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SECURITIES AND EXCHANGE COMMISSION

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Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended June 30, 2014
2. Commission identification number
3. BIR Tax Identification No : 000-390-189-000
4. Exact name of registrant as specified in its charter :

PHILIPPINE SEVEN CORPORATION

5. Country of incorporation : **PHILIPPINES**
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office : 7TH Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City
1501
8. Telephone number : (632) 724-44-41 to 51
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

No. of Shares of Common Stock

Shares Outstanding - Common : 458,435,323
Warrants : -0-

11. Are any or all of the securities listed on the Stock Exchange?

Yes [] No []

<i>Stock Exchange:</i>	<i>Class/es of Securities listed</i>
Philippine Stock Exchange	- Common

12. Indicate by check mark whether the registrant:

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

Yes [] No []

b. Has been subject of such filing requirements for the past 90 days.

Yes [] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the attached.

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

Please refer to the attached

PART II - OTHER INFORMATION

N/A

Pursuant to the requirement of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE SEVEN CORPORATION**



Signature and Title: **JOSE VICTOR P. PATERNO**
President and CEO

Date: August 14, 2014



Signature and Title: **PING-HUNG CHEN**
Treasurer and CFO

Date: August 14, 2014

August 14, 2014

SECURITIES AND EXCHANGE COMMISSION

SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of June 30, 2014, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

1. We are responsible for the fair presentation of the financial statements in conformity with the generally accepted accounting principles.
2. There have been no:
 - a. Irregularities involving management or employees who have significant roles in the system or internal accounting control.
 - b. Irregularities involving other employees that could have a material effect on financial statements.
 - c. Communication from regulatory agencies concerning non-compliance with or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
3. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.
4. The accounting records underlying the financial statements accurately and fairly reflect the transactions of the company.
5. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
6. Provision has been made for any material loss to be sustained.
7. We have complied with all respects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.



PING-HUNG CHEN
Treasurer and CFO



PHILIPPINE SEVEN CORPORATION

7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City 1550 Philippines
Telephone Nos. (632) 724-44-41 to 53 / 705-52-00
www.7-eleven.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended June 30, 2014. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

JOSE VICTOR P. PATERNO
President and CEO

PING-HUNG CHEN
Treasurer and CFO

LAWRENCE M. DE LEON
Head
Finance & Accounting Services Division

AUG 14 2014
RECORDED AND INDEXED
BEFORE ME ON THIS ___ DAY OF
20___ AT PASIG CITY EXHIBITING
HIS/HER ID CARD
ID NO

ATTY. RAMON L. GARPIG
NOTARY PUBLIC
UNTIL DEC. 31, 2014

ROLL NO. 22,172 TIN 106-918-897
CLE NO. IV-0006300, ISP NO. 954 268
TR NO 9829822, JAN 3, 2014 PASIG CITY

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Part 1 – FINANCIAL INFORMATION

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Pages 42-47)

Philippine Seven Corporation and Subsidiaries

Unaudited Consolidated Financial Statements
As of June 30, 2014 and December 31, 2013
and for the Quarters Ended June 30, 2014, 2013 and 2012

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		As of	
		December 31, 2013	December 31, 2012
	June 30, 2014 (Unaudited)	(Audited and as restated - Note 2)	(Audited and as restated - Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 4, 29 and 30)	₱ 699,181,976	₱973,002,633	₱415,285,569
Short-term investment (Notes 4, 29 and 30)	10,810,229	10,810,229	10,632,115
Receivables (Notes 5, 29 and 30)	297,003,124	450,668,446	374,597,843
Inventories (Note 6)	808,543,610	900,849,891	726,986,563
Prepayments and other current assets (Note 7)	389,852,215	270,748,698	259,007,887
Total Current Assets	2,205,391,154	2,606,079,897	1,786,509,977
Noncurrent Assets			
Property and equipment (Note 8)	3,010,358,294	2,746,672,621	2,276,921,044
Deposits (Note 9)	471,006,522	313,888,467	249,418,061
Deferred income tax assets - net (Note 27)	63,203,126	63,203,127	50,477,480
Goodwill and other noncurrent assets (Note 10)	241,232,664	231,929,220	208,489,602
Total Noncurrent Assets	3,785,800,606	3,355,693,435	2,785,306,187
TOTAL ASSETS	₱ 5,991,191,760	₱5,961,773,332	₱4,571,816,164
LIABILITIES AND EQUITY			
Current Liabilities			
Bank loans (Notes 11, 29 and 30)	₱ 430,000,000	₱560,000,000	₱477,777,778
Accounts payable and accrued expenses (Notes 12, 29 and 30)	1,993,323,648	1,872,703,489	1,261,289,989
Income tax payable	101,623,414	109,792,774	105,144,142
Other current liabilities (Notes 13 and 25)	420,522,289	571,066,688	541,881,392
Total Current Liabilities	2,945,469,352	3,113,562,951	2,386,093,301
Noncurrent Liabilities			
Deposits payable (Note 14)	215,797,063	202,888,935	181,901,238
Net retirement obligations (Note 24)	94,697,201	96,481,142	86,012,693
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	1,650,912	1,607,183	2,643,179
Total Noncurrent Liabilities	318,415,178	306,977,260	276,557,110
Total Liabilities	₱ 3,263,614,530	₱3,420,540,212	₱2,662,650,411

(Forward)

	As of		
	June 30, 2014 (Unaudited)	2013 (Audited and as restated - Note 2)	2012 (Audited and as restated - Note 2)
Equity			
Common stock (Notes 17 and 31) - ₱1 par value			
Authorized - 600,000,000 shares as at December 31, 2013 and 2012 and 400,000,000 shares as at December 31, 2011			
Issued - 459,121,573 and 399,325,661 shares as at December 31, 2013 and 2012, respectively [held by 650 and 656 equity holders in 2013 and 2012, respectively (Note 1)]	₱459,121,573	₱459,121,573	₱399,325,661
Additional paid-in capital (Note 31)	293,525,037	293,525,037	293,525,037
Retained earnings (Notes 17 and 31)	1,996,865,415	1,810,521,305	1,227,553,509
Other comprehensive income (loss):			
Remeasurements loss on net retirement obligations - net of deferred income tax asset (Notes 24 and 27)	(22,241,444)	(22,241,444)	(11,545,103)
Revaluation increment on land - net of deferred income tax liability (Notes 8 and 27)	3,229,895	3,229,895	3,229,895
		2,544,156,366	1,912,088,999
Cost of 686,250 shares held in treasury (Note 17)	(2,923,246)	(2,923,246)	(2,923,246)
Total Equity	2,727,577,230	2,541,233,120	1,909,165,753
TOTAL LIABILITIES AND EQUITY	₱ 5,991,191,760	₱5,961,773,332	₱4,571,816,164

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30, (Unaudited)		
	2014	2013	2012
REVENUES			
Revenue from merchandise sales	P 4,375,031,837	P 3,540,009,936	P 3,046,078,080
Franchise revenue (Notes 20 and 32)	449,975,999	352,470,732	173,090,114
Marketing income (Note 20)	67,499,676	66,454,733	51,269,424
Rental income (Note 26)	7,006,300	2,548,153	18,064,436
Commission income (Note 32)	9,508,317	14,790,900	17,560,189
Interest income (Notes 4, 9, 22 and 26)	666,549	850,034	823,781
Other income	81,139,161	32,218,667	5,780,495
	4,990,827,840	4,009,343,155	3,312,666,518
EXPENSES			
Cost of merchandise sales (Note 18)	3,337,252,771	2,677,508,935	2,206,807,290
General and administrative expenses (Notes 19 and 32)	1,328,098,485	1,069,140,247	946,447,482
Interest expense (Notes 11, 15 and 21)	3,578,280	3,868,656	3,624,068
Other expenses	1,957,333	1,964,145	1,624,735
	4,670,886,869	3,752,481,982	3,158,503,575
INCOME BEFORE INCOME TAX	319,940,971	256,861,173	154,162,943
PROVISION FOR INCOME TAX (Note 27)	96,071,673	74,658,352	46,248,882
NET INCOME	223,869,297	182,202,821	107,914,061
OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS	-	-	-
TOTAL COMPREHENSIVE INCOME	P223,869,297	P 182,202,821	P 107,914,061
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	P 0.49	P 0.40	P 0.24

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six Months Ended June 30 (Unaudited)		
	2014	2013	2012
REVENUES			
Revenue from merchandise sales	₱ 7,986,453,643	₱ 6,982,950,501	₱ 5,721,835,425
Franchise revenue (Notes 20 and 32)	797,827,646	636,878,012	315,343,479
Marketing income (Note 20)	148,136,804	130,577,837	98,273,020
Rental income (Note 26)	10,993,656	11,883,135	25,723,416
Commission income (Note 32)	18,422,844	33,162,149	29,821,618
Interest income (Notes 4, 9, 22 and 26)	1,259,581	1,648,367	1,379,501
Other income	146,337,483	71,905,271	17,993,486
	9,109,431,658	7,869,005,272	6,210,369,945
EXPENSES			
Cost of merchandise sales (Note 18)	6,106,764,979	5,288,895,683	4,154,237,399
General and administrative expenses (Notes 19 and 32)	2,528,381,483	2,146,841,198	1,807,413,193
Interest expense (Notes 11, 15 and 21)	7,263,034	8,921,942	7,198,144
Other expenses	4,158,452	4,794,727	6,865,955
	8,646,567,948	7,449,453,551	5,975,714,691
INCOME BEFORE INCOME TAX	462,863,710	419,551,721	234,655,254
PROVISION FOR INCOME TAX (Note 27)	138,989,056	123,465,517	70,396,576
NET INCOME	323,874,651	296,086,205	164,258,678
OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS	-	-	-
TOTAL COMPREHENSIVE INCOME	₱323,874,651	₱ 296,086,205	₱ 164,258,678
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	₱ 0.71	₱ 0.65	₱ 0.36

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011 AND SECOND QUARTERS ENDED 2014 AND 2013 (UNAUDITED)

