12 November 2012

DISCLOSURE DEPARTMENT
The Philippine Stock Exchange
Philippine Stock Exchange Plaza
Ayala Avenue, Makati City

Attention: **Ms. Janet Encarnacion**
Head

Subject: **PGOLD's Financial Performance as of September 30, 2012**

GENTLEMEN:

Please see attached Third Quarter Financial Report approved by the Board of Directors of Puregold Price Club, Inc. during its meeting held today.

Thank you.

Very truly yours,

Candy H. Dacanay-Datuon
Corporate Information Officer

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[2] for the nine-month periods ended September 30:

	2012	2011
Current Ratio (Current Assets/Current Liabilities)	1.23:1	0.63:1
Asset to Equity Ratio (Total Asset/Total Equity)	1.33:1	3.34:1
Debt to Equity Ratio (Total Liabilities/Total Equity)	0.33:1	2.34:1
Net Debt to Equity (Total Liabilities-Cash-Investments/Total Equity)	0.25:1	2.25:1
Equity to Debt Ratio (Total Equity/Total Liabilities)	3.00:1	0.43:1
Book Value per Share (Total Equity/Weighted Ave. Shares Outstanding)	11.62	2.16
Earnings per Share (Net Income/ Weighted Ave. Shares Outstanding)	0.77	0.73

The following table shows the percentage growth in like-for-like indicators of the Group for the nine-month periods ended September 30:

	PPCI		S&R[1]		PARCO[1]	
	2012	2011	2012	2011	2012	2011
Like-for-like net sales growth	3%	8%	29%	65%	-14%	2%
Like-for-like average net ticket growth	5%	6%	26%	58%	-12%	5%
Like-for-like traffic growth	-2%	2%	3%	4%	-2%	-3%

(1) Non-financial operational data for 2012 and 2011 includes all of the S&R and Parco supermarkets and was taken from the operating results of Kareila Management Corp. (KMC) and Gant Group of Companies Incorporated (GGCI) prior to its acquisition by the Company[3] in June 2012 and is included for comparative purposes. However, the supermarkets was not consolidated with the Company's results until it became a subsidiary beginning in June 2012 and net sales and average net ticket figures are only stated for the period since becoming a subsidiary of the Company.

(2) The "Group" refers to Puregold Price Club Inc. and Subsidiaries[4].

(3) The "Company" refers to consolidated balances of Puregold Price Club, Inc. and Puregold Junior Supermarkets.

(4) The "Subsidiaries" refer to KMC and GGCI.

I. Results of Operations

(In millions)	For the Three-Month Periods July to September 30 2012	2011	For the Nine-month periods Ended September 30 2012	2011	% of Change	% of Net Sales
Net Sales	**P15,861**	**P9,629**	**P39,137**	**P26,945**	**45.2%**	**100.0%**
Cost of Sales	13,279	8,334	32,870	23,004	42.9%	84.0%
Gross Profit	**2,582**	**1,296**	**6,267**	**3,941**	**59.0%**	**16.0%**
Other Operating Income	465	253	1,120	731	53.3%	2.9%
	3,047	**1,549**	**7,387**	**4,671**	**58.1%**	**18.9%**
Operating Expenses	**1,949**	**1,112**	**4,874**	**3,094**	**57.5%**	**12.5%**
Operating Income	**1,098**	**437**	**2,513**	**1,577**	**59.3%**	**6.4%**
Other income (expense) – net	1	(15)	43	(33)	230.1%	0.1%
Income before income tax	**1,099**	**422**	**2,556**	**1,544**	**65.6%**	**6.5%**
Income tax expense	330	127	753	466	61.8%	1.9%
Net Income	**P769**	**P295**	**P1,802**	**P1,078**	**67.2%**	**4.6%**

For the nine-month period ended September 30, 2012, the Group posted total net sales of P39,137 million for an increase of 45.2% compared to P26,945 million in 2011 of the same period. This was largely due to increase in turnover as a result of the Company opening new stores in 2011 with 48.8% contribution to the total increase in net sales of the Group. As of September 30, 2012, the Company has a total of 120 stores in operation including 71 hypermarkets, 36 supermarkets and 13 discounters, whereas 20 stores were opened in the first nine months of 2012. In June 2012, the Company acquired 6 S&R warehouses and 19 Parco supermarkets contributing 35.3% of the total increase in the Group's net sales.

Total cost of sales for the period ended September 30, 2012 amounted to P32,870 million, an increase of 42.9% compared to P23,004 in 2011 of the same period was accounted by the opening of new stores and the newly acquired subsidiaries. Acquisition of subsidiaries contributes 34.1% of the increase to the Group's total cost of sales.

Other operating income increased by P390 million or 53.3%. The concessionaire income, commissions due from renting of product locations in store aisles to suppliers and renting of booths to third party retailers, as well as increase in display allowances of the new stores & newly acquired subsidiaries caused the significant increase. The new subsidiaries contributed 44.8% of the increase to the Group's total other operating income.

Operating expenses increased by P1,780 million or 57.5%. Majority of the increase was due to manpower cost of the Company's new stores, as well as rent expenses of the new lease contracts, utilities expense, depreciation expense and taxes, all related to opening of new stores. Acquisition of subsidiaries contributes 27.1% of the increase to the Group's total operating expense.

Other income - net increased by P76 million or 230.1%. This was mainly due to decrease in interest expense as a result of settlement of loans payable using the proceeds from Initial Public Offering (IPO). In addition, interest income increased by P46 million coming from the interest earned in short-term investments of IPO proceeds.

As a result of the foregoing, the Group posted net income of P1,802 million at the end of September 2012 as compared to P1,078 million at the end of the same period in previous year, for an increase of 67.2%.

II. Financial Condition

(In millions)	Sep 30 2012	Dec 31 2011	% of Change	% of Total Assets
ASSETS				
Cash & Cash Equivalents	P2,332	P1,955	19.3%	6.4%
Investments in trading securities	30	24	27.0%	0.1%
Receivables - net	1,126	410	174.3%	3.1%
Merchandise inventory	5,666	4,523	25.3%	15.6%
Prepaid expenses and other current assets	711	536	32.6%	2.0%
Total Current Assets	**9,865**	**7,449**	**32.4%**	**27.2%**
Property and equipment - net	8,653	6,006	44.1%	23.8%
Deferred tax assets	349	220	58.6%	1.0%
Other noncurrent assets	17,416	3,005	479.5%	48.0%
Total Noncurrent Assets	**26,417**	**9,231**	**186.2%**	**72.8%**
Total Assets	**P36,282**	**P16,680**	**117.5%**	**100.0%**
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses	P6,387	P6,235	2.5%	17.6%
Loan payable	936			2.6%
Income tax payable	370	186	99.0%	1.0%
Trust receipts payable	13	21	-40.4%	0.0%
Due to related party	66	9	642.3%	0.2%
Other current liabilities	224	178	25.9%	0.6%
Total Current Liabilities	**7,996**	**6,629**	**20.6%**	**22.0%**
Noncurrent accrued rent	975	663	47.0%	2.7%
Retirement benefits liability	110	76	44.5%	0.3%
Total Noncurrent Liabilities	**1,085**	**739**	**46.8%**	**3.0%**
Total Liabilities	**9,081**	**7,368**	**23.3%**	**25.0%**
Capital stock	2,766	2,000	38.3%	7.6%
Additional paid in capital	20,880	5,169	304.0%	57.5%
Equity Adjustment	9			0.0%
Retained earnings	3,545	2,143	65.5%	9.8%
Total Equity	**27,201**	**9,312**	**192.1%**	**75.0%**
Total Liabilities and Equity	**P36,282**	**P16,680**	**117.5%**	**100.0%**

WORKING CAPITAL

As of September 30, 2012 and December 31, 2011, the Group's net current assets, were P1,868 million and P820 million, respectively. The Group's current ratio improved from 1.1 in December 2011 to 1.2 in September 2012. Acquisition of Kareila Management Corporation

(KMC) and Gant Group of Companies Incorporated (GGCI) contributed P534 million to the increase as of September 2012.

Current Assets

As of September 30, 2012 and December 31, 2011, total current assets amounted to P9,865 million or 26.5% of total assets, and P7,449 million or 44.7% of total assets, respectively.

Cash and cash equivalents amounted to P2,332 million or 6.3% of total assets, higher by P377 million or 19.3% compared to previous year.

Merchandise inventory comprised the bulk of the Group's current assets which amounted to P5,666 million or 15.6% of total assets at the end of September 2012. Total inventory increased by P1,143 million or 25.3% driven by opening of new stores.

Receivables account amounted to P1,126 million in 2012 or 3.1% of total assets, with an increase of P715 million or 174.3% from P410 million in 2011, in relation to opening of new stores. This includes trade and non trade receivables, net of P8 million allowance for impairment losses.

Prepaid expenses and other current assets increased by P175 million or 32.6% at the end of September 2012, relative to opening of new stores. This is attributable primarily to rent, insurance, taxes, permits & licenses and input tax.

Total current assets acquired from KMC and GGCI amounted to P2,389 million and P560 million, respectively, comprising 8.1% of the Group's total assets as of September 2012.

Current Liabilities and Provisions

As of September 30, 2012 and December 31, 2011, total current liabilities amounted to P7,996 million or 22.0% of total assets, and P6,629 million or 39.7% of total assets, respectively. The increase of P936 million in September 2012 pertain to loans assumed from acquisition of KMC. Total current liabilities assumed from KMC and GGCI amounted to P1,763 million and P653 million, respectively, forming 26.6% of the Group's total liabilities.

Accounts payable and accrued expenses increased by P153 million or 2.5% due to opening of new stores. Trade payables declined by P994 million relative to settlement of obligations to suppliers. Due to related parties increased by P57 million due to unpaid rent to other related parties. Income tax payable increased by P184 million or 99.0%.

Provision for income tax amounted to P753 million for the period ended September 2012. Trust receipts payable balance declined to P13 million after net settlement of P9 million on the outstanding obligation.

III. Sources and Uses of Cash

The Company's primary source of liquidity is cash provided by operating activities and remaining proceeds from IPO. Principal uses of cash are operating expenses and store expansion.

A brief summary of cash flow movements is shown below:

	For the Nine-month periods Ended September 30	
(In millions)	**2012**	**2011**
Net cash flows used in operating activities	P831	(P245)
Net cash flows provided by (used in) investing activities	(17,478)	(1,999)
Net cash flows provided by financing activities	17,023	670
Net decrease in cash and cash equivalents	P377	(P1,574)

Net cash provided by operating activities amounted to P831 million for the period ended September 30, 2012. This was mainly due to increase in operating income driven by continues store expansion. In 2011, net cash used in operating activities amounted to P245 million. This was mainly due to net settlement of obligations to both trade and nontrade suppliers.

Net cash used in investing activities amounted to P17,478 million for the period ended September 30, 2012. Other noncurrent assets increased by P14,411 million largely due to recognition of goodwill from the acquired subsidiaries in excess of the amount paid over the net book value of net assets of the subsidiaries. In addition, acquisitions of equipments, furniture & fixtures, lands, construction of buildings and improvements on leased assets amounted to P3,125 million relative to store expansion. Net cash used in 2011amounted to P1,999 million, primarily due to acquisition of land and equipment for additional store openings, as well as for construction and leasehold improvements on acquired and existing properties.

Net cash provided by financing activities amounted to P17,023 million for the period ended September 30, 2012. Proceeds from issuance of capital stock amounted to P16,478 million. In addition, P936 million of proceeds were obtained from loans assumed in acquisition of KMC and GGCI.. Net cash provided by financing activities amounted to P670 million for the period ended September 30, 2011, coming from loans with banks and issuance of capital stocks.

IV. Discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

(i) Due to the company's sound financial condition, there is no foreseeable trend or event that may have a material impact on its short-term or long-term liquidity.
Sources of liquidity - Funding will be sourced from internally generated cash flow and remaining proceeds from IPO.

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

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

(iv) There is no material commitment for capital expenditures other than those performed in the ordinary course of trade of business.

(v) 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.

(vi) There is no significant element of income not arising from continuing operations.

(vii) The causes for the material changes in the financial statements from 2011 to 2012 are explained in the management's discussion and analysis of operations (I-III), as well as in the accompanying notes to financial statements.

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

V. Use of Proceeds from IPO

The following shows the use of proceeds and balance as of September 30, 2012:

(In millions)	**Prospectus (Reallocated)**	**Actual**
Gross Amount	**6,250**	**6,250**
Net Amount	**5,759**	**5,669**
Use of Proceeds:		
Bank loans	2,587	2,587
Capital expenditures:		
Security deposits	239	233
Land	291	291
Building	550	550
Leasehold improvements	979	948
Furniture & fixtures	370	219
Equipments	743	544
Total	5,759	5,372
Proceeds balance	**-**	**297**

BUSINESS

Overview

The Company was the second largest retailer among hypermarkets, supermarket and cash and carries in the Philippines based on gross sales in 2010 according to Planet Retail. The Company's customers comprise retail consumers and small business owners who resell products in local neighborhood convenience stores known as "sari-sari" stores, as well as canteens, restaurants, bakeries and drug stores, among others. The operations comprise of 3 business segments: Puregold & Parco servicing the middle to lower income retail consumers and S&R Membership, the only warehouse membership club operating in the country today & servicing the upper income retail consumers. The Company also promotes a one-stop shopping concept of having a wide selection of goods to further serve it value-conscious consumers and resellers. With this differentiated business model, the Company established a brand that has become associated with low prices, value-for-money and wide assortment of goods on offer.

Principal Products/Service and Markets

The Company owns three companies operating the 145 stores, Puregold Junior Supermarket Inc which operates stores under "Puregold Junior" brand, Gant Group of Companies operating stores under "Parco" brand and Kareila Management Corp. running the stores under the brand "S&R Membership Shopping". These companies are all wholly owned subsidiaries of Puregold Price Club Inc.

- HYPERMARKETS. The Company conducts its operations primarily through a hypermarket format. Each hypermarket offers 30,000 to 50,000 SKUs. As of September 30, 2012, the hypermarket accounts for 73.6% of the total revenue. During the same cut-off, there are 71 hypermarket stores, mostly located in major commercial centers and near transportation hubs. This format offers a broad variety of food and non-food products, and generally caters to both retail customers and resellers such as members of the Company's pioneering loyalty/membership program.

- SUPERMARKETS. The Company's supermarkets are mostly located in residential areas and offer a higher proportion of food to non-food products compares to the Company's hypermarkets. Supermarkets generally cater more to retail consumers rather than resellers. As of September 30, 2012, the Company operates 36 supermarkets and accounts for 13.1% of the total revenue.

