

*Financial Statements 2002*

## Examiner's Report

ERNESTO VALENZUELA ESPINOZA

22

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, 2002.

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.

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, 2002, 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 24, 2003

## Independent Auditor's Report

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

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

**Deloitte  
& Touche**

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, 2002 and 2001, 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, 2002. 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.

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, 2002 and 2001, 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.



Francisco Pérez Cisneros

February 24, 2003

**Deloitte  
Touche  
Tohmatsu**

## Consolidated Balance Sheets

December 31, 2002 AND 2001

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

**ASSETS**

## CURRENT ASSETS:

Cash and temporary investments
Trade accounts receivable
Inventories
Prepaid expenses
Total current assets

	2002	2001
	\$ 292,157	\$ 498,581
	1,897,467	1,217,239
	5,298,722	4,350,603
	253,074	203,862
	7,741,420	6,270,285

PROPERTY AND EQUIPMENT - net

13,897,307 13,818,663

INVESTMENT IN SHARES

156,300

GOODWILL AND OTHER ASSETS

519,277 551,187

TOTAL

\$ 22,314,304 \$ 20,640,135

## LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES:

Notes payable to financial institutions
Current portion of long-term debt
Trade accounts and notes payable
Due to related parties
Accrued expenses and taxes
Total current liabilities

	\$ 2,067,500	\$ 25,059
	21,020	5,493,578
	5,356,314	66,897
	112,558	1,232,717
	1,019,901	8,577,293
	8,577,293	6,818,251

LONG-TERM DEBT AND EMPLOYEE RETIREMENT OBLIGATIONS

606,846 600,996

DEFERRED INCOME TAX

1,157,122 1,142,390

Total liabilities

10,341,261 8,561,637

## STOCKHOLDERS' EQUITY:

Common stock
Additional paid-in capital
Retained earnings
Insufficiency in restated stockholders' equity
Cumulative effect of deferred income tax
Majority stockholders' equity
Minority stockholders' equity
Total stockholders' equity

	2,202,977	2,203,003
	6,173,434	6,171,387
	13,816,798	13,468,044
	(9,187,581)	(8,726,128)
	(1,076,220)	(1,076,220)
	11,929,408	12,040,086
	43,635	38,412
	11,973,043	12,078,498

TOTAL

\$ 22,314,304 \$ 20,640,135

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

For the years ended december 31, 2002 and 2001

(In thousands of Mexican pesos of purchasing power of December 31, 2002, except earnings per share amounts)

	2002	2001
REVENUES:		
Net sales	\$ 30,501,704	\$ 30,919,324
Other	375,256	441,108
Total revenues	30,876,960	31,360,432
COSTS AND EXPENSES:		
Cost of sales	24,558,770	24,906,228
Operating expenses	5,641,297	5,325,090
Total costs and expenses	30,200,067	30,231,318
INCOME FROM OPERATIONS	676,893	1,129,114
NET COMPREHENSIVE FINANCING COST	59,412	46,885
OTHER EXPENSE	56,026	50,820
INCOME BEFORE INCOME TAX AND EMPLOYEE STATUTORY PROFIT-SHARING	561,455	1,031,409
INCOME TAX EXPENSE	206,980	337,243
EMPLOYEE STATUTORY PROFIT-SHARING	3,941	9,454
	210,921	346,697
CONSOLIDATED NET INCOME	\$ 350,534	\$ 684,712
Net income of majority stockholders	345,311	662,386
Net income of minority stockholders	5,223	22,326
Consolidated net income	\$ 350,534	\$ 684,712
Basic earnings per ordinary share	\$ 0.35	\$ 0.68

## Consolidated Statements of Changes in Stockholders' Equity

For the years ended december 31, 2002 and 2001

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

	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, 2001	\$ 2,203,030	\$ 6,173,195	\$12,803,073	\$ (8,151,569)	\$ (1,076,220)	\$	\$11,951,509
Repurchases and sales of shares – net	(27)	(1,808)	2,585				750
Comprehensive income			662,386	(574,559)		38,412	126,239
BALANCE AS OF DECEMBER 31, 2001	2,203,003	6,171,387	13,468,044	(8,726,128)	(1,076,220)	38,412	12,078,498
Repurchases and sales of shares – net	(26)	2,047	3,443				5,464
Comprehensive loss			345,311	(461,453)		5,223	(110,919)
BALANCE AS OF DECEMBER 31, 2002	\$ 2,202,977	\$ 6,173,434	\$ 13,816,798	\$ (9,187,581)	\$ (1,076,220)	\$ 43,635	\$11,973,043

