

Examiner's Report

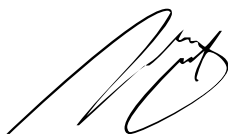
To the Stockholders of Grupo Gigante, S. A. de C. V.:

As Company Examiner, in compliance with article 166 of the General Corporate Law and the company bylaws of Grupo Gigante, S. A. de C. V., I submit my report on the truthfulness, adequacy and fairness of the consolidated information which the Board of Directors has furnished to you relative to the progress of the company for the year ended December 31, 2003.

I attended the Stockholders', Board of Directors' and Audit Committee's meetings held, and obtained information from the directors and administrators on those operations, documentation and records, which I deemed necessary to examine. My review was performed in accordance with auditing standards generally accepted in Mexico.

ERNESTO VALENZUELA ESPINOZA

In my opinion, the accounting and reporting criteria and policies followed by the Company and considered by the administrators to prepare the information which they presented to this meeting, are adequate and sufficient, and were applied consistently with regard to the prior year. Accordingly, such information reflects truthfully, fairly and sufficiently the consolidated financial position of Grupo Gigante, S. A. de C. V. at December 31, 2003, and the consolidated results of its operations, changes in its stockholders' equity and changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in Mexico.



Ernesto Valenzuela Espinoza
Examiner

Mexico City, February 27, 2004
(March 5, 2004 with respect to note 17)

Independent Auditor's Report

To the Board of Directors and Stockholders of Grupo Gigante, S. A. de C. V.

We have audited the accompanying consolidated balance sheets of Grupo Gigante, S. A. de C. V. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended, all expressed in thousands of Mexican pesos of purchasing power of December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Deloitte.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Gigante, S. A. de C. V. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

This report and the accompanying consolidated financial statements have been translated into English for the convenience of users.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member firm of Deloitte Touche Tohmatsu



C.P.C. Francisco Pérez Cisneros

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Paseo de la Reforma 505
Piso 28
Colonia Cuauhtémoc
06500 México, D.F.
México

Tel: +52 (55) 5080 6000
Fax: + 52 (55) 5080 6001
www.deloitte.com/mx

February 27, 2004

(March 5, 2004 with respect to note 17)

Consolidated Balance Sheets

December 31, 2003 and 2002. (In thousands of Mexican pesos of purchasing power of December 31, 2003)

Assets	2003	2002
Current assets:		
Cash and temporary investments	\$ 586,224	\$ 303,401
Trade accounts receivable	1,982,037	1,972,904
Inventories	4,438,222	5,511,553
Prepaid expenses	331,373	263,330
Total current assets	7,337,856	8,051,188
Property and equipment - Net	14,263,226	14,459,632
Investment in shares	162,546	162,505
Goodwill and other assets - Net	626,842	598,284
Total	\$ 22,390,470	\$ 23,271,609
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable to financial institutions	\$ 2,083,000	\$ 2,149,579
Current portion of long-term debt	7,454	21,854
Trade accounts and notes payable	5,221,859	5,572,245
Due to related parties	33,040	117,027
Accrued expenses and taxes	929,815	1,162,957
Total current liabilities	8,275,168	9,023,662
Long-term debt and employee retirement obligations	599,446	630,937
Deferred income tax	1,145,650	1,132,033
Total liabilities	10,020,264	10,786,632
Stockholders' equity:		
Common stock	2,290,579	2,290,579
Additional paid-in capital	6,418,922	6,418,922
Retained earnings	14,623,193	14,308,588
Insufficiency in restated stockholders' equity	(9,884,831)	(9,459,535)
Cumulative effect of deferred income tax	(1,118,945)	(1,118,945)
Majority stockholders' equity	12,328,918	12,439,609
Minority stockholders' equity	41,288	45,368
Total stockholders' equity	12,370,206	12,484,977
Total	\$ 22,390,470	\$ 23,271,609