	Common Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)	Other Comprehensive Income (Loss)		Total	Treasury Stock (Note 17)	Total
				Remeasurements	Loss on Net Retirement Obligations - Net of Tax (Note 2)			
Balances at January 1, 2013 as previously stated	₱399,325,661	₱293,525,037	₱1,233,432,997	₱-	₱3,229,895	₱1,929,513,590	(₱2,923,246)	₱1,926,590,344
Effect of adoption of the revised PAS 19 (Note 2)	-	-	(5,879,488)	(11,545,103)	-	(17,424,591)	-	(17,424,591)
Balances at January 1, 2013, as restated	399,325,661	293,525,037	1,227,553,509	(11,545,103)	3,229,895	1,912,088,999	(2,923,246)	1,909,165,753
Net income during the year	-	-	682,627,649	-	-	682,627,649	-	682,627,649
Other comprehensive loss	-	-	-	(10,696,341)	-	(10,696,341)	-	(10,696,341)
Total comprehensive income	-	-	682,627,649	(10,696,341)	-	671,931,308	-	671,931,308
Stock dividends (Note 17)	59,795,912	-	(59,795,912)	-	-	-	-	-
Cash dividends (Note 17)	-	-	(39,863,941)	-	-	(39,863,941)	-	(39,863,941)
Balances at December 31, 2013	₱459,121,573	₱293,525,037	₱1,810,521,305	(₱22,241,444)	₱3,229,895	₱2,544,156,366	(₱2,923,246)	₱2,541,233,120
Net income during the Quarter	-	-	323,874,651	-	-	323,874,651	-	323,874,651
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	323,874,651	-	-	323,874,651	-	323,874,651
Stock dividends (Note 17)	-	-	-	-	-	-	-	-
Cash dividends (Note 17)	-	-	(137,530,541)	-	-	(137,530,541)	-	(137,530,541)
Balances at June 30, 2014	₱459,121,573	₱293,525,037	₱1,996,865,415	(₱22,241,444)	₱3,229,895	₱2,730,500,476	(₱2,923,246)	₱2,727,577,230
Balances at June 30, 2013	₱399,325,661	₱293,525,037	₱1,529,519,202	-	₱3,229,895	₱2,225,599,794	(₱2,923,246)	₱2,222,676,548

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30 (Unaudited)		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱319,940,971	₱256,861,173	₱154,162,943
Adjustments for:			
Depreciation and amortization (Notes 8 and 19)	207,011,678	161,003,956	120,541,533
Net retirement benefits cost (Notes 23 and 24)	740,833	(5,465,384)	(3,722,078)
Interest expense (Notes 11, 15, and 21)	3,578,280	3,868,656	3,624,068
Interest income (Notes 4, 9, 22 and 26)	666,549	850,034	823,781
Amortization of:			
Software and other program costs (Notes 10 and 19)			372,619
Operating income before working capital changes	531,938,311	417,118,435	275,430,248
Increase in:			
Receivables	42,085,060	167,594,950	(66,752,588)
Inventories	35,053,351	24,657,349	29,542,154
Prepayments and other current assets	110,346,371	458,946	(21,551,678)
Increase (decrease) in:			
Accounts payable and accrued expenses	381,389,405	117,963,079	39,657,975
Other current liabilities	(138,881,819)	(9,971,547)	69,076,723
Deposits payable	7,290,681	9,341,369	69,221,146
Cash generated from operations	969,221,360	727,162,579	394,623,981
Income taxes paid	(147,098,824)	(146,578,431)	(1,370,526)
Interest received	(666,549)	(850,034)	(823,781)
Net cash provided by operating activities	821,455,986	579,734,114	392,429,674
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 8)	(433,986,200)	(240,869,839)	(204,120,337)
Software and other program costs (Note 10)			
Increase in:			
Deposits	(139,786,068)	(11,915,533)	(10,810,440)
Goodwill and other noncurrent assets	(3,177,827)	1,023,613	579,237
Net cash used in investing activities	(576,950,095)	(251,761,759)	(214,351,541)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans (Note 11)	(130,000,000)	(112,444,444)	(4,222,222)
Payments of bank loans (Note 11)			
Interest paid	(3,578,280)	(3,868,656)	(3,624,068)
Cash dividends paid (Note 17)	(137,530,540)		
Net cash provided by financing activities	(271,108,820)	(116,313,100)	(7,846,290)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(26,602,929)	211,659,255	170,231,843
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	725,784,905	545,386,665	269,659,729
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱699,181,976	₱757,045,920	₱439,891,571

See accompanying Notes to Unaudited Consolidated Financial Statements

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30 (Unaudited)		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱462,863,710	₱419,551,721	₱234,655,254
Adjustments for:			
Depreciation and amortization (Notes 8 and 19)	401,042,930	313,357,108	236,307,887
Net retirement benefits cost (Notes 23 and 24)	(1,783,940)	(5,070,480)	(10,794,268)
Interest expense (Notes 11, 15, and 21)	7,263,034	8,921,942	7,198,144
Interest income (Notes 4, 9, 22 and 26)	1,259,581	1,648,367	1,379,501
Amortization of:			
Software and other program costs (Notes 10 and 19)	372,619	372,619	372,619
Operating income before working capital changes	871,017,934	738,781,278	469,119,137
Increase in:			
Receivables	153,665,322	210,409,029	(15,298,716)
Inventories	92,306,281	(93,216,258)	23,925,692
Prepayments and other current assets	(119,103,517)	(356,068,262)	(294,631,062)
Increase (decrease) in:			
Accounts payable and accrued expenses	120,620,159	164,704,641	(24,184,497)
Other current liabilities	(150,500,670)	176,545,318	152,400,917
Deposits payable	12,908,128	25,946,950	101,358,387
Cash generated from operations	980,913,636	867,102,696	412,689,859
Income taxes paid	(147,158,418)	(146,578,431)	(75,046,801)
Interest received	(1,259,581)	(1,648,367)	(1,379,501)
Net cash provided by operating activities	832,495,637	718,875,898	336,263,557
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 8)	(664,728,603)	(448,064,289)	(376,411,777)
Software and other program costs (Note 10)	(372,619)	(372,619)	(372,619)
Increase in:			
Deposits	(157,118,055)	(19,677,202)	(12,830,018)
Goodwill and other noncurrent assets	(9,303,443)	107,698,283	111,966,045
Net cash used in investing activities	(831,522,720)	(360,415,826)	(277,648,368)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans (Note 11)	(130,000,000)	(7,777,778)	(6,222,222)
Payments of bank loans (Note 11)			
Interest paid	(7,263,034)	(8,921,942)	(7,198,144)
Cash dividends paid (Note 17)	(137,530,540)		
Net cash provided by financing activities	(274,793,574)	(16,699,720)	(13,420,366)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(273,820,657)	341,760,351	45,194,822
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	973,002,633	415,285,569	394,696,749
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱699,181,976	₱757,045,920	₱439,891,571

See accompanying Notes to Unaudited Consolidated Financial Statements

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information

Philippine Seven Corporation (the Company or PSC) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 29, 1982. The Company and its subsidiaries (collectively referred to as “the Group”), are primarily engaged in the business of retailing, merchandising, buying, selling, marketing, importing, exporting, franchising, acquiring, holding, distributing, warehousing, trading, exchanging or otherwise dealing in all kinds of grocery items, dry goods, food or foodstuffs, beverages, drinks and all kinds of consumer needs or requirements and in connection therewith, operating or maintaining warehouses, storages, delivery vehicles and similar or incidental facilities. The Group is also engaged in the management, development, sale, exchange, and holding for investment or otherwise of real estate of all kinds, including buildings, houses and apartments and other structures.

The Company is controlled by President Chain Store (Labuan) Holdings, Ltd., an investment holding company incorporated in Malaysia, which owns 51.56% of the Company’s outstanding shares. The remaining 48.44% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC), which is incorporated in Taiwan, Republic of China.

The Company has its primary listing on the Philippine Stock Exchange. As at December 31, 2013 and 2012, the Company has 650 and 656 equity holders, respectively.

The registered business address of the Company is 7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 20, 2014.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements are prepared under the historical cost basis, except for parcels of land, which are carried at revalued amount. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Group’s functional currency and all amounts are rounded to the nearest Peso except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the consolidated financial statements.

An additional balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies [see discussion on Changes in Accounting Policies - Philippine Accounting Standard (PAS) 19, *Employee Benefits* (Revised)].

Statement of Compliance

The consolidated financial statements, which are prepared for submission to the SEC, are prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS also

includes PAS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies

The Group applied for the first time, amendments that require restatement of previous financial statements. These include PAS 19, *Employee Benefits* (Revised 2011) and PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, PFRS 12, *Disclosures of Interests in Other Entities* and PFRS 13, *Fair Value Measurement* resulted in additional disclosures in the financial statements.

This is presented separately for financial assets and financial liabilities recognized at the end of the balance sheet period. The amendments affect disclosures only and have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 29 to the consolidated financial statements.

- **PFRS 10, *Consolidated Financial Statements***
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

A reassessment of control was performed by the Group in accordance with the provisions of PFRS 10. The Group determined that there will be no change in the composition of subsidiaries currently included in the consolidated financial statements.

- **PFRS 12, *Disclosure of Interest with Other Entities***
PFRS 12 includes all of the disclosures related to consolidated financial statements that were a previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. Adoption of PFRS 12 affects disclosures only and has no impact on the Group's financial position or performance (see discussion on Accounting Policies-Basis of Consolidation).
- **PFRS 13, *Fair Value Measurement***
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. This standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. It defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

- **Amendments to PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI***
These amendments change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- PAS 19, *Employee Benefits (Revised)*
PAS 19 ranges from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

For defined benefit plans, the revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the revised standard, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised standard, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The revised standard replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the revised standard modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

	<u>As at December 31, 2012</u>	<u>As at January 1, 2012</u>
Increase (decrease) in:		
<u>Consolidated balance sheets</u>		
Net retirement obligations	P24,892,273	P25,063,279
Deferred income tax asset	7,467,682	7,518,984
Other comprehensive loss	(11,545,103)	(11,114,315)
Retained earnings	(5,879,488)	(6,429,980)
	<u>2012</u>	<u>2011</u>
<u>Consolidated statements of comprehensive income</u>		
General and administrative expenses	(P786,417)	(P600,386)
Provision for deferred income tax	235,925	180,116
Net income	<u>550,492</u>	<u>420,270</u>
<u>Remeasurements loss on net retirement obligations</u>	(615,412)	(15,877,593)

Deferred income tax	184,624	4,763,278
Other comprehensive loss - net of tax	(430,788)	(11,114,315)
Total comprehensive income (loss)	<u>₱119,704</u>	<u>(₱10,694,045)</u>

In 2012 and 2011, effect on basic/diluted earnings per share related to the restatement amounted to ₱0.0012 and ₱0.0009, respectively.

The adoption did not have any impact on the statements of cash flows in 2012 and 2011.

