

COVER SHEET

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S.E.C Registration Number

P H I L I P P I N E

S E V E N

C O R P O R A T I O N

(Company's full Name)

7 t h F l r . T h e C o l u m b i a T o w e r

O r t i g a s A v e . M a n d a l u y o n g C i t y

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

Atty. Evelyn S. Enriquez
Corporate Secretary

Contact Person

724-44-41 to 51

Company Telephone Number

1 2 3 1

Month Day
Fiscal Year

1 7 - Q

FORM TYPE

0 7 3rd Thursday

Month Day
Annual Meeting

1ST QUARTER REPORT

Secondary License Type, if Applicable

Dept. Requiring this Doc. Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders Domestic Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

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 March 31, 2016
- 2. Commission identification number: 108476
- 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
1550
- 8. Telephone number : (632) 724-44-41 to 51
- 9. Former name, former address and former fiscal year, if changed since last report N/A
- 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 []

Stock Exchange: *Class/es of Securities listed*
 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: May 12, 2016



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

Date: May 12, 2016

May 12, 2016

SECURITIES AND EXCHANGE COMMISSION

SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of March 31, 2016, 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 March 31, 2016. 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 TIN: 132-688-472
President and CEO

May 12, 2016

PING-HUNG CHEN TIN: 418-547-911
Treasurer and CFO

May 12, 2016

LAWRENCE M. DE LEON TIN: 198-167-019
Head
Finance & Accounting Services Division

May 12, 2016

Subscribed and sworn to before me
this <u>12</u> day of <u>MAY</u> , 2016
in <u>MANDALUYONG CITY</u>
affiant exhibiting to me his/hers ID value _____
until _____;
Doc. No. <u>24</u>
Page No. <u>6</u>
Book No. <u>I</u>
Series of 201 <u>6</u> .

ATTY. ALMA ALYO O. ARIAS
Notary Public
Until Dec. 31, 2016
Roll No. 57951, IBP No. 1017559/04 Jan. 2016
MCLE Compliance No. V-0014537/29 Feb. 2016
PTR No. 261-49504 Mandaluyong City

Part 1 – FINANCIAL INFORMATION

Item1. Financial Statements

The consolidated financial statements accompany this form 17-Q and the following is the table of contents.

a.	Unaudited Consolidated Balance Sheet as at March 31, 2016 and Audited Consolidated Balance Sheet as at December 31, 2015	3
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Item2. Management's Discussion and Analysis of Results of Operations and Financial Condition (Pages i – viii)

SELECTED FINANCIAL DATA

	For the period ending March 31,		
	2016	2015	2016 vs. 2015
SYSTEM WIDE SALES	7,342,649	5,501,495	33.5%
Statement of Income Data:			
Revenues and other income			
Revenue from merchandise sales	6,572,174	4,542,634	44.7%
Franchise revenue	663,599	551,251	20.4%
Marketing income	91,506	144,526	-36.7%
Other Income	81,670	53,976	51.3%
Cost and expenses			
Cost of merchandise sales	5,044,961	3,451,952	46.1%
General & administrative expenses	2,087,118	1,667,971	25.1%
Interest expense	10,011	6,062	65.1%
Net income	182,371	112,856	61.6%
Earnings per share (EPS)	0.40	0.25	60.0%
Cash Flow Data:			
Net cash (used in) from operating activities	468,239	(434,724)	-207.7%
Net cash (used in) from investing activities	(493,028)	(505,066)	-2.4%
Net cash (used in) from financing activities	62,319	574,580	-89.2%
Balance Sheet Data:			
	As of March 31, 2016	As of December 31, 2015	
Total assets	9,635,930	9,515,935	1.3%
Total liabilities	5,336,264	5,398,640	-1.2%
Total stockholders' equity	4,299,666	4,117,295	4.4%

* Amount in thousands of Pesos, except EPS

OVERVIEW

We operate the largest convenience store network in the country. We acquired from Southland Corporation (now Seven Eleven Inc.) of Dallas, Texas the area license to operate 7-Eleven convenience 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 and improvement of processes and systems, the rate of expansion was stepped up further in 2007 through the franchise business model and close collaboration with business partners. This was backed by a strong logistics and head office support.

At the end of March 31, 2016, we have 1,655 7-Eleven convenience stores, mainly in Metro Manila and in major towns and cities in Luzon. We penetrated the Visayas during the middle of 2012 and achieved another milestone by entering Mindanao. We opened stores in Davao City and Cagayan de Oro during the second quarter of 2015. As of March 31, 2016, there are 1,421 7-Eleven stores in Luzon, 189 in Visayas and 45 in Mindanao.

The rest of the country is relatively uncontested in comparison. We are virtually the only competitor with the critical mass to build out proper supply chains in areas logistically unreachable from GMA. Such supply chains come at a medium term cost in terms of underutilized warehouses. We expanded our existing distribution centers and opened new warehouses in 2015. We ended the year with nine warehouse facilities against four in mid-2014. To put such costs in perspective, operators in contiguous territories typically serve 1000 stores per DC. We wager that first movers, especially on islands that cannot sustain more than one or two warehouses, will be rewarded with unusually dominant share and that BPO trends will continue to drive growth in the remote urban areas.

Our retail chain of convenience stores is sustained by a manpower complement of 6,429 employees engaged in corporate store operations and in support service units. Despite of growing competition, we maintain our leadership in the CVS industry.

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.

First Quarter Financial Condition and Results of Operations

Results of Operations

For the First Quarter

The net income of Philippine Seven Corporation (PSC) in the first quarter surged by 61.6 percent to ₱ 182.4 million, from ₱ 112.9 million registered in the same period in 2015. This was mainly driven by the increase in sales during the period.

System-wide sales, which represent sales of all corporate and franchise-operated stores, rose by 33.5 percent to ₱ 7.3 billion during the quarter. Revenue from merchandise sales, which pertains to retail sales of corporate stores and merchandise sold to franchised stores, grew by 44.7 percent in the first quarter.

The quarter ended with 1,655 stores, up by 23.4 percent from 1,341 stores by the end of Q1 2015. Total number of new stores that opened during the first three months of the year reached 55 against 2 store closures.

Gross margin declined to 23.2 percent of revenue from merchandise sales in the first quarter from 24.0 percent during the same period in 2015.

Earnings per share (EPS) likewise increased by 60.0 percent to ₱0.40 per share.

The Company opened the most number of new stores in its history last year. It intends to accelerate the rate of new store openings over the medium-term at a rate of at least twenty percent per year to take advantage of improving economic conditions and to protect its market share in light of increased competition.

PSC believes that the CVS sector will remain to be crowded over the next five years. It intends to capitalize on its first-mover advantage and economies of scale to remain the market leader.

Further, new operators boosted franchise store count to 950 franchisees from 829 a year ago. As a result, total franchise revenues went up by 20.4 percent to ₱ 663.6 million as a result of the higher number of franchisees.

This is also attributable to the change in charging of expenses such as rent and utilities to franchisees. Previously, expenses initially paid by PSC are deducted automatically from the share of the franchisees in gross profits. In the first half of 2015, these are recorded first as expenses by PSC at gross amounts before charging to the franchisees. There is no significant impact on net income as a result of the change in the accounting treatment.

Total selling, general and administrative expenses (SG & A) decreased as a percentage of revenues from 36.8 percent in 2015 to 31.8 percent this year.

EBITDA (earnings before interest, taxes, depreciation and amortization) rose by 39.7 percent from ₱ 415.7 million in 2015 to ₱ 579.8 million at the end of March 2016 while EBITDA margin declined to 8.8 percent of revenue from merchandise sales from 9.1 percent in 2015. Operating margin on the other hand increased to 3.9 percent from 3.6 percent in 2015.

Stock price ranged from ₱ 98-105 per share during the first quarter.