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

For the years ended December 31, 2003 and 2002. (In thousands of Mexican pesos of purchasing power of December 31, 2003, except earnings per share amounts)

	2003	2002
Revenues:		
Net sales	\$ 30,644,154	\$ 31,743,814
Other	472,489	390,154
Total revenues	<u>31,116,643</u>	<u>32,133,968</u>
Costs and expenses:		
Cost of sales	24,548,606	25,557,051
Operating expenses	5,776,437	5,876,903
Total costs and expenses	<u>30,325,043</u>	<u>31,433,954</u>
Income from operations	<u>791,600</u>	<u>700,014</u>
Net comprehensive financing cost	175,433	61,771
Other expense	<u>46,333</u>	<u>58,179</u>
Income before income tax and employee statutory profit-sharing	569,834	580,064
Income tax expense	245,146	215,197
Employee statutory profit-sharing	<u>10,760</u>	<u>4,097</u>
Consolidated net income	<u>\$ 313,928</u>	<u>\$ 360,770</u>
Net income of majority stockholders	\$ 314,605	\$ 355,340
Net (loss) income of minority stockholders	<u>(677)</u>	<u>5,430</u>
Consolidated net income	<u>\$ 313,928</u>	<u>\$ 360,770</u>
Basic earnings per ordinary share	<u>\$ 0.32</u>	<u>\$ 0.37</u>

Consolidated Statements of Changes in Stockholders' Equity

(In thousands of Mexican pesos of purchasing power of December 31, 2003)

	Common stock	Additional paid in capital	Retained earnings	Insufficiency in restated stockholders' equity	Cumulative effect of deferred income tax	Minority stockholders' equity	Total stockholders' equity
Balance as of							
January 1, 2002	\$ 2,290,606	\$ 6,416,795	\$ 13,949,668	\$ (8,983,442)	\$ (1,118,945)	\$ 39,938	\$ 12,594,620
Repurchases and sales of shares - Net	(27)	2,127	3,580				5,680
Comprehensive loss			355,340	(476,093)		5,430	(115,323)
Balance as of							
December 31, 2002	2,290,579	6,418,922	14,308,588	(9,459,535)	(1,118,945)	45,368	12,484,977
Comprehensive loss			314,605	(425,296)		(4,080)	(114,771)
Balance as of							
December 31, 2003	\$ 2,290,579	\$ 6,418,922	\$ 14,623,193	\$ (9,884,831)	\$ (1,118,945)	\$ 41,288	\$ 12,370,206

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 2003 and 2002. (In thousands of Mexican pesos of purchasing power of December 31, 2003)

	2003	2002
Operating activities:		
Consolidated net income	\$ 313,928	\$ 360,770
Items that did not require (generate) resources:		
Depreciation and amortization	714,330	659,442
Deferred income tax	(15,560)	(43,475)
	1,012,698	976,737
Changes in current assets and liabilities:		
Trade accounts receivable	(9,133)	(707,233)
Inventories	673,809	(1,403,061)
Prepaid expenses	(68,043)	(51,166)
Trade accounts and notes payable	(350,386)	(142,713)
Due to related parties	(83,987)	47,474
Accrued expenses and taxes	(233,142)	(221,265)
Employee retirement obligations	1,658	57,045
Net resources generated by (used in) operating activities	943,474	(1,444,182)
Financing activities:		
Notes payable to financial institutions	(66,579)	2,149,580
Long-term debt - payments	(47,549)	(55,162)
Repurchases and sales of shares - Net		5,681
Net resources (used in) generated by financing activities	(114,128)	2,100,099
Investing activities:		
Acquisition of property and equipment - Net	(482,219)	(714,375)
Investment in shares	(41)	(162,505)
Other assets	(64,263)	5,989
Net resources used in investing activities	(546,523)	(870,891)
Cash and temporary investments:		
Increase (decrease)	282,823	(214,974)
Beginning of year	303,401	518,375
End of year	\$ 586,224	\$ 303,401

Notes to Consolidated Financial Statements

For the years ended December 31, 2003 and 2002. (In thousands of Mexican pesos of purchasing power of December 31, 2003, except per share data)

1. Nature of business

Grupo Gigante, S. A. de C.V. and subsidiaries (the "Company") are engaged in self-service stores that sell groceries, perishables, clothing, general merchandise, office supplies and electronic goods.

