

# COVER SHEET

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S.E.C Registration Number

P H I L I P P I N E

S E V E N

C O R P O R A T I O N

(Company's full Name)

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

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

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

**Atty. Evelyn S. Enriquez**  
Corporate Secretary

Contact Person

724-44-41 to 51

Company Telephone Number

1 2 3 1

Month Day Fiscal Year

1 7 - Q

FORM TYPE Month Day Annual Meeting

0 7 3<sup>rd</sup> Thursday

**1ST QUARTER REPORT**

Secondary License Type, if Applicable

Dept. Requiring this Doc. Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders Domestic Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

# SECURITIES AND EXCHANGE COMMISSION

## FORM 17-Q

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

1. For the quarterly period ended March 31, 2011
2. Commission identification number
3. BIR Tax Identification No :        000-390-189-000
4. Exact name of registrant as specified in its charter :

#### PHILIPPINE SEVEN CORPORATION

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

#### No. of Shares of Common Stock

Shares Outstanding - Common :	<b>301,428,666</b>
Warrants :	-0-

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

Yes [  ] No [    ]

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

12. Indicate by check mark whether the registrant:

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

Yes [  ] No [    ]

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

Yes [  ] No [  ]

**PART I - FINANCIAL INFORMATION**

Item 1. Financial Statements.

Please refer to the attached.

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

Please refer to the attached

**PART II - OTHER INFORMATION**

N/A

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

Registrant: **PHILIPPINE SEVEN CORPORATION**



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

Date: March 13, 2011



Signature and Title: **YU-HSIU TSAI**  
Treasurer and CFO

Date: March 13, 2011

March 13, 2011


**SECURITIES AND EXCHANGE COMMISSION**

SEC Building  
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of March 31, 2011, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

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

  
**YU-HSIU TSAI**  
Treasurer and CFO

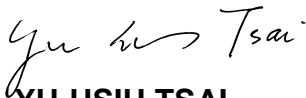
## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended March 31, 2011. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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



**JOSE VICTOR P. PATERNO**  
President and CEO



**YU-HSIU TSAI**  
Treasurer and CFO

## Part 1 – FINANCIAL INFORMATION

### Item 1. Financial Statements

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

(pages 53-58)

Philippine Seven Corporation  
and Subsidiaries

Unaudited Consolidated Financial Statements  
As of March 31, 2011 and 2010  
and for the Quarters Ended March 31, 2011, 2010 and 2009

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**

	As of March 31, 2011	As of December 31, 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱ 213,523,888	₱358,729,534
Short-term investment	10,141,555	10,141,555
Receivables (Note 5)	93,241,718	158,342,635
Inventories - at cost (Note 6)	333,873,532	402,419,577
Prepayments and other current assets (Note 7)	279,458,175	232,669,446
<b>Total Current Assets</b>	<b>930,238,869</b>	<b>1,162,302,747</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	1,679,906,808	1,607,296,761
Deposits (Note 9)	199,492,376	181,196,390
Deferred income tax assets - net (Note 27)	40,827,991	40,827,991
Goodwill and other noncurrent assets (Note 10)	96,201,787	101,549,470
<b>Total Noncurrent Assets</b>	<b>2,016,428,962</b>	<b>1,930,870,612</b>
<b>TOTAL ASSETS</b>	<b>₱ 2,946,667,831</b>	<b>₱3,093,173,359</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Note 11)	410,000,000	₱320,000,000
Accounts payable and accrued expenses (Note 12)	809,096,148	1,078,339,407
Income tax payable	63,571,793	45,289,647
Other current liabilities (Notes 13 and 25)	220,800,035	265,799,298
<b>Total Current Liabilities</b>	<b>1,503,467,976</b>	<b>1,709,428,352</b>
<b>Noncurrent Liabilities</b>		
Deposits payable (Note 14)	163,231,836	142,862,137
Net retirement obligations (Note 24)	59,435,803	57,453,582
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	7,000,301	7,000,300
<b>Total Noncurrent Liabilities</b>	<b>235,667,940</b>	<b>213,316,019</b>
<b>Total Liabilities</b>	<b>1,739,135,916</b>	<b>1,922,744,371</b>

(Forward)



	As of March 31, 2011	As of December 31, 2010
<b>Equity</b>		
Capital stock (Note 17) - ₱1 par value		
Authorized - 400,000,000 shares		
Issued - 302,114,918 and 287,761,172 shares as of December 31, 2010 and 2009, respectively [held by 684 and 717 equity holders in 2010 and 2009, respectively (Note 1)]	<b>302,114,918</b>	₱302,114,918
Additional paid-in capital	<b>293,525,037</b>	293,525,037
Retained earnings (Note 17)	<b>611,585,310</b>	574,482,384
Other component of equity - revaluation increment on land [net of deferred income tax liability (Notes 8 and 27)]	<b>3,229,895</b>	3,229,895
	<b>1,210,455,161</b>	1,173,352,234
Cost of 686,250 shares held in treasury	<b>(2,923,246)</b>	(2,923,246)
<b>Total Equity</b>	<b>1,207,531,915</b>	1,170,428,988
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱ 2,946,667,831</b>	₱3,093,173,359

