



**PUREGOLD PRICE CLUB INC.**  
No. 900 Romualdez St., Paco, Manila  
(632) 822-8801 to 04; (632) 523-3055  
Website: [www.puregold.com.ph](http://www.puregold.com.ph)

**Definitive Information Statement**  
Annual Stockholders' Meeting  
**14 MAY 2013**

## **NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

To All Stockholders:

Notice is hereby given that the **ANNUAL STOCKHOLDERS' MEETING OF PUREGOLD PRICE CLUB, INC.** will be held on the **14<sup>th</sup> day of May 2013, 2 pm, at the Philippine Columbian Association Complex, Plaza Dilao, Paco, Manila** with the following agenda:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Reports of the Chairman and of the President
4. Approval of the Minutes of the 2012 Annual Stockholders' Meeting and ratification of all other acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting
5. Presentation of the audited financial statements for the period ended 31 December 2012
6. Election of seven (7) directors inclusive of two (2) independent directors
7. Appointment of External Auditor
8. Other Matters
9. Adjournment

Stockholders of record as of the close of business on **12 April 2013** are entitled to notice of, and to vote at such meeting. The stock and transfer book of the company will be closed from **26 April 2013 to 13 May 2013**.

IF YOU DO NOT EXPECT TO ATTEND THE ANNUAL MEETING, YOU MAY EXECUTE AND RETURN THE PROXY FORM IN THE ENVELOPE PROVIDED FOR THAT PURPOSE TO THE OFFICE OF THE COMPANY AT: **NO. 900 ROMUALDEZ ST., PACO, MANILA, 1007**. THE DEADLINE FOR THE SUBMISSION OF PROXIES IS ON **30 APRIL 2013**.

On the day of the meeting, you or your duly designated proxy are hereby required to bring this Notice and any form of identification such as driver's license, passport, company I.D., voter's I.D., or TIN Card to facilitate registration. Registration shall start at 1:00 p.m and will close at 1:45 p.m.

Manila, Philippines.



**BABY GERLIE I. SACRO**  
Corporate Secretary

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| <p>SECURITIES AND EXCHANGE COMMISSION<br/>         SEC FORM 20-IS</p> <p><b>INFORMATION SHEET</b></p> <p>PURSUANT TO SECTION 20<br/>         OF THE SECURITIES REGULATION CODE</p>  |
| <p>Check the appropriate box:<br/> <input type="checkbox"/> Preliminary Information Statement<br/> <input checked="" type="checkbox"/> Definitive Information Statement<br/> <input type="checkbox"/> Additional Materials</p>  |
| <p>Name of Registrant as specified in its charter:<br/> <b>PUREGOLD PRICE CLUB, INC.</b></p>  |
| <p>Province, country or other jurisdiction of the Company or organization –<br/> <b>Manila, Philippines</b></p>   |
| <p>SEC Identification Number:<b>A199813754</b></p>  |
| <p>BIR Tax Identification Code:<b>201-277-095</b></p>   |
| <p>Address of principal office: <b>No. 900 Romualdez St., Paco, Manila</b></p>  |
| <p>Registrant's telephone number, include area code:<br/> <b>(632) 822-8801 to 04; (632) 523-3055</b></p>   |
| <p>Date, time and place of the meeting of security holders:<br/> <b>14 May 2013, 2 pm at the Philippine Columbian Association Complex, Plaza Dilao, Paco, Manila</b></p>  |
| <p>Approximate date on which the Information Statement (including Proxy Form and other solicitation materials) are first to be sent or given to security holders – <b>22 April 2012</b></p>   |
| <p>Name of Person Filing the Statement / Solicitor: <b>The President, or in his absence the Chairman of the Board of Directors, or in his absence the Chairman of the 14 May 2013 Annual Stockholders' Meeting</b><br/> <b>Address: 2/F Tabacalera Building, 900 Romualdez St., Paco, Manila</b><br/> <b>Telephone No.: (632) 882-8801 to 04; (632) 523-3055</b></p>  |
| <p>Securities registered pursuant to Sections 8 and 12 of the Code (information on number of shares and amount of debt is applicable only to corporate registrants):<br/>         Authorized Capital Stock: <b>₱3,000,000,000(₱1.00 par value)</b><br/>         No. of shares outstanding as of 12 April 2013– <b>2,766,406,250 (₱1.00 per share)</b><br/>         Common shares outstanding: <b>2,766,406,250 (₱1.00 par value)</b><br/>         No. of Votes Entitled: <b>One (1) vote per share</b><br/>         PPCI's outstanding debt as of December 31, 2012 – <b>Trust Receipts Payable P8,130,028.57 and Corporate Notes P5,000,000,000.00</b></p> |
| <p>Are any or all of registrant's securities listed on a Stock Exchange:<br/> <b>Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]</b><br/>         If yes, disclose the name of such Stock Exchange: <b>Philippine Stock Exchange</b><br/>         And the class of securities listed therein: <b>Common shares</b></p>  |

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**INFORMATION STATEMENT**  
**PART I**

**A. GENERAL INFORMATION**

**Item 1. Date, time and place of meeting of security holders.**

- A) Date of Meeting - **14 May 2013**  
Time of Meeting - **2:00 PM**  
Place of Meeting – **The Philippine Columbian Association Complex,  
Plaza Dilao, Paco, Manila**

Principal Office and Mailing Address - **Office of the Corporate Secretary,  
2/F Tabacalera Building, No. 900 Romualdez St., Paco, Manila, 1007**

- B) This Information Statement and the accompanying Proxy Forms will be first sent to stockholders on or before **26 April 2013** in accordance with the Company's By Laws and the Securities and Regulation Code.

**Item 2. Dissenter's Right of Appraisal**

There are no matters or proposed actions as specified in the attached Notice of Annual Stockholders' Meeting that may give rise to a possible exercise by shareholders of their appraisal rights or similar right as provided in Title X of the Corporation Code of the Philippines.

**Item 3. Interest of Certain Persons In or Opposition To Matter to be Acted Upon**

A) No current director or officer nor any associate of the Corporation has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon except on the election of directors for year the 2013.

B) No director of the Company has given information that he intends to oppose any action to be taken by the Company at the meeting.

**B. CONTROL AND COMPENSATION INFORMATION**

**Item 4. Voting Securities and Principal Holders Thereof**

**A) Class and Number of Shares.** The Company has only one (1) class of shares, common shares, which are issued and transferable to both Philippine and non-Philippine nationals; provided, that the Company's Common Shares shall not be issued to non-Philippine nationals in excess of forty percent (40%) of the Company's

outstanding capital stock. As of Record Date, the Company's outstanding capital stock is 2,766,406,250 shares. Each share is entitled to one (1) vote.

As of record date, 72% or 1,995,850,884 securities of the Company are owned by Filipinos and 28% or 770,555,366 shares are owned by Foreigners.

**B) Stockholders Entitled to Notice and Vote.** Only holders of the Company's stock of record at the close of business on 12 April 2013, record date, are entitled to notice of, and to vote at, the Annual Stockholders' Meeting, in person or by proxy.

**C) Election of Directors.** Election of directors shall be held at the Annual Stockholders' Meeting on the date and place as herein stated. It shall be done by majority of stock represented in the meeting, and shall be conducted in the manner provided by Section 24 of the Corporation Code of the Philippines, and with such formalities and in such manner as the presiding officer at the meeting shall then and there determine and provide.

- (1) Stockholders entitled to vote at the Meeting shall have the right to vote in person or by proxy the number of shares registered in his name in the stock transfer book of the Company for as many persons as there are directors to be elected.
- (2) Each stockholder shall have the right to cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same cumulative voting principle among as many nominees as he shall see fit;
- (3) Provided, that the number of votes cast by a stockholder shall not exceed the number of his shares multiplied by the number of directors to be elected.
- (4) Discretionary authority to cumulate vote is not solicited.

**D) Security Ownership of certain record and beneficial owners of more than 5% as of 12 April 2013.** The Company has the following information about persons or group of persons known to be record or beneficial owners of more than 5% of the capital stock of the Company:

| Title of Class | Name, Address of record owner          | Relationship with the Company | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | Number of shares held | Percent |
|----------------|--|-------------------------------|---|-------------|-----------------------|---------|
| Common         | Lucio L. Co,<br>No. 22 Pili<br>Avenue, | Stockholder                   | Direct  | Filipino    | 801,294,568           | 28.96%  |

|        |                                |             |        |              |             |        |
|--------|--------------------------------|-------------|--------|--------------|-------------|--------|
|        | South Forbes Park, Makati City |             |        |              |             |        |
| Common | Susan P. Co                    | Stockholder | Direct | Filipino     | 724,167,231 | 26.17% |
| Common | Capital Group Companies        | Stockholder |        | Non-Filipino | 149,365,400 | 5.40%  |
| Common | Smallcap World Fund, Inc.      | Stockholder |        | Non-Filipino | 140,842,200 | 5.09%  |

**(E) Security Ownership of directors and management as of 12 April 2013.** In the table below are the holdings of the Directors and Executive Officers of the Company.

| Title of Class | Name of Beneficial Owner | Nature of beneficial ownership | Citizenship | Number of shares | Percent of Outstanding Voting Shares |
|----------------|--------------------------|--------------------------------|-------------|------------------|--------------------------------------|
| Common         | Lucio L. Co              | Direct                         | Filipino    | 801,294,568      | 28.96%                               |
| Common         | Susan P. Co              | Direct                         | Filipino    | 724,167,231      | 26.17%                               |
| Common         | Leonardo B. Dayao        | Direct                         | Filipino    | 739,925          | 0.0369%                              |
| Common         | Ferdinand Vincent P. Co  | Direct                         | Filipino    | 33,686,354       | 1.68%                                |
| Common         | Pamela Justine P. Co     | Direct                         | Filipino    | 33,686,354       | 1.68%                                |
| Common         | Edgardo G. Lacson        | Direct                         | Filipino    | 1                | 0.00000%                             |
| Common         | Marilyn V. Pardo         | Direct                         | Filipino    | 1                | 0.00000%                             |

**(F) Voting trust holders of 5% or more.** To the extent known to the Company, there is no person or group of persons holding more than 5% of the common shares by virtue of a voting trust or similar agreement as there has been no voting trust agreement which has been filed with the Company and the Securities and Exchange Commission.

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

## Item 5. Directors and Executive Officers

**A) Incumbent Board of Directors and Executive Officers.** There are seven (7) members of the Company's Board of Directors, two (2) of whom are independent directors. Directors are elected during the annual meeting of stockholders for a term of one (1) year and until their successors are elected. Executive officers are appointed or elected annually by the Board of Directors.

During the annual stockholders' meeting held on 8 May 2012, the following were elected and appointed members of the Board of Directors:

| Name                    | Age | Position      |
|-------------------------|-----|---------------|
| Lucio L. Co             | 58  | Chairman      |
| Susan P. Co             | 55  | Vice Chairman |
| Leonardo B. Dayao       | 69  | President     |
| Ferdinand Vincent P. Co | 31  | Director      |
| Pamela Justine P. Co    | 28  | Director      |

The following persons were elected and qualified as Independent Directors of the Company:

| Name              | Age | Position             |
|-------------------|-----|----------------------|
| Marilyn V. Pardo  | 74  | Independent Director |
| Edgardo G. Lacson | 69  | Independent Director |

**B) Business Experience of the incumbent Directors and Executive Officers.** The following is a profile of the incumbent directors and executive officers of the Company, indicating their respective business experience for the past five (5) years:

**Lucio L. Co**, 58, Filipino  
Chairman

Mr. Co has been a Director and the Chairman of the Company since it was incorporated in September 1998. Mr. Co has been duly elected to hold office as Director for one year and until his successor is elected and qualified. He is also currently the Chairman of Kareila Management Company, Puregold Finance, Inc., Puregold Duty Free Subic, Inc., Puregold Realty Leasing and Management, Inc. and President of Bellagio Holdings, Inc., Ellimac Prime Holdings, Inc., Cosco Prime Holdings, Inc., Forbes Company, LCKK & Sons Realty Company, Patron Supermarket, Inc., Puregold Junior Supermarket, Inc., Puregold Duty Free, Inc., and Puregold Properties, Inc. He is also a Director of Alcorn Gold Resources, Inc.(another listed Company) and a member of the Board of Trustees of Adamson University. Mr. Co has been an entrepreneur for the past 40 years.

**Susan P. Co**, 55, Filipino  
Vice Chairman

Mrs. Co has been a Director, Vice-Chairman and Treasurer of the Company since it was incorporated in September 1998. Mrs. Co has been duly elected to hold office as Director for one year and until her successor is elected and qualified. She is also currently the Chairman of Cosco Price, Inc. and Treasurer of Bellagio Holdings, Inc., Pajusco Realty Corporation, Puregold Finance, Inc., and Puregold Leasing and Management, Inc. She is also a Director of Kareila Management Corporation, Cosco Prime Holdings, Inc., Ellimac Prime Holdings, Inc., Forbes Company, KMC Realty Company, Patron Supermarket, Inc., Puregold Duty Free, Inc., Puregold Duty Free (Subic), Inc., Puregold Junior Supermarket, Inc. and Puregold Properties, Inc. Ms. Co received a Bachelor of Science in Commerce from the University of Santo Tomas.

**Leonardo B. Dayao**, 69, Filipino  
President

Mr. Dayao has been a Director and the President of the Company since 1998. Mr. Dayao has been duly elected to hold office as Director for one year and until his successor is elected and qualified. He is also currently the Chairman of PSMT Philippines, Inc., President of Puregold Finance Inc. and Alcorn Gold Resources,

Inc., (another Listed Company) and Vice-President of Ellimac Prime Holdings, Inc., Bellagio Holdings, Inc., Pajusco Realty Company, Puregold Properties, Inc., VFC Land Resources, Inc., and Cosco Prime Holdings, Inc. Mr. Dayao is also a Director of Fontana Development Corporation and Fontana Resort and Country Club. Mr. Dayao was previously connected with Ayala Investment and Development Company as Vice-President from 1980 to 1984 and Bank of the Philippine Islands as Vice President from 1984 to 1994. Mr. Dayao received a Bachelor of Science degree in Commerce from the Far Eastern University. He is a Certified Public Accountant. He has completed Basic Management Program at Asian Institute of Management and earned units in MBA from University of the Philippines-Cebu.

**Ferdinand Vincent P. Co**, 31, Filipino  
Director

Mr. Co has been a Director of the Company since 2003. Mr. Co has been duly elected to hold office as Director for one year and until his successor is elected and qualified. He is also the Marketing Director of the Company. Mr. Co is currently the President of Cosco Price, Inc., KMC Realty Company, VFC Land Resources, and Pajusco Realty Corporation and Treasurer of Fertuna Holdings, Inc. He is also a Director of Kareila Management Corporation, 118 Holdings, Inc., 514 Shaw Property Holdings Corp., Bellagio Holdings, Inc., Cosco Prime Holdings, Inc., Maxent Investments, Inc., Patron Supermarket, Inc., PSMT Philippines, Inc., Puregold Duty Free (Subic), Inc., Puregold Junior Supermarket, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Ellimac Prime Holdings, Inc. and Patagonia Holdings, Inc. Mr. Co received a Bachelor of Science degree in Entrepreneurial Management from the University of Asia and the Pacific.

**Pamela Justine P. Co**, 28, Filipino  
Director

Ms. Co has been a Director of the Company since 2003. Ms. Co has been duly elected to hold office as Director for one year and until her successor is elected and qualified. Ms. Co is also currently the President of Fertuna Holdings, Inc., and Treasurer of 118 Holdings, Inc., Cosco Prime Holdings, Inc., Cosco Price, Inc., Ellimac Prime Holdings, Inc., KMC Realty Company, Patagonia Holdings Corporation, Patron Supermarket, Inc., Puregold Junior Supermarket, Inc., and VFC Land Resources, Inc. She is also a Director of Pajusco Realty Corporation, PSMT Philippines, Inc., 514 Shaw Property Holdings Corporation, Bellagio Holdings, Inc., Maxent Investments, Inc., Premier Wine and Spirits, Inc., Puregold Properties, Inc. and Puregold Duty Free (Subic), Inc., and is the General Manager of Ice Mixx Trading. Ms. Co received a Bachelor of Science degree in Entrepreneurship from Thames International Business School.

**Marilyn V. Pardo**, 74, Filipino  
Independent Director

Mrs. Pardo was elected as an Independent Director of the Company on 5 October 2010 and will hold office until her successor is elected and qualified. She is currently the Chief Executive Officer of Asian Holdings Company, Downtown Properties, Inc.,

Casa Catalina Company, and Catalina Commercial Properties, Inc. Ms. Pardo received a Bachelor of Liberal Arts and an Associates Degree in Business from Assumption College.

**Edgardo G. Lacson**, 69, Filipino  
Independent Director

Mr. Lacson was elected as an Independent Director of the Company on October 5, 2010 and will hold office until his successor is elected and qualified. He is currently the Chairman of Metrostore Company, MIL Export Philippines, Beacon Environmental Management Services, Managing Director of Link Edge and the President of MIS Maritime Company, Safe Seas Shipping Agency, Marine Industrial Supply Company, and EML Realty. He is also the President of the Employers' Confederation of the Philippines and a Member of the Makati Business Development Council, Philippine Nippon Kyokai Technical, Philippine Interisland Shipping Association, Makati Zoning Committee, De La Salle Canlubang (International Marine Class Committee) and the Management Association of the Philippines. Mr. Lacson is a member of the Board of Trustees of Home Development Mutual Fund (HDMF) and Philippine Petroleum Sea Transport Association (PHILPESTA). He is a Financial Consultant for the Office of the Vice-President of the Philippines and Consultant for the City Government of Makati and the Board of Trustees of The Academe. He is an Honorary Member of the Rotary Club of Diliman, Quezon City and of the Philippine Chamber of Commerce and Industry. He also serves as Independent Director in the Philippine Stock Exchange. Mr. Lacson received a Bachelor of Science in Commerce from De La Salle University.

**Baby Gerlie Sacro**, 35, Filipino  
Corporate Secretary

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

**Atty. Candy H. Dacanay-Datuon**, 34, Filipino  
Assistant Corporate Secretary and Compliance Officer

Atty. Dacanay-Datuon has been appointed the Compliance Officer and Assistant Corporate Secretary of the Company on November 25, 2011. Ms. Dacanay is a lawyer and a member of the Philippine Bar since 2004. She has been employed as counsel for the Company since 2004. She received a Bachelor of Arts, Cum Laude, in Political Science from the Colegio de San Juan de Letran and a Bachelor of Laws Degree from the University of Santo Tomas.

The names of the members and chairpersons of the Company's corporate governance committees are as follows:

**Audit Committee.** The Company's Audit Committee is responsible for assisting the Company's Board in its fiduciary responsibilities by providing an independent and objective assurance to its management and shareholders of the continuous improvement of its risk management systems, business operations and the proper safeguarding and use of its resources and assets. The Audit Committee provides a general evaluation of and assistance in the overall improvement of its risk management, control and governance processes.

The Audit Committee reports to the Company's Board and is required to meet at least twice a year. The Audit Committee Chairman is Mr. Edgardo Lacson, Independent Director, and members are Lucio L. Co, Leonardo B. Dayao, and Susan P. Co.

**Compensation Committee.** The Company's Compensation Committee is responsible for objectively recommending a formal and transparent framework of remuneration and evaluation for the members of the Company's Board and the Company's key executives to enable them to run the Company successfully.

The Compensation Committee reports directly to the Company's Board and is required to meet at least once a year. The Compensation Committee consists of Lucio L. Co as Committee Chairman, Leonardo B. Dayao and Marilyn V. Pardo as members.

**Nomination Committee.** The Company's Nomination Committee is responsible for providing the Company's shareholders with an independent and objective evaluation and assurance that the membership of the Company's Board is competent and will foster long-term success and competitiveness. The Nomination Committee reports directly to the Company's Board and is required to meet at least once a year. The Nomination Committee consists of Susan P. Co as Committee chairman, Lucio L. Co, Leonardo B. Dayao and Marilyn V. Pardo as members.

**B) Election of Directors.** The following persons have been nominated for election to the Board as Directors and Independent Directors at the Annual Stockholders' Meeting:

**Nominees for Directors**

Lucio L. Co  
Susan P. Co  
Leonardo B. Dayao  
Ferdinand Vincent P. Co  
Pamela Justine P. Co

**Nominees for Independent Directors**

Edgardo G. Lacson  
Marilyn V. Pardo

The nominees were formally nominated to the Nomination Committee of the Board during its meeting held on April 2, 2013.

Pursuant to Securities Regulation Code (SRC) Sec. 38 and Rule 38.1, the Company is required to have at least two (2) independent directors. The Company's incumbent independent directors are Mr. Edgardo G. Lacson and Ms. Marilyn V. Pardo.



The Nominees for independent directors were screened in accordance with line with the guidelines on the nominations of independent directors prescribed by SRC Sec. 38 and Rule 38.1 as amended and the Revised Manual on Corporate Governance of the Company.

The final list of candidates for independent directors, Mr. Lacson and Ms. Pardo were nominated for re-election as independent directors of the Company for the ensuing fiscal year 2013 by Mr. Lucio L. Co and Mrs. Susan P. Co. Mr. and Mrs. Co have no relation whatsoever with the nominated directors nor are they employees or consultants of the Company or any of its affiliates.

Mr. Lacson and Ms. Pardo have always possessed the qualifications and none of the disqualifications of an independent director.

All other nominations for the position of director must be received by the Corporate Secretary at least five (5) working days prior to the annual stockholders' meeting.

The nominees are expected to attend the Annual Stockholders' Meeting.

**C) Significant Employees.** All employees working together as one workforce is considered significant. Everyone is a member of a team working together to achieve the company's vision and mission.

**D) Family Relationships.** The Company's Chairman, Mr. Lucio L. Co and Vice-Chairman, Ms. Susan P. Co are husband and wife and the parents of Mr. Ferdinand Vincent P. Co and Ms. Pamela Justine P. Co.

**E) Involvement in Legal Proceedings.** As of record date, 12 April 2013, to the best of Company's knowledge, there are no legal proceedings against the directors and executive officers of the Company within the categories described in SRC Rule 12, Part IV paragraph (A) (4). Particularly, the Company is not aware of the following:

- Any bankruptcy proceedings filed by or against any director or business of which a director, nominee for election as director or executive officer, or control person of the Company is a party or of which any of their property is subject.
- Any director, nominee for election, or executive officer being convicted by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign.
- Any director, nominee for election, or executive officer being subject of any judgment or decree not subsequently reversed, superseded or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement of a director, executive officer, or control person in any type of business, securities, commodities or banking activities.