Revenue and Gross Margin

The Company closed the quarter with total revenue from merchandise sales of ₱6.6 billion, an increase of 44.7 percent compared to ₱4.5 billion in 2015. Cost of merchandise sold rose by ₱1.6 billion to ₱5.0 billion as at March 31, 2016.

Gross Profit stood at ₱ 1.5 billion, an increase of 40% from last year of ₱ 1.0 billion.

Along with its 24/7 convenience, PSC also offers services including bills payment, phone/call cards, and 7-Connect that allows customers to pay for selected online purchases with cash through any 7-Eleven store. These products in the services category plus consigned goods formed part of commission income. Commission income this quarter amounted to ₱ 13.3 million compared to ₱ 11.0 million for the same period last year.

	Q1 2016	Q1 2015	Increase (Decrease)	
			Value	Percentage
Revenue from merchandise sales	6,572,174	4,542,634	2,029,540	44.7
Cost of merchandise sales	5,044,961	3,451,952	1,593,009	46.1
Gross profit	1,527,213	1,090,682	436,531	40.0
Commission income	13,291	10,997	2,294	20.9

(amount in thousand Pesos)

Other Income

Other income mainly consists of franchise revenues, marketing and rental income. The Company's total other income increased by ₱ 84.7 million, to 823.4 million as a result of the following:

Franchise revenues went up by 20.4 percent to ₱ 663.6 million due to the increase in the number of franchisees from 950 at the end of March 2016 to 829 in 2015.

Moreover, rent income related to the stores' subleased spaces increased by 68.1 percent to ₱ 14.9 million and can be attributed to the increase in occupancy rate.

Other income rose by 56.8 percent to ₱ 53.5 million partly due to penalties imposed on suppliers, which incurred low inbound fill rate and delayed deliveries.

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

	Q1 2016	Q1 2015	Increase (Decrease)	
			Value	Percentage
Franchise revenue	663,599	551,251	112,348	20.4
Marketing income	91,506	144,526	(53,020)	-36.7
Rental income	14,897	8,862	6,035	68.1
Other income	53,483	34,117	19,366	56.8
Total	823,484	738,756	84,729	11.5

(amount in thousand Pesos)

Selling, General and Administrative Expense

Selling, general and administrative (SG & A) expenses which is comprised of store operating and selling expenses and headquarters' expenses went up by 25.1 percent or almost ₱ 419.1 million to ₱ 2.1 billion in the 1st quarter of 2016.

Rent, was the highest contributor in the increase of SG & A as percentage of sales went up to 5.7 percent and increased by 56.7 percent from same period last year. Significant increase was due to store opening and additional six distribution centers starting in the second quarter of 2015. This is also attributable to the change in accounting treatment of the rent expense of franchisees. In the second half of 2015, rent expense of franchisees was recorded first at gross as rent expense before charging it to the franchisees.

Communication, light and water increased by 8.4 percent to P 306.7 million while percentage to sales decreased from 6.2 percent last year to 4.7 percent this year. Rate of increase in electricity expense is lower compared to the increase in number of stores of 23.4 percent since generation charge in the first quarter of 2016 is lower compared to last year.

Depreciation and amortization expense rose by 25.9 percent or P 64.1 million from last year. However, percentage to sales decreased from 5.4 percent to 4.7 percent this year. Higher depreciation was a result of opening of new stores and renovation of existing stores.

The Company continued to employ outsourced manpower on its new corporate stores and warehouse facilities. Outside services expenses increased by 41.8% to P 339.0 million or 5.2 percent as to percentage to sales.

All other expense types went up over preceding year's level as a result of the increased number of stores. The said growth is considered to be incidental and commensurate as PSC continues to grow its asset base.

There are no significant nor unusual expense incurred during the calendar year and is considered to be in the normal course of business.

	Q1 2016	Q1 2015	Increase (Decrease)	
			Value	Percentage
Rent	371,614	237,202	134,412	56.7%
Outside services	339,048	239,048	100,000	41.8%
Depreciation and amortization	311,020	246,949	64,071	25.9%
Communication, light and water	306,698	283,054	23,644	8.4%
Personnel costs	167,314	146,198	21,116	14.4%
Trucking services	95,752	78,297	17,455	22.3%
Advertising and promotion	87,269	55,022	32,247	58.6%
Royalties	73,136	54,892	18,244	33.2%
Warehousing services	67,309	56,325	10,984	19.5%
Supplies	63,024	46,895	16,129	34.4%
Repairs and maintenance	48,770	37,744	11,026	29.2%
Taxes and licenses	48,371	21,439	26,933	125.6%
Transportation and travel	12,493	15,667	(3,174)	-20.3%
Entertainment and amusement	2,782	3,530	(748)	-21.2%
Others	92,518	145,709	(53,191)	-36.5%
Total	2,087,118	1,667,971	419,147	25.1%

(amount in thousand Pesos)

Interest Expense

Interest incurred to service debt increased by 65.1 percent to ₱ 10.0 million. Outstanding loan balance at the end of the first quarter was pegged at ₱ 1.2 billion, up by ₱ 95.5 million or 7.8 percent from the start of the year. Proceeds were used to fund expansion.

Net Income

Net income in the first quarter of 2016 grew by ₱ 69.5 million or 61.6 percent to ₱ 182.4 million. This was primarily due to improved sales and continued store expansion.

The net income generated during the quarter translated into a 2.5 percent return on system wide sales, higher compared with 2.1 percent in 2015, while return on equity increased to 4.3 percent from 3.4 percent. Moreover, EPS reached ₱ .40 per share at the end of the quarter, up from ₱ .25 in 2015.

Financial Condition

Total assets went up by ₱ 120.0 million or 1.3 percent to ₱ 9.6 billion at the end of the first quarter of 2016.

This was mainly driven by the increase in prepayments and other current assets by 32.7 percent to end the quarter with ₱ 565.3 million. Prepayments increased due to payment of advance rental for new stores.

Cash and equivalents likewise increased by 4.2 percent to ₱ 913.5 million from ₱ 876.0 million at the end of 2015.

Property and equipment, net of accumulated depreciation increased by 2.8 percent mainly due to capital expenditure spent in relation to store expansion and investment in store equipment to support new product lines.

Also, rental and utilities deposits made to acquire new sites contributed an increase of 9.1 percent and reached ₱ 630.7 million at the end of the quarter.

On the other hand, current liabilities went down by ₱ 470.8 million or 9.5 percent owing to the decrease in current portion of bank loans and other current liabilities. Current loan balance was lower by 34.8 percent due to the change in terms from short term to medium term loans.

The Company operates on a negative working capital position, which is manifested by a current ratio of 0.80:1 from 0.73:1 at the end of 2015. This is because cash proceeds from retail sales are invested in long-term assets and at the same time utilizing credit term extended by trade suppliers.

Stockholders' equity at the end of the quarter comprises 44.6 percent of total assets, compared to 43.3 percent at the beginning of the year. The increase in equity account was driven by improved profitability in the first quarter of the year.

Liquidity and Capital Resources

The Company obtains majority of its working capital and capital expenditure requirements from cash generated by retailing operations and franchising activities and short-term borrowings under the revolving facility extended by banks

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2016 as it continues to expand its store base. This will enable the Company to fund its capital expenditures, pay dividends and other general corporate purposes.

Management believes that this trend will be favorable in the long term, as rate of store expansion will be entering a more rapid stage augmented by improving economic outlook and prevailing positive investor sentiment in the country.

The following are the discussion of the sources and uses of cash in the first quarter.

Cash Flows from Operating Activities

Net cash used from operating activities at the end of Q1 2016 totaled to ₱ 468.2 million, 207.6 percent higher compared to net cash used in operating activities of ₱ 434.7 million in 2015. The increase in operating cash flow can be attributed to the lower decrease in current liabilities in 2016 compared to 2015.