- DISCOUNTERS. The Company's discount store format which offers a more limited number of goods, comprising the Company's top-selling SKUs that are intended to be sold quickly at prices lower than at Hypermarket or Supermarket store format. As of September 30, 2012, the company has 13 discount stores that accounts for 2.4% of the total revenue.

- MEMBERSHIP SHOPPING. The Company’s membership shopping chain offers its customers premium quality of international and local brands for both personal and business needs. A significant proportion of its sales are derived from imported international brands. It offers a broad product range in both food and non-food including fresh food, personal care, household products and electrical appliances as well as specialty services including deli, food service and automotive services. S&R’s target customers are the middle to upper class consumers in the Philippines, or the A and B class consumers. KMC operates 6 membership shopping chains and its September 2012 net sales accounts for 8.4% of the Group's total revenue.

Distribution methods of Products/Service:

All restocking of the Company's inventory for Puregold and Parco operations is provided through direct store deliveries using the distribution networks of the Company's suppliers or by cross-docking, which is the moving of cargo from one transport vehicle directly into another with minimal or no warehousing, enabling the Company to dispense with maintaining a costly distribution network for deliveries. To facilitate delivery from smaller scale suppliers with limited distribution capabilities, the Company engages Ace Logistics, Inc. to provide cross-docking services. Supply points from Hypermarkets to the smaller store formats around it are likewise effectively undertaken. This allows suppliers to benefit from a cost effective supply chain as the Company assists them to conveniently outsource part of their delivery obligations. As a result, Puregold also increases its back end profit by providing delivery efficiency. S&R sends out buyers all over the world to source for its best products. Around 70% of the merchandise that S&R Membership Shopping sells are bought and imported by S&R. S&R operates its own two distribution centers and is currently building a cold storage DC facility to allow it to have better control of inventory and costs.

The Puregold and Parco operations target customers who live within walking distance of its stores and those who use personal or public transport to shop. The Company provides suitable car parking facilities to accommodate customers who travel to stores by car, and also locates its stores in areas close to main transportation hubs. The Company also offers delivery services to resellers who are unable to travel to the Company's stores. Puregold and Parco service today approximately 2 million households and over 200,000 resellers whose market comprises the D and E. S&R is targeting the 1% population of the Philippines, which is the A, B.

Competition

The Philippines economy experienced steady growth with nominal GDP growing at a CAGR of 13.8% from 2005 to 2010. According to the EIU, the nominal GDP of the Philippines is expected to grow from US$188.7 billion to US$251.3 billion from 2010 to 2012, representing a CAGR of 15.4%, while the real GDP is expected to grow from US$125.0 billion to US$139.5 billion from 2010 to 2012, representing a CAGR of 5.6%. This growth is expected to be supported by factors such as increasing job creation and employment, increasing overseas remittances and a revival of exports. Consumer spending is positively correlated to economic growth, and according to Planet Retail, consumer spending in the Philippines increased from US$68.4 billion to US$138.8 billion between 2005 and 2010, representing a CAGR of 15.2%. The Philippine retail industry has advanced significantly in the past decade due to factors such as steady economic and population growth, higher disposable incomes and increasing urbanization. According to Planet Retail, retail sales in the Philippines grew from US$48.4 billion to US$95.3 billion between 2005 and 2010, a CAGR of 14.5% and over the same period, grocery retail sales in the Philippines grew from US$33.5 billion to US$64.2 billion, representing a CAGR of 13.9%.

More recently, the global economic recovery and the rapid development of the Philippine economy have contributed to growth of the sector, and major retailers in the Philippines have resumed expansion plans after the economic slowdown. According to Planet Retail, retail sales and modern food retail (MGD Total) in the Philippines are expected to reach US$117.4 billion and US$25.0 billion in 2012, representing a CAGR of 11.0% and 11.3% between 2010 and 2012.

The Company competes with both traditional and modern retail operators on the basis of convenience, presentation, price and additional benefits such as loyalty programs, a wide range and assortment of products for customers of all income levels and high quality customer services. According to Planet Retail, SM Investments, Puregold Price Club, Rustan's, Robinsons Benison Group of Companies and Uniwide are the top market participants in the retail sector among the hypermarket and superstore, supermarket and neighborhood store, cash & carry and wholesale club formats. Each of these stores competes with the Company on the basis of product selection, product quality, customer service, price, store location or a combination of these factors.

S&R targeting class A and B market limits the immediate growth potential of the Company. However, since there are no other retailers currently positioned to target this market with the same type of product offering, S&R is able to continue to grow membership and revenue. S&R is very selective in store locations focusing in areas where there is a high concentration on its target market. S&R believes that there is still a large market considering it only has 6 stores.

Sources of Products

The Company sourced products from over 1,500 regular suppliers for Puregold and Parco operations. Consistent with industry practice in the Philippines, the Company does not have any exclusive or long-term contracts with suppliers. The Company believes that its business as a whole is not dependent on any single supplier. The Company's three largest food suppliers are Nestlé Philippines, Universal Robina Corporation and Monde Nissin, while three largest non-food suppliers are Procter & Gamble, Unilever Philippines, and Colgate-Palmolive.

Related Parties

The Company is a party to a trademark Licensing Agreement (the "Licensing Agreement") with Mr. Lucio Co, under which Mr. Co licenses the use of tradenames and trademarks related to the "Puregold" brand to Puregold Junior and other Company affiliates, including Puregold Finance, Inc., Puregold Duty Free-Subic, Inc., Puregold Realty Leasing and Management Inc., Puregold Duty Free, Inc. and Puregold Properties, Inc. (the "Licensed Affiliates"). The Company pays Mr. Co royalty fees of 1/20 of 1% of the Company's net sales for the use of tradenames and trademarks. This Licensing Agreement is for a period of 30 years and is exclusive. Consequently, during the term of the Licensing Agreement, Mr. Co cannot license the tradenames and trademarks under this agreement except to Puregold Junior and the Licensed Affiliates. None of the tradenames and trademarks can also be transferred by Mr. Co.

In 2007, Kareila entered into a concession contract with PSMT Phils., Inc.,a company owned by Mr. Co, for the 4 locations of S&R in Manila. Instead of paying rental to PSMT, Kareila pays a concession fee of 15% of revenue. The contract was for 5 years and renewable thereafter. In March 2012, concession fee was reduced to 4%. The concession fee covered the cost of lease rental, utilities, manpower, security services, maintenance costs and marketing expenses.

The Company and Puregold Junior are lessees with respect to 33 lease agreements, over premises where some of the stores are located, with parties controlled by the Co Family.

The Company has an agreement with Puregold Duty Free-Subic, Inc., pursuant to which Puregold Duty Free-Subic, Inc., sub-leases its leased line from the Philippine Long Distance Company.

The Company has an agreement with Puregold Finance, Inc., pursuant to which the Company's employees are able to borrow money from Puregold Finance, Inc., and loan repayments are made by the Company through salary deductions, which the Company withholds to repay Puregold Finance, Inc. The Company is not a guarantor to any of these loans.

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

SECTION A

PUREGOLD PRICE CLUB, INC.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	Note	**September 30 2012**	December 31 2011
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 26, 27*	**P2,331,739,052**	P1,955,167,541
Investments in trading securities	*7, 26, 27*	**30,479,217**	24,000,214
Receivables - net	*5, 26, 27*	**1,125,681,416**	410,357,431
Merchandise inventory	*6*	**5,665,714,830**	4,522,929,063
Prepaid expenses and other current assets	*8*	**711,050,946**	536,409,934
Total Current Assets		**9,864,665,460**	7,448,864,183
Noncurrent Assets			
Property and equipment - net	*9*	**8,652,504,395**	6,005,557,739
Deferred tax assets	*22*	**349,098,981**	220,139,294
Other noncurrent assets	*10, 14, 26, 27*	**17,415,826,949**	3,005,115,075
Total Noncurrent Assets		**26,417,430,326**	9,230,812,108
		36,282,095,786	P16,679,676,291
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*11, 26, 27*	**P6,387,390,303**	P6,234,585,807
Loan Payable		**936,338,247**	-
Income tax payable		**370,231,568**	186,076,234
Trust receipts payable	*26, 27*	**12,684,875**	21,299,667
Due to a related party	*20, 26, 27*	**65,736,158**	8,855,584
Other current liabilities	*12, 26, 27*	**223,936,561**	177,912,643
Total Current Liabilities		**7,996,317,710**	6,628,729,935
Noncurrent Liabilities			
Noncurrent accrued rent	*22, 26, 27*	**974,784,941**	662,950,406
Retirement benefits liability	*21*	**101,345,387**	76,356,980
Total Noncurrent Liabilities		**1,085,130,328**	739,307,386
Total Liabilities		**9,081,448,038**	7,368,037,321
Equity			
Capital stock	*23*	**2,766,406,250**	2,000,000,000
Additional paid in capital	*23*	**20,880,149,853**	5,168,821,728
Equity adjustments		**8,784,792**	
Retained earnings	*23*	**3,545,306,853**	2,142,817,242
Total Equity		**27,200,647,748**	9,311,638,970
		P36,282,095,786	P16,679,676,291

See Notes to the Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

		For the Nine-Month Periods Ended September 30		For the Three-Month Periods July to September 30	
	Note	**2012**	2011	**2012**	2011
NET SALES					
Gross sales		**P39,210,921,910**	26,988,871,491	**P15,896,069,663**	9,645,694,987
Sales discount		**(74,380,247)**	(44,162,143)	**(34,946,093)**	(16,255,787)
		39,136,541,663	26,944,709,348	**15,861,123,570**	9,629,439,200
COST OF SALES	*13*	**32,869,900,324**	23,004,182,396	**13,279,391,141**	8,333,739,891
GROSS PROFIT		**6,266,641,339**	3,940,526,952	**2,581,732,429**	1,295,699,308
OTHER OPERATING INCOME	*15*	**1,120,415,873**	730,859,547	**465,065,743**	253,272,814
		7,387,057,212	4,671,386,499	**3,046,798,172**	1,548,972,123
OPERATING EXPENSES		**4,874,241,869**	3,094,295,316	**1,949,217,022**	1,111,835,716
INCOME FROM OPERATIONS		**2,512,815,342**	1,577,091,183	**1,097,581,149**	437,136,407
OTHERS EXPENSES (INCOME)					
Finance cost		**12,262,915**	63,201,147	**9,073,313**	23,474,802
Others – net	*17*	**(55,419,296)**	(30,027,505)	**(10,186,482)**	(8,506,841)
		(43,156,382)	33,173,642	**(1,113,170)**	14,967,961
INCOME BEFORE INCOME TAX		**2,555,971,724**	1,543,917,541	**1,098,694,319**	422,168,446
INCOME TAX EXPENSE (BENEFIT)	*22*				
Current		**842,763,857**	497,346,459	**370,057,236**	146,833,242
Deferred		**(89,281,745)**	(31,548,165)	**(40,388,002)**	(20,003,026)
		753,482,112	465,798,294	**329,669,234**	126,830,216
NET INCOME/TOTAL COMPREHENSIVE INCOME		**P1,802,489,612**	1,078,119,247	**P769,025,085**	295,338,230
EARNINGS PER SHARE	*25*				
Basic earnings per share		**0.77**	0.73	**0.28**	0.20
Diluted earnings per share		**0.77**	0.73	**0.28**	0.20

See Notes to the Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

		For the Nine-Month Periods Ended September 30	
	Note	**2012**	2011
CAPITAL STOCK - P1 par value	*23*		
Authorized - 3,000,000,000 shares			
Issued and outstanding -			
2,766,406,250 shares in 2012			
(2,000,000,000 shares in 2011)			
Balance at beginning of year		**P2,000,000,000**	P1,450,000,000
Stock issuances during the period		**766,406,250**	50,000,000
Equity Adjustment		**8,784,792**	
Balance at end of the period		**2,775,191,042**	1,500,000,000
ADDITIONAL PAID-IN CAPITAL	*23*	**20,880,149,852**	
RETAINED EARNINGS			
Balance at beginning of period		**2,142,817,242**	597,822,435
Net income for the period	*23*	**1,802,489,612**	1,078,119,247
Cash dividends declared		**(400,000,000)**	
Balance at end of period		**3,545,306,854**	1,675,941,682
		P27,200,647,748	P3,175,941,682

See Notes to the Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

		For the Nine-Month Periods Ended September 30	
	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P2,555,971,724	P1,543,917,541
Adjustments for:			
Depreciation and amortization	*9, 16*	478,120,781	334,766,811
Interest expense		12,262,915	63,201,147
Accrued rent		311,834,535	92,511,654
Retirement benefits cost	*17, 21*	33,988,407	11,241,012
Loss on pre-termination of lease contract	*18*		9,000,000
Impairment losses on receivables	*5, 17*		1,407,884
Unrealized valuation gain in trading securities	*7, 19*	(5,310,999)	872,588
Loss (gain) on disposal of property and equipment	*19*	(577,498)	(267,519)
Dividend income	*19*	(746,441)	(866,350)
Interest income	*19*	(48,784,359)	(2,469,714)
Write off of property and equipment			4,493,858
Gain on insurance claim	*19*		(27,296,511)
Operating income before changes in working capital		3,336,759,065	2,030,512,402
(Increase) decrease in:			
Investment in trading securities		(1,168,004)	(12,500)
Receivables		(715,323,985)	75,893,255
Merchandise inventory		(1,142,785,765)	(438,238,276)
Prepaid expenses and other current assets		(174,641,012)	(26,164,814)
Increase (decrease) in:			
Accounts payable and accrued expenses		152,804,495	(1,217,130,312)
Due to related party			3,226,625
Trust receipts payable		(8,614,792)	(24,360,090)
Other current liabilities		46,023,917	(152,881,055)
Cash generated from operations		1,493,053,920	(250,845,235)
Interest received		48,784,359	2,469,714
Interest paid		(12,262,915)	(61,977,421)
Income taxes paid		(698,286,467)	(436,550,734)
Net cash provided by in operating activities		831,288,897	(245,213,206)

Forward

		For the Nine-Month Periods Ended September 30	
	Note	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	*9*	(3,125,067,438)	(1,726,838,635)
Decrease(increase) in other noncurrent assets		(14,410,711,874)	(281,394,507)
Decrease (increase) in due from related parties			
Decrease (increase) in due to related parties		56,880,573	
Investment in subsidiary			
Dividends received		746,441	866,350
Proceeds from insurance claim			
Proceeds from disposal of property and equipment		577,498	7,935,043
Net cash used in investing activities		(17,477,574,800)	(1,999,431,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payments of) loans payable		936,338,247	620,000,000
Cash Dividend paid		(400,000,000)	
Proceeds from issuance and subscriptions of capital stock		16,486,519,167	50,000,000
Net cash provided by (used in) financing activities		17,022,857,414	670,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND SHORT-TERM CASH INVESTMENTS		376,571,511	(1,574,644,955)
CASH AND CASH EQUIVALENTS AND SHORT-TERM CASH INVESTMENTS AT BEGINNING OF YEAR	*4*	1,955,167,542	1,837,943,774
CASH AND CASH EQUIVALENTS AND SHORT TERM-CASH INVESTMENTS AT END OF YEAR	*4*	P2,331,739,052	P263,298,819

See Notes to the Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Reporting Entity

Puregold Price Club, Inc. was incorporated and registered with the Securities and Exchange Commission (SEC) on September 8, 1998 to engage in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, etc.) on a wholesale and retail basis.