- Any director, nominee for election, or executive officer being found by a domestic or foreign court of competent jurisdiction (*in a civil action*), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic market place or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

**F) Certain Relationships and Related Transactions.** The Company, in the ordinary course of its business, engages in a variety of transactions with related parties. Certain related party transactions are described below:

- The Company is a lessee with respect to 35 lease agreements with parties controlled by the Co Family.
- The Company is a party to a trademark Licensing Agreement (the "Licensing Agreement") with Mr. Lucio Co, under which Mr. Co licenses the use of tradenames and trademarks related to the "Puregold" brand to Puregold Junior and other Company affiliates, including Puregold Finance, Inc., Puregold Duty Free-Subic, Inc., Puregold Realty Leasing and Management, Inc., Puregold Duty Free, Inc., and Puregold Properties, Inc. (the "Licensed Affiliates"). The Company pays Mr. Co royalty fees of 1/20 of 1% of the Company's net sales for the use of the tradenames and trademarks. This Licensing Agreement is for a period of 30 years and is exclusive. Consequently, during the term of the Licensing Agreement, Mr. Co cannot license the tradenames and trademarks under this agreement except to Licensed Affiliates. None of the tradenames and trademarks can also be transferred by Mr. Lucio Co.
- The Company has an agreement with Puregold Duty Free-Subic, Inc. pursuant to which Puregold Duty Free-Subic, Inc. sub-leases its leased line from the Philippine Long Distance Company.
- The Company has an agreement with Puregold Finance, Inc., pursuant to which the Company's employees are able to borrow money from Puregold Finance, Inc., and loan repayments are made by the Company through salary deductions, which the Company withholds to repay Puregold Finance, Inc. The Company is not a guarantor to any of these loans.

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

**G) Ownership Structure.** The Company owns 99% of the shareholdings of Kareila Management Corporation, PPCI-Subic, Inc. and Company E Corporation.

Kareila Management Corporation is the operator of S&R Membership Shopping, the only warehouse membership club existing in the Philippines. It has at present 6

stores located at Taguig City, Paranaque City, Quezon City, Muntinlupa City, San Fernando, Pampanga and Cebu.

PPCI-Subic, Inc. is the operator of 1 Puregold store located inside the Subic Bay Freeport Zone, Olongapo City.

Company E Corporation is the operator of Eunilaine foodmart and Grocer E supermarket. It has 15 stores, 7 stores in Manila area, 2 in Cavite Province and 6 in Rizal Province.

**H) Resignation of Directors.** No Director has resigned from his office or declined to stand for re-election to the Board since 8 May 2012 Stockholders' Meeting due to any disagreements with the Company relative to its operations, policies and practices.

#### **Item 6. Compensation of Directors and Executive Officers**

The details of the aggregate compensation paid or accrued during the last two years and the ensuing year to be paid to the Chief Executive Officer, Lucio L. Co, and to the four (4) most highly compensated executive officers namely, Susan P. Co, Leonardo B. Dayao, Aida De Guzman and Ma. Denise Carolino, are as follows:

|   | 2010          | 2011          | 2012          |
|---|---------------|---------------|---------------|
| CEO and four most highly compensated officers | 9,704,000     | 11,857,500    | 11,780,000    |
| All other officers as group unnamed           | 18,076,429.11 | 23,443,521.32 | 28,391,160.79 |

The total annual compensation includes basic pay and other taxable income paid for all services rendered by the above officers to the Company and its subsidiaries.

**A) Standard Arrangements.** Non-executive directors receive per diem of Twenty Thousand Pesos (₱20,000.00) per committee meeting and Thirty Thousand Pesos (₱30,000.00) per board meeting. Executive directors do not receive per diem. Their compensation already includes per diem.

**B) Other Arrangements.** The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as above stated.

**C) Employment Contracts and Termination of Employment and Change in Control Arrangements.** Executive officers are subject to existing Company's policies, rules, regulations and labor laws. Their employment may be terminated for just or authorized caused as provided by labor code.

The executive officers are entitled to receive retirement benefits in accordance with the terms and conditions of the Company's retirement plan and other benefits prescribed by labor laws.

There is no arrangement with any executive officer to receive any compensation or benefit in case of change-in-control of the Company or change in the officer's responsibilities following such change-in-control.

**D) Stock Options.** On February 17 and October 11, 2012, the Board of Directors of the Company approved the Stock Option Plan. The eligible employees can claim special discount on the price of the shares to be paid from their salaries staggered within the period of four years.

The Board plans to allocate 5% of its authorized capital stock for this purpose.

Further details of the said stock option plan is disclosed in item 8. The Stock Option Plain will still be submitted to the Securities and Exchange Commission and Bureau of Internal Revenue for approval and registration.

#### **Item 7. Independent Public Accountants**

The External Auditor of the Company for fiscal year 2012 is Manabat Sanagustin & Co. (KPMG). The partner-in-charge is Mr. Arthur Machacon.

The Company has engaged Manabat Sanagustin & Co. (KPMG) since 2007 and there has been no disagreements on accounting and financial disclosure.

The Company complies with SRC Rule 68, (3), (b), (iv) where it states that changes should be made in assignment of external auditor or assigned partner atleast every five (5) years.

Manabat Sanagustin & Co. (KPMG) was formally nominated by the Board as the Company's external auditor for 2013. The said nomination is pursuant to the recommendation made by the Audit Committee during its meeting held on April 2, 2013.

Representatives of Manabat Sanagustin & Co. (KPMG) are expected to be present at the stockholders' meeting and will be available to respond to appropriate inquiry from stockholders regarding the 2012 audited financial statements, if any. They will have the opportunity to make statement if they so desire.

**A) Audit and Audit Related Fees.** The Company and subsidiary paid Manabat Sanagustin & Co. (KPMG) the total amount of P7.4 Million Pesos representing professional fees for the services rendered in year 2012.

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

#### **Item 8. Compensation Plans**

There is no other type of compensation plan as of 12 April 2013 other than the Stock Option Plan.

The material details of Stock Option Plan are as follows:

1. The Company will allocate five percent (5%) of its authorized capital stock as Stock Option Plan which will be granted to officers starting from the (a) Assistant Manager position, provided, they have been holding the position for atleast a year at the time the Stock Option Plan is implemented, up to the position of the Chief Executive Officer and Directors (b) Regular employees of the Company for atleast a period of five years (c) And those recommended by the Compensation Committee to be eligible to receive an Option under this Plan.
2. The employee who may avail of the plan shall be allocated shares of up to four (4) months of his salary divided by the six (6) months Average Market Price (AMP) of the share immediately prior to the approval and implementation of the Stock Option Plan.
3. In the table below are the estimated number of eligible employees of the Company who may avail of the Stock Option Plan and the indicative number of option shares that they may exercise under the Plan:

| Eligible employees                                | Estimated Number of Employees | Estimated Number of Shares | Value per share  |
|---|-------------------------------|----------------------------|------------------|
| Regular employees for atleast a period of 5 years | 659                           | 5,000,000,000              | P12.42 per share |
| All assistant managers and up for atleast a year  | 113                           | 2,000,000,000              | P12.42 per share |

4. The Directors including the Chief Executive Officer, as a group, may avail of up to two percent (2%) of the allocation subject to the guidelines and approval of the Compensation Committee.
5. The purchase price of the share shall be six (6) months AMP of the share upon implementation of the plan discounted at 25% or equivalent to 12.42 pesos per share.
6. The eligible employees have the option to pay through salary deduction the purchase price within a period of four (4) years.
7. Tax in excess of AMP is for the account of the employee. Shares can only be transferred in the name of the employee/grantee upon full payment, voting trust in the meantime shall be in favor of the Chairman. However, grantees are entitled to cash and stock dividends.

8. The Company is adopting the Stock Option Plan as part of its employee retention plan of action in order to entice its officers to remain with the Company and to encourage productivity.

For the 2013 Annual Stockholders Meeting, there will be no compensation plan, cash or non-cash, that will be taken up.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities other than for Exchange**

The Company has plans to issue shares in relation to its Stock Option Plan once approved by the Securities and Exchange Commission. Details of the transactions is disclosed in item 8.

The said Stock Option Plan has already been approved by the Board of Directors during its meetings held on February 17 and October 11, 2012 and ratified by the stockholders during its special meeting held on November 22, 2012.

### **Item 10. Modification or Exchange of Securities**

No action is to be taken with respect to the modification of any class of securities of the Company or the issuance or authorization for issuance of one class of securities of the Company in exchange for outstanding securities of another class.

### **Item 11. Financial and Other Information**

The Audited Financial Statements and schedules as of December 31, 2012 meeting the requirements of SRC Rule 68, as amended and 68.1, the Statement of Management Responsibility and the Schedules and discussion required under Part IV or Rule 68 will be included in the Management Report, Annex B, attached hereto.

### **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

There is no action that will be taken up with respect to any merger, consolidation, acquisition or any similar matter.

### **Item 13. Acquisition or Disposition of Property**

No action is to be taken up in relation to acquisition or disposition of any property.

### **Item 14. Restatement of Accounts**

The accounting policies set out in the attached audited financial statements have been applied consistently to all the years presented.

## **D. OTHER MATTERS**

### **Item 15. Action with Respect to Reports:**

The following matters will be submitted to the stockholders for their approval and/or ratification:

1. Annual Report of the Chairman and of the President.
2. Approval of the Minutes of the previous Stockholders Meeting and ratification of all other acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting in May 8, 2012 up to the Meeting date 14 May 2013. (Please refer to "Annex C" for the summary of the relevant acts and resolutions of the management and the Board of Directors for approval).
3. Election of Directors.
4. Appointment of External Auditor.

### **Item 16. Matters Not Required to be Submitted**

No action is to be taken with respect to any matter, which is not required to be submitted to a vote of security holders.

### **Item 17. Amendment of Charter, By-Laws or other Documents**

No action is to be taken with respect to amendment of Charter, By-laws and other documents.

### **Item 18. Other Proposed Action**

Other than enumerated in Item 15 above, there are no other proposed action to be taken during the stockholders' meeting.

### **Item 19. Voting Procedures**

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the affirmative majority vote of stockholders present in person or by proxy and entitled to vote thereat, provided a quorum is present.

For election of directors, a shareholder may vote such number of shares for as many persons as there are for directors to be elected. The shareholder may also cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares owned or the shareholder may distribute them on the same principle among as many candidates as they see fit.

Except in cases where voting by ballot is requested, voting and counting shall be by *viva voce*. If by ballot, each ballot shall be signed by the shareholder voting, or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him. Such stockholder may or may not cumulate his votes. The counting thereof shall be supervised by the transfer agent BDO Trust and Investments Group.

## PART II

### INFORMATION REQUIRED IN A PROXY FORM

**Item 1. Solicitor.** The following proxies are being secured for the benefit of the Company. The Company has designated its President, Mr. Leonardo B. Dayao, as the person who shall vote the proxies gathered by the Company. The proxy form is intended to facilitate representation by stockholders and will be used for voting at the 2013 Annual Meeting of Stockholders to be held at the Philippine Columbian Association, Plaza Dilao, Paco, Manila on the date and time and place stated above and in the Notice accompanying this Information Statement and at any postponements or adjournments thereof.

**Item 2. Instructions.** The Proxy Form, must be properly signed, dated and returned by the stockholder on or before April 30, 2013. Validation of proxies will be held at the Company's principal office on 30 April 2013 at 5 pm. For corporate shareholders, the proxy form must be accompanied by a corresponding secretary's certificate confirming the authority of the person executing the proxy.

Validated proxies will be voted at the Meeting in accordance with the authority and/or instructions of the stockholder expressed therein. Proxies which are not properly signed and dated, or which are received late, or which do not have an accompanying secretary's certificate (for corporate shareholders) shall not be voted at the Meeting.

Subject to a stockholder's right to revoke his own proxy as stated in Item 3 below, the proxy given by a stockholder shall be voted by the Company's President, Mr. Leonardo B. Dayao, in his absence, by the Chairman of the Board, Mr. Lucio L. Co, with full power of substitution and delegation, in accordance with the authorization specifically granted by the stockholder.

**If no specific authority and/or instruction is made in the Proxy Form, the shares of the stockholder will be voted FOR ALL the nominee directors named in the Proxy Form and FOR THE APPROVAL of the matters stated in the Proxy Form and all other matters for which stockholders' approval may be sought in the Meeting and at any postponements or adjournments thereof.**

**Item 3. Revocability of Proxy.** A stockholder giving a proxy has the power to revoke it at any time before the right granted under and by virtue of such proxy is exercised, either: (a) by submitting a sworn statement revoking such proxy on or before May 6, 2013; or, (b) by appearing at the Meeting in person and expressing his intention to vote in person.

**Item 4. Persons Making the Solicitation.** The Company is soliciting proxies. The proxy form is intended to facilitate representation by stockholders and will be used for voting at the 2013 Annual Meeting of Stockholders to be held on the date and time



and place stated above and in the Information Statement, and at any postponements or adjournments thereof.

As of the date the Information Statement and this Proxy Form are sent to stockholders of record, NO director has informed the Company in writing that he opposes any action intended to be taken by the Company at the Meeting.

There are NO other participants in the solicitation of proxies through this Information Statement.

The proxy forms will be sent to stockholders mainly through the mail. Incidental solicitation in person or through telephone reminding stockholders to attend the Meeting may be made by the directors, officers and employees of the Company, for which no arrangement are or will be made and no compensation will be paid for such incidental solicitation.

The Company will bear the cost of preparing, collating and delivering to stockholders the Information Statement, the Proxy Form and the accompanying materials and the Company estimates expenditures for these to amount to about PHP 1,000,000.00

**Item 5. Interest of Certain Persons in Matters to be Acted Upon.** No current director or officer nor any associate of the Corporation has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon except on the election of directors for year the 2013.

**PART III**

**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Manila on the 25<sup>th</sup> day of April 2013.

PUREGOLD PRICE CLUB, INC.

BY:



**BABY GERLIE SACRO**  
Corporate Secretary

**UNDERTAKING**

The company shall provide without charge to each stockholder, a copy of its Annual Report or SEC Form 17-A, upon written request of such person addressed to the Office of the Corporate Secretary.

PUREGOLD PRICE CLUB, INC.

BY:



**BABY GERLIE SACRO**  
Corporate Secretary

**ANNEX "A"**

**PROXY FORM**

Date: \_\_\_\_\_

The undersigned hereby appoints \_\_\_\_\_ or, in his absence, \_\_\_\_\_, with full power of substitution and delegation, as proxy to vote all the shares of the undersigned at the **2013 Annual Stockholders' Meeting of PUREGOLD PRICE CLUB, INC.** to be held on **May 14, 2013, 2:00 p.m. at Philippine Columbian Association Complex, Plaza Dilao, Paco, Manila** and at any postponements or adjournments thereof.

The proxy shall vote subject to the instructions indicated below and the proxy is authorized to vote in his discretion on other business as may properly come at the Meeting and any postponements or adjournment thereof. Where no specific authority is clearly indicated below, the proxy shall vote and shall be deemed authorized to vote **FOR THE APPROVAL** of all the corporate matters listed below, and **FOR ALL** the nominated directors named below.

**Corporate Matters:**

|   | FOR | AGAINST | ABSTAIN |
|---|-----|---------|---------|
| Approval of the 2012 Minutes of Annual Stockholders' Meeting        |     |         |         |
| Ratification of Acts/Resolutions of Board of Directors & Management |     |         |         |
| Appointment of KPMG, as Independent External Auditor                |     |         |         |

**Election of Directors:**

**FOR THE FOLLOWING:**

Vote for all nominees listed below:

(To withhold authority to vote for any individual nominee, write down the name(s) of the nominee(s) on the space provided below)

LUCIO L. CO

SUSAN P. CO

LEONARDO B. DAYAO

|  |
|--|
|  |
|  |
|  |
|  |

FERDINAND VINCENT P. CO

PAMELA JUSTINE P. CO

MARILYN V. PARDO\*

EDGARDO G. LACSON\*

|  |
|--|
|  |
|  |

***\*Independent Director***

\_\_\_\_\_  
Name of Stockholder

\_\_\_\_\_  
Signature of Authorized Representative

Date: \_\_\_\_\_

*For corporate shareholders, the proxy form must be accompanied by a corresponding secretary's certificate confirming the appointment of the proxy and the authority of the person signing the proxy.*

## ANNEX B

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND PERFORMANCE

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

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

#### Key Performance Indicators

The key performance indicators of the Group as at and for the years ended December 31 are as follows:

|                                      | 2012   | 2011   | 2010   |
|--------------------------------------|--------|--------|--------|
| Current Ratio <sup>(1)</sup>         | 1.61:1 | 1.12:1 | 0.72:1 |
| Asset to Equity Ratio <sup>(2)</sup> | 1.65:1 | 1.79:1 | 4.94:1 |
| Debt to Equity Ratio <sup>(3)</sup>  | 0.65:1 | 0.79:1 | 3.94:1 |
| Net Debt to Equity <sup>(4)</sup>    | 0.32:1 | 0.58:1 | 3.03:1 |
| Equity to Debt Ratio <sup>(5)</sup>  | 1.53:1 | 1.26:1 | 0.25:1 |
| Book Value per Share <sup>(6)</sup>  | P9.94  | P4.66  | P1.41  |
| Earnings per Share <sup>(7)</sup>    | P1.11  | P0.97  | P0.40  |

(1) Current Assets over Current Liabilities

(2) Total Assets over Total Equity

(3) Total Liabilities over Total Equity

(4) Total Liabilities less Cash & Cash equivalents and Financial Assets at FVPL and AFS over Total Equity

(5) Total Equity over Total Liabilities

(6) Total Equity over Total Common Shares Outstanding

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

#### Results of Operations:

The Group posted a consolidated net income of P2,718 million, P1,545 million and P510 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Group's financial results are presented below for the comparative years ended December 31:

| (In millions) | 2012 | 2011 | 2010 |
|---------------|------|------|------|
|---------------|------|------|------|

|                              |                | % to Sales   | % Change     |         | % to Sales | % Change |         | % to Sales |
|------------------------------|----------------|--------------|--------------|---------|------------|----------|---------|------------|
|                              |                | 100.0        |              |         | 100.0      |          |         | 100.0      |
| <b>Net Sales</b>             | <b>P57,467</b> | %            | <b>47.4%</b> | P38,988 | %          | 33.9%    | P29,108 | %          |
| Cost of Sales                | 48,228         | 83.9%        | 44.2%        | 33,453  | 85.8%      | 30.8%    | 25,577  | 87.9%      |
| <b>Gross Profit</b>          | <b>9,239</b>   | <b>16.1%</b> | <b>66.9%</b> | 5,535   | 14.2%      | 56.7%    | 3,531   | 12.1%      |
| Other Operating Income       | 1,667          | 2.9%         | 58.5%        | 1,052   | 2.7%       | 34.7%    | 781     | 2.7%       |
| <b>Gross Income</b>          | <b>10,906</b>  | <b>19.0%</b> | <b>65.6%</b> | 6,587   | 16.9%      | 52.8%    | 4,312   | 14.8%      |
| Operating Expenses           | 7,060          | 12.3%        | 61.5%        | 4,371   | 11.2%      | 31.4%    | 3,326   | 11.4%      |
| <b>Operating Income</b>      | <b>3,846</b>   | <b>6.7%</b>  | <b>73.6%</b> | 2,216   | 5.7%       | 124.9%   | 985     | 3.4%       |
| Other income(expenses)       | 26             | 0.0%         | 331.6%       | (11)    | 0.0%       | -        | (242)   | -0.8%      |
| <b>Net Income before tax</b> | <b>3,872</b>   | <b>6.7%</b>  | <b>75.6%</b> | 2,205   | 5.7%       | 196.7%   | 743     | 2.6%       |
| Income tax expense           | 1,154          | 2.0%         | 74.9%        | 660     | 1.7%       | 183.6%   | 233     | 0.8%       |
| <b>Net Income after tax</b>  | <b>P2,718</b>  | <b>4.7%</b>  | <b>75.9%</b> | P1,545  | 4.0%       | 202.7%   | P510    | 1.8%       |

### Comparative years 2012 and 2011

#### Net Sales

For the year ended December 31, 2012, the Group posted consolidated net sales of P57,467 million representing an increase of 47.4% compared to P38,988 million in 2011. This was largely due to increase in turnover as a result of new stores opened in 2012 and 2011 which accounts for 4.9% and 17.1%, respectively, of the Group's consolidated net sales. These newly opened stores comprise 53.6% of the total increase in consolidated net sales of the Group from 2011 to 2012. As at December 31, 2012, the Parent Company has a total of 131 stores in operation including 78 hypermarkets, 38 supermarkets and 15 discounters, whereas 31 stores were opened during the year. In June 2012, the Parent Company acquired 6 S&R warehouses and 19 Parco supermarkets which contributed 13.9% of the Group's consolidated net sales in 2012 and contributing 43.0% on the total increase for the current year. The Parent Company consolidated the 7 months of operation of newly acquired subsidiaries starting June of 2012 for both S&R and Parco stores. Contributions to consolidated net sales per brand were 86.1% for Puregold, 10.8% for S&R and 3.1% for Parco.

#### Like For Like Sales

Like for like sales is a measure which indicates the performance of our existing stores by measuring the growth in sales for the period over the corresponding period in the previous year. Comparable store sales growth of the Parent Company per store format for the years ended December 31, 2012, 2011 and 2010 are as follows:



|             | 2012 | 2011 | 2010* |
|-------------|------|------|-------|
| Hypermarket | 2%   | 6%   | -1%   |
| Supermarket | 2%   | 14%  | -21%  |
| Discounter  | 14%  | -    | -     |

\*Data of Supermarket includes operations of Puregold Junior Supermarket Inc. prior to the acquisition.

#### *Gross Profit*

Consolidated gross profit increased by 66.9% from P5,535 million in 2011 to P9,239 million in 2012, driven by strong sales growth and higher level of rebates and conditional discounts received during the year, in support of the Group's store expansion. The table below shows the Gross profit per brand and contribution to total for the year ended December 2012:

| <i>(In millions)</i> | <b>Gross Profit</b> | <b>GP %</b>  | <b>% to total</b> |
|----------------------|---------------------|--------------|-------------------|
| Puregold             | <b>P7,521</b>       | <b>15.2%</b> | <b>81.4%</b>      |
| S&R                  | <b>1,453</b>        | <b>23.4%</b> | <b>15.7%</b>      |
| Parco                | <b>265</b>          | <b>15.0%</b> | <b>2.9%</b>       |
| <b>Total</b>         | <b>P9,239</b>       | <b>16.1%</b> | <b>100.0%</b>     |

#### *Other Operating Income*

Other operating income increased by P615 million or 58.5% from P1,052 million in 2011 to P1,667 million in 2012. The growth in other operating income was attributable to concessionaire income, commissions due from renting of product locations in store aisles to suppliers, renting of booths to third party retailers, increase in display allowance of the new stores and consolidation of acquired subsidiaries which contributed 20.7% of consolidated other operating income and account for 58.5% to the total increase.

#### *Operating Expenses*

Operating expenses increased by 61.5% from P4,371 million in 2011 to P7,060 million in 2012. Major expenses directly related to store expansion such as manpower cost, rent, utilities, depreciation and taxes, increased by 56.9% in 2012.