2. Basis of presentation

- a. Explanation for translation into English - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented based upon accounting principles generally accepted in Mexico (MEX GAAP). Certain accounting practices applied by the Company that conform with Mexican GAAP may not conform with accounting principles generally accepted in the country of use.
- b. Consolidation of financial statements - The consolidated financial statements include those of Gupo Gigante, S. A. de C.V. and its subsidiaries, whose shareholding percentage in their capital stock is shown below. The financial statements of Office Depot de México, S. A. de C. V. and PSMT de México, S.A. de C.V. are consolidated using the proportionate consolidation method, based on the Company's 50% ownership interest in such entities. Intercompany balances and transactions have been eliminated.

Company or Group	Equity	Activity
Gigante, S. A. de C. V.	99.99%	217 self-service stores that sell groceries, perishables, clothing and general merchandise.
Office Depot de México, S. A. de C. V.	50%	79 office supply stores in Mexico, 2 in Costa Rica, 4 in Guatemala, 2 in El Salvador and 2 distribution centers.
PSMT de México, S. A. de C. V.	50%	2 club price stores in Guanajuato, Mexico and 1 in Querétaro Mexico.
Gigante Holding International, Inc.	100%	8 self-service stores focusing on the latin market in Los Angeles, California.
Cafeterías Toks, S. A. de C. V.	99.99%	A chain of 46 restaurants.
Tiendas Super Precio, S. A. de C.V.	99.98%	42 self-service stores that sell groceries.
Radio Shack de México, S.A. de C. V.	50.01%	87 stores that sell electronic goods.
Controtiendas, S. A. de C. V.	99.99%	37 real estate companies that own land where Company stores are located.
Bodega Gigante, S. A. de C. V.	99.99%	11 real estate companies that own land where Company stores are located.
Controladora del Norte, S. A. de C. V.	99.99%	5 real estate companies that own land where Company stores are located.

Company or Group	Equity	Activity
Gigante-Fleming, S. A. de C. V.	99.99%	A real estate company that owns land where two of the Company's stores are located, as well as the use and control of trade marks.
Servicios Gigante, S. A. de C.V.	99.98%	Provides administrative services to the Company.
Servicios Toks, S.A. de C. V.	99.98%	Provides administrative services to the Company.
Pagos en Línea, S. A. de C. V.	99.98%	Electronic cash transfers in Mexico.
Procesadora Gigante, S. A. de C. V.	99.98%	Sales, administration and operation of commercial business related to packing and pouring food.
Compañía Importadora Gigante, S. A. de C. V.	99.98%	Purchase-sale, manufacture, elaboration and commercialization of merchandise.
Servicios Gastronómicos Gigante, S.A. de C.V.	99.98%	Provides gastronomic services to the company.

- c. Translation of financial statements of foreign subsidiaries - To consolidate the financial statements of foreign subsidiaries that operate independently of the Company in terms of finances and operations, such foreign currency financial statements are translated into Mexican pesos with the resulting exchange differences presented in stockholders' equity. For translation purposes, amounts are translated into Mexican pesos using the following exchange rates: (i) the closing exchange rate in effect at the balance sheet date for all assets and liabilities (ii) the exchange rate in effect at the date the contributions were made for common stock (iii) the exchange rate in effect at the end of the year in which the results were generated and (iv) the exchange rate in effect at the end of the year for revenues and expenses.

The financial statements of foreign subsidiaries included in the 2002 consolidated financial statements are restated in the constant currency of the countries in which they operate and are translated into Mexican pesos using the exchange rate of the latest year presented.