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Financial Position

For the years ended december 31, 2002 and 2001

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

	2002	2001
OPERATING ACTIVITIES:		
Consolidated net income	\$ 350,534	\$ 684,712
Items that did not require (generate) resources:		
Depreciation and amortization	634,262	598,930
Equity in income of associated company		(4,415)
Deferred income tax	(41,815)	135,396
	942,981	1,414,623
Changes in current assets and liabilities:		
Trade accounts receivable	(680,228)	(174,429)
Inventories	(1,353,026)	(1,041,033)
Prepaid expenses	(49,212)	(35,673)
Trade accounts and notes payable	(137,264)	857,940
Due to related parties	45,661	(95,713)
Accrued expenses and taxes	(212,816)	258,323
Employee retirement obligations	54,867	
Net resources (used in) generated by operating activities	(1,389,037)	1,184,038
FINANCING ACTIVITIES:		
Notes payable to financial institutions	2,067,500	
Long-term debt – payments	(53,056)	(110,900)
Repurchases and sales of shares – net	5,464	750
Net resources generated by (used in) financing activities	2,019,908	(110,150)
INVESTING ACTIVITIES:		
Acquisition of property and equipment - net	(686,757)	(964,064)
Investment in shares	(156,300)	(3,251)
Other assets	5,762	54,702
Net resources used in investing activities	(837,295)	(912,613)
CASH AND TEMPORARY INVESTMENTS:		
(Decrease) increase	(206,424)	161,275
Beginning of year	498,581	337,306
End of year	\$ 292,157	\$ 498,581

## Notes to Consolidated Financial Statements

For the years ended december 31, 2002 and 2001

(In thousands of Mexican pesos of purchasing power of December 31, 2002, 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. 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%	222 self-service stores that sell groceries, perishables, clothing and general merchandise.
Office Depot de México, S. A. de C. V.	50%	72 office supply stores in Mexico, two in Costa Rica, two in Guatemala and two distribution centers.
PSMT de México, S. A. de C. V.	50%	2 club price stores in Guanajuato, Mexico.
Gigante Holding International, Inc.	100%	4 self-service stores focusing on the latin market in Los Angeles, California.
Cafeterías Toks, S. A. de C. V.	99.99%	A chain of 43 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.	51%	83 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.
Gigante-Fleming, S. A. de C. V.	99.99%	A real estate company that owns land where two Company stores are located.
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.
Controladora de Franquicias, S. A. de C. V.	99.99%	Administration of franchises, names and commercial notices.
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.

- b. Comparability – On October 1, 2001 the Company acquired an additional 2% of the shares of Radio Shack de México, S.A. de C.V., increasing its equity to 51% and thus acquiring control. Accordingly, as of that date the information of this entity was consolidated with the Company's financial statements. The acquisition cost of the shares was \$3,076. Condensed statement of income for the period from January 1 to September 30, 2001, expressed in Mexican pesos of purchasing power of December 31, 2002, is summarized below.

Revenues	\$	230,297
Cost and expenses		(217,144)
Other income –net		59
Taxes		(4,202)
Net income	\$	9,010

- 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 cumulative translation effects of foreign entities within 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 losses were generated for accumulated deficit 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 2001 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) income – Comprehensive (loss) income 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 (loss) income 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. In 2002 and 2001, the other comprehensive (loss) income 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 of minority stockholders.
- e. Reclassifications - Certain amounts in the financial statements as of and for the year ended December 31, 2001 have been reclassified in order to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2002.

### 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. 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, 2002 and, therefore, differ from those originally reported in the prior year.
- b. Temporary investments - Temporary investments are stated at the lower of acquisition cost plus interest earned or market value.
- c. 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.
- d. 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 remaining useful lives of the related assets, as follows:

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

- e. Investment in shares – Investment in shares are valued at acquisition cost and restated using the NCPI.
- f. 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.
- g. 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.

- h. 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 income tax and is presented on the balance sheet with deferred ISR.

- i. 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.
- j. 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, which resulted from restating certain nonmonetary assets below inflation utilizing appraisal values.
- k. 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.
- l. 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

	2002	2001
Trade accounts receivable	\$ 788,988	\$ 701,261
Recoverable taxes	628,594	246,224
Other	479,885	269,754
	\$ 1,897,467	\$ 1,217,239

## 5. PROPERTY AND EQUIPMENT

	2002	2001
Buildings	\$ 5,279,355	\$ 5,154,520
Buildings on leased property	3,042,966	2,687,763
Store equipment	5,584,880	5,521,167
Furniture and equipment	517,290	427,495
Vehicles	193,542	207,327
	14,618,033	13,988,272
Accumulated depreciation and amortization	(5,427,592)	(5,195,099)
	9,190,441	8,803,173
Construction in progress	141,322	368,058
Land	4,565,544	4,647,432
	13,897,307	13,818,663
Total property and equipment – net	\$ 13,897,307	\$ 13,818,663

## 6. INVESTMENT IN SHARES

The balance at December 31, 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

	2002	2001
Goodwill – net	\$ 399,216	\$ 419,683
Trust for the acquisition of shares	41,300	73,657
Other non-current assets	78,761	57,847
	519,277	551,187
	\$ 519,277	\$ 551,187

## 8. NOTES PAYABLE TO FINANCIAL INSTITUTIONS

The Company has certain short-term, notes payable due to financial institutions. Outstanding borrowings under these arrangements amounted to \$2,067,500 at December 31, 2002. The weighted average interest rate under these arrangements was 9.07% at December 31, 2002.

