with SGV & Co. He is also an alumnus of the Asian Institute of Management where he took up a Management Development Program in May 1990.

**ITEM 10 EXECUTIVE COMPENSATION**

The table below sets the total annual compensation of the CEO, four most highly compensated executive officers, namely, Lucio L. Co, Susan P. Co, Ferdinand Vincent P. Co, Iraida de Guzman and Maria Denise Carolino:

| Year | Salaries    | Bonus | Other Compensation |
|------|-------------|-------|--------------------|
| 2018 | P14,640,000 | -     | -                  |
| 2017 | P14,500,000 | -     | -                  |
| 2016 | P14,500,000 | -     | -                  |

All other officers and directors as group unnamed

| Year | Salaries     | Bonus | Other Compensation |
|------|--------------|-------|--------------------|
| 2018 | P139,415,029 | -     | -                  |
| 2017 | P91,012,231  | -     | -                  |
| 2016 | P82,738,938  | -     | -                  |

**ITEM 11 SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT**

The Company has the following information about persons or group of persons known to be record or beneficial owners of more than 5% of the capital stock of the Company:

| Title of Class | Name, Address of record owner                                     | Relationship with the Company  | Name of Beneficial Owner and Relationship with Record Owner | Citizenship  | Number of shares held | Percent |
|----------------|-------------------------------------------------------------------|--------------------------------|-------------------------------------------------------------|--------------|-----------------------|---------|
| Common         | Cosco Capital, Inc.<br>No. 900 Romualdez St.,<br>Paco, Manila     | Stockholder/<br>Parent Company | Parent Company                                              | Filipino     | 1,410,867,188         | 51%     |
| Common         | Lucio L. Co, No. 22 Pili Avenue, South Forbes Park, Makati City   | Stockholder/<br>Chairman       | Record owner himself                                        | Filipino     | 211,088,022           | 7.63%   |
| Common         | Susan P. Co<br>No. 22 Pili Avenue, South Forbes Park, Makati City | Stockholder/<br>Vice-Chairman  | Record owner herself                                        | Filipino     | 178,242,585           | 6.44%   |
| Common         | PCD Nominee Corp. (Non Filipino)                                  | Stockholder/<br>Not related    | Acting for various clients                                  | Non-Filipino | 647,474,547           | 23.41%  |
| Common         | PCD Nominee Corp. (Filipino)                                      | Stockholder/<br>Not related    | Acting for various clients                                  | Filipino     | 255,590,235           | 9.24%   |

In the table below are the holdings of the Directors and Executive Officers of the Company:

| Title of Class | Name of Beneficial Owner | Nature of beneficial ownership | Citizenship | Number of shares | Percent of Outstanding Voting Shares |
|----------------|--------------------------|--------------------------------|-------------|------------------|--------------------------------------|
| Common         | Lucio L. Co              | Direct                         | Filipino    | 211,088,022      | 7.63%                                |
| Common         | Susan P. Co              | Direct                         | Filipino    | 178,242,585      | 6.44%                                |
| Common         | Leonardo B. Dayao        | Direct                         | Filipino    | 739,925          | 0.027%                               |
| Common         | Ferdinand Vincent P. Co  | Direct                         | Filipino    | 26,709,460       | 0.97%                                |
| Common         | Pamela Justine P. Co     | Direct                         | Filipino    | 26,709,460       | 0.97%                                |
| Common         | Edgardo G. Lacson        | Direct                         | Filipino    | 1                | 0.00%                                |
| Common         | Marilyn V. Pardo         | Direct                         | Filipino    | 1                | 0.00%                                |
| Common         | Jack Huang               | Direct                         | Filipino    | 5,000            | 0.00%                                |
| Common         | Jaime Dela Rosa          | Direct                         | Filipino    | 1                | 0.00%                                |

- a. **Voting trust holders or 5% or more.** To the extent known to the Company, there is no person or group of persons holding more than 5% of the common shares by virtue of a voting trust or similar agreement as there has been no voting trust agreement which has been filed with the Company and the Securities and Exchange Commission.
- b. **Changes in Control.** There have been no arrangements that have resulted in a change in control of the Company during the period covered by this report.

## **ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The Group, in the ordinary course of its business, engages in a variety of arms-length transactions with related parties. Certain related party transactions are described below:

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

The Parent Company is a party to a trademark Licensing Agreement (the "Licensing Agreement") with Mr. Lucio Co, under which Mr. Co licenses the use of tradenames and trademarks related to the "Puregold" brand and other Company affiliates, including Puregold Finance, Inc., Puregold Duty Free-Subic, Inc., Puregold Realty Leasing and Management Inc., Puregold Duty Free, Inc. and Puregold Properties, Inc. (the "Licensed Affiliates"). The Parent Company pays Mr. Co royalty fees of 1/20 of 1% of the Company's net sales for the use of tradenames and trademarks. This Licensing Agreement is for a period of 30 years and is exclusive. Consequently, during the term of the Licensing Agreement, Mr. Co cannot license the tradenames and trademarks under this agreement except to Puregold Junior and the Licensed Affiliates. None of the tradenames and trademarks can also be transferred by Mr. Co.

In 2007, Kareila entered into a concession contract with PSMT Phils., Inc., a company owned by Mr. Co, for the 4 locations of S&R in Manila. Instead of paying rental to PSMT, Kareila pays a concession fee of 15% of revenue. The contract was for 5 years and renewable thereafter. In March 2012, concession fee was reduced to 4%. The concession fee covered the cost of lease rental, utilities, manpower, security services, maintenance costs and marketing expenses.

The Group has an agreement with Puregold Finance, Inc., pursuant to which the employees are able to borrow money from Puregold Finance, Inc., and loan repayments are made by the Group through salary deductions, which are withheld from employees to repay Puregold Finance, Inc. The Group is not a guarantor to any of these loans.

Transactions between related parties are on arm's length basis in a manner similar to transactions with non-related parties. The terms under which the Group binds itself with related parties are comparable to those available from unrelated third parties. To ensure this, the Group uses the terms and provisions it has in place for similar contracts with unrelated third parties as a benchmark for its agreements with related parties.

For more detailed information please refer to the related party transactions as disclosed in the Audited Financial Statements for the Year 2016 attached as Annex "B".

## **ITEM 13 CORPORATE GOVERNANCE**

The Company adopted the new Manual on Corporate Governance for publicly listed companies as mandated by the SEC in its Memorandum Circular No. 19 dated November 22, 2016.

As part of the continuing education of the directors and officers of the Company, a Corporate Governance seminar was conducted on February 23, 2018 at the Acacia Hotel, Alabang, Muntinlupa City from 1:00 pm to 5:00 pm. The seminar was conducted by the Sycip Gorres Velayo & Co., an accredited corporate governance provider of the SEC.

On February 9, 2018, the Board approved the Company's Data Privacy Manual and appointed Atty. Candy H. Dacanay-Datuon as Data Protection Officer in accordance with Data Privacy Act (RA 10173) of the Philippines.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17-C**

#### **(a) Exhibits**

Annex "A" – Management Discussion and Analysis and Plan of Operation  
Annex "B" – Audited Consolidated Financial Statements  
Annex "C" – Supplementary Schedules  
Annex "D" – Summary of Sec 17-C Reports

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this ANNUAL REPORT (SEC 17-A) to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Manila on April 16, 2018.

PUREGOLD PRICE CLUB, INC.  
Issuer

By:



**LUCIO L. CO**  
Chairman  
TIN No. 108-975-971



**FERDINAND VINCENT P. CO**  
President  
TIN No. 208-381-185



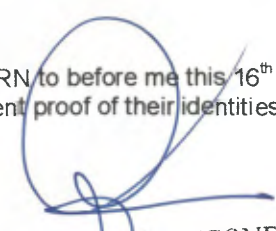
**TEODORO A. POLINGA**  
Comptroller  
TIN No. 104-883-077



**BABY GERLIE I. SACRO**  
Corporate Secretary  
TIN No. 914-383-469

SUBSCRIBED AND SWORN to before me this 16<sup>th</sup> day of April 2018 in the City of Manila, affiants presented competent proof of their identities.

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Series of 2018



**CAROLINE G. EXCONDE**  
NOTARY PUBLIC FOR THE CITY OF MANILA  
COMMISSION NO. 2018-035  
UNTIL DECEMBER 31, 2019  
PTR NO. 6952347 MANILA 12-06-17  
IBP NO. 1062654/12-07-17  
MCLE COMPLIANCE NO. V-0014251/02-16-2016  
ROLL NO. 55392/05-02-08  
NO. 900 ROMUALDEZ ST., PACO, MANILA 1007

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Group's results of operations, financial condition and certain trends, risks and uncertainties that may affect the Group's business should be read in conjunction with the auditors' reports and the Group's 2017 audited consolidated financial statements and notes attached herewith as Annex "B".

### Key Performance Indicators

The key performance indicators of the Group as at and for the last three (3) years ended December 31 are as follows:

|                                      | 2017          | 2016   | 2015   |
|--------------------------------------|---------------|--------|--------|
| Current Ratio <sup>(1)</sup>         | <b>1.62:1</b> | 1.73:1 | 1.58:1 |
| Asset to Equity Ratio <sup>(2)</sup> | <b>1.49:1</b> | 1.51:1 | 1.53:1 |
| Debt to Equity Ratio <sup>(3)</sup>  | <b>0.49:1</b> | 0.51:1 | 0.53:1 |
| Debt to Total Assets <sup>(4)</sup>  | <b>0.33:1</b> | 0.34:1 | 0.35:1 |
| Book Value per Share <sup>(5)</sup>  | <b>P17.34</b> | P15.61 | P13.89 |

|                                     | 2017          | 2016   | 2015   |
|-------------------------------------|---------------|--------|--------|
| Earnings per Share <sup>(6)</sup>   | <b>P2.11</b>  | P2.00  | P1.81  |
| Price Earnings Ratio <sup>(7)</sup> | <b>23.68x</b> | 19.52x | 19.19x |
| Return on Assets <sup>(8)</sup>     | <b>8.5%</b>   | 8.9%   | 8.9%   |
| Return on Equity <sup>(9)</sup>     | <b>12.8%</b>  | 13.6%  | 13.8%  |

- (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 Total Equity

### Results of Operations:

For the year ended December 31, 2017, the Group earned a consolidated net income of P5,840 million at 4.7% net margin and an increase of 5.7% from P5,526 million at 4.9% net margin in 2016 of the same period. This was principally driven by the continuous expansion of the Group both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base

stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

The Group's financial performance is presented below for the last three (3) comparative years ended December 31:

| (In millions)                |                 | 2017       |          |                 | 2016       |          |                | 2015       |  |
|------------------------------|-----------------|------------|----------|-----------------|------------|----------|----------------|------------|--|
|                              |                 | % to Sales | % Change |                 | % to Sales | % Change |                | % to Sales |  |
| <b>Net Sales</b>             | <b>P124,491</b> | 100.0%     | 10.6%    | <b>P112,589</b> | 100.0%     | 15.9%    | <b>P97,172</b> | 100.0%     |  |
| Cost of Sales                | 103,836         | 83.4%      | 10.4%    | 94,051          | 83.5%      | 16.6%    | 80,683         | 83.0%      |  |
| <b>Gross Profit</b>          | <b>20,655</b>   | 16.6%      | 11.4%    | <b>18,538</b>   | 16.5%      | 12.4%    | <b>16,489</b>  | 17.0%      |  |
| Other Operating Income       | 3,513           | 2.8%       | 7.6%     | 3,266           | 2.9%       | 13.2%    | 2,886          | 3.0%       |  |
| <b>Gross Income</b>          | <b>24,168</b>   | 19.4%      | 10.8%    | <b>21,805</b>   | 19.4%      | 12.5%    | <b>19,375</b>  | 19.9%      |  |
| Operating Expenses           | 15,516          | 12.5%      | 13.2%    | 13,707          | 12.2%      | 12.1%    | 12,225         | 12.6%      |  |
| <b>Operating Income</b>      | <b>8,652</b>    | 7.0%       | 6.9%     | <b>8,097</b>    | 7.2%       | 13.3%    | <b>7,150</b>   | 7.4%       |  |
| Other income(expenses)       | (268)           | -0.2%      | 49.3%    | (101)           | -0.1%      | 44.3%    | (45)           | 0.0%       |  |
| <b>Net Income before tax</b> | <b>8,384</b>    | 6.7%       | 5.9%     | <b>7,917</b>    | 7.0%       | 11.4%    | <b>7,105</b>   | 7.3%       |  |
| Income tax expense           | 2,544           | 2.0%       | 6.4%     | 2,391           | 2.1%       | 13.7%    | 2,103          | 2.2%       |  |
| <b>Net Income after tax</b>  | <b>P5,840</b>   | 4.7%       | 5.7%     | <b>P5,526</b>   | 4.9%       | 10.5%    | <b>P5,002</b>  | 5.1%       |  |

## Comparative years 2017 and 2016

### Net Sales

For the year ended December 31, 2017, the Group posted a consolidated net sales of P124,491 million for an increase of P11,902 million or a growth of 10.6% compared to P112,589 million in the same period of 2016. New stores put up in 2016 were fully operating in 2017 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

|            | PGOLD | S&R  |
|------------|-------|------|
| Net Sales  | 4.4%  | 6.5% |
| Net Ticket | 3.9%  | 5.3% |
| Traffic    | 0.5%  | 1.2% |

### Gross Profit

For the year ended December 31, 2017, the Group realized an increase of 11.4% in consolidated gross profit from P18,538 million in 2016 to P20,655 million in 2017 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin was posted at 16.6% and 16.5% for the years ended December 31, 2017 and 2016, respectively.

## Other Operating Income

Other operating income increased by P247 million or 7.6% from P3,266 million in the year ended December 31, 2016 to P3,513 million in 2017 of the same period. This is attributable to increase in display allowance, rent income, membership income and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

## Operating Expenses

Operating expenses increased by P1,808 million or 13.2% from P13,707 million in the year ended December 31, 2016 to P15,516 million in 2017 of the same period. The increase was mainly attributable to manpower cost of the Group's new organic stores, as well as rent expenses relative to new lease contracts, supplies expense and taxes, all related to full year operation of acquired stores and operation of new organic stores.

## Other Expense - net

Other expenses net of other income amounted to P268 million and P101 million for the years ended December 31, 2017 and 2016, respectively. The increase was due to interest expenses from additional bank loans availed during the period and recognition of share in net loss of joint venture operations.

## Net Income

For the year ended December 31, 2017, the Group earned a consolidated net income of P5,840 million at 4.7% net margin and an increase of 5.7% from P5,526 million at 4.9% net margin in 2016 of the same period. This was principally driven by the continuous expansion of the Group both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

## Comparative years 2016 and 2015

### Net Sales

For the year ended December 31, 2016, the Group posted a consolidated net sales of P112,589 million for an increase of P15,418 million or a growth of 15.9% compared to P97,172 million in the same period of 2015. New stores put up in 2015 were fully operating in 2016 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

|            | PGOLD | S&R  |
|------------|-------|------|
| Net Sales  | 6.2%  | 4.4% |
| Net Ticket | 5.5%  | 1.9% |
| Traffic    | 0.6%  | 2.4% |

## **Gross Profit**

For the year ended December 31, 2016, the Group realized an increase of 12.4% in consolidated gross profit from P16,489 million in 2015 to P18,538 million in 2016 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin was posted at 16.5% and 17.0% for the years ended December 31, 2016 and 2015, respectively.

## **Other Operating Income**

Other operating income increased by P380 million or 13.2% from P2,886 million in the year ended December 31, 2015 to P3,266 million in 2016 of the same period. This is attributable to increase in display allowance, rent income, membership income and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

## **Operating Expenses**

Operating expenses increased by P1,482 million or 12.1% from P12,225 million in the year ended December 31, 2015 to P13,707 million in 2016 of the same period. The increase was mainly attributable to manpower cost of the Group's new organic stores, as well as rent expenses relative to new lease contracts, supplies expense and taxes, all related to full year operation of acquired stores and operation of new organic stores.

## **Other Expense - net**

Other expenses net of other income amounted to P101 million and P45 million for the years ended December 31, 2016 and 2015, respectively. The increase was due to interest expenses from additional bank loans availed during the period and recognition of share in net loss of joint venture operations.

## **Net Income**

For the year ended December 31, 2016, the Group earned a consolidated net income of P5,526 million at 4.9% net margin and an increase of 10.5% from P5,002 million at 5.1% net margin in 2015 of the same period. This was principally driven by the continuous expansion of the Group both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

## Financial Position

The Group's consolidated financial position as at December 31, 2017, 2016 and 2015 are presented below:

| (In millions)                                                    | 2017           |                         |               | 2016           |                         |              | 2015           |                         |
|------------------------------------------------------------------|----------------|-------------------------|---------------|----------------|-------------------------|--------------|----------------|-------------------------|
|                                                                  |                | % to<br>Total<br>Assets | % Change      |                | % to<br>Total<br>Assets | % Change     |                | % to<br>Total<br>Assets |
| Cash & Cash Equivalents                                          | P8,066         | 11.3%                   | 25.7%         | P6,416         | 9.8%                    | 2.7%         | P6,246         | 10.6%                   |
| Receivables – net                                                | 4,569          | 6.4%                    | 17.7%         | 3,881          | 5.9%                    | 44.6%        | 2,683          | 4.6%                    |
| Merchandise inventory                                            | 17,697         | 24.8%                   | 7.3%          | 16,488         | 25.2%                   | 27.0%        | 12,983         | 22.1%                   |
| Investments in trading securities                                | 47             | 0.1%                    | 33.5%         | 35             | 0.1%                    | 2.0%         | 34             | 0.1%                    |
| Prepaid expenses and other current assets                        | 1,180          | 1.7%                    | 20.1%         | 982            | 1.5%                    | -8.0%        | 1,067          | 1.8%                    |
| <b>Total Current Assets</b>                                      | <b>31,558</b>  | <b>44.2%</b>            | <b>13.5%</b>  | <b>27,802</b>  | <b>42.5%</b>            | <b>20.8%</b> | <b>23,014</b>  | <b>39.1%</b>            |
| Investments and acquisitions of subsidiaries                     | 802            | 1.1%                    | 0.2%          | 800            | 1.2%                    | -7.9%        | 868            | 1.5%                    |
| Property and equipment- net                                      | 17,696         | 24.8%                   | 12.6%         | 15,712         | 24.0%                   | 12.0%        | 14,034         | 23.8%                   |
| Intangibles and goodwill                                         | 19,737         | 27.6%                   | 0.9%          | 19,561         | 29.9%                   | 0.2%         | 19,521         | 33.2%                   |
| Other noncurrent assets                                          | 1,671          | 2.3%                    | 10.7%         | 1,509          | 2.3%                    | 7.3%         | 1,406          | 2.4%                    |
| <b>Total Noncurrent Assets</b>                                   | <b>39,906</b>  | <b>55.8%</b>            | <b>6.2%</b>   | <b>37,581</b>  | <b>57.5%</b>            | <b>4.9%</b>  | <b>35,829</b>  | <b>60.9%</b>            |
|                                                                  | <b>P71,464</b> | <b>100.0%</b>           | <b>9.3%</b>   | <b>P65,383</b> | <b>100.0%</b>           | <b>11.1%</b> | <b>P58,844</b> | <b>100.0%</b>           |
| Accounts payable and accrued expenses                            | 11,613         | 16.3%                   | 20.4%         | 9,645          | 14.8%                   | -1.4%        | 9,778          | 16.6%                   |
| Short-term loans payable                                         | 4,113          | 5.8%                    | -18.0%        | 5,018          | 7.7%                    | 59.9%        | 3,138          | 5.3%                    |
| Income tax payable                                               | 878            | 1.2%                    | 4.0%          | 844            | 1.3%                    | 11.1%        | 759            | 1.3%                    |
| Trust receipts payable                                           | 4              | 0.0%                    | 0.0%          | -              | 0.0%                    | -100.0%      | 5              | 0.0%                    |
| Due to related parties                                           | 37             | 0.1%                    | 9.7%          | 34             | 0.1%                    | 13.5%        | 30             | 0.1%                    |
| Current maturities of long - term loans, net of debt issue costs | 2,399          | 3.4%                    | 1899.3%       | 120            | 0.2%                    | -78.9%       | 570            | 1.0%                    |
| Other current liabilities                                        | 417            | 0.6%                    | 3.4%          | 402            | 0.6%                    | 23.0%        | 327            | 0.6%                    |
| <b>Total Current Liabilities</b>                                 | <b>19,461</b>  | <b>27.2%</b>            | <b>21.2%</b>  | <b>16,062</b>  | <b>24.6%</b>            | <b>10.0%</b> | <b>14,606</b>  | <b>24.8%</b>            |
| Noncurrent accrued rent                                          | 3,261          | 4.6%                    | 12.1%         | 2,910          | 4.5%                    | 16.7%        | 2,493          | 4.2%                    |
| Long-term loans - net of current maturities and debt issue costs | -              | -                       | -100.0%       | 2,397          | 3.7%                    | 0.1%         | 2,395          | 4.1%                    |
| Deferred tax liabilities – net                                   | 243            | 0.3%                    | -34.6%        | 371            | 0.6%                    | -25.2%       | 496            | 0.8%                    |
| Retirement benefits liability                                    | 538            | 0.8%                    | 14.7%         | 469            | 0.7%                    | 6.7%         | 440            | 0.7%                    |
| <b>Total Noncurrent Liabilities</b>                              | <b>4,041</b>   | <b>5.7%</b>             | <b>-34.3%</b> | <b>6,147</b>   | <b>9.4%</b>             | <b>5.6%</b>  | <b>5,824</b>   | <b>9.9%</b>             |
| <b>Total Liabilities</b>                                         | <b>P23,502</b> | <b>32.9%</b>            | <b>5.8%</b>   | <b>P22,210</b> | <b>34.0%</b>            | <b>8.7%</b>  | <b>P20,430</b> | <b>34.7%</b>            |
| Capital stock                                                    | 2,785          | 3.9%                    | 0.0%          | 2,785          | 4.3%                    | 0.0%         | 2,785          | 4.7%                    |
| Additional paid in capital                                       | 20,830         | 29.1%                   | 0.0%          | 20,830         | 31.9%                   | 0.0%         | 20,830         | 35.4%                   |
| Remeasurements of retirement liability - net of tax              | 117            | 0.2%                    | 87.6%         | 63             | 0.1%                    | -9706.6%     | (1)            | 0.0%                    |
| Treasury stock, at cost                                          | (57)           | -0.1%                   | 0.0%          | (57)           | -0.1%                   | 0.0%         | (57)           | -0.1%                   |
| Retained earnings                                                | 24,285         | 34.0%                   | 24.2%         | 19,551         | 29.9%                   | 31.6%        | 14,855         | 25.2%                   |
| <b>Total Equity</b>                                              | <b>47,962</b>  | <b>67.1%</b>            | <b>11.1%</b>  | <b>43,173</b>  | <b>66.0%</b>            | <b>12.4%</b> | <b>38,413</b>  | <b>65.3%</b>            |
|                                                                  | <b>P71,464</b> | <b>100.0%</b>           | <b>9.3%</b>   | <b>P65,383</b> | <b>100.0%</b>           | <b>11.1%</b> | <b>P58,844</b> | <b>100.0%</b>           |

## **Comparative Years 2017 and 2016**

### **Current Assets**

As at December 31, 2017 and 2016, total current assets amounted to P31,558 million or 44.2% of total assets, and P27,802 million or 42.5% of total assets, respectively, for an increase of P3,757 million or 13.5%.

Cash and cash equivalents as at December 31, 2017 amounted to P8,066 million or 11.3% of total assets and increased by P1,650 million or 25.7% compared to previous year-end balance. Increase in cash balance was due to net cash generated from operations.

Receivables amounted to P4,569 million as at December 31, 2017 or 6.4% of total assets, with an increase of P688 million or 17.7% from P3,881 million in December 2016. The growth was due to increase in sales during the year related to full year operation of new organic and acquired stores.

Merchandise inventory amounted to P17,697 million or 24.8% of total assets at the end of December 2017. Total inventory increased by P1,209 million or 7.3% principally due to stocking requirements of new organic and acquired stores.

Investments in trading securities amounted to P47 million as at December 31, 2017 from P35 million in December 2016 and increased by P12 million or 33.5% due to unrealized gain from changes in fair market values.

Prepaid expenses and other current assets increased by P198 million or 20.1% due to purchase of supplies for store and office use and availment of new policies for insurance of new stores and advance payment of rent for soon to open stores.

### **Noncurrent Assets**

As at December 31, 2017 and 2016, total noncurrent assets amounted to P39,906 million or 55.8% of total assets, and P37,581 million or 57.5% of total assets, respectively, for an increase of P2,325 million or 6.2% as at December 31, 2017.

Investments amounted to P802 million and P800 million as at December 31, 2017 and 2016, respectively.

Net book values of property and equipment increased by P1,985 million or 12.6% from P15,712 million in December 2016 to P17,696 million in December 2017. This was due principally to capital expenditures pertaining to new stores established during the period.

Intangibles and goodwill amounted to P19,737 million and P19,561 million for the years ended December 31, 2017 and 2016, respectively.

Other noncurrent assets increased by P161 million or 10.7% from P1,509 million in December 2016 to P1,671 million in December 2017. This was primarily due to increase in advance rent and deposits made in relation to new leases acquired for the establishment of new Puregold organic stores and S&R warehouses.

### **Current Liabilities**

As at December 31, 2017 and 2016, total current liabilities amounted to P19,461 million or 27.2% of total assets, and P16,062 million or 24.6% of total assets, respectively, for an increase of P3,398 million or 21.2%

Accounts payable and accrued expenses increased by P1,969 million or 20.4% primarily due to increase in trade liabilities and dividend payable as at the end of December 2017.

Short-term loans payable decreased by P905 million or 18.0% from P5,018 million in December 2016 to P4,113 million in December 2017 due to net settlement of short term loans during the year.

Income tax payable increased by P34 million from P844 million in December 2016 to P878 million in December 2017 due to recognition of tax liabilities due for the year, for the income earned on the year ended December 31, 2017.

Due to related parties amounted to P37 million and P34 million for the year ended December 2017 and 2016, respectively. This pertains to royalty fees.

Current maturities of long-term debt increased by P2,279 million due to long-term loans maturing in 2018 reclassified as current as at December 31, 2017.

Other current liabilities amounted to P417 million and P402 million for the year ended December 31, 2017 and 2016, respectively.

### **Noncurrent Liabilities**

As at December 31, 2017 and 2016, total noncurrent liabilities amounted to P4,041 million or 5.7% of total assets, and P6,147 million or 9.4% of total assets, respectively, for a decrease of P2,106 million or 34.3%

Noncurrent accrued rent increased by P351 million or 12.1% from P2,910 million in December 2016 to P3,261 million in December 2017 due to recognition during the year of additional allocated rent expense and related liabilities pertaining to the remaining lease period covering long-term operating lease contracts entered into by the Parent Company and its subsidiaries in compliance with PAS 17 – Leases.

Long-term loans-net of current maturities and debt issue costs was reclassified to current liabilities as it qualifies as current obligation for the year ended December 31, 2017.

Deferred tax liabilities net of deferred tax assets decreased by P128 million or 34.6% due to increase in deferred tax assets arising from accrual of rent expense and recognition of retirement liability.

Retirement benefits liability increased by P69 million or 14.7% due to increase in salary and discount rate used in determining the liability as at December 31, 2017.

## **Equity**

As at December 31, 2017 and 2016, total equity amounted to P47,962 million or 67.1% of total assets and P43,173 million or 66.0% of total assets, respectively, for an increase of P4,789 million or 11.1% as at the end of the year.

Re-measurements of retirement liability - net of tax pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2017, the account increased by P55 million due to unrealized gain on re-measurement of defined benefit liability.

Retained earnings increased by P4,734 million or 24.2% coming from net after-tax income realized net of cash dividend declared during the current year.

Treasury stock amounted to P57 million for the year ended December 31, 2017 and 2016.

## **Comparative Years 2016 and 2015**

### **Current Assets**

As at December 31, 2016 and 2015, total current assets amounted to P27,802 million or 42.5% of total assets, and P23,014 million or 39.1% of total assets, respectively, for an increase of P4,787 million or 20.8%.

Cash and cash equivalents as at December 31, 2016 amounted to P6,416 million or 9.8% of total assets and increased by P169 million or 2.7% compared to previous year-end balance.

Receivables amounted to P3,881 million as at December 31, 2016 or 5.9% of total assets, with an increase of P1,198 million or 44.6% from P2,683 million in December 2015. The growth was due to increase in sales during the year related to full year operation of new organic and acquired stores.

Merchandise inventory amounted to P16,488 million or 25.2% of total assets at the end of December 2016. Total inventory increased by P3,505 million or 27.0% principally due to stocking requirements of new organic and acquired stores.

Investments in trading securities amounted to P35 million as at December 31, 2016 from P34 million in December 2015 and increased by P1 million or 2.0% due to unrealized gain from changes in fair market values.

Prepaid expenses and other current assets decreased by P85 million or 8.0% due to application of input VAT, against output VAT, on purchase of inventory and payment of various expenses. This was slightly offset by the increase in prepaid expenses from availment of new policies for insurance of new stores and advance payment of rent for soon to open stores.

## **Noncurrent Assets**

As at December 31, 2016 and 2015, total noncurrent assets amounted to P37,581 million or 57.5% of total assets, and P35,829 million or 60.9% of total assets, respectively, for an increase of P1,752 million or 4.9% as at December 31, 2016.

Investments decreased by P68 million or 7.9% from P868 million in December 2015 to P800 million in December 2016 due mainly to recognition of share in net losses during the year from its unconsolidated joint venture affiliate, Ayagold Retailers and PG Lawson Company, Inc..

Net book values of property and equipment increased by P1,678 million or 12.0% from P14,034 million in December 2015 to P15,712 million in December 2016. This was due principally to capital expenditures pertaining to new stores established during the period.

Intangibles and goodwill amounted to P19,561 million and P19,521 million for the years ended December 31, 2016 and 2015, respectively.

Other noncurrent assets increased by P103 million or 7.3% from P1,406 million in December 2015 to P1,509 million in December 2016. This was primarily due to increase in advance rent and deposits made in relation to new leases acquired for the establishment of new Puregold organic stores.

## **Current Liabilities**

As at December 31, 2016 and 2015, total current liabilities amounted to P16,062 million or 24.6% of total assets, and P14,606 million or 24.8% of total assets, respectively, for an increase of P1,456 million or 10.0%

Accounts payable and accrued expenses decreased by P133 million or 1.4% primarily due to settlement of trade and nontrade liabilities as at the end of December 2016.

Loans payable increased by P1,880 million or 59.9% from P3,138 million in December 2015 to P5,018 million in December 2016 due to additional availment of short term loans during the period intended to augment general working capital requirements.

Income tax payable increased by P84 million from P759 million in December 2015 to P844 million in December 2016 due to recognition of tax liabilities due for the year related to income earned during the year ended December 31, 2016.

Due to related parties amounted to P34 million and P20 million for the year ended December 2016 and 2015, respectively. This pertains to royalty fees.

Current maturities of long-term debt decreased by P450 million due to settlement made as at December 31, 2016.

Other current liabilities decreased by P75 million or 23.0% from P327 million in December 2015 to P402 million in December 2016 relatively due principally to redemption of PERKS points earned by members and recognition of other income from promotions for the period.

## Noncurrent Liabilities

As at December 31, 2016 and 2015, total noncurrent liabilities amounted to P6,147 million or 9.4% of total assets, and P5,824 million or 9.9% of total assets, respectively, for an increase of P324 million or 5.6%

Noncurrent accrued rent increased by P417 million or 16.7% from P2,493 million in December 2015 to P2,910 million in December 2016 due to recognition during the year of additional allocated rent expense and related liabilities pertaining to the remaining lease period covering long-term operating lease contracts entered into by the Parent Company and its subsidiaries in compliance with PAS 17 – Leases.

Deferred tax liabilities net of deferred tax assets decreased by P125 million or 25.2% due to increase in deferred tax assets arising from accrual of rent expense and recognition of retirement liability

## Equity

As at December 31, 2016 and 2015, total equity amounted to P43,173 million or 66.0% of total assets and P38,413 million or 65.3% of total assets, respectively, for an increase of P4,760 million or 12.4% as at the end of the year.

Re-measurements of retirement liability - net of tax pertain to adjustments made in compliance to new accounting standard covering employee benefits. As at December 2016, the account increased by P63 million due to unrealized gain on re-measurement of defined benefit liability.

Retained earnings increased by P4,697 million or 31.6% coming from net after-tax income realized net of cash dividend declared during the current year.

Treasury stock amounted to P57 million for the year ended December 31, 2016 and 2015.

## Cash Flows

The following table sets forth the Group's statements of cash flows for the last three (3) years ended December 31:

| <i>(In millions)</i>                                | <b>2017</b>    | <b>2016</b> | <b>2015</b> |
|-----------------------------------------------------|----------------|-------------|-------------|
| Net cash provided by operating activities           | <b>P7,474</b>  | P2,795      | P3,327      |
| Net cash used in investing activities               | <b>(3,970)</b> | (3,226)     | (4,256)     |
| Net cash provided by (used in) financing activities | <b>(1,855)</b> | 600         | 417         |
| Net increase in cash and cash equivalents           | <b>P1,650</b>  | P169        | P512        |

### *Cash flows from operating activities*

Net cash provided by operating activities amounted to P7,474 million, P2,795 million and P3,327 million for the years ended December 31, 2017, 2016 and 2015, respectively. This was mainly due to increase in operating income driven by aggressive store expansion.

### *Cash flows used in investing activities*

Net cash used in investing activities amounted to P3,970 million, P3,226 million and P4,256 million for the years ended December 31, 2017, 2016 and 2015, respectively. Capital expenditures for acquisitions of equipment, furniture & fixtures, lands, construction of buildings and improvements on leased assets amounted to P3,591 million in 2017 and P3,061 million in 2016.

### *Cash flows from (used in) financing activities*

Net cash provided by financing activities amounted to P600 million and P417 million in 2016 and 2015, respectively, coming from additional loans availed during the year to augment working capital requirements. Net cash used in financing activities amounted to P1,855 million in 2017 which pertain to settlement of loans and dividend payable.

### **Capital Expenditures**

The table below sets out the Group's capital expenditures in 2017, 2016 and 2015.

|                            | For the years ended<br>December 31, |        |        |
|----------------------------|-------------------------------------|--------|--------|
| <i>(In millions)</i>       | 2017                                | 2016   | 2015   |
| Office and store equipment | <b>P881</b>                         | P990   | P455   |
| Furniture and fixtures     | <b>218</b>                          | 199    | 131    |
| Leasehold improvements     | <b>1,362</b>                        | 1,225  | 690    |
| Building                   | <b>650</b>                          | 327    | 317    |
| Land                       | <b>56</b>                           | -      | 17     |
| Construction in progress   | <b>423</b>                          | 344    | 487    |
| <b>Total</b>               | <b>P3,590</b>                       | P3,085 | P2,097 |

The Group has historically funded its capital expenditures through internally generated funds derived from operating cash flows augmented by bank loans if and when necessary. The group's low leverage ratios would enable the parent company to raise additional equity or debt capital fundings from the capital market to finance strategic business acquisition possibilities should the opportunity arise.

## **Financial Risk Management 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
- Foreign Currency Risk

The Group's financial risk management objectives and policies are discussed in Note 28 of the Group's audited consolidated financial statements.

## **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.