Cash Flows from Investing Activities

Net cash used in investing activities, primarily for capital expenditures, slightly declined by 2.4 percent to ₱ 493.0 million. There were 53 new stores opened in the first quarter of the year compared to 59 stores opened last year.

Cash Flows from Financing Activities

Net cash flow from financing activities amounted to ₱ 62.3 million representing avilment of new short-term and medium-term loans in the amount of ₱ 95.5 million, significantly lower compared to the net avilment of loan last year of ₱ 580.0 million.

We expect to take advantage of our working capital and utilizing the short to medium term line extended by leading local banks in funding our growth strategies.

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 from merchandise sales corresponds to the retail sales of corporate owned stores plus sales to franchisees.
- **Net Income Margin**
Measures the level of profitability generated by continuing operations relative to sales 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 revenue from merchandise sales. This measures the level of free cash flow generated by retail operations and is a main indicator of profitability.
- **Return on Equity (ROE)**
The amount of net income returned as a percentage of equity. ROE measures profitability by revealing how much profit a company generates with the money shareholders have invested. This is computed by dividing net income over equity.

Quarter 1	2016	2015	% change
System wide Sales (in '000s)	7,342,649	5,501,495	33.5
Revenue from Merchandise Sales (in '000s)	6,572,174	4,542,634	44.7
EBITDA (in '000s)	579,755	415,664	39.5
EBITDA Margin *	8.82%	9.15%	-3.6
EBIT Margin *	4.09%	3.70%	10.5
Net income (in '000s)	182,371	112,856	61.6
Net Income Margin *	2.77%	2.48%	11.7
Return on Equity (annualized)	27.13%	24.04%	27.5
Earnings Per Share	0.40	0.25	60.0

* Margin is calculated based on revenue from merchandise sales

- System wide sales generated by all 7-Eleven stores continued with its upward trail by posting growth of 33.5 percent to ₱ 7.3 billion at the end of the quarter.
- The increase in total sales can be attributed to the opening of new stores and improvement in average sales of mature stores.
- At the end of the quarter, 7-Eleven stores in the Philippines totaled to 1,655, up by 314 stores or 23.4 percent from same period in 2015.
- EBITDA margin declined to 8.8 percent of revenue from merchandise sales from 9.1 percent during the same period in 2015. However, as percentage of system-wide sales, EBITDA went up to 7.9 percent from 7.5 percent.
- Operating income or EBIT margin stood at 4.1 percent of revenues from 3.7 percent in 2015 attributed to increase in volume.
- Net income rose by 61.6 percent to ₱ 182.4 million, translating into a net margin and EPS of 2.8 percent and ₱ 0.40, respectively.

Financial Soundness Indicator

Quarter 1	Formula	2016	2015
Liquidity Ratio			
Current ratio	Current Assets/Current Liabilities	0.80	0.73
Quick ratio	Cash + Receivables/Current Liabilities	0.35	0.33
Financial Leverage			
Debt ratio	Total Debt/Total Assets	0.55	0.57
Debt to equity ratio	Total Debt/Total Equity	1.24	1.31
Interest coverage	EBIT/Interest charges	26.84	27.83
Asset to equity ratio	Total Assets/Total Equity	2.24	2.31
Profitability Ratio			
Gross profit margin	Gross profit/Revenue from merchandise sales	23.24%	24.01%
Net profit margin	Net income/Revenue from merchandise sales	2.77%	2.48%
Return on assets	Net income/Total Assets	1.89%	1.19%
Return on equity (annualized)	Net income/Average Equity	27.13%	24.04%
Price/earnings ratio	Stock price/EPS	50x	112x

Discussion and Analysis of Material Events and Uncertainties

1. There are no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.
2. There are no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.
3. All of the Company's income was earned in the ordinary course of business.
4. There are no seasonal aspects that have a potentially material effect on the financial statements.
5. The Company's financial risk management objectives and policies are discussed in Note 29 of the March 31, 2016 Notes to Unaudited Consolidated Financial Statements.

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
May 12, 2016



PING-HUNG CHEN
Treasurer and CFO
May 12, 2016



LAWRENCE M. DE LEON
Head
Finance & Accounting Services Division
May 12, 2016

Philippine Seven Corporation and Subsidiaries

Unaudited Consolidated Financial Statements
As at March 31, 2016 and December 31, 2015 (Audited)
and for the Quarters Ended March 31, 2016 and 2015

COVER SHEET

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SEC Registration Number

P	H	I	L	I	P	P	I	N	E	S	E	V	E	N	C	O	R	P	O	R	A	T	I	O	N	A	N	D
S	U	B	S	I	D	I	A	R	I	E	S																	

(Company's Full Name)

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O	r	t	i	g	a	s	A	v	e	n	u	e	,	M	a	n	d	a	l	u	y	o	n	g	C	i	t	y

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

Steve Chen <small>(Contact Person)</small>

705-5200 <small>(Company Telephone Number)</small>

0 3	3 1
<small>Month</small>	<small>Day</small>
<small>(Calendar Year)</small>	

A	A	C	F	S
<small>(Form Type)</small>				

<small>Month</small>	<small>Day</small>
<small>(Annual Meeting)</small>	

Not Applicable

(Secondary License Type, If Applicable)

-

Dept. Requiring this Doc.

-

Amended Articles Number/Section

626

Total No. of Stockholders

P1.3B

Domestic

-

Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

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File Number

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Remarks: Please use BLACK ink for scanning purposes.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱913,509,179	₱875,978,073
Short-term investment	10,884,130	10,983,401
Receivables (Note 5)	654,944,448	767,259,573
Inventories (Note 6)	1,442,394,223	1,568,498,726
Prepayments and other current assets (Note 7)	565,310,553	426,050,698
Total Current Assets	3,587,141,803	3,648,770,471
Noncurrent Assets		
Property and equipment (Note 8)	4,886,191,754	4,753,670,268
Deposits (Note 9)	630,722,778	578,349,692
Deferred income tax assets – net	95,735,760	95,706,492
Goodwill and other noncurrent assets (Note 10)	436,138,192	439,438,292
Total Noncurrent Assets	6,048,788,484	5,867,164,744
TOTAL ASSETS	₱9,635,930,287	₱9,515,935,215
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 11, 28 and 29)	₱750,000,000	₱1,150,000,000
Current portion of long term debt	118,000,000	18,000,000
Accounts payable and accrued expenses (Notes 12 and 29)	2,541,820,657	2,366,121,396
Income tax payable	294,360,256	217,978,770
Other current liabilities (Note 13)	801,616,589	1,224,521,642
Total Current Liabilities	4,505,797,502	4,976,621,808
Noncurrent Liabilities		
Deposits payable (Note 14)	248,550,435	238,305,143
Net retirement obligations (Note 24)	102,734,358	100,870,628
Long term debt	458,500,000	63,000,000
Deferred income tax liability	7,936,841	7,936,841
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	6,745,091	5,905,714
Total Noncurrent Liabilities	830,466,725	422,018,326
Total Liabilities	₱5,336,264,227	₱5,398,640,134

(Forward)

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Equity		
Common stock (Notes 17 and 30) - ₱1 par value		
Authorized - 600,000,000 shares		
Issued - 459,121,573 shares	₱459,121,573	₱459,121,573
Additional paid-in capital (Note 30)	293,525,037	293,525,037
Retained earnings (Notes 17 and 30)		
Appropriated	2,450,000,000	2,450,000,000
Unappropriated	1,103,328,903	920,957,924
Other comprehensive income (loss):		
Remeasurements loss on net retirement obligations - net of deferred income tax asset	(21,905,502)	(21,905,502)
Revaluation increment on land - net of deferred income tax liability (Note 8)	18,519,295	18,519,295
	4,302,589,306	4,120,218,327
Cost of 686,250 shares held in treasury (Note 17)	(2,923,246)	(2,923,246)
Total Equity	4,299,666,060	4,117,295,081
TOTAL LIABILITIES AND EQUITY	₱9,635,930,287	₱9,515,935,215

