



November 14, 2018

SECURITIES AND EXCHANGE COMMISSION

G/F Secretariat Bldg., PICC Complex,
Roxas Blvd., Pasay City

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

THE PHILIPPINES STOCK EXCHANGE, INC.

6th Floor, PSE Tower, 28th St.,
cor. 5th Ave., BGC, Taguig City

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

Subject: **SEC 17-Q as of September 30, 2018**

GENTLEMEN:

For submission is the attached SEC 17-Q/ Third Quarter Financial Statements of Puregold Price Club, Inc. as of September 30, 2018.

Thank you.

Very truly yours,


ATTY. CANDY H. DACANAY-DATUON
Assistant Corporate Secretary

COVER SHEET

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SEC Registration Number

PUREGOLD PRICE CLUB, INC.

(Company's Full Name)

NO. 900 ROMUALDEZ ST., PACO,
MANILA

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

CANDY H. DACANAY-DATUON

(Contact Person)

(02) 523-3055

(Company Telephone Number)

1 2

Month

3 1

Day

SEC FORM 17-Q

(Form Type)

0 5

Month

0 8

Day

(Secondary License Type, If Applicable)

Dept. Requiring this Doc

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowing

Domestic

Foreign

SEC Personnel concerned

File Number

LCU

Document ID

Cashier

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **SEPTEMBER 30, 2018**
2. Commission identification number **A199813754**
3. BIR Tax Identification No. **201-277-095**
4. Exact name of issuer as specified in its charter : **PUREGOLD PRICE CLUB, INC.**
5. Province, country or other jurisdiction of incorporation or organization **MANILA, PHILIPPINES**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office : **No. 900 Romualdez St. Paco, Manila** Postal Code : **1007**
8. Issuer's telephone number, including area code : **(632) 522-8801 TO 04**
9. Former name, former address and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class

Number of shares of common
stock outstanding and amount
of debt outstanding

COMMON

2,765,381,406

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

Yes [/] No []

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

THE PHILIPPINE STOCK EXCHANGE, INC.

12. Indicate by check mark whether the registrant:

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

Yes [/] No []

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

Yes [/] No []

DOCUMENTS INCORPORATE BY REFERENCE

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

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

FINANCIAL INFORMATION

Item 1. Financial Statements

Please see attached **SECTION A**

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

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

Top Key Performance Indicators

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

	September 2018	December 2017
Current Ratio ⁽¹⁾	2.54:1	1.62:1
Asset to Equity Ratio ⁽²⁾	1.33:1	1.49:1
Debt to Equity Ratio ⁽³⁾	0.33:1	0.49:1
Debt to Total Assets Ratio ⁽⁴⁾	0.25:1	0.33:1
Book Value per Share ⁽⁵⁾	P19.01	P17.34
Price Earnings Ratio ⁽⁶⁾	*20.21x	23.70x

** Based on annualized EPS*

	September 2018	September 2017
Earnings per Share ⁽⁷⁾	P1.67	P1.41
Return on Assets ⁽⁸⁾	6.5%	6.0%
Return on Equity ⁽⁹⁾	9.2%	8.6%

- (1) Current Assets over Current Liabilities
- (2) Total Assets over Total Equity
- (3) Total Liabilities over Total Equity
- (4) Total Liabilities over Total Assets
- (5) Total Equity over Total Common Shares Outstanding
- (6) Market Value per Share over Earnings per Share
- (7) Net income after tax over Weighted Average Common Shares Outstanding
- (8) Net income after tax over Average Total Assets
- (9) Net income after tax over Average Total Equity

I. Results of Operations

For the period ended September 30, 2018, the Group earned a consolidated net income of P4,618 million at 4.6% net margin and an increase of 18.4% from P3,899 million at 4.5% net margin in the same period of 2017. Excluding the one-time gain on sale of investment in joint venture of P363 million, core consolidated net income for the period ended September 30, 2018 amounted to P4,255 million at 4.3% net margin and an increase of 9.1%. This was principally driven by the continuous organic expansion of the Group's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores established during the nine months of 2018.

The Group's comparative financial performance is presented below:

	For the Nine-month Periods Ended September 30					For the Three-month Periods July 1 to September 30			
	(In millions)	2018	2017			2018	2017		
		% to Sales		% to Sales	% Change		% to Sales		% to Sales
Net Sales	P99,818	100.0%	P87,564	100.0%	14.0%	P35,793	100.0%	P30,988	100.0%
Cost of Sales	83,470	83.6%	73,116	83.5%	14.2%	29,944	83.7%	25,937	83.7%
Gross Profit	16,348	16.4%	14,448	16.5%	13.2%	5,849	16.3%	5,051	16.3%
Other Operating Income	2,826	2.8%	2,443	2.8%	15.7%	884	2.5%	849	2.7%
Gross Income	19,174	19.2%	16,891	19.3%	13.5%	6,733	18.8%	5,900	19.0%
Operating Expenses	12,942	13.0%	11,238	12.8%	15.2%	4,467	12.5%	3,850	12.4%
Operating Income	6,233	6.2%	5,654	6.5%	10.2%	2,266	6.3%	2,050	6.6%
Other income									
(expenses) – net	199	0.2%	(96)	-0.1%	-307.1%	(71)	-0.2%	(32)	-0.1%
Net Income before tax	6,432	6.4%	5,558	6.3%	15.7%	2,195	6.1%	2,018	6.5%
Income tax expense	1,813	1.8%	1,659	1.9%	9.3%	658	1.8%	607	2.0%
Net Income after tax	P4,618	4.6%	P3,899	4.5%	18.4%	P1,537	4.3%	P1,411	4.6%

Net Sales

For the period ended September 30, 2018, the Group posted a consolidated net sales of P99,818 million for an increase of P12,254 million or a growth of 14.0% compared to P87,564 million in the same period of 2017. New organic stores put up in 2017 were fully operating in 2018 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the nine months of 2018.

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

	PGOLD		S&R	
	2018	2017	2018	2017
Net Sales	5.8%	4.4%	8.8%	10.7%
Net Ticket	7.1%	3.2%	8.8%	7.4%
Traffic	-1.2%	1.2%	0.0%	3.5%

Gross Profit

For the period ended September 30, 2018, the Group realized an increase of 13.2% in consolidated gross profit from P14,448 million in 2017 at 16.5% margin to P16,348 million at 16.4% margin in the same period of 2018, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period.

Other Operating Income

Other operating income increased by P383 million or 15.7% from P2,443 million in the nine months of 2017 to P2,826 million in the same period of 2018. This is attributable to increase in concess income, rent income, membership income, display allowance and listing fee driven mainly by new stores and other promotional activities conducted during the period. In 2017, S&R tied up with Unioil and offered a P3.00 discount on gasoline and P2.00 off on diesel per liter, to all members using their issued membership cards with magnetic stripes. In March 14 to 18 and September 26 to 30, 2018, S&R held its 5-day sale Members' Treat.

Gross Operating Income

Gross operating income realized during the nine months of 2018 amounted to P19,174 million at a gross operating margin of 19.2% which grew by 13.5% from P16,891 million at 19.3% margin in the same period of 2017.

Operating Expenses

Operating expenses increased by P1,704 million or 15.2% from P11,238 million in the nine-month period ended September 30, 2017 to P12,942 million in the same period of 2018. The incremental operating expenses were mainly attributable to manpower costs, as well as rent expenses covering new lease contracts, depreciation expense and taxes, principally related to the establishment and operation of new organic stores.

Other Income (Expense) - net

Other income -net amounted to P199 million for the nine-month period ended September 30, 2018 due to recognition of a one-time gain on sale of investment in joint venture amounting to P363 million. Interest income increased in September 2018 due to higher placement in short-term investment as compared to the same period of 2017.

Net Income

For the period ended September 30, 2018, the Group earned a consolidated net income of P4,618 million at 4.6% net margin and an increase of 18.4% from P3,899 million at 4.5% net margin in the same period of 2017. Excluding the one-time gain on sale of investment in joint venture of P363 million, core consolidated net income for the period ended September 30, 2018 amounted to P4,255 million at 4.3% net margin and an increase of 9.1%. This was principally driven by the continuous organic expansion of the Group's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores established during the nine months of 2018.