- d. Comprehensive loss - Comprehensive loss presented in the accompanying statement of changes in stockholders' equity represents the Company's total activity during each year, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period which, in accordance with accounting principles generally accepted in Mexico (MEX GAAP), are presented directly in stockholders' equity without affecting the consolidated statements of income. For the years ended December 31, 2003 and 2002, the other comprehensive loss items consist of the insufficiency in restated stockholders' equity, the translation effects of foreign entities which is presented in the insufficiency in restated stockholders' equity, and the net income (loss) of minority stockholders.
- e. Reclassifications - Certain amounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified in order to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2003.

3. Summary of significant accounting policies

The accounting policies followed by the Company are in conformity with MEX GAAP, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Although these estimates are based on management's best knowledge of current events, actual results may differ. The significant accounting policies of the Company are as follows:

- a. New accounting policies - Beginning January 1, 2003, the Company also adopted the provisions of new Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" ("C-9"), which establishes additional guidelines clarifying the accounting for provisions, accruals and contingent liabilities, and establishes new standards for the use of present value techniques to measure liabilities and accounting for the early settlement or substitution of obligations.
- b. Recognition of the effects of inflation - The Company restates its consolidated financial statements to Mexican pesos purchasing power of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior year have been restated to Mexican pesos of purchasing power of December 31, 2003 and, therefore, differ from those originally reported in the prior year.
- c. Temporary investments - Temporary investments are stated at the lower of acquisition cost plus interest earned or market value.
- d. Inventories and cost of sales - Inventories are valued at the lower of replacement cost or realizable value. Cost of sales is restated for the effects of inflation using the last-in, first-out method.
- e. Property and equipment - Property and equipment are initially recorded at acquisition cost and restated using the National Consumer Price Index (NCPI). Depreciation is calculated using the straight-line method based on the useful lives of the related assets, as follows:

	Years
Buildings	50
Buildings on leased property	50
Store equipment	13
Furniture and equipment	10
Vehicles	8

Comprehensive financing cost incurred during the period of construction is capitalized and restated using the NCPI.

- f. Investment in shares - Investment in shares are valued at acquisition cost and restated using the NCPI.
- g. Goodwill - Goodwill represents the excess of cost over recorded value of subsidiaries as of the date of acquisition. It is restated using the NCPI and is amortized over 20 years.
- h. Employee retirement obligations - Seniority premiums are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates. Severance is charged to results when the liability is determined to be payable.

- i. Provisions - Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.
- j. Income tax, tax on assets and employee statutory profit-sharing - Income tax (ISR) and employee statutory profit-sharing (PTU) are recorded in results of the year in which they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits that, in the opinion of management, are not probable of being realized. Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that they will generate a liability or benefit, and there is no indication that this situation will change in such a way that the liabilities will not be paid or benefits will not be realized. The tax on assets paid that is expected to be recoverable is recorded as an advance payment of ISR and is presented in the balance sheet decreasing the deferred ISR liability.
- k. Foreign currency balances and transactions - Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Exchange fluctuations are recorded as a component of net comprehensive financing cost in the consolidated statements of income.
- l. Insufficiency in restated stockholders' equity - Insufficiency in restated stockholders' equity represents the accumulated monetary position result through the initial restatement of the consolidated financial statements and the loss from holding nonmonetary assets through December 31, 1996, which resulted from restating certain nonmonetary assets below inflation utilizing appraisal values.
- m. Monetary position gain - Monetary position gain, which represents the increase of purchasing power of monetary items caused by inflation, is calculated by applying NCPI factors to monthly net monetary position. Gains result from maintaining a net monetary liability position.
- n. Earnings per share - Basic earnings per ordinary share is calculated by dividing net income of majority stockholders' by the weighted average number of ordinary shares outstanding during the year.