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31	
	2016	2015
REVENUES		
Revenue from merchandise sales	₱6,572,174,468	₱4,542,634,245
Franchise revenue (Note 31)	663,598,565	551,251,457
Marketing income (Note 20)	91,506,028	144,525,805
Commission income (Note 31)	13,290,554	10,996,658
Rental income	14,896,888	8,862,478
Interest income (Notes 4 and 22)	976,593	606,174
Other income	52,505,966	33,510,340
	7,408,949,062	5,292,387,157
EXPENSES		
Cost of merchandise sales (Note 18)	5,044,961,229	3,451,952,164
General and administrative expenses (Notes 19 and 31)	2,087,117,565	1,667,971,051
Interest expense (Notes 11, 15 and 21)	10,011,172	6,062,163
Other expenses	8,135,747	3,748,164
	7,150,225,713	5,129,733,542
INCOME BEFORE INCOME TAX	258,723,349	162,653,615
PROVISION FOR INCOME TAX	76,352,370	49,797,946
NET INCOME	182,370,979	112,855,669
OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS	-	-
TOTAL COMPREHENSIVE INCOME	₱182,370,979	₱112,855,669
BASIC/DILUTED EARNINGS PER SHARE (Note 27)	₱0.40	₱0.25

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015(UNAUDITED)

	Three Months Ended March 31, 2016							
	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	Revaluation Increment on Land - Net of Tax			
At January 1, 2016	P459,121,573	P293,525,037	P3,370,957,924	(P21,905,502)	P18,519,295	P4,120,218,327	(P2,923,246)	P4,117,295,081
Net income for the period	-	-	182,370,979	-	-	182,370,979	-	182,370,979
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	182,370,979	-	-	182,370,979	-	182,370,979
Stock dividends (Note 17)	-	-	-	-	-	-	-	-
Cash dividends (Note 17)	-	-	-	-	-	-	-	-
Balances at March 31, 2016	P459,121,573	P293,525,037	P3,553,328,903	(P21,905,502)	P18,519,295	P4,302,589,306	(P2,923,246)	P4,299,666,060

	Three Months Ended March 31, 2015							
	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	Revaluation Increment on Land - Net of Tax			
At January 1, 2015	P459,121,573	P293,525,037	P2,546,335,563	(P25,041,697)	P18,519,295	P3,292,459,771	(P2,923,246)	P3,289,536,525
Net income during the Quarter	-	-	112,855,669	-	-	112,855,669	-	112,855,669
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	112,855,669	-	-	112,855,669	-	112,855,669
Stock dividends (Note 17)	-	-	-	-	-	-	-	-
Cash dividends (Note 17)	-	-	-	-	-	-	-	-
Balances at March 31, 2015	P459,121,573	P293,525,037	P2,659,191,232	(P25,041,697)	P18,519,295	P3,405,315,440	(P2,923,246)	P3,402,392,194

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱258,723,349	₱162,653,615
Adjustments for:		
Depreciation and amortization (Notes 8 and 19)	311,019,991	246,948,977
Net retirement benefits cost	1,863,730	(2,718,668)
Interest expense (Note 21)	10,011,172	6,062,163
Interest income (Note 22)	(976,593)	(606,174)
Amortization of:		
Deferred revenue on exclusivity contract	(18,750,000)	(6,250,000)
Software and other program costs	413,201	223,251
Operating income before working capital changes	562,304,851	406,313,164
Decrease (Increase) in:		
Receivables	1,648,371	1,648,371
Inventories	126,104,503	90,615,431
Prepayments and other current assets	(139,344,285)	(155,750,715)
Increase (decrease) in:		
Accounts payable and accrued expenses	198,868,722	(417,830,564)
Other current liabilities	(403,315,676)	(364,053,609)
Deposits payable	10,245,292	3,732,136
Cash (used in) generated from operations	467,233,694	435,325,786
Income taxes paid	29,116	(4,414)
Interest received	976,593	606,174
Net cash (used in)provided by operating activities	468,239,403	434,724,026
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 8)	(443,541,477)	(483,788,488)
Software and other program costs	—	—
Decrease (Increase) in:		
Deposits	(52,373,086)	(22,281,369)
Goodwill and other noncurrent assets	2,886,899	1,003,989
Net cash used in investing activities	(493,027,664)	(505,065,868)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bank loans (Note 11)	895,500,000	580,000,000
Payments of bank loans (Note 11)	(800,000,000)	—
Interest paid	(33,180,633)	(5,420,079)
Net cash provided by financing activities	62,319,367	574,579,921
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,531,106	(365,209,973)
CASH AND CASHEQUIVALENTS AT BEGINNING OF YEAR	875,978,073	1,241,685,743
CASH AND CASHEQUIVALENTS AT END OF YEAR	₱913,509,179	₱876,475,770

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 24, 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 foodstuff, 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, 2016 and 2015, the Company has 640 and 650 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 17, 2015.

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.

Statement of Compliance

The consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to standards effective starting January 1, 2015. The adoption did not have any significant impact on the Group's consolidated financial statements.

- Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Annual Improvements to PFRSs (2010–2012 Cycle)
 - PFRS 2, *Share-based Payment – Definition of Vesting Condition*
 - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
 - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
 - PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
 - PAS 24, *Related Party Disclosures – Key Management Personnel*
- Annual Improvements to PFRSs (2011–2013 Cycle)
 - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
 - PFRS 13, *Fair Value Measurement – Portfolio Exception*
 - PAS 40, *Investment Property*

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2015

The Group will adopt the following PFRS when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these standards to have significant impact on its financial statements.

Deferred

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.

Effective January 1, 2016

- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendments)*
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity

method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint venture.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*(Amendments)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests* (Amendments)

The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments)

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions;
- That specific line items in the statement of income and other comprehensive income and the balance sheet may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and,
- That the share of other comprehensive income of associate and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Group is currently assessing the impact of these amendments on its financial statements.

- PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must

present the regulatory deferral accounts as separate line items on the balance sheet and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants (Amendments)*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

- Annual Improvements to PFRSs (2012–2014 cycle)

The Annual Improvements to PFRSs (2012–2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- *PAS 19, Employee Benefits – Regional Market Issue Regarding Discount Rate*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- *PAS 34, Interim Financial Reporting – Disclosure of Information ‘Elsewhere in the Interim Financial Report’*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- *PFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of International Financial Reporting Standard (IFRS) 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

Standards issued by the IASB but not yet adopted locally by SEC and FRSC

- *IFRS 15, Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- **IFRS 16, Leases**

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheet, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to the December 31, 2016 consolidated financial statements. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

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 financial reporting 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) investments, 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 March 31, 2016 and December 31, 2015, the Group's financial instruments include loans and receivables and other financial liabilities.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment. The amortization is included as part of interest income in the consolidated statement of comprehensive income. Losses arising from impairment are recognized in the consolidated statement of comprehensive income. 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 March 31, 2016 and December 31, 2015 (see Notes4,5,9 and 10).

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 March 31, 2016 and December 31, 2015 (see Notes11, 12, 13 and 15).

Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on lowest level of input that is significant to the fair value measurement as a whole:

- 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

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

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.

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.

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. These are recorded as assets and expensed when utilized or expired.

Advances to suppliers are down payments 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 financial reporting 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 income tax liability" 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 CGU 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" account 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, rent 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 CGU'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 higher of the land's net selling price, which may be obtained from its sale in an arm's-length transaction, and its value-in-use. 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 land 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 CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs 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 sublessees 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.

Stock Dividends

Stock dividends are distribution of the earnings in the form of own shares. When stock dividends are declared, the amount of stock dividends is transferred from retained earnings to capital stock.