II. Financial Condition

The Group's consolidated statements of financial position as at September 30, 2018 and December 31, 2017 are presented below:

(In millions)	September 2018		December 2017		% Change
		% to Total Assets		% to Total Assets	
Cash & cash equivalents	P2,492	3.6%	P8,066	11.3%	-69.1%
Receivables – net	4,354	6.2%	4,569	6.4%	-4.7%
Merchandise inventory	20,814	29.7%	17,697	24.8%	17.6%
Investments in trading securities	33	0.0%	47	0.1%	-28.9%
Prepaid expenses and other current assets	1,320	1.9%	1,180	1.7%	11.9%
Total Current Assets	29,014	41.4%	31,558	44.2%	-8.1%
Investments	629	0.9%	802	1.1%	-21.5%
Property and equipment – net	18,955	27.0%	17,696	24.8%	7.1%
Intangibles and goodwill	19,723	28.1%	19,737	27.6%	-0.1%
Other noncurrent assets	1,798	2.6%	1,671	2.3%	7.6%
Total Noncurrent Assets	41,105	58.6%	39,906	55.8%	3.0%
	P70,119	100.0%	P71,464	100.0%	-1.9%
Accounts payable and accrued expenses	6,641	9.5%	11,613	16.3%	-42.8%
Short-term loans payable	3,748	5.3%	4,113	5.8%	-8.9%
Income tax payable	658	0.9%	878	1.2%	-25.0%
Trust receipts payable	-	-	4	0.0%	-100.0%
Due to related parties	39	0.1%	37	0.1%	4.3%
Current maturities of long-term loans, net of debt issue costs	-	0.0%	2,399	3.4%	-100.0%
Other current liabilities	335	0.5%	417	0.6%	-19.8%
Total Current Liabilities	11,420	16.3%	19,461	27.2%	-41.3%
Noncurrent accrued rent	3,574	5.1%	3,261	4.6%	9.6%
Long-term debt - net of current maturities and debt issue costs	1,840	2.6%	-	-	0.0%
Deferred tax liabilities – net	166	0.2%	243	0.3%	-31.7%
Retirement benefits liability	538	0.8%	538	0.8%	0.0%
Total Noncurrent Liabilities	6,118	8.7%	4,041	5.7%	51.4%
Total Liabilities	P17,539	25.0%	P23,502	32.9%	-25.4%
Capital stock	2,785	4.0%	2,785	3.9%	0.0%
Additional paid in capital	20,830	29.7%	20,830	29.1%	0.0%
Remeasurements of retirement liability - net of tax	117	0.2%	117	0.2%	0.0%
Treasury stock – at cost	(57)	-0.1%	(57)	-0.1%	0.0%
Retained earnings	28,904	41.2%	24,285	34.0%	19.0%
Total Equity	52,580	75.0%	47,962	67.1%	9.6%
	P70,119	100.0%	P71,464	100.0%	-1.9%

Working Capital

As at September 30, 2018 and December 31, 2017, the Group's working capital stood at P17,594 million and P12,097 million, respectively while its current ratio improved to 2.54 as at September 2018 from 1.62 as at December 2017.

Current Assets

As at September 30, 2018 and December 31, 2017, total current assets amounted to P29,014 million or 41.4% of total assets, and P31,558 million or 44.2% of total assets, respectively, for a decrease of P2,544 million or 8.1% as at September 30, 2018.

Cash and cash equivalents as at September 30, 2018 amounted to P2,492 million or 3.6% of total assets and decreased by P5,574 million or 69.1% compared to previous year-end balance. Decrease in the Group's cash position was attributable mainly to the net settlement of trade and non-trade payables, payment for 2017 cash dividend, partial settlement of loans and capital expenditures for 2018 new organic stores.

Receivables amounted to P4,354 million as at September 30, 2018 or 6.2% of total assets, with a decrease of P215 million or 4.7% from P4,569 million in December 2017. The decrease was due to collections made during the period, bulk of which came from the high year end receivables.

Merchandise inventory amounted to P20,814 million or 29.7% of total assets at the end of September 2018. Total inventory increased by P3,118 million or 17.6% principally due to stocking requirements of existing and new operating stores including the stocking requirements of S&R warehouses particularly during the members' treat sale.

Investments in trading securities amounted to P33 million as at September 30, 2018 and P47 million in December 2017. The decrease was due to recognition of unrealized loss on changes in fair value of the investments.

Prepaid expenses and other current assets amounted to P1,320 million and P1,180 million as at September 30, 2018 and December 31, 2017, respectively. The increase was mainly due to advance payment of taxes and advances made to contractors.

Noncurrent Assets

As at September 30, 2018 and December 31, 2017, total noncurrent assets amounted to P41,105 million or 58.6% of total assets, and P39,906 million or 55.8% of total assets, respectively, for an increase of P1,199 million or 3.0% as at September 30, 2018.

Investments amounted to P629 million and P802 million as at September 30, 2018 and December 31, 2017, respectively. The net decrease of P172 million was due to sale of investment in joint venture with Lawson and P65 million additional equity investments in Ayagold during the period to finance both capital expenditures and working capital requirements for its second Mercado Supermarket outlet which was opened in December 2017.

Net book values of property and equipment increased by P1,258 million or 7.1% from P17,696 million in December 2017 to P18,955 million in September 2018. The increase was mainly due to additions made during the period intended for newly established/operating stores.

Intangibles amounted to P19,723 million as at September 30, 2018 and P19,737 million as at December 31, 2017.

Other noncurrent assets amounted P1,798 million as at September 30, 2018 and P1,671 million as at December 31, 2017. The increase represents security deposits on lease contracts attributable to new organic stores

Current Liabilities

As at September 30, 2018 and December 31, 2017, total current liabilities amounted to P11,420 million or 16.3% of total assets, and P19,461 million or 27.2% of total assets, respectively, for a decrease of P8,040 million or 41.3% as at September 30, 2018.

Accounts payable and accrued expenses decreased by P4,972 million or 42.8% primarily due to settlement of trade and nontrade liabilities, bulk of which came from the high year end payables and payment of P1.1 billion cash dividend to stockholders.

Short-term loans payable amounted to P3,748 million and P4,113 million as at September 30, 2018 and December 31, 2017, respectively, or an increase of 5.3%.

Income tax payable decreased by P219 million from P878 million in December 2017 to P658 million in September 2018 due to settlement of income tax liability from prior year income and the first half of 2018.

Due to related parties, representing royalty fees, amounted to P39 million for the period ended September 2018 and P37 million for the year ended December 2017. The decrease was due to settlement of liability incurred in 2017 and the first half of 2018.

Current maturities of long term debt matured in September 2018 and was rolled over for another 7 years for a principal amount of P1,840 million. The total amount was recognized in the book as part of long-term debt.

Other current liabilities decreased by P83 million or 19.8% from P417 million in December 2017 to P335 million in September 2018 relatively due to redemption of gift checks and perks points benefits.

Noncurrent Liabilities

As at September 30, 2018 and December 31, 2017, total noncurrent liabilities amounted to P6,118 million or 8.7% of total assets, and P4,041 million or 5.7% of total assets, respectively, for an increase of P2,077 million or 51.4% as at September 30, 2018.

Noncurrent accrued rent increased by P314 million or 5.1% from P3,261 million in December 2017 to P3,574 million in September 2018 due to recognition of rent expense for lease contracts entered into by the Parent Company and its subsidiaries in compliance with PAS 17 – *Leases*.

Deferred tax liabilities net of deferred tax assets amounted to P166 million and P243 million as at September 30, 2018 and December 31, 2017, respectively. The decrease was due to increase in deferred tax asset related to accrual of lease liability.

III. Sources and Uses of Cash

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

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

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

	For the Nine-month Periods Ended September 30	
<i>(In millions)</i>	2018	2017
Net cash used in operating activities	(P1,306)	P749
Net cash used in investing activities	(2,236)	(3,000)
Net cash used in financing activities	(2,031)	(2,435)
Net decrease in cash and cash equivalents	(P5,574)	(P4,686)

Net cash used in operating activities for the nine-month period ended September 30, 2018 amounting to P1,306 million were mainly attributable to settlement of payables to both trade and nontrade suppliers, purchase of inventories and other related current operating items to support the Group's expansion.

Net cash used in investing activities for the nine-month period ended September 30, 2018 amounting to P2,236 million were utilized for the acquisition of equipment, furniture & fixtures, construction of buildings and improvements on leased assets.

Net cash used in financing activities for the nine-month period ended September 30, 2018 amounting to P2,031 million pertain to payment of 2017 cash dividends to stockholders amounting to P1,106 million and net settlement of loans during the period.

