



May 14, 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

Philippine Stock Exchange  
Ayala Avenue, Makati City

Attention: **Janet Encarnacion**  
Head, Disclosure Department

Subject: **SEC 17-Q as of March 31, 2014**

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GENTLEMEN:

Please see attached SEC 17-Q for the 1<sup>st</sup> Quarter CY 2014 of Puregold Price Club, Inc. and its subsidiaries.

Thank you.

Very truly yours,

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

# COVER SHEET

**A 1 9 9 8 1 3 7 5 4**

SEC Registration Number

**PUREGOLD PRICE CLUB, INC.**

(Company's Full Name)

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

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

**CANDY H. DACANAY-DATUON**

(Contact Person)

**(02) 523-3055**

(Company Telephone Number)

**1 2**

Month

**3 1**

Day

**SEC FORM 17-Q**

(Form Type)

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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

\_\_\_\_\_

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended ..... March 31, 2014
2. Commission identification number..... A199813754
3. BIR Tax Identification No..... 201-277-095
4. Exact name of issuer as specified in its charter.....PUREGOLD PRICE CLUB, INC.
5. Province, country or other jurisdiction of incorporation or organization  
Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office ..... Postal Code  
No. 900 Romualdez St., Paco, Manila ..... 1007
8. Issuer's telephone number, including area code  
(632) 523-3055
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common shares	2,766,406,406

11. Are any or all of the securities listed on a Stock Exchange?  
Yes [ / ] No [ ]

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

Common shares (2,000,000,000) Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

Please see attached **SECTION A**

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

The following should be read in conjunction with the accompanying interim financial statements and notes thereto which form part of this Report. The interim financial statements and notes thereto have been prepared in accordance with the generally accepted accounting principles in the Philippines.

#### Top Key Performance Indicators

The following are the financial soundness indicators used by the Group as at and for the three-month periods ended March 31:

	March 2014	December 2013
Current Ratio <sup>(1)</sup>	1.59:1	1.36:1
Asset to Equity Ratio <sup>(2)</sup>	1.50:1	1.62:1
Debt to Equity Ratio <sup>(3)</sup>	0.50:1	0.62:1
Net Debt to Equity <sup>(4)</sup>	0.41:1	0.45:1
Equity to Debt Ratio <sup>(5)</sup>	2.00:1	1.61:1
Book Value per Share <sup>(6)</sup>	P11.40	P11.06

  

	March 2014	March 2013
Earnings per Share <sup>(7)</sup>	P0.34	P0.35

(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

## I. Results of Operations

For the three-month period ended March 31, 2014, the Group posted a consolidated net income of P943 million at 5.1% net margin, slightly falling short by 1.9% from P962 million in 2013 of the same period. This was due to a higher interest income recognized in previous year of the same period, coming from the short-term investment of the P5 billion corporate bonds issued by the Parent Company. The same bond was pre-terminated and paid in full in April of 2013. Operating income, however, grew by 13.2% from P1,193 million to P1,351 million for the three-month period ended March 31, 2013 and 2014, respectively. The Group's financial results are presented below for the comparative periods:

<i>(Php in millions )</i>	For the Three-month Periods Ended March 31				
	2014	% to Net Sales	2013	% to Net Sales	% Change
<b>Net Sales</b>	P18,385	100.0%	P16,093	100.0%	14.2%
Cost of Sales	15,180	82.6%	13,258	82.4%	14.5%
<b>Gross Profit</b>	<b>3,204</b>	<b>17.4%</b>	<b>2,834</b>	<b>17.6%</b>	<b>13.0%</b>
Other Operating Income	674	3.7%	492	3.1%	37.0%
	3,878	21.1%	3,326	20.7%	16.6%
<b>Operating Expenses</b>	<b>2,527</b>	<b>13.7%</b>	<b>2,133</b>	<b>13.3%</b>	<b>18.5%</b>
<b>Operating Income</b>	<b>1,351</b>	<b>7.3%</b>	<b>1,193</b>	<b>7.4%</b>	<b>13.2%</b>
Interest Expense	(11)	-0.1%	(11)	-0.1%	7.1%
Interest Income	7	0.0%	130	0.8%	-94.7%
Other income (expense) – net	(1)	0.0%	5	0.0%	-111.4%
<b>Income before income tax</b>	<b>1,346</b>	<b>7.3%</b>	<b>1,317</b>	<b>8.2%</b>	<b>2.2%</b>
Income tax expense	402	2.2%	355	2.2%	13.3%
<b>Net Income</b>	<b>P943</b>	<b>5.1%</b>	<b>P962</b>	<b>6.0%</b>	<b>-1.9%</b>

### *Net Sales*

For the three-month period ended March 31, 2014, the Group posted a consolidated net sales of P18,385 million for an increase of P2,292 million or 14.2% compared to P16,093 million in the same period of 2013. New stores put up in 2013 were fully operating in 2014 increasing consolidated net sales for the three-month period ended March 2014.

### *Gross Profit*

The Group realized an increase of 13.0% in consolidated gross profit for the three-month period ended March 31 from P2,834 million in 2013 to P3,204 million in 2014 of the same period, driven by sales growth and suppliers' support by way of rebates and conditional discounts granted during the period, in support of the Group's strategic store expansion program. Consolidated gross profit margin was posted at 17.4% and 17.6% for the three-month periods ended March 2014 and 2013, respectively. Cost of sales increased by 14.5% in line with increase in sales.

### *Other operating income*

Other operating income increased by P182 million or 37.0% from P492 million in the three-month period ended March 2013 to P674 million in 2014 of the same period. This includes increase in concessionaire income, commissions due from renting of product display locations in store aisles to suppliers and renting of booths to third party retailers, increase in membership income, as well as increase in display allowances from the new stores.

***Operating Expenses***

Operating expenses increased by P394 million or 18.5% from P2,133 million in the three-month period ended March 2013 to P2,527 million in 2014 of the same period. 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 decreased by P6 million or 111.4% from P5 million income-net in three-month period ended March 2013 to P1 million expense-net in 2014 of the same period. This was due to increase in bank charges for the three month period ended March 31, 2014.

***Interest income***

Interest income decreased by P123 million or 94.7% from P130 million in the three-month period ended March 2013 to P7 million in 2014 of the same period. This was due to pre-termination of the P5 billion corporate bonds in April 2013. In the first quarter of 2013, the unused proceeds from the said bond were temporarily invested to take advantage of the income from capitalization.

## II. Financial Condition

The Group's consolidated statements of financial position for the period ended March 31, 2014 and year ended December 31, 2013 are presented below:

<i>(In millions)</i>	March 2014		December 2013		% Change
		% to Total Assets		% to Total Assets	
Cash & Cash Equivalents	P2,824	6.0%	P5,299	10.7%	-46.7%
Short-term investments	-	0.0%	500	1.0%	-100.0%
Receivables - net	1,229	2.6%	1,217	2.5%	1.0%
Investments in trading securities	32	0.1%	29	0.1%	10.8%
Merchandise inventory	9,938	21.0%	9,442	19.0%	5.3%
Prepaid expenses and other current assets	1,116	2.4%	1,019	2.1%	9.6%
<b>Total Current Assets</b>	<b>15,140</b>	<b>32.0%</b>	<b>17,505</b>	<b>35.3%</b>	<b>-13.5%</b>
Investments and acquisitions of subsidiaries	440	0.9%	440	0.9%	0.0%
Property and equipment- net	12,508	26.4%	12,513	25.2%	0.0%
Intangibles and goodwill	18,000	38.1%	18,001	36.3%	0.0%
Other noncurrent assets	1,207	2.6%	1,167	2.4%	3.5%
<b>Total Noncurrent Assets</b>	<b>32,155</b>	<b>68.0%</b>	<b>32,121</b>	<b>64.7%</b>	<b>0.1%</b>
	<b>P47,294</b>	<b>100.0%</b>	<b>P49,626</b>	<b>100.0%</b>	<b>-4.7%</b>
Accounts payable and accrued expenses	7,310	15.5%	11,040	22.2%	-33.8%
Short-term loans payable	884	1.9%	884	1.8%	0.0%
Income tax payable	1,021	2.2%	561	1.1%	82.2%
Trust receipts payable	33	0.1%	17	0.0%	100.0%
Due to related parties	80	0.2%	79	0.2%	0.9%
Other current liabilities	202	0.4%	302	0.6%	-33.2%
<b>Total Current Liabilities</b>	<b>9,530</b>	<b>20.2%</b>	<b>12,882</b>	<b>26.0%</b>	<b>-26.0%</b>
Noncurrent accrued rent	1,704	3.6%	1,599	3.2%	6.5%
Long-term loans - net of debt issue costs	3,453	7.3%	3,452	7.0%	0.0%
Deferred tax liabilities - net	791	1.7%	819	1.7%	-3.4%
Retirement benefits liability	287	0.6%	287	0.6%	0.0%
<b>Total Noncurrent Liabilities</b>	<b>6,235</b>	<b>13.2%</b>	<b>6,157</b>	<b>12.4%</b>	<b>1.3%</b>
<b>Total Liabilities</b>	<b>P15,765</b>	<b>33.3%</b>	<b>P19,039</b>	<b>38.4%</b>	<b>-17.2%</b>
Capital stock	2,766	5.8%	2,766	5.6%	0.0%
Additional paid in capital	20,830	44.0%	20,830	42.0%	0.0%
Remeasurements of retirement liability - net of tax	(3)	0.0%	(3)	0.0%	0.0%
Retained earnings	7,935	16.8%	6,992	14.1%	13.5%
<b>Total Equity</b>	<b>31,530</b>	<b>66.7%</b>	<b>30,586</b>	<b>61.6%</b>	<b>3.1%</b>
	<b>P47,294</b>	<b>100.0%</b>	<b>P49,626</b>	<b>100.0%</b>	<b>-4.7%</b>

### *Working Capital*

As at March 31, 2014 and December 31, 2013, the Group's working capital stood at P5,610 million and P4,623 million, respectively. The Group's current ratio is at 1.59 as at March 2014 and 1.36 as at December 2013.

**Current Assets**

As at March 31, 2014 and December 31, 2013, total current assets amounted to P15,140 million or 32.0% of total assets, and P17,505 million or 35.3% of total assets, respectively, for a decrease of P2,365 million or 13.5% as at March 31, 2014.

Cash and cash equivalents as at March 31, 2014 amounted to P2,824 million or 6.0% of total assets, lower by P2,475 million or 46.7% compared to previous year-end balance. Decrease in the account was attributable to settlement of trade liabilities, payments for 2013 cash dividends and capital expenditures for new stores expansion.

Receivables amounted to P1,229 million as at March 31, 2014 or 2.6% of total assets, with an increase of P12 million or 1.0% from P1,217 million in December 2013. 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 P9,938 million or 21.0% of total assets at the end of March 2014. Total inventory increased by P496 million or 5.3% principally due to stocking requirements of existing and new operating stores.

Prepaid expenses and other current assets increased by P97 million or 9.6% at the end of March 2014, relative to opening of new stores and are attributable primarily to rent, insurance, taxes, permits & licenses and input taxes.

**Noncurrent Assets**

As at March 31, 2014 and December 31, 2013, total noncurrent assets amounted to P32,155 million or 68.0% of total assets, and P32,121 million or 64.7% of total assets, respectively, for an increase of P34 million or 0.1% as at March 31, 2014.

Net book values of property and equipment decreased by P5 million or 0.04% from P12,513 million in December 2013 to P12,508 million in March 2014. This was due to depreciation expense recognized during the period.

Other noncurrent assets increased by P40 million or 3.5% from P1,167 million in December 2013 to P1,207 million in March 2014. This was primarily due to increase in security deposits in relation to new leases acquired for operation of new stores.

**Current Liabilities**

As at March 31, 2014 and December 31, 2013, total current liabilities amounted to P9,530 million or 20.2% of total assets, and P12,882 million or 26.0% of total assets, respectively, for a decrease of P3,352 million or 26.0% as at March 31, 2014.

Accounts payable and accrued expenses decreased by P3,730 million or 33.8% primarily due to net settlement of trade liabilities and payment of cash dividend to stockholders.

Income tax payable increased by P460 million from P561 million in December 2013 to P1,021 million in March 2014 due to recognition of tax expense for the three-month period ended March 31, 2014.

Trust receipts payable increased by P16 million or 100.0% from P17 million in December 2013 to P33 million in March 2014 due to purchases made for goods covered under the trust receipts agreement.

Other current liabilities decreased by 33.2% from P302 million in December 2013 to P202 million in March 2014 relatively due to application of promo funds during the period from various suppliers.



### ***Noncurrent Liabilities***

As at March 31, 2014 and December 31, 2013, total noncurrent liabilities amounted to P6,235 million or 13.2% of total assets, and P6,157 million or 12.4% of total assets, respectively, for an increase of P77 million or 1.3% as at March 31, 2014.