The consolidated financial statements relate to Puregold Price Club, Inc. (the "Company") and Puregold Junior Supermarket, Inc., Gant Group of Companies, Incorporated, Kareila Management Corporation and PPCI Subic, Inc. (the "Subsidiary") collectively referred to as the "Group".

The Subsidiary, Puregold Junior Supermarket, Inc. was incorporated and registered with the SEC on July 24, 2008. It is primarily involved in the same industry and business to which the Company is in. It is owned 100% of its issued shares of stock. The Company, on the other hand, is owned by individuals. The Company acquired the Subsidiary in July 2010.

The Subsidiary, Gant Group of Companies was incorporated and registered with the SEC on October 6,2010. The registered office address of the Company is 704 Rizal Avenue Extension, Caloocan City. It is engaged in wholesale and retail of general merchandise. It is owned 100% of its issued shares of stock. The Company acquired the Subsidiary in May 30,2012.

The Subsidiary, Kareila Management Corporation was incorporated and registered with the SEC on July 6,2004. Its principal activities are to act as managers, managing agents, consignor, concessionaire, or supplier of business engaged in the operation of resorts, hotels, supermarkets, groceries, and the like: invest in the business that it managers or of which it is the managing agent; provide management, investment and technical advice to commercial, industrial , manufacturing and other enterprises; undertake or carry on the liquidation or reorganization of corporations, partnerships and other entities: act as business, personnel, marketing and/or human resources manager of other firms; provided that it shall not engage in the management of funds, securities , portfolios or other similar assets. Its secondary purpose is to act as managers, managing agents, consignor, concessionaire, or supplier of business engaged in manufacturing or trading of general merchandise. It is owned 10% of its issued shares of stock. Its registered office is located at 32nd St., Bonifacio Global City, Taguig City. The company acquired the Subsidiary on May 28,2012.

The Subsidiary, PPCI Subic, Inc. was incorporated and registered with the SEC on May 31,2012. It is primarily involved in the same industry and business to which the Company is in. It is owned 100% of its issued shares of stock. The Company is owned by Filipino individuals.

Initial Public Offering (IPO)

On July 18, 2011, the Board of Directors (BOD) of the Company approved the resolution for the IPO of up to 690 million common shares with a par value of P1.00 per share subject to the registration requirement of the SEC and the Philippine Stock Exchange (PSE).

On July 20, 2011, the Company filed an application for listing the common shares with the PSE. On December 10, 2010, the Company filed the registration statement together with the preliminary prospectus with the SEC and on August 24, 2011, the PSE approved the application of the Company for the initial listing of 600 million common shares.

On September 22, 2011, the SEC approved the Company's registration statement. The listing ceremony was held on October 5, 2011 (the Listing date). The Company's stock symbol, PGOLD, officially entered into the electronic board of PSE marking the start of the Company's common stock through the stock market.

As at September 30,2012, the Company has eighty-seven (87) operating stores of which fifteen (15) were newly opened.

Plan of Merger

On August 14, 2012, the Company's Board of Directors approved the Company's planned merger with Puregold Junior Supermarket, Inc. (PJSI) and Gant Group of Companies, Inc. (Gant). It will be ratified by at least two-thirds (2/3) votes of the stockholders during its special meeting called for the purpose.

Salient features of the Plan of Merger are as follows:

- The Company shall be the surviving entity and the corporate existence of PJSI and Gant shall cease.
- All the assets, rights, powers, privileges, immunities, franchises and business of PJSI and Gant as at the effective date of the merger, shall be deemed assigned, transferred to and vested in the Section 80(A) of the Corporation Code, without need of any further act of deed.
- Upon the effective date of merger, the Company shall assume all outstanding liabilities, obligations and undertakings of PJSI and Gant as at the effective date of merger.
- All issued and outstanding capital stock of PJSI and Gant on the effective date of the merger shall be cancelled but no new shares of stock shall be issued to the stockholders of PJSI and Gant considering that the constituent entities are wholly-owned subsidiaries of the Company.

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards (PFRSs). PFRSs includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), 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 investments in trading securities and available-for-sale financial assets which are measured at fair value.

Functional and Presentation Currency

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

Basis of Consolidation

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of the Subsidiary are included in the consolidated financial statements from the date that control commences until the date such control ceases.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intragroup balances and transactions between entities were eliminated.

Use of Estimates and Judgments

The Group's consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect 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 Group, the functional currency of the Group has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Group operates and the currency that mainly influences its revenue and expenses.

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 fulfilment of the arrangement is dependent on the use of a specific assets or assets and arrangement conveys a right to use the assets.

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 on these properties which are leased out under operating lease arrangements.

Rent expenses recognized in profit or loss amounted to P995.85 million and P559.14 million for the nine month period ended September 30, 2012 and 2011, respectively (see Notes 14 and 16).

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 on these properties which are leased out under operating lease arrangements.

Rent income recognized in profit or loss amounted to P166.86 million and P122.38 million for the nine month period ended September 30, 2012 and 2011, respectively (see Notes 15 and 16).

<u>Estimates</u>
The key estimates and assumptions used in the consolidated financial statements are based on management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Estimating Allowance for Impairment Losses on Receivables and Other Current Assets. The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors and, their payment behavior and known market factors. The Group reviews the age and status of 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 P7.53 million and P5.52 million as of September 30, 2012 and December 31, 2011, respectively. The carrying value of receivables amounted to P1,125.68 million and P410.35 million as of September 30, 2012 and December 31, 2011, respectively (see Note 5). On the input value added tax, management believes that it is fully realizable; hence, no allowance for impairment losses has been recognized.

Estimating Net Realizable Value (NRV) of Merchandise Inventory. The Group carries merchandise inventory at NRV whenever the utility of it becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pretermination of contracts). The estimate of the NRV is reviewed regularly (see Note 6).

The carrying amount of merchandise inventory as at September 30,2012 and December 31,2011 amounted to P 5,665.7 million and P 4,522.9 million respectively.

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

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

Accumulated depreciation of property and equipment amounted to P2,135.00 million and P1,363.5 million as of September 30, 2012 and December 31, 2011, respectively. Property and equipment, net of accumulated depreciation, amounted to P8,652.43 million and P6,005.57 million as of September 30, 2012 and December 31, 2011, respectively (see Note 9).

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.

Deferred tax assets-net amounted to P349.10 million and P220.14 million as of September 30, 2012 and December 31, 2011, respectively (see Note 20).

Impairment of Non-Financial Assets. PFRS 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 value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the financial performance.

There were no impairment losses of property and equipment and other non-financial assets recognized as of September 30, 2012 and December 31, 2011.

Retirement Benefits. The determination of the Group's obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rate and salary increase rates. In accordance with PFRS, actual results that differ from the assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The Group has a net cumulative unrecognized actuarial losses amounting to P66.84 million and P68.22 million as of September 30, 2012 and December 31, 2011, respectively. Retirement benefits liability amounted to P110.35 million and P76.35 million as of September 30, 2012 and December 31, 2011, respectively (see Note 19).

3. Summary of Significant Accounting Policies

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

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

The Financial Reporting Standards Council approved the adoption of a number of new and revised standards, amendments to standards, and interpretations as part of PFRS.

Revised Standard, Amendments to Standards and Interpretation Adopted in 2011
The Group has adopted the following PFRS starting January 1, 2011 and accordingly has changed its accounts policies in the following areas:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC - 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC-14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).* These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRS 2010* contain 11 amendments to six standards and to one interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. The following are the said improvements or amendments to PFRS.

  - PFRS 3, *Business Combinations*. The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted and is required to be disclosed.

  - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21 *The Effects of Changes in Foreign Exchange Rates*, PAS 28 *Investments in Associates* and PAS 31 *Interests in Joint Ventures* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted.

- PFRS 1, *First-time Adoption of PFRS*. The amendments: (i) clarify that PAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first PFRS financial statements; (ii) introduce guidance for entities that publish financial information under PAS 34 *Financial Reporting* and change either their accounting policies or use of the PFRS 1 exemptions during the period covered by their first PFRS financial statements; (iii) extend the scope of paragraph D8 of PFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first PFRS financial statements; and (iv) introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to PFRS for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

Revised Standard, Amendments to Standards Adopted in 2012

The Group has adopted the following PFRS starting January 1, 2012 and accordingly has changed its accounts policies in the following areas:

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.

The adoption of the above revised standard, amendments to standards and interpretation did not have a material effect to the Group's consolidated financial statements.

New Standard and Amendments to Standards Not Yet Adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instrument*s, which becomes mandatory for the Group's 2015 consolidated financial statement and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

The Group will adopt the following new standard and amendments to standards in the respective effective dates:

To be Adopted on January 1, 2013

- *Presentation of Items of Other Comprehensive Income (Amendments to PAS 1)*. The amendments: (a) 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; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and, (c) 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.

- 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: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008) and Philippine Interpretation SIC-12 *Consolidation – Special Purpose Entities.*

- 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.

- PFRS 13, *Fair Value Measurement*. PFRS 13 replaces the fair value measurement guidance contained in individual PFRS 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 PFRS. 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: (a) 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, (b)expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- 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.

To be Adopted on January 1, 2015

- PFRS 9, *Financial Instruments*

  Standard issued in November 2009 [PFRS 9 (2009)]
  PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply.

  Standard issued in October 2010 [PFRS 9 (2010)]
  PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraph of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation IFRIC 9 *Reasssessment of Embedded Derivatives.*

The Group will assess the impact of the above new standard and amendments to standards on the consolidated financial statements upon their adoption in their respective effective dates, to present a comprehensive picture.

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 of September 30, 2012 and December 31,2011.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking 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. Derivative instrument (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

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. Any interest earned shall be recognized in profit and loss as part of "Other income (expenses)" account. Any dividend income from equity securities classified as FVPL shall be recognized in profit or loss when the right of payment has been established.

The Group’s investments in trading securities are classified under this category.

The carrying amount of financial assets under this category amounted to P30.47 million and P24.00 million as of September 30, 2012 and December 31, 2011, respectively (see Note 7).

Available-*for-Sale.* The Group’s investments in equity securities and certain debt securities are classified as available-for-sale 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 available-for-sale 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.

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 or FVPL financial asset.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized in profit or loss as part of “Interest income” 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 cash investments, receivables and security deposits are included in this category (see Notes 4, 5 and 10).

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 change in value.

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 rate 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, trust receipts payable and other current liabilities are included in this category (see Notes 11, 27 and 12).

<u>Derecognition of Financial Assets and Liabilities</u>

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 gross in the consolidated statements of financial position.

Merchandise Inventory

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

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

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment losses, if any.

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

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

	Number of Years
Building	15 – 30
Computer software	5 – 10
Furniture and fixtures	3 – 20
Office and store equipment	2 – 10
Leasehold improvements	15-20 years or term of the lease, whichever is shorter

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.

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.

Goodwill

Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. Goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment of Assets

Financial Assets

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

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

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

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower.

For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. 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.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows from the asset discounted using the historical effective rate of return on the asset.

All impairment losses are recognized in profit or loss.

Nonfinancial Assets

Nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount.

The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction less the costs to sell while value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in profit or loss. However, the increase in the carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Retirement Costs

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

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

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

Capital Stock

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

Revenue and Expense Recognition

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

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

Concession income represents income generated from sale of concessionaires' items.

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

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

Costs and expenses are recognized when incurred.

Borrowings and Borrowing Costs

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

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

<u>Income Taxes</u>
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 Carry Over (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.

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.

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.

<u>Leases</u>

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.

<u>Related Parties</u>

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operating decisions. It includes companies in which one or more of the directors and/or controlling stockholders of the Group either have a beneficial controlling interest or are in a position to exercise significant influence therein.

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

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

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

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

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

Earnings Per Share
Basic earnings per share 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 earnings per share 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.

4. Cash and Cash Equivalents

This account consists of:

	Note	**September 30 2012**	December 31 2011
Cash on hand		**P351,220,010**	P301,772,030
Cash in banks	*28*	**1,868,540,847**	752,855,511
Money market placements	*28*	**111,978,195**	900,540,000
	29	**P2,331,739,052**	P1,955,167,541

Cash in banks earn annual interest at the respective bank deposit rates. Money market placements are highly liquid investments that are readily convertible into cash and are subjected to insignificant risk of changes in value. Maturity dates of these investments average 30 days only with an annual interest of 3.30% to 3.82% in September 30, 2012 and 3.65% to 3.82% in December 31, 2011.

5. Receivables

This account consists of:

	Note	**September 30 2012**	December 31 2011
Trade receivables		**P660,287,730**	P345,859,641
Non-trade receivables		**472,921,043**	70,019,565
		1,133,208,773	415,879,206
Less allowance for impairment losses		**7,527,357**	5,521,775
	28, 29	**P1,125,681,416**	P410,357,431

Non-trade receivables represent amount due from suppliers for the rental, listing fee, display allowance and concession. This also includes advances to employees.

The aging of trade receivables is as follows:

	September 30 2012	December 31 2011
Current	**590,561,066**	P181,489,610
Past due 1- 30 days	**18,846,783**	137,182,511
Past due 31- 60 days	**7,457,850**	25,099,925
More than 60 days	**43,422,030**	2,087,595
	P660,287,730	P345,859,641

Majority of trade receivables are credit card transactions. The Group partners only with reputable credit card companies affiliated with major banks. Management believes that except for the accounts provided with allowance for impairment losses amounting to P7,527,357 and P5,521,775 as of September 30, 2012 and December 31, 2011, respectively, all other receivables are collectible and therefore, no additional allowance is necessary.

Proceeds of S&R's food service outside its warehouses are recognized as trade receivables are normally collected beyond 60 days.