IV. Material Events and Uncertainties

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

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

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

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

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

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

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

SIGNATURE

Pursuant to the requirements of the Securities and Regulation Code, the Issuer has duly caused this Third Quarter Financial Statements of Puregold Price Club, Inc., and its subsidiaries for the year 2018 to be signed on its behalf by the undersigned thereto duly authorized.

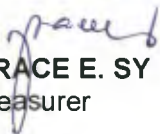
November 14, 2018 in the City of Manila.

PUREGOLD PRICE CLUB, INC.

By:

A handwritten signature in blue ink, appearing to read 'Lucio L. Co', written over a horizontal line.

LUCIO L. CO
Chairman

A handwritten signature in blue ink, appearing to read 'Grace E. Sy', written in a cursive style.

GRACE E. SY
Treasurer

SECTION A

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018, and December 31, 2017
and for the Nine months Ended September 30, 2018 and 2017

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

	Note	September 2018 (Unaudited)	December 2017 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	4	P2,492,079,374	P8,065,646,235
Receivables – net	5, 21	4,353,973,164	4,569,341,716
Merchandise inventory	6	20,814,231,750	17,696,641,161
Investments in trading securities	7	33,330,017	46,887,876
Prepaid expenses and other current assets	8	1,320,402,541	1,179,663,000
Total Current Assets		29,014,016,846	31,558,179,988
Noncurrent Assets			
Investments	9	629,426,365	801,616,101
Property and equipment – net	10	18,954,620,903	17,696,372,319
Intangibles and goodwill	11	19,722,555,557	19,737,396,240
Other noncurrent assets	12, 17	1,798,202,959	1,670,528,568
Total Noncurrent Assets		41,104,805,784	39,905,913,228
		P70,118,822,630	P71,464,093,216
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	13, 21, 24	P6,641,351,754	P11,612,957,865
Short-term loans payable	14	3,747,500,000	4,112,500,000
Income tax payable		658,015,267	877,509,034
Due to related parties	21	38,667,690	37,065,831
Current maturities of long-term loans, net of debt issue costs	14	-	2,399,204,654
Other current liabilities	15	334,902,876	421,532,915
Total Current Liabilities		11,420,437,587	19,460,770,299
Noncurrent Liabilities			
Noncurrent accrued rent	17	3,574,499,611	3,260,616,193
Long-term loans - net of current maturities and debt issue costs		1,840,000,000	-
Deferred tax liabilities - net	23	165,658,705	242,677,396
Retirement benefits liability	22	538,173,177	538,173,177
Total Noncurrent Liabilities		6,118,331,493	4,041,466,766
Total Liabilities		17,538,769,080	23,502,237,065
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	117,313,327	117,313,327
Treasury stocks, at cost	24	(56,702,280)	(56,702,280)
Retained earnings	24	28,903,688,545	24,285,491,146
Total Equity		52,580,053,550	47,961,856,151
		P70,118,822,630	P71,464,093,216

See Notes to the Interim Consolidated Financial Statements.

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

		For the Nine-month Periods Ended September 30		For the Three-Month Periods July 1 to September 30	
	Note	2018	2017	2018	2017
NET SALES					
Gross sales		P100,024,903,154	P87,750,396,776	P35,874,360,598	P31,057,339,976
Sales discount		206,522,437	186,368,725	81,274,681	69,057,946
		99,818,380,717	87,564,028,051	35,793,085,917	30,988,282,030
COST OF SALES	6, 16	83,470,010,312	73,115,695,823	29,943,985,383	25,937,025,962
GROSS PROFIT		16,348,370,405	14,448,332,228	5,849,100,534	5,051,256,068
OTHER OPERATING INCOME	18	2,825,698,017	2,443,085,504	883,812,577	848,784,974
		19,174,068,422	16,891,417,732	6,732,913,111	5,900,041,042
OPERATING EXPENSES	19	12,941,541,258	11,237,635,754	4,467,171,282	3,850,343,041
INCOME FROM OPERATIONS		6,232,527,164	5,653,781,978	2,265,741,829	2,049,698,001
OTHER INCOME (EXPENSES)					
Interest income	4	25,183,423	12,121,243	6,066,106	3,210,437
Interest expense	14	(157,548,458)	(98,674,947)	(70,595,854)	(29,675,269)
Others – net	7, 20	331,480,889	(9,607,960)	(6,576,529)	(5,044,284)
		199,115,854	(96,161,664)	(71,106,277)	(31,509,116)
INCOME BEFORE INCOME TAX		6,431,643,018	5,557,620,314	2,194,635,552	2,018,188,885
INCOME TAX EXPENSE					
Current		1,890,464,309	1,725,774,754	675,327,884	628,271,825
Deferred		(77,018,691)	(67,041,483)	(17,487,114)	(20,838,340)
	23	1,813,445,618	1,658,733,271	657,840,770	607,433,485
NET INCOME		P4,618,197,400	P3,898,887,043	P1,536,794,782	P1,410,755,400
Basic and diluted earnings per share	26	P1.67	P1.41	P0.56	P0.51

See Notes to the Interim Consolidated Financial Statements.

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

Periods Ended September 30							
	Note	Capital Stock	Additional Paid-in Capital	Remeasurements of Retirement Liability	Retained Earnings	Treasury Stocks - At Cost	Total Equity
Balance at December 31, 2016		P2,785,362,877	P20,830,391,081	P62,524,278	P19,551,431,915	(P56,702,280)	P43,173,007,871
Total comprehensive income							
Net income for the year		-	-	-	3,898,887,043	-	3,898,887,043
Other comprehensive income - net of tax		-	-	-	-	-	-
Total comprehensive income		-	-	-	3,898,887,043	-	3,898,887,043
Transactions with owners of the Parent Company							
Cash dividends	24	-	-	-	-	-	-
Balance at September 30, 2017		P2,785,362,877	P20,830,391,081	P62,524,278	P23,450,318,958	(P56,702,280)	P47,071,894,914
Balance at December 31, 2017		P2,785,362,877	P20,830,391,081	P117,313,327	P24,285,491,145	(P56,702,280)	P47,961,856,150
Total comprehensive income							
Net income for the year		-	-	-	4,618,197,400	-	4,618,197,400
Other comprehensive income - net of tax		-	-	-	-	-	-
Total comprehensive income		-	-	-	4,618,197,400	-	4,618,197,400
Transactions with owners of the Parent Company							
Cash dividends	24	-	-	-	-	-	-
Balance at September 30, 2018		P2,785,362,877	P20,830,391,081	P117,313,327	P28,903,688,545	(P56,702,280)	P52,580,053,550

See Notes to the Interim Consolidated Financial Statements.

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

		Periods Ended September 30	
	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P6,431,643,018	P5,557,620,314
Adjustments for:			
Depreciation and amortization	10, 11, 19	1,401,973,428	1,193,176,027
Rent expense in excess of billings		313,841,432	245,590,534
Interest expense	14	157,548,458	98,674,947
Gain on sale of investment in joint venture		(362,810,264)	-
Dividend income	20	(669,684)	(1,817,695)
Unrealized valuation loss (gain) in trading securities	7, 20	13,557,859	(6,753,576)
Gain on insurance claim			(101,339)
Loss (gain) on disposal of property and equipment	20	(154,310)	-
Interest income	4	(25,183,423)	(12,121,243)
Operating income before changes in working capital		7,929,746,514	7,074,267,969
Decrease (increase) in:			
Receivables		215,368,551	423,092,215
Merchandise inventory		(3,117,590,589)	(1,777,239,845)
Investments in trading securities			
Prepaid expenses and other current assets		(140,739,539)	(33,861,215)
Increase (decrease) in:			
Accounts payable and accrued expenses		(3,893,785,440)	(2,830,430,071)
Trust receipts payable		(4,090,706)	-
Due to related parties		1,601,859	(879,638)
Other current liabilities		(82,497,348)	(104,107,942)
Cash provided by (used in) operations		908,013,302	2,750,841,473
Interest received		25,183,423	12,121,243
Interest paid		(129,216,569)	(98,553,697)
Income taxes paid		(2,109,958,076)	(1,915,618,551)
Net cash provided by (used in) operating activities		(1,305,977,920)	748,790,468
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	10	(2,629,711,636)	(2,708,235,659)
Increase in intangibles	11	(15,493,190)	(25,220,221)
Increase in other noncurrent assets		(127,674,392)	(134,405,419)
Dividends received		669,684	1,817,695
Proceeds from sale of investments		600,000,000	-
Proceeds from insurance claim			(101,339)
Proceeds from disposal of property and equipment		773,155	6,217,215
Additions to investments	9	(65,000,000)	(140,000,000)
Net cash used in investing activities		(2,236,436,379)	(2,999,927,728)