## 9. LONG-TERM DEBT AND EMPLOYEE RETIREMENT OBLIGATIONS

Unsecured notes payable to banks at the 28-day interbank interest rate (TIE) multiplied by 1.045, providing that such amount is lower than TIE plus 1.6 percentage points, or higher than TIE plus 0.75 percentage points (rates at December 31, 2002 and 2001, were 8.72% and 9.40%, respectively), payment is due on September 28, 2005.

Note payable with no maturity date, collateralized by real estate with a net book value of \$116,270 at December 31, 2002; interest on outstanding balances is calculated at the 28-day TIE plus 2.0% (rates at December 31, 2002 and 2001 were 10.54% and 10%, respectively).

Note payable with no maturity date, collateralized by real estate with a net book value of \$78,549 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, 2002 and 2001, such rates were 3.13% and 3.81%, respectively).

Total long-term debt

Current portion

Employee retirement obligations

	2002	2001
	\$ 500,000	\$ 528,500
	62,548	74,800
	10,451	22,755
	572,999	626,055
	(21,020)	(25,059)
	54,867	
	\$ 606,846	\$ 600,996

The restrictive covenants of the loan contract establish the obligation to maintain certain financial ratios. Such covenants have been fulfilled as of December 31, 2002.

## 10. COMPANY BENEFITS AND SENIORITY PREMIUM PLANS

Costs included in operating expenses:

	2002	2001
Fringe benefits	\$ 461,614	\$ 346,826
Seniority premiums	4,718	3,428
	\$ 466,332	\$ 350,254

## 11. STOCKHOLDERS' EQUITY

a. Stockholders' equity, at December 31, 2002, consists of the following:

	Number of Shares	Historical Value	Restatement Effect	Total
Fixed capital	176,734,102	\$ 18,922	\$ 379,248	\$ 398,170
Variable capital	800,713,403	85,729	1,719,078	1,804,807
	977,447,505	104,651	2,098,326	2,202,977
Additional paid-in capital		2,120,647	4,052,787	6,173,434
Retained earnings		3,395,800	10,420,998	13,816,798
Insufficiency in restated stock- holders' equity			(9,187,581)	(9,187,581)
Cumulative effect of deferred income tax		(895,073)	(181,147)	(1,076,220)
Minority stockholders' Equity		41,218	2,417	43,635
TOTAL	977,447,505	\$ 4,767,243	\$ 7,205,800	\$ 11,973,043

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, 2002 and 2001, the Company has 8,641,967 and 8,056,767 shares repurchased in treasury. The market value of such shares was \$6.10 and \$11.63 per share at December 31, 2002 and 2001, respectively.
- c. 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, 2002, may be credited against future income tax payable by the Company in the three fiscal years following such payment.

As a result of the tax reform for fiscal 2003, tax paid on the distribution of stockholders' equity, as indicated in the preceding paragraph, can only be credited against income tax for the year in which the dividend tax is paid, and in the next two years, against annual tax and the related provisional payments.

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

	2002	2001
Contributed capital account	\$ 6,961,620	\$ 6,961,620
Net consolidated tax income account	2,263,471	2,263,471
Reinvested net consolidated tax income account	240,758	240,758
Total	\$ 9,465,849	\$ 9,465,849

## 12. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

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

	2002	2001
Monetary assets	11,862	7,678
Monetary liabilities	(47,689)	(33,790)
Monetary liability position - net	(35,827)	(26,112)
Equivalent in thousands of Mexican pesos	\$ (372,602)	\$ (239,373)

- b. Approximately 12% and 5% of purchases of inventory were imported by the Company in 2002 and 2001, respectively.
- c. Transactions denominated in thousands of U.S. dollars during the years ended December 31, 2002 and 2001 include import purchases of 273,506 and 132,998, 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 24, 2003
	2002	2001	
One U.S. dollar	\$ 10.38	\$ 9.135	\$ 10.9815

### 13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

- a. Transactions with related parties during the years ended December 31, 2002 and 2001, carried out in the ordinary course of business, were as follows:

	2002	2001
Purchases from Radio Shack International, Inc.	\$ 141,744	\$ 29,212

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

	2002	2001
Radio Shack International, Inc.	\$ 112,558	\$ 66,897

### 14. NET COMPREHENSIVE FINANCING COST

	2002	2001
Interest expense	\$ 329,843	\$ 291,017
Interest income	(6,214)	(19,385)
Foreign exchange fluctuations	16,078	(10,247)
Monetary position gain	(335,179)	(234,864)
Other financial expenses	54,884	20,364
	\$ 59,412	\$ 46,885

## 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.

Through December 31, 2001, the Mexican ISR rate was 35% with the obligation to pay 30% currently and the option of deferring payment of the remaining 5% until profits are distributed. The remaining 5% is recorded as a liability. The new tax law enacted January 1, 2002, eliminated the option to defer the 5% portion of the income tax payment and reduces the 35% tax rate by one percentage point each year until reaching 32% in 2005. The deduction for employee statutory profit-sharing (PTU) and the obligation to withhold taxes on dividends paid to individuals or foreign residents were also 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, 2002, 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. 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:

	2002	2001
Income tax expense:		
Current	\$ 55,291	\$ 114,757
Deferred	123,617	222,486
Effect of change in statutory rate on deferred ISR	(67,375)	
Variation on the valuation of allowance for recoverable tax on assets and benefit of tax loss carryforwards	95,447	
	\$ 206,980	\$ 337,243
Employee profit-sharing:		
Current	\$ 3,941	\$ 9,454

- b. The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before ISR and employee statutory profit-sharing for the years ended December 31, 2002 and 2001, is as follows:

	2002	2001
Statutory rate	35%	35%
Add:		
Effect of permanent differences, mainly nondeductible expenses	5	2
Variation on the valuation of allowance for recoverable tax on assets paid and benefits on tax loss carryforwards	17	
Less:		
Effects of inflation	(8)	(5)
Effect of change in statutory rate on deferred ISR	(12)	
Other		1
Effective rate	37%	33%

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.

- c. At December 31, 2002 and 2001 the main items comprising the balance of deferred income tax are as follows:

	2002	2001
Deferred income tax assets (liabilities):		
Property and equipment	\$ (1,284,441)	\$ (1,402,836)
Inventories	(1,462,339)	(1,338,969)
Tax inventory from 1986	303,002	348,285
Other	39,583	34,063
Deferred ISR from temporary differences	(2,404,195)	(2,359,457)
Effect of tax loss carryforwards	607,686	523,207
Recoverable tax on assets	848,835	858,996
	(947,674)	(977,254)
Allowance for recoverable tax on assets and of tax loss carryforwards	(209,448)	(165,136)
Long-term liability- net	\$ (1,157,122)	\$ (1,142,390)

- 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 \$95,447, and charged to results of operations of the year ended December 31, 2002.
- e. At December 31, 2002 and 2001, the Company has taxable temporary differences related to deferred PTU, mainly inventories, for which the deferred PTU liabilities of approximately \$47,500 and \$55,000, 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.
- f. 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, 2002 and expiration dates are as follows:

Year of Expiration	Tax Loss Carryforwards	Recoverable Tax on Assets
2003	\$ 47,623	\$ 86,337
2004	81,982	85,930
2005	84,533	78,369
2006	37,343	81,633
2007	324,239	122,701
2008	219,164	103,765
2009	104,604	59,651
2010	196,366	74,034
2011	233,307	66,366
2012	569,857	90,049
	<u>\$ 1,899,018</u>	<u>\$ 848,835</u>

## 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 2002 and 2001, rental expense was approximately \$546,927 and \$519,424, respectively.

## 17. NEW ACCOUNTING PRINCIPLES

In December 2001, the Mexican Institute of Public Accountants ("IMCP") issued new Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities, and Commitments" ("C-9"), which is effective beginning January 1, 2003, although early application is encouraged. C-9 supercedes the former Bulletins C-9, "Liabilities" and C-12, "Contingencies and Commitments", and establishes additional guidelines clarifying the accounting for liabilities, provisions, and contingent assets and liabilities, and establishes new standards for the use of present value techniques to measure liabilities and accounting for the early settlement of obligations.

In January 2002, the IMCP issued new Bulletin C-8, "Intangible Assets" ("C-8"), whose provisions are mandatory for fiscal years beginning January 1, 2003, although early application is encouraged. C-8 supercedes the former Bulletin C-8, "Intangibles" and establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Any preoperating costs incurred after the effective date of this Bulletin should be recorded as an expense. The unamortized balance of capitalized preoperating costs under the former Bulletin C-8 will continue to be amortized. C-8 requires identifying all intangible assets to reduce as much as possible the goodwill relative to business combinations.

The Company has not fully assessed the effects of adopting these two new accounting principles on its financial position and results of operations.