

Audited Financial Statements 2022



7th, 11th, and 12th Floors, The Columbia Tower
Ortigas Avenue, Mandaluyong City 1550

www.7-eleven.com.ph



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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 the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors or the Executive Committee or the Audit & Risk Committee, as authorized by the Board, reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders for the period December 31, 2022 and 2021, respectively, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its reports to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


JOSE T. PARDO
Chairman of the Board
TIN: 116-203-611


JOSE VICTOR P. PATERNO
Chief Executive Officer
TIN: 132-688-472


CHIA-FANG LEE
Treasurer and CFO
TIN: 600-445-276


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

Signed this 23rd day of February, 2023

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Philippine Seven Corporation

Opinion

We have audited the consolidated financial statements of Philippine Seven Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated statements of financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter in the next page, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Existence and Completeness of PFRS 16, Leases

As at December 31, 2022, the Group has right-of-use (ROU) assets and lease liabilities amounting to ₱6,771,840,384 and ₱9,317,094,460, respectively, and the Group also recognized depreciation expense and interest expense of ₱1,918,880,190 and ₱748,800,582, respectively, in 2022. The accounting for the Group's lease agreements is significant to our audit because the Group has high volume of new and renewed lease agreements covering its convenience stores, warehouses, kitchens and office spaces and the recorded amounts are material to the consolidated financial statements. In addition, the accounting for the new and renewed lease agreements involves significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to renew, and in determining the incremental borrowing rate.

The disclosures relating to PFRS 16 are included in Note 25 to the consolidated financial statements.

Audit Response

We obtained roll-forward of lease agreements and compared the number of lease agreements per roll-forward against Master Lease Schedule. We evaluated the completeness of changes made to lease agreements by comparing it with the movement based on closed and opened locations as at December 31, 2022 and used data analytics to identify unusual changes. For a sample of lease modifications, we reperformed the calculation of the impact on the associated right-of-use assets and lease liabilities. On a test basis, we inspected lease agreements executed in 2022, identified their contractual terms and conditions and traced these contractual terms and conditions to the lease calculation prepared by management. For selected lease contracts with renewal option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew. We tested the parameters used in the determination of the incremental borrowing rates by reference to the market data. We test computed the lease calculation prepared by the management for the selected lease agreements.

Existence and Completeness of Inventories

The Group's inventories comprise 17.3% of its total assets as at December 31, 2022. It has 21 warehouses, 1,768 company-owned 7-Eleven stores and 5 neighborhood wholesale stores as at December 31, 2022 throughout the country. We focused on this area since inventories are material to the consolidated financial statements and are located in various sites across the country.

The Group's disclosures about inventories are included in Note 6 to the consolidated financial statements.

Audit Response

We updated our understanding of the inventory process and performed test of controls for selected stores and warehouses. We observed the conduct of inventory count at selected stores and warehouses and traced test counts to the inventory compilation to determine if the inventory compilation reflects actual inventory count results. We also traced the last documents used for shipping, receiving, transfers which were obtained during the inventory count observation to the accounting records of sales and purchases. We obtained the roll-forward procedures performed by management and on a sampling basis, we tested the transactions from the date of inventory count to year-end date. We also obtained the reconciliation of the valued roll-forward inventories with the general ledger account balances and tested other reconciling items.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1075

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information required BSP Circular No. 1075 in Note 36 to the consolidated financial statements is presented for purposes of filing with the BSP and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Seven Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Johnny F. Ang
Partner

CPA Certificate No. 0108257

Tax Identification No. 221-717-423

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 108257-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-101-2021, October 1, 2021, valid until September 30, 2024

PTR No. 9369770, January 3, 2023, Makati City

February 23, 2023

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	₱7,020,593,848	₱5,376,107,427
Short-term investment (Notes 4, 28 and 29)	11,583,244	11,535,504
Receivables (Notes 5, 25, 28 and 29)	2,665,327,065	2,530,951,369
Inventories (Notes 6 and 18)	5,561,813,148	4,328,438,056
Prepayments and other current assets (Notes 7, 28 and 29)	2,213,615,833	1,975,685,212
Total Current Assets	17,472,933,138	14,222,717,568
Noncurrent Assets		
Property and equipment (Note 8)	5,327,454,245	5,274,409,357
Right-of-use assets (Note 25)	6,771,840,384	6,176,929,871
Deposits (Notes 9, 28 and 29)	1,114,851,963	1,051,630,239
Goodwill and other noncurrent assets (Note 10)	240,133,532	397,716,013
Receivables - net of current portion (Notes 5, 28 and 29)	201,879,944	311,198,635
Deferred tax assets - net (Note 26)	1,049,825,201	983,862,984
Total Noncurrent Assets	14,705,985,269	14,195,747,099
TOTAL ASSETS	₱32,178,918,407	₱28,418,464,667
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 11, 28 and 29)	₱-	₱100,000,000
Current portion of long-term debt (Notes 11, 28 and 29)	250,000,000	666,690,058
Accounts payable and accrued expenses (Notes 12, 28 and 29)	7,259,780,923	6,627,172,856
Lease liabilities - current (Note 25)	1,964,518,668	1,953,775,783
Current portion of contract liabilities (Note 13)	864,327,215	777,961,799
Income tax payable	100,320,001	123,400
Other current liabilities (Notes 14, 24, 29 and 31)	4,324,347,282	2,842,458,614
Total Current Liabilities	14,763,294,089	12,968,182,510
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 11, 28 and 29)	62,500,000	925,035,088
Lease liabilities - net of current portion (Note 25)	7,352,575,792	6,657,293,108
Deposits payable (Note 15)	370,985,909	363,885,563
Contract liabilities - net of current portion (Note 13)	157,268,166	125,857,840
Net retirement obligations (Note 23)	305,392,588	400,794,633
Deferred revenue (Note 31)	14,794,718	-
Cumulative redeemable preferred shares (Notes 16, 28 and 29)	6,000,000	6,000,000
Total Noncurrent Liabilities	8,269,517,173	8,478,866,232
Total Liabilities	₱23,032,811,262	₱21,447,048,742

(Forward)

	December 31	
	2022	2021
Equity		
Common stock (Note 17)	₱757,104,533	₱757,104,533
Additional paid-in capital	293,525,037	293,525,037
Retained earnings (Note 17)		
Appropriated	6,800,000,000	5,100,000,000
Unappropriated	1,227,649,249	870,686,102
Other comprehensive income (loss)		
Remeasurement income (loss) on net retirement obligations - net of tax (Note 23)	70,751,572	(46,976,501)
	9,149,030,391	6,974,339,171
Cost of own shares held in treasury (Note 17)	(2,923,246)	(2,923,246)
Total Equity	9,146,107,145	6,971,415,925
TOTAL LIABILITIES AND EQUITY	₱32,178,918,407	₱28,418,464,667

See accompanying Notes to Consolidated Financial Statements.

Cash is half of current liabilities you need to collect AR and sell all inventories to pay all of it.
They have short-term investments which can be converted into cash. Out of portion ng operating assets you dont need it that is why you invest it...
Receivable increases. Inventories increases.
If you sell all current assets it is enough to pay all the current liabilities and you would still have 3M
Almost 50% ang non-current assets which means they are capital intensive -- more on capex...
Nag-payoff ng loans
Current portion of trade payable can be paid by cash very stiff ang diff kaya need ng proper scheduling ng payment and this would mean also na mau ning possible available cash n pngbayad sa dividends

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2022	2021	2020
INCOME			
Revenue from contracts with customers (Note 13)	₱62,682,837,159	₱45,144,606,258	₱43,645,923,273
Interest income (Note 21)	86,827,859	78,021,276	131,429,682
Rental income (Note 25)	52,795,794	63,037,775	148,687,434
Other income (Notes 25 and 31)	629,540,709	141,107,652	181,244,036
	63,452,001,521	45,426,772,961	44,107,284,425
EXPENSES			
Cost of merchandise sales (Note 6 and 18)	41,144,668,481	29,656,633,373	28,783,351,394
General and administrative expenses (Note 19)	18,337,229,660	15,087,045,275	14,674,175,998
Interest expense (Note 20)	819,332,097	959,910,008	1,141,659,114
Other expenses	369,543,371	156,919,716	73,324,948
	60,670,773,609	45,860,508,372	44,672,511,454
INCOME (LOSS) BEFORE INCOME TAX	2,781,227,912	(433,735,411)	(565,227,029)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)	724,264,765	27,269,588	(145,509,492)
NET INCOME (LOSS)	2,056,963,147	(461,004,999)	(419,717,537)
OTHER COMPREHENSIVE INCOME (LOSS) NOT TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS			
Remeasurement gain (loss) on net retirement obligations (Note 23)	156,970,763	116,692,739	(52,968,944)
Income tax effect	(39,242,690)	(38,139,589)	15,890,683
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	117,728,073	78,553,150	(37,078,261)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱2,174,691,220	(₱382,451,849)	(₱456,795,798)
BASIC/DILUTED EARNINGS (LOSS) PER SHARE (Note 27)	₱2.72	(₱0.61)	(₱0.55)

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Common Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)		Remeasurement Gain (Loss) on Net Retirement Obligations- net of tax (Note 23)	Total	Treasury Stock (Note 17)	Total
			Appropriated	Unappropriated				
Balances at January 1, 2022	₱757,104,533	₱293,525,037	₱5,100,000,000	₱870,686,102	(₱46,976,501)	₱6,974,339,171	(₱2,923,246)	₱6,971,415,925
Net income	-	-	-	2,056,963,147	-	2,056,963,147	-	2,056,963,147
Remeasurement gain on net retirement obligations	-	-	-	-	117,728,073	117,728,073	-	117,728,073
Total comprehensive income	-	-	-	2,056,963,147	117,728,073	2,174,691,220	-	2,174,691,220
Reversal of appropriations	-	-	(5,100,000,000)	5,100,000,000	-	-	-	-
Appropriations	-	-	6,800,000,000	(6,800,000,000)	-	-	-	-
Balances at December 31, 2022	₱757,104,533	₱293,525,037	₱6,800,000,000	₱1,227,649,249	₱70,751,572	₱9,149,030,391	(₱2,923,246)	₱9,146,107,145
Balances at January 1, 2021	₱757,104,533	₱293,525,037	₱6,100,000,000	₱331,691,101	(₱125,529,651)	₱7,356,791,020	(₱2,923,246)	₱7,353,867,774
Net loss	-	-	-	(461,004,999)	-	(461,004,999)	-	(461,004,999)
Remeasurement gain on net retirement obligations	-	-	-	-	78,553,150	78,553,150	-	78,553,150
Total comprehensive income (loss)	-	-	-	(461,004,999)	78,553,150	(382,451,849)	-	(382,451,849)
Reversal of appropriations	-	-	(1,000,000,000)	1,000,000,000	-	-	-	-
Balances at December 31, 2021	₱757,104,533	₱293,525,037	₱5,100,000,000	₱870,686,102	(₱46,976,501)	₱6,974,339,171	(₱2,923,246)	₱6,971,415,925
Balances at January 1, 2020	₱757,104,533	₱293,525,037	₱6,100,000,000	₱978,334,123	(₱88,451,390)	₱8,040,512,303	(₱2,923,246)	₱8,037,589,057
Net loss	-	-	-	(419,717,537)	-	(419,717,537)	-	(419,717,537)
Remeasurement loss on net retirement obligations	-	-	-	-	(37,078,261)	(37,078,261)	-	(37,078,261)
Total comprehensive loss	-	-	-	(419,717,537)	(37,078,261)	(456,795,798)	-	(456,795,798)
Cash dividends	-	-	-	(226,925,485)	-	(226,925,485)	-	(226,925,485)
Balances at December 31, 2020	₱757,104,533	₱293,525,037	₱6,100,000,000	₱331,691,101	(₱125,529,651)	₱7,356,791,020	(₱2,923,246)	₱7,353,867,774

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	₱2,781,227,912	(₱433,735,411)	(₱565,227,029)
Adjustments for:			
Depreciation and amortization (Notes 8, 10, 19, and 25)	4,035,574,231	4,084,898,497	4,284,707,097
Interest expense (Note 20)	819,332,097	959,910,008	1,141,659,114
Rent concession (Note 25)	(216,347,250)	(37,200,446)	(147,747,363)
Interest income (Note 21)	(86,827,859)	(78,021,276)	(131,429,682)
Net retirement benefits cost (Notes 22 and 23)	82,068,718	96,387,626	77,787,236
Unrealized foreign exchange loss (gain)	(485,638)	21,453	185,067
Write-off of property and equipment (Note 8)	5,266	215,834	-
Operating income before working capital changes	7,414,547,477	4,592,476,285	4,659,934,440
Decrease (increase) in:			
Receivables	(57,655,313)	1,486,795,198	(393,464,472)
Inventories	(1,233,375,092)	(85,338,090)	(79,026,626)
Prepayments and other current assets	(260,962,533)	(1,145,172,456)	(417,427,204)
Increase (decrease) in:			
Accounts payable and accrued expenses	627,718,178	679,401,122	(823,665,582)
Other current liabilities	1,481,888,668	(1,359,416,771)	149,914,834
Contract liabilities	118,562,028	237,471,364	23,097,525
Deposits payable	1,397,817	(12,458,749)	8,297,175
Retirement benefits contributions (Note 23)	(20,500,000)	(21,000,000)	(20,000,000)
Net cash generated from operations	8,071,621,230	4,372,757,903	3,107,660,090
Income taxes paid	(729,273,071)	(85,875,886)	(504,773,603)
Interest received	39,897,249	12,016,255	54,115,792
Net cash provided by operating activities	7,382,245,408	4,298,898,272	2,657,002,279
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Notes 8 and 35)	(2,157,872,756)	(1,186,272,863)	(1,762,908,634)
Software and other program costs (Note 10)	(400,000)	(8,244,220)	(3,727,643)
Decrease (increase) in:			
Deposits	(65,892,885)	6,896,534	(81,049,716)
Goodwill and other noncurrent assets	263,706,919	(183,013,359)	358,317,604
Short-term investments	(47,740)	(42,002)	(103,881)
Net cash used in investing activities	(1,960,506,462)	(1,370,675,910)	(1,489,472,270)

(Forward)

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Bank loans (Notes 11 and 34)	₱-	₱3,600,000,000	₱5,437,000,000
Long-term debt (Notes 11 and 34)	-	500,000,000	1,000,000,000
Payments of:			
Bank loans (Notes 11 and 34)	(100,000,000)	(4,330,000,000)	(4,672,000,000)
Long-term debt (Notes 11 and 34)	(1,279,225,146)	(241,690,058)	(160,440,059)
Leases (Notes 25 and 34)	(2,344,305,166)	(2,072,453,751)	(1,909,286,903)
Cash dividends paid (Notes 17 and 34)	-	-	(226,925,485)
Interest paid (Note 34)	(54,207,851)	(145,094,465)	(123,202,798)
Net cash used in financing activities	(3,777,738,163)	(2,689,238,274)	(654,855,245)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,644,000,783	238,984,088	512,674,764
EFFECT OF EXCHANGE RATE CHANGES ON CASH	485,638	(21,453)	(185,067)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,376,107,427	5,137,144,792	4,624,655,095
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱7,020,593,848	₱5,376,107,427	₱5,137,144,792

See accompanying Notes to 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, collection and acceptance of payments 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 55.32% of the Company's outstanding shares. The remaining 44.68% of the shares are widely held including the public float. The ultimate parent of the Company is Uni-President Enterprises Corporation, which is incorporated in Taiwan, Republic of China.

The Company has its primary listing with the Philippine Stock Exchange (PSE) on February 4, 1998.

The Company is registered as a Remittance and Transfer Company with a Type "A" remittance agent registration on October 20, 2017, and as an Operator of Payment System on March 17, 2020, subject to the rules and regulations of the Bangko Sentral ng Pilipinas and the provisions of the Anti-Money Laundering Act of 2001, as amended and its implementing rules and regulations.

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

As at December 31, 2022, the Company is operating 3,393 stores, 1,625 of which are franchise stores and the remaining 1,768 are company-owned stores.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements were authorized for issue by the Executive Committee of Board of Directors (BOD) on February 23, 2023.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements are prepared under the historical cost basis. The consolidated financial statements are presented in Philippine Peso (₱), which is the Company'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

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent’s consolidated financial statements, based on the parent’s date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

- Amendments to PFRS 9, *Financial Instruments, Fees in the ‘10 per cent’ test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 8, *Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023. The Group is currently assessing the impact of adopting the amendment.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, Classification of Liabilities as Current or Non-current

The amendments clarify:

- That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

- Amendments to PFRS 16, Lease Liability in a Sale and Leaseback

The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

Effective beginning on or after January 1, 2025

- PFRS 17, Insurance Contracts

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, **Insurance Contracts**. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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; and
- 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 (1) or more of the three (3) 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 in 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; and
- Reclassifies the Company's share of components previously recognized in other comprehensive income (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, Distribution and Retailing	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), 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 16). 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 cash in banks. Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of acquisition and are subject to insignificant risk of change in value.

Short-term Investment

Short-term investment consists of short-term cash placement maturing beyond three months but less than one year and earns interest at its respective short-term investment rate.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of an entity and a financial liability or equity instrument of another entity.

Date of Recognition

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Financial Assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

The classification at initial recognition depends on the contractual cash flow characteristics of financial assets and the Group's business model for managing them. The initial measurement of financial assets, except for those classified as FVPL, includes the transaction cost. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL,

transaction costs. Trade receivables that do not contain significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15, *Revenue from Contracts with Customers*.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at FVPL.

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at amortized cost are classified as current assets when the Group expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

The Group's financial assets at amortized cost consist of cash and cash equivalents and short-term investment, receivables, advances for e-money and deposits (excluding non-refundable rent deposits) (see Notes 4, 5, 7 and 9). The Group has no financial assets at FVOCI (debt instruments), financial assets designated at FVOCI (equity instruments) and financial assets at FVPL.

Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in 2 stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group establishes a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90-days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial Recognition and Measurement

Financial liabilities are measured at amortized cost, except for the following:

- Financial liabilities measured at FVPL;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate; and
- Contingent consideration recognized by an acquirer in accordance with PFRS 3.

Subsequent Measurement

A financial liability may be designated at FVPL if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch):

- If a host contract contains 1 or more embedded derivatives; or
- If a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in OCI.

The Group's financial liabilities measured at amortized cost include bank loans and long-term debt, accounts payable and accrued expenses, lease liabilities, deposits payable and other current liabilities (excluding statutory liabilities), and cumulative redeemable preferred shares (see Notes 11, 12, 14, 15, 16 and 25).

The Group has no financial liabilities at FVPL, and derivatives designated as hedging instruments in an effective hedge.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized (i.e., removed from the Group's consolidated statements of financial position) when:

- The contractual rights to the cash flows from the financial asset expire;
- 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; and
- The Group transfer the contractual rights to receive cash flows of the financial asset in a transaction in which it either (i) transfers substantially all the risks and rewards of ownership of the financial asset, or (ii) the Group neither transfers nor retains substantially all risks and rewards of ownership of the financial asset and the Group has not retained control.

When the Group retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to 1 or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- Has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- Is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- Has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 liability

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.

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;
- 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.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current/noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities and retirement assets and obligations are classified as noncurrent assets and liabilities, respectively.

Fair Value Measurement

Fair value is the estimated 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 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 consolidated 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 of input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured and disclosed in the financial statements are categorized within the fair value hierarchy.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value measurements disclosures are presented in Note 28 to the consolidated financial statements.

Inventories

Inventories are stated at the lower of cost and net realizable value (NRV). Cost of inventories is determined using the retail inventory 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 for e-money, prepaid taxes, prepaid rent, prepaid store expenses, prepaid gift cards, prepaid uniform, deferred input value-added tax (VAT), advances to suppliers, supplies, and advances for expenses.

Creditable Withholding Tax (CWT), which are included under “prepaid taxes” account in the consolidated statement of financial position, are amounts withheld from income subject to expanded withholding taxes (EWT). CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

Advances for expenses are payments for various expenses paid in advance to support operations of the Company. These expenses include allowances for site visits, trade checks and personnel training expenses which are to be liquidated within thirty days from the date the advances were made.

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.

The cost of land comprises its purchase price and directly attributable cost incurred. Land is stated at cost less any impairment in value. 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
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, five (5) to eight (8) 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 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.

Fully depreciated assets are retained in the books until disposed.

Deposits Assets

Deposits are amounts paid as guarantee in relation to non-cancellable lease agreements entered into by the Group. These are initially recognized at fair value. The fair value of the deposit is determined based on the prevailing market rate of interest implicit to the term.

The excess of the principal amount of the deposit over its fair value is accounted for by the Group as deferred lease assets. Deferred lease asset is presented as part of ROU assets and depreciated accordingly over the term of the lease. Interest on the deposit asset is accounted for using the EIR method by both the Group and lessor.

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 reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit (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.

Goodwill

Goodwill, included in "Goodwill and other noncurrent assets" account in the consolidated statements of financial position, represents the excess of the cost of an acquisition over the fair value of the businesses acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually at the CGU level and are not amortized.

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" account in the consolidated statements of financial position. 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 (5) years.

Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that its non-financial assets such as ROU asset, property and equipment, rent deposits, goodwill 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 goodwill, the asset's recoverable amount is its value in use.

When 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 consolidated statements of comprehensive income.

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 consolidated statements of comprehensive income, 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 tested 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 are initially accounted for at fair value. The fair value of the deposit is determined based on the prevailing market rate of interest implicit to the lease.

The excess of the principal amount of the deposit over its fair value is accounted for by both the lessee and the Group as a prepaid lease payment. The lessee includes these amounts in the costs of its ROU asset at the lease commencement date. For the Group, if the lease is classified as an operating lease, the prepaid lease payment is included in the total lease payments that are recognized as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. If the lease is classified as a finance lease, the Group includes the prepaid lease payment in the consideration for the lease (i.e. lease payments) and, therefore, in the determination of the gain or loss on derecognition of the underlying asset, if any. Interest on the deposit, meanwhile, is accounted for using the EIR method by both the lessee and the Group.

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.

Cumulative Redeemable Preferred Shares

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

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 net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policy and other capital adjustments.

Unappropriated retained earnings represent the portion which is free and can be declared as dividends to stockholders subject to adjustments based on the regulatory requirements of the Philippine SEC.

Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

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.

Non-controlling interest

Non-controlling interest are recognized and measured at the proportionate share of the non-controlling interest to the net assets of the Group.

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 retirement benefits and revaluation increment on land which are recognized in full in the period in which they occur.

Revenue Recognition under PFRS 15**Revenue from Contracts with Customers**

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements.

Revenue from Merchandise Sales

Revenue from merchandise sales is comprised of revenue from sale of goods and revenue from redemption of points. Transaction price of merchandise sales, which excludes discounts, returns, rebates and sales taxes, is normally received at the time of sale and is allocated between the goods sold and the points issued using relative stand-alone selling price method. The amount of transaction price allocated to the goods sold are recognized

when control over the goods has passed to the buyer, which happens at the time of sale. The amount of transaction price allocated to the points issued is deferred and recognized as revenue when the points are redeemed or have expired, whichever comes earlier.

Revenue from sale of goods is recognized at point in time once the performance obligation to the customer is satisfied. Payment of the transaction price is due immediately at the point the customer purchased the goods.

Customer Loyalty Program

Customer loyalty program gives rise to a separate performance obligation as they provided a material right to a customer. A part of the transaction price from merchandise sales is allocated to the loyalty points awarded to customer based on relative stand-alone and recognized as contract liability until the points are redeemed. Revenue is recognized upon redemption of products by the customer.

When estimating stand-alone selling price of the loyalty points, the Group considers that the customer will redeem the points. The Group updates estimate of points that will be redeemed on a quarterly basis.

Franchise Revenue

Initial franchise fees are recognized over time on a straight-line basis over the term of the franchise agreement, which ranges from 3 to 5 years. The transaction price for franchise agreement is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Continuing franchise fees in exchange for the franchise right granted over the term of the franchise agreement are recognized as revenue when the subsequent sale of merchandise by the franchisees occurs.

Service Income

Service income is recognized upon performance of the related service.

Interest Income

Interest income is recognized as it accrues based on the EIR method.

Rental Income

Rental income is accounted for based on the contractual period of the lease, as provided under the terms of the lease contract.

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.

Contract Balances**Contract Liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Costs and Expenses Recognition

Cost of merchandise sales is recognized in profit or loss at the point of sale. Marketing support and other amounts arising from trading terms agreements and conformes that do not qualify as distinct performance obligation are presented as deduction to cost of merchandise sales.

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; and
- 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.

Leases under PFRS 16

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for 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 or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

ROU Asset

The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of cost to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follows:

	Years
Warehouses	5 to 25
Convenience stores	5 to 15
Kitchen	5 to 7
Office space	3 to 7

ROU assets are presented separately in the consolidated statements of financial position and are also subject to impairment test.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease liabilities - current and noncurrent - are presented separately in the consolidated statements of financial position.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the low-value assets recognition exemption to leases that are considered of low value (i.e. ₱250,000 or below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Lease modification

Lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease e.g., addition or termination of the right to use one or more underlying assets, or the extension or shortening of the contractual lease term. In case of a lease modification, the lessor shall account for any such modification by recognizing a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. In case of change in lease payments for an operating lease that does not meet the definition of a lease modification, the lessor shall account for any such change as a negative variable lease payment and recognize lower lease income.

Group as a lessor

Leases where the Group retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term. All other leases are classified as finance leases. At the inception of the finance lease, the underlying is derecognized, and lease receivable is recognized. Interest income is accrued over the lease term using the EIR and lease amortization is accounted for as reduction to lease receivable.

Sublease arrangements

The Group determines if the sublease arrangement qualifies as a finance or operating lease. The Group assess and classify a sublease as finance lease if it transferred substantially all the risk and rewards incidental to the ownership of the leased asset. The Group compares the sublease term, which is the franchise term, with the head lease term. If the franchise term accounts for the majority or 75% of the head lease term, same is classified as a finance lease, otherwise it is classified as an operating lease.

At the inception date, if the sublease qualifies as finance lease, the Group derecognizes the right-of-use asset on the head lease and continues to account for the original lease liability. The Group as a sublessor, recognizes a net investment in sublease and evaluate it for impairment. If classified as operating lease, the Group continues to account for the lease liability and right-of-use asset on the head lease like any other lease

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 Group'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.

TaxesCurrent 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.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of comprehensive income.

Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), and unused net operating loss carry over (NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences, and the carry forward benefits of MCIT over RCIT and NOLCO can be utilized, except:

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

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Transaction involving the initial recognition of an asset and liability, the Group recognized deferred tax on initial recognition considering the asset and liability as in-substance linked to each other. The Group considered any temporary difference on a net basis and recognize deferred tax on net amount.

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. Effective January 1, 2022, all input tax on purchases of capital goods shall already be allowed upon purchase/payment and will no longer need to be deferred. 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 statements of financial position.

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 statements of financial position. If the input VAT exceeds the

output VAT, the excess shall be carried over to the succeeding month. Excess input VAT is included under "Prepayments and other current assets" account in the consolidated statements of financial position.

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

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.

Earnings Per Share

Basic 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.

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.

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:

Presentation of Marketing Support and Other Amounts Arising from Trading Terms Agreements and Conformes

The Group receives amounts for marketing support and other activities from its suppliers. The Group determines whether these amounts are in exchange for distinct goods and/or services it transfers to its suppliers. In its determination, the Group considers whether the marketing support and other activities it performs are separable from the existing purchase agreements it has with its suppliers.

Marketing support and other amounts arising from trading terms agreements and conformes that do not qualify as distinct performance obligation are presented as deduction to cost of merchandise sales.

Right to Access - Performance Obligation Satisfied Over Time

The Group determines whether it provides a franchisee with either:

- A right to access the Group's intellectual property (i.e., franchise license) throughout the term of the franchise agreement for which revenue is recognized over the term of the franchise agreement; or
- A right to use the Group's intellectual property (i.e., franchise license) as it exists at the point in time the franchise license is granted for which revenue is recognized at the point in time the franchisee can first use and benefit from the franchise license.

In assessing whether the nature of the Group's promise in granting a franchise license is to provide a right to access the Group's intellectual property (i.e., franchise license), the Group considers whether all of the following criteria are met:

- The franchise agreement requires, or the franchisee reasonably expects that the Group will undertake activities that will significantly affect the franchise license to which the franchisee has rights (e.g., advertisements, promotions, campaigns, etc.);
- The rights granted by the franchise license directly expose the franchisee to any positive or negative effects of the Group's activities; and
- Those activities do not result in the transfer of a good or service to the franchisee as those activities occur.

The Group determined that it has met all of the criteria mentioned above and concluded that it provides its franchisees with a right to access the Group's franchise license throughout the term of the franchise agreement. Accordingly, revenue from granting franchise license is recognized over the term of the franchise agreement.

Whether Activities Performed Prior to Franchise Store Opening are Distinct Performance Obligations

The Group undertakes activities prior to store opening (e.g., employee training, business plan consultation, store layout decoration, etc.) as indicated in the franchise agreement. The Group determines whether these activities are capable of being distinct (i.e., whether the franchisee can benefit on each of these activities on a standalone basis) and whether these activities are distinct within the context of the franchise agreement (i.e., whether these activities can be separated from the franchise license granted to the franchisee).

The Group determined that activities undertaken prior to store opening do not provide benefits to the franchisees without the underlying franchise license. Accordingly, initial franchisee fees are deferred and recognized as revenue over the term of the franchise agreement.

Classification of Redeemable Preferred Shares

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 statements of financial position.

The Group classifies the cumulative redeemable preferred shares as liability in accordance with the redemption features contained in the shareholders agreement (see Note 16). 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 reporting date.

Determining taxable profit (tax loss), tax bases, unused tax credits and tax rates

Based on Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*, the Group assesses whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its tax compliance assessment, in consultation with its tax team, that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

Determining the lease term of contracts with renewal options - Group as a lessee

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group did not include the extension options as part of the lease term as these are not reasonably certain to be exercised since it is subject to mutual agreement of both parties and is considered as unenforceable.

Classification of Leases as lessor

The Group entered into sublease agreements on its leased properties. The Group determines whether it has transferred all the significant risks and rewards of ownership of the leased properties to a lessee, such as lessee has the ultimate control over the use of the asset and the lease term is for the major part of the economic life of the asset. If it is determined that significant risks and rewards of ownership of lease properties were transferred to the lessees, the lease is accounted as finance lease. If otherwise, the lease is accounted for as an operating lease.

Estimates and Assumptions

The estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below. The estimates and assumptions are based on the parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions as they occur.

Estimating Stand-alone Selling Price – Customer Loyalty Programme

The Group estimates the stand-alone selling price of the loyalty points awarded under the Customer Loyalty Programme. The stand-alone selling price of the loyalty points issued is calculated by multiplying the points to the estimated redemption rate and to the monetary value assigned to the loyalty points. In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The

Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated quarterly and the liability for the unredeemed points is adjusted accordingly. In estimating the value of the points issued, the Group uses the most reliable evidence at the time the estimates are made on the amount that the points are expected to be redeemed and the probability of redemption of each product. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption.

The contract liabilities as at December 31, 2022 and 2021 amounted to ₱25,152,188 and ₱102,369,450, respectively (see Note 13). Revenue from redemptions of points amounted to ₱121,693,827, ₱98,947,401 and ₱99,817,760 in 2022, 2021 and 2020, respectively, and is reported under "Revenue from contracts with customers" account in the consolidated statements of comprehensive income.

Determination of IBR

The Group cannot readily determine the interest rate implicit in the lease at lease commencement date, therefore, it uses its IBR to measure lease liabilities. IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs such as interest rates from partner banks based on the term of its loan borrowings and make certain-specific estimates based on the Group credit worthiness.

Estimating Allowance for Impairment of Financial Assets

The following information explains the inputs, assumptions and techniques used by the Group in estimating ECL:

- General approach for cash and due for related parties
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group considers the probability of its counterparty to default its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized, forward-looking estimates and time value of money.
- Simplified approach for receivables
The group uses a simplified approach for calculating ECL on receivables through the use of provision matrix to calculate ECLs.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every report date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

- Incorporation of forward-looking information
The Group considers the inflation rate as forward-looking macro-economic assumption for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculations of ECLs. A broad range of forward-looking information are considered as economic inputs such as the gross domestic product, inflation rate, unemployment rates and other economic indicators.

The Group identifies and documents key drivers of credit risks and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key macro-economic indicators and default loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The carrying value of total receivables amounted to ₱2,867,207,009 and ₱2,842,150,004 as at December 31, 2022, and 2021, respectively (see Note 5). Allowance for impairment of receivables amounted to ₱130,126,676 and ₱254,359,451 as at December 31, 2022 and 2021, respectively.

Provision for impairment of receivables amounted to ₱2,420,782, ₱131,741,436 and ₱77,169,639 in 2022, 2021 and 2020, respectively (see Notes 5 and 19). Write-off of provision for impairment of receivables amounted to ₱126,653,557, ₱15,361,228 and ₱2,076,919 in 2022, 2021 and 2020, respectively (see Note 5).

Estimating Net Realizable Value (NRV) of Merchandise Inventories

The Group carries merchandise inventory at NRV whenever the utility of it becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels, losses or other causes. The estimate of the NRV is reviewed regularly.

Estimates of NRV are based on the most reliable evidence at the time the estimate is made on the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The NRV is reviewed periodically to reflect the accurate valuation in the financial records.

No provision for impairment losses on merchandise inventories was recognized in 2022, 2021 and 2020.

Merchandise inventories amounted to ₱5,561,813,148 and ₱4,328,438,056 as of December 31, 2022, and 2021, respectively (see Note 6).

Estimating 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 reporting date. These non-financial assets (ROU, 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; and
- Significant negative industry or economic trends; and decline in appraised value.

Determining the net recoverable amount of assets required the estimation of cash flows expected to be generated from the continuous use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair value reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the results of operations.

As at December 31, 2022 and 2021, the Group has not identified any indicators or circumstances that would indicate that the Group's ROU asset, property and equipment, rent deposits and software and program cost are impaired. Thus, no impairment losses on these non-financial assets were recognized in 2022, 2021 and 2020.

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

	2022	2021
ROU asset (Note 25)	₱6,771,840,384	₱6,176,929,871
Property and equipment (Note 8)	5,327,454,245	5,274,409,357
Software and program cost (Note 10)	8,954,695	12,148,948

Estimating 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.

In 2018, the Group reassessed and determined that the CGU to be used in assessing the impairment of goodwill from the purchase of the leasehold rights and store assets of Jollimart Philippines Corporation (Jollimart) is the Company itself. This assessment reflects how the Group is currently managing its chain of stores as a single unit, where key decisions (e.g., pricing, inventory level determination, inventory composition, etc.) are centrally managed and applied across the entire store network.

Based on the assessment made by the Group, there is no impairment of goodwill as the recoverable amount of the CGU exceeds the carrying amount of the unit, including goodwill as at December 31, 2022 and 2021. The carrying value of goodwill amounted to ₱65,567,524 as at December 31, 2022 and 2021 (see Note 10). No impairment loss was recognized in 2022, 2021 and 2020.

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. Future salary increases, and pension increases are based on expected future inflation rates.

Further details about the assumptions used are provided in Note 23.

The Group's net retirement obligations amounted to ₱305,392,588 and ₱400,794,633 as at December 31, 2022 and 2021, respectively (see Note 23). Net retirement benefits cost amounted to ₱82,068,718, ₱96,387,626 and ₱77,787,236 in 2022, 2021 and 2020, respectively (see Notes 22 and 23).

Realizability of Deferred Tax Assets

Deferred 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 its forecast that there will be sufficient taxable profits against which the recognized deferred tax assets will be utilized.

The Group's recognized deferred tax assets amounted to ₱1,049,946,612 and ₱983,862,984 as at December 31, 2022 and 2021, respectively (see Note 26).

4. Cash and Cash Equivalents and Short-Term Investment

Cash and Cash Equivalents

This account consists of:

	2022	2021
Cash on hand	₱575,553,051	₱533,311,759
Cash in banks	4,732,280,881	4,742,795,668
Cash equivalents	1,712,759,916	100,000,000
	₱7,020,593,848	₱5,376,107,427

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods up to 3 months depending on the immediate cash requirements of the Group and earn interest at the respective cash equivalent deposit rates that ranges between 4.75% to 5.38% and 0.01% to 0.50% in 2022 and 2021, respectively.

Interest income from cash and cash equivalents amounted to ₱39,737,983, ₱11,966,393 and ₱23,828,342 in 2022, 2021 and 2020, respectively (see Note 21).

Short-term Investment

As at December 31, 2022 and 2021, short-term investment amounting to ₱11,583,244 and ₱11,535,504 respectively, pertains to time deposit which has a maturity date of more than 90 days with interest rate of 0.6% to 3.9% and 0.4% to 0.5% in 2022 and 2021, respectively.

Interest income from short-term investment, on the other hand, amounted to ₱159,266, ₱49,862, and ₱130,477 in 2022, 2021 and 2020, respectively (see Note 21).

5. Receivables

This account consists of:

	2022	2021
Franchisees (Note 31)	₱1,732,141,812	₱1,625,808,752
Suppliers (Note 24)	647,478,542	828,470,523
Leases (Note 25)	463,577,448	540,663,248
Store operators	80,681,655	40,243,833
Employees	38,649,197	40,752,710
Rent	4,699,438	4,098,920

(Forward)

	2022	2021
Due from PhilSeven Foundation, Inc. (PFI) (Note 24)	₱2,829,204	₱926,578
Insurance receivable	2,370,619	495,723
Others	24,905,770	15,049,168
	2,997,333,685	3,096,509,455
Less allowance for impairment (Note 29)	130,126,676	254,359,451
	2,867,207,009	2,842,150,004
Less noncurrent portion of:		
Lease receivable	191,412,760	302,475,370
Receivables from franchisees	10,467,184	8,723,265
	201,879,944	311,198,635
	₱2,665,327,065	₱2,530,951,369

Movements in allowance for impairment are as follows:

	2022	2021
Balance at beginning of year	₱254,359,451	₱137,979,243
Additional provisions for impairment losses (Note 19)	2,420,782	131,741,436
Write-off (Note 31)	(126,653,557)	(15,361,228)
Balance at end of year	₱130,126,676	₱254,359,451

The classes of receivables of the Group are as follows:

- Franchisees - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations, charges for various expenses such as rent and utilities, and credit line to support its franchisees that are adversely affected by the ongoing pandemic (see Note 31). These are generally payable within 3 years. Interest earned on receivable from franchisees amounted to ₱2,007,693, ₱1,463,518 and ₱743,476 in 2022, 2021 and 2020, respectively (see Note 21).
- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount, support for promotions and service income from different service providers.
- Lease receivable - pertains to finance lease receivables from sublease agreements with franchisees (see Note 25).
- Store operators - pertains to the advances given to third party store operators under service agreements (see Note 31).
- Employees - includes car loans, salary loans, personal advances and cash shortages from stores which are charged to employees. Interest earned on receivable from employees amounted to ₱891,461, ₱1,028,740, and ₱839,213 in 2022, 2021 and 2020, respectively (see Note 21).

- Rent - pertains to rent deposits receivable from third parties, which are based on an agreed fixed monthly rate or as agreed upon by the parties.

Receivables are noninterest-bearing and are generally on 30 to 90-day terms except for loans to employees, receivable from franchisees and lease receivable.

6. Inventories

Breakdown of inventories of the Group follows:

	2022	2021
At cost:		
Warehouse merchandise	₱2,986,998,966	₱2,273,922,980
Store merchandise	2,574,814,182	2,054,515,076
	₱5,561,813,148	₱4,328,438,056

The cost of merchandise inventories charged to the consolidated statements of comprehensive income amounted to ₱41,144,668,481, ₱29,656,633,373, and ₱28,783,351,394 for the years ended December 31, 2022, 2021 and 2020 respectively (see Note 18).

There are no inventories whose net realizable values are below cost.

No inventories are pledged nor treated as security to outstanding liabilities as at December 31, 2022 and 2021.

7. Prepayments and Other Current Assets

This account consists of:

	2022	2021
Advances for e-money (Note 31)	₱1,447,420,459	₱930,530,835
Current portion of deferred input VAT	240,105,111	236,147,343
Prepaid:		
Taxes	149,313,544	469,628,378
Rent for short-term leases	23,746,279	25,044,376
Store expenses	13,105,713	4,592,925
Gift cards	3,015,554	3,213,914
Uniform	1,941,063	149,800
Others	15,497,089	14,271,828
Advances to suppliers	184,245,501	179,939,655
Supplies	87,278,091	70,745,682
Advances for expenses	31,490,748	27,108,462
Others	16,456,681	14,312,014
	₱2,213,615,833	₱1,975,685,212

Advances for e-money pertain to pre-funding of electronic money transactions (see Note 31).

Prepaid taxes include creditable withholding taxes and prepaid business taxes. Creditable withholding taxes in excess of the income tax due for the current taxable year can be applied on the next periods. Prepaid business taxes are expected to be utilized within the next financial year.

Deferred input VAT pertains to the input VAT on the acquisition of capital goods over ₱1,000,000 which are being amortized over the useful life or 60 months, whichever is shorter, commencing on the date of acquisition. However, effective January 1, 2022, based on Revenue Memorandum Circular (RMC) 21-2022 released by the Bureau of Internal Revenue (BIR) for purposes of implementing the provisions of the Tax Code, as amended, all input tax on purchases of capital goods shall already be allowed upon purchase/payment and will no longer need to be deferred.

Advances to suppliers pertain to advanced payments to various suppliers for purchase of inventories and services and advances to prepaid cards from various telecom suppliers to be sold in the stores.

Supplies are advanced purchases of items for office and store consumption. These are expensed as incurred.

Advances for expenses are payments for various expenses paid in advance to support operations of the Company. These expenses include allowances for site visits, trade checks and personnel training expenses which are to be liquidated within thirty days from the date the advances were made.

8. Property and Equipment

Movements in property and equipment are as follows:

	2022								Total
	Land	Buildings and Improvements	Store Furniture and Equipment	Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction in Progress	
Cost									
Beginning balances	₱39,866,864	₱155,481,144	₱8,731,479,909	₱2,773,632,157	₱89,371,953	₱911,882,951	₱3,675,151,719	₱164,032,253	₱16,540,898,950
Additions	-	-	1,033,836,928	330,495,177	21,909,635	158,065,158	112,891,838	508,951,206	2,166,149,942
Retirements	-	-	(62,863,563)	(16,727,438)	(7,030,179)	(34,781,158)	(23,993,944)	-	(145,396,282)
Reclassifications	-	-	404,660	-	-	-	515,563,652	(515,968,312)	-
Ending balances	39,866,864	155,481,144	9,702,857,934	3,087,399,896	104,251,409	1,035,166,951	4,279,613,265	157,015,147	18,561,652,610
Accumulated Depreciation and Amortization									
Beginning balances	-	123,932,628	6,231,558,019	1,947,767,043	61,528,058	738,364,826	2,163,339,019	-	11,266,489,593
Depreciation and amortization (Note 19)	-	5,912,967	1,068,801,083	360,464,931	12,633,054	138,798,699	526,489,054	-	2,113,099,788
Retirements	-	-	(62,863,563)	(16,722,171)	(7,030,179)	(34,781,158)	(23,993,945)	-	(145,391,016)
Reclassification	-	-	4,983	(696)	-	-	(4,287)	-	-
Ending balances	-	129,845,595	7,237,500,522	2,291,509,107	67,130,933	842,382,367	2,665,829,841	-	13,234,198,365
Net Book Values	₱39,866,864	₱25,635,549	₱2,465,357,412	₱795,890,789	₱37,120,476	₱192,784,584	₱1,613,783,424	₱157,015,147	₱5,327,454,245

	2021								Total
	Land	Buildings and Improvements	Store Furniture and Equipment	Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction in Progress	
Cost									
Beginning balances	₱39,866,864	₱155,481,144	₱8,727,463,012	₱2,826,682,533	₱84,631,609	₱871,677,652	₱3,506,472,097	₱118,436,433	₱16,330,711,344
Additions	-	-	577,128,912	215,130,597	7,738,408	83,411,729	109,216,093	199,610,092	1,192,235,831
Retirements	-	-	(572,306,353)	(268,180,973)	(3,049,821)	(44,199,585)	(94,311,493)	-	(982,048,225)
Reclassifications	-	-	(805,662)	-	51,757	993,155	153,775,022	(154,014,272)	-
Ending balances	39,866,864	155,481,144	8,731,479,909	2,773,632,157	89,371,953	911,882,951	3,675,151,719	164,032,253	16,540,898,950
Accumulated Depreciation and Amortization									
Beginning balances	-	121,063,967	5,643,871,619	1,843,001,154	52,785,123	632,775,684	1,700,570,012	-	9,994,067,559
Depreciation and amortization (Note 19)	-	5,916,091	1,169,399,062	381,063,058	11,576,924	148,838,536	537,460,754	-	2,254,254,425
Retirements	-	(3,124)	(572,306,353)	(268,180,973)	(2,833,989)	(44,199,586)	(94,308,366)	-	(981,832,391)
Reclassifications	-	(3,044,306)	(9,406,309)	(8,116,196)	-	950,192	19,616,619	-	-
Ending balances	-	123,932,628	6,231,558,019	1,947,767,043	61,528,058	738,364,826	2,163,339,019	-	11,266,489,593
Net Book Values	₱39,866,864	₱31,548,516	₱2,499,921,890	₱825,865,114	₱27,843,895	₱173,518,125	₱1,511,812,700	₱164,032,253	₱5,274,409,357

Construction in progress pertains to costs of constructing new stores and renovation of old stores. Completion of construction and renovation is expected within 3 months to 1 year from construction date. The costs of constructed stores are accumulated until such time the relevant assets are completed and put into operational use.

The Company wrote-off property and equipment with a book value amounting to ₱5,266 and ₱215,834 as at December 31, 2022 and 2021, respectively.

No property and equipment are pledged nor treated as security to the outstanding liabilities as at December 31, 2022 and 2021.

9. Deposits

This account consists of:

	2022	2021
Refundable deposits (Notes 28 and 29)	₱1,009,105,511	₱958,619,359
Utilities	83,519,322	71,019,780
Others	22,227,130	21,991,100
	₱1,114,851,963	₱1,051,630,239

Refundable Deposits

Refundable deposits on rent are computed at amortized cost as follows:

	2022	2021
Face value of security deposits	₱1,085,885,481	₱1,033,644,576
Unamortized discount	(76,779,970)	(75,025,217)
	₱1,009,105,511	₱958,619,359

Movements in unamortized discount are as follows:

	2022	2021
Beginning balance	₱75,025,217	₱77,498,352
Additions	11,540,522	6,619,422
Accretion (Note 21)	(9,785,769)	(9,092,557)
Ending balance	₱76,779,970	₱75,025,217

Utilities and Others

These are deposits that earn interest at prevailing market interest rates which can be refunded or applied to future billings.

10. Goodwill and Other Noncurrent Assets

This account consists of:

	2022	2021
Noncurrent portion of:		
Deferred input VAT	₱133,144,746	₱264,616,363
Prepaid rent	30,527,695	53,469,554
Intangible assets:		
Goodwill	65,567,524	65,567,524
Software and program cost	8,954,695	12,148,948
Garnished accounts	1,938,872	1,913,624
	₱240,133,532	₱397,716,013

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.

The Group assessed and determined that the CGU to be used in assessing the impairment of goodwill is the Group as a whole. This assessment reflects how the Group is currently managing its chain of stores as a single unit, where key decisions (e.g., pricing, inventory level determination, inventory composition, etc.) are centrally managed and applied across the entire store network.

The recoverable amount of the goodwill was estimated based on the value in use calculation using cash flow projections from financial budgets approved by senior management covering a 5-year explicit period, with a continuing value into perpetuity estimated using a constant-growth model.

The calculation of value in use is most sensitive to the following assumptions:

a. Earnings before interest, tax, depreciation and amortization (EBITDA)

EBITDA forecasts management's best estimates considering factors such as index growth to market, customer projections and economic factors.

b. Pre-tax discount rates

Discount rates reflect the current market assessment of the risks to CGU and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. The pre-tax discount rate applied to cash flow projections was 13.52% to 14.44% in 2022 and 11.33% to 12.22% in 2021.

c. Fair value less cost of disposal

The fair values of the assets and liabilities of the CGU were determined in reference to the available market price for quoted instruments.

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2022 and 2021 to materially exceed its recoverable amount.

Software and Program Cost

Movements in software and program cost are as follows:

	2022	2021
Cost:		
Beginning balance	₱46,855,506	₱38,611,286
Additions	400,000	8,244,220
Ending balance	47,255,506	46,855,506
Accumulated amortization:		
Beginning balance	34,706,558	31,702,597
Amortization (Note 19)	3,594,253	3,003,961
Ending balance	38,300,811	34,706,558
Net book value	₱8,954,695	₱12,148,948

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 and Long-term Debt

Bank Loans

Bank loans represent unsecured Philippine Peso-denominated short-term borrowings of PSC and CDI from various local banks, payable in lump-sum within 1 year period, respectively, with annual interest rates ranging from 2.50% in 2022 and 2.60% to 4.00% in 2021, which are repriced quarterly based on market rates.

Movements in bank loans are as follows:

	2022	2021
Beginning balance	₱100,000,000	₱830,000,000
Availments	-	3,600,000,000
Payments	(100,000,000)	(4,330,000,000)
Ending balance	₱-	₱100,000,000

Interest expense from these bank loans amounted to ₱576,389, ₱57,393,691, and ₱90,672,055 in 2022, 2021 and 2020, respectively (see Note 20). Interest payable amounted to nil, and ₱48,611 as at December 31, 2022 and 2021, respectively (see Note 12).

Long-term Debt

The Group has no availment of long-term debt in 2022. Long-term debt availed in 2021 represent unsecured Philippine Peso-denominated borrowings of the Group from various local banks, payable as follows:

Availment date	Maturity date	Payment schedule	Principal	Interest rate
February 15, 2021	February 15, 2024	8 quarterly payments	₱500,000,000	4.40%

The interest rates of the long-term debt are subject to quarterly and monthly repricing based on market rates.

Movements in long-term debt are as follows:

	2022	2021
Beginning balance	₱1,591,725,146	₱1,333,415,204
Availments	-	500,000,000
Payments	(1,279,225,146)	(241,690,058)
Ending balance	312,500,000	1,591,725,146
Less current portion	250,000,000	666,690,058
Noncurrent portion	₱62,500,000	₱925,035,088

Interest expense from these borrowings amounted to ₱49,839,765, ₱74,912,238, and ₱21,694,485 in 2022, 2021 and 2020, respectively (see Note 20). Interest payable amounted to ₱2,131,783 and ₱5,688,869 and as at December 31, 2022 and 2021, respectively (see Note 12).

The proceeds of the bank loans and long-term debt were used for the operations of the Group.

Outstanding long-term debts are as follows:

Loan Amount	Date of Loan Agreement	Lender	Terms			Outstanding Amounts	
			Payment Schedule	Final Payment	Interest Rates	2022	2021
₱500,000,000	February 15, 2021	CITI	8 quarterly payments	February 15, 2024	4.40%	₱312,500,000	₱500,000,000
500,000,000	December 18, 2020	CITI	8 quarterly payments	December 18, 2023	5.30%	-	500,000,000
500,000,000	December 15, 2020	BPI	20 quarterly payments	December 15, 2025	3.88%	-	400,000,000
59,000,000	December 20, 2019	BPI	17 quarterly payments	May 17, 2024	4.75%	-	32,777,778
36,000,000	September 16, 2019	BPI	18 quarterly payments	May 17, 2024	4.75%	-	18,947,368
25,000,000	June 10, 2019	BPI	20 quarterly payments	May 17, 2024	4.75%	-	12,500,000
35,000,000	June 10, 2019	BPI	20 quarterly payments	May 17, 2024	4.75%	-	17,500,000
45,000,000	May 17, 2019	BPI	20 quarterly payments	May 17, 2024	4.75%	-	22,500,000
250,000,000	November 16, 2017	BPI	20 quarterly payments	November 16, 2022	3.76%	-	50,000,000
250,000,000	August 1, 2017	BPI	20 quarterly payments	August 1, 2022	3.20%	-	37,500,000
						₱312,500,000	₱1,591,725,146

The Group is subject to various financial and non-financial covenants under its loan agreements with the banks. Financial covenants include debt service coverage ratio, debt to EBITDA ratio, and debt to equity ratio. The Group is compliant with its loan covenants as at December 31, 2022 and 2021.

12. Accounts Payable and Accrued Expenses

This account consists of:

	2022	2021
Trade payable:		
Suppliers	₱5,681,025,253	₱5,383,914,587
Related parties (Note 24)	16,766,055	2,715,132
Utilities	313,970,325	316,710,122
Outsourced services	271,958,348	177,867,153
Employee benefits	264,131,235	78,175,300
Taxes and licenses	149,861,943	18,533,318
Rent payable	132,026,290	220,662,962
Repairs and maintenance	81,011,119	62,779,120
Internet charges	64,067,291	106,353,411
Professional fees	21,718,748	14,620,928
Security services	14,298,029	16,711,320
Advertising and promotion	10,628,392	10,208,392
Bank charges	6,872,500	18,901,950
Interest (Notes 11 and 16)	2,536,183	5,923,480
Others (Note 33)	228,909,212	193,095,681
	₱7,259,780,923	₱6,627,172,856

The trade suppliers generally provide 15 or 30-day credit terms to the Group. Prompt payment discounts ranging from 1.0% to 3.0% are given by a number of trade suppliers. All other payables are due within 3 months.

Breakdown of interest payable follows:

	2022	2021
Long-term debt (Note 11)	₱2,131,783	₱5,688,869
Cumulative redeemable preferred shares (Note 16)	404,400	186,000
Bank loans (Note 11)	-	48,611
	₱2,536,183	₱5,923,480

Others include provisions, and accruals of various expenses related to stores' operations, and professional fees, taxes and licenses.

13. Revenue from Contracts with Customers and Contract Liabilities

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2022	2021	2020
Revenue source:			
Revenue from merchandise sales	₱56,690,597,302	₱40,053,539,460	₱38,890,128,943
Franchise revenue (Note 31)	4,619,440,002	3,561,573,281	3,606,929,900
Service income (Note 31)	1,372,799,855	1,529,493,517	1,148,864,430
	₱62,682,837,159	₱45,144,606,258	₱43,645,923,273
Timing of recognition:			
Goods transferred at a point in time	₱62,578,760,009	₱45,032,249,812	₱43,512,218,176
Services transferred over time	104,077,150	112,356,446	133,705,097
	₱62,682,837,159	₱45,144,606,258	₱43,645,923,273

Contract Liabilities

	2022	2021
Initial franchise fees	₱298,941,823	₱264,994,765
Gift cards and other contract liabilities	697,501,370	536,455,424
Customer loyalty programme	25,152,188	102,369,450
	1,021,595,381	903,819,639
Less current portion	864,327,215	777,961,799
Noncurrent portion	₱157,268,166	₱125,857,840

Movements of contract liability arising from initial franchise fees are as follows:

	2022	2021
Beginning balance	₱264,994,765	₱298,210,623
Amortization of initial franchise fees	(104,077,150)	(112,356,446)
Initial franchise fees received	124,015,776	65,149,793
Accretion of interest expense (Note 20)	14,008,432	13,990,795
Ending balance	₱298,941,823	₱264,994,765

The amount of initial franchise fees allocated to remaining performance obligations, the amount of accretion of interest expense in the succeeding years, and the amount of contract liability arising from initial franchise fees are as follows:

	2022		Contract liability from initial franchise fees
	Principal	Unamortized interest expense	
Within 1 year	₱154,356,349	₱12,682,692	₱141,673,657
More than 1 year	172,625,753	15,357,587	157,268,166
	₱326,982,102	₱28,040,279	₱298,941,823
	2021		Contract liability from initial franchise fees
	Principal	Unamortized interest expense	
Within 1 year	₱129,779,487	₱9,357,438	₱139,136,925
More than 1 year	117,479,037	8,378,803	125,857,840
	₱247,258,524	₱17,736,241	₱264,994,765

14. Other Current Liabilities

Details of other current liabilities follow:

	2022	2021
Non-trade accounts payable	₱2,874,107,607	₱1,816,811,385
Output VAT payable	363,097,939	397,858,517
Due to franchisees (Note 31)	333,252,911	235,620,697
Retention payable	169,572,688	150,569,800
Royalty (Notes 24 and 31)	149,023,237	48,605,831
Withholding taxes	127,577,640	97,203,779
Unearned revenue (Note 31)	124,087,078	50,542,054
Service fees payable	17,539,057	15,854,861
Others (Note 24)	166,089,125	29,391,690
	₱4,324,347,282	₱2,842,458,614

Non-trade accounts payable pertains to payable to suppliers of services or supplies that forms part of general and administrative expenses. These are noninterest-bearing and are due within 1 year.

Output VAT payable and withholding taxes are payables to the government and are normally settled within a month.

Due to franchisees pertain to the share of the franchisees to the gross profit of the franchise stores. These are due within 3 months.

Retention payable pertains to the 10% of progress billings related to the construction of stores to be paid upon completion of the construction.

Unearned revenue pertains to unearned rent income and revenue yet to be recognized in relation to agreements with suppliers for promotions and exclusivity contract (see Note 31).

Service fees payable pertains to management fee to be paid to store operators for managing the stores under service agreement. This is computed based on a graduated percentage multiplied to stores' gross profit and is payable the following month.

Others pertains to other statutory payables, donations payable, and due to employees.

15. Deposits Payable

Details of this account follow:

	2022	2021
Franchisees (Note 31)	₱261,832,511	₱252,016,710
Service agreements (Note 31)	88,151,068	91,982,899
Rent	21,002,330	19,885,954
	₱370,985,909	₱363,885,563

16. Cumulative Redeemable Preferred Shares

	Number of shares
Authorized - ₱100 par value per share	60,000
Issued and subscribed	60,000

The cumulative redeemable preferred shares are redeemable at the option of the holder. The holder is entitled to annual "Guaranteed Preferred Dividend" at a floating rate of 5.24%, 1.60%, and 1.69% in 2022, 2021 and 2020, respectively, plus spread rate of 1.50% 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.

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholders' Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors.

Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings will be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included

under "Interest expense" account in the consolidated statements of comprehensive income amounted to ₱404,400, ₱186,000, and ₱191,460, in 2022, 2021 and 2020, respectively (see Note 20).

Interest payable amounted to ₱404,400, and ₱186,000 as at December 31, 2022 and 2021, respectively (see Note 12).

17. Equity

Common Stock

	Number of shares
Authorized - ₱1 par value per share	1,600,000,000
Issued and subscribed	757,104,533

The Company 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 Company offered the share at a price of ₱4.40.

Below is the Company's track record of the registration of securities:

Date of SEC order rendered effective or permit to sell/ Date of SEC approval	Event	Authorized Capital Stock	Issued shares	Issue price/ Par value
January 9, 1998	Outstanding common shares	400,000,000	166,556,250	₱1.00
February 4, 1998	Listed shares:			
	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
November 6, 2017	65% stock dividends	1,600,000,000	297,982,960	1.00
As at December 31, 2022			757,104,533	

As at December 31, 2022 and 2021, the Company is compliant with the minimum public float as required by the Philippine Stock Exchange.

Retained Earnings

The Group's retained earnings is restricted to the extent of ₱227,968,344 and ₱216,304,240 as at December 31, 2022 and 2021, respectively, for the undistributed earnings of subsidiaries and ₱2,923,246 as at December 31, 2022 and 2021 for the cost of treasury shares.

On November 7, 2016, the BOD approved additional appropriation of retained earnings amounting to ₱900,000,000 intended for store and warehouse expansion. These projects are expected to be completed in 2019.

On November 27, 2017, the BOD approved additional appropriation of retained earnings amounting to ₱1,000,000,000 intended for store and warehouse expansion. These projects are expected to be completed in 2020.

On November 6, 2018, the BOD approved additional appropriation of retained earnings amounting to ₱3,200,000,000 intended for store and warehouse expansion. These projects are expected to be completed in 2021.

On November 18, 2019, the BOD approved the reversal of previous appropriated retained earnings last November 7, 2016 amounting to ₱900,000,000. Further, the BOD approved appropriation of retained earnings amounting to ₱1,900,000,000 intended for store and warehouse expansion. These projects are expected to be completed in 2022.

On December 15, 2020, the BOD approved extension of appropriation amounting to ₱1,000,000,000, as previously appropriated last November 27, 2017, intended for store and warehouse expansion. These projects are expected to be completed in 2021 due to the adverse economic impact of the pandemic.

On December 16, 2021, the BOD approved the reversal of previous appropriated retained earnings last November 27, 2017 amounting to ₱1,000,000,000. Further, the BOD approved the extension of appropriation amounting to ₱3,200,000,000 as previously appropriated in 2018, intended for store and warehouse expansion. These projects are expected to be completed in 2022 due to adverse economic impact of the pandemic.

On December 5, 2022, the BOD approved the reversal of previous appropriated retained earnings last November 6, 2018 and November 19, 2019 amounting to ₱3,200,000,000 and ₱1,900,000,000, respectively, due to the completion of the related projects and capital expenditures in 2022. Further, the BOD approved the appropriation amounting to ₱6,800,000,000 for store and distribution center expansion until fiscal year 2025.

Cash Dividends

Details of the Company's cash dividends declaration for the years ended December 31, 2022, 2021 and 2020 are shown below:

Declaration date	Record date	Payment date	Dividend per share	Outstanding no. of common shares as of declaration date	Total cash dividends
July 16, 2020	August 4, 2020	August 14, 2020	₱0.30	756,418,283	₱226,925,485

The Company's BOD approved all the cash dividends presented above. No dividends were declared during 2022 and 2021.

Treasury Shares

There are 686,250 shares that are in treasury amounting to ₱2,923,246 as at December 31, 2022 and 2021. There is no movement in the Company's treasury shares in 2022, 2021, and 2020.

18. Cost of Merchandise Sales

This account consists of:

	2022	2021	2020
Merchandise inventory, beginning (Note 6)	₱4,328,438,056	₱4,243,099,966	₱4,164,073,340
Net purchases	42,378,043,573	29,741,971,463	28,862,378,020
	46,706,481,629	33,985,071,429	33,026,451,360
Less merchandise inventory, ending (Note 6)	5,561,813,148	4,328,438,056	4,243,099,966
	₱41,144,668,481	₱29,656,633,373	₱28,783,351,394

19. General and Administrative Expenses

Details of this account follow:

	2022	2021	2020
Depreciation and amortization (Notes 8, 10 and 25)	₱4,035,574,231	₱4,084,898,497	₱4,284,707,097
Outside services (Note 31)	3,227,138,800	2,663,623,976	2,253,893,458
Communication, light and water	3,193,066,321	2,193,091,801	1,969,502,344
Personnel costs (Note 22)	1,454,900,126	1,327,864,582	1,313,612,937
Trucking services	1,109,481,247	704,171,028	678,678,767
Repairs and maintenance	785,676,749	652,342,860	546,455,151
Warehousing services	770,445,618	588,697,040	553,693,097
Supplies	718,241,894	580,838,410	519,827,392
Rent	664,541,324	530,556,959	605,250,082
Royalties (Note 31)	657,340,764	453,863,067	461,061,490
Advertising and promotion	500,226,867	351,908,822	365,977,858
Taxes and licenses	474,758,263	395,162,164	496,527,222
Dues and subscription	119,332,890	112,390,409	67,667,942

(Forward)

	2022	2021	2020
Transportation and travel	₱103,859,437	₱71,155,965	₱68,342,699
Insurance	94,108,332	62,337,852	41,635,915
Entertainment, amusement and recreation	91,810,172	30,817,005	33,517,187
Provision for impairment (Note 5)	2,420,782	131,741,436	77,169,639
Inventory losses	1,338,677	38,291,532	47,484,917
Others	332,967,166	113,291,870	289,170,804
	₱18,337,229,660	₱15,087,045,275	₱14,674,175,998

The details of depreciation expense follow:

	2022	2021	2020
Depreciation of property and equipment (Note 8)	₱2,113,099,788	₱2,254,254,425	₱2,452,700,335
Depreciation of ROU asset (Note 25)	1,918,880,190	1,827,640,111	1,829,147,882
	₱4,031,979,978	₱4,081,894,536	₱4,281,848,217

20. Interest Expense

This account consists of:

	2022	2021	2020
Interest on accretion of lease liabilities (Note 25)	₱748,800,582	₱799,078,587	₱969,889,632
Interest on bank loans and long-term debt (Note 11)	50,416,154	132,305,929	112,366,540
Interest on accretion of initial franchise fee (Note 13)	14,008,432	13,990,795	18,841,756
Interest on deposit payable	5,702,529	14,348,697	40,369,726
Guaranteed preferred dividends (Note 16)	404,400	186,000	191,460
	₱819,332,097	₱959,910,008	₱1,141,659,114

21. Interest Income

This account consists of:

	2022	2021	2020
Cash and cash equivalents (Note 4)	₱39,737,983	₱11,966,393	₱23,828,342
Accretion of lease receivable (Note 25)	34,245,687	54,420,206	77,313,890
Accretion of refundable deposits (Note 9)	9,785,769	9,092,557	28,574,284
Receivable from franchisees (Note 5)	2,007,693	1,463,518	743,476
Receivable from employees (Note 5)	891,461	1,028,740	839,213
Short-term investment (Note 4)	159,266	49,862	130,477
	₱86,827,859	₱78,021,276	₱131,429,682

22. Personnel Costs

The details of this account as shown in Note 19 follow:

	2022	2021	2020
Salaries and wages	₱868,802,371	₱752,788,709	₱797,907,670
Employee benefits	504,029,037	478,688,247	437,918,031
Net retirement benefits cost (Note 23)	82,068,718	96,387,626	77,787,236
	₱1,454,900,126	₱1,327,864,582	₱1,313,612,937

23. 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 (BOT) of the plan. The BOT 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 BOT 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 BOT, a Director and a Controller. The Controller of the fund is the one who oversees the entire investment process.

The fair value of plan assets by each class as at the end of each reporting date are as follows:

	PSC		CDI	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Government securities	₱89,120,045	₱121,127,679	₱-	₱-
Investments in equity securities:				
PSC - listed shares - 77,509 as at December 31, 2022 and 2021, respectively	5,619,402	6,820,792	-	-
SSH - unlisted shares	6,000,000	6,000,000	-	-
BPI short-term fund:				
Unit investment trust fund	62,165,959	88,059	3,359,135	2,944,563
BPI ALFM mutual fund	-	20,000,000	840,368	738,286
Accrued interest receivable	-	683,773	-	-
Fair value of plan assets	₱162,905,406	₱154,720,303	₱4,199,503	₱3,682,849

The trustee exercises voting rights over the PSC and SSHI shares held by the retirement fund.

The retirement benefits cost and the present value of the retirement obligations are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used by the Group in determining the net retirement obligations are shown below:

	2022	2021
Discount rates	4.95%	3.83%
Salary increases rates	5.50%	5.50%
Turnover rates:		
Age 17-24	5.00%	5.00%
25-29	3.00%	3.00%
30-49	1.00%	1.00%
50-59	0.00%	0.00%

As of December 31, 2022, the discount rate and salary rate are 7.66% and 5.50%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2022 and 2021, assuming if all other assumptions were held constant:

	2022		
	Increase (Decrease)	PSC	CDI
Discount rates	+0.5%	(₱21,974,137)	(₱731,944)
	-0.5%	24,935,088	845,572

	2022		
	Increase (Decrease)	PSC	CDI
Salary increase rate	+1%	₱52,287,772	₱1,836,883
	-1%	(40,921,559)	(1,361,744)
Average remaining years of service	+5 years	(470,093)	(15,900)
	-5 years	2,366,534	80,091
	2021		
	Increase (Decrease)	PSC	CDI
Discount rates	+0.5%	(₱36,182,040)	(₱1,489,710)
	-0.5%	40,862,440	1,687,644
Salary increase rate	+1%	84,220,012	3,459,559
	-1%	(67,249,783)	(2,760,916)
Average remaining years of service	+5 years	-	-
	-5 years	769,206	31,717

The Group expects to contribute ₱239,105,604 and ₱10,564,358 to the defined benefit retirement plans of PSC and CDI, respectively, in 2023.

The Group does not currently employ any asset-liability matching. The average expected future service in years of the employees of both PSC and CDI is 23.

Shown below is the maturity analysis and weighted average duration of the retirement benefits obligations as at December 31:

	2022		2021	
	PSC	CDI	PSC	CDI
Not exceeding 1 year	₱36,793,848	₱-	₱20,971,443	₱-
More than 1 year to 5 years	100,732,048	3,025,189	74,836,713	1,976,035
More than 5 to 10 years	236,325,391	10,607,659	217,885,259	10,126,181
More than 10 to 15 years	406,106,333	7,595,284	391,982,221	9,094,241
More than 15 years to 20 years	397,652,180	16,162,448	357,327,026	14,669,722
More than 20 years	11,302,184,821	567,659,488	8,937,635,056	570,610,997

Changes in net retirement obligations in 2022 are as follows:

	Net retirement benefits cost in consolidated statements of comprehensive income			Remeasurements in other comprehensive income					Contribution by employer	December 31, 2022	
	January 1, 2022	Current service cost	Net interest	Subtotal (Note 22)	Benefits paid	Remeasurement on plan assets	Actuarial changes arising from changes in financial assumptions	Experience adjustments			Subtotal
Present value of the retirement obligations											
PSC	(P541,858,452)	(P59,231,423)	(P26,821,993)	(P86,053,416)	P12,790,817	P-	P178,711,939	(P22,846,993)	P155,864,946	P-	(P459,256,105)
CDI	(17,339,333)	(2,997,961)	(858,297)	(3,856,258)	-	-	6,492,923	1,461,276	7,954,199	-	(13,241,392)
	(559,197,785)	(62,229,384)	(27,680,290)	(89,909,674)	12,790,817	-	185,204,862	(21,385,717)	163,819,145	-	(472,497,497)
Fair value of plan assets											
PSC	154,720,303	-	7,658,655	7,658,655	(12,790,817)	(6,682,735)	-	-	(6,682,735)	20,000,000	162,905,406
CDI	3,682,849	-	182,301	182,301	-	(165,647)	-	-	(165,647)	500,000	4,199,503
	158,403,152	-	7,840,956	7,840,956	(12,790,817)	(6,848,382)	-	-	(6,848,382)	20,500,000	167,104,909
Net retirement obligations	(P400,794,633)	(P62,229,384)	(P19,839,334)	(P82,068,718)	P-	(P6,848,382)	P185,204,862	(P21,385,717)	P156,970,763	P20,500,000	(P305,392,588)

Changes in net retirement obligations in 2021 are as follows:

	Net retirement benefits cost in consolidated statements of comprehensive income			Remeasurements in other comprehensive income					Contribution by employer	December 31, 2021	
	January 1, 2021	Current service cost	Net interest	Subtotal (Note 22)	Benefits paid	Remeasurement on plan assets	Actuarial changes arising from changes in financial assumptions	Experience adjustments			Subtotal
Present value of the retirement obligations											
PSC	(P566,850,522)	(P75,944,117)	(P21,710,375)	(P97,654,492)	P7,857,516	P-	P100,122,708	(P14,666,338)	P114,789,046	P-	(P541,858,452)
CDI	(17,838,905)	(3,511,089)	(683,230)	(4,194,319)	-	-	4,102,362	591,529	4,693,891	-	(17,339,333)
	(584,689,427)	(79,455,206)	(22,393,605)	(101,848,811)	7,857,516	-	104,225,070	15,257,867	119,482,937	-	(559,197,785)
Fair value of plan assets											
PSC	139,937,290	-	5,359,598	5,359,598	(7,857,516)	(2,719,069)	-	-	(2,719,069)	20,000,000	154,720,303
CDI	2,652,391	-	101,587	101,587	-	(71,129)	-	-	(71,129)	1,000,000	3,682,849
	142,589,681	-	5,461,185	5,461,185	(7,857,516)	(2,790,198)	-	-	(2,790,198)	21,000,000	158,403,152
Net retirement obligations	(P442,099,746)	(P79,455,206)	(P16,932,420)	(P96,387,626)	P-	(P2,790,198)	P104,225,070	(P15,257,867)	P116,692,739	P21,000,000	(P400,794,633)

24. Related Party Disclosures

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. Outstanding balances are settled through cash.

Transactions with related parties consist of:

- 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. Other current liabilities disclosed in the foregoing table include an outstanding balance of donations to its affiliate PFI amounting to P13,822,544 and P1,000,000 as at December 31, 2022 and 2021, respectively (Note 14).
- PSC provides promotional support to Uni-President (Philippines) Corp. (UPPC). PSC has outstanding receivable from UPPC amounting to nil and P3,848,001 as at December 31, 2022 and 2021, respectively, presented as part of "Receivable from suppliers" under "Receivables" account in consolidated statement of financial position (see Note 5).

PSC also purchases merchandise goods from UPPC. PSC has outstanding payable to UPPC amounting to P16,766,055 and P2,715,132 as at December 31, 2022 and 2021, respectively, presented as part of "Trade payable" under "Accounts payable and accrued expenses" account in consolidated statement of financial position (see Note 12). UPPC agrees that all orders and supply of products delivered to and received by PSC are deemed correct and paid after three months from date of receipt by UPPC of payment.
- President Chain Store Corporation (PCSC), an intermediate parent company, provide rights to PSC for the use of its Trademark for City Cafe Trademarks. In accordance with their agreement, the Group pays annually, among others, royalty fees based on a certain percentage of sales, net of gross receipts tax. Royalty fee amounted to P677,592, P335,174 and nil in 2022, 2021 and 2020, respectively (see Notes 19 and 31). No outstanding payable in 2022 and 2021.

Balances arising from the foregoing transactions with related parties are as follows:

Related Parties	Nature of Transactions	Terms and Conditions	Transactions for the Year Ended December 31		Outstanding Balance as at December 31	
			2022	2021	2022	2021
Receivables (Note 5)						
PFI – <i>affiliate</i>	Non-interest-bearing advances	Unsecured, no impairment in 2022 and 2021. Amounts are due and demandable. Settlement through cash.	₱1,948,936	₱989,569	₱2,829,204	₱926,578
UPPC – <i>under common control</i>	Promotional support	Unsecured, no impairment in 2022 and 2021. Amounts re due and demandable.	27,688,880	49,555,244	-	3,848,001
			₱29,637,816	₱50,544,813	₱2,829,204	₱4,774,579
Other current liabilities (Note 14)						
PCSC – <i>intermediate parent</i>	Royalty	Royalty rates based on net sales. Payable at the end of each annual period.	₱677,592	₱335,174	₱-	₱-
PFI – <i>affiliate</i>	Donations	Allocated annual fund equivalent to 0.5% of annual net income before tax. Payable quarterly.	14,555,110	41,570,936	13,822,544	1,000,000
			₱15,232,702	₱41,906,110	₱13,822,544	₱1,000,000
Trade payables (Note 12)						
UPPC – <i>under common control</i>	Purchase of goods	Unsecured. Amounts are due and demandable	₱39,908,734	₱10,684,357	₱16,766,055	₱2,715,132
			₱39,908,734	₱10,684,357	₱16,766,055	₱2,715,132

PSC shall release allocated annual fund equivalent to 0.5% of annual net income before tax, payable quarterly, which shall correspond to the specific programs of PFI and its budget approved by the BOT, and the total amount of donation for each year shall not exceed ₱20,000,000. The annual allocated fund amounted to ₱13,822,543 and nil in 2022 and 2021.

- d. As at December 31, 2022 and 2021, the Group's defined benefit retirement fund has investments in shares of stock of PSC with a cost of ₱122,417. The retirement benefit fund has earned income and incurred loss arising from changes in market prices in 2022 and 2021 amounting to ₱1,201,786 and ₱2,464,786, respectively.
- e. Compensation of key management personnel are as follows:

	2022	2021	2020
Short-term employee benefits	₱63,084,563	₱55,930,754	₱73,928,733
Post-employment benefits	8,306,197	9,306,571	8,672,826
	₱71,390,760	₱65,237,325	₱82,601,559

- f. Material Related Party Transactions (MRPT)

The Group adopted the materiality threshold of ten percent (10%) or higher of its total consolidated assets based on its latest audited financial statements. A threshold lower than ten percent (10%) may be set by the Board of Directors upon its determination of the risk of the MRPT to cause damage to the Company and its shareholders. The threshold shall apply to MRPT entered between the Company, its subsidiary or affiliate or any related party.

25. Leases

Group as a lessee

The Group has various lease agreements for company-owned and franchised convenience stores, office spaces, kitchens and warehouses. Lease agreements of the Group generally have lease terms between 3 to 25 years. The Group's obligations under its leases are secured by the lessor's title to the lease assets. There are several lease contracts that include extension and termination options and variable lease payments.

ROU asset represents store, warehouse, kitchen and office spaces leased by the Group which are amortized over the remaining lease term:

Changes in the ROU assets are as follows:

	2022				
	Store	Warehouse	Office	Kitchen	Total
Cost					
Beginning balances	₱8,972,310,171	₱2,013,063,182	₱150,524,178	₱45,551,072	₱11,181,448,603
Additions	2,470,225,500	17,520,362	29,703,882	4,536,386	2,521,986,130
Retirements for store closures	(38,838,197)	-	-	-	(38,838,197)
Ending balances	11,403,697,474	2,030,583,544	180,228,060	50,087,458	13,664,596,536
Accumulated Depreciation and Amortization					
Beginning balances	4,478,001,983	445,255,381	57,789,226	23,472,142	5,004,518,732
Depreciation (Note 19)	1,694,130,216	187,088,676	22,826,407	14,834,891	1,918,880,190
Retirements	(30,642,770)	-	-	-	(30,642,770)
Ending balances	6,141,489,429	632,344,057	80,615,633	38,307,033	6,892,756,152
Net Book Values	₱5,262,208,045	₱1,398,239,487	₱99,612,427	₱11,780,425	₱6,771,840,384

	2021				
	Store	Warehouse	Office	Kitchen	Total
Cost					
Beginning balances	₱8,639,206,994	₱1,439,762,124	₱136,567,033	₱45,551,072	₱10,261,087,223
Additions	578,022,837	573,301,058	13,957,145	-	1,165,281,040
Retirements for store closures	(244,919,660)	-	-	-	(244,919,660)
Ending balances	8,972,310,171	2,013,063,182	150,524,178	45,551,072	11,181,448,603
Accumulated Depreciation and Amortization					
Beginning balances	2,976,359,450	259,885,945	36,050,283	12,879,299	3,285,174,977
Depreciation (Note 19)	1,609,938,889	185,369,436	21,738,943	10,592,843	1,827,640,111
Retirements	(108,296,356)	-	-	-	(108,296,356)
Ending balances	4,478,001,983	445,255,381	57,789,226	23,472,142	5,004,518,732
Net Book Values	₱4,494,308,188	₱1,567,807,801	₱92,734,952	₱22,078,930	₱6,176,929,871

Additions in beginning ROU asset include prepayment and deferred lease asset amounting to ₱23,031,913 and ₱12,456,930 for 2022, nil and ₱6,022,730 for 2021 and ₱59,265,785 and ₱28,471,764 for 2020, respectively.

The Company also undergone conversion of stores from franchise to company-owned amounting to ₱35,026,701, ₱67,248,226 and ₱77,132,085 in 2022, 2021 and 2020, respectively, previously classified as lease receivable and subsequently transferred to ROU assets.

The following are the amounts recognized in the consolidated statements of comprehensive income:

	2022	2021	2020
Depreciation expense of ROU assets (Note 19)	₱1,918,880,190	₱1,827,640,111	₱1,829,147,882
Interest expense on lease liabilities (Note 20)	748,800,582	799,078,587	969,889,632
Expense relating to short-term leases	473,032,698	469,097,867	440,687,405
Variable lease payments	43,084,387	17,363,878	35,382,650
Expense relating to low-value assets	144,613,838	39,876,723	21,823,091
Rent concessions	(216,347,250)	(37,200,446)	(147,747,363)
	₱3,112,064,445	₱3,115,856,720	₱3,149,183,297

Lease liabilities represents payments to be made over the remaining lease term. Movement of the lease liabilities during the period are as follows:

	2022	2021
At beginning of the period	₱8,611,068,891	₱8,612,718,449
Additions	2,566,781,757	1,477,210,213
Termination	(23,806,300)	(162,772,849)
Interest expense (Note 20)	748,800,582	799,078,587
Payments	(2,344,305,166)	(2,072,453,751)
Rent concession	(241,445,304)	(42,711,758)
Balance at end of the period	9,317,094,460	8,611,068,891
Current lease liabilities	1,964,518,668	1,953,775,783
Noncurrent lease liabilities	₱7,352,575,792	₱6,657,293,108

Most of the contracts covering property leased by PSC have stipulations stating that the right on the renewal of lease is on the hand of the lessee, although rates, terms and conditions are still to be agreed in the future. As such, it is not reasonably certain that the PSC will exercise the option to extend the lease since the extension is considered unenforceable.

As a lessee, the Group applies the practical expedient and accounted for any change in lease payments resulting from the COVID-19 related rent concession as not a lease modification until June 30, 2022. In 2022, 2021 and 2020, the Group recognized as part of "Other income" in the consolidated statement of comprehensive income amounting to ₱216,347,250, ₱37,200,446 and ₱147,747,363 respectively, to reflect the changes in lease payments that arise from rent concessions.

The Group has various short-term lease agreements 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.

The approximate annual future minimum rent payable of the Group under its existing non-cancellable lease agreements as a lessee as at December 31 are as follows:

	2022	2021
Not later than one year	₱2,421,789,534	₱2,018,901,301
After one year but not more than five years	7,161,689,313	5,651,890,719
More than five years	1,911,755,110	2,026,770,406
	₱11,495,233,957	₱9,697,562,426

Group as a lessor

The Group has various sublease agreements which provide for lease rentals based on an agreed fixed monthly rate or as agreed upon by the parties. Rental income related to these sublease agreements amounted to ₱52,795,794, ₱63,037,775, and ₱148,687,434 in 2022, 2021 and 2020, respectively.

The Group enters into a transaction for which the underlying asset is re-leased to the franchisees, and original lease contract between 3rd party and the Group remains in effect. Currently, franchisees have two different leasing scenarios, (a) 3-party lease contract where the Group acts as the intermediate lessee to the third-party lessor while the franchisee acts as the sublessee and (b) 2-party lease contract where the franchisee, similar with the scenario, (a) acts as the sublessee at the same time the lessor or owner of the leased property.

Lease receivable represents receipts to be received over the remaining lease term. Movement of the lease receivables during the period are as follows:

	2022	
	Sublease Lease Arrangement	
	3-Party	2-Party
Balance at beginning of the period	₱540,663,248	₱275,784,703
Additions	115,311,170	-
Contractual receipts	(150,907,029)	(38,446,395)
Store conversion from franchise to company-owned	(35,026,701)	(4,251,992)
Interest income (Note 21)	34,245,687	5,502,621
Retirement	(15,610,873)	(445,363)
Rent concessions	(25,098,054)	-
Balance at end of the period	₱463,577,448	₱238,143,574

	2021	
	Sublease	Lease Arrangement
	3-Party	2-Party
Balance at beginning of the period	₱289,755,255	₱302,898,900
Additions	385,200,129	-
Contractual receipts	(89,803,260)	(20,558,817)
Store conversion from franchise to company-owned	(67,248,226)	(5,490,023)
Interest income (Note 21)	54,420,206	6,359,768
Retirement	(26,149,544)	(7,425,125)
Rent concessions	(5,511,312)	-
Balance at end of the period	₱540,663,248	₱275,784,703

Lease receivable and lease liabilities from 2-party sublease arrangement are offset in presenting the balances at the consolidated statements of financial position, as these contain offsetting arrangements.

The approximate annual future minimum rent receivables of the Company under its existing non-cancellable lease agreements as a lessor as at December 31 are as follows:

	2022	2021
Not later than one year	₱346,250,225	₱223,786,328
After one year but not more than five years	248,500,255	324,988,278
More than five years	2,796,188	4,018,601
	₱597,546,668	₱552,793,207

26. Income Tax

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

	2022	2021	2020
Current:			
RCIT	₱839,526,044	₱595,002	₱830,515
Final tax on interest income	7,369,588	2,393,659	4,791,638
MCIT	-	146,498,862	280,566,655
Effect of CREATE law	-	(63,754,751)	-
	846,895,632	85,732,772	286,188,808
Deferred:			
Deferred tax benefit	(122,630,867)	(246,480,433)	(431,698,300)
Effect of CREATE law	-	188,017,249	-
	₱724,264,765	₱27,269,588	(₱145,509,492)

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

	2022	2021
Deferred tax assets:		
Leases	₱598,076,104	₱487,227,509
Deferred revenue	177,863,619	159,675,721
Net retirement obligations	76,348,147	100,198,658
Contract liability on initial franchise fees	74,735,456	66,248,691
Unearned gift check	33,139,913	12,278,997
Allowance for impairment on receivables	32,531,669	63,589,863
Accrued rent	32,553,474	54,656,353
Unamortized discount on refundable deposits	19,194,993	18,756,307
Unearned rent income	4,380,306	387,014
Provision for litigation losses	669,551	2,485,561
Unamortized past service cost	453,380	926,987
Excess of MCIT over RCIT	-	17,425,960
Unrealized foreign exchange loss	-	5,363
	₱1,049,946,612	₱983,862,984
Deferred tax liabilities		
Unrealized foreign exchange gain	121,411	-
Total deferred tax assets – net	₱1,049,825,201	₱983,862,984

The recognized deferred tax assets include deferred tax on net retirement obligations charged to OCI amounting to ₱23,583,857 and ₱15,658,834 as at December 31, 2022 and 2021, respectively. In 2021, impact of CREATE law amounted to ₱8,966,404 charged as deferred tax benefit to OCI.

c. The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of comprehensive income follow:

	2022	2021	2020
Provision for income tax computed at statutory tax rate	₱694,950,533	(₱108,943,529)	(₱169,568,109)
Adjustments for:			
Nondeductible expenses:			
Interest expense and others	31,172,927	1,110,022	12,970,978

(Forward)

	2022	2021	2020
Tax effect of rate difference between final tax and statutory tax rate on bank interest income	(P1,858,695)	(P594,323)	(P3,157,837)
Inventory losses	-	11,434,920	14,245,476
Effect of CREATE law for reduction in tax rate basis of prior year income tax and deferred tax asset	-	124,262,498	-
	P724,264,765	P27,269,588	(P145,509,492)

- d. Details of excess of MCIT over RCIT, which can be claimed as tax credit against RCIT due, are as follows:

Year Incurred	Availment Period	Amount	Applied Previous Year/s	Expired	Effect of CREATE Law	Applied Current Year	Unapplied
2020	2021-2023	P44,458,221	(P521,482)	P-	(P43,936,739)	P-	P-
2021	2022-2024	17,425,960	-	-	-	(17,425,960)	-
Total		P61,884,181	(P521,482)	P-	(P43,936,739)	(P17,425,960)	P-

- e. Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

On March 26, 2021, "Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act" was signed into law to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact to the Group:

- Effective July 1, 2020, Regular Corporate Income Tax (RCIT) rate is decreased from 30% to 20% for corporations with total assets (excluding the value of land on which the particular business entity's office, plant and equipment are situated during the taxable year) of P100 million or below and taxable income of P5 million and below. All other corporations not meeting the criteria are subject to lower RCIT rate of 25% from 30%;
- Effective July 1, 2020 and for a period of 3 years, Minimum Corporate Income Tax (MCIT) rate is lowered from 2% to 1% of gross income; and
- Improperly accumulated earnings tax of 10% is repealed.

The RCIT and MCIT applied in the preparation of the Group's financial statements as at and for the years December 31, 2021 and 2020 are based on the enacted tax rates of:

- 30% RCIT and 2% MCIT for the months covered before the effectivity of CREATE, and
- 25% RCIT for PSC and CDI, 20% RCIT for SSHI and 1% MCIT as the case may be for the months covered under CREATE.

In 2021, the impact of CREATE Act amounted to a reduction in provision for current income tax amounting to P63,754,751 and a reduction in deferred tax assets of P196,983,653 where P188,017,249 and P8,966,404 were charged to profit or loss and OCI, respectively.

27. Basic/Diluted Earnings Per Share

The following table presents information necessary to calculate earnings per share (EPS) on net income attributable to equity holders of the Group:

	2022	2021	2020
a. Net income (loss)	P2,056,963,147	(P461,004,999)	(P419,717,537)
b. Weighted average number of shares issued	757,104,533	757,104,533	757,104,533
c. Less weighted average number of shares held in treasury	686,250	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	756,418,283	756,418,283	756,418,283
e. Basic/diluted earnings (loss) per share (a/d)	P2.72	(P0.61)	(P0.55)

The Group does not have potentially dilutive common shares as at December 31, 2022, 2021 and 2020. 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 Group's financial instruments (those with carrying amounts that are not equal to their fair values) as at December 31 are as follows:

	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
<i>Financial Assets at Amortized Cost</i>				
Deposits -				
Refundable (Notes 7, 9 and 29)	P1,009,105,511	P999,032,253	P958,619,359	P960,511,829

*Current portion amounting to P995,339 and P1,241,295 as at December 31, 2022 and 2021, respectively, are presented as part of "Others" under "Prepayments and other current assets" account.

Refundable deposits are categorized under level 3 in the fair value hierarchy.

Fair Value Information

Cash and Cash Equivalents, Short-term Investment, Receivables, Advances for E-money, Accounts Payable and Accrued Expenses and Other Current Liabilities

Due to the short-term nature of the related transactions, the fair values of cash and cash equivalents, short-term investment, receivables, advances for e-money, accounts payable and accrued expenses and other current liabilities approximate their carrying values as at balance sheet dates.

Utilities and Other Deposits

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

Refundable Deposits

The fair value of refundable deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as at December 31, 2022 and 2021 ranging from 1.01% to 11.41% and 3.08% to 7.39%, respectively.

Bank Loans and Long-term Debt

The carrying value of bank loans and long-term debt approximates fair value because of recent and monthly and quarterly repricing of related interest based on market conditions.

Cumulative Redeemable Preferred Shares

The carrying value of cumulative redeemable preferred shares 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 yearend.

As at December 31, 2022 and 2021, 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 and interest rate 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.

Listed below are the summarized risks 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 December 31:

	2022	2021
Cash and cash equivalents:		
Cash in banks	₱4,732,280,881	₱4,742,795,668
Cash equivalents	1,712,759,916	100,000,000
	<u>6,445,040,797</u>	<u>4,842,795,668</u>
Short-term investment	11,583,244	11,535,504
Receivables:		
Franchisees	1,619,121,852	1,415,343,054
Suppliers	627,967,037	807,415,248
Leases	272,164,688	238,187,878
Employees	38,400,994	34,182,946
Store operators	76,086,894	20,302,913
Due from PFI	2,829,204	926,578
Insurance receivable	2,263,855	388,959
Rent	2,247,928	892,690
Others	24,244,613	13,311,103
	<u>2,665,327,065</u>	<u>2,530,951,369</u>
Advances for e-money	1,447,420,459	930,530,835
Deposits:		
Refundable*	1,010,100,850	959,860,654
Utilities	83,519,322	71,019,780
Others	22,227,130	21,991,100
	<u>1,115,847,302</u>	<u>1,052,871,534</u>
Other noncurrent assets:		
Noncurrent portion of receivable -		
from leases	191,412,760	302,475,370
from franchisees	10,467,184	8,723,265
	<u>₱11,887,098,811</u>	<u>₱9,679,883,545</u>

*Current portion amounting to ₱995,339 and ₱1,241,295 as at December 31, 2022 and 2021, respectively, are presented as part of "Others" under "Prepayments and other current assets" account.

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:

	2022				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Past Due and Impaired	Total
Cash and cash equivalents					
Cash in banks	₱4,732,280,881	₱-	₱-	₱-	₱4,732,280,881
Cash Equivalents	1,712,759,916				1,712,759,916
	6,445,040,797	-	-	-	6,445,040,797
Short-term investment	11,583,244	-	-	-	11,583,244
Receivables					
Franchisees	-	1,574,128,176	44,993,676	102,552,776	1,721,674,628
Suppliers	-	394,342,827	233,624,210	19,511,505	647,478,542
Leases	-	272,164,688	-	-	272,164,688
Employees	-	36,020,605	2,380,389	248,203	38,649,197
Store operators	-	59,476,970	16,609,924	4,594,761	80,681,655
Due from PFI	-	2,829,204	-	-	2,829,204
Insurance receivable	-	980,506	1,283,349	106,764	2,370,619
Rent	-	33,622	2,214,306	2,451,510	4,699,438
Others	-	15,437,549	8,807,064	661,157	24,905,770
	-	2,355,414,147	309,912,918	130,126,676	2,795,453,741
Advances for e-money	-	1,447,420,459	-	-	1,447,420,459
Deposits					
Refundable*	-	1,010,100,850	-	-	1,010,100,850
Utilities	-	83,519,322	-	-	83,519,322
Others	-	22,227,130	-	-	22,227,130
	-	1,115,847,302	-	-	1,115,847,302
Other noncurrent assets					
Noncurrent portion of:					
Lease receivable	-	191,412,760	-	-	191,412,760
Receivable from franchisees	-	10,467,184	-	-	10,467,184
	-	201,879,944	-	-	201,879,944
	₱6,456,624,041	₱5,120,561,852	₱309,912,918	₱130,126,676	₱12,017,225,487

*Current portion amounting to ₱95,339 as at December 31, 2022 is presented as part of "Others" under "Prepayments and other current assets" account.

	2021				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Past Due and Impaired	Total
Cash and cash equivalents					
Cash in banks	₱4,742,795,668	₱-	₱-	₱-	4,742,795,668
Cash Equivalents	100,000,000				100,000,000
	4,842,795,668	-	-	-	4,842,795,668
Short-term investment	11,535,504	-	-	-	11,535,504
Receivables					
Franchisees	-	1,415,343,054	-	196,696,983	1,612,040,037
Suppliers	-	542,805,578	264,609,670	21,055,275	828,470,523
Leases	-	238,187,878	-	-	238,187,878
Employees	-	25,287,202	8,895,744	6,569,764	40,752,710
Store operators	-	20,302,913	-	19,940,920	40,243,833
Due from PFI	-	926,578	-	-	926,578
Insurance receivable	-	388,959	-	106,764	495,723
Rent	-	128,123	764,567	3,206,230	4,098,920
Others	-	6,231,543	7,079,560	1,738,065	15,049,168
	-	2,249,601,828	281,349,541	249,314,001	2,780,265,370

(Forward)

	2021				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Past Due and Impaired	Total
Advances for e-money	₱-	₱930,530,835	₱-	₱-	₱930,530,835
Deposits					
Refundable*	-	959,860,654	-	-	959,860,654
Utilities	-	71,019,780	-	-	71,019,780
Others	-	21,991,100	-	-	21,991,100
	-	1,052,871,534	-	-	1,052,871,534
Other noncurrent assets					
Noncurrent portion of:					
Lease receivable	-	302,475,370	-	-	302,475,370
Receivable from franchisees	-	8,723,265	-	5,045,450	13,768,715
	-	311,198,635	-	5,045,450	316,244,085
	₱4,854,331,172	₱4,544,202,832	₱281,349,541	₱254,359,451	₱9,934,242,996

*Current portion amounting to ₱1,241,295 as at December 31, 2021 is presented as part of "Others" under "Prepayments and other current assets" account.

The Group uses the following criteria to rate credit quality:

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

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

Cash in banks, 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 assets 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:

	2022					
	Aging analysis of financial assets past due but not impaired				Past Due and Impaired	
	31 to 60 days	61 to 90 days	> 90 days	Total	Impaired	Total
Receivables:						
Franchisees*	₱-	₱790,818	₱44,202,858	₱44,993,676	₱102,552,776	₱147,546,452
Suppliers	27,096,077	106,910,501	99,617,632	233,624,210	19,511,505	253,135,715
Employees	2,140,623	238,443	1,323	2,380,389	248,203	2,628,592
Store operators	5,012,693	-	11,597,231	16,609,924	4,594,761	21,204,685
Rent	-	1,712,854	501,452	2,214,306	2,451,510	4,665,816
Insurance receivable	834,328	449,021	-	1,283,349	106,764	1,390,113
Others	2,376,017	3,672,500	2,758,547	8,807,064	661,157	9,468,221
	₱37,459,738	₱113,774,137	₱158,679,043	₱309,912,918	₱130,126,676	₱440,039,594

*Noncurrent portion amounting to ₱10,467,184 is presented under "Other noncurrent assets" account.

	2021					
	Aging analysis of financial assets past due but not impaired				Past Due and	
	31 to 60 days	61 to 90 days	> 90 days	Total	Impaired	Total
Receivables:						
Franchisees*	₱-	₱-	₱-	₱-	₱196,696,983	₱196,696,983
Suppliers	54,525,059	17,947,021	192,137,590	264,609,670	21,055,275	285,664,945
Employees	16,593	4,548,771	4,330,380	8,895,744	6,569,764	15,465,508
Store operators	-	-	-	-	19,940,920	19,940,920
Rent	322,134	442,433	-	764,567	3,206,230	3,970,797
Insurance receivable	-	-	-	-	106,764	106,764
Others	126,657	879,792	6,073,110	7,079,559	1,738,065	8,817,624
	₱54,990,443	₱23,818,017	₱202,541,080	₱281,349,540	₱249,314,001	₱530,663,541

*Noncurrent portion amounting to ₱8,723,265, net of allowance amounting to ₱5,045,450, is presented under "Other noncurrent assets" account.

Set out below is the information about the credit risk exposure analysis on the Group's receivables as at December 31, 2022 and 2021 using a provision matrix:

	2022						
	Current	Days past due					Total
		31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	
Expected credit loss rate	0.02%	0.06%	0.13%	3.09%	87.10%	100.00%	
Estimated total gross carrying amount at default	₱2,144,694,472	₱37,073,145	₱113,574,453	₱97,904,028	₱63,433,799	₱77,076,340	₱2,533,756,237
Expected credit loss	₱-	₱-	₱-	₱3,074,621	₱50,101,068	₱76,950,987	₱130,126,676

	2021						
	Current	Days past due					Total
		31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	
Expected credit loss rate	<0.02%	0.03%	0.05%	0.42%	16.52%	100.00%	
Estimated total gross carrying amount at default	₱2,097,394,087	₱62,343,249	₱27,490,991	₱104,013,849	₱112,825,900	₱151,778,131	₱2,555,846,207
Expected credit loss	₱77,726,267	₱7,245,773	₱4,003,301	₱8,102,939	₱5,543,235	₱151,737,936	₱254,359,451

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 Group arranged additional credit lines to boost its ability to meet short-term liquidity needs. The Group has credit-lines amounting to ₱11,368,500,000 and ₱9,269,868,630 as at December 31, 2022 and 2021, respectively, and cash and cash equivalents amounting to ₱7,020,593,848 and ₱5,376,107,427 as at December 31, 2022 and 2021, respectively, that are allocated to meet the Group's short-term liquidity needs.

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

	2022				
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Cash and cash equivalents					
Cash on hand and in banks	₱5,307,833,932	₱-	₱-	₱-	₱5,307,833,932
Cash equivalents	1,712,759,916	-	-	-	1,712,759,916
	7,020,593,848	-	-	-	7,020,593,848
Short-term investment	-	11,583,244	-	-	11,583,244
Receivables					
Franchisees	1,574,918,992	44,202,860	-	-	1,619,121,852
Suppliers	528,349,405	99,617,632	-	-	627,967,037
Employees	36,892,824	1,508,170	-	-	38,400,994
Store operators	64,489,663	11,597,231	-	-	76,086,894
Rent	1,746,476	501,452	-	-	2,247,928
Insurance receivable	2,263,855	-	-	-	2,263,855
Due from PFI	2,829,204	-	-	-	2,829,204
Leases	272,164,688	-	-	-	272,164,688
Others	8,616,898	15,627,715	-	-	24,244,613
	2,492,272,005	173,055,060	-	-	2,665,327,065
Advances for e-money	1,447,420,459	-	-	-	1,447,420,459
Deposits					
Refundable*	-	995,339	1,009,105,511	-	1,010,100,850
Utilities	-	-	83,519,322	-	83,519,322
Others	-	-	22,227,130	-	22,227,130
	-	995,339	1,114,851,963	-	1,115,847,302
Noncurrent portion of lease receivable	-	-	191,412,760	-	191,412,760
Noncurrent portion of receivable from franchisees	-	-	10,467,184	-	10,467,184
	-	-	201,879,944	-	201,879,944
	₱10,960,286,312	₱185,633,643	₱1,316,731,907	₱-	₱12,462,651,862

*Current portion amounting to ₱995,339 as at December 31, 2022 is presented as part of "Others" under "Prepayments and other current assets" account.

	2021				
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Cash and cash equivalents					
Cash on hand and in banks	₱5,276,107,427	₱-	₱-	₱-	₱5,276,107,427
Cash equivalents	100,000,000	-	-	-	100,000,000
	5,376,107,427	-	-	-	5,376,107,427
Short-term investment	-	11,535,504	-	-	11,535,504
Receivables					
Franchisees	1,415,343,054	-	-	-	1,415,343,054
Suppliers	615,277,657	192,137,591	-	-	807,415,248
Employees	29,081,249	5,101,697	-	-	34,182,946
Store operators	20,302,913	-	-	-	20,302,913
Rent	892,690	-	-	-	892,690
Insurance receivable	388,959	-	-	-	388,959
Due from PFI	926,578	-	-	-	926,578
Leases	238,187,878	-	-	-	238,187,878
Others	4,350,340	8,960,763	-	-	13,311,103
	2,324,751,318	206,200,051	-	-	2,530,951,369
Advances for e-money	930,530,835	-	-	-	930,530,835
Deposits					
Refundable*	-	1,241,295	958,619,359	-	959,860,654
Utilities	-	-	71,019,780	-	71,019,780
Others	-	-	21,991,100	-	21,991,100
	-	1,241,295	1,051,630,239	-	1,052,871,534
Noncurrent portion of lease receivable	-	-	302,475,370	-	302,475,370
Noncurrent portion of receivable from franchisees	-	-	8,723,265	-	8,723,265
	-	-	311,198,635	-	311,198,635
	₱8,631,389,580	₱218,976,850	₱1,362,828,874	₱-	₱10,213,195,304

*Current portion amounting to ₱1,241,295 as at December 31, 2021 is presented as part of "Others" under "Prepayments and other current assets" account.

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

	2022			Total P-
	Three months or less P-	More than three months to one year P-	More than one year P-	
Bank loans				
Accounts payable and accrued expenses				
Trade payable	5,697,791,308	-	-	5,697,791,308
Utilities	313,970,325	-	-	313,970,325
Outsourced services	271,958,348	-	-	271,958,348
Employee benefits	264,131,235	-	-	264,131,235
Rent	132,026,290	-	-	132,026,290
Security services	14,298,029	-	-	14,298,029
Advertising and promotion	10,628,392	-	-	10,628,392
Bank charges	6,872,500	-	-	6,872,500
Interest	2,131,783	404,400	-	2,536,183
Others	545,568,313	-	-	545,568,313
	7,259,376,523	404,400	-	7,259,780,923
Other current liabilities				
Non-trade accounts payable	2,874,107,607	-	-	2,874,107,607
Due to franchisees	333,252,911	-	-	333,252,911
Retention payable	169,572,688	-	-	169,572,688
Royalty	149,023,237	-	-	149,023,237
Service fees payable	17,539,057	-	-	17,539,057
Others	166,089,125	-	-	166,089,125
	3,709,584,625	-	-	3,709,584,625
Long-term debt	-	250,000,000	62,500,000	312,500,000
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
Lease liabilities	605,447,384	1,816,342,150	9,073,444,423	11,495,233,957
	P11,574,408,532	P2,066,746,550	P9,141,944,423	P22,783,099,505

	2021			Total P-
	Three months or less P-	More than three months to one year P-	More than one year P-	
Bank loans	P100,000,000	P-	P-	P100,000,000
Accounts payable and accrued expenses				
Trade payable	5,386,629,719	-	-	5,386,629,719
Employee benefits	78,175,300	-	-	78,175,300
Outsourced services	177,867,153	-	-	177,867,153
Utilities	316,710,122	-	-	316,710,122
Rent	220,662,962	-	-	220,662,962
Security services	16,711,320	-	-	16,711,320
Advertising and promotion	10,208,392	-	-	10,208,392
Bank charges	18,901,950	-	-	18,901,950
Interest	5,737,480	186,000	-	5,923,480
Others	395,382,458	-	-	395,382,458
	6,626,986,856	186,000	-	6,627,172,856
Other current liabilities				
Non-trade accounts payable	1,816,811,385	-	-	1,816,811,385
Due to franchisees	235,620,697	-	-	235,620,697
Retention payable	150,569,800	-	-	150,569,800
Royalty	48,605,831	-	-	48,605,831
Service fees payable	15,854,861	-	-	15,854,861
Others	29,391,690	-	-	29,391,690
	2,296,854,264	-	-	2,296,854,264
Long-term debt	122,922,515	543,767,543	925,035,088	1,591,725,146
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
Lease liabilities	491,292,462	1,465,551,010	7,740,718,954	9,697,562,426
	P9,638,056,097	P2,009,504,553	P8,671,754,042	P20,319,314,691

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 and long-term debt with floating interest rates. The Group is expecting to substantially reduce the level of bank loans and long-term debt 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:

	2022	2021
Due in less than 1 year	P250,000,000	P766,690,058
Due in more than 1 year	68,500,000	931,035,088
Rate (Note 11)	2.60%-5.30%	2.60%-5.30%

Interest of financial instruments classified as floating rate is repriced at intervals of 30 days and 90 days. The other financial instruments of the Group that are not included in the above tables are noninterest-bearing and are therefore not subject to interest rate risk.

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):

	2022		2021	
	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax
Bank loans and long-term debt - floating interest rate	+100 -100	(P3,125,000) 3,125,000	+100 -100	(P16,917,251) 16,917,251
Cumulative redeemable preferred shares - floating interest rate	+100 -100	(60,000) 60,000	+100 -100	(60,000) 60,000

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

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 attributable to

shareholders as capital. The Group manages its capital structure by keeping a net worth of between 20% to 30% in relation to its total assets. No changes were made in the objectives, policies and processes during the year.

	2022	2021
Common stock	₱757,104,533	₱757,104,533
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	8,027,649,249	5,970,686,102
	9,078,278,819	7,021,315,672
Less cost of shares held in treasury	(2,923,246)	(2,923,246)
	₱9,075,355,573	₱7,018,392,426
Total assets	₱32,178,918,407	₱28,418,464,667
Net worth	28%	25%

As at December 31, 2022 and 2021, the Group was able to meet its capital structure objective.

31. Significant Agreements

a. Franchise Agreements

The Group has various store franchise agreements with third party franchisee 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. The agreement also includes charging of various expenses such as rent and utilities which are recorded by the Group as part of its franchise revenue.

Details of franchise revenue follow:

	2022	2021	2020
Share in gross profit of franchisees	₱3,777,937,670	₱3,164,818,875	₱2,867,491,783
Rent, utilities and other expenses	737,425,182	284,397,960	605,733,020
Franchise fee	104,077,150	112,356,446	133,705,097
	₱4,619,440,002	₱3,561,573,281	₱3,606,929,900

Receivable from franchisees as at December 31, 2022 and 2021 amounted to ₱1,732,141,812 and ₱1,625,808,752, respectively (see Note 5). Due to franchisees as at December 31, 2022 and 2021 amounted to ₱333,252,911 and ₱235,620,697, respectively (see Note 14). The Group also has outstanding deposits payable to franchisees amounting to ₱261,832,511 and ₱252,016,710 as at December 31, 2022 and 2021, respectively (see Note 15).

Franchise fee is deferred and recognized over 3 or 5 years depending on the franchise type, with consideration for the time value of money.

Other components of franchise revenue, on the other hand, is recognized at point in time.

b. Service Agreements

The Group has service agreements with third party contractors for the 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 in "Outside services" under "General and administrative expenses" account amounted to ₱86,249,100, ₱70,961,025 and ₱66,610,314 in 2022, 2021 and 2020, respectively (see Note 19). The Group also has outstanding deposits payable to third parties in relation to service agreements amounting to ₱88,151,068 and ₱91,982,899 as at December 31, 2022 and 2021, respectively (see Note 15).

c. Service Income

The Group has entered into agreements with a phone card supplier and various third parties. Under the arrangements, the Group earns income on the sale of phone cards, electronic loads, consigned goods and collection of bills payments based on a certain percentage of net sales and collections for the month and a fixed monthly rate which is recorded as part of "Service income" amounting to ₱1,372,799,855, ₱1,529,493,517 and ₱1,148,864,430, in 2022, 2021 and 2020, respectively (see Note 13).

d. Exclusivity Contracts

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.

In 2016, the exclusivity contract was renewed for another 5 years effective December 2016 to December 2021. Further, it was renewed for another 5 years from January 2022 to December 2026. The Company will receive a signing bonus amounting to ₱350,000,000 which will be paid in installments. Payments are recorded as Deferred Revenue as received and is amortized over time. Income from exclusivity contract included as part of "Net purchases" under "Cost of merchandise sales" account in profit or loss amounted to ₱49,703,321 in 2022 (see Note 17). Current and noncurrent portion of deferred revenue as of December 31, 2022 amounted to ₱67,802,421 and ₱14,794,718, respectively (see Note 14).

e. Memorandum of Agreement (MOA) with Chevron Philippines, Inc. (CPI)

The Group has entered into MOA with CPI on August 6, 2009, wherein CPI has granted the Group as authorized co-locator for a full term of 3-years to establish operate and/or franchise its 7-Eleven stores in CPI service stations. Both parties have identified 10 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 10 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 10 service station retailers, which shall have a full term of 3 years and which will be coterminous with the SFA.

The Group has 112 and 104 franchised service stations in 2022 and 2021, respectively.

f. Licensing Agreement with President Chain Store Corporation (PCSC)

President Chain Store Corporation (PCSC), an intermediate parent company, provide rights to PSC for the use of its Trademark for City Cafe Trademarks. In accordance with the agreement, the Group pays annually, among others, royalty fees based on a certain percentage of sales, net of gross receipts tax. Royalty fee amounted to ₱677,592, ₱335,174 and nil in 2022, 2021 and 2020, respectively (see Notes 19 and 24). No outstanding payable in 2022 and 2021.

g. Area Licensing Agreement with Seven Eleven Inc. (SEI) and 7-Eleven International, LLC (7IN)

Seven Eleven Inc. (SEI), organized in Texas, U.S.A, a shareholder owning 0.39% of the total outstanding shares, grants PSC the exclusive right to use the 7Eleven System in the Philippines. As of December 31, 2021, SEI has assigned its contract rights, liabilities, and obligations under the Area License Agreement to 7-Eleven International, LLC (7IN), a Delaware limited liability company. In accordance with the licensing agreement, the Group pays on a monthly basis, among others, royalty fees based on a certain percentage of the prior month's sales. Royalty fee amounted to ₱656,663,172, ₱453,527,893 and ₱461,061,490 in 2022, 2021 and 2020, respectively (see Note 19). As at December 31, 2022 and 2021, royalty payable amounted to ₱149,023,237 and ₱48,605,831, respectively (see Note 14).

h. Pandemic Support Program (PSP)

The Group launched PSP that offered a credit line to support its franchisees that are adversely affected by the ongoing pandemic with the mutual objective to continue the store operations and franchising business. The agreement provides a separate open account to be referred to as Pandemic Open Account (POA) for the franchisees who will avail the support. The agreement includes waving of any unpaid balance in the POA should the Group discontinue the PSP or should the franchisee decide to terminate the PSP and surrender the store. However, if at any time the franchisee decides to terminate the PSP and revert to Store Franchise Agreement (SFA), the unpaid balances under POA will still be collected. In any such case, the franchisee remains to be liable for all balances under the SFA.

As at September 1, 2022, the Group has already discontinued the PSP. All remaining franchisees who participated in the program have already reverted to its original terms under SFA. Collection of the remaining POA balances were waived and the Group has written off receivables with full allowance for expected credit losses amounting to ₱93,316,542 in 2022 (see Note 5).

i. Prefunding Agreement with G-Xchange, Inc. (GXI)

The Group has a standing arrangement with GXI wherein users can load their GCash wallet through 7-Eleven stores. In 2021, PSC and GXI agreed on the pre-funding for GCash transactions instead of settling balances post-transaction. Prefund under "Prepayments and other current assets" account in statements of financial position amounted to ₱1,447,420,459 and ₱930,530,835 as at December 31, 2022 and 2021, respectively (see Note 7).

j. Installation of Automated Teller Machines (ATMs) in 7-Eleven Stores

In 2021, the Group entered into an agreement with Pito AxM Platform, Inc. (PAPI) where in the latter will install and operate ATMs in 7-Eleven stores available for customers to withdraw cash and which have cash recycling feature available for the Group's cash deposits. The Group earns variable fees based on number of withdrawals per month and will also pay PAPI for operation support at a fixed monthly amount.

As at December 31, 2022, the Group has 2,322 stores installed and operated with ATMs. The Group recorded variable fees from withdrawals under "Other income" and operation support under "Other expenses" for the year ended December 31, 2022.

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 service income 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
- Service income
- Rental income
- Interest income

The aforementioned income are all income from external parties.

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 the Group's

consolidated statements of financial position or financial performance. As at December 31, 2022 and 2021, the Group has provisions amounting to ₱10,862,521 and ₱10,691,017, respectively, and is reported as part of "Others" under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Movements in provisions are as follows:

	2022	2021
Beginning balance	₱10,691,017	₱10,589,068
Additions	171,504	101,949
Ending balance	₱10,862,521	₱10,691,017

34. Supplementary Disclosure to Cash Flow

Changes in Liabilities Arising from Financing Activities

	2022				Balance at the end of the year
	Balance as at beginning of year	Cash Flows			
		Availments	Payments	Others	
Lease liabilities (Note 25)	₱8,611,068,891	₱-	(₱2,344,305,166)	₱3,050,330,735	₱9,317,094,460
Cumulative redeemable preference shares (Note 16)	6,000,000	-	-	-	6,000,000
Long-term debt (Note 11)	1,591,725,146	-	(1,279,225,146)	-	312,500,000
Bank loans (Note 11)	100,000,000	-	(100,000,000)	-	-
Interest payable (Note 11)	5,923,480	-	(54,207,851)	50,820,554	2,536,183
	₱10,314,717,517	₱-	(₱3,777,738,163)	₱3,101,151,289	₱9,638,130,643

	2021				Balance at the end of the year
	Balance as at beginning of year	Cash Flows			
		Availments	Payments	Others	
Lease liabilities (Note 25)	₱8,612,718,449	₱-	(₱2,072,453,751)	₱2,070,804,193	₱8,611,068,891
Cumulative redeemable preference shares (Note 16)	6,000,000	-	-	-	6,000,000
Long-term debt (Note 11)	1,333,415,204	500,000,000	(241,690,058)	-	1,591,725,146
Bank loans (Note 11)	830,000,000	3,600,000,000	(4,330,000,000)	-	100,000,000
Interest payable (Note 11)	6,679,056	-	(145,094,465)	144,338,889	5,923,480
	₱10,788,812,709	₱4,100,000,000	(₱6,789,238,274)	₱2,215,143,082	₱10,314,717,517

	2020				Balance at the end of the year
	Balance as at beginning of year	Cash Flows			
		Availments	Payments	Others	
Lease liabilities (Note 25)	₱8,759,545,297	₱-	(₱1,909,286,903)	₱1,762,460,055	₱8,612,718,449
Cumulative redeemable preference shares (Note 16)	6,000,000	-	-	-	6,000,000
Long-term debt (Note 11)	493,855,263	1,000,000,000	(160,440,059)	-	1,333,415,204
Bank loans (Note 11)	65,000,000	5,437,000,000	(4,672,000,000)	-	830,000,000
Interest payable (Note 11)	3,965,742	-	(123,202,798)	125,916,112	6,679,056
Dividends payable (Note 17)	-	-	(226,925,485)	226,925,485	-
	₱9,328,366,302	₱6,437,000,000	(₱7,091,855,245)	₱2,115,301,652	₱10,788,812,709

Others include the effect of recognition and accretion of lease liabilities, effect of accrued but not yet paid interest, and dividends declared.

35. Significant Non-cash Transactions

The Group engaged in the following significant non-cash activities during the year:

	2022	2021
Due to PFRS 16, <i>Leases</i>		
Lease liability	(₱2,542,975,457)	(₱1,314,437,364)
ROU asset	2,513,790,703	1,028,657,736
Receivable	64,673,596	291,802,358
Prepayments	(23,031,912)	-
Deposits	(12,456,930)	(6,022,730)
Property and equipment additions	14,240,154	5,962,968

36. Supplementary Information Required under Bangko Sentral ng Pilipinas Circular No. 1075

As a Remittance and Transfer Company, the Company's total volume and value of remittances and/or money changing or foreign exchange transactions (in absolute amounts) for the year ended December 31, 2022 are as follows:

Type of transaction	Number of transactions	Amount in U.S. Dollar*	Amount in Peso
A. International Inward (Payout)			
Remittance Transactions	-	\$-	₱-
B. International Outward (Send Out) Remittance Transactions	-	-	-
C. Domestic Inward (Payout) Remittance Transactions	-	-	-
D. Domestic Outward (Send Out) Remittance Transactions	425,200	14,163,865	770,684,914
E. Foreign Currencies Bought	-	-	-
F. Foreign Currencies Sold	-	-	-
G. International Inward (Payout) Remittance Facilitated Through Virtual Currency (VC)	-	-	-
H. International Outward (Send Out) Remittance Facilitated Through VC	-	-	-
I. Exchange of VC to Philippine Peso/Other Currency	-	-	-
J. Exchange of Philippine Peso/Other Currency to VC	-	-	-
K. Other VC Transactions	-	-	-
	425,200	\$14,163,865	₱770,684,914

*The Peso amounts were converted to U.S. Dollar using the BSP reference exchange rate bulletin as of the end of reference month, as applicable, otherwise, the last rate available for the quarter was used.

The basic quantitative indicators of financial performance for the year ended December 31, 2022 are as follows:

Ratios	Formula	In Php	2022
Consolidated			
Return on average equity	$\frac{\text{Net income after income tax}}{\text{Average total stockholders' equity}}$	$\frac{2,056,963,147}{8,058,761,535}$	25.52%
Return on average assets	$\frac{\text{Net income after income tax}}{\text{Average total assets}}$	$\frac{2,056,963,147}{30,298,691,537}$	6.79%

Ratios	Formula	In Php	2022
Parent Company			
Return on average equity	$\frac{\text{Net income after income tax}}{\text{Average total stockholders' equity}}$	$\frac{2,045,634,519}{7,835,402,471}$	26.11%
Return on average assets	$\frac{\text{Net income after income tax}}{\text{Average total assets}}$	$\frac{2,045,634,519}{29,618,186,953}$	6.91%

Note: Average balances are the sum of the beginning and ending balances of the respective financial position accounts divided by two (2).