Forward

Periods Ended September 30			
	Note	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of short-term loans payable	14	(P965,000,000)	(P2,050,000,000)
Payment of long-term loans payable		(560,000,000)	(40,000,000)
Availment of short-term loans payable	14	600,000,000	485,000,000
Cash dividends paid	24	(1,106,152,562)	(829,614,422)
Net cash used in financing activities		(2,031,152,562)	(2,434,614,422)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(5,573,566,861)	(4,685,549,004)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	4	8,065,646,235	6,415,883,385
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	4	P2,492,079,374	P1,730,334,381

See Notes to the Interim Consolidated Financial Statements

PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

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

The Parent Company is principally involved in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, pharmaceutical and medical goods, etc.) on a wholesale and retail basis. The Group has three hundred sixty one (361) operating stores and thirty-six (36) food service stalls. Twenty three (23) stores and five (5) food service stalls were newly opened in the nine-month period ended September 30, 2018. Its registered office is located at 900 Romualdez Street, Paco, Manila.

The interim 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	
	2018	2017
Kareila Management Corporation (KMC) ^(a)	100	100
S&R Pizza (Harbor Point), Inc. ^(b)	100	100
S&R Pizza, Inc. ^(c)	100	100
PPCI Subic, Inc. (PSI) ^(d)	100	100
Entenso Equities Incorporated (Entenso) ^(e)	100	100
Goldtempo Company Incorporated (Goldtempo) ^(f)	-	100
Daily Commodities, Inc. (DCI) ^(g)	-	100
First Lane Super Traders Co., Inc. (FLSTCI) ^(g)	-	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 and registered with the Philippine SEC on May 25, 2015.

(c) A wholly-owned subsidiary of KMC incorporated and registered with the Philippine SEC 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, subscribe for, or otherwise acquire and own, hold, use, develop, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose real and personal property of every kind of description.

2. Basis of Preparation

Statement of Compliance

The interim 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 interim consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on November 9, 2018.

Basis of Measurement

The Group's interim 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 interim 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 interim 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 interim 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 interim consolidated financial statements:

Assessing Joint Arrangements

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

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

As at September 30, 2018 and December 31, 2017, the carrying amount of its investments in joint ventures amounted to P188.00 million and P360.19 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 P2,239.29 million, and P1,987.75 million in September 2018 and 2017, 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 P342.22 million and P289.50 million in September 2018 and 2017, 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. 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 interim 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, their payment behavior and known market factors. The Group reviews the age and status of the receivable, and identifies accounts that are to be provided with allowance on a regular basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses on receivables would increase the Group's recorded operating expenses and decrease current assets.

The allowance for impairment losses on receivables amounted to P7.46 million as at September 30, 2018 and December 2017. In September 2018 and December 2017, 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 P4,353.97 million and P4,569.34 million as at September 30, 2018 and December 31, 2017, 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 P20,814.23 million and P17,696.64 million as at September 30, 2018 and December 31, 2017, 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 P1,371.64 million and P1,165.64 million in September 2018 and 2017, respectively (see Notes 10 and 19). Property and equipment, net of accumulated depreciation and amortization, amounted to P18,954.62 million and P17,696.37 million as at September 30, 2018 and December 31, 2017, 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 P30.33 million and P27.53 million in September 2018 and 2017, respectively (see Notes 11 and 19). Net carrying value of computer software and licenses and leasehold rights amounted to P221.02 million and P235.86 million as at September 30, 2018 and December 31, 2017, 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 P19,501.54 million as at September 30, 2018 and December 31, 2017, 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 P538.17 million as at September 30, 2018 and December 31, 2017, 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 interim 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, 2017 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 interim consolidated financial statements.

- *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.
- *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.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Group has not applied the following new or amended standards in preparing these interim consolidated financial statements. Management is currently in the process of assessing the potential impact resulting from the application of these standards on its interim consolidated financial statements.

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 adoption of PFRS 9 will have no significant impact on the classification and measurement of the Group's financial assets and financial liabilities as at January 1, 2018. Further, future adoption of the new hedge accounting

requirements will have no effect on the Group's interim consolidated financial statements since the Group has no transactions eligible for hedge accounting. However, the adoption will have an effect on the amount of the Group's credit losses. The management has not yet fully assessed the financial impact of these changes.

- *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 Group has an ongoing assessment of the application of PFRS 15 and has yet to reasonably estimate the potential impacts on the Group's interim consolidated financial statements.

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.

Future adoption of the standards will result in the recognition of the right-of-use of asset, lease liability and additional disclosures. Management is still evaluating the financial impact of the new standard on the Group's interim consolidated financial statements as of the reporting period.

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 acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; 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 *Interim 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 interim 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 interim consolidated financial statements, in accordance with the accounting policy on consolidation. Unrealized losses are eliminated unless costs cannot be recovered.

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

Financial Instruments

Date of Recognition

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

Initial Recognition of Financial Instruments

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

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

The Group had no HTM investments and FVPL financial liabilities as at September 30, 2018 and December 31, 2017.

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 securities are carried at cost since their fair values 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, other financial liabilities and noncurrent accrued rent are included in this category (see Notes 13, 14, 15, 21 and 27).

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.

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 interim 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 interim 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 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. 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.

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. The Group performs its impairment test of goodwill on an annual basis or earlier whenever events or changes in circumstances indicate that goodwill may be impaired.

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.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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

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

Equity

Capital Stock

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

Additional Paid-in Capital

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

Retained Earnings and Dividend Distribution

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

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

Treasury Stock

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

Other Comprehensive Income

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

Revenue 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 interim consolidated financial statements. These are disclosed in the notes to the interim consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the interim consolidated financial statements but are disclosed in the notes to the interim 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 interim consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the interim consolidated financial statements when material.

4. Cash and Cash Equivalents

This account consists of:

	Note	September 2018	December 2017
Cash on hand		P877,399,384	P911,980,247
Cash in banks	27, 28	1,433,937,998	1,595,422,919
Money market placements	27, 28	180,741,992	5,558,243,069
	28	P2,492,079,374	P8,065,646,235

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 0.30% to 2.00% in September 2018 and December 2017. Interest income earned from cash in banks and money market placements amounted to P25.18 million and P12.12 million in September 2018 and 2017, respectively.

5. Receivables

This account consists of:

	Note	September 2018	December 2017
Trade receivables	a, 21	P1,485,461,033	P2,519,922,263
Non-trade receivables	b, 21	2,875,974,458	2,056,881,780
		4,361,435,491	4,576,804,043
Less allowance for impairment losses on trade receivables from third parties	a	7,462,327	7,462,327
	27, 28	P4,353,973,164	P4,569,341,716

- a. Majority of trade receivables pertain to credit card transactions which are due within 30 days or its normal credit period. The Group partners only with reputable credit card companies affiliated with major banks. Management believes that except for the accounts provided with allowance for impairment losses amounting to P7.46 million as at September 30, 2018 and December 31, 2017, all other receivables are collectible and therefore, no additional allowance is necessary.
- b. Non-trade receivables represent the amounts due from tenants in relation to rentals of store spaces. This account also includes due from suppliers with respect to "demo" or "sampling" conducted by suppliers' representatives and strategic locations granted to suppliers with regard to the display of their products in the selling area of the stores. It also includes advances to employees which are collected by the Group through salary deduction.

6. Merchandise Inventory

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

Inventory cost as at September 30, 2018 and December 31, 2017 is lower than NRV.

The Group's merchandise inventory as at September 30, 2018 and December 31, 2017 amounted to P20,814.23 million and P17,696.64 million, respectively.

Inventory charged to the cost of sales amounted to P83,470.01 million and P73,115.70 million in September 2018 and 2017, respectively (see Note 16).