- PAS 27, *Separate Financial Statements* (Revised)
As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. This amendment has no significant impact on the Group's financial statements.
- PAS 28, *Investments in Associates and Joint Ventures* (Revised)
As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment has no significant impact on the Group's financial statements.
- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

The consolidated financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

	Country of Incorporation	Principal Activity	Percentage of Ownership
Convenience Distribution, Inc. (CDI)	Philippines	Warehousing and Distribution	100
Store Sites Holding, Inc. (SSHI)	Philippines	Holding	100

SSHI's capital stock, which is divided into 40% common shares and 60% preferred shares are owned by the Company and by Philippine Seven Corporation-Employees Retirement Plan (PSC-ERP) through its trustee, Bank of the Philippines Islands-Asset Management and Trust Group (BPI-AMTG), respectively. These preferred shares which accrue and pay guaranteed preferred dividends and are redeemable at the option of the holder are recognized as a financial liability in accordance with PFRS (see Note 15). The Company owns 100% of SSHI's common shares, which, together with common key management, gives the Company control over SSHI.

The financial statements of the subsidiaries are prepared for the same balance sheet period as the Company, using uniform accounting policies. Intercompany transactions, balances and unrealized gains and losses are eliminated in full.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. 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 that are subject to an insignificant risk of change in value.

Financial Instruments

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument.

Initial Recognition and Measurement

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date the Group commits to purchase or sell the financial asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation in the market place.

The Group classifies its financial assets as financial assets at FVPL, held-to-maturity (HTM) financial assets, available-for-sale (AFS) financial assets or loans and receivables. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets and financial liabilities were acquired. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates classification at every balance sheet date.

As at December 31, 2013 and 2012, the Group has no financial assets or liabilities at FVPL, HTM financial assets and AFS financial assets.

The Group's financial instruments are as follows:

a. **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently carried either at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method. Loans and receivables are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables consists of cash and cash equivalents, short-term investment, receivables and deposits (excluding rent deposits) as at December 31, 2013 and 2012 (see Note 29).

b. **Other Financial Liabilities**

This category pertains to financial liabilities that are neither held-for-trading nor designated as at FVPL upon the inception of the liability. Other financial liabilities are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Other financial liabilities are classified as current liabilities if maturity is within the normal operating cycle of the Company and it does not have unconditional right to defer settlement of the liability for at least 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

The Group's other financial liabilities consist of bank loans, accounts payable and accrued expenses, other current liabilities (excluding statutory liabilities), and cumulative redeemable preferred shares as at December 31, 2013 and 2012 (see Note 29).

Determination of Fair Value

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Day- 1 Difference

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet 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.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

Financial Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced by the impairment loss, which is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant and collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually or collectively assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continue to be recognized are not included in a collective assessment of impairment.

The impairment assessment is performed at each balance sheet date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. 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 asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Assets and Liabilities

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has 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 right 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 risks and rewards of the asset, but has transferred control of the asset.

Where 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 repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where 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.

Inventories

Inventories are stated at the lower of cost and net realizable value (NRV). Cost of inventories is determined using the first-in, first-out method. NRV is the selling price in the ordinary course of business, less the estimated cost of marketing and distribution.

Prepayments and Other Current Assets

Prepayments and other current assets are primarily comprised of advances to suppliers, deferred input value-added tax (VAT), prepaid rent and prepaid store expenses. Prepayments and other current assets that are expected to be realized for no more than 12 months after the balance sheet date are classified as current assets; otherwise, these are classified as other noncurrent assets.

Advances to suppliers are downpayments for acquisitions of property and equipment not yet received. Once the property and equipment are received, the asset is recognized together with the corresponding liability. These are stated at cost less any impairment in value.

Property and Equipment

Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are recognized in profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets.

Construction in progress includes cost of construction and other direct costs and is stated at cost less any impairment in value. Construction in progress is not depreciated until such time the relevant assets are completed and put into operational use.

Depreciation and amortization commence once the assets are available for use. It ceases at the earlier of the date that it is classified as noncurrent asset held-for-sale and the date the asset is derecognized.

Depreciation is computed on a straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	10 to 12
Store furniture and equipment	5 to 10
Office furniture and equipment	3 to 5
Transportation equipment	3 to 5
Computer equipment	3

Leasehold improvements are amortized over the estimated useful life of the improvements, ranging from five to ten years, or the term of the lease, whichever is shorter.

The assets' estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment. When assets are retired or otherwise disposed of, the cost or revalued amount and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss. The revaluation increment in equity relating to the revalued asset sold is transferred to retained earnings.

Fully depreciated assets are retained in the books until disposed.

Land is carried at revalued amount less any impairment in value. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the balance sheet period. When the fair value of a revalued land differs materially from its carrying amount, a further revaluation is required.

A revaluation surplus is recorded in OCI and credited to the "Revaluation increment on land - net of deferred tax" account in equity. However, to the extent that the Group reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit or loss. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in "Revaluation increment on land - net of deferred income tax liability" account in equity.

Deposits

Deposits are amounts paid as guarantee in relation to noncancelable lease agreements entered into by the Group. These deposits are recognized at cost and can be refunded or applied to future billings.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss, if any. Internally-generated intangible assets, if any, excluding

capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level and are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite useful life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Software and Program Cost

Software and program cost, which are not specifically identifiable and integral to a specific computer hardware, are shown under "Goodwill and other noncurrent assets" in the consolidated balance sheet. These are carried at cost, less accumulated amortization and any impairment in value. Amortization is computed on a straight-line method over their estimated useful life of five years.

Goodwill

Goodwill, included in "Goodwill and other noncurrent assets" in the consolidated balance sheet, represents the excess of the cost of an acquisition over the fair value of the businesses acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment of Non-financial Assets

The Group assesses at each balance sheet date whether there is an indication that its non-financial assets such as property and equipment, deposits and intangible assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. For land, the asset's recoverable amount is the land's net selling price, which may be obtained from its sale in an arm's length transaction. For goodwill, the asset's recoverable amount is its value-in-use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 the time value of money and risks specific to the asset. Impairment losses, if any, are recognized in profit or loss, except for revalued property and equipment when revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For non-financial assets, excluding goodwill, an assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the

asset in previous years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment, annually or more frequently if event or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount of the cash-generating unit or group of cash-generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Deposits Payable

Deposits payable are amounts received from franchisees, store operators and sub lessees as guarantee in relation to various agreements entered into by the Group. These deposits are recognized at cost and payable or applied to future billings.

Cumulative Redeemable Preferred Shares

Cumulative redeemable preferred shares that exhibit characteristics of a liability is recognized as a financial liability in the consolidated balance sheet, net of transaction cost. The corresponding dividends on those shares are charged as interest expense in profit or loss.

Deferred Revenue

Deferred revenue is recognized for cash received for income not yet earned. Deferred revenue is recognized as revenue over the life of the revenue contract or upon delivery of goods or services.

Equity

Common Stock

Common stock is measured at par value for all shares issued and outstanding.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss and changes in accounting policy. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Treasury Stock

Treasury stock is stated at acquisition cost and is deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

OCI

OCI comprises of items of income and expenses that are not recognized in profit or loss as required or permitted by other PFRS. The Group's OCI pertains to actuarial gains and losses from pension benefits and revaluation increment on land which are recognized in full in the period in which they occur.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group has assessed its revenue

arrangements against the criteria enumerated under PAS 18, *Revenue Recognition*, and concluded that it is acting as principal in all arrangements, except for its sale of consigned goods. The following specific recognition criteria must also be met before revenue is recognized:

Merchandise Sales

Revenue from merchandise sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue is measured at the fair value of the consideration received, excluding discounts, returns, rebates and sales taxes.

The Group operates a customer loyalty programme, Every Day! Rewards, which allows customers to accumulate points when they purchase products in the stores. The points can be redeemed for free products, subject to a minimum number of points being obtained.

Consideration received is allocated between the products sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is equal to the retail value of the products that can be redeemed. The fair value of the points issued is deferred (included as part of "other current liabilities" in the consolidated balance sheet) and recognized as revenue when the points are redeemed.

Franchise

Franchise fee is recognized upon execution of the franchise agreement and performance of initial services required under the franchise agreement. Franchise revenue is recognized in the period earned.

Marketing

Marketing income is recognized when service is rendered. In case of marketing support funds, revenue is recognized upon start of promotional activity for the suppliers.

Rental

Rental income is accounted for on a straight-line basis over the term of the lease.

Commission

Commission income is recognized upon the sale of consigned goods.

Interest

Interest income is recognized as it accrues based on the effective interest rate method.

Other Income

Other income is recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Company and can be measured reliably.

Costs and Expenses Recognition

Costs of merchandise sold are recognized in profit or loss at the point of sale. Expenses are recognized in profit or loss upon utilization of the services or when they are incurred.

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Net retirement benefits cost comprises the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination Benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Leases

Finance leases, which transfer to the lessee substantially all the risks and rewards of ownership of the asset, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Interest income is recognized directly in profit or loss.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating leases are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
or
- b. a renewal option is exercised or extension is granted, unless the term of the renewal or extension was initially included in the lease term; or
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- d. there is a substantial change to the asset.

Where a re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstance gave rise to the re-assessment for scenarios (a), (c) or (d) above, and the date of renewal or extension for scenario (b).

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-denominated Transactions

Transactions in foreign currency are initially recorded at the exchange rate at the date of transaction. Outstanding foreign currency-denominated monetary assets and liabilities are translated using the applicable exchange rate at balance sheet date. Exchange differences arising from translation of foreign currency monetary items at rates different from those at which they were originally recorded are recognized in profit or loss.

Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred Income Tax

Deferred income tax is recognized for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

Deferred income tax relating to items recognized directly in equity is recognized in profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 the balance sheet date.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

VAT

Input VAT is the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services, including lease or use of property, from a VAT-registered entity. For acquisition of capital goods over ₱1,000,000, the related input taxes are deferred and amortized over the useful life of the asset or 60 months, whichever is shorter, commencing on the date of acquisition. Deferred input VAT which is expected to be utilized for more than 12 months after the balance sheet date is included under "Goodwill and other noncurrent assets" account in the consolidated balance sheet.

Output VAT pertains to the 12% tax due on the sale of merchandise and lease or exchange of taxable goods or properties or services by the Group.

If at the end of any taxable month the output VAT exceeds the input VAT, the excess shall be paid by the Group. Any outstanding balance is included under "Accounts payable and accrued expenses" account in the consolidated balance sheet. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding month or months. Excess input VAT is included under "Prepayments and other current assets" account in the consolidated balance sheet. Input VAT on capital goods may, at the option of the Group, be refunded or credited against other internal revenue taxes, subject to certain tax laws.

Revenue, expenses and assets are recognized net of the amount of VAT.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income or (loss) for the year attributable to common shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares.

Diluted earnings (loss) per share is calculated by dividing the net income or (loss) for the year attributable to common shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares and adjusted for the effects of all potential dilutive common shares, if any.