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

	Note	**September 30 2012**	December 31 2011
Beginning balance		**P5,521,776**	P4,113,891
Impairment losses recognized during the year	*17*	**2,005,581**	1,407,884
Ending balance		**P7,527,357**	P5,521,775

6. Merchandise Inventory

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

Inventory cost at September 30, 2012 and December 31, 2011 is lower than NRV

7. Investments in Trading Securities

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

The movements in investments in trading securities are as follows:

Cost	*Note*	**September 30 2012**	December 31 2011
Balance at beginning of the year		**P13,350,902**	P13,338,402
Additions during the year		**1,168,004**	12,500
Balance at end of the year		**14,518,906**	13,350,902
Valuation adjustments			
Balance at beginning of the year		**10,649,312**	10,453,998
Unrealized valuation gain on financial assets for the year	*19*	**5,310,999**	195,314
Balance at end of the period		**15,960,311**	10,649,312
	28, 29	**P30,479,216**	P24,000,214

8. Prepaid Expenses and Other Current Assets

This account at consists of:

	September 30 2012	December 31 2011
Prepaid expenses	**P304,521,884**	P180,290,688
Input value added tax - net	**394,860,720**	356,119,246
Creditable Tax	**11,668,342**	-
	P711,050,946	P536,409,934

The details of prepaid expenses are as follows:

	September 30 2012	December 31 2011
Rent	**P159,184,512**	P103,045,134
Taxes and licenses	**58,791,128**	26,516,695
Insurance	**28,199,906**	44,346,078
Repairs and maintenance	**1,858,224**	6,382,781
Professional fee	**840,000**	-
Filing fees	**49,762,758**	
Others	**5,885,356**	
	P304,521,884	P180,290,688

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

9. Property and Equipment

The movements and balances of this account consist of:

	Building	Computer Software	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction in Progress	Total
Cost:								
Balance, January 1, 2011	P1,914,428,740	P97,510,057	P608,963,948	P1,446,481,622	P822,259,301	P19,518,315	P152,528,948	P5,061,690,931
Additions	382,692,266	17,757,704	223,684,358	583,116,974	563,586,311	339,619,908	227,278,441	2,337,735,962
Reclassification	95,817,572	-	27,675,170	9,193,521	19,340,235	(10,132,417)	(141,894,081)	-
Adjustments	(270,423)	-	(1,514,804)	(8,566,805)	(182,917)	-	-	(10,534,949)
Disposals	-		(4,744,747)	(14,233,115)	(825,151)			(19,803,013)
Balance, December 31, 2011	2,392,668,155	115,267,761	854,063,925	2,015,992,197	1,404,177,779	349,005,806	237,913,308	7,369,088,931
Additions	236,254,035	17,430,559	225,491,490	743,701,785	1,032,078,557	29,332,170	844,476,497	3,128,765,094
Reclassification	65,650,232	3,147,378	21,016,574	(23,064,137)	29,984,863	3,467	(96,738,377)	-
Disposals	-	-	(1,948,870)	(2,855,938)	-	-	-	(4,804,808)
Write off/Adjustments	(17,857)	-	-	-	-	-	-	(17,857)
Balance, Sept 31, 2012	**2,694,554,565**	**135,845,698**	**1,098,623,120**	**2,733,773,907**	**2,466,241,199**	**378,341,443**	**985,651,427**	**10,493,031,360**
Accumulated depreciation and amortization:								
Balance, January 1, 2011	125,262,582	42,085,588	136,406,449	487,887,513	124,541,167	-	-	916,183,299
Depreciation and amortization	71,441,287	5,704,081	65,285,892	268,563,608	45,979,385	-	-	456,974,253
Reclassification	(2,707,986)		12,244,038	(2,491,094)	(7,044,958)			-
Disposal	-	-	(301,371)	(3,159,502)	(123,989)			(3,584,862)
Adjustment	(2,163)		(308,312)	(5,731,023)				(6,041,498)
Balance, December 31, 2011	193,993,720	47,789,669	213,326,696	745,069,502	163,351,605			1,363,531,192
Depreciation and amortization	66,658,530	5,230,621	67,405,114	270,845,974	67,842,800	-	-	477,983,040
Reclassification	(272,448)	2,934,102	15,180,608	(17,406,170)	(436,092)	-	-	-
Disposals	-	-	(62,962)	(924,156)	-	-	-	(987,118)
Write off/Adjustments	(149)	-	-	-	-	-	-	(149)
Balance, Sept 31, 2012	**260,379,653**	**55,954,392**	**295,849,456**	**997,585,150**	**230,758,313**	**-**	**-**	**1,840,526,964**
Carrying amount:								
December 31, 2012	2,198,674,435	67,478,092	640,737,229	1,270,922,695	1,240,826,174	349,005,806	237,913,308	6,005,557,739
Sept 31, 2012	**2,434,174,912**	**79,891,306**	**802,773,664**	**1,736,188,757**	**2,235,482,887**	**378,341,443**	**985,651,427**	**8,652,504,396**

10. Other Noncurrent Assets

This account consists of:

	Note	**September 30 2012**	December 31 2011
Restricted cash and cash equivalents		**P296,182,374**	P2,286,731,084
Security deposits	*14, 26, 27*	**747,393,859**	567,262,531
Noncurrent advance rent		**288,932,098**	120,840,664
Accrued rent income		**21,274,298**	11,031,515
Investment		**7,879,160**	7,879,160
Goodwill		**16,054,165,160**	11,370,121
		17,415,826,949	P3,005,115,075

Restricted cash and cash equivalents pertains to the proceeds from the company's initial public offering which is restricted for capital expenditures.

Available-for-sale investments include PLDT and Meralco preferred shares acquired in connection with the installation of telephone lines and electrical systems for the different stores and offices of the Company.

The P16.05 billion investment represents the excess of the total acquisition cost over the net amounts of the assets and liabilities assumed on the acquisition of the Subsidiary.

11. Accounts Payable and Accrued Expenses

This account consists of:

	September 30 2012	December 31 2011
Trade	**P3,443,633,152**	P4,438,012,776
Nontrade	**1,908,437,162**	825,159,587
Accrued expenses		
Advances from concessionaires	**309,216,321**	449,512,119
Manpower agency services	**416,857,734**	299,189,527
Accrued utilities	**70,271,076**	89,994,944
Withholding taxes payable	**70,760,269**	68,477,321
Accrued 13th month pay	**40,892,707**	-
Accrued rent	**51,507,941**	4,035,783
Professional fees	**1,148,675**	45,807,263
Accrued interest	**1,335,709**	30,448
Accrued fixed assets	**13,109,290**	12,823,655
Underwriter incentive	**43,323,587**	-
Others	**16,896,680**	1,542,384
	P6,387,390,303	P6,234,585,807

Nontrade payables are liabilities of the Group with various suppliers which are individually immaterial.

Underwriter incentive pertains to the discretionary fees to the underwriters to be paid based on the level of satisfaction with the services provided to the Company. The management approved to pay 0.5% of the gross proceeds of the transaction.

12. Other Current Liabilities

This account consists of:

	September 30 2012	December 31 2011
Deposits	**P112,784,368**	P90,497,575
Exclusive fund		44,676,397
Promotion fund	**79,168,595**	27,640,556
Gift cheques	**30,351,643**	13,878,380
Cashier's bond	**692,955**	1,219,735
Subscription payable	**939,000**	
	P223,936,561	P177,912,643

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

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

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

Cashier's bond pertains to the amount withheld from each cashier to compensate for any possible cash shortages in the store.

13. Cost of Sales

This account for the six months ended September 30 consists of:

	Note	2012	2011
Beginning inventory	*6*	**P4,522,929,063**	P2,934,251,679
Add purchases		**34,012,686,091**	23,442,420,672
Total goods available for sale		**38,535,615,154**	26,376,672,351
Less ending inventory	*6*	**5,665,714,830**	3,372,489,955
		P32,869,900,324	P23,004,182,396

14. Lease Agreements

As Lessee

The Group is leases warehouses, parking space and certain land and buildings where some of its stores are situated or constructed. The terms of the lease are for the period ranging from 10-35 years, renewable for the same period under the same terms and conditions. The rent shall escalate by an average of 1% to 7%. Rental payments are fixed amount which is calculated either fixed monthly rent or is calculated with reference to a fixed sum per square meter of area leased based on the contracts.

The Group is required to pay security deposits on the above leases which is either fixed monthly rent or is calculated with reference to a fixed sum per square meter of area leased. This is shown under "Other noncurrent assets" account in the consolidated statements of financial position.

Total rent expense recognized in profit or loss on the above leases amounted to P955,853,381 and P559,141,522 for the nine month period ended September 30, 2012 and 2011, respectively (see Note 16).

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

	2012	2011
Due within one year	**P1,032,250,874**	P782,000,443
Due more than one year but not more than five years	**4,488,457,526**	3,455,844,388
Due more than five years	**23,114,267,373**	16,577,068,927
	P28,634,975,773	P20,814,913,758

As Lessor

The Group subleases portion of its store space to various lessees for an average lease term of one to ten years. The lease contracts may be renewed upon mutual agreement by the parties. 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.

Rent income recognized in profit or loss for the nine month period ended September 30, 2012 and 2011 amounted P166,860,140 and P122,377,817 respectively (see Note 15).

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

	2012	2011
Due within one year	**P181,499,503**	P102,301,191
Due more than one year but not more than five years	**383,613,480**	151,042,740
Due more than five years	**1,403,378,421**	47,734,769
	P1,968,491,404	P301,078,700

15. Other Operating Income

This account for the six months ended September 30 consists of:

	Note	2012	2011
Concession income		**P583,418,968**	P384,260,330
Display allowance		**297,826,312**	198,955,585
Rent income	*14*	**166,860,140**	122,377,817
Listing Fee		**2,750,357**	-
Miscellaneous		**69,560,096**	25,265,815
		P1,120,415,873	P730,859,547

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 and for the building leased to a related party.

Miscellaneous income consists of various petty revenues generated from those activities other than operating such as amounts collected from the customers for delivering their purchases, cashiers' overages, sale of used packaging materials and others

16. Operating Expenses

This account for the nine months ended September 30 consists of:

	Note	2012	2011
Manpower agency services		**P877,740,180**	P577,767,366
Rent	*14*	**955,853,381**	559,141,522
Communication, light and water		**800,120,710**	516,277,374
Salaries and wages		**502,112,380**	335,726,645
Depreciation and amortization	*9*	**478,120,781**	334,766,811
Store and office supplies		**198,169,109**	130,442,061
SSS/Medicare and HDMF contributions		**37,190,345**	25,285,030
Royalty	*20*	**17,437,002**	3,226,624
Miscellaneous		**69,469,301**	39,246,872
Taxes and licenses		**152,422,982**	100,629,845
Repairs and maintenance		**113,263,087**	78,857,751
Insurance		**54,843,463**	37,220,001
Retirement benefits cost	*21*	**29,574,319**	11,241,012
Representation and entertainment		**11,138,594**	19,646,449
Fuel and oil		**21,316,057**	13,588,061
Transportation		**11,806,014**	3,180,277
Professional fee		**11,906,833**	2,156,650
Impairment losses on receivables		**1,940,552**	1,407,884
Security services		**279,962,778**	189,339,610

Janitorial and messengerial services	**77,519,750**	58,172,117
Disallowed input value-added tax	**24,437,303**	15,673,937
Bank charges	**57,367**	11,245,920
Donations	**6,808,740**	8,148,115
Deficiency tax	**-**	10,863,203
Miscellaneous	**141,030,842**	11,044,179
	4,874,241,869	P3,094,295,316

17. Others

This account for the six months ended September 30 consists of:

	Note	2012	2011
Gain on insurance claim			(P27,296,510)
Interest income		**(P36,521,444)**	(2,469,714)
Stock Dividend income		**(200)**	
Cash Dividend income		**(746,241)**	(866,350)
Loss (gain) on disposal of property and equipment		**(577,498)**	(267,519)
Unrealized valuation gain in trading securities	*7*	**(5,310,999)**	872,588
		(P43,156,382)	(P30,027,505)

Gain on insurance claim represents the excess of proceeds over the actual total payments made to the insurance company on flood damage caused by typhoon Ondoy during 2009 in the Groups inventories & fixed assets.

18. Related Party Transactions

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

a. Lease of Building

The Group leases the building from its affiliates, Cosco Prime Holdings, Inc., Ellimac Prime Holdings, Inc. VFC Land Resources, Inc. Pajusco Realty Corporation, KMC Realty Corporation, Bellagio Holdings, Inc. where some stores are located. The Group pays its affiliates a minimum fixed amount or its calculated with reference to a fixed sum per square meter of area leased. Rent expense, included under “Operating expense” account in the consolidated comprehensive income amounted to P 257.33 million and P315.77 million of the nine month period ended September 30,2012 and for the year ended December 31,2011, respectively. Outstanding security deposit for these lease agreement in its affiliates amounted to P128.51 million and P166.10 million as at September 30,2012 and December 31,2011, respectively.

b. Sublease of Building

The Group has also entered into sublease agreement with Purevalue, Inc. a company under common control. Rent income recognized by the Group amounted to P3.23

million for the year ended December 31,2011 an no rent income was recognized for the nine-month period ended September 31,2012. Accrued rent income included under “Other noncurrent assets” account ni the separate statements of financial position amounted to P148.11 million and P160.64 million as at September 31,2012and December 31,2011, respectively.

c. Due to and from Related Parties

The Group has outstanding receivables from related parties arising from sale of merchandise inventories, transfer of property and equipment and rent income. Due from related parties amounted to P65.74 million and P760.98 million as at September 30,2012 and December 31,2011, respectively.

These receivables are unsecured, noninterest-bearing and due and demandable. The Group has not made any allowance for impairment losses relating to receivables from related parties as at September 30,2012 and December 31,2011. This assessment is undertaken annually by management through examination of the financial position of related parties and the market in which they operate.

The Group has outstanding payables to related parties arising from transfer of property and equipment, rent expense, royalty fee, preventive maintenance, utilities expense, communications and employee benefits. Due to affiliates amounted to P25.85 million as at September 30,2012. There was no due to affiliates as at December 31,2011. Royalty for the other payables to the stockholder fo the Group amounted to P16.92 million and P7.67 million as at September 30,2012 and December 31,2011, respectively.

There are unsecured, noninterest-bearing and due and demandable.

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 upon mutual written consent of the parties. Royalty fees to the stockholders of the Group amounted to P17.48 million and P8.06 million as at September 30,2012 and December 31,2011, respectively.

e. Key Management Compensation

The compensation of key management personnel representing short-term benefits amounted to P 9.27 million and P 12.70 million for the nine-month period ended September 30,2012 and for the year ended December 31,2011, respectively. The Group has no key management compensation relating to post-employment benefits or other long-tem benefits for the nine-month period ended September 30,2012 and for the year ended December 31,2011.

19. Retirement Benefit Costs

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

Retirement benefits cost recognized in profit or loss by the Company amounted to P29.57 million and P37.12 million in September 30, 2012 and December 31, 2011, respectively, while the one recognized by the Subsidiary amounted to P3.00 million in 2011.