7. Investments in Trading Securities

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

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

	Note	September 2018	December 2017
Cost			
Balance at beginning of the year		P15,355,998	P15,355,998
Valuation Adjustments			
Balance at beginning of the year		31,531,878	19,753,028
Unrealized valuation gain for the year	20	(13,557,859)	11,778,850
		17,974,019	31,531,878
	28	P33,330,017	P46,887,876

8. Prepaid Expenses and Other Current Assets

This account consists of:

	September 2018	December 2017
Prepaid expenses	P1,034,824,553	P747,598,605
Deferred input VAT	72,001,113	69,290,170
Creditable withholding tax	46,186,784	13,471
Input value added tax (VAT)	167,390,091	362,760,754
	P1,320,402,541	P1,179,663,000

The details of prepaid expenses are as follows:

	Note	September 2018	December 2017
Rent	17	P375,727,230	P342,844,532
Advances to contractors		319,705,732	215,533,529
Taxes and licenses		202,176,099	68,876,979
Insurance		64,571,440	81,191,119
Supplies		19,706,380	29,953,376
Repairs and maintenance		3,107,899	6,226,139
Others		49,829,773	2,986,402
		P1,034,824,553	P747,612,076

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

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:

	Note	September 2018	December 2017
Investment in associate	<i>a</i>	P433,542,657	P433,542,657
Investments in joint ventures	<i>b</i>	188,004,548	360,194,284
AFS financial assets	<i>c, 20</i>	7,879,160	7,879,160
		P629,426,365	P801,616,101

a. Investment in Associate

On December 4, 2013, the Group through Entenso acquired equity interest of 49.34% 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:

	September 2018	December 2017
Carrying Amount		
Balance at beginning of the year	P433,542,657	P424,424,914
Share in net income (loss)	-	9,117,743
	P433,542,657	P433,542,657

The following table summarizes the financial information of SRS and the reconciliation of the share of net assets to the carrying amount of the Group's interest in SRS:

	December 2017	December 2016
Percentage of ownership	49.34%	49.34%
Current assets	P1,063,945,081	P715,775,797
Noncurrent assets	205,634,823	214,618,758
Current liabilities	(933,892,391)	(618,297,147)
Noncurrent liabilities	(16,505,265)	(11,394,574)
Net assets	319,182,248	300,702,834
Group's share of net assets	157,484,521	148,366,778
Goodwill	276,058,136	276,058,136
Carrying amount of interest in joint venture	P433,542,657	P424,424,914
Gross income	P451,395,033	P388,150,667
Operating expenses	424,410,135	398,113,791
Net income (loss)/Total comprehensive income (loss)	18,479,414	(6,866,994)
Group's share of total comprehensive income	P9,117,743	(P3,388,175)

b. 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.

In 2017, the Parent Company subscribed and paid additional 1,400,000 common shares at P100.00 par value for a total amount of P140.00 million while Lawson subscribed and paid additional 600,000 common shares at P100.00 par value for a total amount of P60.00 million.

On April 26, 2018, Puregold signed a Share Purchase Agreement with Lawson selling to the latter 4,900,000 shares in PG Lawson Inc.

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

	September 2018	December 2017
Balance at beginning of the year	P237,189,738	P256,995,907
Additions	-	140,000,000
Sale of investment	(237,189,738)	-
Share in net loss	-	(159,806,169)
	P-	P237,189,738

The following table summarizes the financial information of PLCI and the

reconciliation of the share of net assets to the carrying amount of the Group's interest in PLCI:

	December 2017	December 2016
Percentage of ownership	70%	70%
Current assets	P250,672,472	P201,177,353
Noncurrent assets	234,299,691	272,316,662
Current liabilities	(127,834,380)	(98,552,558)
Noncurrent liabilities	(18,295,300)	(7,804,447)
Net assets	338,842,483	367,137,010
Group's share of net assets	237,189,738	256,995,907
Carrying amount of interest in joint venture	P237,189,738	P256,995,907
Gross income	P472,138,114	P67,478,676
Operating expenses	646,575,139	193,910,829
Net loss/Total comprehensive loss	(233,793,904)	(87,544,295)
Impact of previous years' audited operating results	5,499,377	-
Adjusted net results	228,294,527	(87,544,295)
Group's share of total comprehensive income	(P159,806,169)	(61,281,006)

AyaGold Retailers, Inc.

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

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

The redeemable preferred shares shall have the following features:

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

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

	September 2018	December 2017
Balance at beginning of the year	P123,004,546	P110,350,626
Additions	65,000,000	-
Share in net income (loss)	-	12,653,920
	P188,004,546	P123,004,546

The following table summarises the financial information of Ayagold and the reconciliation of the share of net assets to the carrying amount of the Group's interest in Ayagold:

	December 2017	December 2016
Percentage of ownership	50%	50%
Current assets	P259,740,877	P125,511,593
Noncurrent assets	155,517,973	167,581,943
Current liabilities	(173,016,250)	(76,158,776)
Net assets	242,242,600	216,934,760
Group's share of net assets	121,121,300	108,467,380
Adjustments	1,883,246	1,883,246
Carrying amount of interest in joint venture	P123,004,546	P110,350,626
Gross income	P120,857,719	P99,008,504
Operating expenses	95,549,879	106,550,140
Net income (loss)/Total comprehensive income (loss)	25,307,840	(7,541,636)
Group's share of total comprehensive income	P12,653,920	(P3,770,818)

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 P0.67 million and P1.82 million in September 2018 and 2017, respectively (see Note 20).

Acquisitions of Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in September 2018 and December 2017:

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 and 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 period ended September 30 and year ended December 31 consist of:

	Building	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction in Progress	Total
Cost							
Balance, December 31, 2016	P5,242,351,630	P2,287,626,748	P6,828,713,195	P7,561,407,341	P379,809,187	P602,029,363	P22,901,937,464
Additions	367,679,075	214,876,290	857,031,301	1,249,985,409	29,667,128	871,264,467	3,590,503,670
Reclassifications	282,481,436	3,430,126	23,904,412	111,988,007	26,751,530	(448,555,511)	-
Disposals	-	(10,162,075)	(44,060,073)	(13,535,886)	-	-	(67,758,034)
Balance, December 31, 2017	5,892,512,141	2,495,771,089	7,665,588,835	8,909,844,871	436,227,845	1,024,738,319	26,424,683,100
Additions	173,013,707	124,635,357	649,111,035	481,548,000	-	1,202,198,886	2,630,506,985
Reclassifications	188,335,256	25,294,612	279,939,586	1,036,199,788	-	(1,529,769,242)	-
Disposals	-	(566,857)	(12,378,633)	(210,000)	-	-	(13,155,490)
Balance, September 30, 2018	6,253,861,104	2,645,134,201	8,582,260,823	10,427,382,659	436,227,845	697,167,963	29,042,034,595
Accumulated Depreciation and Amortization							
Balance, December 31, 2016	887,916,623	945,803,715	3,999,455,501	1,357,139,269	-	-	7,190,315,108
Depreciation and amortization	187,950,914	181,799,783	823,938,985	406,114,637	-	-	1,599,804,319
Reclassifications	6,235,334	-	(546)	(6,234,788)	-	-	-
Disposals	-	(10,059,227)	(38,651,813)	(13,097,606)	-	-	(61,808,646)
Balance, December 31, 2017	1,082,102,871	1,117,544,271	4,784,742,127	1,743,921,512	-	-	8,728,310,781
Depreciation and amortization	153,504,334	152,794,087	704,660,504	360,680,631	-	-	1,371,639,556
Reclassifications	(18,496)	(1,196,092)	1,078,271	136,317	-	-	-
Disposals	-	(459,892)	(12,030,377)	(46,376)	-	-	(12,536,645)
Balance, September 30, 2018	1,235,588,709	1,268,682,374	5,478,450,525	2,104,692,084	-	-	10,087,413,692
Carrying Amount							
December 31, 2017	P4,810,409,270	P1,378,226,818	P2,880,846,708	P7,165,923,359	P436,227,845	P1,024,738,319	P17,696,372,319
September 30, 2018	P5,018,272,395	P1,376,451,827	P3,103,810,298	P8,322,690,575	P436,227,845	P697,167,963	P18,954,620,903

As at September 30, 2018 and December 31, 2017, the Parent Company has outstanding payable for property additions amounting to P1.54 million and P2.56 million, respectively (see Note 13). In addition, interest expense related to loans amounting to P58.50 million and P76.40 million had been capitalized in September 2018 and December 2017, respectively (see Note 14).

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 September 2018 and December 2017.