In determining both the basic and diluted earnings (loss) per share, the effect of stock dividends, if any, is accounted for retrospectively.

Segment Reporting

Operating segments are components of an entity for which separate financial information is available and evaluated regularly by management in deciding how to allocate resources and assessing performance. The Group considers the store operation as its primary activity and its only business segment. Franchising, renting of properties and commissioning on bills payment services are considered an integral part of the store operations.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments 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. When the Group expects a provision or loss to be reimbursed,

the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events after the Balance Sheet Date

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. Use of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of balance sheet date. Future events may occur which can cause the assumptions used in arriving at those judgments, estimates and assumptions to change. The effects of any changes will be reflected in the consolidated financial statements of the Group as they become reasonably determinable.

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 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 Peso. The Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the revenue, costs and expenses of the Group.

Classification of Financial Instruments

The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, liability or equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

Financial assets are classified as financial assets at FVPL, HTM financial assets, AFS financial assets and loans and receivables. Financial liabilities, on the other hand, are classified as financial liabilities at FVPL and other financial liabilities.

The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every balance sheet date.

The Group's financial instruments consist of loans and receivables and other financial liabilities (see Note 29).

Classification of Leases

a. Finance lease as lessor

The Group entered into a sale and leaseback transaction with an armored car service provider where it has determined that the risks and rewards related to the armored vehicles leased out will be transferred to the lessee at the end of the lease term. As such, the lease agreement was accounted for as a finance lease (see Note 26).

b. Operating lease as lessee

The Group entered into various property leases, where it has determined that the risks and rewards related to the properties are retained with the lessors. As such, the lease agreements were accounted for as operating leases (see Note 26).

c. Operating lease as lessor

The Company entered into property subleases on its leased properties. The Company determined that it retains all the significant risks and rewards of these properties which are leased out on operating leases (see Note 26).

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Based on the assessment made by the Group, there is no impairment of goodwill as the recoverable amount of the cash-generating units exceeds the carrying amount of the unit, including goodwill as at December 31, 2013 and 2012. The carrying value of goodwill amounted to

₱65,567,524 as at December 31, 2013 and 2012 (see Note 10). No impairment losses were recognized in 2013, 2012 and 2011.

Estimation of Retirement Benefits

The net retirement benefits cost and the present value of retirement obligations are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

The Group's net retirement obligations amounted to ₱96,481,142 and ₱86,012,693 as at December 31, 2013 and 2012, respectively (see Note 24). Retirement benefits cost amounted to ₱16,858,692, ₱15,420,495 and ₱11,768,015 in 2013, 2012 and 2011, respectively (see Notes 23 and 24).

Provisions and Contingencies

The Group has pending legal cases. The Group's estimate of the probable costs for the resolution of these legal cases has been developed in consultation with in-house and outside legal counsels and is based upon the analysis of the potential outcomes. It is possible, however, that future results of operations could be affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

As at December 31, 2013 and 2012, the Group has provisions amounting to ₱13,704,073 and ₱7,066,290, respectively and is reported as part of "Others" under "Accounts payable and accrued expenses" in the consolidated balance sheets (see Note 12). Provisions and contingencies are further explained in Note 34.

Realizability of Deferred Income Tax Assets

Deferred income tax assets are recognized for all temporary deductible differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized. Management has determined based on business forecast of succeeding years that there is enough taxable profits against which the recognized deferred income tax assets will be realized.

The Group's recognized deferred income tax assets amounted to ₱69,131,632 and ₱56,504,022 as at December 31, 2013 and 2012, respectively (see Note 27).

4. Cash and Cash Equivalents and Short-Term Investment

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Cash on hand and in banks	₱699,181,976	₱922,422,571
Cash equivalents	-	50,580,062
	₱699,181,976	₱973,002,633

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest at the respective cash equivalent rates.

5. Receivables

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Franchisees (Note 32)	₱75,157,995	₱379,544,124
Suppliers	195,696,930	48,657,689
Employees	12,721,921	14,936,783
Store operators	11,618,981	12,547,006
Rent	5,599,773	4,760,464
Due from PhilSeven Foundation, Inc. (PFI) (Note 25)	3,322,770	3,118,978
Current portion of:		
Lease receivable - net of unearned interest income amounting to ₱96,445 and ₱197,221 as at December 31, 2013 and 2012, respectively (Notes 10 and 26)	3,086,114	3,086,114
Notes receivable (Notes 10, 29 and 30)	955,356	1,033,914
Insurance receivable	2,406,634	585,057
Others	5,396,832	1,358,499
	315,963,306	469,628,628
Less allowance for impairment	18,960,182	18,960,182
	₱297,003,124	₱450,668,446

6. Inventories

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
At cost (Note 18):		
Warehouse merchandise	523,120,269	₱618,738,640
Store merchandise	285,423,341	282,111,251
	808,543,610	₱900,849,891

7. Prepayments and Other Current Assets

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Current portion of:		
Deferred input VAT	P94,101,028	P78,364,535
Deferred lease (Notes 10 and 26)	1,421,460	1,421,460
Prepaid:		
Supplies	2,564,765	3,528,830
Deferred rent	95,687,704	63,373,604
Store expenses	35,251,178	34,455,780
Uniform	5,571,053	6,066,259
Taxes	23,504,489	4,765,253
Repairs and maintenance	297,191	1,218,655
Advances to suppliers	47,508,831	55,761,777
Advances for expenses	21,838,662	13,788,613
Dues and subscription	1,118,004	571,651
Others	60,987,850	7,432,281
	P389,852,215	P270,748,698

8. Property and Equipment

Movements in property and equipment are as follows:

	As of June 30, 2014 (Unaudited)									
	Land- at revalued Amount	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportatio n Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total	
Costs/Revalued Amount										
Beginning balances	P44,481,000	P118,154,849	P2,200,106,026	P763,056,069	P45,130,103	P244,985,357	P1,421,899,656	P95,198,922	P4,933,011,984	
Additions	-	317,306,799	70,586,233	6,044,644	12,238,773	148,179,705	65,857,819	620,213,9733		
Retirements	-	(2,133,919)	(5,220,108)	(950,000)	(918,136)	(23,576,181)	(3,075,885)	(35,874,229)		
Reclassifications	-	-	-	-	-	23,947,365	(23,947,365)	-		
Ending balances	P44,481,000	118,154,849	2,515,278,908	828,422,195	50,224,747	256,305,994	1,570,450,545	134,033,491	5,517,351,728	
Accumulated Depreciation and Amortization										
Beginning balances		74,124,862	991,819,107	345,029,903	19,367,872	165,369,417	590,628,202	-	2,186,339,363	
Depreciation and amortization (Note 19)		1,917,614	203,119,350	48,627,355	4,483,325	11,215,909	75,793,826	-	345,157,379	
Retirements		-	(2,133,919)	(5,220,108)	(797,083)	(918,136)	(15,434,062)	-	(24,503,308)	
Ending balances		76,042,476	1,192,804,538	388,437,150	23,054,114	175,667,191	650,987,965	-	2,506,993,434	
Net Book Values	P44,481,000	P42,112,373	P1,322,474,370	439,985,045	P27,170,633	P80,638,803	P919,462,580	P134,033,491	P3,010,358,294	

	As of December 31, 2013 (Audited)									
	Land- at revalued Amount	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total	
Costs/Revalued Amount										
Beginning balances	P44,481,000	P118,154,849	1,740,413,144	P579,371,098	P43,646,176	P211,556,342	P1,201,609,872	P67,369,297	4,006,601,778	
Additions	-	-	525,981,492	207,879,041	10,587,673	33,864,213	205,468,926	195,489,191	1,179,270,536	
Retirements	-	-	(66,288,608)	(24,194,070)	(9,103,746)	(435,198)	(152,838,708)	-	(252,860,330)	
Reclassifications	-	-	-	-	-	-	167,659,566	(167,659,566)	-	
Ending balances	44,481,000	118,154,849	2,200,106,028	763,056,069	45,130,103	244,985,357	1,421,899,656	95,198,922	4,933,011,984	
Accumulated Depreciation and Amortization										
Beginning balances		70,181,591	690,911,415	256,680,089	20,199,135	134,639,263	557,069,241	-	1,729,680,734	
Depreciation and amortization (Note 19)		3,943,271	367,196,300	112,543,884	8,272,483	31,165,352	186,397,669	-	709,518,959	
Retirements		-	(66,288,608)	(24,194,070)	(9,103,746)	(435,198)	(152,838,708)	-	(252,860,330)	
Ending balances		74,124,862	991,819,107	345,029,903	19,367,872	165,369,417	590,628,202	-	2,186,339,363	
Net Book Values	P44,481,000	P44,029,987	1,208,286,921	P418,026,166	P25,762,231	P79,615,940	P831,271,454	P95,198,922	2,746,672,621	

9. Deposits

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Rent	P363,522,963	P232,020,464
Utilities (Notes 29 and 30)	46,358,139	42,509,396
Refundable (Notes 29 and 30)	55,733,773	34,871,384
Others (Notes 29 and 30)	5,391,647	4,487,223
	P471,006,522	P313,888,467

10. Goodwill and Other Noncurrent Assets

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Noncurrent portion of:		
Deferred input VAT	P150,301,104	P143,808,850
Deferred lease (Note 26)	12,819,183	12,819,183
Lease receivable - net of unearned interest income amounting to P5,773 and P102,216 as at December 31, 2013 and 2012, respectively (Notes 26, 29 and 30)	565,213	559,441
Intangible assets:		
Goodwill	65,567,524	65,567,524
Software and program cost		2,886,285
Garnished accounts (Note 34)	7,909,058	4,876,522
Others	4,070,582	1,411,415
	P241,232,664	P231,929,220

Deferred Lease

Deferred lease pertains to Day 1 loss recognized on refundable deposits on rent, which is amortized on a straight-line basis over the term of the related leases.

Movements in deferred lease are as follows:

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Beginning balance	P14,240,643	P15,702,845
Additions		948,411
Less amortization (Note 26)		2,410,613
Ending balance	14,240,643	14,240,643
Less current portion (Note 7)	1,421,460	1,421,460
Noncurrent portion	P12,819,183	P12,819,183

Goodwill

On March 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation (Jollimart) for a total consideration of P130,000,000. The excess of the acquisition cost over the fair value of the assets acquired was recorded as goodwill amounting to P70,178,892. In 2008, the Group recognized an impairment loss in goodwill amounting to P4,611,368.

Garnished Accounts

Garnished accounts pertain to the amount set aside by the Group, as required by the courts, in order to answer for litigation claims should the results be unfavorable to the Group (see Note 34).