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

	September 30 2012	December 31 2011
Present value of the defined benefit obligation	**P180,110,272**	P147,999,230
Unrecognized actuarial losses	**(66,843,209)**	(68,221,751)
Unrecognized transitional liability	**(2,921,676)**	(3,420,499)
Retirement benefits liability at reporting date	**P110,345,387**	P76,356,980

The movements of the present value of the defined benefit obligation are shown below

	September 30 2012	December 31 2011
Balance at beginning of year	**P152,414,108**	P91,320,841
Current service cost	**20,714,300**	27,619,067
Interest cost	**6,981,864**	7,302,674
Actuarial losses		21,756,648
Unrecognized transitional liability	**-**	
Balance at end of year	**P180,110,272**	P147,999,230

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

	September 2012	December 2011
Current service cost	**P20,714,300**	P27,619,067
Interest cost	**6,981,864**	7,302,674
Transitional liability recognized	**428,823**	-
Net actuarial loss recognized during the year	**1,378,542**	2,203,717
	P29,573,529	P37,125,458

Based on the latest actuarial valuation made as of December 31, 2011, the principal actuarial assumptions at reporting date are as follows (expressed as percentages under weighted averages):

	September 30 2012	December 31 2011
Discount rate	**6.29%**	6.29%
Future salary increase	**10.00%**	10.00%

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

	September 30 2012	December 31 2011
Present value of defined benefit obligation	**P180,110,272**	P147,999,230
Experience adjustments on plan liabilities	**-**	21,756,648

20. Income Taxes

The reconciliation of the income tax expense (benefit) computed at the statutory income tax rate to the actual income tax expense (benefit) as shown in profit or loss for the six months period ended September 30 is as follows:

	2012	2011
Income before income tax	**P2,555,971,724**	P1,543,917,541
Income tax expense at the statutory income tax rate	**P680,495,948**	P463,175,262
Income tax effects of:		
Non-deductible interest expense	**106,707**	290,754
Non-deductible other expenses	**28,430**	3,071,321
Non-deductible expenses (non-taxable income)-net subjected to final tax	**89,303,076**	261,776
Dividend income subjected to final tax	**(223,932)**	(259,905)
Interest income subjected to final tax	**(14,634,817)**	(740,914)
Unrealized marketable gain on trading securities	**(1,593,300)**	-
	P753,482,112	P465,798,294

Deferred tax assets are attributable to the following:

	September 301 2012	December 31 2011
Accrued rent	**P297,960,359**	P198,885,122
Retirement benefits liability	**33,103,510**	22,907,094
Allowance for impairment losses on receivables	**2,825,760**	1,656,533
Accrued rent income	**(6,382,289)**	(3,309,455)
MCIT	**9,276,115**	
Nolco	**12,315,526**	
	P349,098,981	P220,139,294

The deferred tax asset on accrued rent above is in compliance with PAS 17 - *Leases* which resulted to a temporary difference between rental expense determined using the straight-line basis and tax deductible rental expense. The temporary difference amounted to P993,201,197 and P662,950,406 as of Sept 30, 2012 and December 31, 2011 respectively.

The deferred tax liability pertains to the accrued rent income which is also in compliance with PAS 17 - Leases. The gross amount of temporary difference is P21,274,297 and P11,031,515 as at September 30, 2012 and December 31, 2011.

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

21. Equity

Capital Stock and Additional Paid-in Capital
On June 7, 2011, the Board of Directors 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 Company's shares with an offer price of P12.50 per share resulted to the issuance of 500,000,000 common shares during the year. The additional paid-in capital net of direct transaction costs amounted to P5,168.8 million.

During the period, the Company acquired 100% equity interest of Kareila in exchange for the 766,406,250 common shares of the Company's authorized but unissued capital stock. The fair value of shares as the acquisition date is P 21.50 per share. The additional paid-in capital net of direct transaction cost amounted to P15,711,328,125.

Retained Earnings
On May 8,2012, the Board of Directors declared a special cash dividend of P0.20 per share or P 400,000,000 to stockholders of record as at May 22,2012, paid on June 5,2012.

22. Segment Information

In 2010, the Company acquired 100% equity interest in Puregold Junior Supermarket, Inc. (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 P49,999,400. Accordingly, management believes there is no reportable segment distinct and separated from that of the Subsidiary.

23. Basic/Diluted EPS Computation

Basic/Diluted EPS for the six month period ended Septembere 30 is computed as follows:

	2012	2011
Net income	**1,802,489,612**	P1,078,119,247
Weighted average number of ordinary shares		
Subscribed ordinary shares at January 1	**2,000,000,000**	1,450,000,000
Effect of shares subscribed in Sept2011		
Effect of Shares issued in Sept 2012	**340,625,000**	22,222,222
	2,340,625,000	1,472,222,222
Earnings per share	**P0.77**	P0.73

24. Financial Risk Management Objectives and Policies

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

- Credit Risk
- Liquidity Risk
- Interest rate Risk

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. The risk arises principally from the Group's cash and cash equivalents, investment in trading securities, receivables, restricted cash and cash equivalents, AFS financial assets, due from related parties and security deposits. The objective is to reduce the risk of loss through default by counterparties.

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.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting period follows:

	Note	**September 30 2012**	December 31 2011
Cash in banks and cash equivalents	*4*	**P1,980,519,042**	P1,653,395,511
Short-term cash investments	*5*	**296,182,374**	2,286,731,084
Investments in trading securities	*7*	**30,479,217**	24,000,214
Receivables – net	*6*	**1,125,681,416**	410,357,431
Available-for-sale financial assets	*10*	**7,879,160**	7,879,160
Security deposits	*10*	**747,393,859**	567,262,531
		P4,188,135,068	P4,949,625,931

The Group had assessed the credit quality of restricted and unrestricted cash and cash equivalents as high grade since this was deposited to reputable bank with low probability of insolvency. Same assessment was made to investment in trading securities and AFS financial assets given that the investees have good financial performance based on their annual reports.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts. The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of receivables. The main components of this allowance are a special loss component that relates to individually significant exposures.

Based on historical default rates, the Group believes that, apart from the allowance for impairment losses presented in Note5, no impairment allowance is necessary in respect of trade receivable that were past due but not impaired because such accounts relate to credit card transaction. The Group partners only with reputable credit card companies affiliated with major banks.

The credit risk for due from related parties and security deposit was considered negligible since these accounts have high probability of collection and there is no current 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 of September 30, 2012				
	Carrying amount	**Contractual cash flow**	**1 year or less**	**> 1 year – 5 years**	**More than 5 years**
Financial liabilities					
Accounts payable and accrued expenses (excluding statutory payables)	**P6,316,630,034**	**P6,316,630,034**	**P6,316,630,034**	**-**	**-**
Due to a related party	**65,736,158**	**65,736,158**	**65,736,158**	**-**	**-**
Trust receipts payable	**12,684,875**	**12,684,875**	**12,684,875**	**-**	**-**
Other current liabilities(excluding promotion fund, exclusive fund and gift cheques)	**114,416,323**	**114,416,323**	**114,416,323**	**-**	**-**
Noncurrent accrued rent	**974,784,941**	**974,784,941**	**4,259,866**	**56,802,271**	**913,722,804**

	As of December 31, 2011				
	Carrying Amount	Contractual cash flow	1 year or less	> 1 year – 5 Years	More than 5 years
Financial liabilities					
Accounts payable and accrued expenses (excluding statutory payables to the government)	P6,166,108,486	P6,166,108,486	P6,166,108,486	P -	P -
Due to related party	8,855,584	8,855,584	8,855,584	-	-
Trust receipt payable	21,299,667	21,299,667	21,299,667	-	-
Other current liabilities(excluding promotion fund, exclusive fund and gift cheques)	91,717,310	91,717,310	91,717,310	-	-
Noncurrent accrued rent	662,950,406	662,950,406	572,956	40,622,104	621,755,346

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

Market Price Risk

The risk from price changes relates to the Group's ability to recover high purchase costs through price increases to customers. The Group minimizes its exposure to risks in changes in price by entering into contracts with related parties and suppliers that are already trusted by the Group and by maintaining its credit line.

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

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

	September 30 2012	December 31 2011
Fixed rate		
Financial assets	**P2,276,701,416**	3,940,126,595
Financial liabilities	**12,684,875**	21,299,667

Sensitivity Analysis
A 2% increase in interest rates would have decreased equity and net income by P36.85 million and P54.86 million for September 30, 2012 and December 31,2011 respectively. A 2% decrease in interest rates would have had the equal but opposite effect, on the basis that all other variables remain constant.

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 sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

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

The Group defines capital as paid-up capital and retained earnings.

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

The Group is not subject to any externally-imposed capital requirement.

25. Financial Instruments

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments (expressed in millions) as at September 30,2012 and December 31,2011

	September30,2012		December 31,2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P2,331.74**	**P2,331.74**	P1,955.17	P1,955.17
Restricted cash and cash equivalents	**296.18**	**296.18**	2,286.73	2,286.73
Receivables - net	**1,125.68**	**1,125.68**	410.36	410.36
Investments in trading securities	**30.48**	**30.48**	24.00	24.00
Available-for-sale financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**7.88**	**7.88**	7.88	7.88
Security deposits (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**747.39**	**747.39**	567.26	567.26
Financial Liabilities				
Loans payable			-	-
Accounts payable and accrued expenses	**6,316.63**	**6,316.63**	6,166.11	6,166.11
Due to a related party	**65.74**	**65.74**	8.86	8.86
Trust receipts payable	**12.68**	**12.68**	21.30	21.30
Other current liabilities	**114.42**	**114.42**	91.72	91.72
Noncurrent accrued rent	**974.78**	**987.78**	662.95	662.95

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

Cash and Cash Equivalents, Short-term Cash Investments, Receivables, and Security Deposits. The carrying amounts of cash and cash equivalents, short-term cash investments and trade and other 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 Investments. 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.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amounts of loans payable and accounts payable and accrued expenses approximate fair value due to the relatively short-term maturities of these financial instruments.

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).

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Investments in trading securities	**P30,479,217**	**P -**	**P -**	**P30,479,217**
Available-for-sale investments	**7,879,160**	**-**	**-**	**7,879,160**

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

COVER SHEET

A 1 9 9 8 1 3 7 5 4

S.E.C. Registration Number

PUREGOLD PRICE CLUB, INC.
AND SUBSIDIARY

(Group's Full Name)

900 Romualdez St.
Paco Manila

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

Marissa I. Delos Reyes	524-93-28
Contact Person	Company Telephone Number

1 2	3 1	A A F S		
Month	*Day*	FORM TYPE	*Month*	*Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes.

SECTION A

(1) Non-financial operational data for 2012 and 2011 includes all of the S&R and Parco supermarkets and was taken from the operating results of Kareila Management Corp. (KMC) and Gant Group of Companies Incorporated (GGCI) prior to its acquisition by the Company(3) in June 2012 and is included for comparative purposes. However, the supermarkets was not consolidated with the Company's results until it became a subsidiary beginning in June 2012 and net sales and average net ticket figures are only stated for the period since becoming a subsidiary of the Company.

(2) The "Group" refers to Puregold Price Club Inc. and Subsidiaries(4).

(3) The "Company" refers to consolidated balances of Puregold Price Club, Inc. and Puregold Junior Supermarkets.

(4) The "Subsidiaries" refer to KMC and GGCI.

PUREGOLD PRICE CLUB, INC.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	Note	September 30 2012	December 31 2011
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 26, 27*	**P2,331,739,052**	P1,955,167,541
Investments in trading securities	*7, 26, 27*	**30,479,217**	24,000,214
Receivables - net	*5, 26, 27*	**1,125,681,416**	410,357,431
Merchandise inventory	*6*	**5,665,714,830**	4,522,929,063
Prepaid expenses and other current assets	*8*	**711,050,946**	536,409,934
Total Current Assets		**9,864,665,460**	7,448,864,183
Noncurrent Assets			
Property and equipment - net	*9*	**8,652,504,395**	6,005,557,739
Deferred tax assets	*22*	**349,098,981**	220,139,294
Other noncurrent assets	*10, 14, 26, 27*	**17,415,826,949**	3,005,115,075
Total Noncurrent Assets		**26,417,430,326**	9,230,812,108
		36,282,095,786	P16,679,676,291
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*11, 26, 27*	**P6,387,390,303**	P6,234,585,807
Loan Payable		**936,338,247**	-
Income tax payable		**370,231,568**	186,076,234
Trust receipts payable	*26, 27*	**12,684,875**	21,299,667
Due to a related party	*20, 26, 27*	**65,736,158**	8,855,584
Other current liabilities	*12, 26, 27*	**223,936,561**	177,912,643
Total Current Liabilities		**7,996,317,710**	6,628,729,935
Noncurrent Liabilities			
Noncurrent accrued rent	*22, 26, 27*	**974,784,941**	662,950,406
Retirement benefits liability	*21*	**101,345,387**	76,356,980
Total Noncurrent Liabilities		**1,085,130,328**	739,307,386
Total Liabilities		**9,081,448,038**	7,368,037,321
Equity			
Capital stock	*23*	**2,766,406,250**	2,000,000,000
Additional paid in capital	*23*	**20,880,149,853**	5,168,821,728
Equity adjustments		**8,784,792**	
Retained earnings	*23*	**3,545,306,853**	2,142,817,242
Total Equity		**27,200,647,748**	9,311,638,970
		P36,282,095,786	P16,679,676,291

See Notes to the Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

		For the Nine-Month Periods Ended September 30		For the Three-Month Periods July to September 30	
	Note	**2012**	2011	**2012**	2011
NET SALES					
Gross sales		**P39,210,921,910**	26,988,871,491	**P15,896,069,663**	9,645,694,987
Sales discount		**(74,380,247)**	(44,162,143)	**(34,946,093)**	(16,255,787)
		39,136,541,663	26,944,709,348	**15,861,123,570**	9,629,439,200
COST OF SALES	*13*	**32,869,900,324**	23,004,182,396	**13,279,391,141**	8,333,739,891
GROSS PROFIT		**6,266,641,339**	3,940,526,952	**2,581,732,429**	1,295,699,308
OTHER OPERATING INCOME	*15*	**1,120,415,873**	730,859,547	**465,065,743**	253,272,814
		7,387,057,212	4,671,386,499	**3,046,798,172**	1,548,972,123
OPERATING EXPENSES		**4,874,241,869**	3,094,295,316	**1,949,217,022**	1,111,835,716
INCOME FROM OPERATIONS		**2,512,815,342**	1,577,091,183	**1,097,581,149**	437,136,407
OTHERS EXPENSES (INCOME)					
Finance cost		**12,262,915**	63,201,147	**9,073,313**	23,474,802
Others – net	*17*	**(55,419,296)**	(30,027,505)	**(10,186,482)**	(8,506,841)
		(43,156,382)	33,173,642	**(1,113,170)**	14,967,961
INCOME BEFORE INCOME TAX		**2,555,971,724**	1,543,917,541	**1,098,694,319**	422,168,446
INCOME TAX EXPENSE (BENEFIT)	*22*				
Current		**842,763,857**	497,346,459	**370,057,236**	146,833,242
Deferred		**(89,281,745)**	(31,548,165)	**(40,388,002)**	(20,003,026)
		753,482,112	465,798,294	**329,669,234**	126,830,216
NET INCOME/TOTAL COMPREHENSIVE INCOME		**P1,802,489,612**	1,078,119,247	**P769,025,085**	295,338,230
EARNINGS PER SHARE	*25*				
Basic earnings per share		**0.77**	0.73	**0.28**	0.20
Diluted earnings per share		**0.77**	0.73	**0.28**	0.20