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 multiplied by the redemption rate. The fair value of the points issued is deferred (included as part of "Other current liabilities" account 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 Group 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 financial 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 OCI 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 reassessment is made, lease accounting shall commence or cease from the date when the change in circumstance gave rise to the reassessment 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

The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency. All subsidiaries evaluate their primary economic and operating environment and determine their functional currency. 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 outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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 "Other current liabilities" 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 Per Share

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

Diluted earnings per share is calculated by dividing the net income 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 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 at 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 Philippine Peso.

The Philippine 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 investments, 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 classifies the cumulative redeemable preferred shares as liability in accordance with the redemption features contained in the shareholders agreement (see Note 15). The cumulative redeemable preferred shares are redeemable at the option of the holder.

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 28).

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).

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities follow:

Determination of Fair Values

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, options pricing models, and other relevant valuation models.

Note 28 presents the fair values of the financial instruments and the methods and assumptions used in estimating their fair values.

Impairment of Loans and Receivables

The Group reviews its loans and receivables at each balance sheet date to assess whether a provision for impairment should be recognized in profit or loss or loans and receivables balance should be written off. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Moreover, management evaluates the presence of objective evidence of impairment which 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 re-organization.

In addition to specific allowances against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration the credit risk characteristics such as customer type, payment history, past due status and term.

Decline in Inventory Value

Provisions are made for inventories whose NRV are lower than their carrying cost. This entails determination of replacement costs and costs necessary to make the sale. The estimates are based on a number of factors, such as but not limited to the age, status and recoverability of inventories.

Impairment of Non-financial Assets Other than Goodwill

The Group assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill, at each balance sheet date. These non-financial assets (property and equipment, rent deposits, and software and program cost) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business;
- significant negative industry or economic trends; and
- decline in appraised value.

The carrying values of these non-financial assets are as follows:

	Mar. 31, 2016	Dec. 31, 2015
Property and equipment (Note 8)	₱4,886,191,754	₱4,753,670,268
Rent deposits (Note 9)	488,043,666	415,821,916
Software and program cost (Note 10)	2,554,194	2,524,677

Estimation of Useful Lives of Property and Equipment and Software and Program Cost

The Group estimates the useful lives of its property and equipment and software and program cost based on a period over which the assets are expected to be available for use and on collective assessment of industry practices, internal evaluation and experience with similar arrangement. The estimated useful lives of property and equipment and software and program cost are revisited at the end of each financial reporting period and updated if expectations differ materially from previous estimates.

Revaluation of Land

The Group's parcels of land are carried at revalued amounts, which approximate its fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The valuations of land are performed by independent appraisers. Revaluations are made every three to five years or more frequently as necessary, to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at balance sheet date.

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 CGUs 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 CGUs 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 CGUs exceeds the carrying amount of the unit, including goodwill as at March 31, 2016 and December 31, 2015. The carrying value of goodwill amounted to ₱65,567,524 as at March 31, 2016 and December 31, 2015 (see Note 10). No impairment losses were recognized in 2016, 2015 and 2014.

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 financial 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.

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.

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.

4. Cash and Cash Equivalents and Short-Term Investment

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash on hand and in banks	P713,509,178	P875,978,073
Cash equivalents	200,000,000	–
	P913,509,178	P875,978,073

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Franchisees (Note 31)	P209,868,985	P329,329,550
Suppliers	422,234,795	408,935,881
Employees	17,711,803	30,389,608
Store operators	8,013,408	3,983,205
Rent	2,293,761	2,007,087
Due from PhilSeven Foundation, Inc. (PFI) (Note 25)	4,317,186	4,088,483
Current portion of:		
Lease receivable - net of unearned interest income amounting to P5,773 as at March 31, 2016 and December 31, 2015		
(Notes 10 and 26)	3,747,772	3,747,773
Notes receivable	990,918	990,917
Insurance receivable	4,380,971	1,192,091
Others	5,820,245	7,030,373
	679,379,844	791,694,968
Less allowance for impairment	(24,435,395)	(24,435,395)
	P654,944,449	P767,259,573

Impairment on receivables is based on individual assessment of accounts. Movements in allowance for impairment as at March 31, 2016 and December 31, 2015 are as follows:

	Beginning balances	Provision for the year (Note 19)	Write-off	Ending balances
Suppliers	P21,308,244	P–	P–	P21,308,244
Franchisees	214,342	–	P–	P214,342
Employees	539,921	–	–	539,921
Store operators	365,801	–	–	365,801
Rent	2,007,087	–	–	2,007,087
Total	P24,435,395	P–	P–	P24,435,395

6. Inventories

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
At cost (Note 18):		
Warehouse merchandise	₱812,525,225	₱910,485,903
Store merchandise	629,868,998	658,012,823
	₱1,442,394,223	₱1,568,498,726

7. Prepayments and Other Current Assets

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Current portion of:		
Deferred input VAT	₱177,271,355	₱158,318,201
Deferred lease (Notes 10 and 26)	10,813,163	3,646,778
Prepaid:		
Deferred rent	95,874,557	109,315,676
Store expenses	19,289,953	27,653,626
Taxes	12,292,761	182,553
Supplies	141,628	4,691,537
Uniform	4,146,441	4,451,884
Repairs and maintenance	–	46,294
Advances to suppliers	48,103,110	47,053,657
Advances for expenses	43,552,469	41,742,009
Dues and subscription	1,881,552	–
Others	151,943,564	13,288,330
	₱565,310,553	₱426,050,698

8. Property and Equipment

Movements in property and equipment are as follows:

	March 31, 2016 (Unaudited)								
	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	P66,323,000	156,326,344	P4,049,487,830	P1,276,678,042	P61,465,034	P377,736,733	P2,180,950,373	P 278,691,801	P8,447,659,157
Additions	–	–	220,615,566	90,610,420	1,840,892	10,940,059	71,042,024	48,492,515	443,541,477
Retirements	–	–	(3,474,094)	(3,304,257)	–	(324,593)	(6,026,755)	–	(26,776,252)
Reclassifications	–	–	–	–	–	–	18,413,893	(18,413,893)	–
Ending balances	66,323,000	156,326,344	4,266,629,302	1,363,984,205	63,305,926	388,352,200	2,264,379,535	295,123,870	8,864,424,382
Accumulated Depreciation and Amortization									
Beginning balances	–	87,145,836	1,911,011,322	599,938,089	35,752,396	238,046,924	822,094,322	–	3,693,988,889
Depreciation and amortization (Note 19)	–	1,894,821	167,418,298	53,773,189	2,543,145	5,298,410	80,092,128	–	311,019,991
Retirements	–	–	(6,948,188)	(7,125,373)	–	(649,186)	(12,053,507)	–	(26,776,252)
Ending balances	–	89,040,657	2,071,481,433	646,585,905	38,295,541	242,696,148	890,132,943	–	3,978,232,628
Net Book Values	P66,323,000	P67,285,687	P2,195,147,870	P717,398,300	P25,010,385	P145,656,051	P1,374,246,592	P295,123,870	P4,886,191,755

December 31, 2015 (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	P66,323,000	P156,326,344	P2,897,637,390	P956,106,238	P52,347,579	P298,187,598	P1,713,536,550	P185,123,564	P6,325,588,263
Additions	–	–	1,208,723,010	353,225,388	10,655,186	85,046,116	139,543,624	490,623,580	2,287,816,904
Retirements	–	–	(56,872,570)	(32,653,584)	(1,537,731)	(5,496,981)	(69,185,144)	–	(165,746,010)
Reclassifications	–	–	–	–	–	–	397,055,343	(397,055,343)	–
Revaluation increment	–	–	–	–	–	–	–	–	–
Ending balances	66,323,000	156,326,344	4,049,487,830	1,276,678,042	61,465,034	377,736,733	2,180,950,373	278,691,801	8,447,659,157
Accumulated Depreciation and Amortization									
Beginning balances	–	80,224,199	1,378,656,135	436,786,878	27,107,834	187,110,400	657,612,819	–	2,767,498,265
Depreciation and amortization (Note 19)	–	6,921,638	589,227,758	195,791,519	10,182,292	56,433,505	233,666,647	–	1,092,223,359
Retirements	–	–	(56,872,570)	(32,640,309)	(1,537,731)	(5,496,981)	(69,185,144)	–	(165,732,735)
Reclassifications	–	–	–	–	–	–	–	–	–
Ending balances	–	87,145,837	1,911,011,323	599,938,088	35,752,395	238,046,924	822,094,322	–	3,693,988,889
Net Book Values	P66,323,000	P69,180,507	P2,138,476,507	P676,739,954	P25,712,639	P139,689,809	P1,358,856,051	P185,123,564	P4,753,670,268

9. Deposits

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Rent	₱488,043,666	₱415,821,916
Refundable (Notes 28 and 29)	46,270,819	85,525,747
Utilities (Notes 28 and 29)	88,783,178	69,522,572
Others (Notes 28 and 29)	7,625,115	7,479,457
	₱630,722,778	₱578,349,692

10. Goodwill and Other Noncurrent Assets

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Noncurrent portion of:		
Deferred input VAT	₱235,002,013	₱239,469,982
Prepaid rent	73,326,739	69,497,911
Due from franchisees	34,163,295	36,836,593
Deferred lease (Note 26)	18,968,629	18,968,629
Intangible assets:		
Goodwill	65,567,524	65,567,524
Software and program cost	2,554,194	2,524,677
Garnished accounts	5,951,681	5,937,064
Others	604,117	635,912
	₱436,138,192	₱439,438,292

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:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Beginning balance	₱22,615,407	₱25,316,723
Additions	7,166,385	2,264,413
Less amortization	–	(4,965,729)
Ending balance	29,781,792	22,615,407
Less current portion (Note 7)	10,813,163	3,646,778
Noncurrent portion	₱21,762,365	₱18,968,629

Goodwill

On March 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation (Jollimart) for a total consideration of ₱130,000,000. The excess of the acquisition cost over the fair value of the assets acquired was recorded as goodwill amounting to ₱70,178,892. In 2008, the Group recognized an impairment loss in goodwill amounting to ₱4,611,368.

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.

11. Bank Loans

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2016 and 2015 with annual interest rates ranging from 2.50% to 3.30% as at March 31, 2016 and December 31, 2015, 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:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Beginning balance	₱1,150,000,000	₱750,000,000
Availments	400,000,000	1,480,000,000
Payments	(800,000,000)	(1,080,000,000)
Ending balance	₱750,000,000	₱1,150,000,000

12. Accounts Payable and Accrued Expenses

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Trade payable	₱2,032,999,343	₱1,826,297,820
Utilities	82,239,490	96,576,822
Rent (Note 26)	76,182,457	75,616,440
Employee benefits	54,960,645	105,085,550
Advertising and promotion	2,818,192	2,846,192
Outsourced services	75,962,426	64,035,623
Repairs and maintenance	–	44,187,134
Bank charges	16,371,550	25,180,700
Security services	32,512,822	20,713,819
Interest (Notes 11 and 15)	1,660,010	2,011,954
Others	166,113,722	103,569,342
	₱2,541,820,657	₱2,366,121,396

13. Other Current Liabilities

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Non-trade accounts payable	₱298,932,112	₱743,739,171
Retention payable	124,769,656	113,676,477
Due to Franchisees	96,618,686	18,341,605
Output VAT	120,481,582	145,484,516
Withholding taxes	50,946,379	51,317,633
Royalty	23,596,120	24,323,677
Service fees payable	674,728	1,456,938
Current portion of deferred revenue on:		
Finance lease (Notes 16 and 26)	–	–
Customer loyalty programme	47,512,633	43,628,031
Exclusivity contract (Notes 16 and 31)	18,750,000	25,000,000
Others	19,334,693	57,553,594
	₱801,616,589	₱1,224,521,642

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Franchisees	₱137,324,873	₱128,226,587
Service agreements	94,971,167	94,282,022
Rent	16,254,396	15,796,534
	₱248,550,436	₱238,305,143

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Deferred revenue on exclusivity contracts (Note 31)	₱-	₱-
Deferred revenue on finance lease (Note 26)	-	-
Deferred revenue - others	6,745,091	5,905,714
	₱6,745,091	₱5,905,714

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
	Outstanding			
January 9, 1998	commonshares	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 March 31, 2016 and December 31, 2015			459,121,573	

As at March 31, 2016 and December 31, 2015, the Company has a total of 639 and 640 shareholders on record.

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

Treasury Shares

There are 686,250 shares that are in the treasury amounting to ₱2,923,246 as at March 31, 2016 and December 31, 2015. There are no movement in the Group's treasury shares for the three months ended March 31, 2016.

18. Cost of Merchandise Sales

	Three Months Ended March (Unaudited)	
	2016	2015
Merchandise inventory, beginning	₱1,568,498,726	₱1,165,094,076
Net purchases	4,918,856,726	3,361,336,733
	6,487,355,452	4,526,430,809
Less merchandise inventory, ending	1,442,394,223	1,074,478,645
	₱5,044,961,229	₱3,451,952,164

19. General and Administrative Expenses

	Three Months Ended March 31, (Unaudited)	
	2016	2015
Communication, light and water	₱306,697,629	₱283,054,033
Depreciation and amortization (Note 8)	311,019,991	246,948,977
Outside services (Note 31)	339,048,145	239,048,009
Rent (Note 26)	371,614,341	237,202,222
Personnel costs (Notes 23 and 24)	167,313,730	146,198,303
Trucking services	95,752,317	78,296,696
Advertising and promotion	87,269,151	55,021,740
Royalties (Note 25)	73,136,071	54,892,419
Warehousing services	67,308,970	56,324,609
Supplies	63,023,823	46,894,644
Inventory losses	49,095,327	29,755,764
Repairs and maintenance	48,770,289	37,743,990
Taxes and licenses	48,371,490	21,438,904
Transportation and travel	12,492,771	15,667,138
Dues and subscription	4,108,572	4,037,716
Insurance	5,327,749	3,452,746
Entertainment and representation	2,782,191	3,529,686
Amortization of software and program costs (Note 10)	413,201	-
Others	33,571,807	108,463,455
	₱2,087,117,565	₱1,667,971,051

20. Marketing Income

	Three Months Ended March 31 (Unaudited)	
	2016	2015
Promotions	P55,607,385	P107,225,628
Marketing support funds	35,898,643	37,300,177
	P91,506,028	P144,525,805

21. Interest Expense

	Three Months Ended March 31(Unaudited)	
	2016	2015
Guaranteed preferred dividends (Note 15)	P44,101	P33,945
Interest on bank loans (Note 11)	9,967,071	6,028,218
	P10,011,172	P6,062,163

22. Interest Income

	Three Months Ended March 31 (Unaudited)	
	2016	2015
Bank deposits (Note 4)	P976,593	P606,174
	P976,593	P606,174

23. Personnel Costs

	Three Months Ended March 31 (Unaudited)	
	2016	2015
Salaries and wages	P91,773,409	P70,185,558
Employee benefits	70,176,591	70,649,015
Net retirement benefits cost (Note 24)	5,363,730	5,363,730
	P167,313,730	P146,198,303

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 and CDI have 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. Donations payable to PFI is presented under "Others" in the "Other current liabilities" in the consolidated balance sheets (see Note 13).
- b. As at March 31, 2016 and December 31, 2015, the Group's defined benefit retirement fund has investments in shares of stock of the Parent Company with a cost of ₱122,417.

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.
- b. In 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%. Upon expiration in April 2014, CDI renewed the lease contract for another eight months from May to December 2014. On January 1, 2015, CDI again renewed the lease contract for one year from January to December 2015.

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. The lease contract was transferred to PSC on January 1, 2014 and rent expenses for this lease agreement were recorded by PSC.

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

On June 30, 2007, PSC has assumed the lease agreement for the warehouse and subleased the warehouse back to CDI. The lease has a renewal option and is subject to an escalation rate of 7.0% every after two years starting on the third year of the lease. In February 2013, CDI transferred the lease contract to PSC and the sublease was terminated. Rent expense related to the lease agreement was recorded by PSC.

27. Basic/Diluted Earnings Per Share

	Three Months Ended March 31 (Unaudited)	
	2016	2015
a. Net income	₱182,370,979	₱112,855,669
b. Weighted average number of shares issued	459,121,573	459,121,573
c. Less weighted average number of shares held in treasury	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	458,435,323	458,435,323
e. Basic/diluted earnings per share (a/d)	₱0.40	₱0.25

The Group does not have potentially dilutive common shares as at March 31, 2016 and December 31, 2015. Thus, the basic earnings per share is equal to the diluted earnings per share as at those dates.

28. 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 March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Receivables				
Lease receivable	₱3,747,772	₱3,747,772	₱3,742,000	₱3,742,000
Deposits				
Refundable	46,270,819	46,270,819	45,428,482	45,428,482
	₱50,018,591	₱50,018,591	₱49,170,482	₱49,170,482

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 at 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 March 31, 2016 and December 31, 2015, which is 2.73%.

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 March 31, 2016 and December 31, 2015 ranging from 0.5% to 4.35%.

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 March 31, 2016 and December 31, 2015, the Group has no financial instruments measured at fair value.

29. 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 March 31, 2016 and December 31, 2015:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash and cash equivalents (excluding cash on hand)		
Cash in bank	P625,594,606	P586,341,649
Cash equivalents	200,000,000	–
	825,594,606	586,341,649
Short-term investment	10,983,400	10,983,401
Receivables		
Franchisees	209,868,985	329,115,208
Suppliers	422,234,795	387,627,637
Employees	17,711,803	29,849,687
Store operators	8,013,408	3,617,404
Rent	2,293,761	–
Due from PFI	4,317,186	4,088,483
Current portion of:		
Lease receivable	3,747,772	3,747,773
Notes receivable	990,918	990,917
Insurance receivable	4,380,971	1,192,091
Others	5,820,245	7,030,373
	679,379,844	767,259,573
Deposits (Note 9)		
Utilities	88,783,178	69,522,572
Refundable Deposits	46,270,819	89,314,702
Others	8,229,233	7,479,457
	143,283,230	166,316,731
Other noncurrent assets		
Noncurrent portion of:		
Due from franchisees	34,163,295	36,836,593
	P1,693,404,375	P1,567,737,947

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:

	March 31, 2016 (Unaudited)			
	Neither Past Due nor Impaired			Total
	High Grade	Standard Grade	Past Due Or Impaired	
Cash and cash equivalents				
Cash in bank	P 625,594,606	P–	P–	P625,594,606
Cash equivalents	200,000,000	–	–	200,000,000
	825,594,606	–	–	825,594,606
Short-term investment	10,983,400	–	–	10,983,400
Receivables				
Franchisees	–	209,654,643	214,342	209,868,985
Suppliers	–	355,230,690	67,004,105	422,234,795
Employees	–	17,171,882	539,921	17,711,803
Store operators	–	7,647,607	365,801	8,013,408
Rent	–	286,674	2,007,087	2,293,761
Due from PFI	–	4,317,186	–	4,317,186
Current portion of:				
Lease receivable	–	3,747,772	–	3,747,772
Notes receivable	–	990,918	–	990,918
Insurance receivable	–	4,380,971	–	4,380,971
Others	–	5,820,245	–	5,820,245
	–	609,248,588	70,131,256	679,379,844
Deposits				
Utilities	–	88,783,178	–	88,783,178
Refundable	–	46,270,819	–	46,270,819
Others	–	8,229,233	–	8,229,233
	–	143,283,230	–	143,283,230

(Forward)

Other noncurrent assetNoncurrent portion of Due From
Franchisees

– 34,163,295 – 34,163,295

	P 836,578,006	P786,695,113	P70,131,256	1,693,404,375
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	December 31, 2015 (Audited)			Total
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	Or Impaired	
Cash and Cash Equivalents				
Cash in banks	P586,341,649	P–	P–	P586,341,649
Cash equivalents	–	–	–	–
	586,341,649	–	–	586,341,649
Short-term investment	10,983,401			10,983,401
Receivables				
Franchisees	–	329,115,208	214,342	329,329,550
• Suppliers	–	289,836,808	119,099,073	408,935,881
• Employees	–	29,849,687	539,921	30,389,608
• Store operators	–	3,617,404	365,801	12,048,431
Rent	–	–	2,007,087	2,007,087
Due from PFI		4,088,483		4,088,483
Current portion of:				
Lease receivable	–	3,747,773	–	3,747,773
• Note receivable	–	990,917	–	990,917
• Insurance	–	1,192,091	–	1,192,091
• Others	–	7,030,373	–	7,030,373
		669,468,744	122,226,224	791,694,968
Deposits				
Utilities	–	69,522,572	–	69,522,572
Refundable	–	89,314,702	–	89,314,702
Others	–	7,479,457	–	7,479,457
	–	166,316,731	–	166,316,731
Other Noncurrent Asset				
Noncurrent portion of Due from Franchisees	–	36,836,593	–	36,836,593
	–	36,836,593	–	36,836,593
	P597,325,050	P872,622,068	P122,226,224	P1,592,173,342

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 follow:

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:

March 31, 2016 (Unaudited)						
	Aging analysis of financial assets past due but not impaired				Past due and impaired	Total
	31 to 60 days	61 to 90 days	>90 days	Total		
Receivables:						
Franchisees	P-	P-	P-	P-	P214,342	P214,342
Suppliers	13,654,366	8,404,316	23,637,179	45,695,861	21,308,244	67,004,105
Employees	-	-	-	-	539,921	539,921
Store operators	-	-	-	-	365,801	365,801
Rent	-	-	-	-	2,007,087	2,007,087
	P13,654,366	P8,404,316	P23,637,179	P45,695,861	P24,435,395	P70,131,256

December 31, 2015 (Audited)						
	Aging analysis of financial assets past due but not impaired				Past due and impaired	Total
	31 to 60 days	61 to 90 days	> 90 days	Total		
Receivables:						
Franchisees	P-	P-	P-	P-	P214,342	P214,342
Suppliers	29,220,847	17,985,547	50,584,435	97,790,829	21,308,244	119,099,073
Employees	-	-	-	-	539,921	539,921
Store operators	-	-	-	-	365,801	365,801
Rent	-	-	-	-	2,007,087	2,007,087
	P29,220,847	P17,985,547	P50,584,435	P97,790,829	P24,435,395	P122,226,224

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:

	March 31, 2016 (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	P713,509,178	P-	P-	P-	P713,509,178
Cash equivalents	200,000,000	-	-	-	200,000,000
	913,509,178	-	-	-	913,509,178
Short-term investment	10,983,400	-	-	-	10,983,400
Receivables:					
Franchisees	209,654,643	-	-	-	209,654,643
Suppliers	355,230,690	45,695,861	-	-	400,926,551
Employees	7,647,607	-	-	-	7,647,607
Store operators	17,171,882	-	-	-	17,171,882
Rent	286,674	-	-	-	286,674
Due from PFI	4,317,186	-	-	-	4,317,186
Current portion of:					
Lease receivable	-	3,747,773	-	-	3,747,773
Notes receivable	-	990,918	-	-	990,918
Insurance receivable	-	4,380,971	-	-	4,380,971
Others	5,820,245	-	-	-	5,820,245
	600,128,927	54,815,522	-	-	654,944,449
Deposits					
Utilities	-	-	88,783,178	-	88,783,178
Refundable	-	-	46,270,819	-	46,270,819
Others	-	-	8,229,233	-	8,229,233
	-	-	143,283,230	-	143,283,230
Other noncurrent asset					
Noncurrent portion of Due from Franchisees	-	-	48,667,812	-	48,667,812
	-	-	48,667,812	-	48,667,812
	P1,524,621,505	P 54,815,522	P 177,446,525	P -	P1,756,883,552