11. Bank Loans

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2014 and 2013 with annual interest rates ranging from 2.50% to 3.30%, 3.30% to 3.75% and 3.50% to 4.25% in 2013, 2012 and 2011, respectively, which are repriced monthly based on market conditions. The proceeds of these loans were used for the operations of the Group.

Movements in bank loans are as follows:

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Beginning balance	P560,000,000	P477,777,778
Availments	-	550,000,000
Payments	(130,000,000)	(467,777,778)
Ending balance	P430,000,000	P560,000,000

12. Accounts Payable and Accrued Expenses

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Trade payable	P1,649,549,021	P1,575,446,279
Utilities	84,587,724	71,354,276
Rent (Note 26)	58,229,152	58,097,685
Employee benefits	46,621,860	39,622,810
Advertising and promotion	23,170,307	37,844,609
Outsourced services	43,396,564	24,844,921
Bank charges	10,613,220	13,487,060
Security services	19,993,616	3,375,831
Interest (Notes 11 and 15)	1,076,003	1,947,803
Others	56,086,183	46,682,215
	P1,993,323,648	P1,872,703,489

13. Other Current Liabilities

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Non-trade accounts payable	P 224,787,067	P362,508,354
Output VAT	47,436,490	61,134,099
Retention payable	64,034,002	48,466,743
Withholding taxes	28,809,432	33,462,627
Employee related liabilities	-	27,210,000
Royalty (Note 25)	14,772,554	16,305,559
Service fees payable	7,604,266	10,381,467
Current portion of deferred revenue on:		
Finance lease (Notes 16 and 26)	589,567	589,567
Exclusivity contract (Notes 16 and 32)	446,429	446,429
Others	32,042,482	10,561,844
	P420,522,289	P571,066,689

Non-trade accounts payable pertains to payable to suppliers of goods or services that forms part of general and administrative expenses. These are noninterest-bearing and are due within one year.

14. Deposits Payable

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Franchisees (Note 32)	P108,170,719	P99,370,298
Service agreements (Note 32)	93,948,635	89,707,363
Rent (Note 26)	13,677,709	13,811,274
	P215,797,063	P202,888,935

15. Cumulative Redeemable Preferred Shares

Cumulative redeemable preferred shares, which are redeemable at the option of the holder, represent the share of PSC-ERP through its trustee, BPI-AMTG, in SSHI's net assets pertaining to preferred shares. PSC-ERP is entitled to an annual "Guaranteed Preferred Dividend" in the earnings of SSHI starting April 5, 2002, the date when the 25% of the subscription on preferred shares have been paid, in accordance with the Corporation Code.

16. Deferred Revenue

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Deferred revenue on finance lease (Note 26)	P98,261	P98,264
Deferred revenue on exclusivity contracts (Note 32)	-	-
Deferred revenue – others	1,552,651	1,508,919
	P1,650,912	P1,607,183

17. Equity

Common Stock

The Group was listed with the Philippine Stock Exchange on February 4, 1998 with total listed shares of 71,382,000 common shares consisting of 47,000,000 shares for public offering and 24,382,000 shares for private placement. The Group offered the share at a price of ₱4.40. Below is the Company's track record of the registration of securities:

Date of SEC order rendered effective or permit to sell/ Date of SEC approval	Event	Authorized Capital Stock	Issued shares	Issue price/ Par value
January 9, 1998	Outstanding common shares	400,000,000	166,556,250	₱1.00
	Listed shares:			
February 4, 1998	Public offering	400,000,000	47,000,000	4.40
	Private placement	400,000,000	24,382,000	4.40
August 15, 2008	10% stock dividends	400,000,000	23,725,200	1.00
August 4, 2009	10% stock dividends	400,000,000	26,097,720	1.00
August 27, 2010	5% stock dividends	400,000,000	14,353,746	1.00
August 19, 2011	15% stock dividends	400,000,000	45,214,300	1.00
November 15, 2012	15% stock dividends	600,000,000	51,996,445	1.00
August 15, 2013	15% stock dividends	600,000,000	59,795,912	1.00
As at December 31, 2013			459,121,573	

As at December 31, 2013 and 2012, the Company has a total of 650 and 656 shareholders on record.

On July 24, 2012, the BOD and at least 2/3 of the Company's stockholders approved the increase of the Company's authorized common stock from ₱400,000,000, divided into 400,000,000 common shares with par value of ₱1 per share, to ₱600,000,000, divided into 600,000,000 common shares with a par value of ₱1 per share.

The Philippine SEC approved the Company's application for the increase in its authorized capital stock on October 19, 2012.

Details of the Group's stock dividend declaration for the years ended December 31, 2013, 2012 and 2011 are as follows:

Declaration date	Record date	Stock dividend %	Outstanding no. of common shares as at declaration date	Total stock dividend issued
July 18, 2013	August 15, 2013	15%	398,639,411	59,795,912
July 24, 2012	November 15, 2012	15%	346,642,966	51,996,445
July 21, 2011	August 19, 2011	15%	301,428,666	45,214,298

The Group's BOD and at least 2/3 of the Group's stockholders approved all the aforementioned stock dividend declarations above.

Details of the Group's cash dividend declaration for the years ended December 31, 2013, 2012 and 2011 are shown below:

Declaration date	Record date	Payment date	Dividend per share	Outstanding no. of common shares as of declaration date	Total cash dividends
July 18, 2013	August 15, 2013	September 9, 2013	₱0.10	398,639,411	₱39,863,941
July 24, 2012	August 22, 2012	September 14, 2012	0.10	346,642,966	34,664,297
July 21, 2011	August 19, 2011	September 13, 2011	0.10	301,428,666	30,142,867

The Group's BOD approved all the cash dividends presented above.

Treasury Shares

There are 686,250 shares that are in the treasury amounting to ₱2,923,246 as at December 31, 2013 and 2012. There are no movement in the Group's treasury shares in 2013 and 2012.

18. Cost of Merchandise Sales

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
Merchandise inventory, beginning	₱900,849,891	₱726,986,563	₱519,258,936
Net purchases	6,014,458,699	5,382,111,941	4,130,311,707
	6,915,308,590	6,109,098,504	4,649,570,643
Less merchandise inventory, ending	808,543,610	820,202,821	495,333,244
	₱6,106,764,979	₱5,288,895,683	₱4,154,237,399

19. General and Administrative Expenses

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
Communication, light and water	₱525,226,052	₱437,584,006	₱376,386,180
Depreciation and amortization (Note 8)	401,042,930	313,357,108	236,307,887
Outside services (Note 32)	354,405,593	327,789,469	311,971,602
Rent (Note 26)	313,508,214	258,014,320	233,454,606
Personnel costs (Notes 5, 23 and 24)	235,409,040	193,995,802	150,529,204
Advertising and promotion	89,691,894	110,038,141	79,492,374
Trucking services	134,084,125	94,850,372	76,970,994
Royalties (Note 25)	97,366,273	85,168,839	65,077,995
Warehousing services	83,857,312	62,401,018	41,044,665
Repairs and maintenance	64,430,681	60,275,575	55,348,272
Supplies	60,988,462	42,149,535	56,083,460
Taxes and licenses	39,890,470	51,455,530	37,783,929
Transportation and travel	26,087,758	21,608,610	17,050,951
EAR	5,598,944	4,275,472	2,747,164
Inventory losses	43,531,124	40,571,872	37,123,187
Dues and subscription	7,504,807	5,991,373	4,489,832
Insurance	5,040,035	5,065,244	4,067,291
Others	40,717,769	32,248,913	21,483,601
	₱2,528,381,483	₱2,146,841,198	₱1,807,413,193

20. Marketing Income

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
Promotions	₱111,821,045	₱112,484,309	₱84,617,695
Marketing support funds (Note 32)	36,315,759	18,093,528	13,655,325
	₱148,136,804	₱130,577,837	₱98,273,020

21. Interest Expense

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
Interest on bank loans (Note 11)	₱7,133,659	₱8,792,567	₱7,158,769
Guaranteed preferred dividends (Note 15)	129,375	129,375	39,375
	₱7,263,034	₱8,921,942	₱7,198,144

22. Interest Income

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
Bank deposits (Note 4)	₱1,259,581	₱1,648,367	₱1,379,501
	₱1,259,581	₱1,648,367	₱1,379,501

23. Personnel Costs

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
Salaries and wages	₱104,423,445	₱84,759,838	₱74,076,445
Employee benefits	119,244,736	102,665,114	71,664,915
Net retirement benefits cost (Note 24)	11,740,859	6,570,850	4,787,844
	₱235,409,040	₱193,995,802	₱150,529,204

24. Retirement Benefits

The Group maintains a trustee, non-contributory defined benefit retirement plan covering all qualified employees administered by a trustee bank under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller of the fund is the one who oversees the entire investment process.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

25. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders.

Transactions with related parties consist of:

- a. PSC has transactions with PFI, a foundation with common key management of the Group, consisting of donations and noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI.
- b. The Group executed a licensing agreement with Seven Eleven, Inc. (SEI), a stockholder organized in Texas, U.S.A. This grants the Group the exclusive right to use the 7-Eleven System in the Philippines. In accordance with the agreement, the Group pays, among others, royalty fee to SEI based on a certain percentage of monthly gross sales, net of gross receipts tax.
- c. As at December 31, 2013 and 2012, the Group's defined benefit retirement fund has investments in shares of stock of the Parent Company with a cost of ₱0.12 million. The retirement benefit fund's total gains arising from changes in market prices amounted to ₱0.76 million and ₱2.35 million in 2013 and 2012, respectively.

26. Leases

Operating Lease as Lessee

- a. PSC has various lease agreements with third parties relating to its store operations. Certain agreements provide for the payment of rentals based on various schemes such as an agreed percentage of net sales for the month and fixed monthly rate.

As of the second Quarters ended, rent expense related to these lease agreements amounted to ₱ 313,508,314, ₱ 258,014,320 and ₱ 233,454,606 in 2014, 2013 and 2012, respectively (see Note 19).

- b. In April 2012, CDI entered into a 2-year lease contract for the lease of a warehouse in Cebu commencing in April 2012 until April 2014. The lease has a renewal option and is subject to an annual escalation rate of 5%.

In 2011, CDI entered into a 10-year lease contract for the lease of its warehouse extension effective March 2011. The lease is subject to an annual escalation rate of 4.0% starting on the second year of the lease.

In 2005, CDI entered into a 15-year operating lease contract for the lease of its warehouse effective November 1, 2005.

27. Income Tax

- a. The components of the Group's provision for (benefit from) income tax are as follows:

	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
Current:			
Regular corporate income tax	P308,105,233	P211,923,436	P161,398,364
Final tax on interest income	838,382	445,546	586,624
	308,943,615	212,368,982	161,984,988
Deferred	(8,141,501)	(2,111,056)	345,290
	P300,802,114	P210,257,926	P162,330,278

- b. The components of the Group's net deferred income tax assets are as follows:

	2013			
	PSC	CDI	SSHI	Total
Deferred income tax assets:				
Net retirement obligations	P26,806,145	P2,138,198	P-	P28,944,343
Accrued rent	16,833,945	595,361	-	17,429,306
Unamortized discount on refundable deposit	4,031,977	1,556,717	-	5,588,694
Allowance for impairment on receivables	6,269,624	-	-	6,269,624
Provision for litigation losses	2,119,887	1,991,335	-	4,111,222
Unamortized past service cost	6,193,281	294,794	-	6,488,075
Deferred revenue on exclusivity contracts	133,929	-	-	133,929
Unearned rent income	95,040	-	-	95,040
Unamortized discount on receivable	11,820	-	-	11,820
Unrealized foreign exchange loss	59,579	-	-	59,579
	62,555,227	6,576,405	-	69,131,632
Deferred income tax liabilities:				
Deferred lease expense	P2,858,206	P1,413,987	P-	P4,272,193
Unamortized discount on purchase of refundable deposit	267,083	-	-	267,083
Revaluation increment on land	-	-	1,384,241	1,384,241
Unrealized foreign exchange gain	-	4,988	-	4,988
	3,125,289	1,418,975	1,384,241	5,928,505
Net deferred income tax assets (liability)	P59,429,938	P5,157,430	(P1,384,241)	P63,203,127

28. Basic/Diluted Earnings Per Share

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
a. Net income	P323,874,651	P296,086,205	P164,258,678
b. Weighted average number of shares issued	459,121,573	459,121,573	459,121,573
c. Less weighted average number of shares held in treasury	686,250	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	458,435,323	458,435,323	458,435,323
e. Basic/diluted earnings per share (a/d)	P0.71	P0.65	P0.36

The Group does not have potentially dilutive common shares as at June 30, 2014, 2013 and 2012. Thus, the basic earnings per share is equal to the diluted earnings per share as at those dates.

The Group's outstanding common shares increased from 399,325,661 to 459,121,573 as a result of stock dividend issuance equivalent to 15% of the outstanding common shares of the Group of 398,639,411 shares approved on July 18, 2013 (see Note 17). Therefore, the calculation of basic/diluted earnings per share for all periods presented has been adjusted retrospectively.

29. Financial Instruments

The comparison of the carrying value and fair value of all of the Company's financial instruments (those with carrying amounts that are not equal to their fair values) as at December 31 are as follows:

	As Audited December 31, 2013		As Audited December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Receivables				
Lease receivable	₱3,645,555	₱3,691,723	₱3,448,336	₱3,606,990
Deposits				
Refundable	34,871,384	41,815,472	25,843,670	32,667,920
	₱38,516,939	₱45,507,195	₱29,292,006	₱36,274,910

Lease receivable and refundable deposits are categorized under level 3 in the fair value hierarchy.

Fair Value Information

Current Financial Assets and Financial Liabilities

Due to the short-term nature of the related transactions, the fair values of cash and cash equivalents, short-term investment, receivables (except for lease receivables), accounts payable and accrued expenses and other current liabilities approximates their carrying values as of balance sheet date.

Lease Receivable

The fair value of lease receivable is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as at December 31, 2013 and 2012, which is 2.73% and 3.80%, respectively.

Utility and Other Deposits

The fair value of utility and other deposits approximates its carrying value as it earns interest based on repriced market conditions.

Refundable Deposits

The fair value of deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as at December 31, 2013 and 2012 ranging from 0.5% to 4.35% and 1.33% to 4.36%, respectively.

Bank Loans

The carrying value approximates fair value because of recent and monthly repricing of related interest based on market conditions.

Cumulative Redeemable Preferred Shares

The carrying value approximates fair value because corresponding dividends on these shares that are charged as interest expense in profit or loss are based on recent treasury bill rates repriced annually at year end.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

As at December 31, 2013 and 2012, the Group has no financial instruments measured at fair value.

30. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk. The BOD reviews and approves policies for managing each of these risks. The BOD also created a separate board-level entity, which is the Audit Committee, with explicit authority and responsibility in managing and monitoring risks. The Audit Committee, which ensures the integrity of internal control activities throughout the Group, develops, oversees, checks and pre-approves financial management

functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

Listed below are the summarized risk identified by the BOD.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to impairment is managed to a not significant level. The Group deals only with counterparty duly approved by the BOD.

The following tables provide information regarding the maximum credit risk exposure of the Group as at June 30, 2014:

	As of June 30, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Cash and cash equivalents (excluding cash on hand)		
Cash in bank	P 483,113,128	P734,552,645
Cash equivalents	-	50,580,062
	483,113,128	785,132,707
Short-term investment	10,810,228	10,810,229
Receivables		
Franchisees	74,943,653	379,329,782
Suppliers	180,130,996	33,091,755
Employees	12,182,000	14,396,862
Store operators	11,253,180	12,181,205
Rent	3,325,589	2,486,280
Due from PFI	3,322,771	3,118,978
Current portion of:		
Lease receivable	3,086,114	3,086,114
Notes receivable	955,356	1,033,914
Insurance receivable	2,406,634	585,057
Others	5,396,832	1,358,499
	297,003,124	450,668,446
Deposits (Note 9)		
Utilities	46,358,138	42,509,396
Refundable Deposits	55,733,773	34,871,384
Others	5,391,647	4,487,223
	107,483,559	81,868,003
Other noncurrent assets		
Noncurrent portion of:		
Lease receivable	565,213	559,441
	565,213	559,441
	P898,975,252	P1,329,038,826

The following tables provide information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit ratings of debtors:

	As of June 30, 2014 (Unaudited)			
	Neither Past Due nor Impaired			Total
	High Grade	Standard Grade	Past Due Or Impaired	
Cash and cash equivalents				
Cash in bank	P 483,113,128	P-	P-	P 483,113,128
Cash equivalents	-	-	-	-
	483,113,128	-	-	483,113,128
Short-term investment	10,810,228	-	-	10,810,228
Receivables				
Franchisees	-	74,943,653	214,342	75,157,995
Suppliers (Forward)	-	165,866,652	20,386,188	186,252,840
Employees	-	12,182,000	539,921	12,721,921
Store operators	-	11,253,180	365,801	11,618,981
Rent	-	3,325,589	2,274,184	5,599,773
Due from PFI	-	3,322,771	-	3,322,771
Current portion of:				
Lease receivable	-	3,086,114	-	3,086,114
Notes receivable	-	955,356	-	955,356

Insurance receivable	–	2,406,634	–	2,406,634
Others	–	5,396,832	–	5,396,832
		282,738,780	23,780,436	306,519,216
Deposits				
Utilities	–	46,358,138	–	46,358,138
Refundable	–	55,733,773	–	55,733,773
Others	–	5,391,647	–	5,391,647
	–	107,483,559	–	107,483,559
Other noncurrent asset				
Noncurrent portion of lease receivable	–	565,213	–	565,213
	–	565,213	–	565,213
		493,923,357	23,780,436	922,755,688

The Group uses the following criteria to rate credit quality:

Class	Description
High Grade	Financial assets that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Financial assets of companies that have the apparent ability to satisfy its obligations in full.

The credit qualities of the financial assets were determined as follows:

Cash in banks and cash equivalents and short-term investment are classified as high grade, since these are deposited or transacted with reputable banks which have low probability of insolvency.

Receivables, deposits and other noncurrent asset are classified as standard grade, since these pertain to receivables considered as unsecured from third parties with good paying habits.

The following tables provide the analysis of financial assets that are past due but not impaired and past due and impaired:

	As of June 30, 2014 (Unaudited)					
	Aging analysis of financial assets past due but not impaired				Past due and	
	31 to 60 days	61 to 90 days	> 90 days	Total	Impaired	Total
Receivables:						
Franchisees	P–	P–	P–	P–	P214,342	P214,342
Suppliers	–	–	4,820,254	4,820,254	15,565,934	20,386,188
Employees	–	–	–	–	539,921	539,921
Store operators	–	–	–	–	365,801	365,801
Rent	–	–	–	–	2,274,184	2,274,184
	P–	P–	P4,820,254	P4,820,254	P18,960,182	P23,780,436

Receivables from suppliers are noninterest-bearing and are generally on 30 day to 90 day terms.

There are no significant concentrations of credit risk within the Group.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. To cover for its financing requirements, the Group intends to use internally generated funds and sales of certain assets.

As part of its liquidity risk management program, the Group regularly evaluates projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund raising initiatives. The Group uses historical figures and experiences and forecasts of collections and disbursements. These initiatives may include drawing of loans from the approved credit line intended for working capital and capital expenditures purposes and equity market issues.

The tables below summarize the maturity profile of the financial assets of the Group:

	As of June 30, 2014 (Unaudited)				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
Cash and cash equivalents					
	₱				₱
Cash on hand and in banks	699,181,976	₱-	₱-	₱-	699,181,976
Cash equivalents	-	-	-	-	-
	₱				₱
	699,181,976	-	-	-	699,181,976
Short-term investment	10,810,229	-	-	-	10,810,229
(Forward)					
Receivables:					
Franchisees	74,943,653				74,943,653
Suppliers	175,310,742	4,820,254			180,130,996
Employees	12,182,000				12,182,000
Store operators	11,253,180				11,253,180
Rent	3,325,589				3,325,589
Due from PFI	3,322,771				3,322,771
Current portion of:					
Lease receivable	1,955,265	1,130,849			3,086,114
Notes receivable	955,356				955,356
Insurance receivable	1,821,577	585,057			2,406,634
Others	5,396,832				5,396,832
	290,466,964	6,536,160			297,003,124
Deposits					
Utilities			46,358,138		46,358,138
Refundable			55,733,773		55,733,773
Others			5,391,647		5,391,647
			107,483,559		107,483,559
Other noncurrent asset					
Noncurrent portion of lease receivable			559,441		559,441
			559,441		559,441
					₱
	₱1,000,459,168	₱6,536,160	₱108,043,000	₱-	1,115,038,328

The tables below summarize the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations:

	As of June 30, 2014 (Unaudited)				Total
	Three months or less	More than three months to one year	More than one year		
Bank loans					
					₱
		₱430,000,000		₱-	₱430,000,000
Accounts payable and accrued expenses					
Trade payable	₱1,649,549,021				₱1,649,549,021
Utilities	84,587,724				84,587,724
Rent	58,229,151				58,229,151
Employee benefits	46,621,859				46,621,859
Advertising and promotion	23,170,307				23,170,307
Outsourced services	43,396,564				43,396,564
Bank charges	10,613,220				10,613,220
Security services	19,993,616				19,993,616
Interest	1,076,003				1,076,003
Others	56,086,183				56,086,183
	₱1,993,323,648				₱1,993,323,648
Other current liabilities					
Non-trade accounts payable		₱224,787,067			₱224,787,067
Retention payable		64,034,002			64,034,002
Employee related liabilities					-
Royalty		14,772,554			14,772,554
Service fees payable		7,604,266			7,604,266
Others		32,042,482			32,042,482
		343,240,371			343,240,371
Cumulative redeemable preferred shares	6,000,000				6,000,000
	1,999,323,648	773,240,371			2,772,564,020

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's fair value and cash flows interest rate risk mainly arise from bank loans with floating interest rates. The Group is expecting to substantially reduce the level of bank loans over time. Internally generated funds coming from its cash generating units and from its franchising business will be used to pay off outstanding debts and consequently reduce the interest rate exposure.

The maturity profile of financial instruments that are exposed to interest rate risk are as follows:

	2013	2012
Due in less than one year	P560,000,000	P477,777,778
Rate	2.5%-3.3%	3.30%-3.75%

Interest of financial instruments classified as floating rate is repriced at intervals of 30 days.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings):

	2013		2012	
	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax
Bank loans - floating interest rate	+100	(P5,600,000)	+100	(P4,777,778)
	-100	P5,600,000	-100	4,777,778

There is no other impact on the Group's equity other than those already affecting profit or loss.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group's foreign exchange exposure arises from holding foreign currency denominated rates, cash and cash equivalents, loans and receivables and merchandise sale to foreign entity. In order to balance this exposure, the Group has some sales denominated in foreign currency and maintains a foreign currency accounts in a reputable commercial bank. The Group does not enter into derivatives to hedge the exposure.

31. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% to 50% in relation to its total assets. The Group's net worth ratio is 43% and 42% as at December 31, 2013 and 2012, respectively. No changes were made in the objectives, policies and processes during the year.

	As of June 30, (Unaudited)	
	2014	2013
Common stock	P459,121,573	P459,121,573
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	1,996,865,414	1,810,521,305
	2,749,512,025	2,563,167,915
Less cost of shares held in treasury	2,923,246	2,923,246
	2,746,588,778	2,560,244,669
Total assets	P 5,991,191,760	P5,961,773,332
Net worth	46%	43%

As at December 31, 2013 and 2012, the Group was able to meet its objective.

32. Significant Agreements

a. Franchise Agreements

The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Details follows:

	For the Six Month Period Ended June 30, (Unaudited)		
	2014	2013	2012
Franchise revenue	743,419,158	594,598,257	283,875,869
Franchise fee	54,408,488	42,279,755	31,467,610
	797,827,646	636,878,012	315,343,479

b. Service Agreements

The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement quarters ended June 30, 2014, 2013 and 2012 respectively (see Note 19).

c. Commission Income

The Group has entered into agreements with a phone card supplier and various third parties. Under the arrangements, the Group earns commission on the sale of phone cards and collection of bills payments based on a certain percentage of net sales and collections for the month and a fixed monthly rate. Commission income amounted to ₱ 7,818,892, ₱ 14,262,293 and ₱ 14,516,536 for the quarters ended June 30, 2014, 2013 and 2012 respectively.

d. 2010 Exclusivity Contract

The Group has also entered into a 3-year exclusivity contract with a Third Party soda manufacturer in the Philippines effective April 2010 to March 2013. The contract indicates that the Third Party soda manufacturer will exclusively supply all slurpee products of 7-Eleven. The Group received a one-time signing bonus amounting to ₱4,464,286 upon the effectivity of the exclusivity supply contract amortized over three years.

e. 2010 Signing Bonus

In 2010, the Group collected a signing bonus amounting to ₱2,232,143 from one of the Group's food suppliers for awarding half of the Group's existing Hotdog Stock Keeping Units (SKUs) to the food supplier for the next five years starting January 1, 2010. Income from exclusivity contract included as part of "Marketing support funds" under "Marketing income" in profit or loss amounted to ₱446,429 in 2013, 2012 and 2011 (see Note 20).

f. MOA with Chevron Philippines, Inc.

The Group has entered into MOA with Chevron Philippines, Inc. (CPI) on August 6, 2009, wherein CPI has granted the Group as authorized co-locator for a full term of three-years to establish, operate and/or franchise its 7-Eleven stores in CPI service stations. Both parties have identified 22 CPI service stations, wherein the Group will give the Retailers of these service stations a Letter Offer to Franchise (LOF) 7-Eleven stores. Upon acceptance of the Retailers of the LOF, the Retailers will sign a Store Franchise Agreement (SFA) with the Group.

33. Segment Reporting

The Group considers the store operations as its only business segment based on its primary business activity. Franchising, renting of properties and commissioning on bills payment services are considered an integral part of the store operations. The Group's identified operating segments below are consistent with the segments reported to the BOD, which is the Chief Operating Decision Maker of the Group.

The products and services from which the store operations derive its revenues from are as follows:

- Merchandise sales
- Franchise revenue
- Marketing income
- Rental income
- Commission income
- Interest income

The aforementioned revenues are all revenues from external customers.

The segment's relevant financial information is as follows:

	For the Six Months Ended June 30, (Unaudited)		
	2014	2013	2012
Revenue			
Revenue from merchandise sales	₱ 7,986,453,643	₱ 6,982,950,501	₱ 5,721,835,425
Franchise revenue	797,827,646	636,878,012	315,343,479
Marketing income	148,136,804	130,577,837	98,273,020
Rental income	10,993,656	11,883,135	25,723,416
Commission income	18,422,844	33,162,149	29,821,618
Interest income	1,259,581	1,648,367	1,379,501
Other income	146,337,483	71,905,271	17,993,486
	9,109,431,658	7,869,005,272	6,210,369,945
Expenses			
Cost of merchandise sales	6,106,764,979	5,288,895,683	4,154,237,399
General and administrative expenses:			
Depreciation and amortization	401,042,930	313,357,108	236,307,887
Others	2,127,338,553	1,833,484,090	1,571,105,305
Interest expense	7,263,034	8,921,942	7,198,144
Other expenses	4,158,452	4,794,727	6,865,955
	8,646,567,948	7,449,453,551	5,975,714,691
Income Before Income Tax	462,863,710	419,551,721	234,655,254
Provision for Income Tax	138,989,056	123,465,517	70,396,576
Segment Profit	323,874,651	296,086,205	164,258,678
Segment Assets	5,991,191,760	5,191,670,423	4,106,465,752
Segment Liabilities	3,263,614,530	2,968,993,875	2,445,577,961

34. Provisions and Contingencies

The Group is a party to various litigations and claims. All cases are in the normal course of business and are not deemed to be considered as material legal proceedings. Further, the cases are either pending in courts or under protest, the outcome of which are not presently determinable. Management and its legal counsel believe that the liability, if any, that may result from the outcome of these litigations and claims will not materially affect their financial position or financial performance.

As at December 31, 2013 and 2012, the Group has provisions amounting to ₱13,704,073 and ₱7,066,290, respectively.

35. Note to Consolidated Statements of Cash Flows

The principal non-cash transaction of the Group under financing activities pertains to the issuance of stock dividends (see Note 17).

Q2 2014 Management's Discussion and Analysis of Results of Operations and Financial Condition

SELECTED FINANCIAL DATA

	Three Months Ended June 30 (Unaudited)		Six Months Ended June 30 (Unaudited)	
	2014	2013	2014	2013
SYSTEMWIDE SALES	₱5,348,979	₱4,387,834	₱9,778,940	₱8,543,130
Statement of Income Data:				
Revenues and other income				
Sales of merchandise	4,375,032	3,540,010	7,986,454	6,982,951
Franchise revenue	449,976	352,471	797,828	636,878
Marketing income	67,500	66,455	148,137	130,578
Rent income	7,006	2,548	10,994	11,883
Others (net)				
Cost and expenses				
Cost of merchandise sold	3,337,253	2,677,509	6,106,765	5,288,896
General & admin expenses	1,328,098	1,069,140	2,528,381	2,146,841
Interest expense	3,578	3,869	7,263	8,922
Net income	223,869	182,203	323,875	296,086
Earnings per share	0.49	0.40	0.71	0.65
Cash Flow Data:				
Net cash from operating activities	821,456	579,734	832,496	579,734
Net cash used in investing activities	(576,950)	(251,762)	(831,523)	(251,762)
Net cash (used)/from financing activities	(271,109)	(116,313)	(274,794)	(116,313)
Balance Sheet Data:				
Total assets	₱ 5,991,192	₱5,961,773	₱5,991,192	₱5,961,773
Total liabilities	3,263,615	3,420,540	3,263,615	3,420,540
Total stockholders' equity	2,727,577	2,541,233	2,727,577	2,541,233

(Amount in thousands, except EPS)

OVERVIEW

Philippine Seven Corporation (PSC) operates the largest convenience store network in the country. It acquired from Southland Corporation (now Seven Eleven Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines in December 1982.

We opened our first store in February 1984 at the corner of Kamias Road and EDSA Quezon City, and grew slowly as the economy struggled. Expansion was stepped up in 1993, followed by an IPO in 1998. President Chain Store Corporation of Taiwan took a majority stake in 2000 at management's invitation, providing technology transfer from a more advanced market.

After a period of consolidation of organization, processes, and systems, the rate of expansion was stepped up further in 2007.

At the end of the second quarter of 2014, total 7-Eleven convenience stores reached 1,121, mainly in Metro Manila and in major towns and cities in Luzon & Visayas.

Out of the 1,121 7-Eleven Convenience Stores, about two thirds are operated by third party franchisees and the remainder is company-owned.

The Company successfully penetrated the Visayas as it was able to end the semester with close to 80 stores in the Cebu and Bacolod market.

Cebu is the 2nd largest city after Metro Manila, and, we believe, the key to the Visayas. It is a tourist favorite, has a fast growing BPO sector, and is rapidly urbanizing. Given the importance of this market, we invested in logistics and advertising, and were rewarded with sales that exceeded our expectations. We intend to have over a hundred stores on our 3rd year.

This is the Company's first venture outside Luzon, which is home to half the country's population as well as the capital of Metro Manila. It is a significant first step in the company's push to bring modern convenience wherever feasible to the rest of the archipelago – a more logistically complex market than the contiguous and highly urbanized Luzon.