See Notes to the Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

		For the Nine-Month Periods Ended September 30	
	Note	**2012**	2011
CAPITAL STOCK - P1 par value	*23*		
Authorized - 3,000,000,000 shares			
Issued and outstanding -			
2,766,406,250 shares in 2012			
(2,000,000,000 shares in 2011)			
Balance at beginning of year		**P2,000,000,000**	P1,450,000,000
Stock issuances during the period		**766,406,250**	50,000,000
Equity Adjustment		**8,784,792**	
Balance at end of the period		**2,775,191,042**	1,500,000,000
ADDITIONAL PAID-IN CAPITAL	*23*	**20,880,149,852**	
RETAINED EARNINGS			
Balance at beginning of period		**2,142,817,242**	597,822,435
Net income for the period	*23*	**1,802,489,612**	1,078,119,247
Cash dividends declared		**(400,000,000)**	
Balance at end of period		**3,545,306,854**	1,675,941,682
		P27,200,647,748	P3,175,941,682

See Notes to the Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

		For the Nine-Month Periods Ended September 30	
	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P2,555,971,724	P1,543,917,541
Adjustments for:			
Depreciation and amortization	*9, 16*	478,120,781	334,766,811
Interest expense		12,262,915	63,201,147
Accrued rent		311,834,535	92,511,654
Retirement benefits cost	*17, 21*	33,988,407	11,241,012
Loss on pre-termination of lease contract	*18*		9,000,000
Impairment losses on receivables	*5, 17*		1,407,884
Unrealized valuation gain in trading securities	*7, 19*	(5,310,999)	872,588
Loss (gain) on disposal of property and equipment	*19*	(577,498)	(267,519)
Dividend income	*19*	(746,441)	(866,350)
Interest income	*19*	(48,784,359)	(2,469,714)
Write off of property and equipment			4,493,858
Gain on insurance claim	*19*		(27,296,511)
Operating income before changes in working capital		3,336,759,065	2,030,512,402
(Increase) decrease in:			
Investment in trading securities		(1,168,004)	(12,500)
Receivables		(715,323,985)	75,893,255
Merchandise inventory		(1,142,785,765)	(438,238,276)
Prepaid expenses and other current assets		(174,641,012)	(26,164,814)
Increase (decrease) in:			
Accounts payable and accrued expenses		152,804,495	(1,217,130,312)
Due to related party			3,226,625
Trust receipts payable		(8,614,792)	(24,360,090)
Other current liabilities		46,023,917	(152,881,055)
Cash generated from operations		1,493,053,920	(250,845,235)
Interest received		48,784,359	2,469,714
Interest paid		(12,262,915)	(61,977,421)
Income taxes paid		(698,286,467)	(436,550,734)
Net cash provided by in operating activities		831,288,897	(245,213,206)

Forward

	Note	For the Nine-Month Periods Ended September 30 2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	*9*	(3,125,067,438)	(1,726,838,635)
Decrease(increase) in other noncurrent assets		(14,410,711,874)	(281,394,507)
Decrease (increase) in due from related parties			
Decrease (increase) in due to related parties		56,880,573	
Investment in subsidiary			
Dividends received		746,441	866,350
Proceeds from insurance claim			
Proceeds from disposal of property and equipment		577,498	7,935,043
Net cash used in investing activities		(17,477,574,800)	(1,999,431,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payments of) loans payable		936,338,247	620,000,000
Cash Dividend paid		(400,000,000)	
Proceeds from issuance and subscriptions of capital stock		16,486,519,167	50,000,000
Net cash provided by (used in) financing activities		17,022,857,414	670,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND SHORT-TERM CASH INVESTMENTS		376,571,511	(1,574,644,955)
CASH AND CASH EQUIVALENTS AND SHORT-TERM CASH INVESTMENTS AT BEGINNING OF YEAR	*4*	1,955,167,542	1,837,943,774
CASH AND CASH EQUIVALENTS AND SHORT TERM-CASH INVESTMENTS AT END OF YEAR	*4*	P2,331,739,052	P263,298,819

See Notes to the Consolidated Financial Statements.

PUREGOLD PRICE CLUB, INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Reporting Entity

Puregold Price Club, Inc. was incorporated and registered with the Securities and Exchange Commission (SEC) on September 8, 1998 to engage in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, etc.) on a wholesale and retail basis.

The consolidated financial statements relate to Puregold Price Club, Inc. (the "Company") and Puregold Junior Supermarket, Inc., Gant Group of Companies, Incorporated, Kareila Management Corporation and PPCI Subic, Inc. (the "Subsidiary") collectively referred to as the "Group".

The Subsidiary, Puregold Junior Supermarket, Inc. was incorporated and registered with the SEC on July 24, 2008. It is primarily involved in the same industry and business to which the Company is in. It is owned 100% of its issued shares of stock. The Company, on the other hand, is owned by individuals. The Company acquired the Subsidiary in July 2010.

The Subsidiary, Gant Group of Companies was incorporated and registered with the SEC on October 6,2010. The registered office address of the Company is 704 Rizal Avenue Extension, Caloocan City. It is engaged in wholesale and retail of general merchandise. It is owned 100% of its issued shares of stock. The Company acquired the Subsidiary in May 30,2012.

The Subsidiary, Kareila Management Corporation was incorporated and registered with the SEC on July 6,2004. Its principal activities are to act as managers, managing agents, consignor, concessionaire, or supplier of business engaged in the operation of resorts, hotels, supermarkets, groceries, and the like: invest in the business that it managers or of which it is the managing agent; provide management, investment and technical advice to commercial, industrial , manufacturing and other enterprises; undertake or carry on the liquidation or reorganization of corporations, partnerships and other entities: act as business, personnel, marketing and/or human resources manager of other firms; provided that it shall not engage in the management of funds, securities , portfolios or other similar assets. Its secondary purpose is to act as managers, managing agents, consignor, concessionaire, or supplier of business engaged in manufacturing or trading of general merchandise. It is owned 10% of its issued shares of stock. Its registered office is located at 1379 San Gregorio St., Paco Manila. The company acquired the Subsidiary on May 28,2012.

The Subsidiary, PPCI Subic, Inc. was incorporated and registered with the SEC on May 31,2012. It is primarily involved in the same industry and business to which the Company is in. It is owned 100% of its issued shares of stock. The Company is owned by Filipino individuals.

<u>Initial Public Offering (IPO)</u>

On July 18, 2011, the Board of Directors (BOD) of the Company approved the resolution for the IPO of up to 690 million common shares with a par value of P1.00 per share subject to the registration requirement of the SEC and the Philippine Stock Exchange (PSE).

On July 20, 2011, the Company filed an application for listing the common shares with the PSE. On December 10, 2010, the Company filed the registration statement together with the preliminary prospectus with the SEC and on August 24, 2011, the PSE approved the application of the Company for the initial listing of 600 million common shares.

On September 22, 2011, the SEC approved the Company's registration statement. The listing ceremony was held on October 5, 2011 (the Listing date). The Company's stock symbol, PGOLD, officially entered into the electronic board of PSE marking the start of the Company's common stock through the stock market.

As at September 30,2012, the Company has eighty-seven (87) operating stores of which fifteen (15) were newly opened.

Plan of Merger
On August 14, 2012, the Company's Board of Directors approved the Company's planned merger with Puregold Junior Supermarket, Inc. (PJSI) and Gant Group of Companies, Inc. (Gant). It will be ratified by at least two-thirds (2/3) votes of the stockholders during its special meeting called for the purpose.

Salient features of the Plan of Merger are as follows:

- The Company shall be the surviving entity and the corporate existence of PJSI and Gant shall cease.

- All the assets, rights, powers, privileges, immunities, franchises and business of PJSI and Gant as at the effective date of the merger, shall be deemed assigned, transferred to and vested in the Section 80(A) of the Corporation Code, without need of any further act of deed.

- Upon the effective date of merger, the Company shall assume all outstanding liabilities, obligations and undertakings of PJSI and Gant as at the effective date of merger.

- All issued and outstanding capital stock of PJSI and Gant on the effective date of the merger shall be cancelled but no new shares of stock shall be issued to the stockholders of PJSI and Gant considering that the constituent entities are wholly-owned subsidiaries of the Company.

2. Basis of Preparation

Statement of Compliance
The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards (PFRSs). PFRSs includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), 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 investments in trading securities and available-for-sale financial assets which are measured at fair value.

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

Basis of Consolidation
A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of the Subsidiary are included in the consolidated financial statements from the date that control commences until the date such control ceases.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intragroup balances and transactions between entities were eliminated.

Use of Estimates and Judgments
The Group's consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect 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 Group, the functional currency of the Group has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Group operates and the currency that mainly influences its revenue and expenses.

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 fulfilment of the arrangement is dependent on the use of a specific assets or assets and arrangement conveys a right to use the assets.

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 on these properties which are leased out under operating lease arrangements.

Rent expenses recognized in profit or loss amounted to P995.85 million and P559.14 million for the nine month period ended September 30, 2012 and 2011, respectively (see Notes 14 and 16).

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 on these properties which are leased out under operating

lease arrangements.

Rent income recognized in profit or loss amounted to P166.86 million and P122.38 million for the nine month period ended September 30, 2012 and 2011, respectively (see Notes 15 and 16).

Estimates

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

Estimating Allowance for Impairment Losses on Receivables and Other Current Assets. The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors and, their payment behavior and known market factors. The Group reviews the age and status of 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 P7.53 million and P5.52 million as of September 30, 2012 and December 31, 2011, respectively. The carrying value of receivables amounted to P1,125.68 million and P410.35 million as of September 30, 2012 and December 31, 2011, respectively (see Note 5). On the input value added tax, management believes that it is fully realizable; hence, no allowance for impairment losses has been recognized.

Estimating Net Realizable Value (NRV) of Merchandise Inventory. The Group carries merchandise inventory at NRV whenever the utility of it becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pretermination of contracts). The estimate of the NRV is reviewed regularly (see Note 6).

The carrying amount of merchandise inventory as at September 30,2012 and December 31,2011 amounted to P 5,665.7 million and P 4,522.9 million respectively.

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

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

Accumulated depreciation of property and equipment amounted to P2,135.00 million and P1,363.5 million as of September 30, 2012 and December 31, 2011, respectively. Property and equipment, net of accumulated depreciation, amounted to P8,652.43 million and P6,005.57 million as of September 30, 2012 and December 31, 2011, respectively (see Note 9).

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.

Deferred tax assets-net amounted to P349.10 million and P220.14 million as of September 30, 2012 and December 31, 2011, respectively (see Note 20).

Impairment of Non-Financial Assets. PFRS 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 value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the financial performance.

There were no impairment losses of property and equipment and other non-financial assets recognized as of September 30, 2012 and December 31, 2011.

Retirement Benefits. The determination of the Group's obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rate and salary increase rates. In accordance with PFRS, actual results that differ from the assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The Group has a net cumulative unrecognized actuarial losses amounting to P66.84 million and P68.22 million as of September 30, 2012 and December 31, 2011, respectively. Retirement benefits liability amounted to P110.35 million and P76.35 million as of September 30, 2012 and December 31, 2011, respectively (see Note 19).

3. Summary of Significant Accounting Policies

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

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

The Financial Reporting Standards Council approved the adoption of a number of new and revised standards, amendments to standards, and interpretations as part of PFRS.

Revised Standard, Amendments to Standards and Interpretation Adopted in 2011

The Group has adopted the following PFRS starting January 1, 2011 and accordingly has changed its accounts policies in the following areas:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC - 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC-14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).* These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRS 2010* contain 11 amendments to six standards and to one interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. The following are the said improvements or amendments to PFRS.

  - PFRS 3, *Business Combinations*. The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted and is required to be disclosed.

  - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21 *The Effects of Changes in Foreign Exchange Rates*, PAS 28 *Investments in Associates* and PAS 31 *Interests in Joint Ventures* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted.

  - PFRS 1, *First-time Adoption of PFRS*. The amendments: (i) clarify that PAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first PFRS financial statements; (ii) introduce guidance for entities that publish financial information under PAS 34 *Financial Reporting* and change either their accounting policies or use of the PFRS 1 exemptions during the period covered by their first PFRS financial statements; (iii) extend the scope of paragraph D8 of PFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first PFRS financial statements; and (iv) introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to PFRS for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

  - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

Revised Standard, Amendments to Standards Adopted in 2012
The Group has adopted the following PFRS starting January 1, 2012 and accordingly has changed its accounts policies in the following areas:

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7),* require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.

The adoption of the above revised standard, amendments to standards and interpretation did not have a material effect to the Group's consolidated financial statements.

New Standard and Amendments to Standards Not Yet Adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instrument*s, which becomes mandatory for the Group's 2015 consolidated financial statement and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

The Group will adopt the following new standard and amendments to standards in the respective effective dates:

To be Adopted on January 1, 2013

- *Presentation of Items of Other Comprehensive Income (Amendments to PAS 1).* The amendments: (a) 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; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and, (c) 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.

- 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: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008) and Philippine Interpretation SIC-12 *Consolidation – Special Purpose Entities.*

- 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.

- PFRS 13, *Fair Value Measurement*. PFRS 13 replaces the fair value measurement guidance contained in individual PFRS 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 PFRS. 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: (a) 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, (b)expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- 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.

To be Adopted on January 1, 2015

- PFRS 9, *Financial Instruments*

  Standard issued in November 2009 [PFRS 9 (2009)]
  PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortized cost

and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply.

Standard issued in October 2010 [PFRS 9 (2010)]
PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraph of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation IFRIC 9 *Reasssessment of Embedded Derivatives.*

The Group will assess the impact of the above new standard and amendments to standards on the consolidated financial statements upon their adoption in their respective effective dates, to present a comprehensive picture.

<u>Financial Instruments</u>
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 of September 30, 2012 and December 31,2011.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking 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. Derivative instrument (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

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. Any interest earned shall be recognized in profit and loss as part of "Other income (expenses)" account. Any dividend income from equity securities classified as FVPL shall be recognized in profit or loss when the right of payment has been established.