Noncurrent accrued rent increased by P105 million or 6.5% from P1,599 million in December 2013 to P1,704 million in March 2014 due to recognition of rent expense for lease contracts entered into by the Parent Company and its subsidiaries in compliance with PAS 17 – *Leases*.

### **III. Sources and Uses of Cash**

The Group's primary sources of liquidity are basically net cash inflows provided by operating activities and cash obtained from loans with banks. Principal uses of cash are operating expenses and capital expenditures for additional stores expansion.

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

<i>(In millions)</i>	For the Three-month Periods Ended March 31	
	2014	2013
Net cash used in operating activities	<b>(P1,827)</b>	(P1,091)
Net cash provided by (used in) investing activities	<b>180</b>	(1,337)
Net cash used in financing activities	<b>(828)</b>	(699)
Net decrease in cash and cash equivalents	<b>(P2,475)</b>	(P3,126)

Net cash used operating activities amounted to P1,827 million for the three-month period ended March 31, 2014. This was mainly due settlement of payables to both trade and nontrade suppliers to avail efficiency discounts and payments made for additional inventories and other related current operating items to support the Company's expansion.

Net cash provided by investing activities amounted to P180 million for the three-month period ended March 31, 2014. This was due to the P500 million short-term investments matured during the period. Acquisition of equipments, furniture & fixtures, construction of buildings and improvements on leased assets amounted to P279 million as at the end of the period.

Net cash used in financing activities amounted to P828 million for the three-month period ended March 31, 2014. This pertains to payment of P830 million cash dividends to stockholders.

### **IV. 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.

SIGNATURE

Pursuant to the requirements of the Securities and Regulation Code, the Issuer has duly caused this 1<sup>st</sup> Quarter Financial Statements of Puregold Price Club, Inc. and its subsidiaries for the year 2014 to be signed on its behalf by the undersigned thereunto duly authorized.

May 14, 2014, City of Manila.

**PUREGOLD PRICE CLUB, INC.**

By:



**LEONARDO B. DAYAO**  
President



**ERLINDA G. ORRO**  
Financial Comptroller

SECTION A

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
MARCH 31, 2014 AND DECEMBER 31, 2013**

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

<i>Note</i>	<b>March 31 2014</b>	December 31 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	4, 28, 29 <b>P2,824,154,665</b>	P5,298,726,281
Short-term investments	5, 28, 29 <b>-</b>	500,000,000
Receivables – net	6, 22, 28, 29 <b>1,228,977,820</b>	1,217,058,766
Merchandise inventory	7 <b>9,938,340,426</b>	9,441,528,622
Investments in trading securities	8, 28, 29 <b>31,993,114</b>	28,867,376
Prepaid expenses and other current assets	9 <b>1,116,280,559</b>	1,018,882,574
<b>Total Current Assets</b>	<b>15,139,746,584</b>	17,505,063,619
<b>Noncurrent Assets</b>		
Investments and acquisitions of subsidiaries	10, 28, 29 <b>439,775,237</b>	439,775,237
Property and equipment – net	11 <b>12,507,713,499</b>	12,513,226,596
Intangibles and goodwill	12 <b>18,000,137,130</b>	18,000,887,819
Other noncurrent assets	13, 18, 24, 28, 29 <b>1,206,976,704</b>	1,166,690,791
<b>Total Noncurrent Assets</b>	<b>32,154,602,570</b>	32,120,580,443
	<b>P47,294,349,154</b>	P49,625,644,062
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	14, 22, 25, 28, 29 <b>P7,310,324,205</b>	P11,040,055,010
Short-term loans payable	15, 28, 29 <b>883,500,000</b>	883,500,000
Income tax payable	<b>1,021,250,373</b>	560,508,497
Trust receipts payable	28, 29 <b>33,086,439</b>	16,543,219
Due to related parties	22, 28, 29 <b>80,074,185</b>	79,363,007
Other current liabilities	16, 28, 29 <b>201,775,419</b>	302,126,431
<b>Total Current Liabilities</b>	<b>9,530,010,621</b>	12,882,096,164
<b>Noncurrent Liabilities</b>		
Noncurrent accrued rent	24, 28, 29 <b>1,703,851,193</b>	1,599,368,798
Long-term loans - net of debt issue costs	15, 28, 29 <b>3,452,794,847</b>	3,451,714,933
Deferred tax liabilities – net	24 <b>791,339,395</b>	819,497,887
Retirement benefits liability	23 <b>286,666,279</b>	286,666,279
<b>Total Noncurrent Liabilities</b>	<b>6,234,651,714</b>	6,157,247,897
<b>Total Liabilities</b>	<b>P15,764,662,335</b>	P19,039,344,061

Forward

	<i>Note</i>	<b>March 31 2014</b>	December 31 2013
<b>Equity</b>			
Capital stock	25	<b>P2,766,406,406</b>	P2,766,406,406
Additional paid-in capital	25	<b>20,830,391,081</b>	20,830,391,081
Remeasurements of retirement liability - net of tax	23	<b>(2,520,490)</b>	(2,520,490)
Retained earnings	25	<b>7,935,409,822</b>	6,992,023,004
<b>Total Equity</b>		<b>31,529,686,819</b>	30,586,300,001
		<b>P47,294,349,154</b>	P49,625,644,062

*See Notes to the Interim Consolidated Financial Statements.*

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

		<b>Periods Ended March 31</b>	
	<i>Note</i>	<b>2014</b>	<b>2013</b>
<b>NET SALES</b>			
Gross sales		<b>P18,426,927,334</b>	P16,127,169,091
Sales discount		<b>42,397,433</b>	34,327,059
		<b>18,384,529,901</b>	16,092,842,032
<b>COST OF SALES</b>	<i>17</i>	<b>15,180,277,318</b>	13,258,406,773
<b>GROSS PROFIT</b>		<b>3,204,252,583</b>	2,834,435,259
<b>OTHER OPERATING INCOME</b>	<i>19</i>	<b>673,881,351</b>	491,897,782
		<b>3,878,133,934</b>	3,326,333,041
<b>OPERATING EXPENSES</b>	<i>8, 20</i>	<b>2,527,453,189</b>	2,133,231,084
<b>INCOME FROM OPERATIONS</b>		<b>1,350,680,745</b>	1,193,101,957
<b>OTHER INCOME (EXPENSES)</b>			
Interest expense	<i>14, 15</i>	<b>(11,331,269)</b>	(10,581,953)
Interest income	<i>4, 5</i>	<b>6,910,631</b>	129,508,493
Others – net	<i>21</i>	<b>(556,805)</b>	4,885,057
		<b>(4,977,443)</b>	123,811,597
<b>INCOME BEFORE INCOME TAX</b>		<b>1,345,703,302</b>	1,316,913,554
<b>INCOME TAX EXPENSE</b>			
Current		<b>431,456,099</b>	383,157,767
Deferred		<b>(29,139,616)</b>	(28,043,969)
	<i>24</i>	<b>402,316,483</b>	355,113,798
<b>NET INCOME</b>		<b>P943,386,819</b>	P961,799,756
Basic and diluted earnings per share	<i>27</i>	<b>P0.34</b>	P0.35

*See Notes to the Interim Consolidated Financial Statements.*



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

	<i>Note</i>	Capital Stock	Additional Paid- in Capital	Remeasurements of Retirement Liability	Retained Earnings	Total Equity
<b>Balance at December 31, 2012*</b> , as restated		P2,766,406,250	P20,830,387,095	(P33,067,031)	P3,862,687,759	P27,426,414,073
<b>Total comprehensive income</b>						
Net income for the year		-	-	-	3,959,257,169	3,959,257,169
Other comprehensive income, net of tax	30	-	-	30,546,541	-	30,546,541
<b>Total comprehensive income</b>		-	-	30,546,541	3,959,257,169	3,989,803,710
<b>Transactions with owners of the Parent Company</b>						
Issuance of ordinary 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>		156	3,986	-	(829,921,924)	(829,917,782)
<b>Balance at December 31, 2013</b>		2,766,406,406	20,830,391,081	(2,520,490)	6,992,023,004	30,586,300,001
<b>Total comprehensive income</b>						
Net income for the year		-	-	-	943,386,819	943,386,819
Other comprehensive income, net of tax	30	-	-	-	-	-
<b>Total comprehensive income</b>		-	-	-	943,386,819	943,386,819
<b>Balance at March 31, 2014</b>		P2,766,406,406	P20,830,391,081	(P2,520,490)	P7,935,409,822	P31,529,686,819

\*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 *Interim Consolidated Financial Statements*.

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

**Periods Ended March 31**

	<i>Note</i>	<b>2014</b>	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>P1,345,703,302</b>	P1,316,913,554
Adjustments for:			
Depreciation and amortization	<i>11, 12, 20</i>	<b>285,570,038</b>	214,521,280
Rent expense in excess of billings		<b>104,528,977</b>	94,728,375
Interest income	<i>4, 5</i>	<b>(6,910,631)</b>	(134,537,050)
Retirement benefits cost	<i>20, 23</i>	-	10,930,075
Interest expense	<i>14, 15</i>	<b>11,331,269</b>	10,581,952
Unrealized valuation gain in trading securities	<i>8, 21</i>	<b>(3,125,737)</b>	-
Dividend income	<i>21</i>	<b>(62,680)</b>	(138,560)
Operating income before changes in working capital		<b>1,737,034,538</b>	1,512,999,625
Increase in:			
Receivables		<b>(11,919,054)</b>	(310,770,079)
Investments in trading securities		-	(4,285,434)
Merchandise inventory		<b>(496,811,804)</b>	(313,383,933)
Prepaid expenses and other current assets		<b>(67,131,085)</b>	(115,118,286)
Increase (decrease) in:			
Accounts payable and accrued expenses		<b>(2,895,240,225)</b>	(1,770,801,029)
Trust receipts payable		<b>16,543,220</b>	6,293,430
Other current liabilities		<b>(100,351,013)</b>	34,575,445
Cash generated from operations		<b>(1,817,875,423)</b>	(960,490,261)
Interest received		<b>6,910,631</b>	134,537,050
Interest paid		<b>(15,946,509)</b>	(10,581,952)
Income taxes paid		-	(254,326,367)
Net cash used in operating activities		<b>(P1,826,911,301)</b>	(P1,090,861,530)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	<i>11</i>	<b>(279,306,252)</b>	(940,604,431)
Additions to intangibles	<i>12</i>	-	(314,236,137)
Acquisition of short-term investments		<b>500,000,000</b>	-
Increase in other noncurrent assets		<b>(40,285,913)</b>	(41,365,337)
Increase in due from a related party		-	(40,645,124)
Dividends received		<b>62,680</b>	138,560
Net cash provided by (used) in investing activities		<b>P180,470,515</b>	(P1,336,712,469)

	Periods Ended March 31		
	<i>Note</i>	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availment of loans payable		P1,079,914	P2,131,933
Cash dividends paid		(829,921,922)	(553,280,000)
Increase (decrease) in due to related parties		711,178	(147,489,970)
Net cash used in financing activities		(828,130,830)	(698,638,037)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,474,571,616)</b>	<b>(3,126,212,035)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<i>4</i>	<b>5,298,726,281</b>	<b>9,084,325,007</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<i>4</i>	<b>P2,824,154,665</b>	<b>P5,958,112,972</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 Interim Consolidated Financial Statements.

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

**1. Reporting Entity**

Puregold Price Club, Inc. (the "Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1998. Its shares are listed in the Philippine Stock Exchange (PSE) since October 5, 2011 with stock symbol of PGOLD. Its 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 twenty three (223) operating stores as at March 31, 2014. 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"):

	<u>Percentage of Ownership</u>	
	<b>March 2014</b>	<b>December 2013</b>
Kareila Management Corporation (Kareila) <sup>(a)</sup>	<b>100.00</b>	100.00
PPCI Subic Inc. (Subic) <sup>(b)</sup>	<b>100.00</b>	100.00
Company E Corporation (Company E) <sup>(c)</sup>	<b>100.00</b>	100.00
Entenso Equities Incorporated, Inc. (Entenso) <sup>(d)</sup>	<b>100.00</b>	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).*

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).

#### 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 March 31, 2014, 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 March 31, 2014, 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 P488.47 million and P387.82 million for the three-month period ended March 31, 2014 and 2013, 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 P79.37 million and P70.15 million in March 31, 2014 and 2013, 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 March 31, 2014 and December 31, 2013. In 2014, 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. The carrying amount of receivables amounted to P1,228.98 million and P1,217.06 million as at March 31, 2014 and December 31, 2013, 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 P9,938.34 million and P9,441.53 million as at March 31, 2014 and December 31, 2013, 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 P283.31 million and P212.40 million for the period ended March 31, 2014 and 2013, respectively (see Note 20). Property and equipment, net of accumulated depreciation, amounted to P12,507.71 million and P12,513.23 million as at March 31, 2014 and December 31, 2013, 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 P2.26 million and P2.12 million for the period ended March 31, 2014 and 2013, respectively (see Note 20). Net carrying value of computer software and licenses and leasehold rights amounted to P209.68 million and P210.43 million as at March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013 (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 P595.39 million and P566.25 million as at March 31, 2014 and December 31, 2013, 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 March 2014 and December 2013.