4. Accounts receivable

	2003		2002
Trade accounts receivable	\$ 884,052	\$	820,311
Recoverable taxes	681,891		653,549
Other	416,094		499,044
	<hr/>		<hr/>
	\$ 1,982,037	\$	1,972,904
	<hr/>		<hr/>

5. Property and equipment - Net

	2003		2002
Buildings	\$ 5,421,947	\$	5,488,945
Buildings on leased property	3,294,671		3,163,772
Store equipment	5,922,384		5,806,600
Furniture and equipment	665,217		537,826
Vehicles	217,979		201,226
	<u>15,522,198</u>		<u>15,198,369</u>
Accumulated depreciation and amortization	(6,274,213)		(5,643,067)
	<u>9,247,985</u>		<u>9,555,302</u>
Construction in progress	174,988		157,534
Land	4,840,253		4,746,796
	<u>14,263,226</u>		<u>14,459,632</u>
Total property and equipment - Net	\$ 14,263,226	\$	14,459,632

6. Investment in shares

The balance at December 31, 2003 and 2002 represents the Company's investment in 15,000 Series A preferred, convertible and redeemable shares of PriceSmart, Inc. (PriceSmart). The preferred shares can be converted to common shares of PriceSmart at an exercise price of US \$37.50 per share, have a cumulative dividend of 8% a year, and may be redeemed at the option of PriceSmart five years after issuance.

7. Goodwill and other assets - Net

	2003		2002
Goodwill - Net	\$ 438,654	\$	474,359
Trust for the acquisition of shares	41,042		42,939
Other non-current assets	147,146		80,986
	<u>\$ 626,842</u>	\$	<u>598,284</u>

8. Notes payable to financial institutions

The Company has certain short-term, notes payable due to financial institutions. Outstanding borrowings under these arrangements amounted at December 31, 2003 and 2002, were \$2,083,000 and \$2,149,579, respectively. The weighted average interest rates under these arrangements were at December 31, 2003 and 2002, were 8.73% and 9.07%, respectively.

9. Long-term debt and employee retirement obligations

	2003		2002
Unsecured notes payable to banks at the 28-day interbank interest rate (TIIE) multiplied by 1.045, providing that such amount is lower than TIIE plus 1.6 percentage points, or higher than TIIE plus 0.75 percentage points (interest rate December 31, 2003 and 2002, were 7.24% and 8.72%, respectively), payment is due on September 28, 2005.	\$ 500,000		\$ 519,850
Note payable with no maturity date, collateralized by real estate with a net book value of \$120,886 at December 31, 2003; interest on outstanding balances is calculated at the 28-day TIIE plus 2.0% (interest rate December 31, 2003 and 2002 were 8.40% and 10.54%, respectively).	48,197		65,131
Note payable with no maturity date, collateralized by real estate with a net book value of \$81,667 at December 31, 2002; interest on outstanding balances is calculated using the higher of the average cost of funds or average interbank rate minus 2 points (at December 31, 2003 and 2002, such rates were 3.07% and 3.13%, respectively).			10,765
Total long-term debt	548,197		595,746
Current portion of long-term debt	(7,454)		(21,854)
Employee retirement obligations	58,703		57,045
	<u>\$ 599,446</u>		<u>\$ 630,937</u>

One of the provisions of the Company's loan contract, establishes the obligation for certain financial ratios to be maintained at the end of each quarterly reporting period. During 2003, the Company did not meet one of these requirements. The Company received a waiver from its lenders addressing the deficiency related to the long-term debt contract for the year ended December 31, 2003. The Company was in compliance with all other debt covenants as of December 31, 2003 and is currently renegotiating its total outstanding debt with financial institutions, upon the successful conclusion of such negotiations, which management believes will occur before the end of March 2004, the Company does not expect, it will be required to make an advanced payment on its long-term debt, as required under the default provisions of the loan management agreement.