The Group's investments in trading securities are classified under this category.

The carrying amount of financial assets under this category amounted to P30.47 million and P24.00 million as of September 30, 2012 and December 31, 2011, respectively (see Note 7).

Available-*for-Sale*. The Group's investments in equity securities and certain debt securities are classified as available-for-sale 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 available-for-sale 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.

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 or FVPL financial asset.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized in profit or loss as part of "Interest income" 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 cash investments, receivables and security deposits are included in this category (see Notes 4, 5 and 10).

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 change in value.

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 rate 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, trust receipts payable and other current liabilities are included in this category (see Notes 11, 27 and 12).

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 gross in the consolidated statements of financial position.

Merchandise Inventory

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

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

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment losses, if any.

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

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

	Number of Years
Building	15 – 30
Computer software	5 – 10
Furniture and fixtures	3 – 20
Office and store equipment	2 – 10
Leasehold improvements	15-20 years or term of the lease, whichever is shorter

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.

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.

Goodwill

Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. Goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment of Assets

Financial Assets

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

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

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

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

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. 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.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows from the asset discounted using the historical effective rate of return on the asset.

All impairment losses are recognized in profit or loss.

Nonfinancial Assets
Nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount.

The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction less the costs to sell while value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in profit or loss. However, the increase in the carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

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

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

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

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

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

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

Concession income represents income generated from sale of concessionaires' items.

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

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

Costs and expenses are recognized when incurred.

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (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.

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.

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 to control the other party or exercise significant influence over the party in making financial and operating decisions. It includes companies in which one or more of the directors and/or controlling stockholders of the Group either have a beneficial controlling interest or are in a position to exercise significant influence therein.

Segment Reporting

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

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

Provisions and Contingencies

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

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

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

Earnings Per Share

Basic earnings per share 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 earnings per share 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.

4. Cash and Cash Equivalents

This account consists of:

	Note	**September 30 2012**	December 31 2011
Cash on hand		**P351,220,010**	P301,772,030
Cash in banks	*28*	**1,868,540,847**	752,855,511
Money market placements	*28*	**111,978,195**	900,540,000
	29	**P2,331,739,052**	P1,955,167,541

Cash in banks earn annual interest at the respective bank deposit rates. Money market placements are highly liquid investments that are readily convertible into cash and are subjected to insignificant risk of changes in value. Maturity dates of these investments average 30 days only with an annual interest of 3.30% to 3.82% in September 30, 2012 and 3.65% to 3.82% in December 31, 2011.

5. Receivables

This account consists of:

	Note	**September 30 2012**	December 31 2011
Trade receivables		**P660,287,730**	P345,859,641
Non-trade receivables		**472,921,043**	70,019,565
		1,133,208,773	415,879,206
Less allowance for impairment losses		**7,527,357**	5,521,775
	28, 29	**P1,125,681,416**	P410,357,431

Non-trade receivables represent amount due from suppliers for the rental, listing fee, display allowance and concession. This also includes advances to employees.

The aging of trade receivables is as follows:

	September 30 2012	December 31 2011
Current	**590,561,066**	P181,489,610
Past due 1- 30 days	**18,846,783**	137,182,511
Past due 31- 60 days	**7,457,850**	25,099,925
More than 60 days	**43,422,030**	2,087,595
	P660,287,730	P345,859,641

Majority of trade receivables are credit card transactions. The Group partners only with reputable credit card companies affiliated with major banks. Management believes that except for the accounts provided with allowance for impairment losses amounting to P7,527,357 and P5,521,775 as of September 30, 2012 and December 31, 2011, respectively, all other receivables are collectible and therefore, no additional allowance is necessary.

Proceeds of S&R's food service outside its warehouses are recognized as trade receivables are normally collected beyond 60 days.

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

	Note	**September 30 2012**	December 31 2011
Beginning balance		**P5,521,776**	P4,113,891
Impairment losses recognized during the year	*17*	**2,005,581**	1,407,884
Ending balance		**P7,527,357**	P5,521,775

6. Merchandise Inventory

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

Inventory cost at September 30, 2012 and December 31, 2011 is lower than NRV

7. Investments in Trading Securities

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

The movements in investments in trading securities are as follows:

Cost	Note	**September 30 2012**	December 31 2011
Balance at beginning of the year		**P13,350,902**	P13,338,402
Additions during the year		**1,168,004**	12,500
Balance at end of the year		**14,518,906**	13,350,902
Valuation adjustments			
Balance at beginning of the year		**10,649,312**	10,453,998
Unrealized valuation gain on financial assets for the year	*19*	**5,310,999**	195,314
Balance at end of the period		**15,960,311**	10,649,312
	28, 29	**P30,479,216**	P24,000,214

8. Prepaid Expenses and Other Current Assets

This account at consists of:

	September 30 2012	December 31 2011
Prepaid expenses	**P304,521,884**	P180,290,688
Input value added tax - net	**394,860,720**	356,119,246
Creditable Tax	**11,668,342**	-
	P711,050,946	P536,409,934

The details of prepaid expenses are as follows:

	September 30 2012	December 31 2011
Rent	**P159,184,512**	P103,045,134
Taxes and licenses	**58,791,128**	26,516,695
Insurance	**28,199,906**	44,346,078
Repairs and maintenance	**1,858,224**	6,382,781
Professional fee	**840,000**	-
Filing fees	**49,762,758**	
Others	**5,885,356**	
	P304,521,884	P180,290,688

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

9. Property and Equipment

The movements and balances of this account consist of:

	Building	Computer Software	Furniture and Fixtures	Office and Store Equipment	Leasehold Improvements	Land	Construction in Progress	Total
Cost:								
Balance, January 1, 2011	P1,914,428,740	P97,510,057	P608,963,948	P1,446,481,622	P822,259,301	P19,518,315	P152,528,948	P5,061,690,931
Additions	382,692,266	17,757,704	223,684,358	583,116,974	563,586,311	339,619,908	227,278,441	2,337,735,962
Reclassification	95,817,572	-	27,675,170	9,193,521	19,340,235	(10,132,417)	(141,894,081)	-
Adjustments	(270,423)	-	(1,514,804)	(8,566,805)	(182,917)	-	-	(10,534,949)
Disposals	-		(4,744,747)	(14,233,115)	(825,151)			(19,803,013)
Balance, December 31, 2011	2,392,668,155	115,267,761	854,063,925	2,015,992,197	1,404,177,779	349,005,806	237,913,308	7,369,088,931
Additions	236,254,035	17,430,559	225,491,490	743,701,785	1,032,078,557	29,332,170	844,476,497	3,128,765,094
Reclassification	65,650,232	3,147,378	21,016,574	(23,064,137)	29,984,863	3,467	(96,738,377)	-
Disposals	-	-	(1,948,870)	(2,855,938)	-	-	-	(4,804,808)
Write off/Adjustments	(17,857)	-	-	-	-	-	-	(17,857)
Balance, Sept 31, 2012	**2,694,554,565**	**135,845,698**	**1,098,623,120**	**2,733,773,907**	**2,466,241,199**	**378,341,443**	**985,651,427**	**10,493,031,360**
Accumulated depreciation and amortization:								
Balance, January 1, 2011	125,262,582	42,085,588	136,406,449	487,887,513	124,541,167	-	-	916,183,299
Depreciation and amortization	71,441,287	5,704,081	65,285,892	268,563,608	45,979,385	-	-	456,974,253
Reclassification	(2,707,986)		12,244,038	(2,491,094)	(7,044,958)			-
Disposal	-	-	(301,371)	(3,159,502)	(123,989)			(3,584,862)
Adjustment	(2,163)		(308,312)	(5,731,023)				(6,041,498)
Balance, December 31, 2011	193,993,720	47,789,669	213,326,696	745,069,502	163,351,605			1,363,531,192
Depreciation and amortization	66,658,530	5,230,621	67,405,114	270,845,974	67,842,800	-	-	477,983,040
Reclassification	(272,448)	2,934,102	15,180,608	(17,406,170)	(436,092)	-	-	-
Disposals	-	-	(62,962)	(924,156)	-	-	-	(987,118)
Write off/Adjustments	(149)	-	-	-	-	-	-	(149)
Balance, Sept 31, 2012	**260,379,653**	**55,954,392**	**295,849,456**	**997,585,150**	**230,758,313**	**-**	**-**	**1,840,526,964**
Carrying amount:								
December 31, 2012	2,198,674,435	67,478,092	640,737,229	1,270,922,695	1,240,826,174	349,005,806	237,913,308	6,005,557,739
Sept 31, 2012	**2,434,174,912**	**79,891,306**	**802,773,664**	**1,736,188,757**	**2,235,482,887**	**378,341,443**	**985,651,427**	**8,652,504,396**

10. Other Noncurrent Assets

This account consists of:

	Note	**September 30 2012**	December 31 2011
Restricted cash and cash equivalents		**P296,182,374**	P2,286,731,084
Security deposits	*14, 26, 27*	**747,393,859**	567,262,531
Noncurrent advance rent			120,840,664
Accrued rent income		**21,274,298**	11,031,515
Investment		**7,879,160**	7,879,160
Goodwill		**16,054,165,160**	11,370,121
Other Deposits		**288,932,098**	
		17,415,826,949	P3,005,115,075

Restricted cash and cash equivalents pertains to the proceeds from the company's initial public offering which is restricted for capital expenditures.

Available-for-sale investments include PLDT and Meralco preferred shares acquired in connection with the installation of telephone lines and electrical systems for the different stores and offices of the Company.

The P16.05 billion investment represents the excess of the total acquisition cost over the net amounts of the assets and liabilities assumed on the acquisition of the Subsidiary.

11. Accounts Payable and Accrued Expenses

This account consists of:

	September 30 2012	December 31 2011
Trade	**P3,443,633,152**	P4,438,012,776
Nontrade	**1,908,437,162**	825,159,587
Accrued expenses		
Advances from concessionaires	**309,216,321**	449,512,119
Manpower agency services	**416,857,734**	299,189,527
Accrued utilities	**70,271,076**	89,994,944
Withholding taxes payable	**70,760,269**	68,477,321
Accrued 13th month pay	**40,892,707**	**-**
Accrued rent	**51,507,941**	4,035,783
Professional fees	**1,148,675**	45,807,263
Accrued interest	**1,335,709**	30,448
Accrued fixed assets	**13,109,290**	12,823,655
Underwriter incentive	**43,323,587**	**-**
Others	**16,896,680**	1,542,384
	P6,387,390,303	P6,234,585,807

Nontrade payables are liabilities of the Group with various suppliers which are individually immaterial.

Underwriter incentive pertains to the discretionary fees to the underwriters to be paid based on the level of satisfaction with the services provided to the Company. The management approved to pay 0.5% of the gross proceeds of the transaction.

12. Other Current Liabilities

This account consists of:

	September 30 2012	December 31 2011
Deposits	**P112,784,368**	P90,497,575
Exclusive fund		44,676,397
Promotion fund	**79,168,595**	27,640,556
Gift cheques	**30,351,643**	13,878,380
Cashier's bond	**692,955**	1,219,735
Subscription payable	**939,000**	
	P223,936,561	P177,912,643

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

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

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

Cashier's bond pertains to the amount withheld from each cashier to compensate for any possible cash shortages in the store.

13. Cost of Sales

This account for the six months ended September 30 consists of:

	Note	**2012**	2011
Beginning inventory	*6*	**P4,522,929,063**	P2,934,251,679
Add purchases		**34,012,686,091**	23,442,420,672
Total goods available for sale		**38,535,615,154**	26,376,672,351
Less ending inventory	*6*	**5,665,714,830**	3,372,489,955
		P32,869,900,324	P23,004,182,396

14. Lease Agreements

As Lessee

The Group is leases warehouses, parking space and certain land and buildings where some of its stores are situated or constructed. The terms of the lease are for the period ranging from 10-35 years, renewable for the same period under the same terms and conditions. The rent shall escalate by an average of 1% to 7%. Rental payments are fixed amount which is calculated either fixed monthly rent or is calculated with reference to a fixed sum per square meter of area leased based on the contracts.

The Group is required to pay security deposits on the above leases which is either fixed monthly rent or is calculated with reference to a fixed sum per square meter of area leased. This is shown under "Other noncurrent assets" account in the consolidated statements of financial position.

Total rent expense recognized in profit or loss on the above leases amounted to P955,853,381 and P559,141,522 for the nine month period ended September 30, 2012 and 2011, respectively (see Note 16).

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

	2012	2011
Due within one year	**P1,032,250,874**	P782,000,443
Due more than one year but not more than five years	**4,488,457,526**	3,455,844,388
Due more than five years	**23,114,267,373**	16,577,068,927
	P28,634,975,773	P20,814,913,758

As Lessor

The Group subleases portion of its store space to various lessees for an average lease term of one to ten years. The lease contracts may be renewed upon mutual agreement by the parties. 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.

Rent income recognized in profit or loss for the nine month period ended September 30, 2012 and 2011 amounted P166,860,140 and P122,377,817 respectively (see Note 15).

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

	2012	2011
Due within one year	**P181,499,503**	P102,301,191
Due more than one year but not more than five years	**383,613,480**	151,042,740
Due more than five years	**1,403,378,421**	47,734,769
	P1,968,491,404	P301,078,700

15. Other Operating Income

This account for the six months ended September 30 consists of:

	Note	**2012**	2011
Concession income		**P583,418,968**	P384,260,330
Display allowance		**297,826,312**	198,955,585
Rent income	*14*	**166,860,140**	122,377,817
Listing Fee		**2,750,357**	0
Miscellaneous		**69,560,096**	25,265,815
		P1,120,415,873	P730,859,547

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 and for the building leased to a related party.