#### *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 P261.67 million and P286.67 million as at March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013, the Group does not have any contingent legal or constructive obligation that requires provision.

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

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

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

The Group has adopted the following amendments to standards and interpretations starting January 1, 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 March 31, 2014 and December 31, 2013.

##### *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 P31.99 million and P28.87 million as at March 31, 2014 and December 31, 2013, 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 as at March 31, 2014 and December 31, 2013 (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:

	<u>Number of Years</u>
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 consists of:

	<i>Note</i>	<b>March 2014</b>	<b>December 2013</b>
Cash on hand		<b>P372,123,385</b>	P718,534,472
Cash in banks	28, 29	<b>1,317,460,232</b>	1,718,822,826
Money market placements	28, 29	<b>1,134,571,048</b>	2,861,368,983
	29	<b>P2,824,154,665</b>	P5,298,726,281

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 1.85% in March 2014 and 1.00% to 2.80% in December 2013. Interest income earned for cash in banks and money market placements amounted to P6.91 million and P129.51 million for the period ended March 31, 2014 and 2013, 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.

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#### 6. Receivables

This account consists of:

	<i>Note</i>	<b>March 2014</b>	<b>December 2013</b>
Trade receivables:	<i>a</i>	<b>P445,511,979</b>	P908,737,453
Non-trade receivables	<i>b</i>	<b>790,928,168</b>	315,783,640
		<b>1,236,440,147</b>	1,224,521,093
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>P1,228,977,820</b>	P1,217,058,766

- 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 March 31, 2014 and December 31, 2013 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>March 2014</b>	December 2013
Beginning balance		<b>P7,462,327</b>	P7,462,327
Impairment losses recognized during the year	<i>20</i>	-	-
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.

## 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 March 31, 2014 and December 31, 2013 is lower than NRV.

The Group’s merchandise inventory as at March 31, 2014 and December 31, 2013 amounted to P9,938.34 million and P9,441.53 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>	<i>Note</i>	<b>March 2014</b>	December 2013
Balance at beginning of year		<b>P14,518,906</b>	P14,518,906
Additions during the year		-	-
Balance at end of year		<b>14,518,906</b>	14,518,906
<b>Valuation Adjustments</b>			
Balance at beginning of year		14,348,470	20,427,615
Unrealized valuation gain (loss) on financial assets at FVPL for the year	<i>21</i>	<b>3,125,738</b>	<b>(6,079,145)</b>
Balance at end of year		<b>17,474,308</b>	14,348,470
	<i>28, 29</i>	<b>P31,993,214</b>	P28,867,376

## 9. Prepaid Expenses and Other Current Assets

This account consists of:

	March 2014	December 2013
Input value added tax (VAT)	<b>P694,242,722</b>	P745,227,103
Prepaid expenses	<b>360,737,305</b>	273,655,471
Creditable withholding tax	<b>61,300,532</b>	-
	<b>P1,116,280,559</b>	P1,018,882,574

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	March 2014	December 2013
Rent	18	<b>P187,691,176</b>	P164,917,698
Insurance		<b>56,536,590</b>	53,924,506
Taxes and licenses		<b>111,942,963</b>	51,919,039
Repairs and maintenance		<b>2,568,633</b>	984,588
Others		<b>1,997,943</b>	1,909,640
		<b>P360,737,305</b>	P273,655,471

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.

## 10. Investments and Acquisitions of Subsidiaries

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

### Investments

	Note	March 2014	December 2013
AFS financial assets	a	<b>P379,775,237</b>	P379,775,237
Investment in a joint venture	b	<b>60,000,000</b>	60,000,000
		<b>P439,775,237</b>	P439,775,237

#### 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:

*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
			P1,100,000,000

*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 consists of:

	Building	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction in Progress	Total
<b>Cost</b>							
Balance, December 31, 2012	P2,950,498,898	P1,184,884,972	P3,263,341,204	P2,886,691,418	P378,483,603	P1,135,489,468	P11,799,389,563
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
Additions	12,171,774	57,694,652	76,975,698	94,440,435	-	36,530,893	277,813,452
Reclassifications	56,269,901	2,460	-	24,323,686	-	(80,596,047)	-
Disposals	-	(29,000)	-	-	-	-	(29,000)
Adjustments	-	(70,103)	-	-	-	-	(70,103)
Balance, March 31, 2014	4,299,914,588	1,681,573,146	4,509,747,361	4,827,056,854	386,605,815	326,014,682	16,030,912,446
<b>Accumulated Depreciation and Amortization</b>							
Balance, December 31, 2012	P283,380,439	P339,542,319	P1,331,596,526	P329,480,959	P-	P-	P2,284,000,243
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
Depreciation and amortization	35,658,440	33,677,623	155,778,276	58,191,731	-	-	283,306,070
Disposals	-	(8,521)	-	-	-	-	(8,521)
Adjustments	-	(70,103)	-	-	-	-	(70,103)
Balance, March 31, 2014	443,574,507	497,792,509	2,011,077,122	570,754,809	-	-	3,523,198,947
<b>Carrying Amount</b>							
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
March 31, 2014	P3,856,340,081	P1,183,780,637	P2,498,670,239	P4,256,302,045	P386,605,815	P326,014,682	P12,507,713,499

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 March 2014 and December 2013.

## 12. Intangibles and Goodwill

This account consists of:

	<i>Note</i>	<b>March 2014</b>	<b>December 2013</b>
Goodwill	<i>a</i>	<b>P13,191,340,917</b>	P13,191,340,917
Trademark	<i>b</i>	<b>3,709,660,547</b>	3,709,660,547
Customer relationship	<i>b</i>	<b>889,452,981</b>	889,452,981
Computer software and licenses - net	<i>c</i>	<b>135,962,388</b>	136,713,077
Leasehold rights	<i>c</i>	<b>73,720,297</b>	73,720,297
		<b>P18,000,137,130</b>	P18,000,887,819

### 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.

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

Details are as follows:

### 1. Acquisition of PJSI

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

## 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.

## 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 March 31, 2014 and December 31, 2013.

Management assessed that there is no impairment in the value of trademark and customer relationship in March 2014 and December 2013.

### 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 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 March 31, 2014 and December 31, 2013 consists of:

	<b>Computer Software</b>	<b>Leasehold Rights</b>	<b>Total</b>
<b>Cost</b>			
Balance, January 1, 2013	P120,018,468	P-	P120,018,468
Additions	71,951,732	75,355,005	147,306,737
Adjustments	13,133,611	-	13,133,611
Balance, December 31, 2013	205,103,811	75,355,005	280,458,816
Additions	1,513,274	-	1,513,274
Adjustments			
<b>Balance, March 31, 2014</b>	<b>206,617,085</b>	<b>75,355,005</b>	<b>281,972,090</b>
<b>Accumulated Amortization</b>			
Balance, January 1, 2013	P52,405,076	P-	P52,405,076
Amortization	8,748,369	1,634,708	10,383,077
Adjustments	7,237,289	-	7,237,289
Balance, December 31, 2013	68,390,734	1,634,708	70,025,442
Amortization	2,263,963	-	2,263,963
Adjustments			
<b>Balance, March 31, 2014</b>	<b>70,654,697</b>	<b>1,634,708</b>	<b>72,289,405</b>
<b>Carrying Amount</b>			
December 31, 2013	P136,713,077	P73,720,297	P210,433,374
March 31, 2014	P135,962,388	P73,720,297	P209,682,685

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 consists of:

	<i>Note</i>	<b>March 2014</b>	<b>December 2013</b>
Security deposits	18, 28, 29	<b>P1,039,343,934</b>	<b>P988,598,222</b>
Prepaid rent	18	<b>144,236,740</b>	<b>158,029,960</b>
Accrued rent income	24	<b>23,396,030</b>	<b>20,062,609</b>
		<b>P1,206,976,704</b>	<b>P1,166,690,791</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>	March 2014	December 2013
Trade:	28, 29	P3,917,085,137	P7,258,091,445
Non-trade	28, 29	2,524,237,577	2,058,799,266
Dividends payable	25, 28, 29	-	829,921,924
Withholding taxes payable		86,462,695	115,531,475
Accrued expenses:	28, 29		
Manpower agency services		535,394,246	470,304,641
Utilities		104,066,796	129,684,256
Professional fees		74,352,173	45,673,000
Rent		17,455,361	25,553,607
Fixed asset acquisition	11	8,145,220	49,772,627
Interest		-	4,615,240
Others		70,869,173	52,107,529
		<b>P7,310,324,205</b>	<b>P11,040,055,010</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 March 31, 2014 and December 31, 2013, 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>	March 2014	December 2013
Short-term note based on 2.5%	<i>i</i>	P75,000,000	P75,000,000
Short-term note based on 2.75%	<i>i</i>	300,000,000	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>P883,500,000</b>

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

Execution Date	Maturity Date	Interest Rate	Principal
December 2, 2013	June 4, 2014	2.50	P75,000,000
December 20, 2013	May 21, 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 repriced at 3.75% per annum.

b. Long-term Loans Payable

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

	Note	March 2014	December 2013
<b>Unsecured Peso Denominated</b>			
Fixed rate note based on 3.5%	i	P1,991,947,801	P1,991,219,294
Fixed rate note based on 3.25%	ii	960,847,046	960,495,639
Fixed rate note based on 5.4481%	iii		-
Fixed rate note based on 5.8673%	iii		-
Fixed rate note based on 3.5%	iv	500,000,000	500,000,000
		<b>3,452,794,847</b>	<b>3,451,714,933</b>
Less current portion		-	-
		<b>P3,452,794,847</b>	<b>P3,451,714,933</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 24, 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 14, 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:

	March 2014	December 2013
Balance at beginning of the year	P11,985,067	P47,788,638
Additions	-	14,818,500
Amortizations	(1,079,914)	(5,464,629)
Deductions	-	(45,157,442)
Balance at end of year	P10,905,153	P11,985,067

- 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.

#### Repayment Schedule

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

Year	March 2014	December 2013
2013	P -	P -
2014	-	-
2015	963,700,000	963,700,000
2016	-	-
2017	-	-
2018	2,500,000,000	2,500,000,000
2019	-	-
	P3,463,700,000	P3,463,700,000

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 consists of:

	<i>Note</i>	March 2014	December 2013
Deposits	18, 28, 29	P126,359,850	P116,794,367
Promotion fund		1,320,161	53,479,841
Exclusive fund		15,429,505	49,885,294
Unredeemed gift certificates		44,176,500	48,435,500
Output VAT		8,076,929	25,932,296
Others	28, 29	6,412,474	7,599,133
		P201,775,419	P302,126,431

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.

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## 17. Cost of Sales

This account for the period ended March 31 consists of:

	<i>Note</i>	2014	2013
Beginning inventory	7	P9,441,528,622	P6,611,541,340
Add: Purchases		15,677,089,122	16,088,394,055
Total goods available for sale		25,118,617,744	22,699,935,395
Less ending inventory	7	9,938,340,426	9,441,528,622
		P15,180,277,318	P13,258,406,773

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## 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 P488.47 million and P387.82 million for the periods ended March 2014 and 2013, respectively (see Note 20).

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

	March 2014	December 2013
Due within one year	P2,603,439,530	P1,469,380,211
Due more than one year but not more than five years	6,400,317,322	6,349,303,571
Due more than five years	29,201,048,074	29,141,917,253
	<b>P38,204,804,926</b>	<b>P36,960,601,035</b>

#### 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 periods ended March 31, 2014 and 2013 amounted to P79.37 million and P70.15 million, respectively (see Note 19).

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

	March 2014	December 2013
Due within one year	P186,422,755	P166,095,531
Due more than one year but not more than five years	254,107,097	202,308,094
Due more than five years	170,416,728	74,703,673
	<b>P610,946,580</b>	<b>P443,107,298</b>

## 19. Other Operating Income

This account for the periods ended March 31 consists of:

	<i>Note</i>	2014	2013
Concession income		P288,489,016	P255,698,733
Display allowance		181,382,825	113,716,634
Rent income	18	79,369,674	70,152,194
Membership income		53,806,710	42,619,283
Listing fee		8,525,062	-
Miscellaneous		62,308,064	9,710,938
		<b>P673,881,351</b>	<b>P491,897,782</b>

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 periods ended March 31 consists of:

	<i>Note</i>	<b>2014</b>	<b>2013</b>
Rent	18	<b>P488,471,188</b>	P387,824,882
Manpower agency services		<b>400,128,047</b>	368,215,208
Communication, light and water		<b>361,409,601</b>	294,678,302
Depreciation and amortization	11, 12	<b>285,570,038</b>	214,521,280
Salaries and wages		<b>269,561,019</b>	237,119,637
Security services		<b>159,312,061</b>	131,211,000
Concession expense	22	<b>101,294,133</b>	100,700,183
Taxes and licenses		<b>99,598,481</b>	83,050,732
Janitorial and messengerial services		<b>71,944,693</b>	65,506,878
Store and office supplies		<b>69,226,673</b>	62,522,442
Repairs and maintenance		<b>52,812,101</b>	48,864,663
Insurance		<b>29,319,900</b>	21,764,743
Employee benefits		<b>23,693,003</b>	20,498,025
SSS/Medicare and HDMF contributions		<b>20,422,166</b>	17,096,153
Professional fee		<b>16,323,960</b>	6,798,933
Advertising and marketing		<b>15,823,618</b>	16,269,546
Input VAT allocable to exempt sales		<b>14,561,978</b>	10,679,522
Fuel and oil		<b>12,041,769</b>	8,793,829
Representation and entertainment		<b>7,631,627</b>	6,007,069
Transportation		<b>7,502,117</b>	5,604,266
Royalty	22	<b>7,319,031</b>	6,390,414
Donations and contributions		<b>1,919,580</b>	1,919,580
Retirement benefits cost	23	<b>-</b>	10,930,075
Miscellaneous		<b>11,566,405</b>	6,263,722
		<b>P2,527,453,189</b>	<b>P2,133,231,084</b>

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## 21. Others

This account for the years ended December 31 consists of:

	<i>Note</i>	<b>2014</b>	<b>2013</b>
Unrealized valuation gain (loss) on trading securities	8	<b>P3,125,737</b>	P4,285,434
Bank charges		<b>(3,646,160)</b>	(127,298)
Dividend income		<b>62,680</b>	138,560
Gain on disposal of property and equipment	11	-	(154,762)
Foreign exchange loss		<b>(99,062)</b>	743,123
		<b>(P556,805)</b>	P4,885,057

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 for the three-month period ended March 31 and account balances as at March 2014 and December 2013 follow:

Related Party	Year	Note	Amount of		Outstanding Balances			Terms	Conditions
			Transactions for the Three-month Period	Trade Payable (see Note 14)	Due to Related Parties	Due to Related Parties			
<b>Other Related Parties*</b>									
Rent expense	2014	a	P142,736,312	P -	P23,663,409	Due and demandable	Unsecured		
	2013	a	105,053,912	-	15,655,785	Due and demandable	Unsecured		
Concession expense	2014	b	101,294,133	-	21,687,918	Due and demandable	Unsecured		
	2013	b	100,700,182	-	23,550,996	Due and demandable	Unsecured		
Purchase of merchandise	2014	c	144,697,763	-	-	Due and demandable	Unsecured		
	2013	c	57,366,422	P164,245,634	-	Due and demandable	Unsecured		
Security deposits received	2014	a/c	-	-	-	Due and demandable	Unsecured		
	2013	a/c	-	-	12,188,220	Due and demandable	Unsecured		
Repairs and maintenance	2014	c	412,513	-	440,746	Due and demandable	Unsecured		
	2013	c	-	-	493,344	Due and demandable	Unsecured		

Related Party	Year	Note	Amount of Transactions for the Year	Outstanding Balances			Conditions
				Trade Payable (see Note 14)	Due to Related Parties	Terms	
Utilities expense	2014	c	P63,418,666	P -	P2,139,559	Due and demandable	Unsecured
	2013	c	39,153,110	-	251,599	Due and demandable	Unsecured
Communications	2014	c	260,898	-	-	Due and demandable	Unsecured
	2013	c	181,050	-	2,316,958	Due and demandable	Unsecured
Management fee	2014	c	14,003,364	-	-	Due and demandable	Unsecured
	2013	c	-	-	3,780	Due and demandable	Unsecured
Employee benefits	2014	c	-	-	-	Due and demandable	Unsecured
	2013	c	16,981	-	-	Due and demandable	Unsecured
<b>Key Management Personnel</b>							
Royalty expense	2014	d	32,142,553	-	32,142,553	Due and demandable	Unsecured
	2013	d	6,390,413	-	24,625,864	Due and demandable	Unsecured
Short-term benefits	2014		-	-	-	Due and demandable	Unsecured
	2013		5,538,897	-	276,461	Due and demandable	Unsecured
<b>Total</b>	2014			P -	P32,142,553		
<b>Total</b>	2013			P164,245,634	P79,363,007		

\*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 March 31, 2014 and December 31, 2013. 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
Balance at January 1	P267,814,822
<b>Included in profit or loss</b>	
Current service cost	55,248,857
Interest cost	14,635,590
	337,699,269
<b>Included in other comprehensive income</b>	
Remeasurements loss (gain):	
Actuarial loss (gain) arising from:	
Financial assumptions	(75,942,734)
Experience adjustment	24,909,744
	(51,032,990)
<b>Balance at December 31</b>	<b>P286,666,279</b>

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

	2014	2013
Current service cost	P-	P8,090,500
Interest expense on the defined benefit liability	-	2,839,575
	P-	P10,930,075

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

	March 2014	December 2013
Cumulative actuarial loss at beginning of year	P3,600,700	P47,238,616
Actuarial loss (gain) due to increase in defined benefit obligation	-	(43,637,916)
Cumulative actuarial loss (gain) at end of year	P3,600,700	P3,600,700

The cumulative actuarial loss, net of deferred income taxes, amounted to P2.52 million and P33.07 million as at March 31, 2014 and December 31, 2013, respectively, as presented in the consolidated statements of changes in equity.

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

	March 2014	December 2013
Discount rate	5.32%	5.32%
Future salary increases	8.00%	8.00%

## 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 periods ended March 31 is as follows:

	2014	2013
Income before income tax	P1,345,703,302	P1,316,913,554
Income tax expense at the statutory income tax rate:		
30%	P399,407,750	P394,343,768
5%	717,207	717,207
Income tax effects of:		
Non-deductible interest expense	394,983	355,622
Non-deductible other expenses	2,779,735	-
Non-taxable income-net subjected to final tax	-	(385,689)
Dividend income subjected to final tax	(18,804)	(12,470)
Interest income subjected to final tax	(964,388)	(39,904,640)
	P402,316,483	P355,113,798

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:

	March 2014		December 2013	
	Amount	DTA (DTL)	Amount	DTA (DTL)
Accrued rent expense*	P1,690,130,234	P507,039,070	P1,592,998,180	P477,899,454
Retirement benefits liability	255,932,963	76,779,889	255,932,963	76,779,889
Actuarial losses	30,733,313	9,219,994	30,733,313	9,219,994
Allowance for impairment losses on receivables	7,462,327	2,238,698	7,462,327	2,238,698
Recognition of DTA	389,730	116,919	389,730	116,919
DTA	1,984,648,567	595,394,570	1,887,516,513	566,254,954
Fair value of intangible assets from business combination	(4,599,113,528)	(1,379,734,058)	(4,599,113,528)	(1,379,734,058)
Accrued rent income	(23,333,023)	(6,999,907)	(20,062,609)	(6,018,783)
DTL	(4,622,446,551)	(1,386,733,965)	(4,619,176,137)	(1,385,752,841)
Net	(P2,637,797,984)	(P791,339,395)	(P2,731,659,624)	(P819,497,887)

\*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.

	March 2014	December 2013
Authorized - 3,000,000,000 shares (P1 par value)		
Balance at beginning of year	P2,766,406,250	P2,766,406,250
Stock issuances during the period	16,911,162	16,911,162
Treasury shares	(16,911,006)	(16,911,006)
Balance at end of year	P2,766,406,406	P2,766,406,406

#### 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 for the three-month periods ended March is computed as follows:

	2014	2013
Net income (a)	<b>P943,386,819</b>	P961,799,756
Weighted average number of ordinary shares (b)	<b>2,766,406,406</b>	2,766,406,250
Basic/diluted EPS (a/b)	<b>P0.34</b>	P0.35

As at March 31, 2014 and December 31, 2013, 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>March 2014</b>	<b>December 2013</b>
Cash in banks and cash equivalents	4	<b>P2,452,031,280</b>	P4,580,191,809
Short-term investments	5	-	500,000,000
Receivables - net	6	<b>1,228,977,820</b>	1,217,058,766
Investments in trading securities	8	<b>31,993,114</b>	28,867,376
Available-for-sale financial assets*	10	<b>379,775,237</b>	379,775,237
Security deposits**	13	<b>1,039,343,934</b>	988,598,222
		<b>P5,132,121,385</b>	<b>P7,694,491,410</b>

\*Included under investments

\*\*Included under noncurrent assets.

The following is the aging analysis per class of financial assets as at March 2014 and December 2013:

2014	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	P2,452,031,280	P -	P -	P -	P -	P2,452,031,280
Short-term investments	-					
Receivables	717,571,686	119,823,554	156,132,680	235,449,900	7,462,327	1,236,440,147
Investments in trading securities	31,993,114					31,993,114
AFS financial assets	379,775,237					379,775,237
Security deposits	1,039,343,934					1,039,343,934
	<b>P4,620,715,251</b>	<b>P119,823,554</b>	<b>P156,132,680</b>	<b>P235,449,900</b>	<b>P7,462,327</b>	<b>P5,139,583,712</b>

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	736,852,400	117,025,708	170,195,391	192,985,267	7,462,327	1,224,521,093
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
	P7,214,285,044	P117,025,708	P170,195,391	P192,985,267	P7,462,327	P7,701,953,737

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 March 31, 2014				
	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*	P7,223,861,510	P7,223,861,510	P7,223,861,510	P -	P -
Short-term loans payable	883,500,000	885,002,184	885,002,184	-	-
Trust receipts payable	33,086,439	33,086,439	33,086,439	-	-
Due to related parties	80,074,185	80,074,185	80,074,185	-	-
Long-term debt including current portion	3,452,794,847	3,463,700,000	2,963,700,000	500,000,000	-
Other current liabilities**	132,772,324	132,772,324	132,772,324	-	-
Noncurrent accrued rent	1,703,851,193	1,703,851,193	33,962,875	147,004,425	1,522,883,893



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	69,318,049	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

### 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:

	March 2014	December 2013
<b>Financial assets (cash deposits):</b>		
Cash in banks	P1,317,460,232	P1,718,822,826
Money market placement	1,134,571,048	2,861,368,983
	<b>P2,452,031,280</b>	<b>P4,580,191,809</b>

### Sensitivity Analysis

A 2% increase in interest rates would have decreased equity and net income by P3.43 million P6.41 million for the period ended March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013 pertains to its cash in bank which is denominated in US dollar.

The Group's foreign currency denominated assets as at March 31, 2014 and December 31, 2013 follow:

	US Dollar	Exchange Rate	PHP Equivalent
<b>2014</b>			
US Dollar	1,945	44.9	87,331
<b>2013</b>			
US Dollar	48,240	44.4	2,141,856

### Sensitivity Analysis

A 2% strengthening of the Philippine peso against US dollar would have increased profit or loss after tax and equity by P1,223 and P29,986 as at March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013, 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:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	P2,824,154,665	P2,824,154,665	P5,298,726,281	P5,298,726,281
Short-term investments	-	-	500,000,000	500,000,000
Receivables - net	1,228,977,820	1,228,977,820	1,217,058,766	1,217,058,766
Investments in trading securities	31,993,114	31,993,114	28,867,376	28,867,376
Available-for-sale financial assets (included under "Investments" account in the consolidated statements of financial position)	379,775,237	379,775,237	379,775,237	379,775,237
Security deposits (included under "Other noncurrent assets" account in the consolidated statements of financial position)	1,039,343,934	1,039,343,934	988,598,222	988,598,222
<b>Financial Liabilities</b>				
Accounts payable and accrued expenses*	P7,223,861,510	P7,223,861,510	10,924,523,535	10,924,523,535
Due to related parties	80,074,185	80,074,185	79,363,007	79,363,007
Trust receipts payable	33,086,439	33,086,439	16,543,219	16,543,219
Other current liabilities**	132,772,324	132,772,324	63,463,933	63,463,933
Noncurrent accrued rent	1,703,851,193	1,703,851,193	1,599,368,798	1,599,368,798
Short-term loans payable	883,500,000	883,500,000	883,500,000	883,500,000
Long term debt including current maturities	3,452,794,847	3,452,794,847	3,451,714,933	3,451,714,933

\*excluding statutory payables to the government

\*\*excluding gift cheques, exclusive fund, VAT payable and promotion fund

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 March 2014 and December 2013 range from 3.50% to 3.61%.

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 March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013, the Group has no financial instruments valued based on Level 1 and has not introduced any movement among Levels 1, 2 and 3 classifications.