10. Company benefits and seniority premium plans

Costs included in operating expenses:

	2003		2002
Fringe benefits	\$ 413,979	\$	479,940
Seniority premiums	6,659		4,905
	<u>\$ 420,638</u>	<u>\$</u>	<u>484,845</u>

11. Stockholders' equity

a. Stockholders' equity, at December 31, 2003, consists of the following:

	Number of Shares	Historical Value	Restatement Effect	Total
Fixed capital	176,734,102	\$ 18,922	\$ 480,904	\$ 499,826
Variable capital	800,713,403	85,729	1,705,024	1,790,753
	977,447,505	104,651	2,185,928	2,290,579
Additional paid-in capital		2,120,647	4,298,275	6,418,922
Retained earnings		3,395,798	11,227,395	14,623,193
Insufficiency in restated stockholders' equity			(9,884,831)	(9,884,831)
Cumulative effect of defe rred income tax		(895,072)	(223,873)	(1,118,945)
Minority stockholders' Equity		44,691	(3,403)	41,288
TOTAL	<u>977,447,505</u>	<u>\$ 4,770,715</u>	<u>\$ 7,599,491</u>	<u>\$ 12,370,206</u>

Common stock is comprised of common nominative shares. Fixed capital stock may not be withdrawn. Variable capital shares are freely subscribed. Variable capital may not be greater than ten times fixed capital.

- b. At December 31, 2003 and 2002, the Company has 8,641,967 shares for both years repurchased in treasury. The market value of such shares was \$6.00 and \$6.10 per share at December 31, 2003 and 2002, respectively.
- c. Retained earnings includes a statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2003 and 2002, the legal reserve, in historical pesos, was \$21,115 and \$21,111, respectively.

d. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject a 35% dividend tax. Beginning January 1, 2003, such rate will be reduced by one percentage point each year until reaching 32% in 2005. Any income taxes paid on such distribution on or after January 1, 2003, may be credited against future income tax payable by the Company in the three fiscal years following such payment.

e. The balances of the stockholders' equity tax accounts as of December 31 are as follows:

	2003		2002
Contributed capital account	\$ 7,239,489	\$	7,239,489
Net consolidated tax income account	2,537,293		2,537,293
Reinvested net consolidated tax income account	253,980		253,980
Total	\$ 10,030,762	\$	10,030,762

12. Foreign currency balances and transactions

a. At December 31, the foreign currency monetary position in thousands of U.S. dollars is as follows:

	2003		2002
Monetary assets	5,183		11,862
Monetary liabilities	(58,351)		(47,689)
Monetary liability position - Net	(53,168)		(35,827)
Equivalent in thousands of Mexican pesos	\$ (597,077)	\$	(371,884)

b. Approximately 5.8% and 6.9% of purchases of inventory were imported by the Company in 2003 and 2002, respectively.

c. Transactions denominated in thousands of U.S. dollars during the years ended December 31, 2003 and 2002 include import purchases of 147,380 and 159,160, respectively.

d. The exchange rates in effect at the dates of the balance sheets and of issuance of the consolidated financial statements were as follows:

	December 31,		February 27,	
	2003	2002	2004	
One U.S. dollar	\$ 11.23	\$ 10.38	\$ 10.94	

13. Balances and transactions with related parties

- a. Transactions with related parties during the years ended December 31, 2003 and 2002, carried out in the ordinary course of business, were as follows:

	2003		2002
Purchases from PriceSmart, Inc.	\$ 6,140	\$	
Purchases from Radio Shack International, Inc.	33,489		147,371
	<u>39,629</u>	<u>\$</u>	<u>147,371</u>

- b. Balances payable with related parties at December 31, are as follows:

	2003		2002
PriceSmart, Inc.	\$ 6,841	\$	
Radio Shack International, Inc.	26,199		117,027
	<u>33,040</u>	<u>\$</u>	<u>117,027</u>

14. Net comprehensive financing cost

	2003		2002
Interest expense	\$ 373,378	\$	342,938
Interest income	(10,370)		(6,461)
Foreign exchange losses- Net	18,012		16,716
Monetary position gain	(281,671)		(348,486)
Other financing expenses	76,084		57,064
	<u>175,433</u>	<u>\$</u>	<u>61,771</u>

15. Income taxes, tax on assets and employee statutory profit-sharing

In accordance with Mexican tax law, the Company is subject to income tax consolidated (ISR) and tax on assets consolidated (IMPAC), which takes into consideration the taxable and deductible effects of inflation.

