



PUREGOLD PRICE CLUB, INC.

April 6, 2017

Securities and Exchange Commission

PICC Grounds, Pasay City

Philippine Stock Exchange

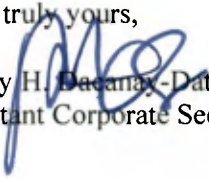
Ayala Avenue, Makati City

Re: Puregold Annual Report and 2016 Audited Financial Statements

Gentlemen:

Submitting herewith are the Annual Report and Audited Consolidated Financial Statements of Puregold Price Club, Inc. and subsidiaries for the year 2016.

Very truly yours,


Candy H. Bacanay-Datuon
Assistant Corporate Secretary

COVER SHEET

A 1 9 9 8 1 3 7 5 4

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 9

Day

(Secondary License Type, if Applicable)

Dept. Requiring this Doc

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowing

Domestic

Foreign

SEC Personnel concerned

File Number

LCU

Document ID

Cashier

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

**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, 2016
2. SEC Identification Number: A19983754
3. BIR Tax Identification No.: 201-277-095
4. Exact name of issuer as specified in its charter: Puregold Price Club, Inc.
5. Philippines
Province, Country or other jurisdiction of
incorporation or organization
6. (SEC Use Only)
Industry Classification Code:
7. No. 900 Romualdez St., Paco, Manila
Address of principal office
- 1007
Postal Code
8. (632) 522-8801-04/ (632) 523-3055
Issuer's telephone number, including area code
9. N/A
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

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

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

Yes [/] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common Shares

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 of Financial Position and Results of Operations

Annex "B" - Audited Consolidated Financial Statements

Annex "C" - Supplementary Schedules

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 4th 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, 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 stores. S&R opened 2 warehouses located in Davao Province and Mandaluyong City. Company E and Gant Group of Companies later merged with Puregold.

In 2014, Puregold opened 28 stores, 1 S&R store and 4 S&R New York Style Pizza/quick service restaurants (QSR). It also partnered with Lawson, Inc. and Lawson Asia Pacific Pte Ltd. under a joint venture company called PG Lawson, Inc. PG Lawson plans to build and operate a chain of Lawson convenient stores all over the Philippines targetting a total of 500 stores by 2020. 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.

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

By the end of 2016, Puregold was operating a total of 147 hypermarkets, 100 supermarkets, 29 extra, 1 minimart, 12 S&R warehouse clubs, 23 S&R-QSRs, 9 stores under NE Bodega and 8 Budgetlane stores, for a total of 329 stores located in the following areas:

	Puregold	NE Bodega	Budgetlane	S&R	QSR	Total
Metro Manila	110	-	1	5	14	130
North Luzon	70	9	-	1	3	83
South Luzon	80	-	7	2	4	93
Visayas	9	-	-	2	1	12
Mindanao	8	-	-	2	1	11
Total	277	9	8	12	23	329

Since the incorporation of Puregold, it 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 has a supermarket chain known as "Puregold Junior", operated by its wholly-owned subsidiary, Puregold Junior Supermarket, Inc. In 2012, Puregold Junior Supermarket, Inc. merged with the Company. The Company's supermarkets 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. In 2016, it opened 2 warehouses located in the provinces of Iloilo and Cagayan de Oro and 7 QSR outlets. 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 5 companies under its umbrella operating the following retail formats and brands:
 - (1) *NE Daily Commodities and First Lane* acquired in February 2015 and operating 9 NE bodega stores located in Nueva Ecija, Baler, Quezon and Isabela Province;
 - (2) *PG Lawson, Inc.* with 29 opened stores all located in Metro Manila;
 - (3) *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;
 - (4) *Gold Tempo Company*, acquired in August 2015 with 8 Budgetlane supermarkets located in Eastern GMA, Laguna and Batangas; and

(5) *San Roque Supermarkets* which operates 19 supermarkets located mostly in Metro Manila.

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

The Company 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 TNAP loyalty/marketing program. It started in 2001 and as of December 31, 2016, 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 costumers 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 2016 Puregold tapped various multi-national suppliers to create exclusive programs for Perks card holders for the entire year.

As of December 2016, S&R has a total active members of over 636,000. 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. Soon, this program will 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. Rustan's Supercenter forged partnership with Dairy Farm, Wellcome Supermarket of Hongkong. Store Specialists, Inc., also part of the Rustan's Group of Companies, in partnership with Ayala got the franchise to operate Family Mart of Japan in the Philippines.
- (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 for an extended period of time. 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 to the buying public in general who become 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 a 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 at December 31, 2016, 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. 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 ten to thirty-five (10-35) years, renewable for the same period under the same terms and conditions. The rent shall escalate by the range from 1% to 7%. Rental payments are fixed amounts based on the contracts.

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 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.

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".

- (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.

TRADENAMES		TRADEMARKS	
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

- (i) **Government approvals.** Puregold and its subsidiary 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 subsidiary 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 as to be about P3 million.
- (iv) **Employees.** As of 31 December 2016, the Company has approximately 5,700 employees. The following table sets out certain details of the Company's employees by location, function and status:

Department	
Store Operations	4,687
Head Office	1,013
Total	5700

Rank	
Executive	6
Senior Manager	21
Manager	233
Officer	422
Supervisory	1,915
Rank & File	3,103
Total	5,700

Employment Status	
Regular	4,007
Probationary	796
Contractual	897
Total	5,700

The Company anticipates that it will employ approximately 600 employees within the next 12 months for the planned 25 store openings in 2017, 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 five years. 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 recent past. 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 competitors with several hypermarkets, supermarkets, department stores and malls, include the SM Group, Robinsons Supermarket and Metro Gaisano, among others. Each of these stores 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, 2016, the Company has the following properties:

- a. 11 owned parcels of land with a total of 33,862.57 square meters located at the following areas:

North Luzon	2
South Luzon	8
Metro Manila	1
Visayas	0
Mindanao	0
Total	11

- b. 53 owned buildings with a total of 266,696.65 square meters located at the following areas:

North Luzon	13
South Luzon	18
Metro Manila	20
Visayas	1
Mindanao	1
Total	53

- c. 55 leased parcels of land with a total of 268,892.60 square meters located at the following areas:

North Luzon	14
South Luzon	20
Metro Manila	19
Visayas	1
Mindanao	1
Total	55

- d. 230 leased buildings with a total of 531,513.58 square meters located at the following areas:

North Luzon	59
South Luzon	61
Metro Manila	92
Visayas	11
Mindanao	7
Total	230

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 2016, the following matters were submitted to a vote of security holders:

1. Certification of service of notice and existence of quorum
2. Approval of the Minutes of the 2015 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 of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2015
4. Election of five Regular Directors and two Independent Directors
5. Appointment of External Auditor
6. Amendment of Article 6 of the Company's Articles of Incorporation
7. Amendment of Section 6 Article III of the Company's By Laws
8. Amendment of Section 4 (1) Article II of the Company's By Laws
9. Other Matters

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 (in PHP) of Puregold Price Club, Inc.'s shares in the Philippine Stock Exchange for the years 2015 and 2016:

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
2015	High	Low
January	42.00	38.55
February	42.80	38.70
March	42.00	39.38
April	41.50	39.00
May	40.90	38.00
June	38.80	35.90
July	37.80	35.50
August	38.00	30.00
September	32.60	30.80
October	36.25	31.15
November	36.05	31.25
December	34.70	33.30

Source: Daily Quotation Reports of the Philippine Stock Exchange

The market capitalization of the Company's common shares as of end-2016, based on the closing price of PHP39.00 per share, was approximately PHP107 billion.

There are approximately 38 registered holders of common shares as of December 31, 2016 owning at least 1 board lot per 100 share.

Set forth in table below are the top 20 stockholders of the Company as of December 31, 2016:

	Name of Stockholders	No. of Shares	%
1	Cosco Capital, Inc.	1,410,867,188	51.02%
2	The HSBC Corp. Ltd.	292,682,368	10.58%
3	Deutsche Bank Manila	267,346,650	9.67%
4	Lucio L. Co	211,088,022	7.63%
5	Susan P. Co	178,242,585	6.45%
6	Citibank N.A	80,805,796	2.92%
7	Standard Chartered Bank	39,756,026	1.44%
8	Government Insurance System	30,477,662	1.10%
9	Banco De Oro-Trust Banking Group	27,887,980	1.01%
10	Ferdinand Vincent P. Co	26,709,460	0.97%
	Pamela Justine P. Co	26,709,460	0.97%
11	Social Security System	14,792,960	0.53%
12	Citibank FAO Philippine Axa Chinese	12,815,900	0.46%
13	COL Financial Group, Inc.	8,883,419	0.32%
14	Camille Clarisse P. Co	8,155,288	0.29%
15	A&A Securities, Inc.	6,528,500	0.24%
16	Ansaldo, Godinez & Co., Inc.	3,882,100	0.14%
17	BPI Securities Corporation	3,816,383	0.14%
18	MBTC - Trust Banking Group	3,508,721	0.13%
19	Deutsche Regis Partners, Inc.	2,752,118	0.10%
20	Insular Life Assurance Co., LTD	2,551,400	0.09%

D. Dividend. On December 22, 2016, the Company declared a cash dividend in the total amount of PHP0.30 per share, the details of which are as follows:

Regular Dividend – PHP0.20 per share
Special Dividend – PHP0.10 per share

Record date – January 12, 2017
Payment date – January 20, 2017

Dividends declared in 2012, 2013, 2014, and 2015:

Dividend and Declaration Date	Record Date	Payment Date
Php0.20 per share / May 8, 2012	May 22, 2012	June 5, 2012
Php0.20 per share / December 27, 2012	January 14, 2013	February 7, 2013
Php0.30 per share / December 16, 2013	January 6, 2014	January 30, 2014
Php0.30 per share / December 18, 2014	January 12, 2015	February 5, 2015
Php0.30 per share / December 18, 2015	January 8, 2016	January 18, 2016
Php0.30 per share / December 22, 2016	January 12, 2017	January 20, 2017

E. 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

Audited Consolidated Financial Statements for 2016 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 2016 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 ₱4,680,000.00 for services rendered in 2015 and ₱4,900,000.00 for services rendered in 2016. The Company did not engage R.G. Manabat & Co. in any non-audit services.

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:

LUCIO L. CO, 62, Filipino, Chairman

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. and Puregold Price Club, Inc.; Chairman and President of 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., LCKK & 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.

SUSAN P. CO, 59 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 and Treasurer of Cosco Capital, Inc. and Puregold Price Club, 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.

FERDINAND VINCENT P. CO, 35 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.

Leonardo B. Dayao, 72 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 publicly listed companies: President of Cosco Capital, Inc. and Director of Puregold Price Club, 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.

PAMELA JUSTINE P. CO, 32 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.

Marilyn V. Pardo, 78 years old, Filipino, Independent Director

Mrs. Pardo was first elected as an Independent Director of the Company on 5 October 2010. She was elected as Independent Director on May 12, 2015 and will hold office until her successor is elected and qualified.

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.

Edgardo G. Lacson, 72 years old, Filipino, Independent Director

Mr. Lacson was elected as an Independent Director of the Company on October 5, 2010 and will hold office until his successor is elected and qualified.

Mr. Lacson is currently holding the following positions in privately-owned companies: Chairman of MIL Export Philippines, Inc., Metrostore Corporation MIS Maritime Corporation and the Employers Confederation of the Philippines; President of Marine Industry Supply Corporation, Safe Seas Shipping Agency Co., Inc., EML Realty, Employers Confederation of the Phil., MIS Maritime Corporation; Member of Management Association of the Philippine, Board of Trustees of De La Salle University, Philippine Nippon Kaiji Kyoka, Philippine Technical Committee; Trustee of Home Development Mutual Fund. Past President and Honorary Chair of Philippine Chamber of Commerce and Industry.

He also serves as an Independent Director of the Philippine Stock Exchange and Director for Other market participants-The Philippine Stock Exchange, 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.

Baby Gerlie Sacro, 39 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, 38 years old, Filipino, Compliance Officer

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

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.

Teodoro A. Polinga, 58 years old, Filipino, Comptroller

Mr. Polinga has been the Company's Comptroller since March 2015. He has also been holding the Group Comptrollership portfolio of Cosco Capital, Inc., the Company's parent, since July 2014. From February 2013 to October 2013, he served as the Company's Senior Manager for Accounting.

From October 2013 to June 2014, he was President & Director of MTM Ship Management (Philippines), Inc. He was a founding member and Executive Director of Alchem Energy Limited and Summit Minerals, PTE. LTD based in Singapore from 2010 to 2012. He used to work as Chief Finance Officer of Phoenix Petroleum Philippines from 2007 to 2008; Deputy CFO for PT Citramegah Karya Gemilang – Libya branch from 2008 to 2010; Had about seven (7) years experience in the petroleum retail industry with Citadel Commercial Group initially as Senior Vice President for Finance from 2001 to 2003 then Senior Vice-President for Business Development from 2003 to 2005 and finally promoted as Executive Vice President from 2005 to 2007; Vice-President, CFO and Director of Unicol Management Services, 1989 to 2001.

Mr. Polinga is a Certified Public Accountant and started his career at SGV & Co. He took up a Management Development Program course in 1990 at the Asian Institute of Management.

ITEM 10 EXECUTIVE COMPENSATION

The table below sets the total annual compensation of the CEO, four most highly compensated executive officers and all other officers as a group unnamed for the year 2015, 2016 and projected compensation for 2017:

Name and position	Year	Salary	Bonus/Other compensation
Lucio L. Co, Chairman			
Ferdinand Vincent P. Co, President			
Susan P. Co, Vice-Chairman			
Antonio Delos Santos			
Teodoro Polinga			
CEO and most highly compensated executive officers	2015	14,452,083	-
	2016	15,485,000	
	2017	15,875,000	
All other officers as group unnamed	2015	72,407,065	-
	2016	81,753,938	

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 Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares held	Percent
Common	Cosco Capital, Inc. No. 900 Romualdez Street, Paco, Manila	Parent Company / Stockholder	Direct	Filipino	1,410,867,188	51.00%
Common	Deutsche Bank Manila-Clients	Stockholder- <i>Various Clients</i>		Filipino	304,530,111	11.00%
Common	The Hongkong and Shanghai Banking Corp. Ltd-Clients	Stockholder- <i>Various Clients</i>		Filipino	290,726,459	10.51%
Common	Lucio L. Co, No. 2 Pili Avenue, South Forbes Park, Makati City	Stockholder	Direct and Indirect	Filipino	211,088,022	7.62%
Common	Susan P. Co, No. 2 Pili Avenue, South Forbes Park	Stockholder	Direct	Filipino	178,242,585	6.44%

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	7.62%
Common	Susan P. Co	Direct	Filipino	178,242,585	6.44%
Common	Ferdinand Vincent P. Co	Direct	Filipino	26,709,460	0.97%
Common	Leonardo B. Dayao	Direct	Filipino	739,925	0.03%
Common	Pamela Justine P. Co	Direct	Filipino	26,709,460	0.97%
Common	Marilyn V. Pardo	Direct	Filipino	1	0.00%
Common	Edgardo G. Lacson	Direct	Filipino	1	0.00%

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.

There have been no arrangements that have resulted in a change in control of the Company during the period covered by this report.

Change in Control

For the last fiscal year, there has been no arrangements which resulted in a change in control of the company.

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 ten to thirty-five (10-35) years, renewable for the same period under the same terms and conditions. The rent shall escalate by the range from 1% to 7%. Rental payments are fixed amounts based on the contracts.

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

On March 4, 2016 and May 10, 2016, the Board of Directors and stockholders holding more than 2/3 of the outstanding shares of the Company approved the following amendments on the Articles of Incorporation and By-laws. The following amendments are intended to improve the corporate governance practices of the Company.

Amendment of the 6th Article of Articles of Incorporation

On March 4, 2016, the Board of Directors of the Company approved the increase of number of directors from seven (7) to nine (9) directors comprising of six (6) regular directors and three (3) independent. The proposed amendment is for approval of the stockholders holding at least 2/3 of the outstanding capital stock of the Company.

Amendment of Section 6 Article III of the Company's By Laws

On March 4, 2016, the Board of Directors of the Company approved the amendment of Section 6 Article III of the Company's By Laws. From "simple majority", the Board approved that "two-thirds (2/3) of the members" of the Board as fixed in the Articles of Incorporation shall be required to constitute a quorum in Board meetings. The proposed amendment is for approval of the stockholders holding at least 2/3 of the outstanding capital stock of the Company.

Amendment of Section 4 (1) Article II of the Company's By Laws

From a "two-weeks" notice, the Board approved to change it to "thirty days" notice prior to the annual or special stockholders meeting to be sent to the last known address of the stockholder on record. The proposed amendment is for approval of the stockholders holding at least 2/3 of the outstanding capital stock of the Company.

As part of the continuing education of the directors and officers of the Company, a Corporate Governance seminar was conducted on February 28, 2017 at the Acacia Hotel, Alabang, Muntinlupa City from 2:00 pm to 6:00 pm. The seminar was conducted by the Sycip Gorres Velayo & Co., an accredited corporate governance provider of the SEC.

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

(b) Reports on SEC Form 17-C

The following are the summary of the SEC Form 17-C filed to SEC by the Company:

Date of Report	Date Filed with SEC
January 7, 2016	January 7, 2016
SEC Approval of Second Article of the Articles of Incorporation of Puregold Price Club, Inc., to read as: "To engage in, conduct, and carry on the business of buying, selling, distributing, marketing at wholesale/retail, insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description such as but not limited to consumer goods, including pharmaceutical and medical goods, cosmetic, medicines, medical formulations, food supplements and the like; to enter into all kinds of contracts for the export, import, purchase, acquisition, sale at wholesale or retail and other disposition for its own account as principal or in representative capacity and manufacturer's representative, merchandise broker, indenter, commission merchant, factors of agents, upon consignment of all kinds of goods, wares, merchandise or products whether natural or artificial, food or non-food, except as broker/dealer of securities."	
January 15, 2016	January 15, 2016

Result of Written Assent submitted by PGOLD Stockholders.	
On December 14, 2015, Puregold Price Club, Inc. submitted for stockholders' approval the Amendment to the Second Article of the Company's Articles of Incorporation, by written assent, per Information Statement dated December 8, 2015.	
Stockholders holding 79% of the total outstanding capital stock or 2,187,268,119 shares voted for the said Amendment of the Company's Articles of Incorporation.	
The Approved Amendment is the inclusion of the following to the Second Article of the Articles of Incorporation of the company:	
"To act as Remittance Agent that offers to remit, transfer, or transmit money on behalf of any person to another person and/or entity as defined in Bangko Sentral ng Pilipinas Circular No. 471, Series of 2005."	
March 7, 2016	March 10, 2016
Result of Board of Directors Meeting dated March 4, 2016	
During the Board of Directors Meeting of Puregold Price Club, Inc. held on March 4, 2016, the board approved the following:	
1. Date, time and venue for the Annual Stockholders Meeting – May 10, 2016, 9:00 AM, at the Acacia Hotel, Alabang, Muntinlupa City. 2. Amendment of Article 6 of the Company's Articles of Incorporation – Increase of number of directors from seven to nine comprising of six regular directors and three independent directors. 3. Amendment of Section 6, Article III of the Company's By Laws – that two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the Board of Directors to transact a corporate business. 4. Amendment of Section 4 Article II of the Company's By Laws – Notice of Meeting of Stockholders shall be sent 30 days prior to the date of the stockholders' meeting. 5. Re-election of R.G. Manabat and Company (KPMG), as recommended by the Audit Committee, as External Auditor for the year 2016 (for approval and ratification of the stockholders on May 10, 2016.) 6. Agenda for the Annual Stockholders Meeting	
March 14, 2016	March 14, 2016
SEC Approval of Amending Article II Secondary Purposes of Articles of Incorporation of Puregold Price Club, Inc. to read as follows:	
"To act as Remittance Agent that offers to remit, transfer, or transmit money on behalf of any person to another person and/or entity as defined in Bangko Sentral ng Pilipinas Circular No. 471, Series of 2005."	
April 4, 2016	April 4, 2016
Result of Board of Directors Meeting held on April 1, 2016.	
During the Board of Directors Meeting of Puregold Price Club, Inc. held on April 1, 2016, the board approved the Consolidated Audited Financial Statements of Puregold Price Club, Inc. and subsidiaries for the year 2015. The Audited Financial Statements will be released on or before April 14, 2016.	
April 11, 2016	April 14, 2016
Puregold Price Club, Inc. will hold a Joint Analysts' Briefing and Investor call teleconference for its Full Year 2015 results on April 14, 2016 at 4:00 PM.	
April 14, 2016	April 14, 2016
Press Release Entitled "Puregold Net Income Hits P5 Billion in 2015 up 11%"	
May 11, 2016	May 13, 2016
Result of Organizational Meeting held on May 10, 2016.	

On May 10, 2016, the Board of Directors of Puregold Price Club, Inc. elected the following corporate officers for the year 2016:

CORPORATE OFFICERS:

Chairman, Lucio L. Co

Vice-Chairman, Susan P. Co

President, Ferdinand Vincent P. Co

Comptroller, Teodoro A. Polinga

Corporate Secretary, Baby Gerlie I. Sacro

Assistant Corporate Secretary and Compliance Officer, Atty. Candy H. Dacanay-Datuon

BOARD COMMITTEES:

Executive Committee

Chairman, Lucio L. Co

Members, Susan P. Co, Ferdinand Vincent P. Co, Leonardo B. Dayao

Audit Committee

Chairman, Edgardo G. Lacson (ID)

Members, Lucio L. Co, Leonardo B. Dayao

Nomination Committee

Chairman, Susan P. Co

Members, Ferdinand Vincent P. Co, Marilyn V. Pardo

Compensation Committee

Chairman, Lucio L. Co

Members, Ferdinand Vincent P. Co, Marilyn V. Pardo

Corporate Governance Committee

Chairman, Marilyn V. Pardo

Members, Leonardo B. Dayao, Susan P. Co

Result of Board Meeting dated May 10, 2016:

The Board of Directors approved the Consolidate Financial Statements for the 1st Quarter of year 2016.

May 11, 2016

May 13, 2016

Result of Annual Stockholders Meeting held on May 10, 2016

On May 10, 2016, Annual Stockholders Meeting of Puregold Price Club, Inc., shareholders representing a total of 2,302,497,725 or 83% of the outstanding shares of the Company have approved the following:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Approval of the Minutes of the 2015 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
4. Annual Report of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2015
5. Election of the members of the Board for 2016, namely:

Lucio L. Co, Susan P. Co, Ferdinand Vincent P. Co, Leonardo B. Dayao, Pamela Justine P. Co, Edgardo G. Lacson (ID), Marilyn V. Pardo (ID)

6. Appointment of R.G. Manabat & Company as External Auditor for the year 2016

7. Amendment of Article 6 of the Company's Articles of Incorporation

Sixth: That the number of directors of the Corporation shall be nine (9) comprising of six (6) regular members and three (3) independent directors.

8. Amendment of Section 6 Article III of the Company's By Laws

Section 6. Quorum: Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that atleast one independent director be present. Every decision of at least majority of the directors, present at the meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board.

9. Amendment of Section 4(l) Article II of the Company's By Laws

"Section 4. Notice of Meeting: Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least thirty (30) days prior to the date of the meeting each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purpose for which the meeting is called."

10. Other Matters

11. Adjournment

May 16, 2016	May 19, 2016
Press Release Entitled "Puregold net income hits P1.15 billion in 1Q 2016 up 9.5%	
August 9, 2016	August 11, 2016
Notice of Joint Analyst's Briefing and Investors' Call on August 12, 2016 (Friday) at 3:00 PM (Manila Time)	
November 14, 2016	November 16, 2016
Result of Board Meeting dated November 11, 2016:	
On November 11, 2016, the Board of Directors of Puregold Price Club, Inc. approved the Consolidated Financial Statements of Puregold Price Club, Inc. for the quarter ended September 30, 2016 and the extension of buy back program until December 18, 2017.	
December 23, 2016	December 28, 2016
Result of Board Meeting dated December 22, 2016:	
1. Declaration of Cash Dividend	
Regular – P0.20 per share	
Special – P0.10 per share	
Record Date – January 12, 2017	
Payment Date – January 20, 2017	
2. Appointment of Maria Teresa Lontoc as Internal Auditor	
Ms. Maria Teresa Lontoc has 15 years of experience in wholesale and retail operation audit including business processes standardization, system and process efficiencies and improvements. She worked with Dairy Farm International based in Singapore and Malaysia from 2011 to 2013 as Senior Business Consultant and Pilipinas Makro from 2001 to 2011 as Systems and Audit Manager.	
She first joined the Lucio Co Group of Companies in the year 2013 as Senior Manager for Executive Office.	
She is a graduate of University of Batangas with a Bachelor of Science in Commerce, major in Accounting. She completed business process management training in Singapore in 2012.	

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 6, 2017.

PUREGOLD PRICE CLUB, INC.
Issuer

By:



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



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



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



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

SUBSCRIBED AND SWORN to before me this 6th day of April 2017 in the City of Manila, affiants presented competent proof of their identities.

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Book No. VI
Series of 2017.



CAROLINE G. LA CONDE
NOTARY PUBLIC FOR THE CITY OF MANILA
APPOINTMENT NO. 2016-068
UNTIL DECEMBER 31, 2017
PTR NO. 5993454 MANILA 01-03-17
IBP NO. 1062578/2-2-17/PPLM
MCLE COMPLIANCE NO. V-0014291/02-16-2016
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 2016 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:

	2016	2015	2014
Current Ratio ⁽¹⁾	1.73:1	1.58:1	1.48:1
Asset to Equity Ratio ⁽²⁾	1.51:1	1.53:1	1.57:1
Debt to Equity Ratio ⁽³⁾	0.51:1	0.53:1	0.57:1
Debt to Total Assets ⁽⁴⁾	0.34:1	0.35:1	0.36:1
Book Value per Share ⁽⁵⁾	P15.61	P13.89	P12.38
	2016	2015	2014
Earnings per Share ⁽⁶⁾	P2.00	P1.81	P1.63
Price Earnings Ratio ⁽⁷⁾	19.47x	19.19x	23.59x
Return on Assets ⁽⁸⁾	8.9%	8.9%	8.8%
Return on Equity ⁽⁹⁾	13.6%	13.8%	13.9%

- (1) Current Assets over Current Liabilities
- (2) Total Assets over Total Equity
- (3) Total Liabilities over Total Equity
- (4) Total Liabilities over Total Assets
- (5) Total Equity over Total Common Shares Outstanding
- (6) 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, 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.

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

(In millions)	2016			2015			2014	
		% to Sales	% Change		% to Sales	% Change		% to Sales
Net Sales	P112,589	100.0%	15.9%	P97,172	100.0%	14.7%	P84,697	100.0%
Cost of Sales	94,051	83.5%	16.6%	80,683	83.0%	15.4%	69,937	82.6%
Gross Profit	18,538	16.5%	12.4%	16,489	17.0%	11.7%	14,760	17.4%
Other Operating Income	3,266	2.9%	13.2%	2,886	3.0%	12.6%	2,563	3.0%
Gross Income	21,805	19.4%	12.5%	19,375	19.9%	11.8%	17,323	20.5%
Operating Expenses	13,707	12.2%	12.1%	12,225	12.6%	12.7%	10,845	12.8%
Operating Income	8,097	7.2%	13.3%	7,150	7.4%	10.4%	6,478	7.6%
Other income(expenses)	(180)	-0.2%	299.7%	(45)	0.0%	128.2%	(20)	0.0%
Net Income before tax	7,917	7.0%	11.4%	7,105	7.3%	10.0%	6,458	7.6%
Income tax expense	2,391	2.1%	13.7%	2,103	2.2%	8.5%	1,938	2.3%
Net Income after tax	P5,526	4.9%	10.5%	P5,002	5.1%	10.6%	P4,520	5.3%

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%	2.0%
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 P180 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.

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.

Comparative years 2015 and 2014

Net Sales

For the year ended December 31, 2015, the Group posted a consolidated net sales of P97,172 million for an increase of P12,474 million or a growth of 14.7% compared to P84,697 million in the same period of 2014. New stores put up in 2014 were fully operating in 2015 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	3.8%	-0.1%
Net Ticket	5.7%	-3.0%
Traffic	-1.8%	3.0%

Gross Profit

For the year ended December 31, 2015, the Group realized an increase of 11.7% in consolidated gross profit from P14,760 million in 2014 to P16,489 million in 2015 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 17.0% and 17.4% while gross income stood at 19.9% and 20.5% for the years ended December 31, 2015 and 2014, respectively.

Other Operating Income

Other operating income increased by P323 million or 12.6% from P2,563 million in the year ended December 31, 2014 to P2,886 million in 2015 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 P1,380 million or 12.7% from P10,845 million in the year ended December 31, 2014 to P12,225 million in 2015 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 acquisitions and operation of new organic stores.

Other Expense - net

Other expenses net of other income amounted to P45 million and P20 million for the years ended December 31, 2015 and 2014, respectively. The increase was due to interest expenses from additional bank loans availed during the period.

Net Income

For the year ended December 31, 2015, the Group earned a consolidated net income of P5,002 million at 5.1% net margin and an increase of 10.6% from P4,520 million at 5.3% net margin in 2014 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 (both organic and strategic acquisitions) complemented by

Financial Position

The Group's consolidated financial position as at December 31, 2016, 2015 and 2014 are presented below:

(In millions)	2016			2015			2014	
		% to Total Assets	% Change		% to Total Assets	% Change		% to Total Assets
Cash & Cash Equivalents	P6,416	9.8%	2.7%	P6,246	10.6%	-7.6%	P6,758	12.6%
Receivables – net	3,881	5.9%	44.6%	2,683	4.6%	37.9%	1,946	3.6%
Investments in trading securities	35	0.1%	2.0%	34	0.1%	-8.1%	37	0.1%
Merchandise inventory	16,488	25.2%	27.0%	12,983	22.1%	16.3%	11,167	20.8%
Prepaid expenses and other current assets	982	1.5%	-8.0%	1,067	1.8%	86.3%	573	1.1%
Total Current Assets	27,802	42.5%	20.8%	23,014	39.1%	12.4%	20,481	38.2%
Investments and acquisitions of subsidiaries	800	1.2%	-7.9%	868	1.5%	9.7%	792	1.5%
Property and equipment- net	15,712	24.0%	12.0%	14,034	23.8%	6.9%	13,132	24.5%
Intangibles and goodwill	19,561	29.9%	0.2%	19,521	33.2%	8.3%	18,017	33.6%
Other noncurrent assets	1,509	2.3%	7.3%	1,406	2.4%	12.9%	1,245	2.3%
Total Noncurrent Assets	37,581	57.5%	4.9%	35,829	60.9%	8.0%	33,185	61.8%
	P65,383	100.0%	11.1%	P58,844	100.0%	9.6%	P53,666	100.0%
Accounts payable and accrued expenses	9,645	14.8%	-1.4%	9,778	16.6%	-6.6%	10,465	19.5%
Short-term loans payable	5,018	7.7%	59.9%	3,138	5.3%	130.1%	1,364	2.5%
Income tax payable	844	1.3%	11.1%	759	1.3%	15.0%	660	1.2%
Trust receipts payable	-	0.0%	-100.0%	5	0.0%	0.0%	-	0.0%
Due to related parties	34	0.1%	13.5%	30	0.1%	11.7%	27	0.0%
Current maturities of long - term loans, net of debt issue costs	120	0.2%	-78.9%	570	1.0%	-40.8%	963	1.8%
Other current liabilities	402	0.6%	23.0%	327	0.6%	-8.5%	357	0.7%
Total Current Liabilities	16,062	24.6%	10.0%	14,606	24.8%	5.6%	13,835	25.8%
Noncurrent accrued rent	2,910	4.5%	16.7%	2,493	4.2%	20.5%	2,069	3.9%
Long-term loans - net of current maturities and debt issue costs	2,397	3.7%	0.1%	2,395	4.1%	-3.9%	2,493	4.6%
Deferred tax liabilities – net	371	0.6%	-25.2%	496	0.8%	-22.7%	642	1.2%
Retirement benefits liability	469	0.7%	6.7%	440	0.7%	11.5%	394	0.7%
Total Noncurrent Liabilities	6,147	9.4%	5.6%	5,824	9.9%	4.0%	5,598	10.4%
Total Liabilities	P22,210	34.0%	8.7%	P20,430	34.7%	5.1%	P19,433	36.2%
Capital stock	2,785	4.3%	0.0%	2,785	4.7%	0.1%	2,783	5.2%
Additional paid in capital	20,830	31.9%	0.0%	20,830	35.4%	0.0%	20,830	38.8%
Remeasurements of retirement liability - net of tax	63	0.1%	-9706.6%	(1)	0.0%	-98.4%	(42)	-0.1%
Treasury stock, at cost	(57)	-0.1%	0.0%	(57)	-0.1%	172.5%	(21)	0.0%
Retained earnings	19,551	29.9%	31.6%	14,855	25.2%	39.1%	10,683	19.9%
Total Equity	43,173	66.0%	12.4%	38,413	65.3%	12.2%	34,233	63.8%
	P65,383	100.0%	11.1%	P58,844	100.0%	9.6%	P53,666	100.0%

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.