Our retail chain of convenience stores is sustained by a manpower complement of 3,549 (regular and outsourced) employees engaged in corporate store operations and in various support service units.

PSC derives its revenues principally from retail sales of merchandise, commissions, marketing income and franchising activities. The primary expenses consist of cost of goods, selling, general and administrative expense and income taxes.

We seek to meet the needs of our customers and maintain a leadership position in the C-store industry by taking advantage of economies of scale, technology, people and a widely recognized brand. Our vision is to be the best retailer of convenience for emerging markets.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE 1ST HALF OF 2014

Results of Operations

For the Second Quarter

Net income generated in the second quarter rose by 22.9 percent to P223.9 million from P182.2 million registered in the same period last year.

The improvement in net income can be attributed to the increase in sales, better margins and higher franchise revenues and marketing income.

System wide sales, which represent sales of all corporate and franchise-operated stores, grew by 21.9 percent during the April to June period. Opening of new stores and improvement in same store sales drove increase in sales. At the end of first half, new stores opened reached 119 to end the period with 1,121 stores.

For the Six Months Ended June 30

During the first six months of 2014, net income posted an increase of 9.4 percent from P296.1 million last year to P323.9 million at the end of June 2014. This translated into an earnings per share of P0.71; an improvement compared to the June 2013 EPS which is pegged at P0.65 per share.

System wide sales rose by 14.5 percent to P9.78 billion at the end of first half from P8.5 billion last year. This was driven mainly by the increase in store base and improved average sales registered by mature stores. Higher average sales can be attributed to external factors such as, solid economic growth and good weather conditions. Internally, a new inventory management system was implemented and effective execution of promotion programs contributed favorably.

New franchise operators boosted franchise revenues as it grew by 25.3 percent to P797.8 million from P636.9 million a year ago.

Marketing income posted growth of 13.4 percent to end the period at about P148.1 million owing to the continuing support by the suppliers in various marketing activities.

Moreover, cost of goods sold and store and administrative expenses went up by 16.1 percent to P8.6 billion. The rate of increase is faster compared to the 15.8 percent rise in revenues.

EBITDA (earnings before interest, taxes, depreciation and amortization) at the end of June 2014 likewise grew by 17.4 percent to P871.2 million. EBITDA margin was pegged at 10.9 percent from 10.6 percent in the preceding year.

As can be seen from the favorable first half results, PSC remains on track towards meeting its store expansion and profit goals for the year. This shall enable 7-Eleven in protecting its strong hold in the fast growing CVS industry and allowing it to enhance shareholder value.

Revenue and Gross Margin

The Company registered total revenue from merchandise sales of almost P8.0 billion in 2Q 2014, an increase of 14.4 percent compared to P7 billion in 2013. Cost of merchandise sold rose by P817.9 million to P6.1 billion during 2Q 2014.

Gross Profit stood at P1.9 billion, while GP in relation to sales went down by .72 percent owing to the dilution brought about by the increase in Company's sales to franchise stores, which are accounted for at zero mark-up.

We intend to grow services as new opportunities surface due to technological progress. In the third quarter of 2012, we announced a partnership with Philippine Airlines that allows passengers to pay for tickets booked online at our stores. This latest innovation will be implemented in partnership with our third party payment processor ECPay.

Other Income

Marketing income grew by P17.6 million from the 2Q 2013 level. This is due to increased supplier-supported ad and promo spending, driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. The goal is to become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to P797.8 million from P636.9 million in 2Q 2013. This was the result of the increase in number of franchise-operated stores.

No significant element of income came from sources other than the result of the Company's continuing operations.

General and Administrative Expense

General and administrative expense which is comprised of store operating and selling expenses as well as headquarters expenses went up by 17.8 percent or P381.5 million and totaled to P2.5 billion in 2Q 2014.

Communication, light & water were the highest contributor and accounted for 20.8% of the total G & A expenses. This is followed by 15.9% share for both depreciation and amortization and Outside services with 14% share

Personnel costs aggregated to P235.4 million, versus P194 million in 2Q 2013. Ratio to sales was 2.4% in 2014 and 2.1% in 2013. Personnel costs include salaries and wages at P104.4 million, employee benefits at P119.2 million and pension costs at P11.7 million. The Company continued

to outsource store personnel to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Rent expense incurred is pegged at P313.5million or 3.4% of Total revenue against P258 million or 3.3% in 2013.

Interest Expense

Cost of debt servicing in 2014 totaled to P7.3 million, a decrease of 18.6% compared with 2013 level of P8.9 million. Outstanding loan balance at the end of 2Q 2014 was pegged at P430.0 million, a decrease of P130 million from P560 million beginning of 2014.

Net Income

Net income for the second quarter of 2014 increased by P27.8 million to P323.9 million mainly due to improved sales, higher margins and continued store expansion.

The net profit generated during the 2Q of 2014 translated into a 5.12% return on sales and 8.5% return on equity. Moreover, EPS is pegged ₱0.49 and ₱0.40 in 2Q 2014 and 2Q 2013, respectively.

Financial Condition

Total assets went up by P29.4 million or .5% to P5.99 billion at the end of 2Q 2014. Cash and cash equivalents during the year decreased by P273.8 million from P973 million at the beginning of the year. Receivables went down by P153.7 million due to the collection from suppliers. Moreover, inventories went down by P92.3 million while prepayments were up by P119.1 million coming from advance rent paid for new stores and down payments to equipment vendors. The aforementioned factors resulted into a net decrease in total current assets by P400.7 million from the start of the year.

Total current liabilities went down by P168.1 million or 5.4% mainly due to payment of trade payable and accrued expenses. Current ratio went down to 0.75 to 1 as of June 30, 2014 against 0.84 to 1 at the beginning of the year.

Property and equipment, net of accumulated depreciation increased by P263.7 million mainly due to capital expenditures spent in relation to store expansion and investment on new equipment for new product lines that cater to the varying customers' needs.

Stockholders' equity at the second quarter of 2014 comprises 45.5% of total assets, compared to 42.6% at the beginning of the year. Debt to equity ratio is pegged at 1.20 for 2Q 2014 from 1.35 end of 2013.

Liquidity and Capital Resources

The Company obtains the majority of its working capital from these sources:

- Cash flows generated from retailing operations and franchising activities
- Borrowings under the revolving credit facility extended by banks

PSC has sufficient level of cash generated by operating activities and adequate standby credit line from various banks that can be utilized to fund its investing and financing activities. The following are the discussion of the sources and uses of cash during the second quarter of 2014.

Cash Flows from Operating Activities

Net cash from operating activities in 2Q 2014 amounted to P832.5 million, compared to P718.9 million cash inflow during comparable period from last year. Such increase is attributable to increase of operating income before working capital by P132.2 million and decrease of P153.7 million in receivables during the quarter.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to P831.5 million in 2Q 2014 compared to net cash out flow of P360.4 million in 2Q 2013. Major cash outlay went to the procurement of store equipment, and new store constructions. There were 119 new stores opened as of June 30, 2014.

Majority of the company's commitments for capital expenditures for the remainder of the year are for new store constructions and renovations. Funds for these expenditures are expected to come from the anticipated increase in cash flows from retail operations and from additional borrowings if the need for such may arise.

Cash Flows from Financing Activities

Net cash used in financing activities reached P274.8 million representing cash dividends amounting to P137.5 million, repayments of bank loans in the amount of P130.0 million and interest paid on outstanding bank loans totaling P7.3 million.

DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

System Wide Sales

System-wide sales represents the overall retail sales to customers of corporate and franchise-operated stores.

Revenue from Merchandise Sales

Revenue corresponds to the retail sales of corporate owned and sales made by stores under labor franchise. This also includes merchandise sales to franchise operated stores.

Net Income Margin

Measures the level of recurring income generated by continuing operations relative to revenues and is calculated by dividing net income over revenue from merchandise sales.

EBITDA Margin

The ratio of earnings before interest, taxes, depreciation and amortization over system-wide sales. This measures the level of free cash flow generated by retail operations and is an indicator of profitability.

Earnings per Share (EPS)

EPS is the ratio of net income earned during the year relative to the number of issued and outstanding common shares after due consideration to potentially dilutive shares and retrospective effect of stock dividend declaration, if any. This is an indicator of profitability per unit of shareholding to the Company.

Financial Summary	For the Quarter Ended June 30,		
	2014	2013	% Change
Store count	1,121	893	25.5
Corporate	34%	32%	
Franchise	66%	68%	
Sales of all stores	5,349	4,388	21.9
Revenue from merchandise sales	4,375	3,540	23.6
Operating income	323.5	260.7	24.1
Net income	223.9	182.2	22.9
Earnings per share	0.49	0.40	22.9
EBITDA	530.5	421.7	25.8
EBITDA%	12.1%	11.9%	1.8
EBIT%	7.39%	7.37%	.4
Net income%	5.12%	5.15%	-.6

* Amount in Php million except EPS and store data

** Margin is calculated based from revenue from merchandise sales

System wide sales generated by all 7-Eleven stores continued with its upward trajectory by posting growth of 21.9% to P5.3 billion by the end of the second quarter of the current year.

At the end of the quarter, 7-Eleven stores in the Philippines totaled to 1,121, up by 228 stores or 25.5 percent from same period in 2013.

EBITDA margin improved to 12.1% of revenue from merchandise sales from 11.9% during the same period last year.

Operating (EBIT) margin went up to 7.39% while net income margin dropped to 5.12%, due to lower same store sales during the quarter.

Financial Soundness Indicator

Second Quarter	Formula	2014	2013
Liquidity Ratio			
Current ratio	Current Assets/Current Liabilities	0.75	0.91
Quick ratio	Cash + Receivables/Current Liabilities	0.34	0.36
Financial Leverage			
Debt ratio	Total Debt/Total Assets	0.54	0.57
Debt to equity ratio	Total Debt/Total Equity	1.20	1.34
Interest coverage	EBIT/Interest charges	90.41	67.40
Asset to equity ratio	Total Assets/Total Equity	2.20	2.34
Profitability Ratio			
Gross profit margin	Gross profit/Revenue from merchandise sales	23.72%	24.36%
Net profit margin	Net income/Revenue from merchandise sales	5.12%	5.15%
Return on assets	Net income/Total Assets	3.74%	3.51%
Return on equity	Net income/Average Equity	33.99%	32.75%
Price/earnings ratio	Stock price (end of quarter)/EPS LY	45	57

SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE SEVEN CORPORATION**



JOSE VICTOR P. PATERNO
President and CEO
August 14, 2014



PING-HUNG CHEN
Treasurer and CFO
August 14, 2014



LAWRENCE M. DE LEON
Head
Finance & Accounting Services Division
August 14, 2014