The ISR rate was 35% in 2002 and 34% in 2003, and will be reduced by one percentage point each year until reaching 32% in 2005. In 2002, the deduction for employee statutory profit sharing (PTU) and the obligation to withhold taxes on dividends paid to individuals or foreign residents were eliminated.

IMPAC is calculated by applying 1.8% to the Company's asset position, as defined in the law, and is payable only to the extent that it exceeds ISR payable for the same period. If in any year IMPAC exceeds the ISR payable, the IMPAC payment for such excess may be reduced by the amount by which ISR exceeded IMPAC in the three preceding years and any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years.

Grupo Gigante, S.A. de C.V., incurs consolidated ISR and IMPAC with its subsidiaries in the proportion in which it owns the voting stock of its subsidiaries at the balance sheet date. As of January 1, 2003, the proportion is calculated based on the average daily equity percentage which Grupo Gigante, S.A. de C.V. owns of its subsidiaries during the year. The tax results of the subsidiaries are consolidated at 60% of such proportion and the tax results of the holding Company are also consolidated at 60%. Provisional payments of ISR and IMPAC of both Grupo Gigante, S.A. de C.V. and its subsidiaries are made as if Grupo Gigante, S. A. de C. V. did not file a consolidated tax return.

a. Income tax and employee statutory profit-sharing consist of the following:

	2003		2002
Income tax expense:			
Current	\$ 39,034	\$	57,486
Deferred	120,622		128,525
Effect of change in statutory rate on deferred ISR			(70,050)
Variation on the valuation of allowance for recoverable tax on assets and benefit of tax loss carryforwards	85,490		99,236
	<u>\$ 245,146</u>	<u>\$</u>	<u>215,197</u>
Employee profit-sharing:			
Current	<u>\$ 10,760</u>	<u>\$</u>	<u>4,097</u>

The deferred ISR effect from the reduction in the 2002 ISR rates, related to the gradual reduction of the ISR rates explained above, resulted in the recalculation of the deferred ISR liability recorded as of December 31, 2001. The various rates applicable beginning in 2003 were applied to the temporary differences based on their estimated reversal date.

b. The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before ISR is as follows:

	2003		2002
Statutory rate	34%		35%
Add:			
Effect of permanent differences, mainly nondeductible expenses	2		5
Variation on the valuation of allowance for recoverable tax on assets paid and benefits on tax loss carryforwards	15		17
Less:			
Effects of inflation	(8)		(8)
Effect of change in statutory rate on deferred ISR	<u>(12)</u>		<u>(12)</u>
Effective rate	<u>43%</u>		<u>37%</u>

c. At December 31, 2003 and 2002 the main items comprising the balance of deferred income tax are as follows:

	2003		2002
Deferred income tax assets (liabilities):			
Property and equipment	\$ (1,291,171)	\$	(1,264,406)
Inventories	(1,417,400)		(1,520,394)
Tax inventory from 1986	299,229		315,031
Other	(1,587)		41,154
Deferred ISR from temporary differences	(2,410,929)		(2,428,615)
Effect of tax loss carryforwards	597,150		631,811
Recoverable tax on assets	914,288		882,534
	(899,491)		(914,270)
Allowance for recoverable tax on assets and of tax loss carryforwards	(246,159)		(217,763)
	\$ (1,145,650)	\$	(1,132,033)

d. Due to a deterioration in the circumstances used to assess the recovery of tax on assets paid and recovery of the benefit of tax loss carryforwards, the valuation allowance for recoverable tax on assets and of the valuation allowance for recoverable benefit of tax loss carryforwards was increased by \$85,490 and charged to results of operations of the year ended December 31, 2003.