	December 31, 2015 (Audited)				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	P875,978,073	P-	P-	P-	P875,978,073
Short-term investment	10,983,401	-	-	-	10,983,401
Receivables					
Franchisees	329,115,208	-	-	-	329,115,208
Suppliers	289,836,808	91,222,870	6,567,959	-	387,627,637
Employees	29,849,687	-	-	-	29,849,687
Store operators	3,617,404	-	-	-	3,617,404
Rent	-	-	-	-	-
Due from PFI	4,088,483	-	-	-	4,088,483
Current portion of:					
Lease receivable	-	3,747,773	-	-	3,747,773
Note receivable	990,917	-	-	-	990,917
Insurance	-	1,192,091	-	-	1,192,091
	7,030,373	-	-	-	7,030,373
	664,528,880	96,162,734	6,567,959	-	767,259,573
Deposits					
Utilities	-	-	69,522,572	-	69,522,572
Refundable	-	-	89,314,702	-	89,314,702
Others	-	-	7,479,457	-	7,479,457
	-	-	166,316,731	-	166,316,731
Other Noncurrent Asset					
Noncurrent portion of Due from Franchisees	-	-	36,836,593	-	36,836,593
	-	-	36,836,593	-	36,836,593
	P1,551,490,354	P96,162,734	P209,721,283	P-	P1,857,374,371

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

March 31, 2016 (Unaudited)				
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	₱750,000,000	₱-	₱-	₱ 750,000,000
Accounts payable and accrued expenses				
Trade payable	₱2,032,999,343	-	-	₱2,032,999,343
Utilities	82,239,490	-	-	82,239,490
Rent	76,182,457	-	-	76,182,457
Employee benefits	54,960,645	-	-	54,960,645
Advertising and promotion	2,818,192	-	-	2,818,192
Outsourced services	75,962,426	-	-	75,962,426
Bank charges	16,371,550	-	-	16,371,550
Security services	32,512,822	-	-	32,512,822
Interest	1,660,010	-	-	1,660,010
Others	166,113,722	-	-	166,113,722
	₱2,541,820,657	-	-	₱2,541,820,657
Other current liabilities				
Non-trade accounts payable	166,088,848	132,843,264	-	298,932,112
Retention payable	-	124,769,656	-	124,769,656
Due to Franchisees	96,618,686	-	-	96,618,686
Royalty	23,596,120	-	-	23,596,120
Service fees payable	-	674,728	-	674,728
Others	-	19,334,693	-	19,334,693
	286,303,654	277,622,341	-	563,925,995
Cumulative redeemable preferred shares	6,000,000	-	-	6,000,000
	₱3,584,124,311	₱277,622,341	-	₱3,861,746,652

December 31, 2015 (Audited)				
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	₱1,150,000,000	₱-	₱-	₱1,150,000,000
Accounts payable and accrued expenses				
Trade payable	1,826,297,820	-	-	1,826,297,820
Utilities	96,576,822	-	-	96,576,822
Rent	75,616,440	-	-	75,616,440
Employee benefits	105,085,550	-	-	105,085,550
Repairs and maintenance	44,187,134	-	-	44,187,134
Advertising and promotion	2,846,192	-	-	2,846,192
Outsourced services	64,035,623	-	-	64,035,623
Bank charges	25,180,700	-	-	25,180,700
Security services	20,713,819	-	-	20,713,819
Interest	2,011,954	-	-	2,011,954
Others	103,569,342	-	-	103,569,342
	2,366,121,396	-	-	2,366,121,396
Other current liabilities				
Non-trade accounts payable	112,844,925	630,894,246	-	743,739,171
Retention payable	-	113,676,477	-	113,676,477
Due to Franchisees	18,341,605	-	-	18,341,605
Royalty	24,323,677	-	-	24,323,677
Service fees payable	-	1,456,938	-	1,456,938
Others	-	57,553,594	-	57,553,594
	155,510,207	803,581,255	-	959,091,462
Long-term debt	4,500,000	13,500,000	63,000,000	81,000,000
Cumulative redeemable preferred shares	6,000,000	-	-	6,000,000
	₱3,682,131,603	₱817,081,255	₱63,000,000	₱4,562,212,858

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:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Due in less than one year	₱1,326,500,000	₱1,237,000,000
Rate	1.75%-3.3%	1.90%-3.22%

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):

	March 31, 2016 (Unaudited)		December 31, 2015 (Audited)	
	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	(₱13,265,000)	+100	(₱12,310,000)
	-100	13,265,000	-100	12,310,000

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.

30. 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 45% and 43% as at March 31, 2016 and 2015, respectively. No changes were made in the objectives, policies and processes during the year.

	March 31 (Unaudited)	
	2016	2015
Common stock	P459,121,573	P459,121,573
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	3,553,328,903	2,659,191,232
	4,305,975,513	3,411,837,842
Less cost of shares held in treasury	2,923,246	2,923,246
	4,303,052,267	3,408,914,596
Total assets	P9,635,930,287	P7,838,475,606
Net worth	45%	43%

31. 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 follow:

	Three Months Ended March 31	
	(Unaudited)	
	2016	2015
Share in gross profit of franchisees	P476,997,284	P410,839,275
Rent, utilities and other expenses	152,401,281	116,982,182
Franchise fee	34,200,000	23,430,000
	P663,598,565	P551,251,457

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. Service fees included under outside services shown as part of "Outside services" in "General and administrative expenses" account.

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 P11 million, and P8.9 million for the three months ended March 31, 2015 and 2014 respectively.

d. 2014 Exclusivity Contract

In 2014, the Group has entered into a 3-year exclusivity contract with a third party ice cream distributor in the Philippines effective January 2014 to December 2016. The contract indicates that the third party ice cream distributor will exclusively supply all ice cream products of 7-Eleven stores. The Group received a one-time signing bonus amounting to P75,000,000 upon the effectivity of the exclusivity supply contract amortized over three years.

e. Memorandum of Agreement (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. If LOF is not accepted by one of the 22 original service stations identified, that service station will be replaced with another mutually acceptable service station site.

Upon signing of the MOA, CPI executed a Caltex Retail Agreement with each of the 22 service station Retailers, which shall have a full term of three years and which will be co-terminus with the SFA.

32. 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:

	Three Months Ended March 31, (Unaudited)	
	2016	2015
Revenue		
Revenue from merchandise sales	₱6,572,174,468	₱4,542,634,245
Franchise revenue	663,598,565	551,251,457
Marketing income	91,506,028	144,525,805
Rental income	14,896,888	8,862,478
Commission income	13,290,554	10,996,658
Interest income	976,593	606,174
Other income	52,505,966	33,510,340
	7,408,949,062	5,292,387,157
Expenses		
Cost of merchandise sales	5,044,961,229	3,451,952,164
General and administrative expenses:		
Depreciation and amortization	311,019,991	246,948,977
Others	1,776,097,574	1,421,022,074
Interest expense	10,011,172	6,062,163
Other expenses	8,135,747	3,748,164
	5,129,733,542	5,129,733,542
Income Before Income Tax	258,723,349	162,653,615
Provision for Income Tax	76,352,370	49,797,946
Segment Profit	182,370,979	112,855,669

	Three Months Ended March 31, (Unaudited)	
	2016	2015
Segment Assets	₱9,635,930,287	₱7,838,475,606
Segment Liabilities	₱5,336,264,227	4,436,083,412

33. 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.

34. 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).