Manpower expenses increased by 54.0% relatively due to full operation of new stores opened in 2011 and additional manpower cost for newly opened stores in 2012. Rent expense increased by 72.5% from P793 million in 2011 to P1,368 million in 2012. Out of the total 31 new stores opened in 2012, the Company entered into lease agreements for the 27 new stores contributing to the increase in rent expense at the end of the year. Depreciation expense increased by 47.8% significantly due to full year operation of 2011 new stores on top of the additional stores opened during the year. New stores of 2011 and 2012 accounts for 84.9% of the total increase in depreciation expense from 2011 to 2012. Taxes, permits & licenses grew by 60.6% driven by sales growth and fees paid for new stores licensing and other regulatory requirements. Utilities expense likewise increased by 51.6% covering the full year operation of stores opened in the previous year. Supplies expense grew by 38.4% from P201 million in 2011 to P279 million in 2012 relatively due to opening of new stores. Professional fees also increased from P3 million in 2011 to P23 million in 2012 covering fees paid to auditors for various engagements required by

regulatory bodies in support of the application for the merger of the Parent Company, Puregold Junior Supermarket, Inc. (PJSI) and Gant Group of Companies Incorporated. Other operating expenses such as repairs & maintenance, representation, transportation, insurance, royalty and other expenses remained to be at 0.9% of consolidated net sales in 2011 and 2012 with 51.1% increased from previous year. Acquired subsidiaries comprised 13.2% of the Group's consolidated operating expense, the bulk of which is attributable to concession fee paid by S&R.

*Other Income (Expenses)*

Interest income increased by P64 million or 253.1% from P25 million in 2011 due to interest earned from short-term investments of the unused balance of the Initial Public Offering (IPO) proceeds and placement of proceeds from the Parent Company's corporate notes issued.

Interest expense increased by P9 million or 13.9% from P65 million in 2011 arising from issuance of the Parent Company's fixed rate corporate notes during the last quarter of the year and consolidation of interest incurred by a subsidiary from its short term loans.

**Comparative Years 2011 and 2010**

*Net Sales*

The Group generated consolidated net sales of P38,988 million in 2011, 33.9% higher than prior year's P29,108 million. This was mainly driven by the full year operation of the new stores opened in 2010 and increased customer traffic and ticket. In July 2010, PJSI, which operates the supermarket format, became a wholly-owned subsidiary of the Parent Company.

*Like For Like Sales*

Like for like sales is a measure which indicates the performance of our existing stores by measuring the growth in sales for the period over the corresponding period in the previous year. The following table sets the key performance indicators growth relevant to net sales for the years ended December 31:

|                       | 2011 | 2010* |
|-----------------------|------|-------|
| Like for Like Traffic |      |       |
| Hypermarket           | 1%   | 1%    |
| Supermarket           | 8%   | -7%   |
| Like for Like Ticket  |      |       |
| Hypermarket           | 5%   | -2%   |
| Supermarket           | 6%   | -14%  |

\*Data of Supermarket includes operations of Puregold Junior Supermarket Inc. prior to the acquisition.

*Gross Profit*

As a result of strong sales growth, profitability significantly improved as well. Gross Profit increase of 56.7% is a direct result of higher level of rebates and conditional discounts received during the year in support of the Group's store expansion. Hypermarket contributed 84.4%, while 13.8%



was contributed by supermarket format. The Discounter which was first established in September 2010 contributed 1.8% of current year's Gross Margin.

#### *Other Operating Income*

Relative to the expansion, Other operating income improved at a similar rate as net sales. The 2011 Other operating income of P1,052 million is 34.7% better than 2010's P781 million. Other operating income is largely concession income where the Group gets a fixed percentage of margin from the sale of goods consigned, rent income for ancillary services for customers' convenience and display allowance, increase of which are all related to store expansion.

#### *Operating Expenses*

Selling expenses slightly improved as a percentage of net sales from 9.3% in 2010 to 9.2% in 2011. The increase of 32.4% in 2011 over 29.5% increase in 2010 is largely due to consolidation of the full year operation of PJSI, full year operation of the 22 stores opened in 2010 and expenses incurred by the 38 stores opened in 2011. Manpower expenses, direct hired and outsourced, and related expenses account for 37.0% of the selling expenses and is stable at 3.4% of net sales despite the 35.0% increase from P977 million in 2010 to P1,319 million in 2011. Rent expense increased by 13.0% from P702 million in 2010 to P793 million in 2011. This accounts for 2.0% of net sales, lower than last year's 2.4%, due to reversal of rent expense in compliance with PAS 17 – Leases. Depreciation expense significantly increased by 63.8% from P279 million in 2010 to P457 million in 2011, largely due to the full year operation of the 22 stores opened in 2010 and the 38 stores opened in 2011. The Group pays Royalty fee for the use of Puregold name based on net sales starting July 2011. The name Puregold is registered trademark of the Chairman of the Parent Company. Utilities, Supplies and Other selling expenses remain to be 1.9%, 0.5% and 0.2% as percentage of net sales.

Administrative expenses slightly increased from 0.9% in 2010 to 1.0% in 2011, as a percentage of net sales. This is largely due to the full year consolidation of PJSI, full year operations of the 22 stores opened in 2010 and the expenses incurred by the 38 stores opened in 2011. Taxes permits & licenses remains to be 0.3% of net sales with 35% increase from last year's P99 million to P133 million in 2011. Repairs & maintenance increased by 45.5% from P72 million in 2010 to P105 million in 2011 as a result of the Group's expansion and the renovation of older stores that did not meet the current standards. Insurance remains to be 0.1% of net sales despite the increase of 39.4% from P37 million in 2010 to P52 million in 2011 resulting from the Group's expansion. Representation increased by 212.7% from P7 million in 2010 to P23 million in 2011 due to independent examination of regulatory bodies of prior year and current year results of operation. Fuel & oil, transportation & travel and professional fee, combined, remains to be at 0.1% of net sales and slightly increased from P22 million in 2010 to P30 million in 2011, relative to Group's expansion and continuous oil price hike.

Other operating expenses declined from 1.3% in 2010 to 1.1% in 2011, as a percentage of net sales. Increase from previous year was trimmed down to 14.0% in 2011 from 31.3% in 2010. Changes on the account was relatively due to the full year consolidation of PJSI, full year operations of the 22 stores opened in 2010 and the expenses incurred by the 38 stores opened in 2011. Security expenses slightly increased by 19.2% from P219 million in 2010 to P261 million in 2011 with 0.7% and 0.8% as a percentage of net sales in 2011 and 2010, respectively. Janitorial & messengerial remains to be at 0.2% as a percentage of net sales increasing by 38.6% from P59 million in 2010 to P81 million in 2011. Disallowed input VAT increased by 44.6% in line with

the increase in net sales from P16 million in 2010 to P24 million in 2011, stable at 0.1% as a percentage of net sales.

Bank charges, donations and miscellaneous expenses, combined, was lower at P55 million in 2011 compared to P75 million in 2010 due to significant donations made last year. Miscellaneous expenses, however, increased at a significant rate of 1,369.7% as a result of the Group's expansion and a non-recurring loss on pre-termination of lease contract as the Parent Company relocated one store to a different location for strategic purposes.

### Financial Position

The Group's consolidated financial position reflects a stable financial growth over the last three (3) years which can support and sustain the group's aggressive expansion program. As at December 31, 2012, 2011 and 2010, the Group's total assets amounted to P45,444 million, P16,680 million and P10,124 million respectively, while total liabilities amounted to P17,940 million, P7,368 million and P8,076 million respectively and total shareholders' equity stood at P27,504 million, P9,312 million and P2,048 million, respectively.

### Current Assets

As at December 31, 2012, 2011 and 2010, total current assets amounted to P17,383 million, P7,449 million and P5,416 million, respectively. Significant increase of 133.4% in 2012 was posted as compared to 37.5% increase in previous year. Comparative changes in current assets as at December 31, 2012, 2011 and 2010 are presented below:

|   | 2012           |                   |               | 2011          |                   |              | 2010          |                   |
|---|----------------|-------------------|---------------|---------------|-------------------|--------------|---------------|-------------------|
|   | Total Assets   | % to Total Assets | % Change      | Total Assets  | % to Total Assets | % Change     | Total Assets  | % to Total Assets |
| <i>(In millions)</i>                      |                |                   |               |               |                   |              |               |                   |
| Cash & Cash Equivalents                   | P9,084         | 20.0%             | 364.6%        | P1,955        | 11.7%             | 6.4%         | P1,838        | 18.2%             |
| Investments in trading securities         | 35             | 0.1%              | 45.6%         | 24            | 0.1%              | 0.9%         | 24            | 0.2%              |
| Receivables - net                         | 957            | 2.1%              | 133.2%        | 410           | 2.5%              | 69.9%        | 242           | 2.4%              |
| Merchandise inventory                     | 6,612          | 14.5%             | 46.2%         | 4,523         | 27.1%             | 54.1%        | 2,934         | 29.0%             |
| Due from Related Parties                  | 7              | 0.0%              |               |               | 0.0%              |              |               | 0.0%              |
| Prepaid expenses and other current assets | 688            | 1.5%              | 28.3%         | 536           | 3.2%              | 41.8%        | 378           | 3.7%              |
| <b>Total Current Assets</b>               | <b>P17,383</b> | <b>38.3%</b>      | <b>133.4%</b> | <b>P7,449</b> | <b>44.7%</b>      | <b>37.5%</b> | <b>P5,416</b> | <b>53.5%</b>      |

Cash and cash equivalents amounted to P9,084 million in 2012 and P1,955 million in 2011 increasing the balance by 364.6% at the end of the year. This was due to increase in cash generated from operations and the proceeds from the P5,000 million fixed-rate corporate notes issued by the Parent Company during the last quarter of the year. Investments in trading securities increased by 45.6% reflecting the appreciation of the fair market values of listed stocks held as of the end of the year. Contribution of the account as percentage of total assets remained to be at 0.1%. Receivables account amounted to P957 million in 2012 or 2.1% of total



assets, with an increase of P547 million or 133.2% from P410 million in 2011, attributable to opening of new stores. This includes trade and non trade receivables, net of P8 million allowance for impairment losses. Merchandise inventory amounted to P6,612 million or 14.5% of total assets at the end of the year. Total inventory increased by P2,089 million or 46.2% driven by opening of new stores and consolidation of subsidiaries. Prepaid expenses and other current assets increased by P152 million or 28.3% at the end of the year, relative to opening of new stores. This is attributable primarily to advance rentals, insurance, taxes, permits & licenses and input tax.

Current assets from consolidation of subsidiaries amounted to P2,760 million comprising 15.9% of the Group's total current assets at the end of the year.

#### *Noncurrent Assets*

As at December 31, 2012, 2011 and 2010, total noncurrent assets amounted to P28,061 million, P9,231 million and P4,708 million, respectively. Significant increase of 204.0% in 2012 was posted as compared to 96.1% increase in previous year. Comparative changes in noncurrent assets as at December 31, 2012, 2011 and 2010 are presented below:

| <i>(In millions)</i>           | 2012           |                   |               | 2011          |                   |              | 2010          |                   |
|--------------------------------|----------------|-------------------|---------------|---------------|-------------------|--------------|---------------|-------------------|
|                                | P8             | % to Total Assets | % Change      | P8            | % to Total Assets | % Change     | P8            | % to Total Assets |
| Investments                    |                | 0.0%              | 0.0%          |               | 0.0%              | 0.0%         |               | 0.1%              |
| Property and equipment- net    |                |                   |               |               |                   |              |               |                   |
|                                | 9,583          | 21.1%             | 59.6%         | 6,006         | 36.0%             | 44.9%        | 4,146         | 40.9%             |
| Deferred tax assets            | -              | 0.0%              | -100.0%       | 220           | 1.3%              | 33.2%        | 165           | 1.6%              |
| Intangibles                    |                |                   | 153217.3      |               |                   |              |               |                   |
|                                | 17,432         | 38.4%             | %             | 11            | 0.1%              | 0.0%         | 11            | 0.1%              |
| Other noncurrent assets        |                |                   |               |               |                   |              |               |                   |
|                                | 1,038          | 2.3%              | -65.2%        | 2,986         | 17.9%             | 690.4%       | 378           | 3.7%              |
| <b>Total Noncurrent Assets</b> | <b>P28,061</b> | <b>61.7%</b>      | <b>204.0%</b> | <b>P9,231</b> | <b>55.3%</b>      | <b>96.1%</b> | <b>P4,708</b> | <b>46.5%</b>      |

Property and equipment increased by 59.6% from P6,006 million in 2011 to P9,583 million in 2012. Major increase is attributable to additional capital expenditures for leasehold improvements and equipments for the newly opened stores totaling to P2,698 million additions during the year. Construction in progress increased by P898 million at the end of 2012 resulting from the construction of additional new stores expected to open in 2013. Deferred tax assets increased by P186 million from recognition of retirement expense and rent expense in compliance with PAS 17. It was presented net of Deferred tax liability under noncurrent liabilities. Intangibles significantly increased from P11 million in 2011 to P17,432 million in 2012 resulting from acquisition of subsidiaries in May 2012. Acquisition of S&R and Parco resulted to recognition of goodwill of P12,833 million, trademark of P3,710 million and customer relationship of P889 million. Other noncurrent assets decreased by 65.2% in 2012 primarily due to full utilization in

2012 of the restricted cash from IPO proceeds for capital expenditures as presented in the offering prospectus.

Noncurrent assets from consolidation of subsidiaries amounted to P1,420 million comprising 5.1% of the Group's total noncurrent assets at the end of the year.

#### *Current Liabilities*

As at December 31, 2012, 2011 and 2010, total current liabilities amounted to P10,777 million, P6,629 million and P7,529 million, respectively. Increase of 62.6% in 2012 was posted as compared to 12.0% decrease in previous year. Comparative changes in current liabilities as at December 31, 2012, 2011 and 2010 are presented below:

| <i>(In millions)</i>  | 2012           |                             |              | 2011          |                             |                 | 2010          |                             |
|---|----------------|-----------------------------|--------------|---------------|-----------------------------|-----------------|---------------|-----------------------------|
|   |                | % to<br>Total<br>Asset<br>s | %<br>Change  |               | % to<br>Total<br>Asset<br>s | %<br>Chang<br>e |               | % to<br>Total<br>Asset<br>s |
| Accounts payable and accrued expenses                           | P9,287         | 20.4%                       | 49.0%        | P6,235        | 37.4%                       | 24.5%           | P5,007        | 49.5%                       |
| Loans payable   | 509            | 1.1%                        | 0.0%         | -             | 0.0%                        | 100.0%          | 2,092         | 20.7%                       |
| Income tax payable  | 439            | 1.0%                        | 135.7%       | 186           | 1.1%                        | 82.1%           | 102           | 1.0%                        |
| Trust receipts payable  | 8              | 0.0%                        | -61.8%       | 21            | 0.1%                        | -31.1%          | 31            | 0.3%                        |
| Due to related parties  | 238            | 0.5%                        | 2582.4%      | 9             | 0.1%                        | -               | -             | 0.0%                        |
| Current maturities of long - term debt, net of debt issue costs | 43             | 0.1%                        | -            | -             | 0.0%                        | -               | -             | 0.0%                        |
| Other current liabilities                                       | 254            | 0.6%                        | 42.7%        | 178           | 1.1%                        | -40.0%          | 297           | 2.9%                        |
| <b>Total Current Liabilities</b>                                | <b>P10,777</b> | <b>23.7%</b>                | <b>62.6%</b> | <b>P6,629</b> | <b>39.7%</b>                | <b>-12.0%</b>   | <b>P7,529</b> | <b>74.4%</b>                |

Accounts payable and accrued expenses increased by 49.0% due to opening of new stores. In addition, the Parent Company declared dividend payable of P553 million during the year. Trade payables increased from P4,438 million in 2011 to P5,470 in 2012 relative to additional inventory and stocking requirements for newly opened stores. Loans payable recognized during the year amounting to P509 million pertains to consolidated balance from acquired subsidiaries. Income tax payable increased by 135.7% at the end of the year due to P1,154 million provision recognized during the year less payments made for tax due. Trust receipts payable declined to P8 million in 2012 after net settlements of P13 million on the outstanding obligation. Due to related parties increased by P229 million due to unpaid rent to other related parties not part of the consolidation, and consolidation of subsidiaries for purchases of goods and concession fee liabilities. Current maturities of long - term debt, net of debt issue costs pertains to portion of fixed corporate notes issued by the Parent Company during the last quarter of 2012 expected to be settled within 1 year. Other current liabilities increased by 42.7% relatively due to recognition



of deposit liabilities to tenants of newly opened stores. In addition, outstanding liabilities consolidated from subsidiaries increased the balance by P57 million comprising VAT payable and unredeemed gift certificates.

Current liabilities from consolidation of subsidiaries amounted to P2,421 million comprising 22.5% of the Group's total current liabilities at the end of the year.

#### *Noncurrent Liabilities*

As at December 31, 2012, 2011 and 2010, total noncurrent liabilities amounted to P7,164 million, P739 million and P547 million, respectively. A substantial increase in 2012 was posted at 869.0% as compared to 35.2% increase in previous year. Comparative changes in current liabilities as at December 31, 2012, 2011 and 2010 are presented below:

| <i>(In millions)</i>  | 2012            |              |               | 2011            |             |              | 2010            |             |
|---|-----------------|--------------|---------------|-----------------|-------------|--------------|-----------------|-------------|
|   | Total<br>Assets | %<br>Change  | %             | Total<br>Assets | %<br>Change | %            | Total<br>Assets | %<br>Change |
| Noncurrent accrued rent   | P1,121          | 2.5%         | 69.1%         | P663            | 4.0%        | 30.6%        | P508            | 5.0%        |
| Long-term debt - net of<br>current maturities and debt<br>issue costs | 4,909           | 10.8%        | -             | -               | 0.0%        | -            | -               | -           |
| Deferred tax liabilities - net  | 976             | 2.1%         | -             | -               | 0.0%        | -            | -               | -           |
| Retirement benefits liability   | 157             | 0.3%         | 105.8%        | 76              | 0.5%        | 94.6%        | 39              | 0.4%        |
| <b>Total Noncurrent<br/>Liabilities</b>                               | <b>P7,164</b>   | <b>15.8%</b> | <b>869.0%</b> | <b>P739</b>     | <b>4.4%</b> | <b>35.2%</b> | <b>P547</b>     | <b>5.4%</b> |

Noncurrent accrued rent increased by 69.1% from P663 million in 2011 to P1,121 million in 2012. This was due to recognition of rent expense for lease contracts entered with by the Company in compliance to PAS 17 – *Leases*. Long-term debt - net of current maturities and debt issue costs pertains to portion of fixed corporate notes issued by the Parent Company during the last quarter of 2012 expected to be settled beyond 1 year. Deferred tax liabilities arise from the measurement of assets and liabilities to their fair market values specifically related to the fair market value of intangible assets recognized in acquisition of Kareila Management Corporation (KMC), net of deferred tax assets recognized during the operating period. Retirement benefits liability increased from P76 million in 2011 to P157 million in 2012 due to recognition obligation incurred based on the latest independent actuarial report in accordance with PAS 19.

Noncurrent liabilities from consolidation of subsidiaries amounted to P100 million comprising 1.4% of the Group's total noncurrent liabilities at the end of the year.

#### *Equity*

As at December 31, 2012, 2011 and 2010, total equity amounted to P27,504 million, P9,312 million and P2,048 million, respectively. Increase in 2012 was posted at 195.4% as at the end of

the year. Comparative changes in total equity as at December 31, 2012, 2011 and 2010 are presented below:

| <i>(In millions)</i>       | 2012         |                   |          | 2011         |                   |          | 2010         |                   |
|----------------------------|--------------|-------------------|----------|--------------|-------------------|----------|--------------|-------------------|
|                            | Total Assets | % to Total Assets | % Change | Total Assets | % to Total Assets | % Change | Total Assets | % to Total Assets |
| Capital stock              | P2,766       | 6.1%              | 38.3%    | P2,000       | 12.0%             | 37.9%    | P1,450       | 14.3%             |
| Additional paid in capital | 20,830       | 45.8%             | 303.0%   | 5,169        | 31.0%             | -        | -            | -                 |
| Retained earnings          | 3,907        | 8.6%              | 82.3%    | 2,143        | 12.8%             | 258.4%   | 598          | 5.9%              |
| Total Equity               | P27,504      | 60.5%             | 195.4%   | P9,312       | 55.8%             | 354.7%   | P2,048       | 20.2%             |

Capital stock grew by 38.3% resulting from the issuance of additional shares to cover the acquisition of KMC made through a share-for-share swap with the consideration transferred measured at fair market value as of the acquisition date. In line with this, Additional paid in capital also increased by 303.0% representing the excess of the fair market value over the par value of the new shares issued. Retained earnings increased by 82.3% as a result of net income from operations of P2,718 million and partially offset by cash dividends of P400 million paid in June 2012 and P553 million cash dividends declared in December 2012.

#### Comparative Years 2011 and 2010

As at December 31, 2010 and 2011 the Group's net current assets were (P2,113) million and P820 million, respectively. The deficit in 2010 was caused by the avilment of short-term bank loans to augment the company's working capital position. The full repayment of these loans in 2011 from the IPO proceeds caused the significant improvement of the working capital position in 2011.

#### Current Assets

The Group's current assets consist of Cash and cash equivalents, investments in trading securities, receivables, merchandise inventory, amounts due from related parties, prepaid expenses and other current assets. Total current assets as at December 31, 2010 and 2011 were P5,416 million or 53.5% of total assets and P7,449 million or 44.7% of total assets, respectively. As at December 31, 2010, merchandise inventory was P2,934 million or 29% of total assets, with cash and cash equivalents amounting to P1,838 million or 18.2% of total assets. As at December 31, 2011, merchandise inventory was P4,523 million or 27.1% of total assets, with cash and cash equivalents amounting to P1,955 million or 11.7% of total assets. Total current assets grew by 44.7% at the end of 2011 relatively due to opening of new stores.

#### Noncurrent Assets



As at December 31, 2011, total non-current assets increased by 96.1% represented by the appropriation of the IPO proceeds which was restricted for capital expenditures and acquisitions of property and equipment for newly opened and future stores expansion.

#### *Current Liabilities*

The Group's current liabilities consists of loans payable, accounts payable and accrued expenses, amounts due to related parties, income tax payable, trust receipts payable and other current liabilities. As at December 31, 2010 and 2011, current liabilities P7,529 million or 74.4% of total assets and P6,629 million or 39.7% of total assets, respectively, and consists primarily of payables to the Group's suppliers. Provision for income tax amounted to P660 million in 2011 and P233 million in 2010. Current liabilities decreased 12.0% in 2011 significantly due to settlement of loans amounting to P2,092 million.

#### *Noncurrent Liabilities*

As at December 31, 2011, total noncurrent liabilities amounted to P739 million for an increase of 35.2% primarily due to recognition of rent expense in compliance with PAS 17.

#### *Equity*

As at December 31, 2011, total equity amounted to P3,312 million for an increase of 354.7% significantly due to issuance of 500 million shares for the Parent Company's initial public offering.

#### **Cash Flows**

The following table sets forth information from the Group's statements of cash flows for the years ended December 31:

| <i>(In millions)</i>                         | <b>2012</b>    | 2011    | 2010    |
|--|----------------|---------|---------|
| Net cash from operating activities           | <b>P4,133</b>  | P1,358  | P1,102  |
| Net cash from (used in) investing activities | <b>(2,281)</b> | (4,867) | 3,617   |
| Net cash from (used in) financing activities | <b>5,277</b>   | 3,627   | (4,017) |
| Net increase in cash and cash equivalents    | <b>P7,129</b>  | P117    | P702    |

#### *Cash flow from operating activities*

Net cash provided by operating activities amounted to P4,133 million, P1,358 million and P1,102 million for the years ended December 31, 2012, 2011 and 2010, respectively. This was mainly due to substantial growth in operating income driven by aggressive store expansion.

#### *Cash flow from (used in) investing activities*

Net cash used in investing activities amounted to P2,281 million and P4,867 million for the years ended December 31, 2012 and 2011, respectively. Net cash provided by investing activities

amounted to P3,617 million in 2010. Acquisitions of equipments, furniture & fixtures, lands, construction of buildings and improvements on leased assets amounted to P4,232 million in 2012 and P2,325 million in 2011. The decrease in cash used in investing activities at the end of 2012 was due to full utilization in 2012 of the restricted cash from IPO allocated in 2011 for capital expenditures. The increase in net cash used in investing activities in 2011 was due to the additions to property and equipment for the new stores, security deposit payments made to the lessors, as well as the renovation of older existing stores. In 2010, the Parent Company collected a non-recurring amount of P6,004 million from a related party and paid P2,266 million for capital expenditures.

*Cash flow from (used in) financing activities*

Net cash provided by financing activities amounted to P5,277 million and P3,627 million for the years ended December 31, 2012 and 2011, respectively. Net cash used in financing activities amounted to P4,017 million in 2010. In 2012, the Parent Company issued P5,000 million fixed-term corporate notes to fund the group's medium-term expansion program. In 2011, the Parent Company's issuance of new shares relative to its IPO generated P5,719 million cash of which P2,092 million was used to settle outstanding bank loans. In 2010, P4,022 million was used to partially pay the Parent Company's outstanding bank loans.

**Capital Expenditures**

The table below sets out the Group's investments in capital expenditures in 2012, 2011 and 2010.

| <i>(In millions)</i>       | For the years ended December |        |        |
|----------------------------|------------------------------|--------|--------|
|                            | 2012                         | 2011   | 2010   |
| Office and store equipment | <b>P1,102</b>                | P598   | P652   |
| Furniture and fixtures     | <b>258</b>                   | 222    | 301    |
| Leasehold improvements     | <b>818</b>                   | 563    | 409    |
| Building                   | <b>238</b>                   | 382    | 735    |
| Land                       | <b>29</b>                    | 340    | 20     |
| Construction in progress   | <b>1,818</b>                 | 227    | 153    |
| <b>Total</b>               | <b>P4,263</b>                | P2,332 | P2,270 |

The Group has historically sourced funding for its capital expenditures from internally generated funds generated from accumulated operating income. Capital expenditures for the year 2010 were primarily financed by bank loans. For 2011 and 2012, capital expenditures of the Group were funded by internally generated funds and net proceeds generated from the primary offer of the Parent Company's shares.

**Financial Risk Management Objectives and Policies**

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

- Credit Risk
- Liquidity Risk
- Interest Rate Risk



- Foreign Currency Risk

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

#### **Material Events and Uncertainties**

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Group's liquidity in any material way. The Group does not anticipate having any cash flow or liquidity problems.

There are no events that will trigger direct or contingent financial obligation that is material to the company, 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.

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.

## ANNEX C

### Summary of Board Resolutions for the year 2012

| <b>Date of Meeting</b> | <b>Type</b> | <b>Resolutions/Approval issued during the Meeting</b>   |
|------------------------|-------------|---|
| Feb. 17, 2012          | Regular     | Approval of 2011 Audited Financial Statements   |
|                        |             | 2012 Budget   |
|                        |             | Establishment of Employees Retirement Plan  |
|                        |             | Setting up Officers' Stock Option Plan  |
|                        |             | Approval of the Charter of the Audit Committee  |
| March 27, 2012         | Special     | Acquisition of Kareila Management Corporation   |
|                        |             | Adoption of Dividend Policy   |
|                        |             | Nomination of 2012 Board of Directors   |
|                        |             | Engagement of KPMG Manabat Sanagustin & Co. as 2012 External Auditor and their professional fees.   |
| April 13, 2012         | Special     | Approval of Share Swap Agreement embodying the intended acquisition by PGOLD of 1,703,125 outstanding shares of Kareila Management Corporation in exchange for 766,406,250 shares to be issued by PGOLD and granting authority to Mr. Leonardo B. Dayao, President, to represent PGOLD in the said agreement and be signatory thereof.  |
| May 8, 2012            | Special     | Declaration of Special Cash Dividend of P0.20 per share as of record date 22 May 2012 and payment date on 5 June 2012.  |
| May 29, 2012           | Special     | Ratification of the acquisition of Gant Group of Companies.   |
| July 17, 2012          | Regular     | Approval of the Application for Listing of 766,406,250 additional Puregold shares with Philippine Stock Exchange.   |
| July 17, 2012          | Regular     | Approval of Contract of Lease with Camille Clarisse P. Co over a parcel of land located at Brgy. Tagapo, Sta. Rosa, Laguna.   |
|                        |             | Ratification of lease transactions approved by Executive Committee on June 15, 2012, sites are as follows: Robertson's Naga City, Camarines Sur; Eastlink Center, Pasig City; Naga Road, Las Piñas City; Aliw Theater, Meycauayan, Bulacan; Noveleta, Cavite; Carmart Building, Davao City; Tagum City, Davao del Norte; Surigao City, Surigao del Norte; Digos City, Davao del Sur; Sto. Niño, Guagua, Pampanga; Tarlac City Public Market; Sta. Cruz, Laguna; Silang, Cavite; Malolos City, Bulacan; Recar Commercial Complex, Bataan; Santiago, Isabela. |
| August 14, 2012        | Special     | Q2 Financial Report (SEC Form 17-C)   |
|                        |             | Consolidation of Puregold Junior Supermarket and Gant Group of Companies  |
|                        |             | Re-allocation of IPO proceeds   |
| October 11, 2012       | Regular     | Approval of 2012 Puregold Price Club, Inc., Puregold Junior Supermarket, Inc., Gant Group of Companies, Gant Diamond III, S-CV Corporation, Gant Diamond, Super Retail VIII, Super Retail XV, Superagora X and Lynxserv.  |
|                        |             | Approval of lease transactions. sites are as follows: Binangonan Commercial Square Garden; Tanay, Rizal; Centerpoint Mall, Baguio City; Parco Guiguinto Extension, Bulacan; Zabarte Warehouse,  |

|                   |         |  |
|-------------------|---------|--|
|                   |         | Novaliches, Quezon City; Manila River City, Sta. Ana, Manila; NCS Commercial, M.L. Quezon St., Malasiqui, Pangasinan; Citywalk Realty Development, Zamora St., Tarlac City.  |
|                   |         | Approval of acquisition of a parcel of land located at Gapan, Nueva Ecija  |
|                   |         | Approval of lease agreement between Nation Realty, Inc. and Puregold Price Club, Inc.  |
|                   |         | Approval of revised stock option plan  |
|                   |         | Approval of professional fee of Manabat Sanagustin & Co. (KPMG)  |
| October 11, 2012  | Regular | Approval of 2012 Audited Financial Statements of Puregold Price Club, Inc., Puregold Junior Supermarket, Inc., Lynxserv Corp., S-CV Corp. and Gant Group of Companies  |
|                   |         | Ratification of resolution approved the Executive Committee on the issuance of Php5 billion notes facility agreement with a syndicate of institutional lenders composed of banks, insurance and trust companies.   |
| November 12, 2012 | Regular | Approval of 3 <sup>rd</sup> Quarter Financial Performance  |
|                   |         | Approval of lease transactions, sites are as follows: Rose Avenue, Pilar Village, Las Piñas City; Aguinaldo Highway, Silang, Cavite; San Roque, Sto. Tomas, Batangas; Recto corner Cabana St., Lucena City; Calo corner San Jose, Butuan City; 3 <sup>rd</sup> Avenue corner Roxas St., Caloocan City; Brgy. Nuevo, San Pedro, Laguna; Sto. Niño, Bacolod City, Negros Occidental; Brgy. Solib, Floridablanca, Pampanga. |
| December 27, 2012 | Regular | Declaration of cash dividend – P0.10 per share as regular dividend and P0.10 per share as special dividend. Record date is January 14, 2013. Payment date is February 7, 2013.   |
|                   |         | Approval of retirement plan.   |

**PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2012, 2011 and 2010





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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Puregold Price Club, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Puregold Price Club, Inc. and Subsidiaries as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

**MANABAT SANAGUSTIN & CO., CPAs**

ARTHUR Z. MACHACON

Partner

CPA License No. 0090279

SEC Accreditation No. 1189-A, Group A, valid until February 15, 2015

Tax Identification No. 164-607-040

BIR Accreditation No. 08-001987-29-2011

Issued November 3, 2011; valid until November 2, 2014

PTR No. 3669515MC

Issued January 2, 2013 at Makati City

February 18, 2013

Makati City, Metro Manila



# PUREGOLD PRICE CLUB, INC.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

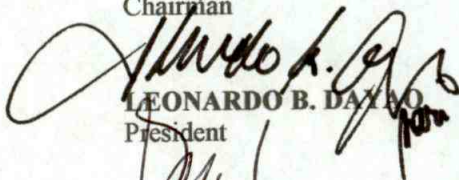
The management of Puregold Price Club, Inc. and Subsidiary (the Group), is responsible for the preparation and fair presentation of the financial statements as at and for the years ended **December 31, 2012 and 2011**, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Manabat Sanagustin & Co., CPAs, the independent auditors appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



**LUCIO CO**  
Chairman



**LEONARDO B. DAYAO**  
President



**SUSAN P. CO**  
Vice Chairman and Treasurer

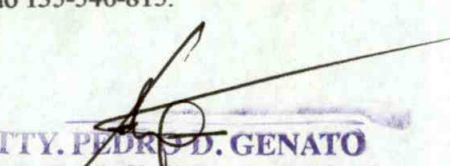
MAR 08 2013

Signed this \_\_\_th day of February 2013

MAR 08 2013

**CITY OF MANILA**  
SUBSCRIBED AND SWORN to before me, this \_\_\_ day of \_\_\_ 2013 at  
affiants exhibited to me their Tax Identification Numbers Lucio Co 108-975-971,  
Susan Co 100-053-331 and Leonardo Dayao 135-546-815.

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Page No. 191  
Book No. 10  
Series of 2013



**ATTY. PEDRO D. GENATO**  
Notary Public Until Dec. 31, 2013  
1150 Gen. Luna St. Ermita Mla.  
IBP# 868138 Mla. 10-14-11 until 2013  
PTR# 1397691 Mla. 1-2-2013  
Roll# 12088, TIN# 132-436-687  
MCLE Compliance III# 0000736/9-8-09

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

|   |                | December 31            |                        |
|---|----------------|------------------------|------------------------|
|   | Note           | 2012                   | 2011*                  |
| <b>ASSETS</b>   |                |                        |                        |
| <b>Current Assets</b>   |                |                        |                        |
| Cash and cash equivalents                                       | 4, 28, 29      | P9,084,325,007         | P1,955,167,541         |
| Investments in trading securities                               | 7, 28, 29      | 34,946,521             | 24,000,214             |
| Receivables - net   | 5, 28, 29      | 956,866,308            | 410,357,431            |
| Merchandise inventory - at cost                                 | 6              | 6,611,541,340          | 4,522,929,063          |
| Due from related parties  | 22             | 7,014,202              | -                      |
| Prepaid expenses and other current assets                       | 8              | 688,330,063            | 536,409,934            |
| <b>Total Current Assets</b>                                     |                | <b>17,383,023,441</b>  | <b>7,448,864,183</b>   |
| <b>Noncurrent Assets</b>  |                |                        |                        |
| Investments   | 9              | 7,879,160              | 7,879,160              |
| Property and equipment - net                                    | 10             | 9,582,936,212          | 6,005,557,739          |
| Deferred tax assets - net                                       | 24             | -                      | 220,139,294            |
| Intangibles   | 11             | 17,432,364,788         | 11,370,121             |
| Other noncurrent assets   | 12, 18, 28, 29 | 1,038,071,790          | 2,985,865,794          |
| <b>Total Noncurrent Assets</b>                                  |                | <b>28,061,251,950</b>  | <b>9,230,812,108</b>   |
|   |                | <b>P45,444,275,391</b> | <b>P16,679,676,291</b> |
| <b>LIABILITIES AND EQUITY</b>                                   |                |                        |                        |
| <b>Current Liabilities</b>                                      |                |                        |                        |
| Accounts payable and accrued expenses                           | 13, 28, 29     | P9,286,918,686         | P6,234,585,807         |
| Loans payable   | 15, 28, 29     | 508,500,000            | -                      |
| Income tax payable  |                | 438,660,875            | 186,076,234            |
| Trust receipts payable  | 28, 29         | 8,130,029              | 21,299,667             |
| Due to related parties  | 22, 28, 29     | 237,545,408            | 8,855,584              |
| Current maturities of long - term debt, net of debt issue costs | 16             | 43,140,099             | -                      |
| Other current liabilities                                       | 14, 18, 28, 29 | 253,949,662            | 177,912,643            |
| <b>Total Current Liabilities</b>                                |                | <b>10,776,844,759</b>  | <b>6,628,729,935</b>   |
| <b>Noncurrent Liabilities</b>                                   |                |                        |                        |
| Noncurrent accrued rent   | 24, 28, 29     | 1,120,906,123          | 662,950,406            |
| Long-term debt - net of current maturities and debt issue costs | 16             | 4,909,071,263          | -                      |
| Deferred tax liabilities - net                                  | 24             | 976,419,442            | -                      |
| Retirement benefits liability                                   | 23             | 157,164,520            | 76,356,980             |
| <b>Total Noncurrent Liabilities</b>                             |                | <b>7,163,561,348</b>   | <b>739,307,386</b>     |
| <b>Total Liabilities</b>  |                | <b>17,940,406,107</b>  | <b>7,368,037,321</b>   |
| <b>Equity</b>   |                |                        |                        |
| Capital stock   | 25             | 2,766,406,250          | 2,000,000,000          |
| Additional paid in capital                                      | 25             | 20,830,387,095         | 5,168,821,728          |
| Retained earnings   | 25             | 3,907,075,939          | 2,142,817,242          |
| <b>Total Equity</b>   |                | <b>27,503,869,284</b>  | <b>9,311,638,970</b>   |
|   |                | <b>P45,444,275,391</b> | <b>P16,679,676,291</b> |

\*This does not include information for Subsidiaries acquired in May 2012 (see Note 1 to the consolidated financial statements).

See Notes to the Consolidated Financial Statements.



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

|  | <b>Years Ended December 31</b> |                        |                 |                 |
|--|--------------------------------|------------------------|-----------------|-----------------|
|  | <i>Note</i>                    | <b>2012</b>            | 2011*           | 2010*           |
| <b>REVENUE</b>                               |                                |                        |                 |                 |
| Gross sales                                  |                                | <b>P57,583,220,308</b> | P39,051,675,728 | P29,154,992,228 |
| Sales discount                               |                                | <b>116,712,898</b>     | 63,792,323      | 46,987,772      |
|  |                                | <b>57,466,507,410</b>  | 38,987,883,405  | 29,108,004,456  |
| <b>COST OF SALES</b>                         | <i>17</i>                      | <b>48,227,697,388</b>  | 33,453,130,008  | 25,577,007,998  |
| <b>GROSS PROFIT</b>                          |                                | <b>9,238,810,022</b>   | 5,534,753,397   | 3,530,996,458   |
| <b>OTHER OPERATING INCOME</b>                | <i>19</i>                      | <b>1,667,029,827</b>   | 1,051,883,532   | 780,668,193     |
|  |                                | <b>10,905,839,849</b>  | 6,586,636,929   | 4,311,664,651   |
| <b>OPERATING EXPENSES</b>                    | <i>20</i>                      | <b>7,060,116,430</b>   | 4,370,772,221   | 3,326,329,654   |
| <b>INCOME FROM OPERATIONS</b>                |                                | <b>3,845,723,419</b>   | 2,215,864,708   | 985,334,997     |
| <b>OTHER INCOME (EXPENSES)</b>               |                                |                        |                 |                 |
| Interest expense                             | <i>15, 16</i>                  | <b>(74,044,583)</b>    | (65,028,007)    | (220,264,174)   |
| Interest income                              |                                | <b>88,964,732</b>      | 25,143,153      | 2,136,283       |
| Others - net                                 | <i>21</i>                      | <b>10,919,403</b>      | 28,727,693      | (24,255,922)    |
|  |                                | <b>25,839,552</b>      | (11,157,161)    | (242,383,813)   |
| <b>INCOME BEFORE INCOME TAX</b>              |                                | <b>3,871,562,971</b>   | 2,204,707,547   | 742,951,184     |
| <b>INCOME TAX EXPENSE</b>                    |                                |                        |                 |                 |
|  | <i>24</i>                      |                        |                 |                 |
| Current                                      |                                | <b>1,292,735,908</b>   | 714,565,502     | 287,772,592     |
| Deferred                                     |                                | <b>(138,711,634)</b>   | (54,852,762)    | (55,190,037)    |
|  |                                | <b>1,154,024,274</b>   | 659,712,740     | 232,582,555     |
| <b>NET INCOME/TOTAL COMPREHENSIVE INCOME</b> |                                | <b>P2,717,538,697</b>  | P1,544,994,807  | P510,368,629    |
| <b>EARNINGS PER SHARE</b>                    |                                |                        |                 |                 |
|  | <i>27</i>                      |                        |                 |                 |
| Basic and diluted earnings per share         |                                | <b>P1.11</b>           | P0.97           | P0.40           |

\*This does not include information for Subsidiaries acquired in May 2012 (see Note 1 to the consolidated financial statements).  
See Notes to the Consolidated Financial Statements.

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

|  |             | <b>Years Ended December 31</b> |                |                |
|--|-------------|--------------------------------|----------------|----------------|
|  | <i>Note</i> | <b>2012</b>                    | <b>2011*</b>   | <b>2010*</b>   |
| <b>CAPITAL STOCK</b> - P1 par value  | 25          |                                |                |                |
| Authorized - 3,000,000,000 shares  |             |                                |                |                |
| Issued and outstanding -<br>(2,766,406,250 shares in 2012,<br>2,000,000,000 shares in 2011,<br>1,450,000,000 shares in 2010) |             |                                |                |                |
| Balance at beginning of year   |             | <b>P2,000,000,000</b>          | P1,450,000,000 | P -            |
| Stock issuances during the year<br>(766,406,250 shares in 2012<br>550,000,000 shares in 2011,<br>1,068,000,000 in 2010)      |             | <b>766,406,250</b>             | 550,000,000    | 1,068,000,000  |
| Stock dividends issuance during<br>the year - 382,000,000 shares in<br>2010  |             | -                              | -              | 382,000,000    |
| Balance at end of year   |             | <b>2,766,406,250</b>           | 2,000,000,000  | 1,450,000,000  |
| <b>ADDITIONAL PAID-IN<br/>CAPITAL</b>  | 25          |                                |                |                |
| Balance at beginning of year   |             | <b>5,168,821,728</b>           | -              | -              |
| Issuances during the year  |             | <b>15,661,565,367</b>          | 5,168,821,728  | -              |
| Balance at end of year   |             | <b>20,830,387,095</b>          | 5,168,821,728  | -              |
| <b>RETAINED EARNINGS</b>   | 25          |                                |                |                |
| Balance at beginning of year   |             | <b>2,142,817,242</b>           | 597,822,435    | 469,453,806    |
| Stock dividends  |             | -                              | -              | (382,000,000)  |
| Net income for the year  |             | <b>2,717,538,697</b>           | 1,544,994,807  | 510,368,629    |
| Cash dividends   |             | <b>(953,280,000)</b>           | -              | -              |
| Balance at end of year   |             | <b>3,907,075,939</b>           | 2,142,817,242  | 597,822,435    |
|  |             | <b>P27,503,869,284</b>         | P9,311,638,970 | P2,047,822,435 |

\*This does not include information for Subsidiaries acquired in May 2012 (see Note 1 to the consolidated financial statements).  
See Notes to the Consolidated Financial Statements.

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

|  |                   | <b>Years Ended December 31</b> |                 |                 |
|--|-------------------|--------------------------------|-----------------|-----------------|
|  | <i>Note</i>       | <b>2012</b>                    | <b>2011*</b>    | <b>2010*</b>    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>        |                   |                                |                 |                 |
| Income before income tax                           |                   | <b>P3,871,562,971</b>          | P2,204,707,547  | P742,951,184    |
| Adjustments for:                                   |                   |                                |                 |                 |
| Depreciation and amortization                      | <i>10, 11, 20</i> | <b>675,492,982</b>             | 456,974,253     | 278,952,394     |
| Interest expense                                   | <i>15, 16</i>     | <b>74,044,583</b>              | 65,028,007      | 220,264,174     |
| Rent   |                   | <b>457,955,717</b>             | 155,340,714     | 189,643,254     |
| Retirement benefits cost                           | <i>20, 23</i>     | <b>55,213,083</b>              | 37,125,458      | 21,898,859      |
| Loss on pretermination of lease contract           | <i>20</i>         | -                              | 9,000,000       | -               |
| Impairment losses on receivables                   | <i>5, 20</i>      | <b>1,940,552</b>               | 1,407,884       | 2,204,133       |
| Unrealized valuation gain in trading securities    | <i>7, 21</i>      | <b>(9,778,303)</b>             | (195,314)       | (11,273,300)    |
| Unrealized foreign exchange loss                   | <i>21</i>         | <b>1,523</b>                   | -               | -               |
| Loss (gain) on disposal of property and equipment  | <i>21</i>         | <b>(374,998)</b>               | (369,118)       | 2,619,632       |
| Dividend income                                    | <i>21</i>         | <b>(565,125)</b>               | (866,750)       | (565,429)       |
| Interest income                                    |                   | <b>(88,964,732)</b>            | (25,143,153)    | (2,136,283)     |
| Gain on insurance claim                            | <i>21</i>         | <b>(202,500)</b>               | (27,296,511)    | -               |
| Goodwill written-off                               | <i>21</i>         | -                              | -               | 33,475,019      |
| Operating income before changes in working capital |                   | <b>5,036,325,753</b>           | 2,875,713,017   | 1,478,033,637   |
| (Increase) decrease in:                            |                   |                                |                 |                 |
| Investments in trading securities                  |                   | <b>(1,168,004)</b>             | (12,500)        | (261,600)       |
| Receivables  |                   | <b>(548,449,429)</b>           | (200,306,859)   | 285,327,031     |
| Merchandise inventory                              |                   | <b>(2,088,612,277)</b>         | (1,588,677,384) | (1,029,980,174) |
| Prepaid expenses and other current assets          |                   | <b>(151,920,129)</b>           | (153,572,870)   | (237,795,188)   |
| Increase (decrease) in:                            |                   |                                |                 |                 |
| Accounts payable and accrued expenses              |                   | <b>2,837,272,339</b>           | 1,218,023,376   | 1,225,026,249   |
| Trust receipts payable                             |                   | <b>(13,169,638)</b>            | (9,632,691)     | 30,932,358      |
| Other current liabilities                          |                   | <b>76,037,019</b>              | (118,715,047)   | (258,311,018)   |
| Due to a related party                             | <i>22</i>         | <b>12,080,490</b>              | 8,855,584       | -               |
| Cash generated from operations                     |                   | <b>5,158,396,124</b>           | 2,031,674,626   | 1,492,971,295   |
| Interest received                                  |                   | <b>88,964,732</b>              | 25,143,153      | 2,136,283       |
| Interest paid                                      |                   | <b>(74,044,583)</b>            | (68,271,987)    | (230,173,533)   |
| Income taxes paid                                  |                   | <b>(1,040,151,267)</b>         | (630,670,950)   | (162,555,958)   |
| Net cash provided by operating activities          |                   | <b>4,133,165,006</b>           | 1,357,874,842   | 1,102,378,087   |

*Forward*



**Years Ended December 31**

|   | <i>Note</i>   | <b>2012</b>             | 2011*            | 2010*            |
|---|---------------|-------------------------|------------------|------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |               |                         |                  |                  |
| Additions to property and equipment                       | <i>10, 13</i> | <b>(P4,232,381,738)</b> | (P2,324,912,307) | (P2,265,607,339) |
| Increase in intangibles                                   |               | <b>(70,000)</b>         | -                | -                |
| Decrease (increase) in other noncurrent assets            |               | <b>1,947,794,004</b>    | (2,617,103,196)  | (129,689,874)    |
| Due from related parties                                  | <i>22</i>     | <b>(7,014,202)</b>      | -                | 6,004,172,786    |
| Dividends received  |               | <b>565,125</b>          | 866,750          | 565,429          |
| Proceeds from insurance claim                             |               | <b>202,500</b>          | 57,418,680       | -                |
| Proceeds from disposal of property and equipment          |               | <b>9,577,598</b>        | 16,587,270       | 7,168,026        |
| Net cash provided by (used in) investing activities       |               | <b>(2,281,326,713)</b>  | (4,867,142,803)  | 3,616,609,028    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>               |               |                         |                  |                  |
| Availment of notes payable                                | <i>16</i>     | <b>4,952,211,362</b>    | -                | -                |
| Availment (payments) of loans payable                     | <i>15</i>     | <b>508,500,000</b>      | (2,092,330,000)  | (4,021,880,500)  |
| Proceeds from issuance and subscriptions of capital stock |               | -                       | 5,718,821,728    | 388,150,680      |
| Cash dividends paid                                       |               | <b>(400,000,000)</b>    | -                | -                |
| Increase (decrease) in due to related parties             |               | <b>216,609,334</b>      | -                | (383,450,036)    |
| Net cash provided by (used in) financing activities       |               | <b>5,277,320,696</b>    | 3,626,491,728    | (4,017,179,856)  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>            |               |                         |                  |                  |
|   |               | <b>(1,523)</b>          | -                | -                |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>          |               |                         |                  |                  |
|   |               | <b>7,129,157,466</b>    | 117,223,767      | 701,807,259      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>     |               |                         |                  |                  |
|   | <i>4</i>      | <b>1,955,167,541</b>    | 1,837,943,774    | 1,136,136,515    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>           |               |                         |                  |                  |
|   | <i>4</i>      | <b>P9,084,325,007</b>   | P1,955,167,541   | P1,837,943,774   |

\*This does not include information for Subsidiaries acquired in May 2012 (see Note 1 to the consolidated financial statements).  
See Notes to the Consolidated Financial Statements.

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

**1. Reporting Entity**

Puregold Price Club, Inc. (the "Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1998 to engage in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, etc.) on a wholesale and retail basis. Its shares are listed in the Philippine Stock Exchange (PSE) since October 5, 2011, with a stock symbol of PGOLD.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as "the Group"):

|   | Percentage of Ownership |        |
|---|-------------------------|--------|
|   | 2012                    | 2011   |
| Puregold Junior Supermarket, Inc. (PJSI) <sup>(a)</sup> | 100.00                  | 100.00 |
| Kareila Management Corporation (Kareila) <sup>(b)</sup> | 100.00                  | -      |
| Gant Group of Companies (Gant) <sup>(c)</sup>           | 100.00                  | -      |
| PPCI Subic Inc. (Subic) <sup>(d)</sup>                  | 100.00                  | -      |

(a) Incorporated and registered with SEC in 2008; acquired by the Parent Company in 2010 (Note 9).

(b) Operator of S&R Membership Shopping; incorporated and registered with SEC in 2004; acquired by the Parent Company on May 28, 2012 (Note 9).

(c) Operator of Parco Supermarket chain; incorporated and registered with SEC in 1983; acquired by the Parent Company on May 30, 2012; SEC's approval of the transfer of ownership is still in process (Note 9).

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

All subsidiaries are engaged in the same business as the Parent Company. As at December 31, 2012, the Group has one hundred fifty-six (156) operating stores.

Acquisition of Kareila

On May 28, 2012, the Parent Company acquired Kareila through a share swap agreement for P16,477.73 million. The Parent Company issued 766,406,250 common shares from its authorized capital stock in exchange for all of the issued and outstanding shares of Kareila (see Note 9).

Merger with PJSI and Gant

On August 14, 2012, the Board of Directors (BOD) approved the merger of the Parent Company with PJSI and Gant, with the Parent Company as the surviving entity. As at February 18, 2013, the application for merger is still pending approval with the SEC.

**2. Basis of Preparation**

Statement of Compliance

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



The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 18, 2013.

#### Basis of Measurement

The Group's consolidated financial statements have been prepared using the historical cost basis of accounting, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets which are measured at fair value.

#### Functional and Presentation Currency

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

#### Use of Estimates and Judgments

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

#### Judgments

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

##### *Determination of Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates and the currency that mainly influences its revenues and expenses.

##### *Assessing Lease Agreements*

The determination of whether an arrangements 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 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 expenses recognized in profit or loss amounted to P1,368.39 million, P793.15 million, P701.68 million in 2012, 2011 and 2010, respectively (see Notes 18 and 20).

##### *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 P225.62 million, P179.28 million and P133.20 million in 2012, 2011 and 2010, respectively (see Notes 18 and 19).

#### Estimates

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

#### *Estimating Allowance for Impairment Losses on Receivables*

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

The allowance for impairment losses on receivables amounted to P7.46 million and P5.52 million as at December 31, 2012 and 2011, respectively. The carrying amount of receivables amounted to P956.87 million and P410.36 million as at December 31, 2012 and 2011, respectively (see Note 5).

#### *Estimating Net Realizable Value (NRV) of Merchandise Inventory*

The Group carries merchandise inventory at NRV whenever the utility of it becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pretermination of contracts). The estimate of the NRV is reviewed regularly.

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

The carrying amount of inventory amounted to P6,611.54 million and P4,522.93 million as at December 31, 2012 and 2011, 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.

Accumulated depreciation of property and equipment amounted to P2,055.07 million and P1,381.18 million as at December 31, 2012 and 2011, respectively. Property and equipment, net of accumulated depreciation, amounted to P9,582.94 million and P6,005.56 million as at December 31, 2012 and 2011, respectively (see Note 10).

#### *Impairment of Trademarks and Customer Relationships with Indefinite Lives*

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

The carrying amounts of trademarks and customer relationships with indefinite useful lives amounted to P4,599.11 million as at December 31, 2012 (see Note 11).

#### *Estimating Realizability of Deferred Tax Assets*

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

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

The Group has recognized deferred tax assets amounting to P410.18 million and P223.45 million as at December 31, 2012 and 2011, respectively (see Note 24).

#### *Impairment of Non-financial Assets*

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



There were no impairment losses of property and equipment and other non-financial assets recognized in 2012 and 2011.

#### *Estimating Retirement Benefits*

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. In accordance with PFRSs, actual results that differ from the assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The Group has a cumulative unrecognized actuarial losses amounting to P119.66 million and P68.22 million as at December 31, 2012 and 2011, respectively. Retirement benefits liability amounted to P157.16 million and P76.36 million as at December 31, 2012 and 2011, respectively (see Note 23).

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### **3. Summary of Significant Accounting Policies**

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

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

The Group has adopted the following amendments to standards and interpretations starting January 1, 2012 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Group's consolidated financial statements.

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.
- Philippine Interpretations Committee Question and Answer (PIC Q&A) No. 2011-02 PFRS 3.2 - *Common Control Business Combinations* provides guidance on how should business combinations involving entities under common control be accounted for, given that these are outside the scope of PFRS 3, *Business Combinations*.

#### *New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

The Group will adopt the following new and revised standards amendments to standards and interpretations on the respective effective dates:

*To be Adopted on January 1, 2013*

- *Presentation of Items of Other Comprehensive Income (Amendments to PAS 1)*. The amendments:
  - require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
  - do not change the existing option to present profit or loss and other comprehensive income in two statements; and
  - change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard. These amendments are effective on July 1, 2012 with earlier application permitted and are applied retrospectively.

- *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)*. These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are:
  - offset in the statement of financial position; or
  - subject to enforceable master netting arrangements or similar agreements.

They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position. These amendments will be effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods and are to be applied retrospectively.

- PFRS 10, *Consolidated Financial Statements*

PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.

An investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is re-assessed as facts and circumstances change.

PFRS 10 supersedes PAS 27 (2008), *Consolidated and Separate Financial Statements* and Philippine Interpretation SIC-12 Consolidation - *Special Purpose Entities*. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.



▪ PFRS 12, *Disclosure of Interests in Other Entities*

PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:

- the nature of, and risks associated with, an entity's interests in other entities; and
- the effects of those interests on the entity's financial position, financial performance and cash flows.

This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

▪ PFRS 13, *Fair Value Measurement*

PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

▪ PAS 19, *Employee Benefits* (Amended 2011)

The amended PAS 19 includes the following requirements:

- actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and
- expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

This amendment is effective for annual periods beginning on or after January 1, 2013 and is applied retrospectively with early adoption permitted.

For defined benefit plans, removal of the corridor approach for recognition of actuarial gains and losses is expected to have an impact on the Group's consolidated financial statements. Amount of impact is estimated at P119.66 million which will be immediately recognized in other comprehensive income.

- *Annual Improvements to PFRSs 2009 - 2011 Cycle* - various standards contain amendments to five standards with consequential amendments to other standards and interpretations. The amendments are effective for annual periods beginning on or after January 1, 2013.

*To be Adopted on January 1, 2014*

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32)*. These amendments clarify that:
  - An entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.
  - Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

These amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively.

These amendments apply to annual periods beginning on or after January 1, 2014 with early adoption permitted.

*To be Adopted on January 1, 2015*

- *PFRS 9 Financial Instruments (2010), PFRS 9 Financial Instruments (2009)*

PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

PFRS 9 (2010 and 2009) are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

#### Basis of Consolidation

##### *Business Combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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.



When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

#### *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### *Loss of Control*

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the 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 at 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*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### Transactions under Common Control

Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

#### 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, which is the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes directly attributable transaction costs.

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

The Group had no HTM investments and FVPL financial liabilities as at December 31, 2012 and 2011.

#### *Determination of Fair Value*

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

#### *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 the 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.

The carrying amounts of financial assets under this category amounted to P34.95 million and P24.00 million as at December 31, 2012 and 2011, respectively (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, security deposits and due from related parties are included in this category (see Notes 4, 5, 12, 22, 28 and 29).

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 investments in equity securities are 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 carrying amount of financial assets under this category amounted to P7.88 million as at December 31, 2012 and 2011 (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 loans payable, accounts payable and accrued expenses, due to related parties, trust receipts payable, other current liabilities, noncurrent accrued rent and long-term debt are included in this category (see Notes 13, 14, 15, 16, 28 and 29).

### Debt Issue Costs

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

### Derecognition of Financial Assets and Liabilities

#### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;

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

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

#### *Financial Liabilities*

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

#### Offsetting Financial Instruments

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

#### 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 of completion and 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  |
| Computer software          | 5 - 10   |
| Furniture and fixtures     | 3 - 20   |
| Office and store equipment | 2 - 10   |
| Leasehold improvements     | 15 - 20 years 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.

#### Intangible Assets and Goodwill

##### *Goodwill*

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

##### *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.

## Impairment of Assets

### *Financial Assets*

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

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

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

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

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

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

### *AFS Financial Assets*

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

All impairment losses are recognized in profit or loss.



### *Non-financial Assets*

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

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

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

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

### Retirement Benefits Cost

The Group has a unfunded, noncontributory, defined benefit retirement plan covering all of its eligible employees. The plan provides for retirement benefits based on a certain percentage of the latest monthly salary of an employee per year of service.

The Group's net obligation in respect of its retirement obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted, if any. The discount rate is the yield at the reporting date of long-term government bonds that have maturity dates approximating the terms of the Group's plan. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains and losses are recognized in profit or loss when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the defined benefit obligation at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

When the benefits of the plan are improved, the portion of the increased benefit relating to the past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

### 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.

### 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 revenue can be reliably measured.

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and discounts. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

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.

Display allowance, rent income and miscellaneous income are recognized when earned.

Interest income which is presented net of final tax is recognized when earned.

Dividend income is recognized when the Parent Company's right as a shareholder to receive the payment is established.

Costs and expenses are recognized when incurred.

### Borrowings and Borrowing Costs

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after the reporting date.

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 profit 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 asset 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 profit will allow the deferred tax asset 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 reporting date.

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

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

#### *Value Added Tax (VAT)*

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

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

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



### Leases

#### *Group as Lessee*

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

#### *Group as Lessor*

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

### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

### Foreign Currency Transactions and Translation

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

### Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those other segments.

The Group determines and presents operating segments based on the information that is internally provided to the President, who is the Group's chief operating decision maker. The Group assessed that its retailing business represents one segment. Accordingly, the Group does not present segment information in these consolidated financial statements.

### 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 of the amount of the obligation.

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

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

Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after retroactive adjustment for stock dividend declared in the current period if, any. Diluted EPS is also computed in the same manner as the aforementioned, except that, any outstanding options are further assumed to have been exercised at the beginning of the period.

Events After the Reporting Date

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

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**4. Cash and Cash Equivalents**

This account consists of:

|                         | <i>Note</i> | <b>2012</b>           | 2011           |
|-------------------------|-------------|-----------------------|----------------|
| Cash on hand            |             | <b>P510,289,384</b>   | P301,772,030   |
| Cash in banks           | 28          | <b>2,528,250,149</b>  | 752,855,511    |
| Money market placements | 28          | <b>6,045,785,474</b>  | 900,540,000    |
|                         | 29          | <b>P9,084,325,007</b> | P1,955,167,541 |

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. Maturity dates of these investments average 30 days only with an annual interest of 1.2% to 3.82% in 2012 and 3.65% to 3.82% in 2011.

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**5. Receivables**

This account consists of:

|                                      | <i>Note</i> | <b>2012</b>         | 2011         |
|--------------------------------------|-------------|---------------------|--------------|
| Trade receivables                    |             | <b>P751,147,258</b> | P345,859,641 |
| Non-trade receivables                |             | <b>213,181,377</b>  | 70,019,565   |
|                                      |             | <b>964,328,635</b>  | 415,879,206  |
| Less allowance for impairment losses |             | <b>7,462,327</b>    | 5,521,775    |
|                                      | 28, 29      | <b>P956,866,308</b> | P410,357,431 |

Non-trade receivables represent amount due from suppliers for the rental, display allowance, concession, demo sampling and interest. This also includes advances to employees and a contractor. Advances to a contractor pertains to advance payments made by the Group to its warehouse contractor.



Majority of trade receivables pertain to credit card transactions. 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 and P5.52 million as at December 31, 2012 and 2011, respectively, all other receivables are collectible and therefore, no additional allowance is necessary.

The movements in the allowance for impairment losses in respect of trade receivables are as follows:

|  | <i>Note</i> | <b>2012</b>       | 2011       |
|--|-------------|-------------------|------------|
| Beginning balance                            |             | <b>P5,521,775</b> | P4,113,891 |
| Impairment losses recognized during the year | 20          | <b>1,940,552</b>  | 1,407,884  |
| Ending balance                               |             | <b>P7,462,327</b> | P5,521,775 |

## 6. Merchandise Inventory

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

Inventory cost as at December 31, 2012 and 2011 is lower than NRV.

The Group's merchandise inventory in 2012 and 2011 amounted to P6,611.54 million and P4,522.93 million, respectively.

## 7. Investments in Trading Securities

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

The movements in investments in trading securities are as follows:

| <b>Cost</b>  | <i>Note</i> | <b>2012</b>        | 2011        |
|--|-------------|--------------------|-------------|
| Balance at beginning of the year                                   |             | <b>P13,350,902</b> | P13,338,402 |
| Additions during the year  |             | <b>1,168,004</b>   | 12,500      |
| Balance at end of the year   |             | <b>14,518,906</b>  | 13,350,902  |
| <b>Valuation Adjustments</b>                                       |             |                    |             |
| Balance at beginning of the year                                   |             | <b>10,649,312</b>  | 10,453,998  |
| Unrealized valuation gain on financial assets at FVPL for the year | 21          | <b>9,778,303</b>   | 195,314     |
| Balance at end of the period                                       |             | <b>20,427,615</b>  | 10,649,312  |
|  | 28, 29      | <b>P34,946,521</b> | P24,000,214 |



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## 8. Prepaid Expenses and Other Current Assets

This account consists of:

|                                   | 2012                | 2011         |
|-----------------------------------|---------------------|--------------|
| Prepaid expenses                  | <b>P256,590,355</b> | P180,290,688 |
| Input value added tax (VAT) - net | <b>421,161,840</b>  | 356,119,246  |
| Deferred input VAT                | <b>8,672,739</b>    | -            |
| Creditable withholding tax        | <b>1,905,129</b>    | -            |
|                                   | <b>P688,330,063</b> | P536,409,934 |

The details of prepaid expenses are as follows:

|                         | 2012                | 2011         |
|-------------------------|---------------------|--------------|
| Rent                    | <b>P166,068,015</b> | P103,045,134 |
| Taxes and licenses      | <b>37,935,921</b>   | 26,516,695   |
| Insurance               | <b>46,982,089</b>   | 44,346,078   |
| Repairs and maintenance | <b>2,252,735</b>    | 6,382,781    |
| Others                  | <b>3,351,595</b>    | -            |
|                         | <b>P256,590,355</b> | P180,290,688 |

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 million and unbilled services for the building and leasehold construction which can be applied against future output VAT.

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## 9. Investments and Acquisitions of Subsidiaries

### Acquisitions of Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2012 and 2011:

#### *Puregold Junior Supermarket, Inc. (PJSI)*

The Parent Company owns 100% equity interest in PJSI with an acquisition cost which amounting to P50.00 million. On April 30, 2012, the Parent Company paid P550.00 million to PJSI as deposit for future stock subscription for 5,500,000 common shares. Upon approval by the SEC, the deposit will be applied to capital stock for the aggregate par value and additional paid-in capital will be recognized for the excess in par value. PJSI is still in the process of filing the increase in authorized capital stock with the SEC.

#### *Kareila Management Corporation (Kareila)*

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

In the seven months to December 31, 2012, Kareila contributed revenue of P6,554.82 million and profit of P747.70 million to the Group's results. If the acquisition had occurred on January 1, 2012, Management estimates that consolidated revenue would have been P62,670.39 million and consolidated profit for the year would have been P3,079.79 million.

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.

*Gant Group of Companies Incorporated (Gant)*

On May 30, 2012, the Parent Company acquired 519,111 shares or 100% of the outstanding capital stock of Gant, owner and operator of Parco Supermarket. The investee is engaged in the business of trading consumer products. Acquisition cost amounted to P744.04 million.

The approval of the acquired shares and the application for the merger of the companies with the SEC is still in process as of this date.

*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.

AFS Financial Assets

AFS financial assets include PLDT and Meralco preferred shares acquired in connection with the installation of telephone lines and electrical systems for the different stores and offices of the Parent Company. As at December 31, 2012 and 2011, the AFS financial assets amounted to P7.88 million.



### 10. Property and Equipment

The movements and balances of this account consist of:

|   | Building              | Computer Software  | Furniture and Fixtures | Office and Store Equipment | Leasehold Improvements | Land                | Construction in Progress | Total                 |
|---|-----------------------|--------------------|------------------------|----------------------------|------------------------|---------------------|--------------------------|-----------------------|
| <b>Cost:</b>                                      |                       |                    |                        |                            |                        |                     |                          |                       |
| Balance, January 1, 2011                          | P1,914,428,740        | P97,510,057        | P612,209,669           | P1,446,481,622             | P830,616,606           | P19,518,315         | P152,528,948             | P5,073,293,957        |
| Additions   | 382,424,006           | 17,757,704         | 222,477,866            | 580,281,192                | 563,403,394            | 339,619,908         | 227,278,441              | 2,333,242,511         |
| Reclassification                                  | 95,817,572            | -                  | 27,675,170             | 9,193,521                  | 19,340,235             | (10,132,417)        | (141,894,081)            | -                     |
| Disposals   | -                     | -                  | (4,744,747)            | (14,233,115)               | (825,151)              | -                   | -                        | (19,803,013)          |
| Balance, December 31, 2011                        | 2,392,670,318         | 115,267,761        | 857,617,958            | 2,021,723,220              | 1,412,535,084          | 349,005,806         | 237,913,308              | 7,386,733,455         |
| Additions   | 237,817,758           | 14,080,091         | 257,705,752            | 1,087,438,979              | 817,989,800            | 29,474,331          | 1,817,563,844            | 4,262,070,555         |
| Reclassification                                  | 320,010,822           | -                  | 1,519,180              | (902,218)                  | 286,289,804            | 3,466               | (606,921,054)            | -                     |
| Disposals   | -                     | -                  | (2,123,927)            | (8,673,535)                | -                      | -                   | -                        | (10,797,462)          |
| <b>Balance, December 31, 2012</b>                 | <b>2,950,498,898</b>  | <b>129,347,852</b> | <b>1,114,718,963</b>   | <b>3,099,586,446</b>       | <b>2,516,814,688</b>   | <b>378,483,603</b>  | <b>1,448,556,098</b>     | <b>11,638,006,548</b> |
| <b>Accumulated depreciation and amortization:</b> |                       |                    |                        |                            |                        |                     |                          |                       |
| Balance, January 1, 2011                          | 125,262,582           | 42,085,588         | 139,652,170            | 487,887,513                | 132,898,472            | -                   | -                        | 927,786,325           |
| Depreciation and amortization                     | 71,441,287            | 5,704,081          | 65,285,892             | 268,563,608                | 45,979,385             | -                   | -                        | 456,974,253           |
| Reclassification                                  | (2,707,986)           | -                  | 12,244,038             | (2,491,094)                | (7,044,958)            | -                   | -                        | -                     |
| Disposal  | -                     | -                  | (301,371)              | (3,159,502)                | (123,989)              | -                   | -                        | (3,584,862)           |
| Balance, December 31, 2011                        | 193,995,883           | 47,789,669         | 216,880,729            | 750,800,525                | 171,708,910            | -                   | -                        | 1,381,175,716         |
| Depreciation and amortization                     | 89,657,004            | 6,535,803          | 92,359,000             | 385,539,493                | 101,398,182            | -                   | -                        | 675,489,482           |
| Reclassification                                  | (272,448)             | -                  | 740,220                | (31,539)                   | (436,233)              | -                   | -                        | -                     |
| Disposals   | -                     | -                  | (174,929)              | (1,419,933)                | -                      | -                   | -                        | (1,594,862)           |
| <b>Balance, December 31, 2012</b>                 | <b>283,380,439</b>    | <b>54,325,472</b>  | <b>309,805,020</b>     | <b>1,134,888,546</b>       | <b>272,670,859</b>     | <b>-</b>            | <b>-</b>                 | <b>2,055,070,336</b>  |
| <b>Carrying amount:</b>                           |                       |                    |                        |                            |                        |                     |                          |                       |
| December 31, 2011                                 | P2,198,674,435        | P67,478,092        | P640,737,229           | P1,270,922,695             | P1,240,826,174         | P349,005,806        | P237,913,308             | P6,005,557,739        |
| <b>December 31, 2012</b>                          | <b>P2,667,118,459</b> | <b>P75,022,380</b> | <b>P804,913,943</b>    | <b>P1,964,697,900</b>      | <b>P2,244,143,829</b>  | <b>P378,483,603</b> | <b>P1,448,556,098</b>    | <b>P9,582,936,212</b> |

No impairment loss was recognized in 2012 and 2011.

## 11. Intangibles

This account consists of:

|                         | 2012                   | 2011        |
|-------------------------|------------------------|-------------|
| Goodwill                | <b>P12,833,184,760</b> | P11,370,121 |
| Trademark               | <b>3,709,660,547</b>   | -           |
| Customer relationship   | <b>889,452,981</b>     | -           |
| Computer software - net | <b>66,500</b>          | -           |
|                         | <b>P17,432,364,788</b> | P11,370,121 |

### *Trademark and Customer Relationships*

The value of the trademark and customer relationship represent the purchase price of P16,477.73 million (see Note 9), which was determined after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by Punongbayan and Araullo, CPAs. The Company, after considering the said valuation methodologies, viewed the royalty relief (based on commercial rates) and multi-period excess earnings methodologies to be generally more relevant, compared to other methodologies that may be used to value the Company's trademarks and customer relationships, on the basis that such methodologies require fewer assumptions and less reliance on subjective reasoning since key assumptions come from primary sources based on the Company's filings and projections, actual industry precedents and industry common practice.

The recoverable amount of the trademark and customer relationship has been determined using cash flow projections covering a five-year period. It is based on a long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The 10.66% growth rate used is consistent with the long-term average growth rate for the Company's industry. The discount rate applied to after tax cash flow projections is 9.71% as at December 31, 2012.

Management assessed that there is no impairment loss in the value of trademark and customer relationship in 2012.

### *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 Subsidiary. Details are as follows:

#### a. Acquisition of PJSI

|  |                    |
|--|--------------------|
| Acquisition cost                         | P49,999,400        |
| Fair value of net assets (June 30, 2010) | 38,629,279         |
| <b>Goodwill</b>                          | <b>P11,370,121</b> |



b. Acquisition of Kareila

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

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

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

The purchase price of P4,599.11 million represents the fair value of S&R trade name and customer relationship determined after considering various factors and performing valuation methodologies including the independent valuation study and analysis prepared by Punongbayan & Araullo, CPAs.

The Group incurred acquisition-related cost of P3.83 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income for the year ended December 31, 2012.

c. Acquisition of Gant

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

|                           |                     |
|---------------------------|---------------------|
| Consideration transferred | P743,840,961        |
| Fair value of net assets  | 1,500,157           |
| <b>Goodwill</b>           | <b>P742,340,804</b> |

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 amounting to P742.34 million.

The Group incurred acquisition-related cost of P0.19 million. This cost has been included as part of operating expenses in the consolidated statement of comprehensive income for the year ended December 31, 2012.

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## 12. Other Noncurrent Assets

This account consists of:

|                                      | <i>Note</i> | <b>2012</b>           | 2011           |
|--------------------------------------|-------------|-----------------------|----------------|
| Security deposits                    | 18, 28, 29  | <b>P833,260,464</b>   | P567,262,531   |
| Noncurrent prepaid rent              |             | <b>186,738,080</b>    | 120,840,664    |
| Accrued rent income                  |             | <b>18,073,246</b>     | 11,031,515     |
| Restricted cash and cash equivalents | 28, 29      | -                     | 2,286,731,084  |
|                                      |             | <b>P1,038,071,790</b> | P2,985,865,794 |

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Restricted cash and cash equivalents pertain to the proceeds from the Parent Company's initial public offering which is restricted for capital expenditures. As at December 31, 2012, the Parent Company has fully utilized the proceeds from the initial public offering in accordance with the planned use of the proceeds as presented in the Offering Prospectus of the Parent Company.

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## 13. Accounts Payable and Accrued Expenses

This account consists of:

|                               | <i>Note</i> | <b>2012</b>           | 2011           |
|-------------------------------|-------------|-----------------------|----------------|
| Trade                         |             | <b>P5,470,349,792</b> | P4,438,012,776 |
| Nontrade                      |             | <b>1,763,553,437</b>  | 825,159,587    |
| Dividends payable             |             | <b>553,280,000</b>    | -              |
| Withholding taxes payable     |             | <b>96,335,434</b>     | 68,477,321     |
| Accrued expenses:             |             |                       |                |
| Advances from concessionaires |             | <b>604,205,194</b>    | 449,512,119    |
| Manpower agency services      |             | <b>440,547,114</b>    | 299,189,527    |
| Utilities                     |             | <b>131,507,667</b>    | 89,994,944     |
| Interest                      |             | <b>52,113,272</b>     | 30,448         |
| Professional fees             |             | <b>47,206,697</b>     | 45,807,263     |
| Rent                          |             | <b>40,304,454</b>     | 4,035,783      |
| Fixed asset acquisition       |             | <b>29,688,817</b>     | 12,823,655     |
| Others                        |             | <b>57,826,808</b>     | 1,542,384      |
|                               | 28, 29      | <b>P9,286,918,686</b> | P6,234,585,807 |

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The average credit period on purchases of certain goods from suppliers is 60 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.

Nontrade payables are liabilities of the Group arising from purchase of goods and services not intended for re-selling but essential to its operations.



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#### 14. Other Current Liabilities

This account consists of:

|                  | <i>Note</i> | 2012                | 2011         |
|------------------|-------------|---------------------|--------------|
| Deposits         |             | <b>P104,920,848</b> | P90,497,575  |
| Gift cheques     |             | <b>44,614,223</b>   | 13,878,380   |
| Exclusive fund   |             | <b>40,751,000</b>   | 44,676,397   |
| Output VAT - net |             | <b>32,621,042</b>   | -            |
| Promotion fund   |             | <b>27,845,301</b>   | 27,640,556   |
| Others           |             | <b>3,197,248</b>    | 1,219,735    |
|                  | 28, 29      | <b>P253,949,662</b> | P177,912,643 |

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

Exclusive fund is provided for the points redemption of "Tindahan ni Aling Puring" members. Points are earned upon purchase of participating items. Points may be used as payment of their purchases.

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

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#### 15. Loans Payable

This account represents unsecured loans from a local bank to finance the Kareila's working capital requirements. The principal and related interest is due monthly and is reprisable at 3.75 % per annum. In October and December 2012, Kareila paid P427.80 million of its loans payable.

Finance cost related to this loans amounted to P19.73 million and P35.60 million in 2012 and 2011, respectively.

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#### 16. Long-term Debt

This account consists of:

|   | 2012                  |
|---|-----------------------|
| <b>Unsecured Peso denominated<br/>(net of debt issue costs)</b> |                       |
| Face amount   | <b>P5,000,000,000</b> |
| Less unamortized debt issue costs                               | <b>47,788,638</b>     |
| Fixed corporate note net of debt issue costs                    | <b>4,952,211,362</b>  |
| Less current portion  | <b>43,140,099</b>     |
|   | <b>P4,909,071,263</b> |

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On October 22, 2012, the Parent Company issued unsecured fixed rate corporate notes (Notes), with the following terms:

| <b>Face Amount</b> | <b>Terms</b>                               |
|--------------------|--|
| P4 billion         | 5.4481% interest per annum for five years  |
| P1 billion         | 5.8673% interest per annum for seven years |

Both Notes are payable at 1% of principal amount at the end of each year before maturity date, with the balance to be paid on maturity. The proceeds from the issuance of the Notes were used to finance the Group's expansion or other general corporate requirements.

The terms of the Notes provide for certain debt covenants relating to maintenance of certain financial ratios, working capital requirements, restrictions on guarantees and payment of dividends. As at December 31, 2012, the Group has complied with all debt covenants.

Total interest incurred on the above-mentioned long-term debt amounted to P53.84 million for the year ended December 31, 2012. Amortized debt issue costs in 2012 amounted to P1.60 million.

The movements in debt issue costs are as follows:

|                        | <b>2012</b>        |
|------------------------|--------------------|
| Additions              | <b>P49,386,148</b> |
| Amortizations          | <b>1,597,510</b>   |
| Balance at end of year | <b>P47,788,638</b> |

#### Repayment Schedule and Amortization of Debt Issue Costs

As at December 31, 2012, the annual maturities of long-term debt and amortization of debt issue costs are as follows:

| <b>Year</b> | <b>Gross Amount</b>   | <b>Debt Issue Costs</b> | <b>Net</b>            |
|-------------|-----------------------|-------------------------|-----------------------|
| 2013        | P50,000,000           | P6,859,901              | P43,140,099           |
| 2014        | 50,000,000            | 8,829,677               | 41,170,323            |
| 2015        | 50,000,000            | 9,223,309               | 40,776,691            |
| 2016        | 50,000,000            | 9,639,535               | 40,360,465            |
| 2017        | 3,850,000,000         | 10,079,653              | 3,839,920,347         |
| 2018        | 10,000,000            | 1,540,790               | 8,459,210             |
| 2019        | 940,000,000           | 1,615,773               | 938,384,227           |
|             | <b>P5,000,000,000</b> | <b>P47,788,638</b>      | <b>P4,952,211,362</b> |

## 17. Cost of Sales

This account consists of:

|                                | <i>Note</i> | 2012                   | 2011            | 2010            |
|--------------------------------|-------------|------------------------|-----------------|-----------------|
| Beginning inventory            | 6           | <b>P4,522,929,063</b>  | P2,934,251,679  | P1,904,271,505  |
| Add purchases                  |             | <b>50,316,309,665</b>  | 35,041,807,392  | 26,606,988,172  |
| Total goods available for sale |             | <b>54,839,238,728</b>  | 37,976,059,071  | 28,511,259,677  |
| Less ending inventory          | 6           | <b>6,611,541,340</b>   | 4,522,929,063   | 2,934,251,679   |
|                                |             | <b>P48,227,697,388</b> | P33,453,130,008 | P25,577,007,998 |

## 18. Lease Agreements

### As Lessee

The Group leases warehouses, parking space and certain land and buildings where some of its stores are situated or constructed. The terms of the lease are for the periods ranging from ten to thirty-five 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 with 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 with 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 expense" account in the consolidated statements of comprehensive income amounted to P1,368.39 million, P793.15 million and P701.68 million for the years ended December 31, 2012 and 2011, and 2010 respectively (see Note 20).

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

|   | 2012                   | 2011            | 2010            |
|---|------------------------|-----------------|-----------------|
| Due within one year                                 | <b>P1,145,727,630</b>  | P782,000,443    | P593,198,067    |
| Due more than one year but not more than five years | <b>5,103,902,126</b>   | 3,455,844,388   | 2,500,564,884   |
| Due more than five years                            | <b>26,788,105,809</b>  | 16,577,068,927  | 11,824,915,680  |
|   | <b>P33,037,735,565</b> | P20,814,913,758 | P14,918,678,631 |

### As Lessor

The Group subleases portion of its store space to various lessees for an average lease term of one to ten 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 14).



Rent income recognized in profit or loss for the years ended December 31, 2012, 2011 and 2010 amounted P225.62 million, P179.28 million and P133.20 million, respectively (see Note 19).

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

|   | 2012                | 2011         | 2010         |
|---|---------------------|--------------|--------------|
| Due within one year                                 | <b>P161,093,422</b> | P102,301,191 | P69,476,251  |
| Due more than one year but not more than five years | <b>273,836,570</b>  | 151,042,740  | 85,778,672   |
| Due more than five years                            | <b>467,882,939</b>  | 47,734,769   | 56,240,879   |
|   | <b>P902,812,931</b> | P301,078,700 | P211,495,802 |

## 19. Other Operating Income

This account for the years ended December 31 consists of:

|                              | <i>Note</i> | 2012                  | 2011           | 2010         |
|------------------------------|-------------|-----------------------|----------------|--------------|
| Concession income            |             | <b>P896,448,380</b>   | P565,933,941   | P438,748,722 |
| Display allowance            |             | <b>376,620,665</b>    | 274,210,481    | 177,470,049  |
| Rent income                  | 18          | <b>225,623,021</b>    | 179,282,430    | 133,203,099  |
| Membership income            |             | <b>91,185,185</b>     | -              | -            |
| Merchandising support income |             | <b>19,447,789</b>     | -              | -            |
| Endcap/pallet income         |             | <b>16,394,643</b>     | -              | -            |
| Demo/sampling income         |             | <b>5,072,589</b>      | -              | -            |
| Non-member fee               |             | <b>25,399</b>         | -              | -            |
| Miscellaneous                |             | <b>36,212,156</b>     | 32,456,680     | 31,246,323   |
|                              |             | <b>P1,667,029,827</b> | P1,051,883,532 | P780,668,193 |

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

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

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

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

Merchandising support income is the amount granted for Kareila's promotion and advertising activities in partnership with suppliers.

Endcap/pallet income represents the amounts paid by the consignors and concessionaires for the mass display of their products to be situated in strategic locations inside the selling area of Kareila's stores.



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

## 20. Operating Expenses

This account consists of:

|   | <i>Note</i> | <b>2012</b>           | 2011           | 2010           |
|---|-------------|-----------------------|----------------|----------------|
| Rent                                      | 18          | <b>P1,368,392,875</b> | P793,151,063   | P701,681,335   |
| Manpower agency services                  |             | <b>1,199,985,771</b>  | 824,088,255    | 591,263,028    |
| Communication, light and water            |             | <b>1,103,268,561</b>  | 727,797,130    | 544,555,884    |
| Salaries and wages                        |             | <b>720,869,495</b>    | 459,370,425    | 357,737,331    |
| Depreciation and amortization             | 10, 11      | <b>675,492,982</b>    | 456,974,253    | 278,952,394    |
| Security services                         |             | <b>404,569,699</b>    | 261,288,581    | 219,252,514    |
| Store and office supplies                 |             | <b>278,791,184</b>    | 201,494,144    | 143,604,464    |
| Concession expense                        |             | <b>244,611,506</b>    | -              | -              |
| Taxes and licenses                        |             | <b>214,067,710</b>    | 133,285,082    | 98,725,602     |
| Janitorial and messengerial services      |             | <b>175,304,136</b>    | 81,270,612     | 58,650,860     |
| Repairs and maintenance                   |             | <b>156,397,739</b>    | 105,017,188    | 72,200,923     |
| Employee benefits                         |             | <b>83,122,630</b>     | 60,902,944     | 50,205,817     |
| Insurance                                 |             | <b>75,830,591</b>     | 51,906,300     | 37,245,581     |
| Retirement benefits cost                  | 23          | <b>55,213,083</b>     | 37,125,458     | 21,898,859     |
| SSS/Medicare and HDMF contributions       |             | <b>52,994,457</b>     | 35,039,198     | 27,636,870     |
| Disallowed input VAT                      |             | <b>49,079,555</b>     | 23,548,664     | 16,280,995     |
| Deficiency tax                            |             | <b>36,773,120</b>     | 10,237,728     | -              |
| Advertising and marketing                 |             | <b>34,358,017</b>     | -              | -              |
| Fuel and oil                              |             | <b>32,016,954</b>     | 20,116,039     | 13,294,185     |
| Royalty                                   |             | <b>24,688,076</b>     | 9,248,157      | -              |
| Professional fee                          |             | <b>22,602,312</b>     | 3,279,606      | 5,722,379      |
| Transportation                            |             | <b>18,011,771</b>     | 6,262,832      | 2,490,980      |
| Representation and entertainment          |             | <b>12,136,724</b>     | 23,089,275     | 7,384,911      |
| Donations and contributions               |             | <b>8,678,320</b>      | 10,270,623     | 56,458,048     |
| Bank charges                              |             | <b>1,396,819</b>      | 15,515,730     | 16,887,467     |
| Impairment losses on receivables          | 5           | <b>1,940,552</b>      | 1,407,884      | 2,204,133      |
| Loss on pre-termination of lease contract |             | -                     | 9,000,000      | -              |
| Miscellaneous                             |             | <b>9,521,791</b>      | 10,085,050     | 1,995,094      |
|   |             | <b>P7,060,116,430</b> | P4,370,772,221 | P3,326,329,654 |

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**21. Others**

The account consists of:

|  | <i>Note</i> | <b>2012</b>        | 2011        | 2010          |
|--|-------------|--------------------|-------------|---------------|
| Unrealized valuation gain<br>on trading securities   | 7           | <b>P9,778,303</b>  | P195,314    | P11,273,300   |
| Dividend income                                      |             | <b>565,125</b>     | 866,750     | 565,429       |
| Gain (loss) on disposal of<br>property and equipment |             | <b>374,998</b>     | 369,118     | (2,619,632)   |
| Gain on insurance claim                              |             | <b>202,500</b>     | 27,296,511  | -             |
| Foreign exchange loss                                |             | <b>(1,523)</b>     | -           | -             |
| Goodwill written-off                                 |             | -                  | -           | (33,475,019)  |
|  |             | <b>P10,919,403</b> | P28,727,693 | (P24,255,922) |

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

On February 6, 2006, the Parent Company merged with Suremart, a single outlet supermarket. Goodwill amounting to P33.48 million was recognized from the merger. On August 31, 2010, the said outlet was closed and ceased operations. Accordingly, the goodwill was written off.

## 22. Related Party Transactions

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

| Related Party                       | Ref | Amount of<br>Transactions<br>for the Year | 2012<br>Outstanding Balances |                           |
|-------------------------------------|-----|---|------------------------------|---------------------------|
|                                     |     |   | Due from<br>Related Parties  | Due to<br>Related Parties |
| <b>Subsidiaries</b>                 |     |   | P -                          | P -                       |
| Cash advance granted                | c   | P704,761,769                              |                              |                           |
| Transfer of fixed assets            | c   | 49,537,442                                |                              |                           |
| Security deposit paid               | a/c | 3,118,055                                 |                              |                           |
| Security deposit received           | c   | 23,634,097                                |                              |                           |
| Cash advance received               | c   | 20,000,000                                |                              |                           |
| Sale of merchandise                 | c   | 74,487,741                                |                              |                           |
| Rent expense                        | a/c | 1,578,434                                 |                              |                           |
| Purchase of merchandise             | c   | 547,161                                   |                              |                           |
| Utilities                           | c   | 452,763                                   |                              |                           |
| <b>Other Related Parties*</b>       |     |   | 7,014,202                    | 216,609,333               |
| Purchase of merchandise             | c   | 540,588,781                               |                              |                           |
| Rent expense                        | a   | 386,400,482                               |                              |                           |
| Concession expense                  | b   | 328,261,005                               |                              |                           |
| Utilities expense                   | c   | 126,610,211                               |                              |                           |
| Sale of merchandise                 | c   | 135,747,976                               |                              |                           |
| Security deposits paid              | a/c | 23,761,877                                |                              |                           |
| Management fee                      | c   | 3,797,097                                 |                              |                           |
| Employee benefits                   | c   | 909,387                                   |                              |                           |
| Repairs and maintenance             | c   | 675,169                                   |                              |                           |
| Communications                      | c   | 564,457                                   |                              |                           |
| <b>Key Management<br/>Personnel</b> |     |   | -                            | 20,936,075                |
| Royalty expense                     | c/d | 35,598,856                                |                              |                           |
| Rent expense                        |     | 23,639,980                                |                              |                           |
| Short-term benefits                 | e   | 48,449,959                                |                              |                           |
| <b>Total</b>                        |     | <b>P2,533,122,699</b>                     | <b>P7,014,202</b>            | <b>P237,545,408</b>       |

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



| Related Party                   | Ref | 2011                                |                          |                        |
|---------------------------------|-----|-------------------------------------|--------------------------|------------------------|
|                                 |     | Amount of Transactions for the Year | Outstanding Balances     |                        |
|                                 |     |                                     | Due from Related Parties | Due to Related Parties |
| <b>Subsidiaries</b>             |     |                                     | P -                      | P -                    |
| Cash advance granted            | c   | P515,186,555                        |                          |                        |
| Cash advance received           | c   | 30,655,328                          |                          |                        |
| <b>Other Related Parties*</b>   |     |                                     | -                        | -                      |
| Rent expense                    | a/c | 385,238,595                         |                          |                        |
| Rent income                     | c   | 4,019,466                           |                          |                        |
| Sale of merchandise             | c   | 1,171,009                           |                          |                        |
| Security deposits paid          | a/c | 125,736,646                         |                          |                        |
| Communications                  | c   | 294,401                             |                          |                        |
| Employee benefits               | c   | 4,235,798                           |                          |                        |
| Utilities expense               | c   | 385,238,595                         |                          |                        |
| <b>Key Management Personnel</b> |     |                                     | -                        | 8,855,584              |
| Royalty expense                 | c/d | 9,248,157                           |                          |                        |
| Short-term benefits             | e   | 36,091,142                          |                          |                        |
| <b>Total</b>                    |     | <b>P1,497,115,692</b>               | <b>P -</b>               | <b>P8,855,584</b>      |

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

| Related Party                   | Ref | 2010                                |
|---------------------------------|-----|-------------------------------------|
|                                 |     | Amount of Transactions for the Year |
| <b>Subsidiary</b>               |     |                                     |
| Cash advance received           | c   | P457,571,900                        |
| Cash advance granted            | c   | 15,963,082                          |
| <b>Other Related Parties*</b>   |     |                                     |
| Communications                  | c   | P236,374                            |
| Employee benefits               | c   | 1,241,919                           |
| Rent expense                    | a/c | 293,672,070                         |
| Utilities                       | c   | 19,582,738                          |
| Security deposits paid          | a/c | 5,637,944                           |
| Cash advance received           | c   | 839,271,569                         |
| Rent income                     | c   | 6,460,611                           |
| Cash advance granted            | c   | 1,771,794,465                       |
| Sale of merchandise             | c   | 1,926,986                           |
| <b>Key Management Personnel</b> |     |                                     |
| Short-term benefits             | e   | 10,440,000                          |
|                                 |     | <b>P3,423,799,658</b>               |

\*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 with reference to a fixed sum per square meter of area leased. The terms of the lease are for the periods ranging from 10-35 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 based on the contracts.

b. Consignment and Concession

On September 27, 2006, PSMT Philippine, Inc., an entity under common control of Kareila referred to as the "Consignee," entered into a consignment and concession contract with Kareila, the "Consignor." The Consignee is the owner and operator of four (4) Hypermart (formerly PriceSmart) stores in (1) Fort Bonifacio Global City, Taguig, 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 are 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 amount equivalent to five percent (5%) of the consignee's gross sales which was increased to ten percent (10%) through an amendment of the contract on January 1, 2011.

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 a 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 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 the 1<sup>st</sup> day of March 2012, renewable upon mutual agreement of the parties.

c. Other Significant Transactions

These pertain to cash advances granted to and received from related parties, advances for property and equipment, purchases and sale of merchandise, rent expense, royalty fee, repairs and maintenance, utilities, communications, management fee and employee benefits are unsecured, noninterest-bearing and due and demandable. The Group has not made any allowance for impairment losses relating to receivables from related parties as at December 31, 2012 and 2011. 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, noninterest bearing and due and demandable.

e. Key Management Compensation

The Group has no key management compensation relating to post-employment benefits or other long-term benefits for the years ended December 31, 2012, 2011 and 2010.

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### 23. Retirement Benefit Costs

The Parent Company and its subsidiaries have a unfunded, noncontributory, defined benefit retirement plan covering all of their eligible employees. The plan provides for retirement benefits based on a certain percentage of the latest monthly salary of an employee per year of service.

Retirement benefits cost recognized in profit or loss by the Group amounted to P55.21 million, P37.13 million and P21.90 million in 2012, 2011 and 2010, respectively.



The reconciliation of the liability recognized in the consolidated statements of financial position is shown below:

|   | 2012                 | 2011         |
|---|----------------------|--------------|
| Present value of the defined benefit obligation | <b>P279,388,170</b>  | P147,999,230 |
| Unrecognized actuarial losses                   | <b>(119,658,276)</b> | (68,221,751) |
| Unamortized transitional liability              | <b>(2,565,374)</b>   | (3,420,499)  |
| <b>Retirement benefits liability</b>            | <b>P157,164,520</b>  | P76,356,980  |

The movements of the present value of the defined benefit obligation as at and for the years ended December 31 are shown below:

|   | 2012                | 2011         |
|---|---------------------|--------------|
| Balance at beginning of year                      | <b>P147,999,230</b> | P91,320,841  |
| Benefit obligation of newly acquired subsidiaries | <b>37,204,144</b>   | -            |
| Current service cost                              | <b>32,214,225</b>   | 27,619,067   |
| Interest cost                                     | <b>20,021,094</b>   | 7,302,674    |
| Actuarial losses                                  | <b>41,949,477</b>   | 21,756,648   |
| <b>Balance at end of year</b>                     | <b>P279,388,170</b> | P147,999,230 |

The amount of retirement benefits cost recognized in profit or loss consists of:

|   | 2012               | 2011        | 2010        |
|---|--------------------|-------------|-------------|
| Current service cost                          | <b>P32,214,225</b> | P27,619,067 | P13,916,778 |
| Interest cost                                 | <b>20,021,094</b>  | 7,302,674   | 5,416,921   |
| Amortization of actuarial loss                | <b>61,862</b>      | -           | -           |
| Net actuarial loss recognized during the year | <b>2,915,902</b>   | 2,203,717   | 2,565,160   |
|   | <b>P55,213,083</b> | P37,125,458 | P21,898,859 |

Based on the actuarial valuation made as at December 31, 2012, the principal actuarial assumptions at reporting date are as follows (expressed as percentages under weighted averages):

|                        | 2012          | 2011   | 2010   |
|------------------------|---------------|--------|--------|
| Discount rate          | <b>5.62%</b>  | 6.29%  | 8.00%  |
| Future salary increase | <b>10.00%</b> | 10.00% | 10.00% |

The historical information of the amounts for the current and previous years is as follows:

|   | 2012                | 2011         | 2010        | 2009        | 2008       |
|---|---------------------|--------------|-------------|-------------|------------|
| Present value of the defined benefit obligation | <b>P279,388,170</b> | P147,999,230 | P87,045,217 | P67,711,518 | P5,600,470 |
| Experience adjustments on plan liabilities      | <b>41,949,477</b>   | 21,756,648   | -           | 47,679,680  | -          |

## 24. Income Taxes

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

|   | 2012                  | 2011           | 2010         |
|---|-----------------------|----------------|--------------|
| Income before income tax  | <b>P3,871,562,971</b> | P2,204,707,547 | P742,951,184 |
| Income tax expense at the statutory income tax rate:                    |                       |                |              |
| 30%   | <b>P1,159,910,081</b> | P661,412,264   | P222,885,355 |
| 5%  | <b>259,802</b>        | -              | -            |
| Income tax effects of:  |                       |                |              |
| Non-deductible interest expense   | <b>11,317,777</b>     | 3,090,723      | 257,604      |
| Non-deductible other expenses   | <b>12,326,498</b>     | 3,071,318      | -            |
| Non-deductible expenses (non-taxable income)-net subjected to final tax | <b>(2,986,670)</b>    | (58,594)       | 207,604      |
| Dividend income subjected to final tax                                  | <b>(169,538)</b>      | (260,025)      | (169,629)    |
| Interest income subjected to final tax                                  | <b>(26,633,676)</b>   | (7,542,946)    | (640,885)    |
| Loss on goodwill written off  | -                     | -              | 10,042,506   |
|   | <b>P1,154,024,274</b> | P659,712,740   | P232,582,555 |

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

|   | 2012                    |                        | 2011         |              |
|---|-------------------------|------------------------|--------------|--------------|
|   | Amount                  | DTA (DTL)              | Amount       | DTA (DTL)    |
| Accrued rent expense                                      | <b>P1,111,047,913</b>   | <b>P333,314,374</b>    | P662,950,407 | P198,885,122 |
| Retirement benefits liability                             | <b>163,734,147</b>      | <b>49,120,244</b>      | 76,356,980   | 22,907,094   |
| NOLCO   | <b>28,273,483</b>       | <b>17,004,093</b>      | -            | -            |
| MCIT  | <b>8,482,045</b>        | <b>8,482,045</b>       | -            | -            |
| Allowance for impairment losses on receivables            | <b>7,527,357</b>        | <b>2,258,207</b>       | 5,521,777    | 1,656,533    |
| Unrealized foreign exchange loss                          | <b>1,523</b>            | <b>457</b>             | -            | -            |
| DTA   | <b>1,319,066,468</b>    | <b>410,179,420</b>     | 744,829,164  | 223,448,749  |
| Fair value of intangible assets from business combination | <b>(4,599,113,528)</b>  | <b>(1,379,734,058)</b> | -            | -            |
| Accrued rent income                                       | <b>(22,882,680)</b>     | <b>(6,864,804)</b>     | (11,031,517) | (3,309,455)  |
| DTL   | <b>(4,621,996,208)</b>  | <b>(1,386,598,862)</b> | (11,031,517) | (3,309,455)  |
| Net   | <b>(P3,302,929,740)</b> | <b>(P976,419,442)</b>  | P733,797,647 | P220,139,294 |

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.



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.

The Group has the following MCIT and NOLCO, which can be deducted against taxable income and regular income tax due as follows:

| Date Incurred     | Expiry Date       | MCIT       | NOLCO       |
|-------------------|-------------------|------------|-------------|
| June 30, 2010     | June 30, 2013     | P730,615   | P11,016     |
| June 30, 2011     | June 30, 2014     | 1,755,318  | 2,981,113   |
| May 31, 2012      | May 31, 2015      | 5,283,452  | 48,263,212  |
| December 31, 2012 | December 31, 2015 | 712,660    | 5,424,970   |
|                   |                   | P8,482,045 | P56,680,311 |

## 25. 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.

During the year, 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. 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.

### Retained Earnings

On May 8, 2012, the BOD declared a special cash dividend of P0.20 per share or P400 million to stockholders of record as at May 22, 2012. This was paid on June 5, 2012.

In a meeting held on December 27, 2012, the Parent Company's Board of Directors approved the declaration of cash dividend amounting to P553.28 million equivalent to P0.20 per share, divided into P0.10 regular dividend and P0.10 special dividend to stockholders of record as at January 14, 2013. The related cash dividends were paid on February 7, 2013.

## 26. Segment Information

The Group operates through stores in several locations. The income statement per store is reviewed by the Chief Operating Decision Maker on a monthly basis and assessed each store's profitability through its net profit and not on the basis of the component of the income statements. The Group's income statement is eventually consolidated and used in the assessment of the Group's profitability as a whole. The nature of products, class of customers, and regulatory environment is the same for all the stores.

Accordingly, management has assessed that there is no reportable segment distinct and separate from that of the subsidiaries.



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## 27. Basic/Diluted EPS Computation

Basic/Diluted EPS is computed as follows:

|  | 2012                  | 2011           | 2010          |
|--|-----------------------|----------------|---------------|
| Net income (a)                                 | <b>P2,717,538,697</b> | P1,544,994,807 | P510,368,629  |
| Weighted average number of ordinary shares (b) | <b>2,447,070,313</b>  | 1,600,000,000  | 1,265,727,543 |
| Basic/diluted EPS (a/b)                        | <b>P1.11</b>          | P0.97          | P0.40         |

As at December 31, 2012, 2011 and 2010, the Group has no dilutive debt or equity instruments.

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## 28. Financial Risk 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
- Foreign Currency Risk

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

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

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

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

### Credit Risk

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

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

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

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

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

|                                      | <i>Note</i> | <b>2012</b>            | <b>2011</b>    |
|--------------------------------------|-------------|------------------------|----------------|
| Cash in banks and cash equivalents   | 4           | <b>P8,574,035,623</b>  | P1,653,395,511 |
| Investments in trading securities    | 7           | <b>34,946,521</b>      | 24,000,214     |
| Receivables - net                    | 5           | <b>956,866,308</b>     | 410,357,431    |
| Due from related parties             |             | <b>7,014,202</b>       | -              |
| Restricted cash and cash equivalents | 12          | -                      | 2,286,731,084  |
| Available-for-sale financial assets  | 9           | <b>7,879,160</b>       | 7,879,160      |
| Security deposits                    | 12          | <b>833,260,464</b>     | 567,262,531    |
|                                      |             | <b>P10,414,002,278</b> | P4,949,625,931 |

The following is the aging analysis per class of financial assets that are past due but not impaired as at December 31:

| 2012                              | Neither<br>Past Due<br>nor Impaired | Past Due but not Impaired |                     |                      | Impaired          | Total                  |
|-----------------------------------|-------------------------------------|---------------------------|---------------------|----------------------|-------------------|------------------------|
|                                   |                                     | 1 to 30<br>Days           | 31 to 60<br>Days    | More than<br>60 Days |                   |                        |
| Cash in bank and cash equivalents | P8,574,035,623                      | P -                       | P -                 | P -                  | P -               | P8,574,035,623         |
| Investments in trading securities | 34,946,521                          | -                         | -                   | -                    | -                 | 34,946,521             |
| Receivables - net                 | 723,019,039                         | 90,219,236                | 100,574,663         | 43,053,370           | 7,462,327         | 964,328,635            |
| Due from related parties          | 4,412,206                           | 1,747,486                 | 720,312             | 134,198              | -                 | 7,014,202              |
| AFS financial assets              | 7,879,160                           | -                         | -                   | -                    | -                 | 7,879,160              |
| Security deposits                 | 833,260,464                         | -                         | -                   | -                    | -                 | 833,260,464            |
|                                   | <b>P10,177,553,013</b>              | <b>P91,966,722</b>        | <b>P101,294,975</b> | <b>P43,187,568</b>   | <b>P7,462,327</b> | <b>P10,421,464,605</b> |

| 2011                                 | Neither<br>Past Due<br>nor Impaired | Past Due but not Impaired |                    |                      | Impaired          | Total                 |
|--------------------------------------|-------------------------------------|---------------------------|--------------------|----------------------|-------------------|-----------------------|
|                                      |                                     | 1 to 30<br>Days           | 31 to 60<br>Days   | More than<br>60 Days |                   |                       |
| Cash in bank and cash equivalents    | P1,653,395,511                      | P -                       | P -                | P -                  | P -               | P1,653,395,511        |
| Investments in trading securities    | 24,000,214                          | -                         | -                  | -                    | -                 | 24,000,214            |
| Receivables - net                    | 224,581,765                         | 149,677,453               | 31,817,106         | 4,281,107            | 5,521,775         | 415,879,206           |
| Restricted cash and cash equivalents | 2,286,731,084                       | -                         | -                  | -                    | -                 | 2,286,731,084         |
| AFS financial assets                 | 7,879,160                           | -                         | -                  | -                    | -                 | 7,879,160             |
| Security deposits                    | 567,262,531                         | -                         | -                  | -                    | -                 | 567,262,531           |
|                                      | <b>P4,763,850,265</b>               | <b>P149,677,453</b>       | <b>P31,817,106</b> | <b>P4,281,107</b>    | <b>P5,521,775</b> | <b>P4,955,147,706</b> |



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

- a. Cash in bank, cash equivalents and restricted cash 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 risk for investment in trading securities and AFS financial assets are considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.
- b. Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.
- c. Due from related parties and security deposits were assessed as high grade since these have a high profitability of collection and there is no history of default.

#### Liquidity Risk

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

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

|  | As at December 31, 2012 |                          |                   |                                  |                      |
|--|-------------------------|--------------------------|-------------------|----------------------------------|----------------------|
|  | Carrying<br>Amount      | Contractual<br>Cash Flow | 1 Year<br>or Less | More than<br>1 Year -<br>5 Years | More than<br>5 Years |
| <b>Financial Liabilities</b>   |                         |                          |                   |                                  |                      |
| Accounts payable and accrued expenses (excluding statutory payables to the government)             | P9,190,583,252          | P9,190,583,252           | P9,190,583,252    | P -                              | P -                  |
| Due to related parties   | 237,545,408             | 237,545,408              | 237,545,408       | -                                | -                    |
| Trust receipts payable   | 8,130,029               | 8,130,029                | 8,130,029         | -                                | -                    |
| Long-term debt including current portion   | 4,952,211,362           | 6,466,217,270            | 326,597,000       | 5,078,728,300                    | 1,060,891,970        |
| Dividends payable  | 553,280,000             | 553,280,000              | 553,280,000       | -                                | -                    |
| Loans payable  | 508,500,000             | 508,500,000              | 508,500,000       | -                                | -                    |
| Other current liabilities (excluding gift cheques, exclusive fund, VAT payable and promotion fund) | 108,118,096             | 108,118,096              | 108,118,096       | -                                | -                    |
| Noncurrent accrued rent  | 1,120,906,123           | 1,120,906,123            | 4,867,324         | 76,253,902                       | 1,039,784,897        |



As at December 31, 2011

|  | Carrying<br>Amount | Contractual<br>Cash Flow | 1 Year<br>or Less | More than<br>1 Year -<br>5 Years | More than<br>5 Years |
|--|--------------------|--------------------------|-------------------|----------------------------------|----------------------|
| <b>Financial Liabilities</b>   |                    |                          |                   |                                  |                      |
| Accounts payable and<br>accrued expenses<br>(excluding statutory<br>payables to the<br>government)             | P6,166,108,486     | P6,166,108,486           | P6,166,108,486    | P -                              | P -                  |
| Due to related parties   | 8,855,584          | 8,855,584                | 8,855,584         | -                                | -                    |
| Trust receipts payable   | 21,299,667         | 21,299,667               | 21,299,667        | -                                | -                    |
| Other current liabilities<br>(excluding gift cheques,<br>exclusive fund, VAT<br>payable and promotion<br>fund) | 91,717,310         | 91,717,310               | 91,717,310        | -                                | -                    |
| Noncurrent accrued rent  | 662,950,406        | 662,950,406              | 572,956           | 40,622,104                       | 621,755,346          |

#### 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, short-term and long-term loans. Cash deposits, short-term and long-term loans with variable rates expose the Group to cash flow interest rate risk.

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

|                       | 2012                  | 2011           | 2010           |
|-----------------------|-----------------------|----------------|----------------|
| Financial assets      | <b>P8,574,035,623</b> | P3,940,126,595 | P1,614,474,562 |
| Financial liabilities | <b>5,468,841,391</b>  | 21,299,667     | 2,123,262,358  |

#### Sensitivity Analysis

A 2% increase in interest rates would have decreased equity and net income by P43.47 million, P7.12 million, P7.19 million for the years ended December 31, 2011, 2011 and 2010, respectively. A 2% decrease in interest rates would have had the equal but opposite effect, on the basis that all other variables remain constant.

#### Foreign Currency Risk

The Group's foreign currency risk at December 31, 2012 pertains to its cash in bank which is denominated in US dollar.

The Group's foreign currency denominated assets as at December 31, 2012 follow:

|           | Cash            | Exchange Rate | PHP Equivalent   |
|-----------|-----------------|---------------|------------------|
| US Dollar | <b>2,075.61</b> | <b>41.05</b>  | <b>85,203.79</b> |

Foreign exchange loss recognized in profit or loss amounted to P1,523 in 2012.

#### 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 and retained earnings.

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

As at December 31, 2012 and 2011, the Group is compliant with the minimum public float requirements of the PSE.

## 29. Financial Instruments

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments (expressed in millions):

|  | 2012            |            | 2011            |            |
|--|-----------------|------------|-----------------|------------|
|  | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <b>Financial Assets</b>  |                 |            |                 |            |
| Cash and cash equivalents  | P9,084.33       | P9,084.33  | P1,955.17       | P1,955.17  |
| Receivables - net  | 956.87          | 956.87     | 410.36          | 410.36     |
| Due from related parties   | 7.01            | 7.01       | -               | -          |
| Investments in trading securities  | 34.95           | 34.95      | 24.00           | 24.00      |
| Restricted cash and cash equivalents   | -               | -          | 2,286.73        | 2,286.73   |
| Available-for-sale financial assets<br>(included under "Investments"<br>account in the consolidated<br>statements of financial position) | 7.88            | 7.88       | 7.88            | 7.88       |
| Security deposits (included under<br>"Other noncurrent assets" account<br>in the consolidated statements of<br>financial position)       | 833.26          | 833.26     | 567.26          | 567.26     |
| <b>Financial Liabilities</b>   |                 |            |                 |            |
| Accounts payable and accrued<br>expenses (excluding statutory<br>payables to the government)   | 9,190.58        | 9,190.58   | 6,166.11        | 6,166.11   |
| Due to related parties   | 237.55          | 237.55     | 8.86            | 8.86       |
| Trust receipts payable   | 8.13            | 8.13       | 21.30           | 21.30      |
| Other current liabilities (excluding<br>gift cheques, exclusive fund, VAT<br>payable and promotion fund)                                 | 108.12          | 108.12     | 91.72           | 91.72      |
| Noncurrent accrued rent  | 1,120.91        | 1,120.91   | 662.95          | 662.95     |
| Long term debt including current<br>maturities   | 4,952.21        | 4,952.21   | -               | -          |



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

*Cash and Cash Equivalents, Receivables, Due from Related Parties, Restricted Cash and Cash Equivalents and Security Deposits*

The carrying amounts of cash and cash equivalents, receivables, due from related parties and restricted cash and cash equivalents approximate fair value 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, Due to Related Parties, Trust Receipts Payable, Noncurrent Accrued Rent and Other Current Liabilities*

The carrying amounts of loans payable and accounts payable and accrued expenses 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 Debt*

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 2012 are 5.69% and 6.05% for the 5-year notes and 7-year notes, respectively.

Fair Value Hierarchy

The table below shows the analysis of 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).

| 2012                                | Level 1     | Level 2 | Level 3 | Total       |
|-------------------------------------|-------------|---------|---------|-------------|
| <b>Financial Assets</b>             |             |         |         |             |
| Investments in trading securities   | P34,946,521 | P -     | P -     | P34,946,521 |
| Available-for-sale financial assets | 7,879,160   | -       | -       | 7,879,160   |
| 2011                                | Level 1     | Level 2 | Level 3 | Total       |
| <b>Financial Assets</b>             |             |         |         |             |
| Investments in trading securities   | P24,000,214 | P -     | P -     | P24,000,214 |
| Available-for-sale financial assets | 7,879,160   | -       | -       | 7,879,160   |



In 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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**30. Events Subsequent to Reporting Date**

On January 14, 2013, the Company's BOD approved the acquisition of Company E Corp. (the company behind the Eunilaine Foodmart and Grocer E Supermart chains) via share acquisition from its stockholders of up to 100%. Company E is the owner of seven supermarkets within Metro Manila, six in Rizal province, and two in the province of Cavite.



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Puregold Price Club, Inc. and Subsidiaries (the "Group") as at and for years ended December 31, 2012 and 2011, included in this Form 17-A, and have issued our report thereon dated February 18, 2013.

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

- Map of the Group
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

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

### MANABAT SANAGUSTIN & CO., CPAs

ARTHUR Z. MACHACON

Partner

CPA License No. 0090279

SEC Accreditation No. 1189-A, Group A, valid until February 15, 2015

Tax Identification No. 164-607-040

BIR Accreditation No. 08-001987-29-2011

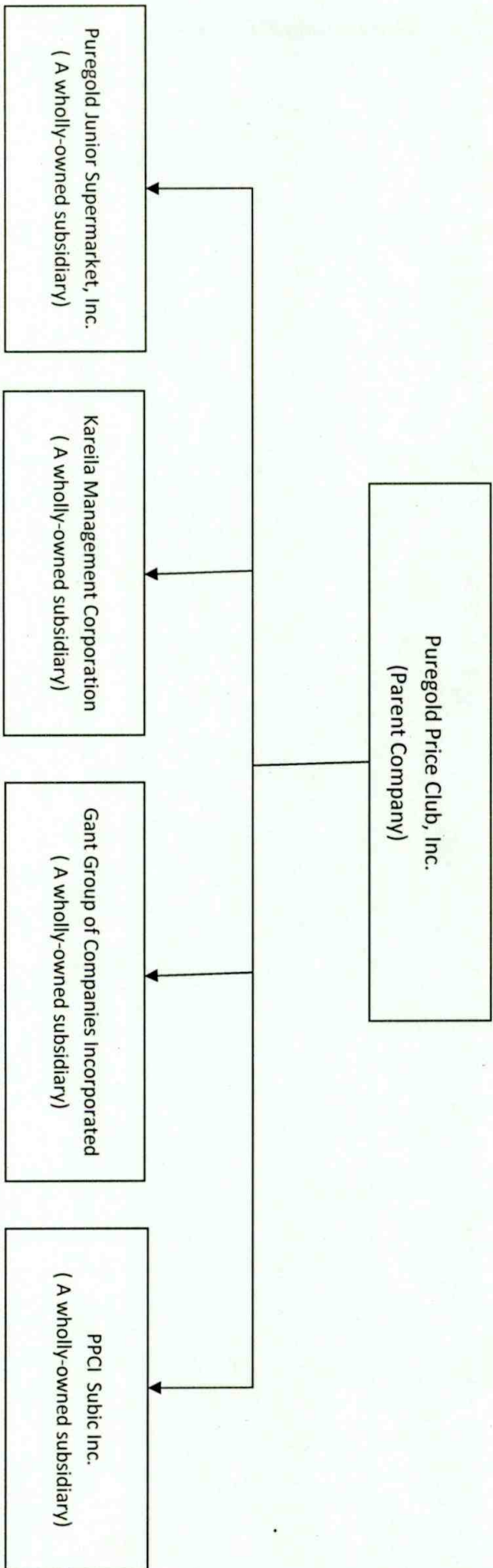
Issued November 3, 2011; valid until November 2, 2014

PTR No. 3669515MC

Issued January 2, 2013 at Makati City

February 18, 2013  
Makati City, Metro Manila

**Puregold Price Club, Inc. and Subsidiaries**  
**MAP of Relationship between the Parent Company and the Subsidiaries**  
**As at December 31, 2012**





**Puregold Price Club, Inc. and Subsidiaries**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2012  |  | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|--|----------------|--------------------|-----------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |  |                |                    |                       |
| <b>PFRSs Practice Statement Management Commentary</b>   |  |                |                    |                       |
| <b>Philippine Financial Reporting Standards</b>   |  |                |                    |                       |
| <b>PFRS 1 (Revised)</b>   | First-time Adoption of Philippine Financial Reporting Standards  |                |                    | ✓                     |
|   | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |                |                    | ✓                     |
|   | Amendments to PFRS 1: Additional Exemptions for First-time Adopters  |                |                    | ✓                     |
|   | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters             |                |                    | ✓                     |
|   | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                  |                |                    | ✓                     |
|   | Amendments to PFRS 1: Government Loans   |                |                    | ✓                     |
| <b>PFRS 2</b>   | Share-based Payment  |                |                    | ✓                     |
|   | Amendments to PFRS 2: Vesting Conditions and Cancellations   |                |                    | ✓                     |
|   | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      |                |                    | ✓                     |
| <b>PFRS 3 (Revised)</b>   | Business Combinations  | ✓              |                    |                       |
| <b>PFRS 4</b>   | Insurance Contracts  |                |                    | ✓                     |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts   |                |                    | ✓                     |
| <b>PFRS 5</b>   | Non-current Assets Held for Sale and Discontinued Operations   |                |                    | ✓                     |
| <b>PFRS 6</b>   | Exploration for and Evaluation of Mineral Resources  |                |                    | ✓                     |

**Puregold Price Club, Inc. and Subsidiaries**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2012 |   | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|--|---|----------------|--------------------|-----------------------|
| <b>PFRS 7</b>  | Financial Instruments: Disclosures  | ✓              |                    |                       |
|  | Amendments to PFRS 7: Transition  |                |                    | ✓                     |
|  | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                 |                |                    | ✓                     |
|  | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition |                |                    | ✓                     |
|  | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                               |                |                    | ✓                     |
|  | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                     |                |                    | ✓                     |
|  | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities             |                | ✓                  |                       |
|  | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   |                | ✓                  |                       |
| <b>PFRS 8</b>  | Operating Segments  | ✓              |                    |                       |
| <b>PFRS 9</b>  | Financial Instruments   |                | ✓                  |                       |
|  | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   |                | ✓                  |                       |
| <b>PFRS 10</b>   | Consolidated Financial Statements   | ✓              |                    |                       |
| <b>PFRS 11</b>   | Joint Arrangements  |                |                    | ✓                     |
| <b>PFRS 12</b>   | Disclosure of Interests in Other Entities   |                | ✓                  |                       |
| <b>PFRS 13</b>   | Fair Value Measurement  |                | ✓                  |                       |
| <b>Philippine Accounting Standards</b>   |   |                |                    |                       |
| <b>PAS 1 (Revised)</b>   | Presentation of Financial Statements  | ✓              |                    |                       |
|  | Amendment to PAS 1: Capital Disclosures   | ✓              |                    |                       |
|  | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation |                |                    | ✓                     |
|  | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income                              |                | ✓                  |                       |
| <b>PAS 2</b>   | Inventories   | ✓              |                    |                       |
| <b>PAS 7</b>   | Statement of Cash Flows   | ✓              |                    |                       |
| <b>PAS 8</b>   | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓              |                    |                       |
| <b>PAS 10</b>  | Events after the Balance Sheet Date   | ✓              |                    |                       |
| <b>PAS 11</b>  | Construction Contracts  |                |                    | ✓                     |



**Puregold Price Club, Inc. and Subsidiaries**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br/>Effective as of December 31, 2012</b> |   | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|---|----------------|--------------------|-----------------------|
| <b>PAS 12</b>   | Income Taxes  | ✓              |                    |                       |
|   | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                     |                |                    | ✓                     |
| <b>PAS 16</b>   | Property, Plant and Equipment   | ✓              |                    |                       |
| <b>PAS 17</b>   | Leases  | ✓              |                    |                       |
| <b>PAS 18</b>   | Revenue   | ✓              |                    |                       |
| <b>PAS 19</b>   | Employee Benefits   | ✓              |                    |                       |
|   | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                         |                | ✓                  |                       |
| <b>PAS 19 (Amended)</b>   | Employee Benefits   |                | ✓                  |                       |
| <b>PAS 20</b>   | Accounting for Government Grants and Disclosure of Government Assistance                              |                |                    | ✓                     |
| <b>PAS 21</b>   | The Effects of Changes in Foreign Exchange Rates  | ✓              |                    |                       |
|   | Amendment: Net Investment in a Foreign Operation  |                |                    | ✓                     |
| <b>PAS 23 (Revised)</b>   | Borrowing Costs   |                |                    | ✓                     |
| <b>PAS 24 (Revised)</b>   | Related Party Disclosures   | ✓              |                    |                       |
| <b>PAS 26</b>   | Accounting and Reporting by Retirement Benefit Plans  |                |                    | ✓                     |
| <b>PAS 27 (Amended)</b>   | Separate Financial Statements   |                |                    | ✓                     |
| <b>PAS 28 (Amended)</b>   | Investments in Associates and Joint Ventures  |                |                    | ✓                     |
| <b>PAS 29</b>   | Financial Reporting in Hyperinflationary Economies  |                |                    | ✓                     |
| <b>PAS 31</b>   | Interests in Joint Ventures   |                |                    | ✓                     |
| <b>PAS 32</b>   | Financial Instruments: Disclosure and Presentation  | ✓              |                    |                       |
|   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation |                |                    | ✓                     |
|   | Amendment to PAS 32: Classification of Rights Issues  |                |                    | ✓                     |
|   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                           |                | ✓                  |                       |
| <b>PAS 33</b>   | Earnings per Share  | ✓              |                    |                       |
| <b>PAS 34</b>   | Interim Financial Reporting   |                |                    | ✓                     |



**Puregold Price Club, Inc. and Subsidiaries**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br/>Effective as of December 31, 2012</b> |   | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|---|----------------|--------------------|-----------------------|
| <b>PAS 36</b>   | Impairment of Assets  | ✓              |                    |                       |
| <b>PAS 37</b>   | Provisions, Contingent Liabilities and Contingent Assets  | ✓              |                    |                       |
| <b>PAS 38</b>   | Intangible Assets   | ✓              |                    |                       |
| <b>PAS 39</b>   | Financial Instruments: Recognition and Measurement  | ✓              |                    |                       |
|   | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities  |                |                    | ✓                     |
|   | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                    |                |                    | ✓                     |
|   | Amendments to PAS 39: The Fair Value Option   |                |                    | ✓                     |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts  |                |                    | ✓                     |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                   |                |                    | ✓                     |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition   |                |                    | ✓                     |
|   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                        |                |                    | ✓                     |
|   | Amendment to PAS 39: Eligible Hedged Items  |                |                    | ✓                     |
| <b>PAS 40</b>   | Investment Property   |                |                    | ✓                     |
| <b>PAS 41</b>   | Agriculture   |                |                    | ✓                     |
| <b>Philippine Interpretations</b>   |   |                |                    |                       |
| <b>IFRIC 1</b>  | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                |                |                    | ✓                     |
| <b>IFRIC 2</b>  | Members' Share in Co-operative Entities and Similar Instruments   |                |                    | ✓                     |
| <b>IFRIC 4</b>  | Determining Whether an Arrangement Contains a Lease   |                |                    | ✓                     |
| <b>IFRIC 5</b>  | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    |                |                    | ✓                     |
| <b>IFRIC 6</b>  | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment |                |                    | ✓                     |
| <b>IFRIC 7</b>  | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies       |                |                    | ✓                     |

**Puregold Price Club, Inc. and Subsidiaries**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2012 |  | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|--|--|----------------|--------------------|-----------------------|
| <b>IFRIC 8</b>   | Scope of PFRS 2  |                |                    | ✓                     |
| <b>IFRIC 9</b>   | Reassessment of Embedded Derivatives   |                |                    | ✓                     |
|  | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                 |                |                    | ✓                     |
| <b>IFRIC 10</b>  | Interim Financial Reporting and Impairment   | ✓              |                    |                       |
| <b>IFRIC 11</b>  | PFRS 2- Group and Treasury Share Transactions  |                |                    | ✓                     |
| <b>IFRIC 12</b>  | Service Concession Arrangements  |                |                    | ✓                     |
| <b>IFRIC 13</b>  | Customer Loyalty Programmes  |                |                    | ✓                     |
| <b>IFRIC 14</b>  | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction         |                |                    | ✓                     |
|  | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement |                |                    | ✓                     |
| <b>IFRIC 16</b>  | Hedges of a Net Investment in a Foreign Operation  |                |                    | ✓                     |
| <b>IFRIC 17</b>  | Distributions of Non-cash Assets to Owners   |                |                    | ✓                     |
| <b>IFRIC 18</b>  | Transfers of Assets from Customers   |                |                    | ✓                     |
| <b>IFRIC 19</b>  | Extinguishing Financial Liabilities with Equity Instruments                                      |                |                    | ✓                     |
| <b>IFRIC 20</b>  | Stripping Costs in the Production Phase of a Surface Mine  |                |                    | ✓                     |
| <b>SIC-7</b>   | Introduction of the Euro   |                |                    | ✓                     |
| <b>SIC-10</b>  | Government Assistance - No Specific Relation to Operating Activities                             |                |                    | ✓                     |
| <b>SIC-12</b>  | Consolidation - Special Purpose Entities   |                |                    | ✓                     |
|  | Amendment to SIC - 12: Scope of SIC 12   |                |                    | ✓                     |
| <b>SIC-13</b>  | Jointly Controlled Entities - Non-Monetary Contributions by Venturers                            |                |                    | ✓                     |
| <b>SIC-15</b>  | Operating Leases - Incentives  |                |                    | ✓                     |
| <b>SIC-21</b>  | Income Taxes - Recovery of Revalued Non-Depreciable Assets                                       |                |                    | ✓                     |
| <b>SIC-25</b>  | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                        |                |                    | ✓                     |
| <b>SIC-27</b>  | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                     |                |                    | ✓                     |
| <b>SIC-29</b>  | Service Concession Arrangements: Disclosures.  |                |                    | ✓                     |
| <b>SIC-31</b>  | Revenue - Barter Transactions Involving Advertising Services                                     |                |                    | ✓                     |
| <b>SIC-32</b>  | Intangible Assets - Web Site Costs   |                |                    | ✓                     |



PUREGOLD PRICE CLUB, INC AND SUBSIDIARY  
 SCHEDULE A FINANCIAL ASSETS  
 As of December 31, 2012

| Type of Financial Assets            | Amount  | Amount   |     |
|-------------------------------------|---|--|-----|
| Financial Assets at FVPL            | Investment in Trading Securities  | 34,946,521                                       | A.1 |
| Available-for-sale financial assets | Available-for-sale financial assets   | 7,879,160  | A.2 |
| Held to maturity investments        |   | -  |     |
| Loans and Receivable                | Cash and cash equivalents<br>Receivables-net<br>Restricted cash and cash equivalents<br>Security deposits | 8,574,035,623<br>956,866,308<br>-<br>833,260,464 |     |

A.1 MARKETABLE SECURITIES (CURRENT MARKETABLE SECURITIES AND OTHER SHORT TERM CASH INVESTMENTS)

| Name of Issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the statement of financial position | Value based on market quotation at balance sheet date * | Income received and accrued |
|--|---|---|---|-----------------------------|
| <b>A. INVESTMENTS IN TRADING SECURITIES</b>          |   |   |   |                             |
| ABOITIZ POWER  | 280,000   | 10,346,000  | 10,346,000  | 369,193                     |
| BANCO DE ORO   | 96,133  | 6,998,482   | 6,998,482   |                             |
| GMA PDR  | 50,000  | 466,000   | 466,000   | 55,232                      |
| METROBANK  | 55,232  | 5,633,664   | 5,633,664   | 20,000                      |
| NATL REINSURANCE CO OF THE PHIL                      | 200,000   | 340,000   | 340,000   | 53,000                      |
| PHILEX MINING CORP.                                  | 100,000   | 1,498,000   | 1,498,000   |                             |
| PHILEX PETROLEUM CORP.                               | 12,500  | 374,375   | 374,375   |                             |
| PNB  | 20,000  | 1,820,000   | 1,820,000   |                             |
| RCBC   | 124,500   | 7,470,000   | 7,470,000   | 67,500                      |
| <b>TOTAL</b>   | <b>938,365</b>  | <b>34,946,521</b>                                   | <b>34,946,521</b>                                       | <b>564,925</b>              |



A.2 NON-CURRENT MARKETABLE EQUITY SECURITIES, OTHER LONG TERM INVESTMENT IN STOCK AND OTHER INVESTMENT

| Name of Issuing equity and description of Investment                       | Beginning Balance                                       |                            | Additions  |                                  |                                       |                                  | Deductions  |                            | Ending Balance |  | Dividends received from investment not accounted for by equity |
|--|---|----------------------------|--|----------------------------------|---------------------------------------|----------------------------------|---|----------------------------|----------------|--|--|
|  | Number of shares or principal amount of bonds and notes | Amount in pesos            | Equity in earnings (losses) of investment for the period | Other equity and cost adjustment | Distribution of earnings by investees | Other equity and cost adjustment | Number of Shares or principal amount of bonds and notes | Amount in pesos            |                |  |  |
| Other Long Term Investment<br>Manila Electric Company<br>Tower Club Shares | 726,166   | 7,261,660.00<br>617,500.00 |  |                                  |                                       |                                  | 726,166   | 7,261,660.00<br>617,500.00 |                |  |  |
| <b>Total Long term investment</b>  |   | <b>7,879,160.00</b>        |  |                                  |                                       |                                  |   | <b>7,879,160.00</b>        |                |  |  |

**PUREGOLD PRICE CLUB, INC AND SUBSIDIARY**  
**SCHEDULE B AMOUNT RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES**  
**AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
 As of December 31, 2012

| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not Current | Balance at end of period |
|--------------------------------|--------------------------------|-----------|-------------------|---------------------|---------|-------------|--------------------------|
| NOT APPLICABLE                 |                                |           |                   |                     |         |             |                          |

PUREGOLD PRICE CLUB, INC AND SUBSIDIARY  
**SCHEDULE C RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
As of December 31, 2012

| Name and Designation of debtor    | Balance at beginning of period | Additions      | Deductions        |                     | Current       | Not Current | Balance at end of period |
|-----------------------------------|--------------------------------|----------------|-------------------|---------------------|---------------|-------------|--------------------------|
|                                   |                                |                | Amounts collected | Amounts written off |               |             |                          |
| Puregold Junior Supermarket, Inc. |                                |                |                   |                     |               |             |                          |
| - Subsidiary                      | 760,979,815                    | 760,979,815    | 902,218,452       |                     | 166,099,350   | 152,097,852 | 318,197,201              |
| - Accrued Rent Receivable         | 792,127                        | 854,917        |                   |                     |               |             | 1,647,044                |
| PPCI-Subic, Inc.                  |                                |                |                   |                     |               |             |                          |
| - Subsidiary                      | -                              | 527,511,003.32 | 50,789,355        |                     | 196,174,431   |             | 1,961,745                |
| Gant Group of Comp                |                                |                |                   |                     |               |             |                          |
| - Subsidiary                      | -                              | 501,321,058    | 130,845,906       |                     | 370,475,152.5 |             | 370,475,152              |

\* arise from the rent adjustment based on PAS17 in which the parent company is the lessor.



**PUREGOLD PRICE CLUB, INC AND SUBSIDIARY**  
**SCHEDULE E LONG TERM DEBT**  
 As of December 31, 2012

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long-term debt" in related balance sheet | Amount shown under caption "long-term debt" in related balance sheet |
|---------------------------------------|--------------------------------|---|--|
| Notes payable                         | 5,000,000,000                  | 43,140,099  | 4,909,071,263  |

**PUREGOLD PRICE CLUB, INC AND SUBSIDIARY**  
**SCHEDULE F INDEBTEDNESS TO RELATED PARTIES**  
**(LONG-TERM LOANS FROM RELATED PARTIES)**  
**As of December 31, 2012**

| Name of related party | Balance at beginning of period | Balance at end of period |
|-----------------------|--------------------------------|--------------------------|
|                       | NOT APPLICABLE                 |                          |

**PUREGOLD PRICE CLUB, INC AND SUBSIDIARY**  
**SCHEDULE G GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
As of December 31, 2012

| Name of issuing entity of securities guaranteed by the company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which statement is filed | Nature of guarantee |
|--|---|---|---|---------------------|
| <b>NOT APPLICABLE</b>  |   |   |   |                     |



**PUREGOLD PRICE CLUB, INC AND SUBSIDIARY**  
**SCHEDULE H. CAPITAL STOCK**  
 As of December 31, 2012

| TITLE OF ISSUE  | NUMBER OF         | NUMBER OF                 | NUMBER OF  | NUMBER OF                 | DIRECTORS, OFFICERS & EMPLOYEES | OTHERS      |
|---|-------------------|---------------------------|--|---------------------------|---------------------------------|-------------|
|   | SHARES AUTHORIZED | SHARES ISSUED/ SUBSCRIBED | SHARES RESERVED FOR OPTIONS, WARRANTS, CONVERSION & RIGHTS | SHARES HELD BY AFFILIATES |                                 |             |
| Common Stock issued and subscribed a/   | 3,000,000,000     | 2,766,406,250             |  |                           | 1,828,586,545                   | 937,819,704 |
|   | 3,000,000,000     | 2,766,406,250             |  |                           | 1,828,586,545                   | 937,819,704 |
| Common shares outstanding   |                   |                           |  |                           |                                 |             |
| a/ On June 7, 2011, the Board of Directors approved the issuance of 50,000,000 shares of Capital Stock. These were subscribed and paid in full June 10, 2011  |                   |                           |  |                           |                                 |             |
| b/ The initial public offering of the company shares with an offer price of 12.50 per share resulted to the issuance of 500,000,000 common shares during the year.  |                   |                           |  |                           |                                 |             |
| c/ The company acquired 100% equity interest of Karella in exchange for 766,406,250 common shares of the company's authorized but unissued capital stock. The fair value of shares as of the acquisition date is P21.50 per share. The additional paid-in capital net of direct transaction cost amounted to 15,661.57 million. |                   |                           |  |                           |                                 |             |

**PUREGOLD PRICE CLUB, INC.**  
**900 Romualdez Street, Paco, Manila**

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

*(Figures based on functional  
currency audited financial  
statements)*

|   |                       |
|---|-----------------------|
| <b>Unappropriated Retained Earnings, Beginning</b>  | <b>P1,937,235,148</b> |
| <b>Adjustments:</b><br><i>(see adjustments in previous year's reconciliation)</i>   | -                     |
| <b>Unappropriated Retained Earnings, as Adjusted,<br/>Beginning</b>   | <b>1,937,235,148</b>  |
| <b>Net Income Based on the Face of AFS</b>  | <b>2,026,802,429</b>  |
| <b>Less: Non-actual/Unrealized Income Net of Tax</b>  |                       |
| Equity in net income of associate/joint venture   | -                     |
| Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)                             | -                     |
| Unrealized actuarial gain   | -                     |
| Fair value adjustments (M2M gains)  | -                     |
| Fair value adjustments of investment property resulting to gain   | -                     |
| Adjustment due to deviation from PFRS/GAAP - gain   | -                     |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS | -                     |
| <b>Add: Non-actual losses</b>   |                       |
| Depreciation on revaluation increment (after tax)   | -                     |
| Adjustment due to deviation from PFRS/GAAP - loss   | -                     |
| Loss on fair value adjustment of investment property (after tax)  | -                     |
| <b>Net Income Actually Earned During the Year</b>   | <b>2,026,802,429</b>  |
| <b>Add (less):</b>  |                       |
| Dividend declarations during the year   | <b>(953,280,000)</b>  |
| Appropriations of Retained Earnings during the year   | -                     |
| Reversals of appropriations   | -                     |
| Effects of prior period adjustments   | -                     |
| Treasury shares   | -                     |
|   | <b>(953,280,000)</b>  |
| <b>Unappropriated Retained Earnings, as Adjusted,<br/>Ending</b>  | <b>P3,010,757,577</b> |



## Key Performance Indicators

The key performance indicators of the Group as at and for the years ended December 31 are as follows:

|                                      | 2012   | 2011   | 2010   |
|--------------------------------------|--------|--------|--------|
| Current Ratio <sup>(1)</sup>         | 1.61:1 | 1.12:1 | 0.72:1 |
| Asset to Equity Ratio <sup>(2)</sup> | 1.65:1 | 1.79:1 | 4.94:1 |
| Debt to Equity Ratio <sup>(3)</sup>  | 0.65:1 | 0.79:1 | 3.94:1 |
| Net Debt to Equity <sup>(4)</sup>    | 0.32:1 | 0.58:1 | 3.03:1 |
| Equity to Debt Ratio <sup>(5)</sup>  | 1.53:1 | 1.26:1 | 0.25:1 |
| Book Value per Share <sup>(6)</sup>  | P9.94  | P4.66  | P1.41  |
| Earnings per Share <sup>(7)</sup>    | P1.11  | P0.97  | P0.40  |

(1) Current Assets over Current Liabilities

(2) Total Assets over Total Equity

(3) Total Liabilities over Total Equity

(4) Total Liabilities less Cash & Cash equivalents and Financial Assets at FVPL and AFS over Total Equity

(5) Total Equity over Total Liabilities

(6) Total Equity over Total Common Shares Outstanding

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