Miscellaneous income consists of various petty revenues generated from those activities other than operating such as amounts collected from the customers for delivering their purchases, cashiers' overages, sale of used packaging materials and others

16. Operating Expenses

This account for the nine months ended September 30 consists of:

	Note	**2012**	2011
Manpower agency services		**P877,740,180**	P577,767,366
Rent	*14*	**955,853,381**	559,141,522
Communication, light and water		**800,120,710**	516,277,374
Salaries and wages		**502,112,380**	335,726,645
Depreciation and amortization	*9*	**478,120,781**	334,766,811
Store and office supplies		**198,169,109**	130,442,061
SSS/Medicare and HDMF contributions		**37,190,345**	25,285,030
Royalty	*20*	**17,437,002**	3,226,624
Miscellaneous		**69,469,301**	39,246,872
Taxes and licenses		**152,422,982**	100,629,845
Repairs and maintenance		**113,263,087**	78,857,751
Insurance		**54,843,463**	37,220,001
Retirement benefits cost	*21*	**29,574,319**	11,241,012
Representation and entertainment		**11,138,594**	19,646,449
Fuel and oil		**21,316,057**	13,588,061
Transportation		**11,806,014**	3,180,277
Professional fee		**11,906,833**	2,156,650
Impairment losses on receivables		**1,940,552**	1,407,884
Security services		**279,962,778**	189,339,610

Janitorial and messengerial services	**77,519,750**	58,172,117
Disallowed input value-added tax	**24,437,303**	15,673,937
Bank charges	**57,367**	11,245,920
Donations	**6,808,740**	8,148,115
Deficiency tax	**-**	10,863,203
Miscellaneous	**141,030,842**	11,044,179
	4,874,241,869	P3,094,295,316

17. Others

This account for the six months ended September 30 consists of:

	Note	2012	2011
Gain on insurance claim			(P27,296,510)
Interest income		**(P36,521,444)**	(2,469,714)
Stock Dividend income		**(200)**	
Cash Dividend income		**(746,241)**	(866,350)
Loss (gain) on disposal of property and equipment		**(577,498)**	(267,519)
Unrealized valuation gain in trading securities	*7*	**(5,310,999)**	872,588
		(P43,156,382)	(P30,027,505)

Gain on insurance claim represents the excess of proceeds over the actual total payments made to the insurance company on flood damage caused by typhoon Ondoy during 2009 in the Groups inventories & fixed assets.

18. Related Party Transactions

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

a. Lease of Building

The Group leases the building from its affiliates, Cosco Prime Holdings, Inc., Ellimac Prime Holdings, Inc. VFC Land Resources, Inc. Pajusco Realty Corporation, KMC Realty Corporation, Bellagio Holdings, Inc. where some stores are located. The Group pays its affiliates a minimum fixed amount or its calculated with reference to a fixed sum per square meter of area leased. Rent expense, included under "Operating expense" account in the consolidated comprehensive income amounted to P 257.33 million and P315.77 million of the nine month period ended September 30,2012 and for the year ended December 31,2011, respectively. Outstanding security deposit for these lease agreement in its affiliates amounted to P128.51 million and P166.10 million as at September 30,2012 and December 31,2011, respectively.

b. Sublease of Building

The Group has also entered into sublease agreement with Purevalue, Inc. a company under common control. Rent income recognized by the Group amounted to P3.23

million for the year ended December 31,2011 an no rent income was recognized for the nine-month period ended September 31,2012. Accrued rent income included under "Other noncurrent assets" account ni the separate statements of financial position amounted to P148.11 million and P160.64 million as at September 31,2012and December 31,2011, respectively.

c. Due to and from Related Parties

The Group has outstanding receivables from related parties arising from sale of merchandise inventories, transfer of property and equipment and rent income. Due from related parties amounted to P65.74 million and P760.98 million as at September 30,2012 and December 31,2011, respectively.

These receivables are unsecured, noninterest-bearing and due and demandable. The Group has not made any allowance for impairment losses relating to receivables from related parties as at September 30,2012 and December 31,2011. This assessment is undertaken annually by management through examination of the financial position of related parties and the market in which they operate.

The Group has outstanding payables to related parties arising from transfer of property and equipment, rent expense, royalty fee, preventive maintenance, utilities expense, communications and employee benefits. Due to affiliates amounted to P25.85 million as at September 30,2012. There was no due to affiliates as at December 31,2011. Royalty for the other payables to the stockholder fo the Group amounted to P16.92 million and P7.67 million as at September 30,2012 and December 31,2011, respectively.

There are unsecured, noninterest-bearing and due and demandable.

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 upon mutual written consent of the parties. Royalty fees to the stockholders of the Group amounted to P17.48 million and P8.06 million as at September 30,2012 and December 31,2011, respectively.

e. Key Management Compensation

The compensation of key management personnel representing short-term benefits amounted to P 9.27 million and P 12.70 million for the nine-month period ended September 30,2012 and for the year ended December 31,2011, respectively. The Group has no key management compensation relating to post-employment benefits or other long-tem benefits for the nine-month period ended September 30,2012 and for the year ended December 31,2011.

19. Retirement Benefit Costs

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

Retirement benefits cost recognized in profit or loss by the Company amounted to P29.57 million and P37.12 million in September 30, 2012 and December 31, 2011, respectively, while the one recognized by the Subsidiary amounted to P3.00 million in 2011.

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

	September 30 2012	December 31 2011
Present value of the defined benefit obligation	**P180,110,272**	P147,999,230
Unrecognized actuarial losses	**(66,843,209)**	(68,221,751)
Unrecognized transitional liability	**(2,921,676)**	(3,420,499)
Retirement benefits liability at reporting date	**P110,345,387**	P76,356,980

The movements of the present value of the defined benefit obligation are shown below

	September 30 2012	December 31 2011
Balance at beginning of year	**P152,414,108**	P91,320,841
Current service cost	**20,714,300**	27,619,067
Interest cost	**6,981,864**	7,302,674
Actuarial losses		21,756,648
Unrecognized transitional liability	**-**	
Balance at end of year	**P180,110,272**	P147,999,230

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

	September 2012	December 2011
Current service cost	**P20,714,300**	P27,619,067
Interest cost	**6,981,864**	7,302,674
Transitional liability recognized	**428,823**	**-**
Net actuarial loss recognized during the year	**1,378,542**	2,203,717
	P29,573,529	P37,125,458

Based on the latest actuarial valuation made as of December 31, 2011, the principal actuarial assumptions at reporting date are as follows (expressed as percentages under weighted averages):

	September 30 2012	December 31 2011
Discount rate	**6.29%**	6.29%
Future salary increase	**10.00%**	10.00%

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

	September 30 2012	December 31 2011
Present value of defined benefit obligation	**P180,110,272**	P147,999,230
Experience adjustments on plan liabilities	**-**	21,756,648

20. Income Taxes

The reconciliation of the income tax expense (benefit) computed at the statutory income tax rate to the actual income tax expense (benefit) as shown in profit or loss for the six months period ended September 30 is as follows:

	2012	2011
Income before income tax	**P2,555,971,724**	P1,543,917,541
Income tax expense at the statutory income tax rate	**P680,495,948**	P463,175,262
Income tax effects of:		
Non-deductible interest expense	**106,707**	290,754
Non-deductible other expenses	**28,430**	3,071,321
Non-deductible expenses (non-taxable income)-net subjected to final tax	**89,303,076**	261,776
Dividend income subjected to final tax	**(223,932)**	(259,905)
Interest income subjected to final tax	**(14,634,817)**	(740,914)
Unrealized marketable gain on trading securities	**(1,593,300)**	-
	P753,482,112	P465,798,294

Deferred tax assets are attributable to the following:

	September 301 2012	December 31 2011
Accrued rent	**P297,960,359**	P198,885,122
Retirement benefits liability	**33,103,510**	22,907,094
Allowance for impairment losses on receivables	**2,825,760**	1,656,533
Accrued rent income	**(6,382,289)**	(3,309,455)
MCIT	**9,276,115**	
Nolco	**12,315,526**	
	P349,098,981	P220,139,294

The deferred tax asset on accrued rent above is in compliance with PAS 17 - *Leases* which resulted to a temporary difference between rental expense determined using the straight-line basis and tax deductible rental expense. The temporary difference amounted to P993,201,197 and P662,950,406 as of Sept 30, 2012 and December 31, 2011 respectively.

The deferred tax liability pertains to the accrued rent income which is also in compliance with PAS 17 - Leases. The gross amount of temporary difference is P21,274,297 and P11,031,515 as at September 30, 2012 and December 31, 2011.

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

21. Equity

Capital Stock and Additional Paid-in Capital

On June 7, 2011, the Board of Directors 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 Company's shares with an offer price of P12.50 per share resulted to the issuance of 500,000,000 common shares during the year. The additional paid-in capital net of direct transaction costs amounted to P5,168.8 million.

During the period, the Company acquired 100% equity interest of Kareila in exchange for the 766,406,250 common shares of the Company's authorized but unissued capital stock. The fair value of shares as the acquisition date is P 21.50 per share. The additional paid-in capital net of direct transaction cost amounted to P15,711,328,125.

Retained Earnings

On May 8,2012, the Board of Directors declared a special cash dividend of P0.20 per share or P 400,000,000 to stockholders of record as at May 22,2012, paid on June 5,2012.

22. Segment Information

In 2010, the Company acquired 100% equity interest in Puregold Junior Supermarket, Inc. (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 P49,999,400. Accordingly, management believes there is no reportable segment distinct and separated from that of the Subsidiary.

23. Basic/Diluted EPS Computation

Basic/Diluted EPS for the six month period ended Septembere 30 is computed as follows:

	2012	2011
Net income	**1,802,489,612**	P1,078,119,247
Weighted average number of ordinary shares		
Subscribed ordinary shares at January 1	**2,000,000,000**	1,450,000,000
Effect of shares subscribed in Sept2011		
Effect of Shares issued in Sept 2012	**340,625,000**	22,222,222
	2,340,625,000	1,472,222,222
Earnings per share	**P0.77**	P0.73

24. Financial Risk Management Objectives and Policies

Objectives and Policies

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

- Credit Risk
- Liquidity Risk
- Interest rate Risk

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. The risk arises principally from the Group's cash and cash equivalents, investment in trading securities, receivables, restricted cash and cash equivalents, AFS financial assets, due from related parties and security deposits. The objective is to reduce the risk of loss through default by counterparties.

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.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting period follows:

	Note	**September 30 2012**	December 31 2011
Cash in banks and cash equivalents	*4*	**P1,980,519,042**	P1,653,395,511
Short-term cash investments	*5*	**296,182,374**	2,286,731,084
Investments in trading securities	*7*	**30,479,217**	24,000,214
Receivables – net	*6*	**1,125,681,416**	410,357,431
Available-for-sale financial assets	*10*	**7,879,160**	7,879,160
Security deposits	*10*	**747,393,859**	567,262,531
		P4,188,135,068	P4,949,625,931

The Group had assessed the credit quality of restricted and unrestricted cash and cash equivalents as high grade since this was deposited to reputable bank with low probability of insolvency. Same assessment was made to investment in trading securities and AFS financial assets given that the investees have good financial performance based on their annual reports.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts. The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of receivables. The main components of this allowance are a special loss component that relates to individually significant exposures.

Based on historical default rates, the Group believes that, apart from the allowance for impairment losses presented in Note5, no impairment allowance is necessary in respect of trade receivable that were past due but not impaired because such accounts relate to credit card transaction. The Group partners only with reputable credit card companies affiliated with major banks.

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

<u>Liquidity Risk</u>
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 of September 30, 2012				
	Carrying amount	**Contractual cash flow**	**1 year or less**	**> 1 year – 5 years**	**More than 5 years**
Financial liabilities					
Accounts payable and accrued expenses (excluding statutory payables)	**P6,316,630,034**	**P6,316,630,034**	**P6,316,630,034**	**-**	**-**
Due to a related party	**65,736,158**	**65,736,158**	**65,736,158**	**-**	**-**
Trust receipts payable	**12,684,875**	**12,684,875**	**12,684,875**	**-**	**-**
Other current liabilities(excluding promotion fund, exclusive fund and gift cheques)	**114,416,323**	**114,416,323**	**114,416,323**	**-**	**-**
Noncurrent accrued rent	**974,784,941**	**974,784,941**	**4,259,866**	**56,802,271**	**913,722,804**

	As of December 31, 2011				
	Carrying Amount	Contractual cash flow	1 year or less	> 1 year – 5 Years	More than 5 years
Financial liabilities					
Accounts payable and accrued expenses (excluding statutory payables to the government)	P6,166,108,486	P6,166,108,486	P6,166,108,486	P -	P -
Due to related party	8,855,584	8,855,584	8,855,584	-	-
Trust receipt payable	21,299,667	21,299,667	21,299,667	-	-
Other current liabilities(excluding promotion fund, exclusive fund and gift cheques)	91,717,310	91,717,310	91,717,310	-	-
Noncurrent accrued rent	662,950,406	662,950,406	572,956	40,622,104	621,755,346

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

Market Price Risk

The risk from price changes relates to the Group’s ability to recover high purchase costs through price increases to customers. The Group minimizes its exposure to risks in changes in price by entering into contracts with related parties and suppliers that are already trusted by the Group and by maintaining its credit line.

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

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

	September 30 2012	December 31 2011
Fixed rate		
Financial assets	**P2,276,701,416**	3,940,126,595
Financial liabilities	**12,684,875**	21,299,667

Sensitivity Analysis
A 2% increase in interest rates would have decreased equity and net income by P36.85 million and P54.86 million for September 30, 2012 and December 31,2011 respectively. A 2% decrease in interest rates would have had the equal but opposite effect, on the basis that all other variables remain constant.

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 sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

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

The Group defines capital as paid-up capital and retained earnings.

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

The Group is not subject to any externally-imposed capital requirement.

25. Financial Instruments

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments (expressed in millions) as at September 30,2012 and December 31,2011

	September30,2012		December 31,2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P2,331.74**	**P2,331.74**	P1,955.17	P1,955.17
Restricted cash and cash equivalents	**296.18**	**296.18**	2,286.73	2,286.73
Receivables - net	**1,125.68**	**1,125.68**	410.36	410.36
Investments in trading securities	**30.48**	**30.48**	24.00	24.00
Available-for-sale financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**7.88**	**7.88**	7.88	7.88
Security deposits (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**747.39**	**747.39**	567.26	567.26
Financial Liabilities				
Loans payable			-	-
Accounts payable and accrued expenses	**6,316.63**	**6,316.63**	6,166.11	6,166.11
Due to a related party	**65.74**	**65.74**	8.86	8.86
Trust receipts payable	**12.68**	**12.68**	21.30	21.30
Other current liabilities	**114.42**	**114.42**	91.72	91.72
Noncurrent accrued rent	**974.78**	**987.78**	662.95	662.95

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

Cash and Cash Equivalents, Short-term Cash Investments, Receivables, and Security Deposits. The carrying amounts of cash and cash equivalents, short-term cash investments and trade and other 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 Investments. 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.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amounts of loans payable and accounts payable and accrued expenses approximate fair value due to the relatively short-term maturities of these financial instruments.

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).

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Investments in trading securities	**P30,479,217**	**P -**	**P -**	**P30,479,217**
Available-for-sale investments	**7,879,160**	**-**	**-**	**7,879,160**

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

COVER SHEET

A 1 9 9 8 1 3 7 5 4

S.E.C. Registration Number

P U R E G O L D P R I C E C L U B , I N C .

A N D S U B S I D I A R Y

(Group's Full Name)

9 0 0 R o m u a l d e z S t .

P a c o M a n i l a

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

Marissa I. Delos Reyes	524-93-28
Contact Person	Company Telephone Number

1 2	3 1	A A F S		
Month	*Day*	FORM TYPE	*Month*	*Day*
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes.