



April 22, 2014

**Securities and Exchange Commission**  
SEC Building, EDSA, Mandaluyong City

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

**Ms. Trixie Posadas**  
SEC Examiner

Subject: **Definitive Information Statement / SEC FORM 20-IS**

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GENTLEMEN:

Please see attached Definitive Information Statement for the May 13, 2014 Annual Stockholders' Meeting of Puregold Price Club, Inc. in compliance to your letter dated April 15, 2014.

Thank you.

Very truly yours,

  
**Atty. Candy H. Dacanay-Datuon**  
Assistant Corporate Secretary

# COVER SHEET

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SEC Registration Number

**PUREGOLD PRICE CLUB, INC.**

(Company's Full Name)

**NO. 900 ROMUALDEZ ST., PACO,  
MANILA**

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

**CANDY DACANAY-DATUON**

(Contact Person)

**(02) 523-3055**

(Company Telephone Number)

**1 2**

Month

**3 1**

Day

**SEC FORM 20-IS**

(Form Type)

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Month

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Day

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc

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Amended Articles Number/Section

\_\_\_\_\_

Total No. of Stockholders

Total Amount of Borrowing

\_\_\_\_\_

Domestic

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Foreign

SEC Personnel concerned

\_\_\_\_\_

File Number

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Document ID

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Cashier

**SECURITIES AND EXCHANGE COMMISSION**  
SEC FORM 20-IS

**INFORMATION SHEET**

PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE

Check the appropriate box:

- Preliminary Information Statement  
 Definitive Information Statement  
 Additional Materials

Name of Registrant as specified in its charter:

**PUREGOLD PRICE CLUB, INC.**

Province, country or other jurisdiction of the Company or organization – **Manila, Philippines**

SEC Identification Number: **A199813754**

BIR Tax Identification Code: **201-277-095**

Address of principal office: **No. 900 Romualdez St., Paco, Manila**

Registrant's telephone number, include area code:

**(632) 822-8801 to 04; (632) 523-3055**

Date, time and place of the meeting of security holders:

**May 13, 2014, 2:00 PM, at Libra Room, 27<sup>th</sup> Floor, Diamond Hotel, Roxas Blvd. corner Dr. J. Quintos St., Manila**

Approximate date on which the Information Statement (including Proxy Form and other solicitation materials) are first to be sent or given to security holders – **April 22, 2014**

Name of Person Filing the Statement / Solicitor: **The President, or in his absence the Chairman of the Board of Directors, or in his absence the Chairman of the 2014 Annual Stockholders' Meeting**

Address: **2/F Tabacalera Building, 900 Romualdez St., Paco, Manila**

Telephone No.: **(632) 882-8801 to 04; (632) 523-3055**

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):

Authorized Capital Stock: **₱3,000,000,000 (₱1.00 par value)**

No. of shares outstanding as of 31 March 2014 – **2,766,406,406 (₱1.00 per share)**

Common shares outstanding: **2,766,406,406 (₱1.00 par value)**

No. of Votes Entitled: **One (1) vote per share**

PPCI has **Php3,355,243.219** outstanding debt as of 31 March 2014

Are any or all of registrant's securities listed on a Stock Exchange:

Yes  No

If yes, disclose the name of such Stock Exchange:

**Philippine Stock Exchange**

And the class of securities listed therein: **Common shares**

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

Notice is hereby given that the **ANNUAL STOCKHOLDERS' MEETING OF PUREGOLD PRICE CLUB, INC.** will be held on the 13<sup>th</sup> day of May 2014, 2 pm, at the Libra Room, 27<sup>th</sup> Floor, Diamond Hotel, Roxas Blvd. corner Dr. J. Quintos St., Manila with the following agenda:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Approval of the Minutes of the 2013 Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting
4. Annual Report of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2013
5. Approval of the merger of Company E Corporation with Puregold Price Club, Inc.
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 April 28, 2014 are entitled to notice of, and to vote at such meeting. The stock and transfer book of the company will be closed from April 28, 2014 to May 13, 2014.

**IF YOU DO NOT EXPECT TO ATTEND THE MEETING, YOU MAY EXECUTE AND RETURN THE PROXY FORM TO THE OFFICE OF THE CORPORATE SECRETARY OF THE COMPANY AT: NO. 900 ROMUALDEZ ST., PACO, MANILA, 1007. THE DEADLINE FOR THE SUBMISSION OF PROXIES IS ON MAY 2, 2014.**

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 SACRO**  
Corporate Secretary

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**PART I: INFORMATION STATEMENT**

**A. GENERAL INFORMATION**

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

- (a) Date of Meeting: **May 13, 2014**  
Time of Meeting: **2:00 PM**  
Place of Meeting: **Libra Room, 27<sup>th</sup> Floor, Diamond Hotel,  
Roxas Blvd. corner Dr. J. Quintos St., 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 April 22, 2014 in accordance with the Company by laws and the Securities and Regulation Code.

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE  
REQUESTED NOT TO SEND US A PROXY**

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

The ratification of the approval of the Board of Directors approving the merger of Company E Corporation with Puregold Price Club, Inc. may give rise to a possible exercise by the security holders of their appraisal right under Title X of the Corporation Code of the Philippines.

A stockholder who shall have voted against the aforesaid proposed action (the "dissenting stockholder") may exercise his appraisal right by making a written demand on the Company within thirty (30) days after the Stockholders' Meeting date. Failure to make the demand within the prescribed period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented, the Company shall pay the dissenting stockholder upon surrender of the stock certificates representing his shareholdings in the Company based on the fair value thereof as of the day prior to the date of the Stockholders' Meeting, excluding any appreciation or depreciation in anticipation of such corporate action, provided that no payment shall be made to the dissenting stockholder unless the Company has unrestricted retained earnings to cause such payment.

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

- (a) No current director or officer nor any associate thereof of the Corporation has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon other than the election of directors.
- (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.

**Item 4. General description of the business of the registrant and its subsidiaries.**

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

2011 saw the highest number of store openings in Puregold history with the launch of 38 new stores making its number of stores to a total of 100. In the succeeding year, Puregold acquired a related retail company, Kareila, Inc. which operates 8 S&R Membership Shopping Warehouses (patterned after the Costco and Sam's Club in the USA). It is the only membership store operating in the country. It also acquired Gant Group of Companies operating 19 Parco Supermarkets. By the end of 2013, Puregold is already operating a total of 213 outlets including 57 new Puregold stores it opened in 2013.

The Company conducts its operations through the following retail formats: hypermarkets, supermarkets, and extra. As of December 2013, it has established the following subsidiaries:

1. *S & R Membership Shopping* – S&R Membership Shopping Started operations with 4 locations in Metro Manila in 2006. It opened its Cebu store in November 2010, Pampanga store in November 2011 and Mandaluyong store in November 2013. It is only retailer in the Philippines with a membership shopping concept. S&R has adopted a warehouse club concept where most of the products offered are in club packs. Majority of merchandise are imported brand names mostly sourced from the United States. Currently, S&R is the biggest reseller of imported quality products at very competitive prices.
2. Company E - is engaged also in operating retails supermarkets. It has at present 4 supermarkets located within Metro Manila. The said supermarkets are widely known as "Eunilaine Foodmart" and "Grocer E Supermart".
3. PPCI Subic, Inc. – it is Puregold hypermarket operating inside the premises of Subic Bay Freeport Zone, Zambales.
4. Entenso Equities, Inc. – owns 49% of San Roque Supermarkets and currently entered into a joint venture agreement with Varejo Corp. (a wholly owned subsidiary of Ayala Land, Inc.) to develop and operate a mid-market supermarket.

In 2001, the Company established its TNAP loyalty/marketing program for resellers, and as of December 31, 2012, the Company served over 230,000 *sari-sari* stores and small to medium-size businesses, and engaged over 1,500 suppliers and trade partners. S & R has a total active members of over 250,000. To effectively serve its customer base, the Company maintains strong relationship with suppliers and trade partners, working closely with them to satisfy customers with reliable on-time deliveries.

The Company at the end of 2013 has 213 stores. Out of 213 stores, there are 112 hypermarkets, 65 Junior, 28 Extras, and 8 S&R warehouses; 205 stores are located in Luzon, 2 in Visayas and 6 in Mindanao.

**B. CONTROL AND COMPENSATION INFORMATION**

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

a. As of December 31, 2013, the Company has the following outstanding shares of common stock: **2,766,406,406**. 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. Each share is entitled to one (1) vote.

b. Only holders of the Company's stocks as of record date are entitled to notice of, and to vote at, the Stockholders' Meeting.

c. 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. 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, No. 22 Pili Avenue, South Forbes Park, Makati City	Stockholder	Direct and Indirect	Filipino	211,849,096	7.7%
Common	Susan P. Co	Stockholder	Direct and Indirect	Filipino	178,242,559	6.4%
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%



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

Title of Class	Name of Beneficial Owner	Nature of beneficial ownership	Citizenship	Number of shares	Percent of Outstanding Voting Shares
Common	Lucio L. Co	Direct	Filipino	211,849,096	7.7%
Common	Susan P. Co	Direct	Filipino	178,242,559	6.4%
Common	Leonardo B. Dayao	Direct	Filipino	739,925	0.027%
Common	Ferdinand Vincent P. Co	Direct	Filipino	26,709,434	0.97%
Common	Pamela Justine P. Co	Direct	Filipino	26,709,434	0.97%
Common	Edgardo G. Lacson	Direct	Filipino	1	0.00000%
Common	Marilyn V. Pardo	Direct	Filipino	1	0.00000%

e. 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.

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

g. The following table shows the high and low prices (in PHP) of Puregold Price Club, Inc.'s shares in the Philippine Stock Exchange for the year 2013:

2013	High	Low
January	34.10	31.80
February	41.90	35.00
March	42.30	38.65
April	41.45	38.00
May	41.30	34.50
June	38.45	33.75
July	41.00	35.15
August	41.70	36.30
September	42.10	38.25
October	46.45	41.70
November	46.20	40.80
December	41.60	36.70

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

The market capitalization of the Company's common shares as of end-2013, based on the closing price of Php37.90 per share, was approximately Php105 Billion.

h. There are approximately 34 registered holders of common shares as of December 31, 2013 owning atleast one board lot per 100 share (based on number of accounts registered with the Stock Transfer Agent).

i. The following are the top 20 registered holders of the Company's securities:

COSCO CAPITAL, INC.	1,410,867,188
DEUTSCHE BANK MANILA-CLIENTS A/C	409,173,505
THE HONGKONG AND SHANGHAI BANKING CORP. LTD. -CLIENTS' ACCT.	217,664,350
LUCIO L. CO	191,204,389
SUSAN P. CO	166,156,006

CITIBANK N.A.	71,952,219
STANDARD CHARTERED BANK	53,734,340
ANSALDO, GODINEZ & CO., INC.	41,094,100
THE HONGKONG AND SHANGHAI BANKING CORP. LTD. -CLIENTS' ACCT.	35,567,440
FERDINAND VINCENT P. CO	25,330,864
PAMELA JUSTINE P. CO	25,330,864
THE HONGKONG AND SHANGHAI BANKING CORP. LTD. -CLIENTS' ACCT.	16,746,300
THE HONGKONG AND SHANGHAI BANKING CORP. LTD. -CLIENTS' ACCT.	13,496,700
SOCIAL SECURITY SYSTEM	7,559,950
COL Financial Group, Inc.	7,320,935
CAMILLE CLARISSE P. CO	6,776,692
BPI SECURITIES CORPORATION	5,491,097
WEALTH SECURITIES, INC.	4,333,350
MAYBANK ATR KIM ENG SECURITIES, INC.	3,640,500
BDO SECURITIES CORPORATION	3,548,802

j. On December 16, 2013, the Company declared a cash dividend in the total amount of PHP0.30 per share, the details of which are as follows:

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

Record date – January 6, 2014  
Payment date – January 30, 2014

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

#### 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 May 14, 2013, the following were elected and appointed members of the Board of Directors:

Name	Age	Position
Lucio L. Co	59	Chairman
Susan P. Co	56	Vice Chairman
Leonardo B. Dayao	69	President
Ferdinand Vincent P. Co	32	Director
Pamela Justine P. Co	29	Director

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

Name	Age	Position
Marilyn V. Pardo	75	Independent Director
Edgardo G. Lacson	70	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**, 59, 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 Cosco Capital, Inc., Kareila Management Corporation, Puregold Finance, Inc., PPCI – Subic, Inc., Puregold Duty Free Subic, Inc., Ellimac Prime Holdings, Inc., NE Pacific Shopping Centers Corporation, Puregold Realty Leasing and Management, Inc., Pure Petroleum Corp. and President of Bellagio Holdings, Inc., Forbes Company, LCKK & Sons Realty Company, Puregold Duty Free, Inc., and Puregold Properties, Inc. He is a Director of 118 Holdings, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., Patagonia Holdings Corp., and Premier Wine and Spirits, Inc. He is a member of the Board of Trustees of Adamson University. Mr. Co has been an entrepreneur for the past 40 years.

**Susan P. Co**, 56, 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. She is also a Director of Kareila Management Corporation, PPCI-Subic, Inc., Ellimac Prime Holdings, Inc., 118 Holdings, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., Patagonia Holdings Corp., Premier Wine and Spirits, Inc., Pure Petroleum Corp., Forbes Company, KMC Realty Company, Puregold Duty Free, Inc., Puregold Duty Free (Subic), Inc., NE Pacific Shopping Centers Corporation and Puregold Properties, Inc. Ms. Co received a Bachelor of Science in Commerce from the University of Santo Tomas.

**Leonardo B. Dayao**, 70, 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 Cosco Capital, Inc., Puregold Finance Inc. and NE Pacific Shopping Centers Corporation and Vice-President of Ellimac Prime Holdings, Inc., Bellagio Holdings, Inc., Puregold Properties, Inc., and VFC Land Resources, Inc. Mr. Dayao is also a Director of Fontana Development Corporation, Fontana Resort and Country Club, 118 Holdings, Inc., Ellimac Prime Holdings, Inc., Fertuna Holdings Corporation, and Nation Realty, Inc. 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**, 32, 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, Fertuna Holdings Corporation, 118 Holdings Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., Patagonia Holdings Corporation, and VFC Land Resources. He is also a Director of Kareila Management Corporation, Bellagio Holdings, Inc., Maxent Investments, Inc., PSMT Philippines, Inc., Puregold Duty Free (Subic), Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Premier Wine and Spirits, Inc., Pure Petroleum Corporation, and Ellimac Prime 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**, 29, 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 Director of Fertuna Holdings, Inc., 118 Holdings, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc. Cosco Price, Inc., Ellimac Prime Holdings, Inc., KMC Realty Company, PSMT Philippines, Inc., Bellagio Holdings, Inc., Maxent Investments, Inc., Patagonia Holdings Corporation, Premier Wine and Spirits, Inc., Pure Petroleum Corp., Puregold Properties, Inc., Puregold Duty Free (Subic), Inc. and VFC Land Resources, Inc. Ms. Co received a Bachelor of Science degree in Entrepreneurship from Thames International Business School.

**Marilyn V. Pardo**, 75, 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**, 76, 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, Philippine Petroleum Sea Transport Association (PHILPESTA) and Dela Salle University. 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**, 36, 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**, 35, 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.

**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:

<b>Nominees for Directors</b>	<b>Nominees for Independent Directors</b>
Lucio L. Co	Edgardo G. Lacson
Susan P. Co	Marilyn V. Pardo
Leonardo B. Dayao	
Ferdinand Vincent P. Co	
Pamela Justine P. Co	

The nominees were formally nominated to the Nomination Committee of the Board during its meeting held on February 4, 2014.

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 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 2014 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 the date hereof, 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 thirty-four 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 Kareila Management Corporation, PPCI-Subic, Inc., Entenso Equities, 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.

**Entenso Equities, Inc.** owns 49% of San Roque Supermarket, Inc. and it also entered into a Joint Venture Agreement with Varejo Corporation, a wholly-owned subsidiary of Ayala Corporation, to establish mid-market supermarkets to cater to ABC market segments.

**Company E Corporation** is the operator of Eunilaine foodmart and Grocer E supermart. 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 last Stockholders' Meeting due to any disagreements with the Company relative to its operations, policies and practices.

**I) Compliance with leading practices in Corporate Governance**

The Board approved the Company's Corporate Governance Manual on October 20, 2010 to monitor and assess the level of the Company's compliance with leading practices on good corporate governance as specified in Philippine SEC Circulars. Aside from establishing specialized committees to aid in complying with the principles of good corporate governance,

the Manual also outlines specific investor's rights and protections and enumerates particular duties expected from the Company's Board members, officers and employees. It also features a Disclosure System which highlights adherence to the principles of transparency, accountability and fairness.

An office of the Compliance Officer is tasked with the formulation of specific measures to determine the level of compliance with the Manual by the Company's Board members, officers and employees. To date, the Company has not encountered any deviations from the Manual's standards. Atty. Candy H. Dacanay-Datuon is the appointed Compliance Officer of the Company.

To increase the awareness and deepen the appreciation of complying with best practices of good corporate governance and in compliance with the recent SEC Circular requiring all directors and key officers to attend a Corporate Governance seminar, the Company is preparing to hold an in-house Corporate Governance seminar sometime in May 2014 to be hosted by one of the accredited providers of the Securities and Exchange Commission.

Further, pursuant to the Company's Corporate Governance Manual, the Company's Board has created each of the following committees and appointed Board members thereto on October 20, 2010.

#### **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 two times 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.

The Company has an Audit Charter approved by the Board of Directors on February 17, 2012. Every end of the year, the Company is discussing audit plan with its external auditor.

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

#### **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.

**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:

Name	Principal Position	Year	Salary	Bonus	Other Annual Compensation
Lucio L. Co	Chairman	2013*	P6,000,000	-	-
		2012	6,000,000	-	-
		2011	6,000,000	-	50,000
Susan P. Co	Vice Chairman	2013*	P2,400,000	-	-
		2012	2,400,000	-	-
		2011	2,400,000	-	50,000
Leonardo B. Dayao	President	2013*	P2,070,000	-	-
		2012	2,070,000	-	-
		2011	1,967,500	-	50,000
Iraida B. De Guzman	Senior Vice President	2013*	P1,120,000	-	-
		2012	1,120,000	-	-
		2011	780,000	-	-
Denise Maria D. Carolino	Vice President	2013*	P773,333	-	-
		2012	773,333	-	-
		2011	650,000	-	-
All other officers and directors as group unnamed**		2013*	P32,126,765	-	-
		2012	30,596,919	-	-
		2011	23,533,615	-	-

\* Estimated annual compensation \*\* Managers and up

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 Fifty Thousand Pesos (P50,000.00) per board meeting and Thirty Thousand Pesos (P30,000.00) per committee meeting.

**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 the Labor Code of the Philippines. 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.

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

The External Auditor of the Company for fiscal year 2013 is R.G Manabat & Co. (KPMG). The partner-in-charge is Mr. Arthur Machacon.

The Company has engaged R.G Manabat & 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.

R.G. Manabat & Co. (KPMG) was formally nominated by the Board as the Company's external auditor for 2014. The said nomination is pursuant to the recommendation made by the Audit Committee during its meeting held on March 21, 2014.

Representatives of R.G. Manabat & Co. (KPMG) are expected to be present at the stockholders' meeting and will be available to respond to appropriate inquiry from stockholders regarding the 2013 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 R.G. Manabat & Co. (KPMG) the total amount of Twelve Million Pesos representing professional fees for the services rendered in year 2013.

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 record date. For the 2014 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**

There are no actions to be taken with respect to authorization or issuance of securities otherwise than for Exchange.

#### **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, 2013 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

a. On March 25, 2014, the Board of Directors of Puregold Price Club, Inc. and Company E Corporation approved the merger of two companies with Puregold Price Club, Inc. as the absorbing company.

b.1./b.2. Company E is engaged also in operating retails supermarkets. It has 7 supermarkets located within Metro Manila, 6 in Rizal Province, and 2 in the Province of Cavite. The said supermarkets are widely known as "Eunilaine Foodmart" and "Grocer E Supermart" particularly located at:

1. SRS (Novaliches) – Quirino Highway cor. Dumalay St., Novaliches Proper, Quezon City
2. SRS Blumentritt Corp. – 2436 Rizal Avenue, Sta. Cruz, Manila
3. SRS Gagalangin Corp. – 2536 Juan Luna St., cor. Bulacan St., Gagalangin Tondo, Manila
4. SRS Tondo Corp. – 1309 Juan Luna St., Tondo, Manila
5. SRS Malabon Corp. – 376 F. Sevilla St., Malabon City
6. SRS Navotas Corp. – 26 F. Pascual St., Tangos, Navotas City
7. SRS Imus Corp. – 68 Dumalay St., Novaliches, Quezon City
8. SRS Camarin Corp. – 6480 Caimito St., Camarin Road, Caloocan City
9. San Roque Supermarket Retail Systems, Inc. – 69 Dumalay St., Novaliches, Quezon City

The main office of Company E Corporation is located at 122 Kalayaan Avenue, Diliman Quezon City, and with telephone number, 920-6171.

b.3 The Company intends to consolidate all stores catering to the same market group into one company. This is expected to result to a better inventory management, efficient cash management and simplified reporting to government agencies. There would be no material difference in the rights of the security holders that would result from this transaction.

b.4 There is no dividend in arrears or defaults in principal or interest in respect of any security of the Company as a result of the proposed merger.

b.5/b.6 Comparative columnar form of the net sales, net income, book value per share, cash dividends, and income per share:

<i>In millions</i>	Net Sales		Net Income		Long-term Obligations	
	CY2013	CY2012	CY2013	CY2012	CY2013	CY2012
Puregold Price Club, Inc.	P59,324	P42,288	P2,766	P2,028	P2,952	P4,909
Company E Corporation	1,048	1,463	40	7	-	-

	Book Value Per Share <sup>1</sup>		Cash Dividend Per Share <sup>2</sup>		Earnings Per Share <sup>3</sup>	
	CY2013	CY2012	CY2013	CY2012	CY2013	CY2012
Puregold Price Club, Inc.	P10.5	P9.6	P0.30	P0.34	P1.00	P0.83
Company E Corporation	295.8	158.3	-	-	137.47	22.45

(1) Total equity over total common shares outstanding

(2) Cash dividend over total common shares outstanding

(3) Net income after tax over weighted average common shares outstanding

b.7 The requirements of the regulatory body particularly the Securities and Exchange Commission shall be complied with so their approval on the transaction may be obtained. The process shall commence upon stockholders' approval of the plan of merger.

b.8 On January 15, 2013, the Company acquired Company E Corporation via share acquisition. Since then, the Company operates Company E Corporation as one of its subsidiaries.

**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 and the Audited Financial Statements as of December 31, 2013
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 14 May 2013 up to the Meeting date 13 May 2014.
3. Merger of Company E Corporation
4. Election of Directors.
5. 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 Chairman and/or the President or in his absence the Chairman of the 2014 Annual Stockholders' Meeting 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 2014 Annual Meeting of Stockholders to be held at Libra Room, 27<sup>th</sup> Floor, Diamond Hotel, Roxas Blvd. corner Dr. J. Quintos St., 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 May 2, 2014. Validation of proxies will be held at the Company's principal office on May 2, 2014 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, or in his absence, the Chairman of the 2014 Annual Stockholders' Meeting, 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 2, 2014; 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 2014 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 2014.

### 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 22<sup>nd</sup> day of April 2014.

**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

**PROXY FORM**

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

The undersigned hereby appoints the Chairman and/or the President or in his absence the Chairman of the 2014 Annual Stockholders' Meeting, with full power of substitution and delegation, as proxy to vote all the shares of the undersigned at the **2014 Annual Stockholders' Meeting** of PUREGOLD PRICE CLUB, INC. to be held on **May 13, 2014, 2:00 p.m. at Libra Room, 27<sup>th</sup> Floor, Diamond Hotel, Roxas Blvd. corner Dr. J. Quintos St., 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
1	Call to Order			
2	Certification of service of notice and existence of quorum			
3	Approval of the Minutes of the 2013 Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting			
4	Annual Report of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2013			
5	Approval of the merger of Company E Corporation with Puregold Price Club, Inc.			
6	Election of Directors			
7	Appointment of External Auditor			
8	Other Matters			
9	Adjournment			

**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  
 EDGARDO G. LACSON\*  
 MARILYN V. PARDO\*

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

*\*Independent Director*

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

\_\_\_\_\_  
 Name & 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.*

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

The following discussion and analysis of the Group's results of operations, financial condition and certain trends, risks and uncertainties that may affect the Group's business should be read in conjunction with the auditors' reports and the Group's 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:

	2013	2012	2011
Current Ratio <sup>(1)</sup>	<b>1.36:1</b>	1.61:1	1.12:1
Asset to Equity Ratio <sup>(2)</sup>	<b>1.62:1</b>	1.66:1	1.80:1
Debt to Equity Ratio <sup>(3)</sup>	<b>0.62:1</b>	0.66:1	0.80:1
Net Debt to Equity <sup>(4)</sup>	<b>0.45:1</b>	0.32:1	0.59:1
Equity to Debt Ratio <sup>(5)</sup>	<b>1.61:1</b>	1.52:1	1.24:1
Book Value per Share <sup>(6)</sup>	<b>P11.06</b>	P9.91	P4.63
Earnings per Share <sup>(7)</sup>	<b>P1.43</b>	P1.11	P0.97

(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's consolidated net income grew by 45.6% in 2013 and 76.0% in 2012, posting at P3,959 million, P2,719 million and P1,545 million for the years ended December 31, 2013, 2012 and 2011, respectively. Consolidated net profit margin posted at 5.4% in 2013 and 4.7% in 2012. The Group's financial results are presented below for the comparative years ended December 31:



<i>(In millions)</i>	2013		2012 <i>(As restated)</i>		2011 <i>(As restated)</i>			
		% to Sales	% Change		% to Sales	% Change	% to Sales	
<b>Net Sales</b>	<b>P73,177</b>	100.0%	27.3%	<b>P57,467</b>	100.0%	47.4%	<b>P38,988</b>	100.0%
Cost of Sales	<b>60,478</b>	82.6%	25.4%	<b>48,228</b>	83.9%	44.2%	<b>33,453</b>	85.8%
<b>Gross Profit</b>	<b>12,699</b>	17.4%	37.5%	<b>9,239</b>	16.1%	66.9%	<b>5,535</b>	14.2%
Other Operating Income	<b>2,204</b>	3.0%	32.2%	<b>1,667</b>	2.9%	58.5%	<b>1,052</b>	2.7%
<b>Gross Income</b>	<b>14,903</b>	20.4%	36.6%	<b>10,906</b>	19.0%	65.6%	<b>6,587</b>	16.9%
Operating Expenses	<b>9,449</b>	12.9%	33.9%	<b>7,057</b>	12.3%	62.0%	<b>4,355</b>	11.2%
<b>Operating Income</b>	<b>5,454</b>	7.5%	41.7%	<b>3,849</b>	6.7%	72.5%	<b>2,231</b>	5.7%
Other income (expenses)	<b>122</b>	0.2%	399.8%	<b>24</b>	0.0%	191.6%	<b>(27)</b>	-0.1%
<b>Net Income before tax</b>	<b>5,576</b>	7.6%	44.0%	<b>3,874</b>	6.7%	75.7%	<b>2,205</b>	5.7%
Income tax expense	<b>1,617</b>	2.2%	40.0%	<b>1,155</b>	2.0%	75.0%	<b>660</b>	1.7%
<b>Net Income after tax</b>	<b>P3,959</b>	5.4%	45.6%	<b>P2,719</b>	4.7%	76.0%	<b>P1,545</b>	4.0%

## Comparative years 2013 and 2012

### *Net Sales*

For the year ended December 31, 2013, consolidated net sales increased by 27.3% or P15,710 million from P57,467 million in 2012 to P73,177 million in 2013. With new stores put up in 2012 operating in full twelve months in 2013, consolidated net sales grew on top to sales from new stores opened in the current year. Operations from subsidiaries acquired in mid of 2012 were also consolidated in full year 2013.

### *Gross Profit*

The Group's consolidated gross profit expanded by 37.5% for the year ended December 31, 2013 from P9,239 million in 2012 to P12,699 million in 2013 driven by strong sales growth and higher level of suppliers' support by way of rebates and conditional discounts granted during the year, in support of the Group's strategic store expansion program. Consolidated gross profit margin improved to 17.4% in 2013 from 16.1% in 2012.

### *Other operating income*

Other operating income grew by P537 million or 32.2% from P1,667 million in 2012 to P2,204 million in 2013. This includes increase in concessionaire income, income from renting of product locations in store aisles to suppliers and renting of booths to third party retailers, as well as increase in display allowances of the new stores & newly acquired subsidiaries including membership income from consolidation of S&R.

### *Operating Expenses*

Operating expenses increased by P2,392 million or 33.9% from P7,057 million in 2012 to P9,449 million in 2013. Majority of the increase was attributable to manpower cost of the Group's new stores, as well as rent expenses relative to new lease contracts, utilities expense, depreciation expense and taxes, all related to the establishment and opening of new stores.

#### *Other income(expense) - net*

Other income increased by P98 million or 399.8% from P24 million in 2012 to P122 million in 2013. This was driven by interest income from short-term investments for the full year ended December 31, 2013.

#### **Comparative years 2012 and 2011**

##### *Net Sales*

For the year ended December 31, 2012, the Group posted consolidated net sales of P57,467 million for 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. In June 2012, the Parent Company acquired 6 S&R warehouses and 19 Parco supermarkets contributing to the total increase in 2012. The Parent Company consolidated the 7 months of operation of acquired subsidiaries starting June of 2012 for both S&R and Parco stores.

##### *Gross Profit*

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, in support of the Group's store expansion.

##### *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, rent 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.

##### *Operating Expenses*

Operating expenses increased by 62.0% from P4,355 million in 2011 to P7,057 million in 2012. Major expenses directly related to store expansion such as manpower cost, rent, utilities, depreciation and taxes, increased in 2012, due to full operation of 2011 stores and cost incurred for newly opened stores. 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)*

Other income net of other expenses increased by P51 million or 191.6%. Interest income increased by P64 million or 253.1% from P25 million in 2011 due to interest earned in short-term investments of Initial Public Offering (IPO) proceeds and placement of proceeds from issuance of the Parent Company's notes. 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 subsidiaries from its short term loans.

## Financial Position

The Group's consolidated financial position reflects stable financial growth. As at December 31, 2013, 2012 and 2011, the Group reached total assets of P49,626 million, P45,444 million and P16,703 million; total liabilities of P19,039 million, P18,018 million and P7,445 million; and total equity of P30,586 million, P27,426 million and P9,258 million, respectively.

<i>(In millions)</i>	2013			2012 (As restated)			2011 (As restated)		
		% to Total Assets	% Change		% to Total Assets	% Change		% to Total Assets	
Cash & Cash Equivalents	P5,299	10.7%	-41.7%	P9,084	20.0%	364.6%	P1,955	11.7%	
Short-term investments	500	1.0%	0.0%	-	0.0%	0.0%	-	0.0%	
Receivables - net	1,217	2.5%	26.3%	964	2.1%	134.9%	410	2.5%	
Investments in trading securities	29	0.1%	-17.4%	35	0.1%	45.6%	24	0.1%	
Merchandise inventory	9,442	19.0%	42.8%	6,612	14.5%	46.2%	4,523	27.1%	
Prepaid expenses and other current assets	1,019	2.1%	48.0%	688	1.5%	28.3%	536	3.2%	
<b>Total Current Assets</b>	<b>17,505</b>	<b>35.3%</b>	<b>0.7%</b>	<b>17,383</b>	<b>38.3%</b>	<b>133.4%</b>	<b>7,449</b>	<b>44.6%</b>	
Investments and acquisitions of subsidiaries	440	0.9%	5481.5%	8	0.0%	0.0%	8	0.0%	
Property and equipment- net	12,513	25.2%	31.5%	9,515	20.9%	59.7%	5,959	35.7%	
Intangibles and goodwill	18,001	36.3%	2.9%	17,500	38.5%	24988.4%	70	0.4%	
Deferred tax assets - net	-	0.0%	0.0%	-	0.0%	-100.0%	231	1.4%	
Other noncurrent assets	1,167	2.4%	12.4%	1,038	2.3%	-65.2%	2,986	17.9%	
<b>Total Noncurrent Assets</b>	<b>32,121</b>	<b>64.7%</b>	<b>14.5%</b>	<b>28,061</b>	<b>61.7%</b>	<b>203.2%</b>	<b>9,254</b>	<b>55.4%</b>	
	<b>P49,626</b>	<b>100.0%</b>	<b>9.2%</b>	<b>P45,444</b>	<b>100.0%</b>	<b>172.1%</b>	<b>P16,703</b>	<b>100.0%</b>	
Accounts payable and accrued expenses	11,040	22.2%	16.7%	9,461	20.8%	51.7%	6,235	37.3%	
Short-term loans payable	884	1.8%	73.7%	509	1.1%	0.0%	-	0.0%	
Income tax payable	561	1.1%	27.8%	439	1.0%	135.7%	186	1.1%	
Trust receipts payable	17	0.0%	103.5%	8	0.0%	-61.8%	21	0.1%	
Due to related parties	79	0.2%	24.2%	64	0.1%	621.3%	9	0.1%	
Current maturities of long - term loans, net of debt issue costs	-	0.0%	-100.0%	43	0.1%	0.0%	-	0.0%	
Other current liabilities	302	0.6%	19.0%	254	0.6%	42.7%	178	1.1%	
<b>Total Current Liabilities</b>	<b>12,882</b>	<b>26.0%</b>	<b>19.5%</b>	<b>10,777</b>	<b>23.7%</b>	<b>62.6%</b>	<b>6,629</b>	<b>39.7%</b>	
Noncurrent accrued rent	1,599	3.2%	42.7%	1,121	2.5%	69.1%	663	4.0%	
Long-term loans - net of current maturities and debt issue costs	3,452	7.0%	-29.7%	4,909	10.8%	0.0%	-	0.0%	
Deferred tax liabilities - net	819	1.7%	-13.1%	943	2.1%	0.0%	-	0.0%	
Retirement benefits liability	287	0.6%	7.0%	268	0.6%	74.5%	153	0.9%	
<b>Total Noncurrent Liabilities</b>	<b>6,157</b>	<b>12.4%</b>	<b>-15.0%</b>	<b>7,241</b>	<b>15.9%</b>	<b>787.0%</b>	<b>816</b>	<b>4.9%</b>	
<b>Total Liabilities</b>	<b>P19,039</b>	<b>38.4%</b>	<b>5.7%</b>	<b>P18,018</b>	<b>39.6%</b>	<b>142.0%</b>	<b>P7,445</b>	<b>44.6%</b>	
Capital stock	2,766	5.6%	0.0%	2,766	6.1%	38.3%	2,000	12.0%	
Additional paid in capital	20,830	42.0%	0.0%	20,830	45.8%	303.0%	5,169	30.9%	
Remeasurements of retirement liability - net of tax	(3)	0.0%	-92.4%	(33)	-0.1%	306.9%	(8)	0.0%	
Retained earnings	6,992	14.1%	81.0%	3,863	8.5%	84.2%	2,097	12.6%	
<b>Total Equity</b>	<b>30,586</b>	<b>61.6%</b>	<b>11.5%</b>	<b>27,426</b>	<b>60.4%</b>	<b>196.3%</b>	<b>9,258</b>	<b>55.4%</b>	
	<b>P49,626</b>	<b>100.0%</b>	<b>9.2%</b>	<b>P45,444</b>	<b>100.0%</b>	<b>172.1%</b>	<b>P16,703</b>	<b>100.0%</b>	

## **Comparative Years 2013 and 2012**

### *Current Assets*

As at December 31, 2013 and 2012, total current assets amounted to P17,505 million or 35.3% of total assets, and P17,383 million or 38.3% of total assets, respectively, for an increase of P122 million or 0.7% as at December 31, 2013.

Cash and cash equivalents as at December 31, 2013 amounted to P5,299 million or 10.7% of total assets, lower by P3,786 million or 41.7% compared to previous year-end balance. Decrease in the account was attributable to the prepayment by the Parent Company of its long-term corporate notes, settlement of trade liabilities, payments for 2012 cash dividends and capital expenditures for new stores as well as the Group's acquisition of Company E and Entenso during the year.

Receivables amounted to P1,217 million as at December 31, 2013 or 2.5% of total assets, with an increase of P253 million or 26.3% from P964 million in December 2012. This includes trade and non trade receivables, net of P7 million allowance for impairment losses.

Merchandise inventory, comprising the bulk of the Group's current assets, amounted to P9,442 million or 19.0% of total assets at the end of December 2013. Total inventory increased by P2,830 million or 42.8% principally due to stocking requirements of existing and new operating stores.

Prepaid expenses and other current assets increased by P331 million or 48.0% at the end of December 2013, relative to opening of new stores and are attributable primarily to rent, insurance, taxes, permits & licenses and input taxes.

### *Noncurrent Assets*

As at December 31, 2013 and 2012, total noncurrent assets amounted to P32,121 million or 64.7% of total assets, and P28,061 million or 61.7% of total assets, respectively, for an increase of P4,059 million or 14.5% as at December 31, 2013.

Investments increased by P432 million or 5,481.5% from P8 million in 2012 to P440 million in 2013 as a result of investments in equity and joint venture made during the year. Investments comprised 0.9% only of total assets as at the end of the year.

Net book values of property and equipment increased by P2,998 million or 25.2% from P9,515 million in December 2012 to P12,513 million in December 2013. This was due principally to additional capital expenditures incurred for the development and establishment of new stores during the current period.

Other noncurrent assets increased by P129 million or 11.7% from P1,038 million in December 2012 to P1,167 million in December 2013. This was primarily due to increase in security deposits in relation to new leases acquired for new stores development.

### *Current Liabilities*

As at December 30, 2013 and 2012, total current liabilities amounted to P12,882 million or 26.0% of total assets, and P10,777 million or 23.7% of total assets, respectively, for an increase of P2,105 million or 19.5% as at December 31, 2013.

Accounts payable and accrued expenses increased by P1,579 million or 16.7% primarily due purchases of inventories for new stores opened in the current year. In addition, cash dividend amounting to P830 million was declared by the Parent Company during the year.

Short term loans payable increased by P375 million or 73.7% from P509 million in December 2012 to P884 million in December 2013 due to availment made by the Parent Company during the year.

Income tax payable increased by P122 million from P439 million in December 2012 to P561 million in December 2013 due to provisions for tax recognized during the year net of settlements made for tax incurred in prior year and previous quarters of the current year.

Trust receipts payable increased by P8 million or 103.5% from P8 million in December 2012 to P17 million in December 2013 due to purchases made for goods covered under the trust receipts agreement.

Due to related parties increased by P15 million or 24.2% due to advances made to related parties..

Other current liabilities increased by 19.0% from P254 million in December 2012 to P302 million in December 2013 relatively due to recognition of rental deposits received from tenants of newly opened stores.

#### Noncurrent Liabilities

As at December 31, 2013 and 2012, total noncurrent liabilities amounted to P6,157 million or 12.4% of total assets, and P7,241 million or 15.9% of total assets, respectively, for a decrease of P1,084 million or 15.0% as at December 31, 2013.

Noncurrent accrued rent increased by P478 million or 42.7% from P1,121 million in December 2012 to P1,599 million in December 2013 due to recognition of rent expense for lease contracts entered into by the Parent Company and its subsidiaries in compliance with PAS 17 – Leases.

Long term loans payable decreased by P1,457 million or 29.7% from P4,909 million in 2012 to P3,452 million in 2013 due to prepayment made by the Parent Company of its long-term corporate notes and partially offset by securing new loans with banks to finance its expansion.

Retirement benefits liability increased by P19 million or 7.0% from P268 million in December 2012 to P287 million in December 2013 due to recognition of obligation incurred based on the latest independent actuarial report in accordance with PAS 19 – Employee Benefits.

#### Equity

As at December 31, 2013 and 2012, total equity amounted to P30,586 million or 61.6% of total assets and P27,426 million or 60.4% of total assets, respectively, for an increase of P3,160 million or 11.5% as at the end of the year.

Remeasurements of retirement liability - net of tax pertain to adjustments made in compliance to new accounting standard covering employee benefits. As a result, prior

period balances were restated to reflect balances that should have been recognized in previous period in relation to retirement obligations.

Retained earnings increased by P3,129 million or 81.0% coming from income from operations net of cash dividend declared during the year.

## **Comparative Years 2012 and 2011**

### *Current Assets*

As at December 31, 2012 and 2011, total current assets amounted to P17,383 million or 38.3% of total assets, and P7,449 million or 44.6% of total assets, respectively, for an increase of 133.4% or P9,934 million.

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 in operations and the P5,000 million short term placement coming from the fixed rate corporate notes issued by the Parent Company.

Investments in trading securities increased by 45.6% as the fair market value of stocks appreciate as of the end of the year. Contribution of the account as percentage of total assets remained to be at 0.1%.

Receivables amounted to P964 million in 2012 or 2.1% of total assets, with an increase of P554 million or 134.9% from P410 million in 2011, in relation to opening of new stores. This includes trade and non trade receivables, net of P7 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 rent, 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 and 2011, total noncurrent assets amounted to P28,061 million or 61.7% of total assets and P9,254 million or 55.4% of total assets, respectively, for an increase of 203.2% or P18,808 million in 2012.

Property and equipment increased by 59.7% from P5,959 million in 2011 to P9,515 million in 2012. Major increase is attributable to leasehold improvements and equipments for the newly opened stores in 2012. Construction in progress increased at the end of 2012 resulting from the construction of future stores expected to open in 2013.

Intangibles increased from P70 million in 2011 to P17,500 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 restricted cash from IPO fully utilized in 2012 for capital expenditures as presented in the offering prospectus.

#### *Current Liabilities*

As at December 31, 2012 and 2011, total current liabilities amounted to P10,777 million or 23.7% of total assets and P6,629 million or 39.7% of total assets, respectively, for an increase of P4,148 million or 62.6% in 2012.

Accounts payable and accrued expenses increased by P3,226 million or 51.7% 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 P5,644 in 2012 relative to purchase of inventories 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 P253 million or 135.7% at the end of the year due to 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 P55 million due to unpaid rent to other related parties 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 P76 million or 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.

#### *Noncurrent Liabilities*

As at December 31, 2012 and 2011, total noncurrent liabilities amounted to P7,241 million or 15.9% of total assets and P816 million or 4.9% of total assets, respectively, for an increase of 787.0% at the end of 2012.

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 P153 million in 2011 to P268 million in 2012 due to recognition of obligation incurred based on the latest actuarial report in accordance with PAS 19.

#### *Equity*

As at December 31, 2012 and 2011, total equity amounted to P27,426 million or 60.4% of total assets and P9,258 million or 55.4% of total assets, respectively, for an increase of P18,169 million or 196.3% as at the end of the year.

Capital stock grew by 38.3% resulting from 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% in excess of the fair market value of the consideration over the par value of the stocks issued. Retained earnings increased by 84.2% as a result of net income from operations of P2,719 million and partially offset by cash dividend of P400 million paid in June 2012 and P553 million cash dividend declared in December 2012.

#### **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>2013</b>	2012 <i>(As restated)</i>	2011 <i>(As restated)</i>
Net cash provided by operating activities	<b>P2,733</b>	P4,300	P1,358
Net cash used in investing activities	<b>(5,354)</b>	(2,274)	(4,867)
Net cash provided by (used in) financing activities	<b>(1,164)</b>	5,104	3,626
Net increase (decrease) in cash and cash equivalents	<b>(P3,786)</b>	P7,129	P117

#### *Cash flow from operating activities*

Net cash provided by operating activities amounted to P2,733 million, P4,300 million and P1,358 million for the years ended December 31, 2013, 2012 and 2011, respectively. This was mainly due to increase in operating income driven by aggressive store expansion.

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



Net cash used in investing activities amounted to P5,354 million, P2,274 million and P4,867 million for the years ended December 31, 2013, 2012 and 2011, respectively. Acquisitions of equipments, furniture & fixtures, lands, construction of buildings and improvements on leased assets amounted to P3,739 million in 2013 and P4,216 million in 2012. The decrease in cash used in investing activities at the end of 2012 was due to restricted cash from IPO allocated in 2011 for capital expenditures which was fully utilized in 2012.

*Cash flow from (used in) financing activities*

Net cash used in financing activities amounted to P1,164 million in 2013 which includes prepayment of the Parent Company's corporate bond and net of new loans sourced from banks. Net cash provided by financing activities amounted to P5,104 million and P3,626 million for the years ended December 31, 2012 and 2011, respectively. In 2012, the Parent Company issued P5,000 million fixed term corporate notes increasing financing cash flows at the end 2012. In 2011, the Parent Company's issuance of new shares relative to IPO generated P5,719 million cash of which P2,092 million was used to settle outstanding bank loans.

### Capital Expenditures

The table below sets out the Group's capital expenditures in 2013, 2012 and 2011.

<i>(In millions)</i>	For the years ended December 31,		
	2013	2012	2011
Office and store equipment	<b>P1,182</b>	P1,098	P580
Computer software	<b>72</b>	16	18
Furniture and fixtures	<b>413</b>	188	222
Leasehold improvements	<b>791</b>	875	563
Building	<b>450</b>	552	382
Land	<b>8</b>	29	340
Construction in progress	<b>1,074</b>	1,504	227
<b>Total</b>	<b>P3,918</b>	P4,246	P2,333

The Group has historically sourced funding for capital expenditures through working capital derived from operating income and bank loans. Capital expenditures for the year 2013 were primarily sourced from bank loans. For 2011 and 2012, capital expenditures of the Group was funded by the internally generated funds and net proceeds generated from the primary offer.

### 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**

In April 2013, the Parent Company prepaid the P5,000 million long-term corporate notes issued in order to avoid incremental tax-related costs assessments. The Group, however, does not anticipate having any cash flow or liquidity problems in funding its expansion program as it has arranged and availed sufficient and much cheaper credit facilities from its main bankers.

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

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

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

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

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

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

Summary of Board Resolutions for the year 2013

Date of Meeting	Resolutions/Approval issued during the Meeting
February 18, 2013	Approval of the 2012 audited financial statements
May 14, 2013	Approval of various lease agreements over locations for possible Puregold stores.
August 7, 2013	Approval of 2 <sup>nd</sup> Quarter Financial Statements.
September 26, 2013	Approval of various lease agreements
November 8, 2013	<p>Approval of 3<sup>rd</sup> quarter Financial Statements</p> <p>Approval of various lease agreements</p> <p>Appointment of Mr. Ferdinand Vincent P. Co as authorized representative and signatory of the Company in all transactions, applications and all papers related to the normal and daily operation of Pure Pharmacy</p> <p>Authorizing Ms. Erlinda Orro, Comptroller and Tess Tuazon, Accounting Manager, to claim insurance benefits for the fire incident in Puregold-Parañaque branch and flood incident in San Pedro, Laguna.</p>
December 16, 2013	<p>Promotion of Store Officers</p> <p>Approval of Audit Plan.</p>

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013, 2012 and 2011

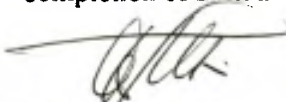
# PUREGOLD PRICE CLUB, INC.

## 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, 2013 and 2012, 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.

R.G. Manabat & Co., CPAs, the independent auditors appointed by the stockholders has audited the financial statements of the Company 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 L. CO**  
Chairman


  
**LEONARDO B. DAXCO**  
President

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

  
Signed this 25th day of MARCH 2014

SUBSCRIBED AND SWORN to before me, this MAR 28 2014 day of MANILA 2014 at MANILA; affiants exhibited to me their Tax Identification Numbers Lucio L. Co 108-975-971, Susan P. Co 100-053-331.

Doc No. 381  
Page No. 24  
Book No. 111  
Series of 2014 \_\_\_\_\_

  
**ATTY. AGUSTINA CABREDO**  
Notary Public for Manila  
Notarial Commission No. 2013-103  
Until December 31, 2014  
Rm. 409, First United Bldg. Co.,  
Escote, Manila  
Roll No. 26047  
PTR No. 2450249 / 1-2-14 / Manila  
IBP Life Member 05097



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Branches: Subic · Cebu · Bacolod · Iloilo

## **REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Stockholders  
Puregold Price Club, Inc. and Subsidiaries  
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, 2013 and 2012, 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, 2013, 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, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

**R.G. MANABAT & CO.**

**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

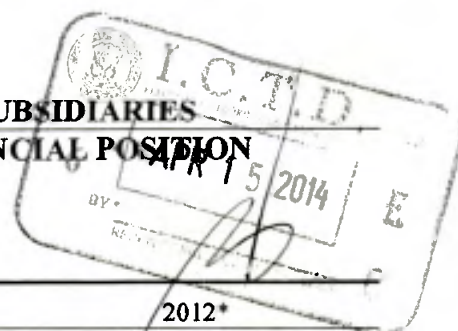
PTR No. 4225128MC

Issued January 2, 2014 at Makati City

March 25, 2014

Makati City, Metro Manila

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



		2012*		
	<i>Note</i>	2013	December 31 (As restated - see Note 30)	January 1 (As restated - see Note 30)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	4, 28, 29	P5,298,726,281	P9,084,325,007	P1,955,167,541
Short-term investments	5, 28, 29	500,000,000	-	-
Receivables - net	6, 22, 28, 29, 30	1,217,058,766	963,880,510	410,357,431
Merchandise inventory	7	9,441,528,622	6,611,541,340	4,522,929,063
Investments in trading securities	8, 28, 29	28,867,376	34,946,521	24,000,214
Prepaid expenses and other current assets	9	1,018,882,574	688,330,063	536,409,934
<b>Total Current Assets</b>		<b>17,505,063,619</b>	<b>17,383,023,441</b>	<b>7,448,864,183</b>
<b>Noncurrent Assets</b>				
Investments and acquisitions of subsidiaries	10, 28, 29	439,775,237	7,879,160	7,879,160
Property and equipment - net	11, 30	12,513,226,596	9,515,389,320	5,959,293,625
Intangibles and goodwill	12, 30	18,000,887,819	17,499,911,680	69,753,052
Deferred tax assets - net	24, 30	-	-	231,144,885
Other noncurrent assets	13, 18, 24, 28, 29	1,166,690,791	1,038,071,790	2,985,865,794
<b>Total Noncurrent Assets</b>		<b>32,120,580,443</b>	<b>28,061,251,950</b>	<b>9,253,936,516</b>
		<b>P49,625,644,062</b>	<b>P45,444,275,391</b>	<b>P16,702,800,699</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	14, 22, 25, 28, 29, 30	P11,040,055,010	P9,460,587,129	P6,234,585,807
Short-term loans payable	15, 28, 29	883,500,000	508,500,000	-
Income tax payable		560,508,497	438,660,875	186,076,234
Trust receipts payable	28, 29	16,543,219	8,130,029	21,299,667
Due to related parties	22, 28, 29, 30	79,363,007	63,876,965	8,855,584
Current maturities of long - term loans, net of debt issue costs	15, 28, 29	-	43,140,099	-
Other current liabilities	16, 28, 29	302,126,431	253,949,662	177,912,643
<b>Total Current Liabilities</b>		<b>12,882,096,164</b>	<b>10,776,844,759</b>	<b>6,628,729,935</b>
<b>Noncurrent Liabilities</b>				
Noncurrent accrued rent	24, 28, 29	1,599,368,798	1,120,906,123	662,950,406
Long-term loans - net of current maturities and debt issue costs	15, 28, 29	3,451,714,933	4,909,071,263	-
Deferred tax liabilities - net	24, 30	819,497,887	943,224,351	-
Retirement benefits liability	23, 30	286,666,279	267,814,822	153,438,340
<b>Total Noncurrent Liabilities</b>		<b>6,157,247,897</b>	<b>7,241,016,559</b>	<b>816,388,746</b>
<b>Total Liabilities</b>		<b>19,039,344,061</b>	<b>18,017,861,318</b>	<b>7,445,118,681</b>

\*This does not include information for Subsidiaries acquired in 2013 (see Note 1 to the consolidated financial statements).

Forward



	<i>Note</i>	2013	2012*	
			December 31 (As restated - see Note 30)	January 1 (As restated - see Note 30)
<b>Equity</b>				
Capital stock	25	P2,766,406,406	P2,766,406,250	P2,000,000,000
Additional paid-in capital	25	20,830,391,081	20,830,387,095	5,168,821,728
Remeasurements of retirement liability - net of tax	23, 30	(2,520,490)	(33,067,031)	(8,126,228)
Retained earnings	25, 30	6,992,023,004	3,862,687,759	2,096,986,518
<b>Total Equity</b>		<b>30,586,300,001</b>	<b>27,426,414,073</b>	<b>9,257,682,018</b>
		<b>P49,625,644,062</b>	<b>P45,444,275,391</b>	<b>P16,702,800,699</b>

\*This does not include information for Subsidiaries acquired in 2013 (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>				
		<b>2013</b>	<b>2012*</b> (As restated - see Note 30)	<b>2011*</b> (As restated - see Note 30)
	<i>Note</i>			
<b>NET SALES</b>				
Gross sales		P73,333,926,889	P57,583,220,308	P39,051,675,728
Sales discount		156,717,866	116,712,898	63,792,323
		73,177,209,023	57,466,507,410	38,987,883,405
<b>COST OF SALES</b>	17	60,478,204,793	48,227,697,388	33,453,130,008
<b>GROSS PROFIT</b>		12,699,004,230	9,238,810,022	5,534,753,397
<b>OTHER OPERATING INCOME</b>	19	2,203,808,741	1,667,029,827	1,051,883,532
		14,902,812,971	10,905,839,849	6,586,636,929
<b>OPERATING EXPENSES</b>	8, 20	9,448,865,132	7,056,658,834	4,355,256,491
<b>INCOME FROM OPERATIONS</b>		5,453,947,839	3,849,181,015	2,231,380,438
<b>OTHER INCOME (EXPENSES)</b>				
Interest income	4, 5	154,993,220	88,964,732	25,143,153
Interest expense	14, 15	(26,462,693)	(74,044,583)	(65,028,007)
Others - net	21	(6,372,265)	9,522,584	13,211,963
		122,158,262	24,442,733	(26,672,891)
<b>INCOME BEFORE INCOME TAX</b>		5,576,106,101	3,873,623,748	2,204,707,547
<b>INCOME TAX EXPENSE</b>				
Current		1,779,726,010	1,292,735,908	714,565,502
Deferred		(162,877,078)	(138,093,401)	(54,852,762)
	24	1,616,848,932	1,154,642,507	659,712,740
<b>NET INCOME</b>		3,959,257,169	2,718,981,241	1,544,994,807
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Remeasurements of defined benefit liability	23	43,637,916	(35,629,719)	(11,608,897)
Income tax relating to items that will not be reclassified subsequently		(13,091,375)	10,688,916	3,482,669
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax</b>		30,546,541	(24,940,803)	(8,126,228)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		P3,989,803,710	P2,694,040,438	P1,536,868,579
Basic and diluted earnings per share	27	P1.43	P1.11	P0.97

\*This does not include information for Subsidiaries acquired in 2013 and 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**

	<i>Note</i>	<b>Capital Stock</b>	<b>Additional Paid- in Capital</b>	<b>Remeasurements of Retirement Liability</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
Balance at January 1, 2011, as previously stated		P1,450,000,000	P -	P -	P597,822,435	P2,047,822,435
Impact of changes in accounting policy	30	-	-	-	(45,830,724)	(45,830,724)
<b>Balance at January 1, 2011, as restated</b>		<b>1,450,000,000</b>	<b>-</b>	<b>-</b>	<b>551,991,711</b>	<b>2,001,991,711</b>
<b>Total comprehensive income</b>						
Net income for the year		-	-	-	1,544,994,807	1,544,994,807
Other comprehensive income, net of tax	30	-	-	(8,126,228)	-	(8,126,228)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(8,126,228)</b>	<b>1,544,994,807</b>	<b>1,536,868,579</b>
<b>Transactions with owners of the Parent Company</b>						
Issuance of ordinary shares	25	550,000,000	5,168,821,728	-	-	5,718,821,728
<b>Balance at December 31, 2011*, as restated</b>		<b>2,000,000,000</b>	<b>5,168,821,728</b>	<b>(8,126,228)</b>	<b>2,096,986,518</b>	<b>9,257,682,018</b>
<b>Total comprehensive income</b>						
Net income for the year		-	-	-	2,718,981,241	2,718,981,241
Other comprehensive income, net of tax	30	-	-	(24,940,803)	-	(24,940,803)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(24,940,803)</b>	<b>2,718,981,241</b>	<b>2,694,040,438</b>
<b>Transactions with owners of the Parent Company</b>						
Issuance of ordinary shares	25	766,406,250	15,661,565,367	-	-	16,427,971,617
Cash dividends		-	-	-	(953,280,000)	(953,280,000)
<b>Total transactions with owners of the Parent Company</b>		<b>766,406,250</b>	<b>15,661,565,367</b>	<b>-</b>	<b>(953,280,000)</b>	<b>15,474,691,617</b>
<b>Balance at December 31, 2012*</b>		<b>2,766,406,250</b>	<b>20,830,387,095</b>	<b>(33,067,031)</b>	<b>3,862,687,759</b>	<b>27,426,414,073</b>

\*This does not include information for Subsidiaries acquired in 2013 and May 2012 (see Note 1 to the consolidated financial statements).

Forward

	Note	Capital Stock	Additional Paid- in Capital	Remeasurements of Retirement Liability	Retained Earnings	Total Equity
<b>Total comprehensive income</b>						
Net income for the year		P -	P -	P -	P3,959,257,169	P3,959,257,169
Other comprehensive income, net of tax	30	-	-	30,546,541	-	30,546,541
<b>Total comprehensive income</b>		-	-	<b>30,546,541</b>	<b>3,959,257,169</b>	<b>3,989,803,710</b>
<b>Transactions with owners with the Parent Company</b>						
Issuance of ordinary shares - net of treasury shares	25	156	3,986	-	-	4,142
Cash dividends	25	-	-	-	(829,921,924)	(829,921,924)
<b>Total transactions with owners of the Parent Company</b>		<b>156</b>	<b>3,986</b>	<b>-</b>	<b>(829,921,924)</b>	<b>(829,917,782)</b>
<b>Balance at December 31, 2013</b>		<b>P2,766,406,406</b>	<b>P20,830,391,081</b>	<b>(P2,520,490)</b>	<b>P6,992,023,004</b>	<b>P30,586,300,001</b>

\*This does not include information for Subsidiaries acquired in 2013 and May 2012 (see Note 1 to the consolidated financial statements).  
See Notes to the Financial Statements

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

Years Ended December 31				
	<i>Note</i>	2013	2012* (As restated - see Note 30)	2011* (As restated - see Note 30)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P5,576,106,101</b>	P3,873,623,748	P2,204,707,547
Adjustments for:				
Depreciation and amortization	11, 12, 20	<b>964,360,038</b>	675,492,982	456,974,253
Rent expense in excess of billings		<b>478,462,675</b>	457,955,717	155,340,714
Interest income	4, 5	<b>(154,993,220)</b>	(88,964,732)	(25,143,153)
Retirement benefits cost	20, 23	<b>69,884,447</b>	53,152,306	37,125,458
Interest expense	14, 15	<b>26,462,693</b>	74,044,583	65,028,007
Unrealized valuation loss (gain) in trading securities	8, 21	<b>6,079,145</b>	(9,778,303)	(195,314)
Derecognition of property and equipment		<b>5,405,007</b>	-	-
Dividend income	21	-	(565,125)	(866,750)
Gain on disposal of property and equipment	21	<b>(354,777)</b>	(374,998)	(369,118)
Loss on pre-termination of lease contract	20	-	-	9,000,000
Impairment losses on receivables	6, 20	-	1,940,552	1,407,884
Unrealized foreign exchange loss	21	-	1,523	-
Gain on insurance claim	21	-	(202,500)	(27,296,511)
Operating income before changes in working capital		<b>6,971,412,109</b>	5,036,325,753	2,875,713,017
Increase in:				
Receivables		<b>(253,178,256)</b>	(555,463,631)	(200,306,859)
Investments in trading securities		-	(1,168,004)	(12,500)
Merchandise inventory		<b>(2,829,987,282)</b>	(2,088,612,277)	(1,588,677,384)
Prepaid expenses and other current assets		<b>(502,971,135)</b>	(151,920,129)	(153,572,870)
Increase (decrease) in:				
Accounts payable and accrued expenses		<b>769,823,049</b>	3,010,940,782	1,218,023,376
Trust receipts payable		<b>8,413,190</b>	(13,169,638)	(9,632,691)
Due to a related party	22	<b>3,689,788</b>	12,080,490	8,855,584
Other current liabilities		<b>48,176,769</b>	76,037,019	(118,715,047)
Cash generated from operations		<b>4,215,378,232</b>	5,325,050,365	2,031,674,626
Interest received		<b>154,993,220</b>	88,964,732	25,143,153
Interest paid		<b>(175,640,924)</b>	(74,044,583)	(68,271,987)
Income taxes paid		<b>(1,462,122,666)</b>	(1,040,151,267)	(630,670,950)
Net cash provided by operating activities		<b>2,732,607,862</b>	4,299,819,247	1,357,874,842

\*This does not include information for Subsidiaries acquired in 2013 and May 2012 (see Note 1 to the consolidated financial statements).

Forward

**Years Ended December 31**

		2013	2012*	2011*
	Note		(As restated - see Note 30)	(As restated - see Note 30)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment	11	(P3,738,736,049)	(P4,216,074,623)	(P2,383,295,238)
Additions to investments		(431,896,077)	-	-
Additions to intangibles	12	(505,458,751)	(16,377,116)	-
Acquisition of short-term investments		(500,000,000)	-	-
Decrease (increase) in other noncurrent assets		(178,963,886)	1,947,794,004	(2,617,103,196)
Dividends received		-	565,125	866,750
Proceeds from insurance claim		-	202,500	57,418,680
Proceeds from disposal of property and equipment		1,170,421	9,577,599	16,587,270
Proceeds from disposal of computer software		-	-	58,382,931
Net cash used in investing activities		(5,353,884,342)	(2,274,312,511)	(4,867,142,803)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Payment of long-term loans payable	15	(5,000,000,000)	-	(2,092,330,000)
Availment of loans payable		3,448,881,500	4,952,211,362	-
Availment of short-term loans payable	15	375,000,000	508,500,000	-
Proceeds from issuance and subscriptions of capital stock		-	-	5,718,821,728
Cash dividends paid		-	(400,000,000)	-
Increase in due to related parties		11,796,254	42,940,891	-
Net cash provided by (used in) financing activities		(1,164,322,246)	5,103,652,253	3,626,491,728
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		(3,785,598,726)	7,129,158,989	117,223,767
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>				
		-	(1,523)	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
	4	9,084,325,007	1,955,167,541	1,837,943,774
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	4	P5,298,726,281	P9,084,325,007	P1,955,167,541

\*This does not include information for Subsidiaries acquired in 2013 and 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. Its shares are listed in the Philippine Stock Exchange (PSE) since October 5, 2011 with stock symbol of PGOLD. Its ultimate parent company is Cosco Capital, Inc. (Cosco) which is incorporated in the Philippines. Cosco is formerly named Alcorn Gold Resources Corporation and is also listed with the PSE since September 26, 1998.

The Group is principally involved 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. The Company has two hundred thirteen (213) operating stores, of which, fifty seven (57) were newly opened stores as at December 31, 2013. Its registered office is located at 900 Romualdez Street, Paco, Manila.

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

	Percentage of Ownership	
	2013	2012
Kareila Management Corporation (Kareila) <sup>(a)</sup>	100.00	100.00
PPCI Subic Inc. (Subic) <sup>(b)</sup>	100.00	100.00
Company E Corporation (Company E) <sup>(c)</sup>	100.00	-
Entenso Equities Incorporated, Inc. (Entenso) <sup>(d)</sup>	100.00	-
Puregold Junior Supermarket, Inc. (PJSI) <sup>(e)</sup>	-	100.00
Gant Group of Companies Incorporated (Gant) <sup>(e)</sup>	-	100.00

(a) Operator of S&R Membership Shopping; incorporated and registered with SEC in 2004; acquired by the Parent Company on May 28, 2012 through a Share Swap Agreement (see Note 10).

(b) Incorporated and registered with SEC on May 31, 2012 and has started its commercial operations on September 20, 2012 (see Note 10).

(c) Incorporated and registered with SEC on January 13, 1993 primarily to engage in the same business as the Parent Company. (see Note 10).

(d) Certificate of Incorporation was approved on May 22, 2013 as a holding company (see Note 10).

(e) On February 26, 2014, the SEC approved the Articles and Plan of Merger of PJSI and Gant with the Parent Company as the surviving entity.

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

**Acquisition of Company E**

On January 14, 2013, the Parent Company's Board of Directors (BOD) approved the acquisition of Company E (the company behind the Eunilaine Foodmart and Grocer E Supermart chains) via share acquisition from its stockholders of up to 100%.

**Acquisition of Entenso**

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

#### Acquisition of 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 (see Note 10).

#### Acquisition of Subic

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 (see Note 10).

#### Merger with PJSI and Gant

On August 14, 2012, the BOD approved the merger of the Parent Company with PJSI and Gant, with the Parent Company as the surviving corporation. On February 26, 2013, the SEC approved the Company's application for merger resulting in the consolidation of PJSI and Gant's assets, liabilities and retained earnings accounts.

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## **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 BOD on March 25, 2014.

#### Basis of Measurement

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

Items	Measurement Bases
Investments in trading securities	Fair value
Available-for-sale (AFS) financial assets	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.

#### *Classifying Financial Instruments*

The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, loans and receivables and available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities.

#### *Determining the Fair Value of Financial Instruments*

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

The fair values of the Group's financial instruments are presented in Note 29 to the consolidated financial statements.

*Determination of Significant Influence*

The Group in relation to Entenso acquired 49.34% equity interest without voting rights in San Roque Supermarkets (SRS). The Group accounted the investment at cost due to the absence of significant influence as mentioned in paragraphs 5-6 of PAS 28, *Investments in Associate*.

Following are the requirements evaluated by the Group in determining whether an associate has significant influence:

- (a) representation on the board of directors or equivalent governing body of the investee;
- (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
- (c) material transactions between the entity and its investee;
- (d) interchange of managerial personnel; or
- (e) provision of essential technical information.

As at December 31, 2013, the cost of its investment amounted to P379.78 million which is also its fair value on the date of its acquisition (see Note 10).

#### *Assessing Joint Arrangements*

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

The Group has determined that its investment in joint arrangement is classified as an investment in a joint venture.

As at December 31, 2013, the cost of its investment in a joint venture amounted to P60.00 million which is also its fair value on the date of its acquisition (see Note 10).

#### *Distinction between Investment Property and Property and Equipment*

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

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

#### *Assessing Lease Agreements*

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

#### *Operating Leases - Group as a Lessee*

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

Rent expense recognized in profit or loss amounted to P1,786.50 million, P1,368.39 million, and P793.15 million in 2013, 2012, and 2011, 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 P266.55 million, P225.62 million and P179.28 million in 2013, 2012 and 2011, respectively (see Notes 18 and 19).

#### *Assessment of Computer Software and Licenses and Leasehold Rights*

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

#### Estimates

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

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

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

The allowance for impairment losses on receivables amounted to P7.46 million as at December 31, 2013 and 2012. In 2013, the Group did not recognize an additional allowance for impairment losses on receivables because historical experience shows that all receivables that are past due are recoverable. Impairment losses on receivables in 2012 and 2011 amounted to P1.94 million and P1.41 million, respectively. The carrying amount of receivables amounted to P1,217.06 million and P963.88 million as at December 31, 2013 and 2012, respectively (see Note 6).

#### *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., pre-termination of contracts). The estimate of the NRV is reviewed regularly.

Estimates of NRV are based on the most reliable evidence available at the time the estimates are made on the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of 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 merchandise inventory amounted to P9,441.53 million and P6,611.54 million as at December 31, 2013 and 2012, respectively (see Note 7).

#### *Estimating Useful Lives of Property and Equipment*

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

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

Depreciation recognized in profit or loss amounted to P953.98 million and P833.5 million in 2013 and 2012, respectively (see Note 20). Property and equipment, net of accumulated depreciation, amounted to P12,513.23 million and P9,515.39 million as at December 31, 2013 and 2012, respectively (see Note 11).

#### *Estimating Useful Lives of Computer Software and Licenses and Leasehold Rights*

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

Amortization recognized in profit or loss amounted to P10.38 million and P7.15 million in 2013 and 2012, respectively (see Note 20). Net carrying value of computer software and licenses and leasehold rights amounted to P210.43 million and P67.61 million as at December 31, 2013 and 2012, respectively (see Note 12).

#### *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, 2013 and 2012 (see Note 12).

#### *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 P566.25 million and P443.37 million as at December 31, 2013 and 2012, 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 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 2013 and 2012.

#### *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. Remeasurements of the retirement benefit obligation are recognized in other comprehensive income and comprise of actuarial gains and losses on the retirement benefit obligation, return on plan assets, excluding amounts included in the net interest of the pension benefit obligation and any change in the effect of the asset ceiling, excluding amounts included in the net interest on the pension benefit obligation.

Retirement benefits liability amounted to P286.67 million and P267.81 million as at December 31, 2013 and 2012, respectively (see Note 23).

#### *Estimating Provisions and Contingencies*

The Group, in the ordinary course of business, sets up appropriate provision for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risks and uncertainties into account.

As at December 31, 2013 and 2012, the Group does not have any contingent legal or constructive obligation that requires provision.

### 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, 2013 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.

- *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.

- *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.

- *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*.

- PFRS 11, *Joint Arrangements*

PFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as was previously the case). It:

- distinguishes joint arrangements between joint operations and joint ventures; and
- always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation.

PFRS 11 supersedes PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

- 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.

- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to PFRS 10, PFRS 11, and PFRS 12)

The amendments simplify the process of adopting PFRS 10 and PFRS 11, and provide relief from the disclosures in respect of unconsolidated structured entities. Depending on the extent of comparative information provided in the financial statements, the amendments simplify the transition and provide additional relief from the disclosures that could have been onerous. The amendments limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees.

- 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.



- 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.

The impact of the adoption of these amendments is presented in Note 23.

- PAS 27, *Separate Financial Statements* (2011)

PAS 27 (2011) supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

- PAS 28, *Investments in Associates and Joint Ventures* (2011)

PAS 28 (2011) supersedes PAS 28 (2008), *Investments in Associates*. PAS 28 (2011) makes the following amendments:

- PFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest.

- *Annual Improvements to PFRSs 2009 - 2011 Cycle - various standards* contain amendments to five standards with consequential amendments to other standards and interpretations. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the financial statements of the Group:

- PAS 1 - *Presentation of the Opening Statement of Financial Position and Related Notes*. This is amended to clarify that:
  - the opening statement of financial position is required only if:
    - a change in accounting policy;
    - a retrospective restatement; or
    - a reclassificationhas a material effect upon the information in that statement of financial position;
  - except for the disclosures required under PAS 8, notes related to the opening statement of financial position are no longer required; and
  - the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements.

The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening statement of financial statements are different, because the underlying objectives are different.

Consequential amendments have been made to PFRS 1 and PAS 34, *Interim Financial Reporting*.

*New and 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, 2013, 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 in the respective effective dates:

*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; and
  - 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.

*To be Adopted on July 1, 2014*

- *Defined Benefit Plans: Employee Contributions (Amendments to PAS 19)*. The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent on the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

The amendments apply retrospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

*To be Adopted (No definite date - Originally January 1, 2015)*

- PFRS 9, *Financial Instruments* (2009), PFRS 9, *Financial Instruments* (2010) and PFRS 9, *Financial Instruments* (2013)

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.

PFRS 9 (2013) introduces the following amendments:

- A substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
- Changes to address the so-called 'own credit' issue that were already included in PFRS 9, *Financial Instruments* to be applied in isolation without the need to change any other accounting for financial instruments; and
- Removes the January 1, 2015 mandatory effective date of PFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

The IASB is currently discussing some limited amendments to the classification and measurement requirements in IFRS 9 and is also discussing the expected credit loss impairment model to be included in IFRS 9. Once those deliberations are complete, the IASB expects to publish a final version of IFRS 9 that will include all of the phases: Classification and Measurement; Impairment and Hedge Accounting. That version of IFRS 9 will include a new mandatory effective date.

The Group will assess the impact of the above new and revised standards, amendments to standards and interpretations on the consolidated financial statements upon their adoption on their respective effective dates.

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

#### *Transactions Eliminated on Consolidation*

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, 2013 and 2012.

#### *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 P28.87 million and P34.95 million as at December 31, 2013 and 2012, respectively (see Note 8).

#### *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, short-term investments, receivables and security deposits are included in this category (see Notes 4, 5, 6, 13, 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 Group's AFS is carried at cost since there are no observable market data on the related assets.

The carrying amount of financial assets under this category amounted to P379.78 million and P7.88 million as at December 31, 2013 and 2012, respectively (see Note 10).

#### *Other Financial Liabilities*

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

The Group's accounts payable and accrued expenses, short-term loans and long-term loans payable, due to related parties, trust receipts payable, other current liabilities and noncurrent accrued rent are included in this category (see Notes 14, 15, 16, 22, 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 necessary to make the sale.

### Property and Equipment

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

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

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

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

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

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

#### Investment in a Joint Venture

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

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

#### 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.

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

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

The amortization is computed using the straight-line method over the estimated useful life of the capitalized software from the date it is available for use and amortized over 5 years. The estimated useful life and the amortization method of an intangible asset with finite useful life are reviewed at each reporting date.

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

### Impairment of Assets

#### *Financial Assets*

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

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

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

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

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

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

#### *AFS Financial Assets*

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

All impairment losses are recognized in profit or loss.

#### *Non-financial Assets*

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

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

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

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

### Employee Benefits

#### *Short-term Employee Benefits*

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

#### *Retirement Benefits Cost*

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

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

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

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

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

### Capital Stock

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

#### Additional Paid-in Capital

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

#### Retained Earnings and Dividend Distribution

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

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

#### Other Comprehensive Income

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

#### Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

- *Sale of Goods* is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.
- *Concession Income* pertains to the fixed percentage income from sales of concessionaire supplier's goods sold inside the store. The income is recognized when earned.
- *Membership Income* refers to fees from members wherein such fees permit only membership, and all other services or products are paid for separately. The fee is recognized as revenue when no uncertainty as to its collectability exists.
- *Interest Income* is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition. Interest income is presented net of final tax.
- *Rent Income* from property and equipment is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income, over the term of the lease.
- *Dividends* are recognized when the Group's right as a shareholder to receive the payment is established.
- *Other Income* from display, demonstration or sampling, endcap or palette income, merchandise support and miscellaneous income are recognized when earned.

### *Cost of Merchandise Sold*

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

### *Operating Expenses*

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

### 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 on the amount of the obligation.

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

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

#### Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after retroactive adjustment for stock dividend declared in the current period, if any. Diluted EPS is also computed in the same manner as the aforementioned, except that, 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 as at December 31 consists of:

	<i>Note</i>	2013	2012
Cash on hand		P718,534,472	P510,289,384
Cash in banks	28, 29	1,718,822,826	2,528,250,149
Money market placements	28, 29	2,861,368,983	6,045,785,474
	29	P5,298,726,281	P9,084,325,007

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 have an average of 30 days with an annual interest rate ranging from 1.00% to 2.80% in 2013 and from 1.2% to 3.82% in 2012. Interest income earned for cash in banks and money market placements amounted to P152.96 million and P88.96 million in 2013 and 2012, respectively.

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#### 5. Short-term Investments

These short-term investments are placements with a commercial banking institution, with maturity of more than 90 days. The Group engages in investing activities in order to maximize earnings on available cash funds. These investments earn interest at the prevailing market rate of 1.85% in 2013.

Interest income related to these investments amounted to P2.03 million in 2013.



## 6. Receivables

This account as at December 31 consists of:

	<i>Note</i>	<b>2013</b>	<b>2012</b>
Trade receivables:	<i>a</i>		
Third parties		<b>P908,737,453</b>	P751,147,258
Related party	22	-	7,014,202
Non-trade receivables	<i>b</i>	<b>309,109,330</b>	213,181,377
Net assets retained by the assignor	<i>c</i>	<b>6,674,310</b>	-
		<b>1,224,521,093</b>	971,342,837
Less allowance for impairment losses on trade receivables from third parties	<i>a</i>	<b>7,462,327</b>	7,462,327
	28, 29	<b>P1,217,058,766</b>	P963,880,510

- a. Majority of trade receivables pertain to credit card transactions which are due within 30 days or its normal credit period. The Group partners only with reputable credit card companies affiliated with major banks. Management believes that except for the accounts provided with allowance for impairment losses amounting to P7.46 million as at December 31, 2013 and 2012 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>2013</b>	<b>2012</b>
Beginning balance		<b>P7,462,327</b>	P5,521,775
Impairment losses recognized during the year	20	-	1,940,552
Ending balance		<b>P7,462,327</b>	P7,462,327

- b. Non-trade receivables represent the amounts due from tenants in relation to rentals of store spaces. This account also includes due from suppliers with respect to “demo” or “sampling” conducted by suppliers’ representatives and strategic locations granted to suppliers with regard to the display of their products in the selling area of the stores. It also includes advances to employees which are collected by the Group through salary deduction.
- c. On December 13, 2012, the Parent Company (the “Assignee”) entered into an agreement with the previous shareholders (the “Assignors”) of Company E to acquire all its shares as undivided whole subject to the terms and conditions set by both parties. It was agreed that certain assets and liabilities as at December 31, 2012 will be retained by the Assignors. Any net assets or net liabilities resulted from this will be considered in the final settlement in 2014 of the assignee to the assignor.

The following assets and liabilities were retained by the Assignors are as follows:

<b>Assets</b>	
Cash in banks	P304,500
Merchandise inventory	198,073,670
Rental deposits	6,376,800
<b>Liabilities</b>	
Trade payables	(187,520,527)
Accrued expenses	(10,560,133)
<b>Net assets retained by the assignor</b>	<b>P6,674,310</b>

#### 7. 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, 2013 and 2012 is lower than NRV.

The Group's merchandise inventory as at December 31, 2013 and 2012 amounted to P9,441.53 million and P6,611.54 million, respectively (see Note 17).

#### 8. Investments in Trading Securities

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

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

<b>Cost</b>	<b>Note</b>	<b>2013</b>	<b>2012</b>
Balance at beginning of year		P14,518,906	P13,350,902
Additions during the year		-	1,168,004
Balance at end of year		14,518,906	14,518,906
<b>Valuation Adjustments</b>			
Balance at beginning of year		20,427,615	10,649,312
Unrealized valuation gain (loss) on financial assets at FVPL for the year	21	(6,079,145)	9,778,303
Balance at end of year		14,348,470	20,427,615
	28, 29	P28,867,376	P34,946,521

## 9. Prepaid Expenses and Other Current Assets

This account as at December 31 consists of:

	2013	2012
Input value added tax (VAT)	P729,959,274	P421,161,840
Prepaid expenses	273,655,471	256,590,355
Deferred input VAT	15,267,829	8,672,739
Creditable withholding tax	-	1,905,129
	<b>P1,018,882,574</b>	<b>P688,330,063</b>

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

The details of prepaid expenses are as follows:

	Note	2013	2012
Rent	18	P164,917,698	P166,068,015
Insurance		53,924,506	46,982,089
Taxes and licenses		51,919,039	37,935,921
Repairs and maintenance		984,588	2,252,735
Others		1,909,640	3,351,595
		<b>P273,655,471</b>	<b>P256,590,355</b>

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

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

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

## 10. Investments and Acquisitions of Subsidiaries

The details of investments and acquisitions of subsidiaries are as follows:

### Investments

	Note	2013	2012
AFS financial assets	a	P379,775,237	P7,879,160
Investment in a joint venture	b	60,000,000	-
		<b>P439,775,237</b>	<b>P7,879,160</b>

a. *AFS Financial Assets*

- On December 4, 2013, the Group in relation to Entenso acquired 49.34% equity interest, without voting rights, of San Roque Supermarkets (SRS) for a total cost of P371,896,077. Of the total cost, P249,896,077 was paid in cash and P122,000,000 was paid by the Parent Company which was subsequently applied as deduction to the subscription receivable of Entenso. SRS is a local entity currently engaged in the business of trading goods on a wholesale and retail basis.

The Group accounted its investment in SRS at cost due to the absence of its significant influence mentioned in paragraphs 5-6 of PAS 28, *Investments in Associate* as discussed in Note 2.

- AFS financial assets also include PLDT and Meralco preferred shares amounted to P7,879,160 acquired in connection with the installation of telephone lines and electrical systems for the different stores and offices of the Parent Company.

The above AFS Financial assets are carried at cost since there are no observable market data on these related assets (see Note 29).

b. *Investment in a Joint Venture*

On July 8, 2013, the Group in relation to Entenso entered into a joint venture agreement with Varejo Corp., an entity engaged in operations of small convenience stores, to incorporate a new company for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as both parties may agree. The joint venture is expected to start its operations in 2014. No subsequent transactions occurred after the date of its acquisition.

Both parties subscribed to 6,000,000 common shares and 54,000,000 redeemable preferred shares each with a par value of P1.00 for a total investment of P60,000,000.

The redeemable preferred shares shall have the following features:

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

### Acquisitions of Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2013 and 2012:

#### *Entenso Equities, Incorporated*

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

#### *Company E Corporation*

On January 14, 2013, the Parent Company's BOD approved the acquisition of Company E Corporation (the company behind the Eunilaine Foodmart and Grocer E Supermart chains). The Parent Company acquired 290,000 common shares of Company E representing its total outstanding shares at P1,137.93 per share through cash. Company E has seven supermarkets within Metro Manila, six in Rizal province and two in the province of Cavite. All these fifteen (15) chains will operate the same store as the Parent Company.

#### *Kareila Management Corporation*

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.

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.

The BOD of Kareila approved the declaration of dividends from its unrestricted retained earnings as follow:

#### **December 31, 2013**

Type of Dividend	Date of Dividend Declaration	Shareholders of Record as of	Amount
Cash	November 8, 2013	November 8, 2013	P475,000,000
Stock	November 8, 2013	November 8, 2013	625,000,000
			<b>P1,100,000,000</b>

#### **December 31, 2012**

Type of Dividend	Date of Dividend Declaration	Shareholders of Record as of	Amount
Cash	December 21, 2012	April 15, 2013	P300,000,000
Stock	December 21, 2012	April 15, 2013	329,687,500
			<b>P629,687,500</b>

*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 P743.84 million. The Parent Company incurred acquisition-related cost of P0.19 million.

On February 26, 2013, the SEC approved the acquired shares and the application for the merger of the Parent Company with PJSI and Gant. Upon approval by the SEC of the merger, the investment was eliminated and the corresponding goodwill was recognized.

*Puregold Junior Supermarket, Inc. (PJSI)*

The Parent Company owns 100% equity interest in PJSI, an entity engaged 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. Acquisition cost amounted to P50.00 million. On April 30, 2012, the Parent Company paid P550.00 million to Puregold Junior Supermarket, Inc., a subsidiary, as deposit for future stock subscription for 5,500,000 common shares. Upon approval by the SEC of the merger, the investment and deposit were eliminated and the corresponding goodwill was recognized.

*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.

## 11. Property and Equipment

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

	Building	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction in Progress	Total
<b>Cost</b>							
Balance, December 31, 2011	P2,078,949,688	P997,550,181	P2,021,723,220	P1,412,535,084	P349,005,806	P551,628,938	P7,411,392,917
Additions	551,538,388	187,939,538	1,098,163,069	874,799,900	29,474,331	1,503,848,214	4,245,763,440
Reclassifications	320,010,822	1,519,180	(902,218)	599,356,434	3,466	(919,987,684)	-
Disposals	-	(2,123,927)	(8,673,535)	-	-	-	(10,797,462)
Adjustments	-	-	153,030,668	-	-	-	153,030,668
Balance, December 31, 2012	2,950,498,898	1,184,884,972	3,263,341,204	2,886,691,418	378,483,603	1,135,489,468	11,799,389,563
Transfer-in	(2,313)	9,545,134	28,783,723	18,443,731	-	-	56,770,275
Additions	450,413,750	413,270,646	1,181,827,233	790,919,374	8,122,212	1,073,706,044	3,918,259,259
Reclassifications	830,563,428	472,800	(4,236,521)	1,012,315,969	-	(1,839,115,676)	-
Disposals	-	(318,296)	(2,750,860)	-	-	-	(3,069,156)
Adjustments	(850)	16,119,881	(34,193,116)	(77,759)	-	-	(18,151,844)
Balance, December 31, 2013	4,231,472,913	1,623,975,137	4,432,771,663	4,708,292,733	386,605,815	370,079,836	15,753,198,097
<b>Accumulated Depreciation and Amortization</b>							
Balance, December 31, 2011	193,995,883	224,638,689	835,501,828	197,962,892	-	-	1,452,099,292
Depreciation and amortization	89,657,004	114,338,339	332,396,684	131,954,300	-	-	668,346,327
Reclassifications	(272,448)	740,220	(31,539)	(436,233)	-	-	-
Disposals	-	(174,929)	(1,419,932)	-	-	-	(1,594,861)
Adjustments	-	-	165,149,485	-	-	-	165,149,485
Balance, December 31, 2012	283,380,439	339,542,319	1,331,596,526	329,480,959	-	-	2,284,000,243
Transfer-in	(2,313)	1,856,062	6,372,105	8,768,792	-	-	16,994,646
Depreciation and amortization	124,424,824	118,948,303	536,509,573	174,094,261	-	-	953,976,961
Reclassifications	113,117	126,867	(528,829)	288,845	-	-	-
Disposals	-	(155,009)	(2,098,503)	-	-	-	(2,253,512)
Adjustments	-	3,874,968	(16,552,026)	(69,779)	-	-	(12,746,837)
Balance, December 31, 2013	407,916,067	464,193,510	1,855,298,846	512,563,078	-	-	3,239,971,501
<b>Carrying Amount</b>							
December 31, 2012	P2,667,118,459	P845,342,653	P1,931,744,678	P2,557,210,459	P378,483,603	P1,135,489,468	P9,515,389,320
December 31, 2013	P3,823,556,846	P1,159,781,627	P2,577,472,817	P4,195,729,655	P386,605,815	P370,079,836	P12,513,226,596

As at December 31, 2013 and 2012, the Parent Company has outstanding payable for property additions amounting to P49.77 million and P29.69 million, respectively (see Note 14). In addition, interest expense related to loans amounting to P198.9 million had been capitalized (see Note 15).

Transfer-in pertains to property and equipment of Company E with net carrying value of P39.78 million upon its acquisition as mentioned in Note 1.

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

No impairment loss was recognized in 2013 and 2012.

## 12. Intangibles and Goodwill

This account as at December 31 consists of:

	<i>Note</i>	2013	2012
Goodwill	<i>a</i>	P13,191,340,917	P12,833,184,760
Trademark	<i>b</i>	3,709,660,547	3,709,660,547
Customer relationship	<i>b</i>	889,452,981	889,452,981
Computer software and licenses - net	<i>c</i>	136,713,077	67,613,392
Leasehold rights	<i>c</i>	73,720,297	-
		P18,000,887,819	P17,499,911,680

### *a. Goodwill*

The goodwill represents the excess of the total acquisition cost over the fair value of the identifiable assets and liabilities assumed on the acquisition of the Subsidiary.

2012	<i>Note</i>	<i>Cost</i>
PJSI	<i>1</i>	P11,370,121
Kareila	<i>2</i>	12,079,473,835
Gant	<i>3</i>	742,340,804
		12,833,184,760
<b>2013</b>		
Merger of PJSI and Gant to Parent Company	<i>4</i>	4,142
Company E	<i>5</i>	358,152,015
		P13,191,340,917



Details are as follows:

1. Acquisition of PJSI

Acquisition cost*	P50,003,542
Fair value of net assets (June 30, 2010)	38,629,279
<b>Goodwill</b>	<b>P11,374,263</b>

\*The amount disclosed was after the additional shares issued to reflect the effects of merger of PJSI and the Parent Company.

2. 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 an independent valuation specialist (see Note 12.5.b).

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.

### 3. 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	P743,840,962
Fair value of net assets	1,500,158
<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.

### 4. Merger of PJSI and Gant

As mentioned in Note 10, on February 26, 2013, the SEC approved the application for merger of the Parent Company, PJSI and Gant. As a consideration for the said merger, the Parent Company paid the owner of PJSI of stock amounting to P4,142.

### 5. Acquisition of Company E

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

Acquisition cost	P404,065,000
Fair value of net assets	45,912,985
<b>Goodwill</b>	<b>P358,152,015</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 P358.0 million.

The Group incurred acquisition-related cost of P0.19 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income in 2013.

b. Trademark and Customer Relationships

The value of the trademark and customer relationship represents the purchase price of P16,477.73 million (see Note 10), which was determined after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by an independent valuation specialist. The Parent 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 Parent 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 Parent 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 Group's industry. The discount rate applied to after tax cash flow projections is 9.71% as at December 31, 2013 and 2012.

Management assessed that there is no impairment in the value of trademark and customer relationship in 2013 and 2012.

c. Leasehold Rights and Computer Software and Licenses

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

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

	Computer Software	Leasehold Rights	Total
<b>Cost</b>			
Balance, January 1, 2012	P103,641,352	P -	P103,641,352
Additions	16,377,116	-	16,377,116
Balance, December 31, 2012	120,018,468	-	120,018,468
Additions	71,951,732	75,355,005	147,306,737
Adjustments	13,133,611	-	13,133,611
<b>Balance, December 31, 2013</b>	<b>205,103,811</b>	<b>75,355,005</b>	<b>280,458,816</b>
<b>Accumulated Amortization</b>			
Balance, January 1, 2012	45,258,421	-	45,258,421
Amortization	7,146,655	-	7,146,655
Balance, December 31, 2012	52,405,076	-	52,405,076
Amortization	8,748,369	1,634,708	10,383,077
Adjustments	7,237,289	-	7,237,289
<b>Balance, December 31, 2013</b>	<b>68,390,734</b>	<b>1,634,708</b>	<b>70,025,442</b>
<b>Carrying Amount</b>			
December 31, 2012	P67,613,392	P -	P67,613,392
December 31, 2013	<b>P136,713,077</b>	<b>P73,720,297</b>	<b>P210,433,374</b>

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

### 13. Other Noncurrent Assets

This account as at December 31 consist of:

	Note	2013	2012
Security deposits	18, 28, 29	<b>P988,598,222</b>	P833,260,464
Prepaid rent	18	<b>158,029,960</b>	186,738,080
Accrued rent income	24	<b>20,062,609</b>	18,073,246
		<b>P1,166,690,791</b>	<b>P1,038,071,790</b>

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

#### 14. Accounts Payable and Accrued Expenses

This account consists of:

	<i>Note</i>	2013	2012
Trade:			
Third parties	28, 29	P7,093,845,811	P6,074,554,986
Related parties	22, 28, 29	164,245,634	173,668,443
Non-trade	28, 29	2,058,799,266	1,763,553,437
Dividends payable	25, 28, 29	829,921,924	553,280,000
Withholding taxes payable		115,531,475	96,335,434
Accrued expenses:	28, 29		
Manpower agency services		470,304,641	440,547,114
Utilities		129,684,256	131,507,667
Fixed asset acquisition	11	49,772,627	29,688,817
Professional fees		45,673,000	47,206,697
Rent		25,553,607	40,304,454
Interest		4,615,240	52,113,272
Others		52,107,529	57,826,808
		<b>P11,040,055,010</b>	<b>P9,460,587,129</b>

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 (see Note 28).

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

Fixed asset acquisition pertains to amounts payable to Parent Company's contractor of store establishments. The Group is bound by the terms of the contract and payables are due upon completion of certain work to be done.

#### 15. Loans Payable

As at December 31, 2013 and 2012, the Group has the following outstanding loans payable:

a. Short-term Loans Payable

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

	<i>Note</i>	2013	2012
Short-term note based on 2.5%	<i>i</i>	P75,000,000	P -
Short-term note based on 2.75%	<i>i</i>	300,000,000	-
Short-term note based on 3.75%	<i>ii</i>	508,500,000	508,500,000
		<b>P883,500,000</b>	<b>P508,500,000</b>

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

Execution Date	Maturity Date	Interest Rate	Principal
December 2, 2013	January 2, 2014	2.50	P75,000,000
December 20, 2013	January 20, 2014	2.75	300,000,000
			P375,000,000

Principal amounts will be due on lump sum on their maturity dates. Extension and/or renewal of the notes are granted by the financial institution to the Parent Company. The proceeds of these loans will be used for lot acquisition.

- ii. Kareila entered into an unsecured short-term loan amounting to P508,500,000 with a local bank. The principal amount is payable annually and its related interest is repriceable at 3.75% per annum.

b. Long-term Loans Payable

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

	Note	2013	2012
<b>Unsecured Peso Denominated</b>			
Fixed rate note based on 3.5%	i	P1,991,219,294	P -
Fixed rate note based on 3.25%	ii	960,495,639	-
Fixed rate note based on 5.4481%	iii	-	3,961,857,135
Fixed rate note based on 5.8673%	iii	-	990,354,227
Fixed rate note based on 3.5%	iv	500,000,000	-
		<b>3,451,714,933</b>	<b>4,952,211,362</b>
Less current portion		-	43,140,099
		<b>P3,451,714,933</b>	<b>P4,909,071,263</b>

- i. On June 13, 2013, the Parent Company issued a P2 billion promissory note. Interest is computed as 3.50% per annum of the principal amount. The debt has a term of 1,803 days and will be paid on a lump sum on May 21, 2018.
- ii. On April 14, 2013, the Parent Company signed and executed a two (2) year promissory note amounting to P963.70 million. The debt bears a 3.25% interest rate per annum and shall be repaid in a single payment on April 15, 2015.
- iii. On October 22, 2012, the Parent Company issued unsecured fixed rate corporate notes with the following terms:

Face Amount	Terms
P4 billion	5.4481% interest per annum for five years
P1 billion	5.8673% interest per annum for seven years

Both 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 were used to finance the Parent Company's expansion and other general corporate requirements. On April 23, 2013, the Parent Company pre-terminated its loans.

The movements in debt issue costs are as follows:

	2013	2012
Balance at beginning of the year	P47,788,638	P -
Additions	14,818,500	49,386,148
Amortizations	(5,464,629)	(1,597,510)
Deductions	(45,157,442)	-
Balance at end of year	P11,985,067	P47,788,638

- iv. Kareila signed and executed a P500,000,000 loan agreement with a local bank. The loan shall be repaid in lump sum after five (5) years. Its related interest is at 3.50% per annum.

Interest expense from these loans amounting to P198.9 million were capitalized in 2013 and recognized in building and leasehold improvements under property and equipment accounts (see Note 11). Remaining interest expense that was charged to profit and loss amounted to P26.46 million. In 2012 and 2011, interest expense amounted to P74.04 million and P65.03 million, respectively.

#### Repayment Schedule

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

Year	2013	2012
2013	P -	P50,000,000
2014	-	50,000,000
2015	963,700,000	50,000,000
2016	-	50,000,000
2017	-	3,850,000,000
2018	2,500,000,000	510,000,000
2019	-	940,000,000
	<b>P3,463,700,000</b>	<b>P5,500,000,000</b>

The term 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. The related loans pertaining to these covenants were pre-terminated in 2013.

There are no debt covenants for new loans entered into by the Group in 2013.

## 16. Other Current Liabilities

This account as at December 31 consists of:

	<i>Note</i>	<b>2013</b>	<b>2012</b>
Deposits	18, 28, 29	<b>P116,794,367</b>	P104,920,848
Promotion fund		<b>53,479,841</b>	27,845,301
Exclusive fund		<b>49,885,294</b>	40,751,000
Unredeemed gift certificates		<b>48,435,500</b>	44,614,223
Output VAT		<b>25,932,296</b>	32,621,042
Others	28, 29	<b>7,599,133</b>	3,197,248
		<b>P302,126,431</b>	P253,949,662

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

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

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

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

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

## 17. Cost of Sales

This account for the year ended December 31 consists of:

	<i>Note</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Beginning inventory	7	<b>P6,611,541,340</b>	P4,522,929,063	P2,934,251,679
Add: Purchases		<b>63,110,118,405</b>	50,316,309,665	35,041,807,392
Transfer-in	6.c	<b>198,073,670</b>	-	-
Total goods available for sale		<b>69,919,733,415</b>	54,839,238,728	37,976,059,071
Less ending inventory	7	<b>9,441,528,622</b>	6,611,541,340	4,522,929,063
		<b>P60,478,204,793</b>	P48,227,697,388	P33,453,130,008

Transfer-in pertains to the beginning inventory of Company E upon acquisition on January 16, 2013 (see Note 6.c).



## 18. Lease Agreements

### As Lessee

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

The Group is required to pay advance rental payments and security deposits on the above leases which are either fixed monthly rent or are calculated in reference to a fixed sum per square meter of area leased. These are shown under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts, respectively, in the consolidated statements of financial position (see Notes 9 and 13).

Rent expense included under "Operating expense" account in the consolidated statements of comprehensive income amounted to P1,786.50 million, P1,368.39 million and P793.15 million for the years 2013 and 2012, and 2011, respectively (see Note 20).

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

	2013	2012	2011
Due within one year	<b>P1,469,380,211</b>	P1,145,727,630	P782,000,443
Due more than one year but not more than five years	<b>6,349,303,571</b>	5,103,902,126	3,455,844,388
Due more than five years	<b>29,141,917,253</b>	26,788,105,809	16,577,068,927
	<b>P36,960,601,035</b>	P33,037,735,565	P20,814,913,758

### As Lessor

The Group subleases portion of its store space to various lessees for an average lease term of one to ten (1-10) years. The lease contracts may be renewed upon mutual agreement by the parties. Rental payments are computed either based on monthly sales or a certain fixed amount, whichever is higher. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is shown under "Other current liabilities" account in the consolidated statements of financial position (see Note 16).

Rent income recognized in profit or loss for the years 2013, 2012 and 2011 amounted P266.55 million, P225.62 million and P179.28 million, respectively (see Note 19).

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

	2013	2012	2011
Due within one year	<b>P166,095,531</b>	P161,093,422	P102,301,191
Due more than one year but not more than five years	<b>202,308,094</b>	273,836,570	151,042,740
Due more than five years	<b>74,703,673</b>	467,882,939	47,734,769
	<b>P443,107,298</b>	P902,812,931	P301,078,700

## 19. Other Operating Income

This account for the years ended December 31 consists of:

	<i>Note</i>	2013	2012	2011
Concession income		P1,217,539,576	P896,448,380	P565,933,941
Display allowance		353,328,296	376,620,665	274,210,481
Rent income	18	266,545,190	225,623,021	179,282,430
Membership income		212,081,835	91,185,185	-
Merchandising support income		56,054,303	19,447,789	-
Endcap/pallet income		29,341,236	16,394,643	-
Demo/sampling income		9,178,862	5,072,589	-
Miscellaneous		59,739,443	36,237,555	32,456,680
		P2,203,808,741	P1,667,029,827	P1,051,883,532

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.

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

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

## 20. Operating Expenses

This account for the years ended December 31 consists of:

	<i>Note</i>	2013	2012	2011
Rent	18	P1,786,495,896	P1,368,392,875	P793,151,063
Manpower agency services		1,510,729,008	1,199,985,771	824,088,255
Communication, light and water		1,397,122,064	1,103,268,561	727,797,130
Salaries and wages		989,630,188	720,869,495	459,370,425
Depreciation and amortization	11, 12	964,360,038	675,492,982	456,974,253
Security services		573,145,415	404,569,699	261,288,581

*Forward*

	<i>Note</i>	2013	2012	2011
Concession expense	22	440,291,377	244,611,506	-
Store and office supplies		334,579,945	278,791,184	201,494,144
Taxes and licenses		315,318,054	214,067,710	133,285,082
Janitorial and messengerial services		283,020,617	175,304,136	81,270,612
Repairs and maintenance		206,026,100	156,397,739	105,017,188
Employee benefits		99,467,360	83,122,630	60,902,944
Insurance		98,569,434	75,830,591	51,906,300
Advertising and marketing		74,986,481	34,358,017	-
SSS/Medicare and HDMF contributions		71,637,855	52,994,457	35,039,198
Retirement benefits cost	23	69,884,447	53,152,306	37,125,458
Input VAT allocable to exempt sales		67,050,046	49,079,555	23,548,664
Deficiency tax		-	36,773,120	10,237,728
Fuel and oil		41,501,748	32,016,954	20,116,039
Royalty	22	29,479,140	24,688,076	9,248,157
Transportation		27,110,036	18,011,771	6,262,832
Representation and entertainment		22,234,208	12,136,724	23,089,275
Professional fee		21,503,383	22,602,312	3,279,606
Donations and contributions		8,178,320	8,678,320	10,270,623
Impairment losses on receivables	6	-	1,940,552	1,407,884
Loss on pre-termination of lease contract		-	-	9,000,000
Miscellaneous		16,543,972	9,521,791	10,085,050
		<b>P9,448,865,132</b>	<b>P7,056,658,834</b>	<b>P4,355,256,491</b>

## 21. Others

This account for the years ended December 31 consists of:

	<i>Note</i>	2013	2012	2011
Unrealized valuation gain (loss) on trading securities	8	(P6,079,145)	P9,778,303	P195,314
Bank charges		(1,515,976)	(1,396,819)	(15,515,730)
Dividend income		972,331	565,125	866,750
Gain on disposal of property and equipment	11	354,777	374,998	369,118
Foreign exchange loss		(104,252)	(1,523)	-
Gain on insurance claim		-	202,500	27,296,511
		<b>(P6,372,265)</b>	<b>P9,522,584</b>	<b>P13,211,963</b>

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

## 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	Year	Note	Amount of Transactions for the Year	Outstanding Balances			Terms	Conditions
				Trade Receivable (see Note 6)	Trade Payable (see Note 14)	Due to Related Parties		
<b>Other Related Parties*</b>								
Rent expense	2013	a	P331,045,172	P -	P -	P15,655,785	Due and demandable	Unsecured
	2012		386,400,482	-	-	10,275,921		
	2011		385,238,595	-	-	-		
Concession expense	2013	b	440,291,377	-	-	23,550,996	Due and demandable	Unsecured
	2012		328,261,005	-	-	31,587,742		
Purchase of merchandise	2013	c	477,399,031	-	P164,245,634	-	Due and demandable	Unsecured
	2012		540,588,781	-	173,668,443	-		
Sale of merchandise	2013	c	53,541,192	-	-	-	Due and demandable	Unsecured; no impairment
	2012		135,747,976	7,014,202	-	-		
	2011		1,171,099	-	-	-		
Rent income	2013	c	-	-	-	-	Due and demandable	Unsecured
	2012		-	-	-	-		
	2011		4,019,466	-	-	-		
Security deposits received	2013	a/c	12,188,220	-	-	12,188,220	Due and demandable	Unsecured
	2012		23,761,877	-	-	-		
	2011		125,736,646	-	-	-		
Repairs and maintenance	2013	c	5,329,472	-	-	493,344	Due and demandable	Unsecured
	2012		675,169	-	-	-		

Related Party	Year	Note	Amount of Transactions for the Year	Outstanding Balances				Terms	Conditions
				Trade Receivable (see Note 6)	Trade Payable (see Note 14)	Due to Related Parties	Due and		
				P	P		demandable		
Utilities expense	2013	c	P155,816,980	-	-	P251,599	Due and demandable	Unsecured	
	2012		126,610,211	-	-	-			
	2011		385,238,595	-	-	-			
Communications	2013	c	8,587,703	-	-	2,316,958	Due and demandable	Unsecured	
	2012		564,457	-	-	1,077,226			
	2011		294,401	-	-	-			
Management fee	2013	c	3,780	-	-	3,780	Due and demandable	Unsecured	
	2012		3,797,097	-	-	-			
Employee benefits	2013	c	16,069	-	-	-	Due and demandable	Unsecured	
	2012		909,387	-	-	-			
	2011		4,235,798	-	-	-			
Key Management Personnel									
Royalty expense	2013	d	29,479,140	-	-	24,625,864	Due and demandable	Unsecured	
	2012		24,688,076	-	-	20,936,076			
	2011		9,248,157	-	-	8,855,584			
Short-term benefits	2013		83,311,531	-	-	276,461	Due and demandable	Unsecured	
	2012		48,449,959	-	-	-			
	2011		36,091,142	-	-	-			
Post-employment benefits	2013		6,384,368	-	-	-			
	2012		3,416,937	-	-	-			
	2011		3,070,136	-	-	-			
<b>Total</b>	<b>2013</b>			<b>P -</b>	<b>P164,245,634</b>	<b>P79,363,007</b>			
<b>Total</b>	<b>2012</b>			<b>P7,014,202</b>	<b>P173,668,443</b>	<b>P63,876,965</b>			
<b>Total</b>	<b>2011</b>			<b>P -</b>	<b>P -</b>	<b>P8,855,584</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 in reference to a fixed sum per square meter of area leased. The terms of the lease are for the periods ranging from ten to thirty-five (10 -35) years, renewable for the same period under the same terms and conditions. The rent shall escalate by the range from 1% to 7%. Rental payments are fixed amounts based on the contracts.

b. Consignment and Concession

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

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

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

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

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

c. Other Significant Transactions

These pertain to purchases and sale of merchandise, rent income, security deposits paid, repairs and maintenance, utilities, communications, management fee and employee benefits which are unsecured, noninterest-bearing and due and demandable. The Group has not made any allowance for impairment losses relating to receivables from related parties as at December 31, 2013 and 2012. This assessment is undertaken annually by management through examination of the financial position of related parties and the market in which they operate.

d. Royalty Agreement

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

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## 23. Retirement Benefit Costs

The Group has an unfunded, noncontributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 27, 2013. Valuations are obtained on a periodic basis.

It is assumed that the Group initially applied PAS 19 (Amended 2011) on January 1, 2012. The following table shows reconciliation from the opening balances to the closing balances of defined benefit liability recognized under "Retirement benefits liability" and its components.

	2013	2012
Balance at January 1	P267,814,822	P153,438,340
<b>Included in profit or loss</b>		
Current service cost	55,248,857	37,712,781
Interest cost	14,635,590	15,439,525
	<b>337,699,269</b>	<b>206,590,646</b>
<b>Included in other comprehensive income</b>		
Remeasurements loss (gain):		
Actuarial loss (gain) arising from:		
Financial assumptions	(75,942,734)	56,028,040
Experience adjustment	24,909,744	5,196,136
	<b>(51,032,990)</b>	<b>61,224,176</b>
<b>Balance at December 31</b>	<b>P286,666,279</b>	<b>P267,814,822</b>

The amount of retirement benefits cost recognized in profit or loss in December 31 consist of:

	2013	2012 (As restated - Note 30)
Current service cost	P55,248,857	P37,712,781
Interest expense on the defined benefit liability	14,635,590	15,439,525
	<b>P69,884,447</b>	<b>P53,152,306</b>

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

	2013	2012 (As restated - Note 30)
Cumulative actuarial loss at beginning of year	P47,238,616	P11,608,897
Actuarial loss (gain) due to increase in defined benefit obligation	(43,637,916)	35,629,719
Cumulative actuarial loss (gain) at end of year	<b>(P3,600,700)</b>	<b>P47,238,616</b>

The cumulative actuarial loss, net of deferred income taxes, amounted to P2.52 million and P33.07 million as at December 31, 2013 and 2012, respectively, as presented in the consolidated statements of changes in equity.

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

	2013	2012
Discount rate	5.32%	5.62%
Future salary increases	8.00%	10.00%



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

The weighted average duration of the defined benefit obligation at the end of the reporting period is 25.8 years.

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

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

#### *Sensitivity Analysis*

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

	Increase	Decrease
Discount rate (1% movement)	(P56,359,308)	P73,210,320
Future salary increase rate (1% movement)	66,690,623	(53,141,601)

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

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

#### Funding Arrangements

Since the Group does not have a formal retirement plan, benefit claims under the retirement obligation are paid directly by the Group when they become due.

Maturity analysis of the benefit payments:

	2013				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	Within 5-10 Years
Defined benefit obligation	P286,666,279	P53,279,588	P9,685,379	P12,740,105	P30,854,104

#### Asset-liability Matching (ALM)

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liabilities under the retirement obligation.

The Group has no expected future contribution for 2014.

## 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:

	2013	2012	2011
Income before income tax	<b>P5,576,106,101</b>	P3,873,623,748	P2,204,707,547
Income tax expense at the statutory income tax rate:			
30%	<b>P1,652,610,610</b>	P1,160,528,314	P661,412,264
5%	<b>3,371,132</b>	259,802	-
Income tax effects of:			
Non-deductible interest expense	<b>1,464,948</b>	11,317,777	3,090,723
Non-deductible other expenses	<b>5,456,766</b>	12,326,498	3,071,318
Non-taxable income-net subjected to final tax	-	(2,986,670)	(58,594)
Dividend income subjected to final tax	<b>(291,699)</b>	(169,538)	(260,025)
Interest income subjected to final tax	<b>(46,497,966)</b>	(26,633,676)	(7,542,946)
Changes in unrecognized DTA	<b>735,141</b>	-	-
	<b>P1,616,848,932</b>	P1,154,642,507	P659,712,740

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

	2013		2012	
	Amount	DTA (DTL)	Amount	DTA (DTL)
Accrued rent expense*	<b>P1,592,998,180</b>	<b>P477,899,454</b>	P1,221,698,217	P366,509,465
Retirement benefits liability	<b>255,932,963</b>	<b>76,779,889</b>	163,734,147	49,120,244
Actuarial losses	<b>30,733,313</b>	<b>9,219,994</b>	-	-
NOLCO	-	-	28,273,483	17,004,093
MCIT	-	-	8,482,045	8,482,045
Allowance for impairment losses on receivables	<b>7,462,327</b>	<b>2,238,698</b>	7,527,357	2,258,207
Unrealized foreign exchange loss	-	-	1,523	457
Recognition of DTA	<b>389,730</b>	<b>116,919</b>	-	-
DTA	<b>1,887,516,513</b>	<b>566,254,954</b>	1,429,716,772	443,374,511
Fair value of intangible assets from business combination	<b>(4,599,113,528)</b>	<b>(1,379,734,058)</b>	(4,599,113,528)	(1,379,734,058)
Accrued rent income	<b>(20,062,609)</b>	<b>(6,018,783)</b>	(22,882,680)	(6,864,804)
DTL	<b>(4,619,176,137)</b>	<b>(1,385,752,841)</b>	(4,621,996,208)	(1,386,598,862)
Net	<b>(P2,731,659,624)</b>	<b>(P819,497,887)</b>	(P3,192,279,436)	(P943,224,351)

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

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

Deferred tax asset includes P50.23 million net deferred tax assets transferred by PJSI and Gant to the Parent Company as a result of the merger. It includes the following:

	PJSI		Gant		Total	
	Amount	DTA (DTL)	DTA (DTL)	DTA	DTA (DTL)	DTA
Accrued rent expense	P123,307,317	P36,992,195	P47,638,160	P14,291,448	P170,945,477	P51,283,643
DTA	123,307,317	36,992,195	47,638,160	14,291,448	170,945,477	51,283,643
Accrued rent income	(3,518,923)	(1,055,677)	-	-	(3,518,923)	(1,055,677)
Net	P119,788,394	P35,936,518	P47,638,160	P14,291,448	P167,426,554	P50,227,966

The Group has unrecognized net operating loss carry-over (NOLCO) and minimum corporate income tax (MCIT) amounting to P16.98 million and P7.06 million, respectively. This was transferred through the merger of Gant with the Parent Company. Additional NOLCO was also recognized relating to Entenso in 2013.

The details of the Group's NOLCO which are available for offsetting against future taxable income are shown below:

Year Incurred	Amount Incurred	Expired (Applied) During the Year	Remaining Balance	Expiration Date
2011	P10,866,750	P -	P10,866,750	2014
2012	20,336,773	-	20,336,773	2015
2013	7,231,087	-	7,231,087	2016
	P38,434,610	P -	P38,434,610	

The details of the Group's MCIT which are available for offsetting against future taxable income are shown below:

Year Incurred	Amount Incurred	Expired (Applied) During the Year	Remaining Balance	Expiration Date
2011	P1,101,853	P -	P1,101,853	2014
2012	2,290,639	-	2,290,639	2015
2013	1,051	-	1,051	2016
	P3,393,543	P -	P3,393,543	

## 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.

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

On February 26, 2013, the SEC approved the application for merger of the Parent Company, PJSI and Gant. As a consideration for the said merger, the Parent Company paid the owner of PJSI and Gant shares of stocks equivalent to 16,911,162 shares at 26.55 per share. Considering that the owner of PJSI and Gant is the Parent Company, 16,911,006 of the total shares issued were classified in the Parent Company's book as treasury shares.

	2013	2012	2011
Authorized - 3,000,000,000 shares (P1 par value)			
Balance at beginning of year	P2,766,406,250	P2,000,000,000	P1,450,000,000
Stock issuances during the period	16,911,162	766,406,250	550,000,000
Treasury shares	(16,911,006)	-	-
Balance at end of year	P2,766,406,406	P2,766,406,250	P2,000,000,000

#### 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, paid on June 5, 2012.

In a meeting held on December 27, 2012, the Parent Company's BOD 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, 2012. The related cash dividends were paid on February 7, 2013.

On December 16, 2013, the Parent Company's BOD approved the declaration of a regular dividend of P0.20 per share and special dividend of P0.10 per share on record date of January 6, 2014 and payment date of January 30, 2014. The total amount of dividend is P829.92 million.

The summary of dividends declared is as follows:

#### December 31, 2013

Type of Dividend	Date of Dividend Declaration	Date of Record	Date of Payment	Amount
Cash	December 16, 2013	January 6, 2014	January 30, 2014	P829,921,924

#### December 31, 2012

Type of Dividend	Date of Dividend Declaration	Date of Record	Date of Payment	Amount
Cash	May 8, 2012	May 22, 2012	June 5, 2012	P400,000,000
Cash	December 27, 2012	January 14, 2012	February 7, 2013	553,280,000
				P953,280,000

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

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## 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:

	2013	2012	2011
Net income (a)	P3,959,257,169	P2,718,981,241	P1,544,994,807
Weighted average number of ordinary shares (b)	2,766,406,380	2,447,070,313	1,600,000,000
Basic/diluted EPS (a/b)	P1.43	P1.11	P0.97

As at December 31, 2013, 2012 and 2011, the Group has no dilutive debt or equity instruments.

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## 28. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

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

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- 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>2013</b>	<b>2012</b>
Cash in banks and cash equivalents	4	<b>P4,580,191,809</b>	P8,574,035,623
Short-term investments	5	<b>500,000,000</b>	-
Receivables - net	6	<b>1,217,058,766</b>	963,880,510
Investments in trading securities	8	<b>28,867,376</b>	34,946,521
Available-for-sale financial assets*	10	<b>379,775,237</b>	7,879,160
Security deposits**	13	<b>988,598,222</b>	833,260,464
		<b>P7,694,491,410</b>	<b>P10,414,002,278</b>

\*Included under investments

\*\*Included under noncurrent assets.

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

2013	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in bank and cash equivalents	P4,580,191,809	P -	P -	P -	P -	P4,580,191,809
Short-term investments	500,000,000	-	-	-	-	500,000,000
Receivables - net	729,390,073	117,025,708	170,195,391	192,985,267	7,462,327	1,217,058,766
Investments in trading securities	28,867,376	-	-	-	-	28,867,376
AFS financial assets	379,775,237	-	-	-	-	379,775,237
Security deposits	988,598,222	-	-	-	-	988,598,222
	<b>P7,206,822,717</b>	<b>P117,025,708</b>	<b>P170,195,391</b>	<b>P192,985,267</b>	<b>P7,462,327</b>	<b>P7,694,491,410</b>

2012	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in banks 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	722,570,914	90,219,236	100,574,663	43,053,370	7,462,327	963,880,510
AFS financial assets	7,879,160	-	-	-	-	7,879,160
Security deposits	833,260,464	-	-	-	-	833,260,464
	P10,172,692,682	P90,219,236	P100,574,663	P43,053,370	P7,462,327	P10,414,002,278

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

- Cash in bank and cash equivalents were assessed as high grade since these are deposited in reputable banks with good credit standing, which have a low profitability of insolvency and can be withdrawn anytime. The credit 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.
- Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.
- Due from related parties and security deposits were assessed as high grade since these have a high 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, 2013				
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year - 5 Years	More than 5 Years
<b>Financial Liabilities</b>					
Accounts payable and accrued expenses*	P10,924,523,535	P10,924,523,535	P10,924,523,535	P -	P -
Short-term loans payable	883,500,000	885,002,184	885,002,184	-	-
Trust receipts payable	16,543,219	16,543,219	16,543,219	-	-
Due to related parties	79,363,007	79,363,007	79,363,007	-	-
Long-term debt including current portion	3,451,714,933	3,463,700,000	2,963,700,000	500,000,000	-
Other current liabilities**	124,393,500	124,393,500	124,393,500	-	-
Noncurrent accrued rent	1,599,368,798	1,599,368,798	69,118,049	103,749,302	1,426,301,447

\*excluding statutory payables to the government

\*\*excluding gift cheques, exclusive fund, VAT payable and promotion fund and other current liabilities of Kareila

As at December 31, 2012

	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year - 5 Years	More than 5 Years
<b>Financial Liabilities</b>					
Accounts payable and accrued expenses*	P9,364,251,695	P9,364,251,695	P9,364,251,695	P -	P -
Due to related parties	63,876,965	63,876,965	63,876,965	-	-
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
Short-term loans payable	508,500,000	508,500,000	508,500,000	-	-
Other current liabilities**	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

\*excluding statutory payables to the government

\*\*excluding gift cheques, exclusive fund, VAT payable and promotion fund and other current liabilities of Kareila

### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on interest earned on cash deposits in banks. Cash deposits with variable rates expose the Group to cash flow interest rate risk. Short and long-term loan with fixed rate are not subject to interest rate risk.

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

	2013	2012	2011
<b>Financial assets (cash deposits):</b>			
Cash in banks	P1,718,822,826	P2,528,250,149	P752,855,511
Money market placement	2,861,368,983	6,045,785,474	900,540,000
Restricted cash and cash equivalents	-	-	2,286,731,084
	<b>P4,580,191,809</b>	<b>P8,574,035,623</b>	<b>P3,940,126,595</b>

### Sensitivity Analysis

A 2% increase in interest rates would have decreased equity and net income by P6.41 million, P12.00 million and P5.52 million, for the years ended December 31, 2013, 2012 and 2011, 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, 2013 pertains to its cash in bank which is denominated in US dollar.

The Group's foreign currency denominated assets as at December 31, 2013 and 2012 follow:

	US Dollar	Exchange Rate	PHP Equivalent
<b>2013</b>			
US Dollar	\$48,240	44.4	P2,141,856
<b>2012</b>			
US Dollar	133,338	41.05	5,473,525



*Sensitivity Analysis*

A 2% strengthening of the Philippine peso against US dollar would have increased profit or loss after tax and equity by P29,986 and by P76,629 as at December 31, 2013 and 2012, respectively.

A 2% weakening of the Philippine peso against US dollar would have decreased would have had the equal but opposite effect, on the basis that all other variables remain constant.

The analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date.

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 (APIC), remeasurements and retained earnings.

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

As at December 31, 2013 and 2012, 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:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	P5,298,726,281	P5,298,726,281	P9,084,325,007	P9,084,325,007
Short-term investments	500,000,000	500,000,000	-	-
Receivables - net	1,217,058,766	1,217,058,766	963,880,510	963,880,510
Investments in trading securities	28,867,376	28,867,376	34,946,521	34,946,521
Available-for-sale financial assets (included under "Investments" account in the consolidated statements of financial position)	379,775,237	379,775,237	7,879,160	7,879,160
Security deposits (included under "Other noncurrent assets" account in the consolidated statements of financial position)	988,598,222	988,598,222	833,260,464	833,260,464
<b>Financial Liabilities</b>				
Accounts payable and accrued expenses*	10,924,523,535	10,924,523,535	9,364,251,695	9,364,251,695
Due to related parties	79,363,007	79,363,007	63,876,965	63,876,965
Trust receipts payable	16,543,219	16,543,219	8,130,029	8,130,029
Other current liabilities**	63,463,933	63,463,933	51,123,691	51,123,691
Noncurrent accrued rent	1,599,368,798	1,599,368,798	1,120,906,123	1,120,906,123
Short-term loans payable	883,500,000	883,500,000	508,500,000	508,500,000
Long term debt including current maturities	3,451,714,933	3,451,714,933	4,952,211,362	4,952,211,362

\*excluding statutory payables to the government

\*\*excluding gift cheques, exclusive fund, VAT payable and promotion fund and other current liabilities of Kareila

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

### *Cash and Cash Equivalents, Short-term Investments, Receivables and Security Deposits*

The carrying amounts of cash and cash equivalents, short-term investments and receivables 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, Trust Receipts Payable, Due to Related Parties, Other Current Liabilities and Noncurrent Accrued Rent*

The carrying amounts of accounts payable and accrued expenses, due to related parties, and trust receipts payable 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.

### *Short and Long-term Loans including Current Maturities*

The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Effective rates used in 2013 and 2012 range from 3.50% to 3.61% and 5.69% and 6.05%, respectively.

### Fair Value Hierarchy

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

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

As at December 31, 2013 and 2012, the Group's investment in trading securities were measured based on Level 1 classification and available for sale securities were measured based on Level 3 classification.

As at December 31, 2013 and 2012, the Group has no financial instruments valued based on Level 1 and has not introduced any movement among Levels 1, 2 and 3 classifications.

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## **30. Reclassification and Change in Accounting Policy**

### a. Reclassification

During the year, the Group modified the consolidated statements of financial position and consolidated statements of comprehensive income classifications as follows:

	<i>Note</i>	As Previously Reported	Effect of Reclassification	As Reclassified
<b>Statement of Financial Position</b>				
Receivables - net	<i>i</i>	P956,866,308	P7,014,202	P963,880,510
Due from related parties	<i>I</i>	7,014,202	(7,014,202)	-
Accounts payable and accrued expenses	<i>ii</i>	9,286,918,686	173,668,443	9,460,587,129
Due to related parties	<i>ii</i>	237,545,408	(173,668,443)	63,876,965
Property and equipment - net	<i>iii</i>	9,582,936,212	(67,546,892)	9,515,389,320
Intangible assets	<i>iii</i>	17,432,364,788	67,546,892	17,499,911,680
<b>Statement of Comprehensive Income</b>				
Operating expenses	<i>iv</i>	7,060,116,430	(1,396,819)	7,058,719,611*
Other income	<i>iv</i>	25,839,552	(1,396,819)	24,442,733

*Balance before adjustments on retirement benefits cost of P2,060,777*

- i. Trade related party transactions traced from due from related parties were reclassified to receivables;
- ii. Trade related party transactions traced from due to related parties were reclassified to accounts payable and accrued expenses;
- iii. Computer software and licenses included in property and equipment was reclassified to intangible assets;
- iv. Bank charges traced from operating expenses was reclassified to other expense.

b. Change in Accounting Policy

Comparative amounts were reclassified for better presentation. This reclassification did not have any effect on the consolidated statements of comprehensive income.

As a result of PAS 19 (Amended 2011), the Group has changed its accounting policy with respect to the elimination of the “corridor method” under which the recognition of actuarial gains and losses could be deferred. Instead, all actuarial gains and losses are recognized immediately in other comprehensive income.

*Summary of Quantitative Impacts*

The following tables summarize the impacts of the above changes on the Group’s financial position and comprehensive income.

The impact of the change in accounting policy as at January 1, 2012 is as follows:

	As Previously Reported	Effect of Restatement	As Restated
<b>Statement of Financial Position</b>			
Deferred tax assets - net	P220,139,294	P11,005,591	P231,144,885
Retirement benefits liability	76,356,980	77,081,360	153,438,340
Retained earnings	2,142,817,242	(45,830,724)	2,096,986,518

It is assumed that the Group initially applied PAS 19 (Amended 2011) on January 1, 2012. The impact of the changes as at and for the year ended December 31, 2012 is as follows:

	As Previously Reported	Effect of Restatement	As Restated
<b>Statement of Financial Position</b>			
Deferred tax liability - net	(P976,419,442)	P33,195,091	(P943,224,351)
Retirement benefits liability	157,164,520	110,650,302	267,814,822
Retained earnings	3,907,075,939	(44,388,180)	3,862,687,759
Remeasurements of retirement liability - OCI	-	(33,067,031)	(33,067,031)

*Forward*

	As Previously Reported	Effect of Restatement	As Restated
<b>Statement of Comprehensive Income</b>			
Operating expenses	P7,058,719,611	(P2,060,777)	P7,056,658,834
Income tax expense	1,154,024,274	618,233	1,154,642,507
Increase (decrease) in net income	8,212,743,885	(1,442,544)	8,211,301,341
Defined benefit plan remeasurements/defined benefit plan actuarial gains/(losses)	-	(35,629,719)	(35,629,719)
Tax on items that will never be reclassified to profit or loss	-	10,688,916	10,688,916
Decrease in OCI - net of tax	-	(24,940,803)	(24,940,803)
Overall impact on total comprehensive income	P8,212,743,885	(P26,383,347)	P8,186,360,538

The impact of the changes as at and for the year ended December 31, 2013 is as follows:

<b>Statement of Financial Position</b>	
Deferred tax liability - net	P20,103,716
Retirement benefit obligation	(67,012,386)
Retained earnings	44,388,180
Remeasurements of retirement liability - OCI	2,520,490
	P -
<b>Statement of Comprehensive Income</b>	
Operating expenses	P1,964,160
Income tax expense	(589,248)
Decrease in net income	1,374,912
Defined benefit plan remeasurements/defined benefit plan actuarial gains/(losses)	43,637,916
Tax on items that will never be reclassified to profit or loss	(13,091,375)
Increase in OCI - net of tax	30,546,541
Overall impact on total comprehensive income	P29,171,629

The effect on both basic and diluted earnings per share is as follows:

	Years Ended December 31		
	2013	2012 As restated	2011 As restated
Decrease in basic earnings per share	(0.000497)	(0.000589)	(0.00000)
Decrease in diluted earnings per share	(0.000497)	(0.000589)	(0.00000)

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**31. Event Subsequent to Reporting Date**

On March 25, 2014, the Parent Company's BOD approved the merger of the Parent Company with Company E, with the Parent Company as the surviving Corporation. This will be submitted for stockholders' approval and eventually SEC application on subsequent dates.



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## **REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION**

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

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Puregold Price Club, Inc. and Subsidiaries (the "Group") as at and for years ended December 31, 2013 and 2012, included in this Form 17-A, and have issued our report thereon dated March 25, 2014.

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

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and 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.

**R.G. MANABAT & CO.**

**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. 4225128MC

Issued January 2, 2014 at Makati City

March 25, 2014

Makati City, Metro Manila

**PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES**  
**SEC Supplementary Schedules and Other Documents**  
December 31, 2013

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

**Schedule A**

**Financial Assets**

**December 31, 2013**

<b>Name of issuing entity &amp; association of each issue</b>	<b>Number of shares</b>	<b>Amount shown on the balance sheet</b>
<b>Fair Value Through Profit or Loss:</b>		
ABOITIZ POWER	280,000	P9,520,000
BANCO DE ORO	96,133	6,594,724
RCBC	124,500	5,291,250
METROBANK	55,232	4,172,777
PNB	20,000	1,725,000
PHILEX MINING CORP.	100,000	792,000
GMA PDR	50,000	402,500
NATL REINSURANCE CO OF THE PHIL	200,000	272,000
PHILEX PETROLEUM CORPORATION	12,500	97,125
		<b>P28,867,376</b>
<b>Available for Sale:</b>		
SAN ROQUE SUPERMARKETS (SRS)		P371,896,077
MANILA ELECTRIC COMPANY	726,166	7,261,660
TOWER CLUB SHARES		617,500
		<b>P379,775,237</b>

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

**Schedule C**

Amounts Receivable from Related Parties which are Eliminated  
during the Consolidation of Financial Statements

December 31, 2013

<i>Name of Related Parties</i>	<i>Balance at beginning of year</i>	<i>Balance at end of year</i>
Kareila Management Corporation	P300,000,000	P475,002,645
Company E Corporation	-	251,817,956
Entenso Equities, Incorporated	-	65,961,590
<b>Total</b>	<u>P300,000,000</u>	<u>P792,782,191</u>

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

Intangible Assets - Other Assets  
December 31, 2013

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Deduction</i>				<i>Ending balance</i>
			<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>		
Goodwill	P 12,833,184,760	P -	P -	P -	P 358,156,157	P 13,191,340,917	
Trademark	3,709,660,547	-	-	-	-	3,709,660,547	
Customer relationship	889,452,981	-	-	-	-	889,452,981	
Computer software- net	66,500	-	-	-	136,646,577	136,713,077	
Leasehold rights	-	-	-	-	73,720,297	73,720,297	
<b>Total</b>	<b>P 17,432,364,788</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P 568,523,031</b>	<b>P 18,000,887,819</b>	

**PUREGOLD PRICE CLUB, INC. AND SUBSIDIARIES**  
**Schedule E**  
 Long-term Debt  
 December 31, 2013

<i>Title of Issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "long-term debt" in related balance sheet</i>
Notes Payable	<u>P2,963,700.000</u>	<u>P3,451,714,933</u>

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

**Schedule H**

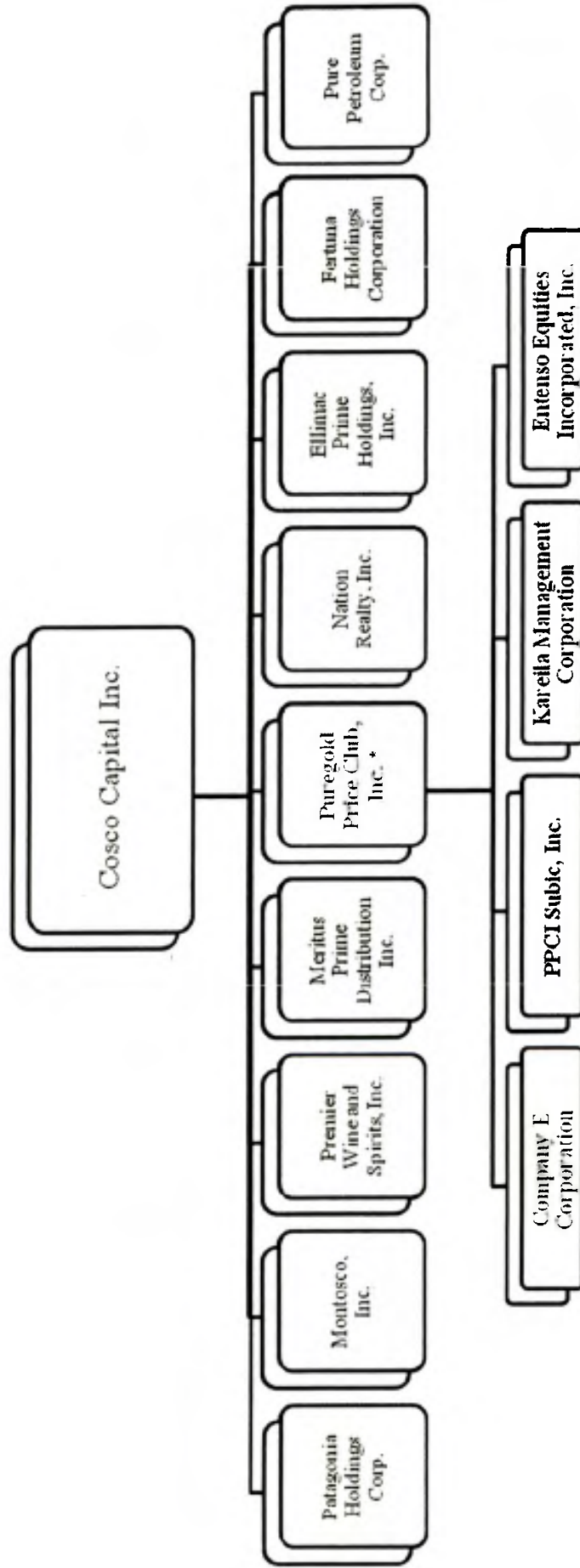
**Capital Stock**

December 31, 2013

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under "Capital Stock" caption in the consolidated statements of financial position	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees*	Others
Common shares outstanding	3,000,000,000	2,766,406,406	-	1,410,867,189	716,090,625	639,448,592

- 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 Kareila Management Corporation in exchange for 766,406,250 common shares of the Company's authorized but unissued capital stock on May 28, 2012. 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 P15,661.57 million.
- d. On February 26, 2013, the Philippine Securities and Exchange Commission approved the application for merger of the Company, Puregold Junior Supermarket, Inc. (PJSI) and Gant Group of Companies (Gant). Both are wholly-owned by the Company. As a consideration for the said merger, the Company paid the owner of PJSI and Gant shares of stocks equivalent to 16,911,162 shares at P26.55 per share. Considering that the owner of PJSI and Gant is the Company, 16,911,006 of the total shares issued were classified in the Company's book as treasury shares.

**MAP OF CONGLOMERATE**  
**Schedule I**  
 December 31, 2013



\* On August 14, 2012, the Board of Directors approved the merger of Puregold Price Club, Inc. (PPCI) with Puregold Junior Supermarket, Inc. (PJSI) and Gant Group of Companies (Gant) with PPCI as the surviving corporation. On February 26, 2013, the Philippine Securities and Exchange Commission approved the Company's application for merger resulting in the consolidation of PJSI and Gant's assets, liabilities, retained earnings.

**PUREGOLD PRICE CLUB, INC AND SUBSIDIARIES**

**Schedule J**

List of Philippine Financial Reporting Standards

December 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of <b>Financial Statements</b> 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			✓
<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			✓

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<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	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	✓		
<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 Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<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 (Amended)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		✓	
<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	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		

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IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) – Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
<b>PIC Q&amp;A 2007-04</b>	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
<b>PIC Q&amp;A 2008-01- Revised</b>	PAS 19.78 - Rate used in discounting post-employment benefit obligations			✓
<b>PIC Q&amp;A 2008-02</b>	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
<b>PIC Q&amp;A 2009-01</b>	Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern			✓
<b>PIC Q&amp;A 2009-02</b>	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
<b>PIC Q&amp;A 2010-01</b>	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
<b>PIC Q&amp;A 2010-02</b>	PAS 1R.16 – Basis of preparation of financial statements			✓
<b>PIC Q&amp;A 2010-03</b>	PAS 1 Presentation of Financial Statements – Current/non-current classification of a callable term loan			✓
<b>PIC Q&amp;A 2011-01</b>	PAS 1.10(f) – Requirements for a Third Statement of Financial Position	✓		
<b>PIC Q&amp;A 2011-02</b>	PFRS 3.2 - Common Control Business Combinations	✓		
<b>PIC Q&amp;A 2011-03</b>	Accounting for Inter-company Loans			✓
<b>PIC Q&amp;A 2011-04</b>	PAS 32.37-38 - Costs of Public Offering of Shares			✓
<b>PIC Q&amp;A 2011-05</b>	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
<b>PIC Q&amp;A 2011-06</b>	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of investment properties - asset acquisition or business combination?			✓
<b>PIC Q&amp;A 2012-01</b>	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
<b>PIC Q&amp;A 2012-02</b>	Cost of a New Building Constructed on the Site of a Previous Building			✓
<b>PIC Q&amp;A 2013-01</b>	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
<b>PIC Q&amp;A 2013-03</b>	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓

**Puregold Price Club, Inc. and Subsidiaries**  
**Schedule K**  
**Financial Soundness Indicators**

Indicator	As of		Formula
	December 31, 2013	December 31, 2012	
Current Ratio	1.36x	1.61x	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Cash Ratio	0.41x	0.84x	$\frac{\text{Cash and Cash equivalents}}{\text{Current Liabilities}}$
Debt-Equity Ratio	0.62x	0.66x	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$
Debt-Asset Ratio	0.38x	0.40x	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$
Asset-Equity Ratio	1.62x	1.66x	$\frac{\text{Total Asset}}{\text{Total Equity}}$
Interest Coverage Ratio	211.72x	53.31x	$\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Expense}}$
Net Income Margin	5.41%	4.73%	$\frac{\text{Net Income}}{\text{Net Revenues}}$
Investment Ratio	0.01x	0.001x	$\frac{\text{Total Investment and Advances}}{\text{Total Asset}}$
Return on Assets	8.33%	21.90%	$\frac{\text{Net Income}}{\text{Average Total Assets}}$
Earnings Per Share	P1.43	P1.11	$\frac{\text{Net Income}}{\text{Weighted Average Number of Ordinary Shares}}$

**PUREGOLD PRICE CLUB, INC.**  
**900 Romualdez Street, Paco Manila**  
**Schedule L**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE**  
**FOR DIVIDEND DECLARATION**

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

<b>Unappropriated Retained Earnings, beginning</b>	<b>P3,010,757,577</b>
<b>Adjustment in previous year's reconciliation</b>	<b>-</b>
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>	<b>3,010,757,577</b>
<b>Net Income based on the face of AFS</b>	<b>P2,765,766,031</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>2,765,766,031</b>
<b>Add (less):</b>	
Dividend declarations during the year	<b>(829,921,924)</b>
Appropriations of Retained Earnings during the year	-
Reversals of appropriations	-
Effects of prior period adjustments	<b>(44,585,456)</b>
Treasury shares	<b>(16,911,006)</b>
Retained earnings upon merger	<b>445,292,716</b>
	<b>(446,125,670)</b>
<b>Unappropriated Retained Earnings, as adjusted, ending</b>	<b>P5,330,397,938</b>