11. Intangibles and Goodwill

This account consists of:

	<i>Note</i>	September 2018	December 2017
Goodwill	<i>a</i>	P14,902,423,321	P14,902,423,321
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>	165,195,225	177,210,095
Leasehold rights	<i>c</i>	55,823,483	58,649,296
		P19,722,555,557	P19,737,396,240

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:

	<i>Note</i>	September 2018	December 2017
Kareila		P12,079,473,835	P12,079,473,835
Budgetlane Supermarkets	<i>a.1</i>	837,974,199	837,974,199
DCI and FLSTCI	<i>a.2</i>	685,904,317	685,904,317
Gant		742,340,804	742,340,804
Company E		358,152,015	358,152,015
B&W	<i>a.3</i>	187,203,888	187,203,888
PJSI		11,370,121	11,370,121
Merger of PJSI and Gant to Parent Company		4,142	4,142
		P14,902,423,321	P14,902,423,321

Movement in goodwill is as follows:

	September 2018	December 2017
Balance at beginning of the year	P14,902,423,321	P14,715,769,906
Additions	-	187,203,888
Fair value adjustments	-	(550,473)
	P14,902,423,321	P14,902,423,321

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. (FLSTCI)

On February 3, 2015, the Group through Entenso acquired 100% interest in DCI and FLSTCI for a total cost of P768.49 million. DCI and FLSTCI 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 FLSTCI 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.

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. (a wholly owned subsidiaries of Entenso) into the Parent Company. On November 22, 2017, SEC issued the Certificate of Merger of the Parent Company with Daily Commodities, Inc. First Lane Super Traders Co. Inc. and Goldtempo Company Incorporated. Beginning January 1, 2018, the three subsidiaries were merged with the Parent Company.

a.3.Acquisition of B and W Supermart, Black and White Supermart and Goodshop Supermart (collectively referred to as "B&W Supermart").

On September 26, 2017, the Parent Company acquired substantially all the assets and rights of B&W Supermart and took over the operations of five (5) supermarkets located in Roxas City, Capiz.

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

Purchase price consideration transferred	P270,000,000
Fair value of property and equipment	82,796,112
Goodwill	P187,203,888

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

The Group is currently completing the purchase price allocation exercise on

the acquisition of B&W Supermart. The identifiable net assets at fair value are based on provisional amounts as at the acquisition date which is allowed under PFRS 3, *Business Combination*, within one year from the acquisition date.

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

Management assessed that there is no impairment in the value of goodwill, trademark and customer relationship as at September 30, 2018 and December 31, 2017.

c. Leasehold Rights and Computer Software and Licenses

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

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

	Computer Software and Licenses	Leasehold Rights	Total
Cost			
Balance, January 1, 2017	P307,050,219	P75,355,005	P382,405,224
Additions	29,475,602	-	29,475,602
Balance, December 31, 2017	336,525,821	75,355,005	411,880,826
Additions	15,493,190	-	15,493,190
Balance, September 30, 2018	352,019,011	75,355,005	427,374,016
Accumulated Amortization			
Balance, January 1, 2017	123,764,631	12,937,959	136,702,590
Amortization	35,551,095	3,767,750	39,318,845
Balance, December 31, 2017	159,315,726	16,705,709	176,021,435
Amortization	27,508,062	2,825,812	30,333,874
Balance, September 30, 2018	186,823,786	19,531,522	206,355,308
Carrying Amount			
December 31, 2017	P177,210,095	P58,649,296	P235,859,391
September 30, 2018	P165,195,225	P55,823,483	P221,018,708

12. Other Noncurrent Assets

This account consists of:

	Note	September 2018	December 2017
Security deposits	17, 27, 28	P1,639,390,625	P1,489,124,969
Prepaid rent	17	124,946,333	147,038,053
Accrued rent income	17, 23	33,866,001	34,365,546
		P1,798,202,959	P1,670,528,568

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

13. Accounts Payable and Accrued Expenses

This account consists of:

	Note	September 2018	December 2017
Trade	21, 27, 28	P4,671,358,650	P7,709,108,433
Non-trade	21, 27, 28	682,432,585	1,406,032,482
Dividends payable	24, 27, 28	-	1,106,152,562
Withholding taxes payable		150,554,417	204,643,491
Accrued expenses:	27, 28		
Manpower agency services		757,390,084	845,268,647
Utilities		160,894,170	160,202,211
Rent		34,216,136	35,399,646
Interest		4,073,369	5,884,247
Professional fees		3,907,978	48,469,465
Fixed asset acquisition	10	1,543,866	2,562,894
Others		174,980,499	89,233,787
		P6,641,351,754	P11,612,957,865

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

The Group has the following outstanding loans payable:

a. Short-term Loans Payable

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

	Note	September 2018	December 2017
Short-term note	i	P2,847,500,000	P3,812,500,000
Short-term note	ii	900,000,000	300,000,000
	27, 28	P3,747,500,000	P4,112,500,000

- i. 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.
- ii. In 2017 and 2018, Kareila entered into unsecured short-term loans with Cosco amounting to P300.00 million at 3.25% and P600.00 million at 4.50%, respectively.

b. Long-term Loans Payable

b.1. The outstanding loans are as follows:

	Note	September 2018	December 2017
Unsecured Peso Denominated			
Fixed rate note based on 6.4%	i	P1,440,000,000	P -
Fixed rate note based on 3.5%	i	-	1,999,204,654
Fixed rate note based on 3.25%	ii	-	-
Fixed rate note based on 6.4%	iii	400,000,000	400,000,000
	27, 28	1,840,000,000	2,399,204,654
Less current portion		-	(2,399,204,654)
		P1,840,000,000	P -

- i. On June 13, 2013, the Parent Company issued a P2.00 billion promissory note with a local bank. 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. On May 2, 2018, the same loan was renewed for P1.44 billion for a period of 7 years at 6.40%.
- ii. On April 14, 2013, the Parent Company signed and executed a two (2) year promissory note amounting to P963.70 million with a local bank. 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 total loan amount was fully settled as of December 2017.

The movements in debt issue costs are as follows:

	September 2018	December 2017
Balance at beginning of the year	P795,346	P2,903,342
Amortizations	(795,346)	(2,107,996)
Balance at end of year	P-	P795,346

- 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. The remaining balance of P400.00 million will be paid on a lump sum on July 6, 2018. On May 2, 2018, the same loan was renewed for P400 million for a period of 7 years at 6.40%.

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

Interest expense from these loans amounting to P58.50 million and P76.40 million were capitalized in September 2018 and December 2017, 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 P157.55 million and P129.70 million in September 2018 and December 2017, respectively.

15. Other Current Liabilities

This account consists of:

	Note	September 2018	December 2017
Deposits	17, 27, 28	P174,813,286	P164,487,790
Unredeemed gift certificates		85,596,310	89,839,889
VAT payable		39,970,884	32,251,259
Promotion fund		19,825,842	19,996,595
Loyalty and rewards		14,580,649	85,730,271
Others	27, 28	115,905	29,227,111
		P334,902,876	P421,532,915

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" and PERKS 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 trust receipts payable and cashier's bond withheld from each cashier to compensate for any possible cash shortages in the store.

16. Cost of Sales

This account for the periods ended September 30 consists of:

	Note	2018	2017
Beginning inventory	6	P17,696,641,161	P16,487,824,308
Add: Purchases		86,587,600,901	74,892,935,668
Total goods available for sale		104,284,242,062	91,380,759,976
Less ending inventory	6	20,814,231,750	18,265,064,153
		P83,470,010,312	P73,115,695,823

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 P2,239.29 million and P1,987.75 million in September 2018 and 2017, respectively (see Note 19).

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

	September 2018	December 2017
Due within one year	P2,314,989,121	P2,241,396,936
Due more than one year but not more than five years	9,561,780,424	9,438,782,266
Due more than five years	34,752,791,695	34,377,210,642
	P46,629,561,240	P46,057,389,844

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 September 2018 and 2017 amounted to P342.22 million and P289.50 million, respectively (see Note 18).

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

	September 2018	December 2017
Due within one year	P257,957,131	P186,082,674
Due more than one year but not more than five years	324,167,635	237,501,512
Due more than five years	94,584,994	100,983,790
	P676,709,760	P524,567,976

18. Other Operating Income

This account for the periods ended September 30 consists of:

	Note	2018	2017
Concession income		P1,336,017,576	P1,142,102,435
Display allowance		583,671,069	475,889,804
Membership income		358,605,479	312,858,077
Rent income	17	342,220,290	289,503,490
Listing fee		78,121,202	58,462,976
Merchandising support		20,254,854	32,079,553
Demo/sampling income		8,821,518	10,576,295
Miscellaneous		97,986,029	121,612,874
		P2,825,698,017	P2,443,085,504

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 periods ended September 30 consists of:

	Note	2018	2017
Rent	17	P2,239,287,880	P1,987,752,909
Manpower agency services		2,100,339,387	1,805,956,595
Communication, light and water		1,716,205,265	1,403,975,285
Salaries and wages		1,498,086,392	1,324,055,009
Depreciation and amortization	10, 11	1,401,973,428	1,193,176,027
Security services		667,993,813	656,911,501
Taxes and licenses		556,987,282	486,269,767
Janitorial and messengerial services		451,885,036	389,764,511
Store and office supplies		445,341,680	404,165,230
Concession expense	21	362,102,701	345,809,941
Repairs and maintenance		350,576,950	299,200,284
Advertising and marketing		251,008,363	215,373,970
Insurance		144,811,075	129,420,404
Other selling expenses		130,082,138	124,976,662
SSS/Medicare and HDMF contributions		108,375,567	96,202,333
Input VAT allocable to exempt sales		90,181,273	76,934,724
Transportation		68,466,366	43,598,735
Representation and entertainment		65,352,082	40,644,984
Fuel and oil		59,557,644	41,064,245
Royalty	21	38,667,352	32,896,647
Professional fee		25,841,365	21,281,322
Miscellaneous		168,418,219	118,204,669
		P12,941,541,258	P11,237,635,754

20. Others

This account for the periods ended September 30 consists of:

	Note	2018	2017
Gain on sale of investment in joint venture		P362,810,264	P-
Dividend income	9	669,684	1,817,695
Foreign exchange loss		181,190	(131,422)
Gain (loss) on disposal of property and equipment	10	154,310	
Gain on insurance claim		-	101,339
Unrealized valuation gain (loss) on trading securities	7	(13,557,859)	6,753,576
Bank charges		(18,776,700)	(18,149,148)
		P331,480,889	(P9,607,960)

21. Related Party Transactions

In the normal course of business, the Group has transactions with its related parties. These transactions and account balances as at September 30, 2018 and December 31, 2017 follow:

Related Party	Year	Note	Amount of Transactions for the Nine-month Period	Outstanding Balances						Terms	Conditions
				Trade Receivable (see Note 5)	Non Trade Receivable (see Note 5)	Trade Payable (see Note 13)	Non Trade Payable (see Note 13)	Due to Related Parties			
Parent											
Dividends	2018		P -	P -	P -	P -	P -	P -	Due and	Unsecured	
	2017		-	-	-	-	564,137,807	-	demandable		
Repairs and maintenance	2018		-	-	-	-	-	-	Due and	Unsecured;	
	2017		-	-	39,836	-	-	-	demandable	no impairment	
Loans	2018	e	-	-	-	-	-	-	Due and	Unsecured;	
	2017	e	-	-	-	-	-	300,000,000	demandable		
Interest expense	2018	e	-	-	-	-	-	-	Due and	Unsecured	
	2017	e	-	-	-	-	-	-	demandable		
Other Related Parties*											
Rent	2018		583,235,824	-	-	-	20,783,763	-	Due and	Unsecured;	
	2017		508,684,683	-	232,455	-	41,960,431	-	demandable	no impairment	
Concession expense	2018		362,102,701	-	-	-	-	-	Due and	Unsecured	
	2017		345,809,941	-	-	-	-	-	demandable		
Purchase of merchandise	2018		1,507,564,613	-	-	450,344,276	-	-	Due and	Unsecured	
	2017		1,280,139,860	-	-	589,760,330	-	-	demandable		
Sale of merchandise	2018		41,069,895	7,670,032	-	-	-	-	Due and	Unsecured;	
	2017		42,325,204	24,344,715	-	-	-	-	demandable	no impairment	
Other income	2018	c	-	-	-	-	-	-	Due and	Unsecured;	
	2017		-	-	-	-	-	-	demandable	no impairment	
Security deposits	2018		24,707,543	-	-	-	3,508,489	-	Due and	Unsecured;	
	2017		3,101,497	-	-	-	13,099,795	-	demandable	no impairment	
Repairs and maintenance	2018		1,758,815	-	-	-	160,271	-	Due and	Unsecured;	
	2017		1,224,194	-	4,867,503	-	313,724	-	demandable	no impairment	
Utilities expense	2018		186,385,086	-	-	-	15,723,301	-	Due and	Unsecured;	
	2017		124,199,113	-	966,401	-	6,910,791	-	demandable	no impairment	

Forward

			Outstanding Balances							
			Amount of Transactions for the Nine-month Period	Trade Receivable (see Note 5)	Non Trade Receivable (see Note 5)	Trade Payable (see Note 13)	Non Trade Payable (see Note 13)	Due to Related Parties	Terms	Conditions
Related Party	Year	Note								
Communications	2018		P312,427	P -	P -	P -	P31,214	P -	Due and	Unsecured
	2017		313,601	-	-	-	6,570	-	demandable	
Management fee	2018		10,056,526	-	-	-	1,764,144	-	Due and	Unsecured
	2017		6,155,970	-	-	-	1,581,800	-	demandable	
Supplies	2018		15,619,149	-	-	-	842,360	-	Due and	Unsecured
	2017		8,821,286	-	18,960	-	2,156,077	-	demandable	
Insurance	2018		617,551	-	-	-	-	-	Due and	Unsecured
	2017		990,911	-	485	-	14,202	-	demandable	
Taxes and licenses	2018	C	69,902	-	-	-	-	-	Due and	Unsecured
	2017	C	121,657	-	3,029	-	70,336	-	demandable	
Fixed asset	2018	C	-	-	-	-	-	-	Due and	Unsecured
				-	-	-	-	-	demandable	
Employee benefits	2018		114,586	-	-	-	-	-	Due and	Unsecured
	2017		1,975,530	-	202,755	-	13,817	-	demandable	
Other Income	2018	C	-	-	-	-	-	-		
	2017	C	-	-	224,051	-	-	-		
Key Management Personnel										
Royalty expense	2018		38,667,352	-	-	-	-	38,667,690	Due and	Unsecured
	2017		32,896,647	-	-	-	-	37,065,831	demandable	
Rent expense	2018		17,362,838	-	-	-	2,064,249	-		
	2017		16,857,124	-	-	-	-	-		
Short-term benefits	2018		34,564,315	-	-	-	-	-		
	2017		31,140,000	-	-	-	-	-		
Total	2018			P7,670,032	P -	P450,344,276	P42,813,542	P38,667,690		
Total	2017			P24,344,715	P6,555,475	P589,760,330	P630,265,350	P337,065,831		

*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, taxes and licenses, management fee and employee benefits which are unsecured, noninterest-bearing and due and demandable. The Group has not made any allowance for impairment losses relating to receivables from related parties as at September 30, 2018 and December 31, 2017. 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 P900.00 million and P300.00 million in September 2018 and December 2017, respectively. 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 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, 2017. Valuations are obtained on a periodic basis.

Salient Provisions of the Retirement Plan

Normal Retirement (Minimum Retirement Law, RA 7641)

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

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

	September 2018	December 2017
Present value of defined benefit obligation	P564,085,747	P564,085,747
Fair value of plan assets	(25,912,570)	(25,912,570)
Retirement benefits liability	P538,173,177	P538,173,177

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

	September 2017	December 2017
Beginning Balance	P564,085,747	P494,733,328
Included in Profit or Loss		
Current service cost	-	121,772,174
Interest cost	-	26,616,653
	P564,085,747	148,388,827
Included in other Comprehensive Income		
Remeasurements gain:		
Actuarial gain arising from:		
Financial assumptions	-	(39,549,415)
Experience adjustment	-	(39,486,993)
	-	(79,036,408)
End Balance	P564,085,747	P564,085,747

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

	September 2018	December 2017
Beginning of the year	P25,475,333	P25,475,333
Interest income	1,370,573	1,370,573
Remeasurement loss	(933,336)	(933,336)
End of the year	P25,912,570	P25,912,570

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

	September 2018	December 2017
Remeasurements of retirement liability at beginning of year	(P167,393,168)	(P89,290,096)
Actuarial gain on defined benefit obligation	-	(78,103,072)
Remeasurements of retirement liability at end of year	(P167,393,168)	(P167,393,168)

The cumulative remeasurements of retirement benefits liability, net of deferred income taxes, amounted to P117.31 million as at September 30, 2018 and December 31, 2017, respectively, as presented in the consolidated statements of changes in equity.

The Company's plan assets consist of the following:

	September 2018	December 2017
Cash in banks	P2,032,605	P2,032,605
Debt instruments - government bonds	23,648,111	23,648,111
Trust fees payable	(13,059)	(13,059)
Other	244,913	244,913
	P25,912,570	P25,912,570

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

	September 2018	December 2017
Discount rate	5.70%	5.38%
Future salary increases	8.00%	8.00%

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:

2017

	Increase	Decrease
Discount rate (1% movement)	(P105,136,263)	P134,997,650
Future salary increase rate (1% movement)	123,240,684	(99,204,506)

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:

	2017				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	Within 5 - 10 Years
Defined benefit obligation	P564,085,747	P123,425,704	P23,214,858	P19,300,587	P80,910,259

	2016				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	Within 5 - 10 Years
Defined benefit obligation	P494,733,328	P110,196,127	P18,894,732	P29,583,933	P61,717,462

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 2018.

23. Income Taxes

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

	2018	2017
Current tax expense	P1,890,464,309	P1,725,774,754
Deferred tax benefit	(77,018,691)	(67,041,483)
	P1,813,445,618	P1,658,733,271

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

	2018	2017
Income before income tax	P6,431,643,018	P5,557,620,314
Income tax expense at the statutory income tax rate:		
30%	P1,906,272,638	P1,647,925,945
5%	3,870,045	3,226,691
Income tax effects of:		
Non-deductible other expenses	12,237,458	11,616,711
Non-deductible interest expense	1,985,330	704,814
Changes in unrecognized DTA/DTL	861,122	950,156
Income subjected to final tax	(109,043,984)	(545,309)
Interest income subjected to final tax	(6,804,349)	(3,119,664)
Non-taxable income	4,067,358	(2,026,073)
	P1,813,445,618	P1,658,733,271

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

	September 2018		December 2017	
	Amount	DTA (DTL)	Amount	DTA (DTL)
Accrued rent expense*	P3,519,232,492	P1,048,644,174	P3,239,251,146	P971,775,344
Retirement benefits liability	730,176,907	218,704,955	730,176,907	218,704,955
NOLCO	15,367,490	4,610,248	15,367,497	4,610,249
Allowance for impairment losses on receivables	7,462,327	2,238,698	7,462,327	2,238,698
Recognition of DTA due to Merger	389,731	116,919	389,731	116,919
DTA	4,272,465,952	1,274,314,996	3,992,647,608	1,197,446,165
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	(167,393,168)	(50,079,841)	(167,393,168)	(50,079,841)
Accrued rent income	(33,866,001)	(10,159,800)	(34,365,544)	(10,309,662)
DTL	(4,800,372,697)	(1,439,973,701)	(4,800,872,240)	(1,440,123,561)
Net	(P527,906,745)	(P165,658,705)	(P808,224,632)	(P242,677,396)

*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 are as follow:

	September 2018	December 2017
Authorized - 3,000,000,000 shares (P1 par value)		
Issued and outstanding		
Balance at beginning of year	2,785,362,877	2,785,362,877
Stock issuances during the period	-	-
Balance at end of year	2,785,362,877	2,785,362,877

The Parent Company's treasury stocks are as follow:

	September 2018	December 2017
Balance at beginning of year	19,981,471	19,981,471
Buy back during the period	-	-
Balance at end of year	19,981,471	19,981,471

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, 2017 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.

As of September 30, 2018 and December 31, 2017, the Parent Company had 40 stockholders with at least one board lot at the PSE, for a total of 2,785,362,877 (P1.00 per share par value) issued and outstanding common shares.

Retained Earnings

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.

On December 15, 2017, the Company's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.20 per share on record date of January 2, 2018 and payment date of January 26, 2018. The total amount of dividends is P1,106.15 million.

The summary of dividends declared is as follows:

December 31, 2017

Type of Dividend	Date of Dividend Declaration	Date of Record	Date of Payment	Amount
Cash	December 15, 2017	January 2, 2018	January 26, 2018	P1,106,152,562

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

On December 21, 2016, KMC's BOD approved an appropriation of retained earnings amounting to P2.7 billion to finance the construction of four (4) 'S&R Membership Shopping' stores and twelve (12) 'S&R New York Style Pizza' quick service restaurants (QSRs). In 2017, the said appropriation was reversed.

On December 15, 2017, KMC's BOD approved an appropriation of retained earnings amounting to P4.7 billion to finance the construction of six (6) new stores and twelve (12) QSRs.

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 for the periods ended September 30 is computed as follows:

	2018	2017
Net income (a)	P4,618,197,400	P3,898,887,043
Weighted average number of ordinary shares (b)	2,765,381,406	2,765,381,406
Basic/diluted EPS (a/b)	P1.67	P1.41

As at September 30, 2018 and December 31, 2017, the Group has no dilutive debt or equity instruments.

27. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

	Note	September 2018	December 2017
Cash in banks and cash equivalents	4	P1,614,679,990	P7,153,665,988
Receivables – net	5	4,353,973,164	4,569,341,716
Security deposits*	12	1,639,390,625	1,489,124,969
		P7,608,043,779	P13,212,132,673

*Included under noncurrent assets.

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

September 2018	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	P1,614,679,990	P -	P -	P -	P -	P1,614,679,990
Receivables	3,163,582,020	539,169,511	213,161,632	438,060,001	7,462,327	4,361,435,491
Security deposits	1,639,390,625	-	-	-	-	1,639,390,625
	P6,417,652,635	P539,169,511	P213,161,632	P438,060,001	P7,462,327	P7,615,506,106

December 2017	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	P7,153,665,988	P -	P -	P -	P -	P7,153,665,988
Receivables	3,175,206,725	631,452,179	249,645,750	513,037,062	7,462,327	4,576,804,043
Security deposits	1,489,124,969	-	-	-	-	1,489,124,969
	P11,817,997,682	P631,452,179	P249,645,750	P513,037,062	P7,462,327	P13,219,595,000

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.

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

Liquidity Risk

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

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

As at September 30, 2018					
	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*	P6,490,797,337	P6,490,797,337	P6,490,797,337	P -	P -
Short-term loans payable	3,747,500,000	3,776,548,376	3,776,548,376	-	-
Due to related parties	38,667,690	38,667,690	38,667,690	-	-
Long-term debt including current portion	1,840,000,000	1,950,703,746	16,822,857	67,291,428	1,866,589,461
Other current liabilities**	181,248,884	181,248,884	181,248,884	-	-
Noncurrent accrued rent	3,574,499,611	3,574,499,611	127,330,653	423,991,314	3,023,177,644

*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, 2017					
	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*	P11,408,314,374	P11,408,314,374	P11,408,314,374	P -	P -
Short-term loans payable	4,112,500,000	4,112,500,000	4,112,500,000	-	-
Due to related parties	37,065,831	37,065,831	37,065,831	-	-
Long-term debt including current portion	1,999,204,654	2,069,204,654	13,976,705	2,055,227,949	-
Other current liabilities**	189,624,195	189,624,195	189,624,195	-	-
Noncurrent accrued rent	3,260,616,193	3,260,616,193	-	490,291,306	2,770,324,887

*excluding statutory payables to the government

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

Interest Rate Risk

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

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

	September 2018	December 2017
Financial assets (cash deposits):		
Cash in banks	P1,433,937,998	P1,595,422,919
Money market placement	180,741,992	5,558,243,069
	P1,614,679,990	P7,153,665,988

Sensitivity Analysis

A 2% increase in interest rates would have increased equity and net income by P2.26 million and P10.02 million, for the period ended September 30, 2018 and year ended December 31, 2017, 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 September 30, 2018 and December 31, 2017.

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 September 2018 and December 2017 range from 2.00% to 6.40%.

Fair Value Hierarchy

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

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

As at September 30, 2018 and December 31, 2017, the Group's investment in trading securities were measured based on Level 1 classification and available for sale financial assets were carried at cost since the fair value cannot be determined reliably in the absence of any market data.

As at September 30, 2018 and December 31, 2017, the Group has not introduced any movement among Levels 1, 2 and 3 classifications.