At December 31, 2003 and 2002, the Company has taxable temporary differences related to deferred PTU, mainly inventories, for which the deferred PTU liabilities of approximately \$54,000 and \$49,385, respectively, were not recorded because the Company believes that they will not reverse due to the continued nature of its transactions. In addition, there are unquantified permanent differences, mainly from the restatement of fixed assets, which are expected to have an effect on PTU generated in the future.

e. Tax loss carryforwards and recoverable tax on assets paid for which the deferred income tax asset and prepaid income tax, respectively, have been partially recognized can be recovered subject to certain conditions. Restated amounts as of December 31, 2003 and expiration dates are as follows:

Year of Expiration	Tax Loss Carryforwards	Recoverable Tax on Assets
2004	\$ 63,944	\$ 89,367
2005	89,443	79,944
2006	38,789	85,180
2007	80,611	128,027
2008	225,749	108,403
2009	94,161	62,803
2010	208,811	83,236
2011	255,572	72,183
2012	625,011	97,903
2013	184,003	107,242
	\$ 1,866,094	\$ 914,288

16. Commitments

The Company has entered into land leases for indefinite periods where some of its stores and restaurants are located. Rents are calculated as a percentage of sales ranging from 1% to 4%.

In 2003 and 2002, rental expense was approximately \$482,515 and \$546,999 respectively.

17. Contingencies

In 1992, the Company, acquired its subsidiary Blanes, S.A. de C.V. ("Blanes") which, at that time, owned 89 stores. In order to indemnify the Company against possible future losses resulting from pre-acquisition contingent liabilities, the former shareholders of Blanes established a deposit for an agreed upon term of three years. At the end of the period, the Company and the former shareholders disagreed on the amounts to be settled under the terms of the indemnity agreement determined by independent accountants, which resulted in the former shareholders commencing legal proceedings. During 2003, the legal process ended following a verdict, which upheld the Company's challenge, under constitutional law, of the propriety of the legal proceedings. In March 2004 the Company was notified of a new lawsuit filed by the former shareholders, in the amount of \$150,000, which was the amount of the original deposit established, plus the payment of an accrued amount, as calculated by the former shareholders, based upon the Treasury Note (CETES) rate in effect at the payment due date, multiplied by two, for each 28-day period from February 9, 1996 until full reimbursement of the amount owed to the vendors. The Company intends to vigorously defend against the lawsuit including, the methodology used by the former shareholders to calculate penalty interest which, the Company believes, was not in accordance with the original contract. The Company has created a provision of \$176,736, in addition to an amount of \$27,543 previously deposited; for a total amount of \$204,279. Company's management believes the amounts provided against the potential risks from this lawsuit would be sufficient in the event of an adverse ruling.

18. New accounting principles

In March 2003, the IMCP issued Bulletin C-15, "Impairment in the Value of Long-Lived Assets and Their Disposal" (C-15), whose adoption is mandatory for fiscal years beginning on or after January 1, 2004, although early adoption is encouraged. C-15 establishes, among other things, new rules for the calculation and recognition of impairment losses for long-lived assets and their reversal. It also provides guidance as to indicators of potential impairment in the carrying amount of tangible and intangible long-lived assets in use, including goodwill. Companies must test for impairment unless there is conclusive evidence that the indicators of impairment are temporary. The calculation of such loss requires the determination of the recoverable value, which is now defined as the greater of the net selling price of a cash-generating unit and its value in use, which is the net present value of discounted future net cash flows. The accounting principles issued prior to this new Bulletin used future net cash flows, without requiring the discounting of such cash flows. Management believes that the adoption of this new Bulletin as of January 1, 2004, will not have significant effects on the Company's consolidated financial position or results of operations.