Comparative Years 2015 and 2014

Current Assets

As at December 31, 2015 and 2014, total current assets amounted to P23,014 million or 39.1% of total assets, and P20,481 million or 38.2% of total assets, respectively, for an increase of P2,533 million or 12.4%.

Cash and cash equivalents as at December 31, 2015 amounted to P6,246 million or 10.6% of total assets and decreased by P512 million or 7.6% compared to previous year-end balance. Decrease in the consolidated cash position was attributable mainly to settlement of trade and non-trade payables, payment for 2014 cash dividend, acquisition of NE supermarkets and capital expenditures for 2015 new Puregold organic stores.

Receivables amounted to P2,683 million as at December 31, 2015 or 4.6% of total assets, with an increase of P737 million or 37.9% from P1,946 million in December 2014. The growth was due to increase in sales during the year.

Merchandise inventory amounted to P12,983 million or 22.1% of total assets at the end of December 2015. Total inventory increased by P1,816 million or 16.3% principally due to stocking requirements of new organic and acquired stores during the year.

Investments in trading securities amounted to P34 million as at December 31, 2015 from P37 million in December 2014 and decreased by P3 million or 8.1% due to unrealized loss from changes in fair market values.

Prepaid expenses and other current assets increased by P495 million or 86.3% due to increase in input VAT on purchase of inventory and payment of various expenses and 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, 2015 and 2014, total noncurrent assets amounted to P35,829 million or 60.9% of total assets, and P33,185 million or 61.8% of total assets, respectively, for an increase of P2,644 million or 8.0% as at December 31, 2015.

Investments increased by P77 million or 9.7% from P792 million in December 2014 to P868 million in December 2015 due mainly to additional equity investments during the year to its unconsolidated joint venture affiliate, Ayagold Retailers.

Net book values of property and equipment increased by P902 million or 6.9% from P13,132 million in December 2014 to P14,034 million in December 2015. This was due principally to capital expenditures pertaining to new stores established during the period.

Intangibles increased by P1,504 million or 8.3% from P18,017 million in December 2014 to P19,521 million in December 2015 due to goodwill recognized resulting from acquisition of 9 NE supermarkets in February 2015 and 8 Budgetlane stores in August 2015.

Other noncurrent assets increased by P161 million or 12.9% from P1,245 million in December 2014 to P1,406 million in December 2015. 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, 2015 and 2014, total current liabilities amounted to P14,606 million or 24.8% of total assets, and P13,835 million or 25.8% of total assets, respectively, for an increase of P771 million or 5.6%

Accounts payable and accrued expenses decreased by P687 million or 6.6% primarily due to settlement of trade and nontrade liabilities as at the end of December 2015.

Loans payable increased by P1,774 million or 130.1% from P1,364 million in December 2014 to P3,138 million in December 2015 due to additional availment of short term loans during the period intended to augment general working capital requirements.

Income tax payable increased by P99 million from P660 million in December 2014 to P759 million in December 2015 due to recognition of tax liabilities due for the year related to income earned during the year ended December 31, 2015.

Due to related parties amounted to P30 million and P27 million for the year ended December 2015 and 2014, respectively. This pertains to royalty fees.

Current maturities of long-term debt decreased by P393 million due to settlement made as at December 31, 2015.

Other current liabilities decreased by P30 million or 8.5% from P357 million in December 2014 to P327 million in December 2015 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, 2015 and 2014, total noncurrent liabilities amounted to P5,824 million or 9.9% of total assets, and P5,598 million or 10.4% of total assets, respectively, for an increase of P226 million or 4.0%

Noncurrent accrued rent increased by P424 million or 20.5% from P2,069 million in December 2014 to P2,493 million in December 2015 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 P146 million or 22.7% due to increase in deferred tax assets arising from accrual of rent expense and recognition of retirement liability

Equity

As at December 31, 2015 and 2014, total equity amounted to P38,413 million or 65.3% of total assets and P34,233 million or 63.8% of total assets, respectively, for an increase of P4,180 million or 12.2% 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 2015, the account increased by P41 million due to unrealized gain on re-measurement of defined benefit liability.

Retained earnings increased by P4,172 million or 39.1% coming from net after-tax income realized net of cash dividend declared during the current year.

Treasury stock increased by P36 million due to reacquired shares during the year pursuant to the parent company's share buy-back program.

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>	2016	2015	2014
Net cash provided by operating activities	P2,795	P3,327	P3,472
Net cash used in investing activities	(3,226)	(4,256)	(1,658)
Net cash provided by (used in) financing activities	600	417	(354)
Net increase in cash and cash equivalents	169	P512	P1,460

Cash flows from operating activities

Net cash provided by operating activities amounted to P2,795 million, P3,327 million and P3,472 million for the years ended December 31, 2016, 2015 and 2014, 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 P3,226 million, P4,256 million and P1,658 million for the years ended December 31, 2016, 2015 and 2014, respectively. Capital expenditures for acquisitions of equipment, furniture & fixtures, lands, construction of buildings and improvements on leased assets amounted to P3,087 million in 2016 and P2,097 million in 2015.

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 P354 million in 2014 which pertain to settlement of dividend payable.

Capital Expenditures

The table below sets out the Group's capital expenditures in 2015, 2014 and 2013.

<i>(In millions)</i>	For the years ended December 31,		
	2016	2015	2014
Office and store equipment	P992	P455	P478
Furniture and fixtures	199	131	219
Leasehold improvements	1,226	690	404
Building	326	317	58
Land	-	17	-
Construction in progress	344	487	641
Total	P3,087	P2,097	P1,799

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.

COVER SHEET

For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

[illegible]**PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)**[illegible]

Form Type

A A F S

Department requiring the report

□

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

www.puregold.com.ph

Company's Telephone Number/s

(02) 548-7110

Mobile Number

No. of Stockholders

Annual Meeting (Month / Day)

May 2**Fiscal Year (Month / Day)**December 31**CONTACT PERSON INFORMATION**

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

Name of Contact PersonTeodoro A. Polinga**Email Address**

tedpolinga@coscocapital.com.ph

Telephone Number/s

(02) 548-7110

Mobile Number**CONTACT PERSON'S ADDRESS**

900 Romualdez, Street, Paco, Manila

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016, 2015 and 2014

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **Puregold Price Club, Inc. and Subsidiaries** (the "Group") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

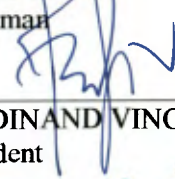
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or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

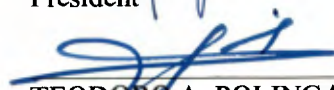
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its reports to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

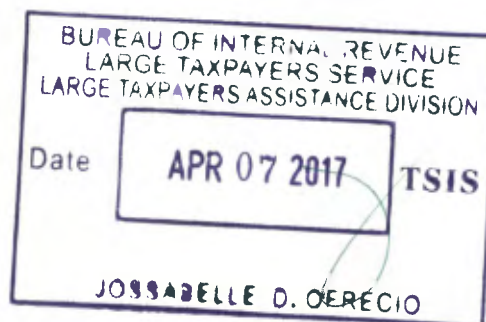


LUCIO L. CO
Chairman

FERDINAND VINCENT P. CO
President

TEODORO A. POLINGA
Comptroller

Signed this 31 day of MARCH, 2017





R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Puregold Price Club, Inc. and Subsidiaries
900 Romualdez Street
Paco, Manila

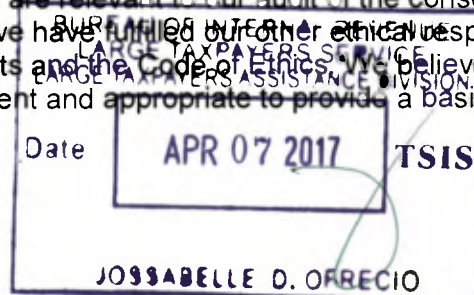
Opinion

We have audited the consolidated financial statements of Puregold Price Club, Inc. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition (P112.59 billion)

Refer to Note 3 to the consolidated financial statements.

The risk

While revenue recognition and measurement is not complex for the Group, revenue targets form part of the Group's key performance measures which could create an incentive to record revenue incorrectly. We focused on this area given the magnitude of revenue transactions that occur and the opportunity that exists across markets to influence the timing of revenue recognition.

Our response

We performed the following audit procedures, among others, around revenue recognition:

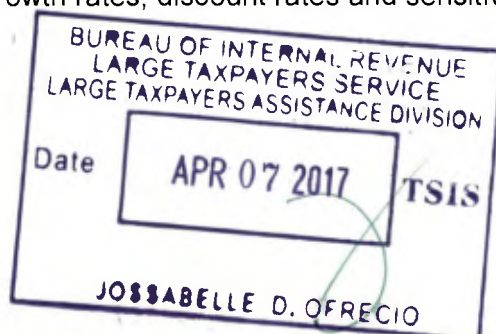
- We evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognized in the consolidated financial statements.
- We checked on a sampling basis, sales transactions for the last week sales of the financial year and also the first week sales of the following financial year to the sales documents to assess whether these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts to identify unusual or irregular items.
- We applied data analysis techniques to test the appropriateness of the level of revenue transactions.

Valuation of Goodwill, Trademark and Customer Relationships (P19.31 billion)

Refer to Note 11 to the consolidated financial statements.

The risk

The Group holds a significant amount of goodwill, trademark and customer relationships as a result of several business acquisitions. The annual impairment test was significant to our audit as the assessment process is complex and judgmental by nature as it is based on assumptions on future market and/or economic conditions. The assumptions used included future cash flow projections, growth rates, discount rates and sensitivity analyses.





Our response

We performed the following audit procedures, among others, around valuation of goodwill, trademark and customer relationships:

- We tested the integrity of the discounted cash flow model. This involved evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.
- We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost of inflation and discount rates, as well as performing break-even analysis on the assumptions.
- We compared the sum of the discounted cash flows to the entities' market capitalization to assess the reasonableness of those cash flows.
- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected in the risks inherent to the valuation of goodwill, trademark and customer relationships.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

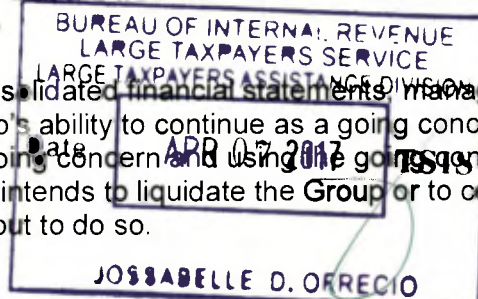
Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

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





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

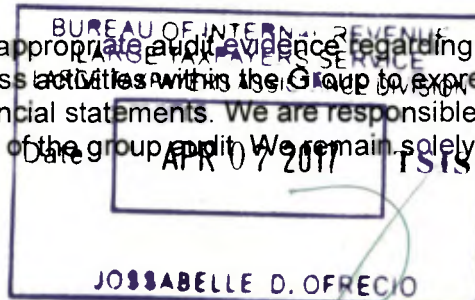
Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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





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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Darwin P. Virocel.

R.G. MANABAT & CO.

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-A, Group A, valid until April 30, 2017

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

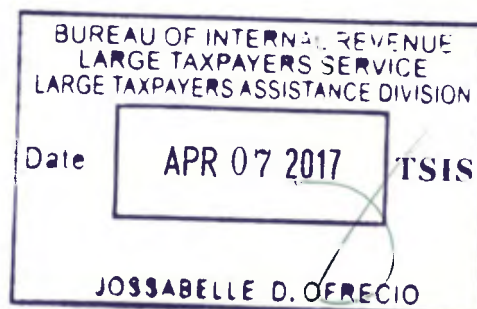
Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904948MD

Issued January 3, 2017 at Makati City

March 31, 2017

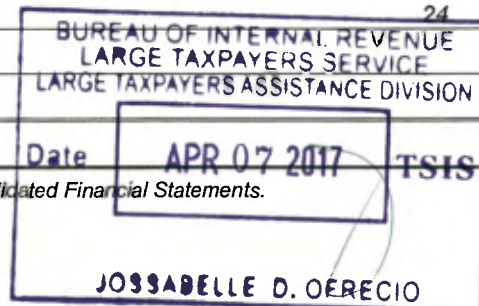
Makati City, Metro Manila



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

		December 31	
	Note	2016	2015
ASSETS			
Current Assets			
Cash and cash equivalents	4	P6,415,883,385	P6,246,493,017
Receivables - net	5, 21	3,880,855,791	2,683,095,896
Merchandise inventory	6	16,487,824,308	12,982,832,312
Investments in trading securities	7	35,109,026	34,432,591
Prepaid expenses and other current assets	8	981,917,114	1,067,412,107
Total Current Assets		27,801,589,624	23,014,265,923
Noncurrent Assets			
Investments	9	799,650,607	868,090,606
Property and equipment - net	10	15,711,622,356	14,033,740,857
Intangibles and goodwill	11	19,560,586,068	19,521,120,953
Other noncurrent assets	12, 17	1,509,265,101	1,406,322,979
Total Noncurrent Assets		37,581,124,132	35,829,275,395
		P65,382,713,756	P58,843,541,318
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	13, 21, 24	P9,643,659,389	P9,777,695,220
Short-term loans payable	14	5,017,500,000	3,137,500,000
Income tax payable		843,546,943	759,221,135
Trust receipts payable		-	5,182,021
Due to related parties	21	33,776,623	29,769,412
Current maturities of long-term loans, net of debt issue costs	14	120,000,000	570,000,000
Other current liabilities	15	403,864,343	327,126,019
Total Current Liabilities		16,062,347,298	14,606,493,807
Noncurrent Liabilities			
Noncurrent accrued rent	17	2,909,884,084	2,492,888,910
Long-term loans - net of current maturities and debt issue costs	14	2,397,096,658	2,395,062,298
Deferred tax liabilities - net	23	371,119,850	496,007,867
Retirement benefits liability	22	469,257,995	439,871,673
Total Noncurrent Liabilities		6,147,358,587	5,823,830,748
Total Liabilities		22,209,705,885	20,430,324,555
Equity			
Capital stock	24	2,785,362,877	2,785,362,877
Additional paid-in capital	24	20,830,391,081	20,830,391,081
Remeasurements of retirement benefits liability - net of tax	22	62,524,278	(650,846)
Treasury stocks, at cost	24	(56,702,280)	(56,702,280)
Retained earnings	24	19,551,431,915	14,854,815,931
Total Equity		43,173,007,871	38,413,216,763
		P65,382,713,756	P58,843,541,318

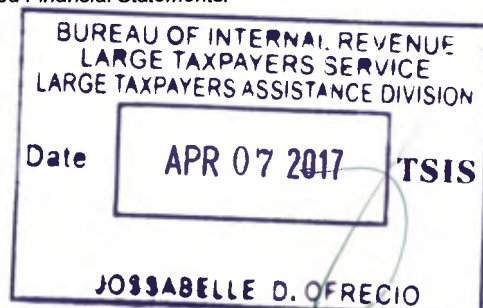
See Notes to the Consolidated Financial Statements.



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

		Years Ended December 31		
	Note	2016	2015	2014
NET SALES				
Gross sales		P112,818,373,088	P97,372,662,646	P84,884,298,033
Sales discount		229,006,848	201,142,782	186,907,241
		112,589,366,240	97,171,519,864	84,697,390,792
COST OF SALES	6, 16	94,051,006,454	80,682,778,314	69,937,457,572
GROSS PROFIT		18,538,359,786	16,488,741,550	14,759,933,220
OTHER OPERATING INCOME	18	3,266,188,001	2,885,854,330	2,562,761,566
		21,804,547,787	19,374,595,880	17,322,694,786
OPERATING EXPENSES	19	13,707,403,016	12,225,076,570	10,844,793,213
INCOME FROM OPERATIONS		8,097,144,771	7,149,519,310	6,477,901,573
OTHER INCOME (EXPENSES)				
Interest income	4	12,686,675	18,502,923	17,682,206
Interest expense	14	(101,469,303)	(70,303,437)	(47,261,984)
Share in results of joint ventures and associate	9	(68,439,999)	(10,911,580)	(17,273,851)
Others - net	7, 20	(22,557,840)	17,732,911	27,146,338
		(179,780,467)	(44,979,183)	(19,707,291)
INCOME BEFORE INCOME TAX		7,917,364,304	7,104,540,127	6,458,194,282
INCOME TAX EXPENSE				
Current		2,550,889,317	2,266,251,752	2,098,444,680
Deferred		(159,755,419)	(163,583,211)	(160,708,084)
	23	2,391,133,898	2,102,668,541	1,937,736,596
NET INCOME		5,526,230,406	5,001,871,586	4,520,457,686
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit liability	22	90,219,876	59,015,910	(56,344,990)
Income tax relating to items that will not be reclassified subsequently		(27,044,752)	(17,704,773)	16,903,497
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax		63,175,124	41,311,137	(39,441,493)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		P5,589,405,530	P5,043,182,723	P4,481,016,193
Basic and diluted earnings per share	26	P2.00	P1.81	P1.63

See Notes to the Consolidated Financial Statements.



Date **APR 07 2017** TSIS

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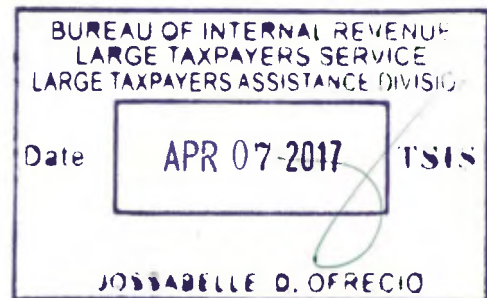
PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Capital Stock	Paid-in Capital	Remeasurements of Retirement Liability	Retained Earnings	Years Ended December 31	
						Stocks - At Cost	Total Equity
Balance at January 1, 2014		P2,783,317,412	P20,830,391,081	(P2,520,490)	P6,992,023,004	(P16,911,006)	P30,586,300,001
Total comprehensive income							
Net income for the year		-	-	-	4,520,457,686	-	4,520,457,686
Other comprehensive income - net of tax		-	-	(39,441,493)	-	-	(39,441,493)
Total comprehensive income		-	-	(39,441,493)	4,520,457,686	-	4,481,016,193
Transactions with owners of the Parent Company							
Treasury shares - at cost	24	-	-	-	-	(3,899,602)	(3,899,602)
Cash dividends	24	-	-	-	(829,921,923)	-	(829,921,923)
Total transactions with owners of the Parent Company		-	-	-	(829,921,923)	(3,899,602)	(833,821,525)
Balance at December 31, 2014		2,783,317,412	20,830,391,081	(41,961,983)	10,682,558,767	(20,810,608)	34,233,494,669
Total comprehensive income							
Net income for the year		-	-	-	5,001,871,586	-	5,001,871,586
Other comprehensive income - net of tax		-	-	41,311,137	-	-	41,311,137
Total comprehensive income		-	-	41,311,137	5,001,871,586	-	5,043,182,723
Transactions with owners of the Parent Company							
Issuance of ordinary shares/effect of merger with Company E	24	2,045,465	-	-	-	(2,045,465)	-
Treasury shares - at cost	24	-	-	-	-	(33,846,207)	(33,846,207)
Cash dividends	24	-	-	-	(829,614,422)	-	(829,614,422)
Total transactions with owners of the Parent Company		2,045,465	-	-	(829,614,422)	(35,891,672)	(863,460,629)
Balance at December 31, 2015		2,785,362,877	20,830,391,081	(660,846)	14,854,815,931	(56,702,280)	38,413,216,763

Forward

		Years Ended December 31				
Note	Capital Stock	Paid-in Capital	Remeasurements of Retirement Liability	Retained Earnings	Stocks - At Cost	Total Equity
Total comprehensive income						
Net income for the year	P -	P -	P -	P5,526,230,406	P -	P5,526,230,406
Other comprehensive income - net of tax	-	-	63,175,124	-	-	63,175,124
Total comprehensive income	-	-	63,175,124	5,526,230,406	-	5,589,405,530
Transactions with owners of the Parent Company						
Cash dividends	-	-	-	(829,614,422)	-	(829,614,422)
Balance at December 31, 2016	P2,785,362,877	P20,830,391,081	P62,524,278	P19,551,431,915	(P56,702,280)	P43,173,007,871

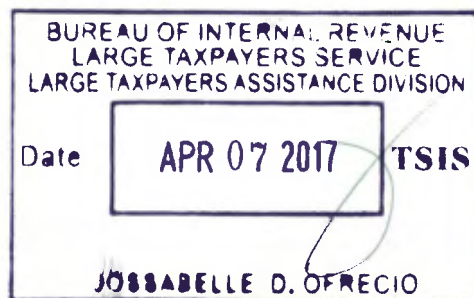
See Notes to the Consolidated Financial Statements.



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

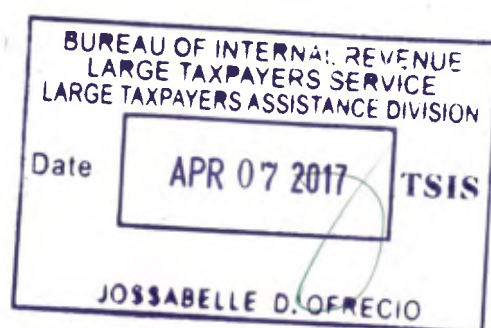
		Years Ended December 31		
	Note	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P7,917,364,304	P7,104,540,127	P6,458,194,282
Adjustments for:				
Depreciation and amortization	10, 11, 19	1,408,708,815	1,279,462,358	1,185,445,441
Rent expense in excess of billings		416,995,174	424,382,373	469,137,739
Retirement benefits cost	19, 22	119,606,198	104,549,247	76,327,067
Interest expense	14	101,469,303	70,303,437	47,261,984
Share in results of joint ventures and associate	9	68,439,999	10,911,580	17,273,851
Unrealized valuation loss (gain) in trading securities	7, 20	(676,435)	3,852,970	(8,581,093)
Loss (gain) on disposal of property and equipment	20	(2,031)	409,068	73,974
Dividend income	20	(824,831)	(921,431)	(821,351)
Interest income	4	(12,686,675)	(18,502,923)	(17,682,206)
Gain on insurance claim	20	-	(38,721,770)	(26,143,753)
Unrealized foreign exchange gain		-	-	(3,077)
Operating income before changes in working capital		10,018,393,821	8,940,265,036	8,200,482,858
Decrease (increase) in:				
Receivables		(1,197,759,895)	(691,183,537)	(728,657,804)
Merchandise inventory		(3,504,991,996)	(1,816,059,660)	(1,725,244,030)
Investments in trading securities		-	(837,092)	-
Prepaid expenses and other current assets		(131,706,152)	(511,571,005)	34,968,149
Increase (decrease) in:				
Accounts payable and accrued expenses		(152,513,178)	(528,106,689)	(578,788,322)
Trust receipts payable		(5,182,021)	5,182,021	(16,543,219)
Due to related parties		4,007,211	3,115,409	(52,709,004)
Other current liabilities		76,738,324	(30,334,683)	85,494,582
Cash generated from operations		5,106,986,114	5,370,469,800	5,219,003,210
Interest received		12,686,675	18,502,923	17,682,206
Interest paid		(178,135,991)	(69,763,200)	(146,768,235)
Income taxes paid		(2,241,539,714)	(1,991,807,098)	(1,618,091,928)
Net cash provided by operating activities		2,699,997,084	3,327,402,425	3,471,825,253

Forward



Years Ended December 31				
	Note	2016	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	10	(P2,963,986,540)	(P2,513,405,067)	(P1,692,374,794)
Increase in intangibles	11	(69,082,719)	(1,529,554,502)	(28,558,800)
Increase in other noncurrent assets		(102,942,122)	(181,747,576)	(78,525,743)
Dividends received		824,831	921,431	821,351
Proceeds from disposal of property and equipment		4,194,256	16,696,755	8,187,857
Additions to investments	9	-	(87,500,000)	(369,000,800)
Proceeds from insurance claim		-	38,721,771	26,143,753
Maturity of short-term investments		-	-	500,000,000
Contributions paid in plan assets	22	-	-	(25,000,000)
Net cash used in investing activities		(3,130,992,294)	(4,255,867,188)	(1,658,307,176)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of long-term loans payable	14	(450,000,000)	(393,700,000)	-
Payment of short-term loans payable		(1,650,000,000)	(703,500,000)	-
Availment of short-term loans payable	14	3,530,000,000	2,377,500,000	480,000,000
Cash dividends paid	24	(829,614,422)	(829,921,923)	(829,921,923)
Payments for treasury shares	24	-	(33,846,207)	(3,899,602)
Net cash provided by (used in) financing activities		600,385,578	416,531,870	(353,821,525)
EFFECT OF EXCHANGE RATE CHANGES ON CASH				
		-	-	3,077
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		169,390,368	(511,932,893)	1,459,699,629
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	4	6,246,493,017	6,758,425,910	5,298,726,281
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	4	P6,415,883,385	P6,246,493,017	P6,758,425,910

See Notes to the Consolidated Financial Statements



PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

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

The Parent Company is principally involved in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, pharmaceutical and medical goods, etc.) on a wholesale and retail basis. The Group has three hundred six (306) operating stores and twenty-two (22) food service stalls. Twenty-eight (28) stores and seven (7) food service stalls were newly opened in 2016. Its registered office is located at 900 Romualdez Street, Paco, Manila.

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

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

(a) Operator of S&R Membership Shopping; incorporated and registered with the Philippine SEC in 2004; acquired by the Parent Company on May 28, 2012 through a Share Swap Agreement (see Note 9).

(b) A wholly-owned subsidiary of KMC incorporated on May 25, 2015.

(c) A wholly-owned subsidiary of KMC incorporated on June 10, 2016.

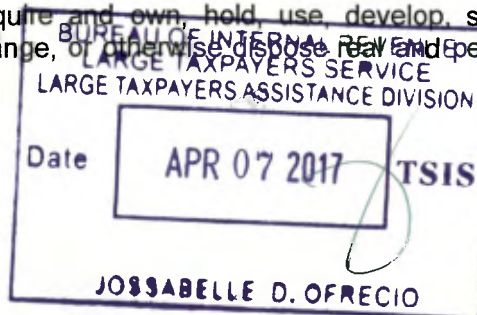
(d) Incorporated and registered with the Philippine SEC on May 31, 2012 and started commercial operations on September 20, 2012 (see Note 9).

(e) Incorporated and registered with the Philippine SEC on May 22, 2013 as a holding company (see Note 9).

(f) Acquired on August 26, 2015 through Entenso which subsequently acquired the significant assets of Bargain City, Inc. Multi-Merchantrade Inc. and Superplus Corporation (see Note 11).

(g) Acquired on February 3, 2015 through Entenso through a stock acquisition (see Note 11).

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



2. Basis of Preparation

Statement of Compliance

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

The accompanying consolidated financial statements were approved and authorized for issuance by the BOD on March 31, 2017.

Basis of Measurement

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

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

Functional and Presentation Currency

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

Use of Judgments, Estimates and Assumptions

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

Judgments

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

Assessing Joint Arrangements

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

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

As at December 31, 2016 and 2015, the carrying amount of its investments in joint ventures amounted to P367.35 million and P432.40 million, respectively (see Note 9).

Distinction between Investment Property and Property and Equipment

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

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

Assessing Lease Agreements

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

Operating Leases - Group as a Lessee

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

Rent expense recognized in profit or loss amounted to P2,515.69 million, P2,276.21 million and P2,104.78 million in 2016, 2015 and 2014, respectively (see Notes 17 and 19).

Operating Leases - Group as a Lessor

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

Rent income recognized in profit or loss amounted to P377.28 million, P370.81 million and P356.99 million in 2016, 2015 and 2014, respectively (see Notes 17 and 18).

Assessment of Computer Software and Licenses and Leasehold Rights

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

Estimates

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

Estimating Allowance for Impairment Losses on Receivables

The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors and, their payment behavior and known market factors. The Group reviews the age and status of the receivable, and identifies accounts that are to be provided with allowance on a regular basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses on receivables would increase the Group's recorded operating expenses and decrease current assets.

The allowance for impairment losses on receivables amounted to P7.46 million as at December 31, 2016 and 2015. In 2016 and 2015, the Group did not recognize an additional allowance for impairment losses on receivables because the Group believes that all outstanding receivables are recoverable. The carrying amount of receivables amounted to P3,880.86 million and P2,683.10 million as at December 31, 2016 and 2015, respectively (see Note 5).

Estimating Net Realizable Value (NRV) of Merchandise Inventory

The Group carries merchandise inventory at NRV whenever the selling price less costs to sell becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The estimate of the NRV is reviewed regularly.

Estimates of NRV are based on the most reliable evidence available at the time the estimates are made on the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The NRV is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying amount of merchandise inventory amounted to P16,487.82 million and P12,982.83 million as at December 31, 2016 and 2015, respectively (see Note 6).

Estimating Useful Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, the estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease noncurrent assets.

Depreciation and amortization recognized in profit or loss amounted to P1,379.09 million, P1,254.11 million and P1,172.92 million in 2016, 2015 and 2014, respectively (see Notes 10 and 19). Property and equipment, net of accumulated depreciation and amortization, amounted to P15,711.62 million and P14,033.74 million as at December 31, 2016 and 2015, respectively (see Note 10).

Estimating Useful Lives of Computer Software and Licenses and Leasehold Rights

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

Amortization recognized in profit or loss amounted to P29.62 million, P25.35 million and P12.53 million in 2016, 2015 and 2014, respectively (see Notes 11 and 19). Net carrying value of computer software and licenses and leasehold rights amounted to P245.70 million and P237.92 million as at December 31, 2016 and 2015, respectively (see Note 11).

Impairment of Goodwill, Trademark and Customer Relationships with Indefinite Lives

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

The carrying amounts of goodwill, trademarks and customer relationships with indefinite useful lives amounted to P19,314.88 million and P19,283.20 million as at December 31, 2016 and 2015, respectively (see Note 11).

Estimating Retirement Benefits Liability and Cost

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

Retirement benefits liability amounted to P469.26 million and P439.87 million as at December 31, 2016 and 2015, respectively (see Note 22).

3. Summary of Significant Accounting Policies

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

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

The Group has adopted the following relevant and applicable amendments to standards starting January 1, 2016 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
 - Information should not be obscured by aggregating or by providing immaterial information.
 - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.
 - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
 - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Management is currently in the process of assessing the potential impact resulting from the application of these standards on its consolidated financial statements.

Effective January 1, 2017

- *A Disclosure initiative (Amendments to PAS 7)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12).* The amendments clarify that:
 - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
 - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
 - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
 - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

Effective January 1, 2018

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

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

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

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

Effective January 1, 2019

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

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16.

Deferral of the local implementation of Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Basis of Consolidation

Business Combinations Under Common Control

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

Business Combinations other than Under Common Control

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

The Group measures goodwill at the acquisition date as:

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

Subsidiaries

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

Loss of Control

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

Transactions Eliminated on Consolidation

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

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

Financial Instruments

Date of Recognition

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

Initial Recognition of Financial Instruments

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

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

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

Financial Assets at FVPL

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

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

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

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

Loans and Receivables

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

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

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

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

AFS Financial Assets

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

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

Other Financial Liabilities

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

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

Debt Issue Costs

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

Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

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

Financial Liabilities

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

Offsetting Financial Instruments

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

Fair Value Measurements

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

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

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

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

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

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

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

Merchandise Inventory

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

NRV is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Property and Equipment

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

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

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

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

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

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

Investments in Joint Ventures and Associates

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

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

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

Investment in a Joint Operation

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

Intangible Assets and Goodwill

Intangible Assets

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

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

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

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

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

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

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

Goodwill

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

Impairment of Assets

Financial Assets

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

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

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

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

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

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

AFS Financial Assets

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

All impairment losses are recognized in profit or loss.

Non-financial Assets

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

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

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

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

Employee Benefits

Short-term Employee Benefits

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

Retirement Benefits Cost

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

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

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

Equity

Capital Stock

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

Additional Paid-in Capital

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

Retained Earnings and Dividend Distribution

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

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

Treasury Stock

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

Other Comprehensive Income

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

Revenue and Expense Recognition

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

- *Sale of Goods* is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Accordingly, advances received prior to delivery of goods are recorded as unearned revenues and are earned upon physical delivery and acceptance by customer. Unearned revenues are classified as current liabilities.

- *Concession Income* pertains to the fixed percentage income from sales of concessionaire supplier's goods sold inside the store. The income is recognized when earned.
- *Membership Income* refers to fees from members wherein such fees permit only membership, and all other services or products are paid for separately. The fee is recognized as revenue when no uncertainty as to its collectability exists.
- *Rent Income* from property and equipment is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income, over the term of the lease.
- *Other Income* from display, demonstration or sampling, listing fee, endcap or palette income, merchandise support and miscellaneous income are recognized when earned.
- *Interest Income* is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition. Interest income is presented net of final tax.
- *Dividends* are recognized when the Group's right as a shareholder to receive the payment is established.

Cost of Sales

Cost of sales includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. These costs include the cost of storing and transporting the products (i.e., freight costs or trucking costs, cross-dock delivery fees, and other direct costs). Vendor returns and allowances are generally deducted from cost of sales.

Operating Expenses

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

Borrowing Costs

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

Income Taxes

Current Tax

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

Deferred Tax

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

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

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

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

Value Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

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

Leases

Group as Lessee

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Cumulative excess of rent expense over billing from lessors are presented as noncurrent accrued rent in the consolidated statements of financial position.

Group as Lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Cumulative excess of rent income over billing to tenants are presented as accrued rent income classified as part of noncurrent assets.

Related Parties

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

Segment Reporting

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

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

Provisions and Contingencies

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

Provisions are revisited at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects the current market assessment of the time value of money, and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Basic and Diluted Earnings Per Share (EPS)

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

Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are recognized in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Cash and Cash Equivalents

This account as at December 31 consists of:

	Note	2016	2015
Cash on hand		P872,185,446	P735,964,181
Cash in banks	27, 28	1,457,275,840	1,577,093,521
Money market placements	27, 28	4,086,422,099	3,933,435,315
	28	P6,415,883,385	P6,246,493,017

Cash in banks earns annual interest at the respective bank deposit rates. Money market placements are highly liquid investments that are readily convertible into cash and are subjected to insignificant risk of changes in value. These investments have maturity dates of an average of 30 days with an annual interest rates ranging from 0.50% to 2.00% in 2016, 1.60% to 2.08% in 2015, and 1.00% to 2.30% in 2014. Interest income earned from cash in banks and money market placements amounted to P12.69 million, P18.50 million, P16.58 million in 2016, 2015, and 2014, respectively.

5. Receivables

This account as at December 31 consists of:

	<i>Note</i>	2016	2015
Trade receivables	<i>a, 21</i>	P2,248,947,108	P1,471,239,823
Non-trade receivables	<i>b, 21</i>	1,639,371,010	1,219,318,400
		3,888,318,118	2,690,558,223
Less allowance for impairment losses on trade receivables from third parties	<i>a</i>	7,462,327	7,462,327
	<i>27, 28</i>	P3,880,855,791	P2,683,095,896

- a. Majority of trade receivables pertain to credit card transactions which are due within 30 days or its normal credit period. The Group partners only with reputable credit card companies affiliated with major banks. Management believes that except for the accounts provided with allowance for impairment losses amounting to P7.46 million as at December 31, 2016 and 2015, all other receivables are collectible and therefore, no additional allowance is necessary.
- b. Non-trade receivables represent the amounts due from tenants in relation to rentals of store spaces. This account also includes due from suppliers with respect to “demo” or “sampling” conducted by suppliers’ representatives and strategic locations granted to suppliers with regard to the display of their products in the selling area of the stores. It also includes advances to employees which are collected by the Group through salary deduction.

6. Merchandise Inventory

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

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

The Group’s merchandise inventory as at December 31, 2016 and 2015 amounted to P16,487.82 million and P12,982.83 million, respectively.

Inventory charged to the cost of sales amounted to P94,051.01 million, P80,682.78 million and P69,937.46 million in 2016, 2015 and 2014, respectively (see Note 16).

7. Investments in Trading Securities

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

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

	Note	2016	2015
Cost			
Balance at beginning of the year		P15,355,998	P14,518,906
Additions		-	837,092
		15,355,998	15,355,998
Valuation Adjustments			
Balance at beginning of the year		19,076,593	22,929,563
Unrealized valuation gain (loss) on financial assets at FVPL for the year	20	676,435	(3,852,970)
		19,753,028	19,076,593
	28	P35,109,026	P34,432,591

8. Prepaid Expenses and Other Current Assets

This account as at December 31 consists of:

	2016	2015
Prepaid expenses	P557,768,260	P457,252,639
Input value added tax (VAT)	372,241,293	569,408,292
Deferred input VAT	51,907,561	40,751,176
	P981,917,114	P1,067,412,107

The details of prepaid expenses are as follows:

	Note	2016	2015
Rent	17	P375,748,248	P318,620,368
Taxes and licenses		65,342,856	64,648,390
Insurance		64,880,857	47,019,465
Supplies		21,568,898	-
Advances to contractors		13,987,975	16,160,000
Repairs and maintenance		7,409,696	5,818,365
Others		8,829,730	4,986,051
		P557,768,260	P457,252,639

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

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

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

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

9. Investments; Acquisitions of Subsidiaries

Investments

The details of investments are as follows:

	<i>Note</i>	2016	2015
Investment in associate	<i>b</i>	P424,424,914	P427,813,089
Investments in joint ventures	<i>a</i>	367,346,533	432,398,357
AFS financial assets	<i>c, 20</i>	7,879,160	7,879,160
		P799,650,607	P868,090,606

a. Investments in Joint Ventures

PG Lawson Company, Inc.

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

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

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

	2016	2015
Balance at beginning of the year	P318,276,913	P350,000,000
Share in net loss	(61,281,006)	(31,723,087)
	P256,995,907	P318,276,913

The summarized financial information of PLCI follows:

	2016	2015
Current assets	P206,676,729	P400,307,281
Noncurrent assets	272,316,662	145,084,817
Current liabilities	98,552,558	86,708,140
Noncurrent liabilities	7,804,447	4,002,655
Total equity	372,636,386	535,215,424
Income	67,478,676	55,408,813
Operating expenses	193,910,829	95,675,874
Net loss	87,544,295	40,267,061

AyaGold Retailers, Inc.

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

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

The redeemable preferred shares shall have the following features:

- (a) Voting rights;
- (b) Participating in dividends declaration for common shares and may be entitled to such dividends as may be determined and approved by the Board of Directors;
- (c) Entitled to receive out of the assets of the joint venture available for distribution to the parties, before any distribution of assets is made to holders of common shares, distributions in the amount of the issue value per outstanding redeemable preferred share, plus declared and unpaid dividends to the date of distribution; and
- (d) Redeemable at the option of the joint venture.

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

	2016	2015
Balance at beginning of the year	P114,121,444	P42,726,149
Additions	-	87,500,000
Share in net loss	(3,770,818)	(16,104,705)
	P110,350,626	P114,121,444

The summarized financial information of Ayagold follows:

	2016	2015
Current assets	P128,836,435	P107,026,560
Noncurrent assets	167,581,943	186,094,527
Current liabilities	76,158,776	65,319,851
Total equity	220,259,602	227,801,236
Income	99,008,504	36,910,296
Operating expenses	106,550,140	82,535,165
Net loss	7,541,636	31,929,071

b. Investment in Associate

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

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

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

	2016	2015
Carrying amount		
Balance at beginning of the year	P427,813,089	P390,896,877
Share in net income (loss)	(3,388,175)	36,916,212
	P424,424,914	P427,813,089

c. AFS Financial Assets

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

Dividend income related to these investments amounted to P0.82 million, P0.92 million, and P0.82 in 2016, 2015, and 2014, respectively (see Note 20).

Acquisitions of Subsidiaries

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

Entenso Equities Incorporated (Entenso)

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

In 2016 and 2015, the Company made an additional investment to Entenso amounting to P458 million and P1.7 billion, respectively. Entenso is in the process of filing application for increase in its authorized capital stock with the SEC.

Company E Corporation

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

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

Kareila Management Corporation

On May 28, 2012, the acquisition of Kareila, operator of S&R Membership Shopping, through a “share-for-a-share” swap was approved by the SEC. The principal activities of Kareila include management of businesses, investing in the business that it manages, or of which it is the managing agent; and providing management investment and technical advice to commercial, industrial, manufacturing, and other enterprises.

The Parent Company issued 766,406,250 new common shares, with P1 par value, from its own authorized but unissued capital in exchange for 1,703,125 common shares, with P100 par value per share, of Kareila representing 100% of its outstanding capital stock. The fair market value of the Company’s shares based on the observable market price as at the date of acquisition is P21.50 per share or P16,477.73 million. The Company incurred acquisition-related cost of P3.83 million. This cost has been included as part of operating expenses.

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

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

PPCI Subic Inc.

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

10. Property and Equipment

The movements and balances of this account as at and for the years ended December 31 consist of:

	Building	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction In Progress	Total
Cost							
Balance, December 31, 2014	P4,500,979,213	P1,836,712,324	P4,995,484,709	P5,631,087,179	P386,605,815	P179,177,517	P17,530,046,757
Transfer-in	-	101,245,684	264,808,649	107,455,093	-	-	473,509,426
Additions	316,900,386	130,651,366	454,673,843	690,487,865	17,134,337	628,817,024	2,238,664,821
Reclassifications	97,748,986	23,683,528	144,025,168	142,622,232	-	(408,079,914)	-
Disposals	(196,429)	(2,761,009)	(14,682,613)	(2,935,742)	-	-	(20,575,793)
Adjustments	-	-	-	(231,348,170)	-	(142,136,607)	(373,484,777)
Balance, December 31, 2015	4,915,432,156	2,089,531,893	5,844,309,756	6,337,368,457	403,740,152	257,778,020	19,848,160,434
Additions	226,526,122	162,430,837	758,890,116	426,509,668	938,721	1,485,869,471	3,061,164,935
Reclassifications	100,393,352	37,036,852	230,952,626	798,104,984	(24,869,686)	(1,141,618,128)	-
Disposals	-	(1,372,834)	(5,418,958)	(575,768)	-	-	(7,367,560)
Balance, December 31, 2016	5,242,351,630	2,287,626,748	6,828,733,540	7,561,407,341	379,809,187	602,029,363	22,901,957,809
Accumulated Depreciation and Amortization							
Balance, December 31, 2014	557,883,359	599,971,805	2,482,949,880	757,728,763	-	-	P4,398,533,807
Transfer-in	815,531	37,401,315	121,453,274	36,371,352	-	-	196,041,472
Depreciation and amortization	157,929,518	149,688,596	680,421,199	266,070,714	-	-	1,254,110,027
Reclassifications	73,491	(24,615)	(1,231)	(47,645)	-	-	-
Disposals	(147,321)	(443,113)	(2,627,625)	(251,911)	-	-	(3,469,970)
Adjustments	-	(2,487)	-	(30,793,272)	-	-	(30,795,759)
Balance, December 31, 2015	716,554,578	786,591,501	3,282,195,497	1,029,078,001	-	-	5,814,419,577
Depreciation and amortization	171,362,045	159,092,915	720,574,983	328,061,268	-	-	1,379,091,211
Reclassifications	-	186,558	(186,558)	-	-	-	-
Disposals	-	(67,259)	(3,108,076)	-	-	-	(3,175,335)
Balance, December 31, 2016	887,916,623	945,803,715	3,999,475,846	1,357,139,269	-	-	7,190,335,453
Carrying Amount							
December 31, 2015	P4,198,877,578	P1,302,940,392	P2,562,114,259	P5,308,290,456	P403,740,152	P257,778,020	P14,033,740,857
December 31, 2016	P4,354,435,007	P1,341,823,033	P2,829,257,694	P6,204,268,072	P379,809,187	P602,029,363	P15,711,622,356

As at December 31, 2016 and 2015, the Parent Company has outstanding payable for property additions amounting to P21.74 million and P4.89 million, respectively (see Note 13). In addition, interest expense related to loans amounting to P75.44 million and P92.22 million had been capitalized (see Note 14).

Transfer-in pertains to property and equipment of acquired and merged entities upon its acquisition as mentioned in Note 9.

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

No impairment loss was recognized in 2016 and 2015.

11. Intangibles and Goodwill

This account as at December 31 consists of:

	Note	2016	2015
Goodwill	<i>a</i>	P14,715,769,906	P14,684,084,973
Trademark	<i>b</i>	3,709,660,547	3,709,660,547
Customer relationships	<i>b</i>	889,452,981	889,452,981
Computer software and licenses - net	<i>c</i>	183,285,588	171,737,656
Leasehold rights	<i>c</i>	62,417,046	66,184,796
		P19,560,586,068	P19,521,120,953

a. Goodwill

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

	Note	2016	2015
Kareila		P12,079,473,835	P12,079,473,835
Budgetlane Supermarkets	<i>a.1</i>	838,524,672	801,839,739
DCI and FLSTCI	<i>a.2</i>	685,904,317	690,904,317
Gant		742,340,804	742,340,804
Company E		358,152,015	358,152,015
PJSI		11,370,121	11,370,121
Merger of PJSI and Gant to Parent Company		4,142	4,142
		P14,715,769,906	P14,684,084,973

a.1. Acquisition of Bargain City Inc. (BCI), Multi-Merchantrade Inc. (MMI) and Superplus Corporation (SC) (collectively as "Budgetlane Supermarkets")

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

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

Acquisition cost	P1,496,500,821
Fair value of net assets	694,661,082
Goodwill	P801,839,739

Movement of goodwill is as follows:

Goodwill at acquisition date	P801,839,739
Fair value adjustments	36,684,933
Goodwill	P838,524,672

In 2016, goodwill arising from the acquisition of BCI, MMI and SC increased by P36.68 million upon finalization of BCI's, MMI's and SC's purchase price allocation. Change in fair value of net assets is due to the following:

	Increase (Decrease)
Input VAT	(P36,736,182)
Transportation equipment	(2,308,000)
Accounts payable - nontrade	1,552,949
Other current liabilities	806,300
Effect in fair value of net assets	(P36,684,933)

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

a.2.Acquisition of Daily Commodities Inc. (DCI) and First Lane Super Traders Co., Inc. (FLST)

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

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

Acquisition cost	P768,485,000
Fair value of net assets	77,580,683
Goodwill	P690,904,317

Movement of goodwill is as follows:

Goodwill at acquisition date	P690,904,317
Fair value adjustments	(5,000,000)
Goodwill	P685,904,317

In 2016, goodwill arising from the acquisition of DCI and FLSTCI decreased by P5 million upon finalization of DCI's and FLSTCI's purchase price allocation. As a result, the carrying value of the identifiable net assets at the date of acquisition changes, and the change resulted from the increase in the beginning balance of capital stock from P5 million to P10 million.

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

b. Trademark and Customer Relationships

This represents the fair value of S&R trade name and customer relationships determined after considering various factors and performing valuation methodologies including the independent valuation study and analysis prepared by an independent valuation specialist.

Impairment of Goodwill, Trademark and Customer Relationships

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

Management assessed that there is no impairment in the value of goodwill, trademark and customer relationship as at December 31, 2016 and 2015.

c. Leasehold Rights and Computer Software and Licenses

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

The movements and balances of leasehold rights and computer software and licenses as at and for the years ended December 31 consists of:

	Computer Software and Licenses	Leasehold Rights	Total
Cost			
Balance, January 1, 2015	P232,841,987	P75,355,005	P308,196,992
Transfer in	9,387,434	-	9,387,434
Additions	79,290,672	-	79,290,672
Transfer - out	(51,867,660)	-	(51,867,660)
Balance, December 31, 2015	269,652,433	75,355,005	345,007,438
Additions	37,397,786	-	37,397,786
Balance, December 31, 2016	307,050,219	75,355,005	382,405,224
Accumulated Amortization			
Balance, January 1, 2015	76,330,197	5,402,458	81,732,655
Amortization	21,584,580	3,767,751	25,352,331
Balance, December 31, 2015	97,914,777	9,170,209	107,084,986
Amortization	25,849,854	3,767,750	29,617,604
Balance, December 31, 2016	123,764,631	12,937,959	136,702,590
Carrying Amount			
December 31, 2015	P171,737,656	P66,184,796	P237,922,452
December 31, 2016	P183,285,588	P62,417,046	P245,702,634

12. Other Noncurrent Assets

This account consists of:

	Note	2016	2015
Security deposits	17, 27, 28	P1,387,243,564	P1,279,453,908
Prepaid rent	17	86,502,207	94,950,257
Accrued rent income	17, 23	35,519,330	31,918,814
		P1,509,265,101	P1,406,322,979

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

13. Accounts Payable and Accrued Expenses

This account consists of:

	Note	2016	2015
Trade	21, 27, 28	P6,021,729,009	P6,457,999,306
Non-trade	21, 27, 28	1,778,722,639	1,662,591,104
Dividends payable	24, 27, 28	829,614,422	829,614,422
Withholding taxes payable		172,167,015	154,284,063
Accrued expenses:	27, 28		
Manpower agency services		561,627,984	434,949,042
Utilities		98,924,604	115,318,825
Professional fees		48,232,908	50,152,059
Rent		27,017,908	17,797,247
Fixed asset acquisition	10	21,736,891	4,886,038
Interest		3,940,506	5,165,690
Others		79,945,503	44,937,424
		P9,643,659,389	P9,777,695,220

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

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

Fixed asset acquisition pertains to assets received but the related invoices are still in process.

14. Loans Payable

As at December 31, the Group has the following outstanding loans payable:

a. Short-term Loans Payable

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

	Note	2016	2015
Short-term note based on 2.375%	i	P2,647,500,000	P2,247,500,000
Short-term note based on 2.5%	i	1,220,000,000	890,000,000
Short-term note based on 2.125%	i	450,000,000	-
Short-term note based on 2.00%	i	200,000,000	-
Short-term note based on 2.375%	ii	500,000,000	-
	27, 28	P5,017,500,000	P3,137,500,000

- i. The Parent Company issued and executed the following notes:

2016			
Execution Date	Maturity Date	Interest Rate	Principal
November 25, 2016	February 23, 2017	2.375%	P550,000,000
February 3, 2016	January 27, 2017	2.375%	500,000,000
October 28, 2016	January 26, 2017	2.500%	490,000,000
February 1, 2016	January 25, 2017	2.375%	467,500,000
February 26, 2016	February 20, 2017	2.500%	310,000,000
October 14, 2016	January 12, 2017	2.500%	300,000,000
November 29, 2016	February 27, 2017	2.375%	300,000,000
November 15, 2016	June 30, 2017	2.125%	250,000,000
August 26, 2016	January 27, 2017	2.000%	200,000,000
October 25, 2016	January 23, 2017	2.125%	200,000,000
February 15, 2016	February 8, 2017	2.375%	180,000,000
August 15, 2016	February 10, 2017	2.375%	180,000,000
January 18, 2016	January 11, 2017	2.375%	150,000,000
December 13, 2016	March 13, 2017	2.375%	150,000,000
February 9, 2016	February 1, 2017	2.375%	120,000,000
October 28, 2016	January 26, 2017	2.500%	120,000,000
October 10, 2016	April 7, 2017	2.375%	50,000,000
			P4,517,500,000

2015			
Execution Date	Maturity Date	Interest Rate	Principal
November 2, 2015	February 1, 2016	2.375%	P587,500,000
November 5, 2015	February 3, 2016	2.375%	500,000,000
August 7, 2015	February 4, 2016	2.500%	490,000,000
December 27, 2015	February 26, 2016	2.500%	400,000,000
December 14, 2015	March 14, 2016	2.375%	250,000,000
November 16, 2015	February 15, 2016	2.375%	240,000,000
December 9, 2015	January 7, 2016	2.375%	200,000,000
November 10, 2015	February 9, 2016	2.375%	150,000,000
December 17, 2015	January 18, 2016	2.375%	150,000,000
December 15, 2015	January 14, 2016	2.375%	100,000,000
October 5, 2015	January 4, 2016	2.375%	70,000,000
			P3,137,500,000

Principal amounts will be due on lump sum on their maturity dates. Extension and/or renewal of the notes are granted by the financial institution to the Parent Company. The proceeds of these loans will be used for inventory financing and funding of short term working capital requirement. Total short term loans payable renewed and extended in 2016 amounted to P1,687.50 million.

- ii. In 2016, Kareila entered into unsecured short-term loans with Cosco Capital Inc. at 2.375% interest per annum on the following dates:

Date	Maturity Date	Amount
June 29, 2016	December 28, 2016	P200,000,000
July 15, 2016	January 14, 2017	100,000,000
September 01, 2016	March 01, 2017	100,000,000
September 08, 2016	March 08, 2017	150,000,000
September 15, 2016	March 15, 2017	150,000,000
Total		P700,000,000

On December 28, 2016, the Company paid matured short-term loan amounting to P200.00 million.

b. Long-term Loans Payable

b.1. As at December 31, the outstanding loans are as follows:

	Note	2016	2015
Unsecured Peso Denominated			
Fixed rate note based on 3.5%	<i>i</i>	P1,997,096,658	P1,995,062,298
Fixed rate note based on 3.25%	<i>ii</i>	120,000,000	570,000,000
Fixed rate note based on 3.5%	<i>iii</i>	400,000,000	400,000,000
	27, 28	2,517,096,658	2,965,062,298
Less current portion		120,000,000	570,000,000
		P2,397,096,658	P2,395,062,298

- i. On June 13, 2013, the Parent Company issued a P2 billion promissory note. Interest is computed as 3.50% per annum of the principal amount. The debt has a term of 1,803 days and will be paid on a lump sum on May 21, 2018.
- ii. On April 14, 2013, the Parent Company signed and executed a two (2) year promissory note amounting to P963.70 million. The debt bears a 3.25% interest rate per annum and shall be repaid in a single payment on maturity. During 2016, a total of P450.00 million of the loan amount was already paid. The balance was renewed at 2.375% interest rate per annum and payable on January 4, 2017.

The movements in debt issue costs are as follows:

	2016	2015
Balance at beginning of the year	P4,937,702	P7,665,410
Amortizations	(2,034,360)	(2,727,708)
Balance at end of year	P2,903,342	P4,937,702

- iii. On July 23, 2013, Kareila signed and executed a P500.00 million unsecured loan agreement with a local bank. The loan shall be repaid in lump sum after five (5) years. Its related interest is at 3.50% per annum. In 2015, P100.00 million of the loan was repaid in advance by the Company.

Repayment Schedule

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

Year	2016	2015
2017	P120,000,000	P570,000,000
2018	2,000,000,000	2,000,000,000
	P2,120,000,000	P2,570,000,000

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

Interest expense from these loans amounting to P75.44 million, P92.22 million and P99.51 million were capitalized in 2016, 2015 and 2014, respectively and recognized in building and leasehold improvements under property and equipment accounts (see Note 10). Remaining interest expense that was charged to profit and loss amounted to P101.47 million, P70.30 million and P47.26 million in 2016, 2015 and 2014, respectively.

15. Other Current Liabilities

This account consists of:

	Note	2016	2015
Deposits	17, 27, 28	P141,161,517	P137,849,852
Unredeemed gift certificates		102,275,712	89,430,184
Loyalty and rewards		88,449,780	15,100,407
VAT payable		48,367,991	46,178,424
Promotion fund		13,402,740	35,578,785
Others	27, 28	10,206,603	2,988,367
		P403,864,343	P327,126,019

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

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

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

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

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

16. Cost of Sales

This account for the years ended December 31 consists of:

	<i>Note</i>	2016	2015	2014
Beginning inventory	6	P12,982,832,312	P11,166,772,652	P9,441,528,622
Add: Purchases		97,555,998,450	82,498,837,974	71,662,701,602
Total goods available for sale		110,538,830,762	93,665,610,626	81,104,230,224
Less ending inventory	6	16,487,824,308	12,982,832,312	11,166,772,652
		P94,051,006,454	P80,682,778,314	P69,937,457,572

17. Lease Agreements

As Lessee

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

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

Rent expense included under "Operating expenses" in the consolidated statements of comprehensive income amounted to P2,515.69 million, P2,276.21 million and P2,104.78 million in 2016, 2015 and 2014, respectively (see Note 19).

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

	2016	2015	2014
Due within one year	P2,057,326,120	P1,875,675,972	P1,722,593,756
Due more than one year but not more than five years	8,688,301,793	7,989,235,677	7,233,318,698
Due more than five years	32,996,247,728	32,171,881,713	31,255,977,987
	P43,741,875,641	P42,036,793,362	P40,211,890,441

As Lessor

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

Rent income recognized in profit or loss in 2016, 2015 and 2014 amounted P377.28 million, P370.81 million and P356.99 million, respectively (see Note 18).

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

	2016	2015	2014
Due within one year	P213,715,008	P221,218,520	P245,144,093
Due more than one year but not more than five years	257,952,124	296,252,472	423,962,002
Due more than five years	148,073,465	167,316,410	414,448,300
	P619,740,597	P684,787,402	P1,083,554,395

18. Other Operating Income

This account for the years ended December 31 consists of:

	Note	2016	2015	2014
Concession income		P1,517,079,129	P1,386,647,815	P1,331,097,191
Display allowance		615,884,283	537,081,303	368,698,644
Membership income		399,965,999	361,239,476	298,232,302
Rent income	17	377,280,913	370,812,459	356,990,187
Merchandising support		151,203,463	90,098,825	78,165,268
Listing fee		70,254,459	30,958,036	35,910,199
Demo/sampling income		12,869,896	8,554,355	8,553,169
Miscellaneous		121,649,859	100,462,061	85,114,606
		P3,266,188,001	P2,885,854,330	P2,562,761,566

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

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

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

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

Merchandising support pertains to income generated from promotional activities.

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

Demo/sampling income pertains to the fee paid by the suppliers for the privilege granted by Kareila in allowing a representative of the supplier to conduct a demo or give away samples of their products inside the selling area of the stores.

Miscellaneous account consists of amounts collected from the customers for delivering their purchases, cashiers' overages, sale of used packaging materials and others.

19. Operating Expenses

This account for the years ended December 31 consists of:

	Note	2016	2015	2014
Rent	17	P2,515,689,827	P2,276,213,516	P2,104,782,325
Manpower agency services		2,138,731,952	1,818,316,051	1,596,554,761
Communication, light and water		1,675,861,989	1,599,878,300	1,554,629,012
Salaries and wages		1,582,166,197	1,356,514,106	1,124,395,675
Depreciation and amortization	10, 11	1,408,708,815	1,279,462,358	1,185,445,441
Security services		841,058,213	733,128,869	639,600,815
Taxes and licenses		531,072,558	444,684,977	377,879,666
Concession expense	21	477,641,920	475,968,505	478,759,373
Store and office supplies		473,174,985	436,061,717	373,809,062
Janitorial and messengerial services		424,688,008	351,641,717	306,475,798
Repairs and maintenance		373,304,387	314,858,570	241,257,899
Advertising and marketing		167,075,032	134,729,472	91,376,338
Other selling expenses		146,996,247	147,127,670	105,247,408
Insurance		150,498,306	132,564,247	121,312,667
Retirement benefits cost	22	119,606,198	104,549,247	76,327,067
SSS/Medicare and HDMF contributions		115,952,911	99,979,981	84,527,310
Input VAT allocable to exempt sales		93,802,537	81,815,742	73,214,131
Reward point expense		81,136,800	66,870,872	9,008,618
Representation and entertainment		71,300,463	94,017,565	46,761,197
Transportation		58,414,418	47,947,159	33,217,085
Fuel and oil		45,485,516	42,388,068	56,379,263
Royalty	21	42,220,356	37,211,342	33,317,078
Professional fee		32,461,112	17,225,662	37,317,414
Miscellaneous		140,354,269	131,920,857	93,197,810
		P13,707,403,016	P12,225,076,570	P10,844,793,213

20. Others

This account for the years ended December 31 consists of:

	Note	2016	2015	2014
Dividend income	9	P824,831	P921,431	P821,351
Unrealized valuation gain (loss) on trading securities	7	676,435	(3,852,970)	8,581,093
Gain (loss) on disposal of property and equipment	10	2,031	(409,068)	(73,974)
Foreign exchange loss		(435,806)	(558,444)	(795,048)
Bank charges		(23,625,331)	(P17,089,808)	(P7,530,837)
Gain on insurance claim		-	38,721,770	26,143,753
		(P22,557,840)	P17,732,911	P27,146,338

Gain on insurance claim represents the excess of the insurance proceeds received over the cost of the inventories and machineries damaged by flood and fire.

21. Related Party Transactions

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

Related Party	Year	Note	Amount of Transactions for the Year	Outstanding Balances					Due to Related Parties	Terms	Conditions
				Trade Receivable (see Note 5)	Non Trade Receivable (see Note 5)	Trade Payable (see Note 13)	Non Trade Payable (see Note 13)				
Parent											
Dividends	2016		P423,103,355	P -	P -	P -	P423,103,355	P -	Due and	Unsecured	
	2015		423,103,355	-	-	-	423,103,355	-	demandable		
	2014		423,260,180	-	-	-	423,260,180	-			
Repairs and maintenance	2016		141,256	-	141,256	-	-	-	Due and	Unsecured; no impairment	
Interest expense	2016	e	6,402,604	-	-	-	663,021	-	Due and	Unsecured	
Other Related Parties*											
Rent expense	2016		645,467,625	-	1,772,425	-	17,643,971	-	Due and	Unsecured; no impairment	
	2015	a	584,060,827	-	-	-	14,380,058	-	demandable		
	2014		494,154,165	-	-	-	11,420,981	-			
Concession expense	2016		477,641,920	-	-	-	-	-	Due and	Unsecured	
	2015	b	475,968,505	-	-	-	-	-	demandable		
	2014		478,759,373	-	-	-	42,428,386	-			
Purchase of merchandise	2016		1,570,469,568	-	-	-	418,764,671	-	Due and	Unsecured	
	2015	c	1,112,612,797	-	-	-	494,342,576	-	demandable		
	2014		558,007,306	-	-	-	382,525,442	-			
Sale of merchandise	2016		74,927,413	29,483,856	-	-	-	-	Due and	Unsecured; no impairment	
	2015	c	77,553,903	19,407,252	-	-	-	-	demandable		
	2014		62,468,269	11,650,098	-	-	-	-			
Other income	2015	c	2,520,217	-	2,520,217	-	-	-	Due and	Unsecured; no impairment	
	2014		208,847	-	208,847	-	-	-	demandable		
Security deposits received	2016		9,943,027	-	3,277,636	-	-	-	Due and	Unsecured; no impairment	
	2015	a/c	11,662,010	-	-	-	79,545	-	demandable		
Repairs and maintenance	2016		9,527,741	-	7,137,745	-	388,502	-	Due and	Unsecured; no impairment	
	2015	c	1,584,026	-	-	-	223,308	-	demandable		
	2014		1,151,197	-	-	-	244,470	-			
Utilities expense	2016		186,567,509	-	1,643,156	-	29,942,648	-	Due and	Unsecured; no impairment	
	2015	c	198,153,616	-	-	-	16,631,640	-	demandable		
	2014		216,373,776	-	-	-	27,760,108	-			
Forward											

Related Party	Year	Note	Amount of Transactions for the Year	Outstanding Balances					Due to Related Parties	Terms	Conditions
				Trade Receivable (see Note 5)	Non Trade Receivable (see Note 5)	Trade Payable (see Note 13)	Non Trade Payable (see Note 13)				
Communications	2016		P411,200	P -	P -	P -	P70,830	P -	-	Due and demandable	Unsecured
	2015	c	310,120	-	-	-	11,167	-	-		
	2014		445,821	-	-	-	-	-	-		
	2016		6,221,557	-	-	-	2,187,694	-	-	Due and demandable	Unsecured
Management fee	2015	c	13,314,921	-	-	-	5,332,398	-	-		
	2014		16,783,413	-	-	-	1,297,890	-	-		
	2016		8,918,492	-	-	-	1,427,654	-	-	Due and demandable	Unsecured
	2015		8,618,045	-	-	-	2,093,305	-	-	Due and demandable	Unsecured
Insurance	2016		58,830	-	-	-	45,038	-	-	Due and demandable	Unsecured
Fixed asset	2015		1,086,240	-	-	-	-	-	-	Due and demandable	Unsecured
	2016		48,925	-	-	-	600,000	-	-	Due and demandable	Unsecured
	2014		3,433	-	-	-	12,657	-	-	Due and demandable	Unsecured
				-	-	-	-	-	-		
Key Management Personnel	2016		42,220,356	-	-	-	-	-	33,776,623	Due and demandable	Unsecured
	2015	d	37,211,342	-	-	-	-	-	29,769,412		
	2014		33,317,078	-	-	-	-	-	26,654,003		
	2015		21,821,520	-	-	-	-	-	-		
Rent expense	2014		21,821,520	-	-	-	-	-	-		
Short-term benefits	2016		97,238,938	-	-	-	-	-	-		
	2015		80,383,420	-	-	-	-	-	-		
	2014		73,344,955	-	-	-	-	-	-		
	2016			P29,483,856	P13,972,218	P418,764,671	P475,485,370	P33,776,623			
Total	2015			P19,407,252	P2,520,217	P494,342,576	P462,454,776	P29,769,412			
Total	2014			P11,650,098	P208,847	P424,953,828	P521,534,663	P26,654,003			

*Other related parties pertain to entities under common control.

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

a. Lease of Building

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

b. Consignment and Concession

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

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

- The Consignee hereby grants to the Consignor the right to consign, display and offer for sale, and sell goods and merchandise as normally offered for sale by Consignee, at the selling areas at the four (4) stores.
- The Consignor shall give the Consignee a trade or volume discount of its gross sales.
- The proceeds of sale of the Consignor shall remain the sole property of the Consignor and shall be kept by the Consignee strictly as money in trust until remitted to the Consignor after deducting the amounts due to the Consignee.
- The term of the contract shall be for a period of five (5) years beginning on the date/s of the signing of the agreement or of the opening of the four (4) stores whichever is later, renewable upon mutual agreement of the parties.
- For and in consideration of the consignment/concession right granted, the consignor gives the consignee a trade or volume discount in the amount equivalent to five percent (5%) of the consignee's gross sales which was increased to fifteen percent (15%) on November 9, 2006. On January 1, 2011, the contract was further amended giving the consignee a trade or volume discount of ten percent (10%) of the consignee's gross sales.

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

- The Consignor shall pay the Consignee four percent (4%) monthly consignment/concession fee based on the Consignor's monthly gross sales.
- Goods sold by the consignor shall be checked-out and paid at the check-out counters of and be manned and operated by the Consignor and issued receipts through the point-of-sale (POS) machines in the name of the Consignor. The proceeds of the sale are and shall remain as the sole property of the Consignor subject to its obligation to pay the consideration stipulated.
- Ownership of the goods delivered to the Consignor at the stores shall remain with the Consignor. Except for the right of Consignee to the payment of the consideration in the amount, manner and within the periods stipulated.
- The Consignment/Concession Contract shall be for a period of five (5) years beginning on March 1, 2012, renewable upon mutual agreement of the parties. The contract was renewed for a period of five (5) years effective March 1, 2017 until February 28, 2022.

c. Other Significant Transactions

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

d. Royalty Agreement

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

e. Loans

As discussed in Note 14, Kareila entered into unsecured short - term loans with Cosco amounting to P700.00 million. Interest expense related to this loan amounted to P6.40 million. These loans are to be settled in cash upon its maturity.

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

22. Retirement Benefits Liability

The Parent Company and its subsidiaries has an unfunded, noncontributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2016. Valuations are obtained on a periodic basis.

Salient Provisions of the Retirement Plan

Normal Retirement (Minimum Retirement Law, RA 7641)

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

The reconciliation of the liability recognized in the statements of financial position as at December 31 is as follows:

	2016	2015
Present value of defined benefit obligation	P494,733,328	P465,327,210
Fair value of plan assets	(25,475,333)	(25,455,537)
Retirement benefits liability	P469,257,995	P439,871,673

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

	2016	2015
Balance at January 1	P465,327,210	P419,338,336
Included in Profit or Loss		
Current service cost	98,096,474	86,869,563
Interest cost	22,754,500	18,802,184
	120,850,974	105,671,747
Included in other Comprehensive Income		
Remeasurements loss (gain):		
Actuarial loss (gain) arising from:		
Financial assumptions	(55,852,131)	(61,216,545)
Experience adjustment	(35,592,725)	1,533,672
	(91,444,856)	(59,682,873)
Balance at December 31	P494,733,328	P465,327,210

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

	2016	2015
Beginning of the year	P25,455,537	P25,000,000
Interest income	1,244,776	1,122,500
Remeasurement loss	(1,224,980)	(666,963)
End of the year	P25,475,333	P25,455,537

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

	2016	2015
Remeasurements of retirement liability at beginning of year	P929,780	P59,945,690
Actuarial loss (gain) due to increase in defined benefit obligation	(90,219,876)	(59,015,910)
Remeasurements of retirement liability at end of year	(P89,290,096)	P929,780

The cumulative remeasurements of retirement benefits liability, net of deferred income taxes, amounted to P62.52 million and (P0.65) million as at December 31, 2016 and 2015, respectively, as presented in the consolidated statements of changes in equity.

The Company's plan assets as at December 31 consist of the following:

	2016	2015
Cash in banks	P3,566,859	P18,853,459
Debt instruments - government bonds	21,705,683	6,528,968
Trust fees payable	(12,896)	(12,727)
Other	215,687	85,837
	P25,475,333	P25,455,537

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

	2016	2015
Discount rate	5.38%	4.89%
Future salary increases	8.00%	9.00%

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

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

Sensitivity Analysis

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

2016

	Increase	Decrease
Discount rate (1% movement)	(P121,908,893)	P94,409,701
Future salary increase rate (1% movement)	111,124,460	(88,990,413)

2015

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

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

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

Funding Arrangements

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

Maturity analysis of the benefit payments:

	2016				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	Within 5 - 10 Years
Defined benefit obligation	P494,733,328	P94,196,090	P18,894,732	P29,583,933	P61,717,462

	2015				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	Within 5 - 10 Years
Defined benefit obligation	P465,327,210	P86,522,673	P12,059,433	P19,337,430	P55,125,810

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

The Group does not expect to contribute to the plan in 2017.

23. Income Taxes

The components of income tax expense are as follows:

	2016	2015	2014
Current tax expense	P2,550,889,317	P2,266,251,752	P2,098,444,680
Deferred tax benefit	(159,755,419)	(163,583,211)	(160,708,084)
	P2,391,133,898	P2,102,668,541	P1,937,736,596

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense as shown in profit or loss for the years ended December 31 is as follows:

	2016	2015	2014
Income before income tax	P7,917,364,304	P7,104,540,127	P6,458,194,282
Income tax expense at the statutory income tax rate:			
30%	P2,348,807,007	P2,106,319,798	P1,920,234,079
5%	4,822,949	4,173,707	5,985,042
Income tax effects of:			
Non-deductible other expenses	36,933,884	24,460,093	16,320,267
Non-deductible interest expense	1,312,588	2,237,395	2,174,360
Changes in unrecognized DTA/DTL	962,164	-	1,133,280
Dividend income subjected to final tax	(247,449)	(276,429)	(246,405)
Interest income subjected to final tax	(3,402,012)	(5,550,877)	(5,813,627)
Non-taxable income	1,944,767	(28,695,146)	(2,050,400)
	P2,391,133,898	P2,102,668,541	P1,937,736,596

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

	2016		2015	
	Amount	DTA (DTL)	Amount	DTA (DTL)
Accrued rent expense*	P2,909,865,855	P867,608,435	P2,478,843,163	P743,652,948
Retirement benefits liability	583,463,246	174,690,857	463,941,893	139,182,568
NOLCO	4,603,050	1,380,915	26,105,892	7,831,768
Allowance for impairment losses on receivables	7,462,327	2,238,698	7,462,327	2,238,698
Actuarial losses	-	-	929,780	278,934
Recognition of DTA	389,731	116,919	389,731	116,919
DTA	3,505,784,209	1,046,035,824	2,977,672,786	893,301,835
Fair value of intangible assets from business combination	(4,599,113,528)	(1,379,734,058)	(4,599,113,528)	(1,379,734,058)
Actuarial gains	(89,290,095)	(26,765,817)	-	-
Accrued rent income	(35,519,329)	(10,655,799)	(31,918,814)	(9,575,644)
DTL	(4,723,922,952)	(1,417,155,674)	(4,631,032,342)	(1,389,309,702)
Net	(P1,218,138,743)	(P371,119,850)	(P1,653,359,556)	(P496,007,867)

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

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

24. Equity

Capital Stock and Additional Paid-in Capital

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

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

The Parent Company acquired 100% equity interest of Kareila in exchange for the 766,406,250 common shares of the Parent Company's authorized but unissued capital stock on May 28, 2012. The fair value of shares as at the acquisition date is P21.50 per share. The additional paid-in capital net of direct transaction costs amounted to P15,661.57 million.

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

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

The Parent Company's authorized, issued and outstanding common stocks as at December 31 are as follow:

	2016	2015	2014
Authorized - 3,000,000,000 shares (P1 par value)			
Issued and outstanding			
Balance at beginning of year	2,785,362,877	2,783,317,412	2,783,317,412
Stock issuances during the period	-	2,045,465	-
Balance at end of year	2,785,362,877	2,785,362,877	2,783,317,412

The Parent Company's treasury stocks as at December 31 are as follow:

	2016	2015	2014
Balance at beginning of year	19,981,471	17,011,006	16,911,006
Buy back during the period	-	2,970,465	100,000
Balance at end of year	19,981,471	19,981,471	17,011,006

On December 18, 2014, the BOD approved to buy back the Parent Company's shares up to P1.00 billion or approximately 30.0 million shares within one year from the approval or until November 4, 2015. As at December 31, 2015 and 2016, the Parent Company already bought P37.75 million worth of shares and was classified in the Parent Company's book as treasury shares.

Retained Earnings

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

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

On December 22, 2016, the Company's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.10 per share on record date of January 12, 2017 and payment date of January 20, 2017. The total amount of dividends is P829.61 million.

The summary of dividends declared is as follows:

December 31, 2016

Type of Dividend	Date of Dividend Declaration	Date of Record	Date of Payment	Amount
Cash	December 22, 2016	January 12, 2017	January 20, 2017	P829,614,422

December 31, 2015

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

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

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

25. Segment Information

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

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

26. Basic/Diluted EPS

Basic/Diluted EPS is computed as follows:

	2016	2015	2014
Net income (a)	P5,526,230,406	P5,001,871,586	P4,520,457,686
Weighted average number of ordinary shares (b)	2,766,513,606	2,766,513,606	2,766,406,406
Basic/diluted EPS (a/b)	P2.00	P1.81	P1.63

As at December 31, 2016, 2015 and 2014, the Group has no dilutive debt or equity instruments.

27. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

	Note	2016	2015
Cash in banks and cash equivalents	4	P5,543,697,939	P5,510,528,836
Receivables - net	5	3,880,855,791	2,683,095,896
Security deposits*	12	1,387,243,564	1,279,453,908
		P10,811,797,294	P9,473,078,640

*Included under noncurrent assets.

The following is the aging analysis per class of financial assets as at December 31:

2016	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in bank and cash equivalents	P5,543,697,939	P -	P -	P -	P -	P5,543,697,939
Receivables	2,819,816,554	480,581,538	189,998,772	390,458,927	7,462,327	3,888,318,118
Security deposits	1,387,243,564	-	-	-	-	1,387,243,564
	P9,750,758,057	P480,581,538	P189,998,772	P390,458,927	P7,462,327	P10,819,259,621

2015	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in bank and cash equivalents	P5,510,528,836	P -	P -	P -	P -	P5,510,528,836
Receivables	1,446,116,202	498,332,856	243,391,336	495,255,502	7,462,327	2,690,558,223
Security deposits	1,279,453,908	-	-	-	-	1,279,453,908
	P8,236,098,946	P498,332,856	P243,391,336	P495,255,502	P7,462,327	P9,480,540,967

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

- Cash in bank and cash equivalents were assessed as high grade since these are deposited in reputable banks with good credit standing, which have a low profitability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.
- Due from related parties and security deposits were assessed as high grade since these have a high probability of collection and there is no history of default.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by forecasting projected cash flows and maintaining balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

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

As at December 31, 2016					
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year - 5 Years	More than 5 Years
Financial Liabilities					
Accounts payable and accrued expenses*	P9,471,492,374	P9,471,492,374	P9,471,492,374	P -	P -
Short-term loans payable	5,017,500,000	5,055,557,029	5,055,557,029	-	-
Due to related parties	33,776,623	33,776,623	33,776,623	-	-
Long-term debt including current portion	2,517,096,658	2,601,128,413	134,008,460	2,467,119,953	-
Other current liabilities**	151,368,120	151,368,120	151,368,120	-	-
Noncurrent accrued rent	2,909,884,084	2,909,884,084	-	355,411,981	2,554,472,103

*excluding statutory payables to the government

**excluding promotion fund, loyalty and rewards, gift cheques VAT payable and other current liabilities of Kareila

As at December 31, 2015					
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year - 5 Years	More than 5 Years
Financial Liabilities					
Accounts payable and accrued expenses*	P9,623,411,157	P9,623,411,157	P9,623,411,157	P -	P -
Short-term loans payable	3,137,500,000	3,145,362,083	3,145,362,083	-	-
Due to related parties	29,769,412	29,769,412	29,769,412	-	-
Long-term debt including current portion	2,965,062,298	2,739,969,202	640,413,646	2,099,555,556	-
Other current liabilities**	140,838,219	140,838,219	140,838,219	-	-
Noncurrent accrued rent	2,492,888,910	2,492,888,910	-	291,259,005	2,201,629,905

*excluding statutory payables to the government

**excluding promotion fund, loyalty and rewards, gift cheques VAT payable and other current liabilities of Kareila

Interest Rate Risk

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

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

	2016	2015	2014
Financial assets (cash deposits):			
Cash in banks	P1,457,275,840	P1,577,093,521	P1,686,627,200
Money market placement	4,086,422,099	3,933,435,315	3,795,335,231
	P5,543,697,939	P5,510,528,836	P5,481,962,431

Sensitivity Analysis

A 2% increase in interest rates would have increased equity and net income by P7.76 million, P7.71 million, P7.67 million, for the years ended December 31, 2016, 2015 and 2014, respectively. A 2% decrease in interest rates would have had the equal but opposite effect. Assuming a 10% interest rate and on the basis that all other variables remain constant.

Other Market Price Risk

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

Capital Management

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

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

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

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

The Group is not subject to externally imposed requirements.

28. Financial Instruments

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

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

Cash and Cash Equivalents, Receivables and Security Deposits

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

Investments in Trading Securities and Available-for-Sale Financial Assets

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

Accounts Payable and Accrued Expenses, Short-term Loans, Due to Related Parties, Other Current Liabilities and Noncurrent Accrued Rent

The carrying amounts of accounts payable and accrued expenses, due to related parties, and short-term loans approximate fair value due to the relatively short-term maturities of these financial instruments. The difference between the carrying amounts and fair values of noncurrent accrued rent and other current liabilities is considered immaterial by management.

Long-term Loans including Current Maturities

The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Effective rates used in 2016 and 2015 range from 2.38% to 3.61% and 3.50% to 3.61%, respectively.

Fair Value Hierarchy

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

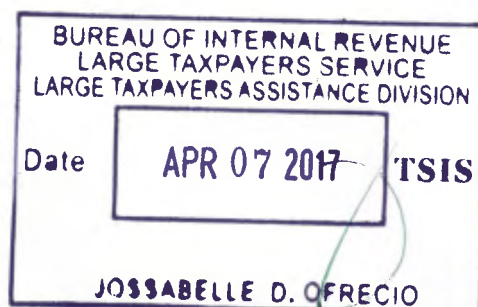
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs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

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

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

29. Event Subsequent to Reporting Date

On March 14, 2017, the Board of Directors approved the merger of Goldtempo Company Incorporated, Daily Commodities, Inc., and First Lane Super Traders Co., Inc. into Puregold Price Club, Inc. As of report date, the Company is in the process of completing its application with the SEC.





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Internet www.kpmg.com.ph
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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Puregold Price Club, Inc. and Subsidiaries
900 Romualdez Street
Paco, Manila

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Puregold Price Club, Inc. and Subsidiaries (the "Group") as at and for the years ended December 31, 2016 and 2015, included in this Form 17-A, and have issued our report thereon dated March 31, 2017.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management.

- Supplementary Schedules of Annex 68-E
- Map of Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Reconciliation of Retained Earnings Available for Dividend Declaration

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and not required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. Manabat & Co.

DARWIN P. VIROCEL
Partner

CPA License No. 0094495

SEC Accreditation No. 1386-A, Group A, valid until April 30, 2017

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904948MD

Issued January 3, 2017 at Makati City

March 31, 2017
Makati City, Metro Manila

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
SEC Supplementary Schedules and Other Documents
December 31, 2016

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PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

Schedule A

FINANCIAL ASSETS

December 31, 2016

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amounts Shown in the Consolidated Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2016	Income (loss) Received
Cash and cash equivalents	-	P6,415,883,385	P6,415,883,385	P12,686,675 *
Receivables - net	-	3,880,855,791	3,880,855,791	-
Investment in trading securities	966,324	35,109,026	35,109,026	(676,435)**
Available-for-sale financial assets	726,166	7,879,160	7,879,160	824,831***
Security deposits	-	1,387,243,564	1,387,243,564	-
	<u>1,692,490</u>	<u>P11,726,970,926</u>	<u>P11,726,970,926</u>	<u>P12,835,071</u>

Notes:

* This represents interest income earned, net of final tax.

** This represents unrealized loss on valuation of investment.

*** This represents dividend income.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A's INVESTMENT IN TRADING SECURITIES AND AVAILABLE-FOR-SALE FINANCIAL ASSETS
DECEMBER 31, 2016

Name of Issuing Entity	Number of shares	Value Based on Market Quotation at End of Reporting Period
Investment in Trading Securities (Fair Value Through Profit or Loss)		
RCBC	10,000	P335,500
PNB	10,000	546,000
Natl. Reinsurance Co. of the Phil.	5,000	273,000
Aboitiz Power	5,000	273,000
GMA PDR	20,000	671,000
Metrobank	15,000	503,250
Banco de Oro	4,500	150,975
Philex Mining Corp.	200,000	154,000
Philex Petroleum Corporation	696,824	32,202,301
	966,324	P35,109,026
Available-for-sale		
Puregold Price Club, Inc.		
Manila Electric Company	726,166	P7,261,660
Tower Club Shares	-	617,500
	726,166	P7,879,160

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

Schedule C

**AMOUNTS RECEIVABLE FROM RELATED PARTIES OF PUREGOLD PRICE CLUB,
INC. (Parent Company) WHICH ARE ELIMINATED DURING THE CONSOLIDATION
OF FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Name of related parties	Balance at beginning of year	Balance at end of year
First Lane Super Traders Co., Inc.	P164,647,780	P7,082,825
Kareila Management Corporation	476,437,259	478,265,913
Goldtempo Company Incorporated	-	1,613,476
PPCI Subic, Inc.	-	200,682,150
Daily Commodities, Inc.	92,718,296	1,434,658
	<u>P258,803,335</u>	<u>P689,079,022</u>

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
Schedule D
INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2015

Description	Beginning balance	Additions	Amortization	Ending balance
Goodwill	P14,684,084,973	P31,684,933	P -	P14,715,769,906
Trademark	3,709,660,547	-	-	3,709,660,547
Customer relationship	889,452,981	-	-	889,452,981
Computer software - net	171,737,656	37,397,786	(25,849,854)	183,285,588
Leasehold rights	66,184,796	-	(3,767,750)	62,417,046
Total	P19,521,120,953	P69,082,719	(P29,617,604)	P19,560,586,068

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
Schedule E
LONG-TERM DEBT
DECEMBER 31, 2016

Agent / Lender	Type	Total Outstanding Balance	Amount Shown as Current	Amount Shown as Noncurrent
Metropolitan Bank & Trust Company	Fixed rate note @ 3.5%	P1,997,096,658	P -	P1,997,096,658
Metropolitan Bank & Trust Company	Fixed rate note @ 3.25%	120,000,000	120,000,000	
Metropolitan Bank & Trust Company	Fixed rate note @ 3.5%	400,000,000	-	400,000,000
Total		P2,517,096,658	P120,000,000	P2,397,096,658

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
Schedule H
CAPITAL STOCK
DECEMBER 31, 2016

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under "Capital Stock" caption in the consolidated statements of financial position	Number of treasury common shares	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common shares outstanding	3,000,000,000	2,785,362,877	(19,981,471)	1,410,867,188	452,644,768	901,869,450

- a. The Parent Company has 1,450,000,000 shares issued and outstanding prior to Initial Public Offering.
- b. On June 7, 2011, the BOD approved the issuance of 50,000,000 shares. These were subscribed and paid in full on June 10, 2011.
- c. The initial public offering of the Parent Company's shares with an offer price of P12.50 per share resulted to the issuance of 500,000,000 common shares in 2011. The additional paid-in capital net of direct transaction costs amounted to P5,168.82 million.
- d. The Parent Company acquired 100% equity interest of Kareila in exchange for the 766,406,250 common shares of the Parent Company's authorized but unissued capital stock in on May 28, 2012. The fair value of shares as at the acquisition date is P21.50 per share. The additional paid-in capital net of direct transaction costs amounted to P15,661.57 million.
- e. On February 26, 2013, the SEC approved the application for merger of the Parent Company, PJSI and Gant. As a consideration for the said merger, the Parent Company paid the owner of PJSI and Gant shares of stocks equivalent to 16,911,162 shares at P26.55 per share. Considering that the owner of PJSI and Gant is the Parent Company, 16,911,006 of the total shares issued were classified in the Parent Company's book as treasury shares.
- f. On December 18, 2014, the BOD approved to buy back the Parent Company's shares up to P1.00 billion or approximately 30.0 million shares within one year from the approval or until November 4, 2015. As at December 31, 2014, the Parent Company already reacquired 100,000 shares worth P3.90 million and was classified in the Parent Company's book as treasury shares.
- g. As at December 31, 2016 and 2015, the Parent Company already reacquired P37.75 million worth of shares and was classified in the Parent Company's book as treasury shares.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE H's LIST OF STOCKHOLDERS

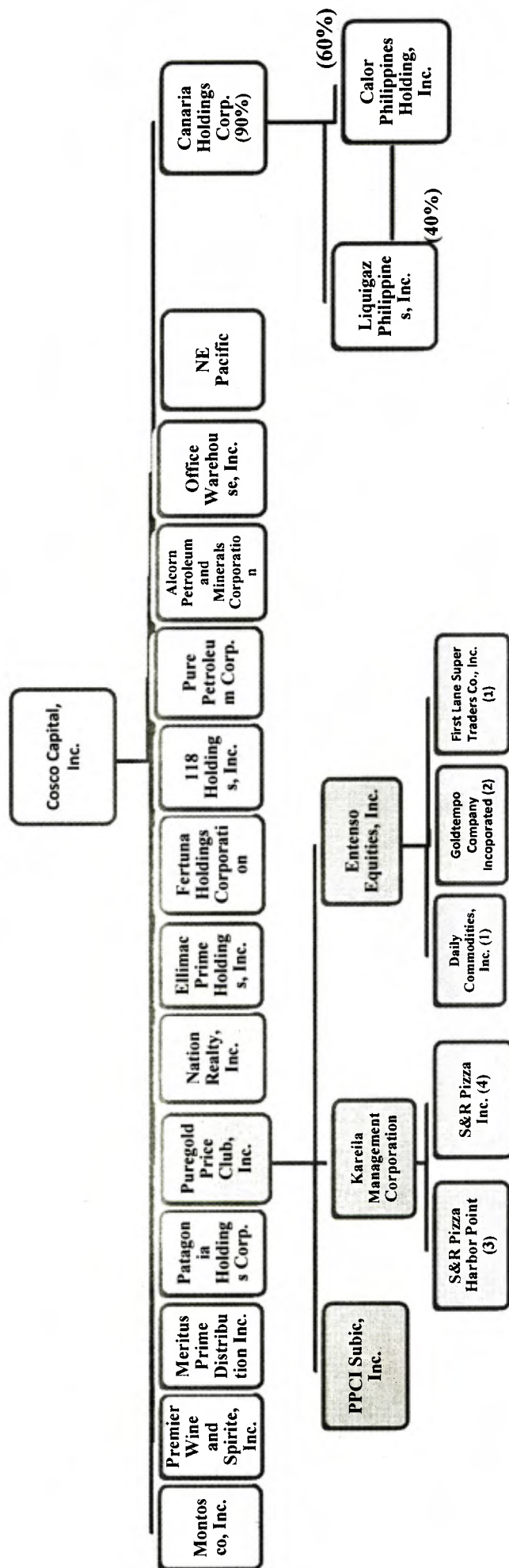
Stockholders	Related Parties	Directors, Officers and Employees	Others
Cosco Capital Inc.	P1,410,867,188	P -	P -
The HSBC Corp. Ltd.	-	-	292,682,368
Deutsche Bank Manila	-	-	267,346,650
Lucio L. Co	-	211,088,022	-
Susan P. Co	-	178,242,585	-
Citibank N.A	-	-	80,805,796
Standard Chartered Bank	-	-	39,756,026
Government Insurance System	-	-	30,477,662
Banco De Oro-Trust Banking Group	-	-	27,887,980
Ferdinand Vincent P. Co	-	26,709,460	-
Pamela Justine P. Co	-	26,709,460	-
Social Security System	-	-	14,792,960
Citibank FAO Philippine Axa Chinese	-	-	12,815,900
COL Financial Group, Inc.	-	-	8,883,419
Camille Clarisse P. Co	-	8,155,288	-
A&A Securities, Inc.	-	-	6,528,500
Ansaldo, Godinez & Co., Inc.	-	-	3,882,100
BPI Securities Corporation	-	-	3,816,383
MBTC - Trust Banking Group	-	-	3,508,721
Deutsche Regis Partners, Inc.	-	-	2,752,118
Insular Life Assurance Co., LTD	-	-	2,551,400
Leonardo B. Dayao	-	739,925	-
Marilyn V. Pardo	-	1	-
Edgardo G. Lacson	-	1	-
Katrina Marie P. Co	-	1,000,026	-
Others	-	-	103,381,467
Total	P1,410,867,188	P452,644,768	P901,869,450

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

Schedule I

MAP OF CONGLOMERATE

DECEMBER 31, 2016



1. On February 3, 2015, the Group through Entenso acquired 100% interest in DCI and FLST for a total cost of P768.49 million. DCI and FLST is a local entity currently engaged in the business of trading goods on a wholesale and retail basis.
2. On August 6, 2015, the Group through Goldtempo Corporation, a wholly owned subsidiary of Entenso, acquired substantially all of the assets of BCI, MMI and SC. Goldtempo took over the operations of 8 supermarkets located mainly in Metro Manila and Luzon.
3. A wholly-owned subsidiary of KMC incorporated on May 25, 2015.
4. A wholly-owned subsidiary of KMC incorporated on June 10, 2016.

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

Schedule J

List of Philippine Financial Reporting Standards

December 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters		✓	
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 3 (Revised)	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments		✓	
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39		✓	
PFRS 9 (2014)	Financial Instruments	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard		✓	
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓	
PFRS 16	Leases		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓	
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions		✓	
PAS 33	Earnings per Share	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
	Amendments to PAS 40: Transfers of Investment Property		✓	
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations			✓
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements			✓
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares			✓
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015			✓
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016			✓
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts		✓	

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
Schedule K
FINANCIAL SOUNDNESS INDICATOR

Indicator	As of		Formula
	December 31, 2016	December 31, 2015	
Current Ratio	1.73x	1.58x	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Cash Ratio	0.40x	0.43x	$\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$
Debt-to-Equity Ratio	0.51x	0.53x	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$
Debt-to-Asset Ratio	0.34x	0.35x	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$
Asset-to-Equity Ratio	1.51x	1.53x	$\frac{\text{Total Asset}}{\text{Total Equity}}$
Interest Rate Coverage Ratio	79.03x	102.06x	$\frac{\text{Earnings before interest and taxes}}{\text{Interest Expense}}$
Net Income Margin	4.91%	5.15%	$\frac{\text{Net Income}}{\text{Net Revenues}}$
Investment Ratio	0.01x	0.01x	$\frac{\text{Total Investment and Advances}}{\text{Total Asset}}$
Return on Assets	8.90%	8.89%	$\frac{\text{Net Income}}{\text{Average Total Assets}}$
Earnings per Share	P2.00	P1.81	$\frac{\text{Net Income}}{\text{Weighted Average Number of Ordinary Shares}}$

PUREGOLD PRICE CLUB, INC.
900 Romualdez Street, Paco Manila
Schedule L

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION**

	<i>(Figures based on functional currency audited financial statements as at and for the year ended December 31, 2016)</i>
Unappropriated retained earnings, beginning	P10,374,431,022
Adjustments:	
Adjustment in previous year's reconciliation	(12,445,435)
Unappropriated retained earnings, as adjusted, beginning	10,361,985,587
Net income based on the face of audited financial statements	4,051,494,719
Less: Non-actual/unrealized income, net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents)	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS/GAAP - gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Deferred tax benefit	135,974,964
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP – loss	-
Loss on fair value adjustment of investment property (after tax)	-
Net income actual/realized	4,187,469,683
Add (Less):	
Dividend declarations during the year	(829,614,422)
Appropriations of Retained Earnings during the year	-
Release of appropriations during the year	-
Effects of prior period adjustments	-
Treasury shares	-
Unappropriated retained earnings, as adjusted, ending	P13,719,840,848