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>REVENUE</b>			
Revenue from merchandise sales	₱ 1,931,450,765	₱1,697,779,579	₱1,364,895,839
Franchise revenue (Note 32)	113,808,270	96,572,418	72,086,028
Marketing income (Note 20)	74,398,145	55,447,665	23,073,207
Rent income (Note 26)	9,799,774	8,199,848	9,007,576
Commission income (Note 32)	8,660,014	6,402,146	5,274,725
Interest income (Notes 9, 22 and 26)	612,675	682,091	591,022
Other income (Note 32)	21,667,064	8,376,917	1,822,907
	<b>2,160,396,707</b>	1,873,460,664	1,476,751,303
<b>EXPENSES</b>			
Cost of merchandise sales (Note 18)	1,417,792,031	1,237,755,777	978,542,616
General and administrative expenses (Note 19)	682,166,490	557,487,037	470,315,561
Interest expense (Notes 11, 15 and 21)	3,655,239	4,424,086	7,154,974
Unrealized foreign exchange loss	-	-	-
Impairment loss on goodwill (Note 10)	-	-	-
Other expenses	1,397,874	955,261	823,539
	<b>2,105,011,633</b>	1,800,622,162	1,456,836,690
<b>INCOME BEFORE INCOME TAX</b>	<b>55,385,074</b>	72,838,502	19,914,613
<b>PROVISION FOR INCOME TAX</b> (Note 27)	<b>18,282,147</b>	22,746,572	6,646,788
<b>NET INCOME</b>	<b>37,102,927</b>	50,091,930	13,267,825
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>37,102,927</b>	50,091,930	13,267,825
<b>BASIC/DILUTED EARNINGS PER</b>			
<b>SHARE</b> (Note 28)	<b>0.12</b>	0.17	0.04

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 and 2008 (Compared with March 31, 2010 Balance)**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment on Land	Total	Treasury Stock	Total
<b>BALANCES AS OF DECEMBER 31, 2008</b>	<b>261,663,450</b>	<b>293,525,037</b>	<b>196,616,699</b>	<b>3,229,895</b>	<b>755,035,081</b>	<b>(2,923,246)</b>	<b>752,111,835</b>
Stock dividends (Note 17)	26,097,722	–	(26,097,722)	–	–	–	–
Total comprehensive income for the year	–	–	155,790,651	–	155,790,651	–	155,790,651
<b>BALANCES AS OF DECEMBER 31, 2009</b>	<b>287,761,172</b>	<b>293,525,037</b>	<b>326,309,628</b>	<b>3,229,895</b>	<b>910,825,732</b>	<b>(2,923,246)</b>	<b>907,902,486</b>
Stock dividends (Note 17)	14,353,746	–	(14,353,746)	–	–	–	–
Cash dividends (Note 17)	–	–	(14,353,746)	–	(14,353,746)	–	(14,353,746)
Total comprehensive income for the year	–	–	276,880,248	–	276,880,248	–	276,880,248
<b>BALANCES AS OF DECEMBER 31, 2010</b>	<b>₱302,114,918</b>	<b>₱293,525,037</b>	<b>₱574,482,384</b>	<b>₱3,229,895</b>	<b>₱1,173,352,234</b>	<b>(₱2,923,246)</b>	<b>₱1,170,428,988</b>
Total comprehensive income for the Quarter	–	–	37,102,927	–	37,102,927	–	37,102,927
<b>BALANCES AS OF MARCH 31, 2011</b>	<b>₱302,114,918</b>	<b>₱293,525,037</b>	<b>₱ 611,585,311</b>	<b>₱3,229,895</b>	<b>₱ 1,210,455,161</b>	<b>(₱2,923,246)</b>	<b>₱ 1,207,531,915</b>
<b>BALANCES AS OF MARCH 31, 2010</b>	<b>₱287,761,172</b>	<b>₱293,525,037</b>	<b>₱ 376,401,558</b>	<b>₱3,229,895</b>	<b>₱ 960,917,662</b>	<b>(₱2,923,246)</b>	<b>₱ 957,994,416</b>

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>55,385,074</b>	72,838,502	19,914,613
Adjustments for:			
Depreciation and amortization	<b>85,071,290</b>	56,119,836	44,487,705
Interest expense	<b>3,655,239</b>	4,424,086	7,154,974
Interest income	<b>(612,675)</b>	(682,091)	(591,022)
Net retirement obligations	<b>1,982,222</b>	(2,836,378)	(2,453,464)
Amortization of:			
Software and other program costs	<b>788,219</b>	770,607	755,090
<b>Operating income before working capital changes</b>	<b>146,269,368</b>	130,634,563	69,267,897
Decrease (increase) in:			
Receivables	<b>64,703,097</b>	47,372,957	127,133,107
Inventories	<b>68,546,045</b>	30,598,270	27,990,879
Prepayments and other current assets	<b>(46,788,729)</b>	(144,611,490)	(127,666,264)
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>(269,243,261)</b>	(142,142,504)	(157,910,731)
Other current liabilities	<b>(44,999,263)</b>	31,759,434	173,878,140
Deposits payable	<b>20,369,700</b>	39,121,283	15,536,268
<b>Cash generated (used in) from operations</b>	<b>(61,143,044)</b>	(7,267,486)	128,229,296
Interest received	612,675	682,091	591,022
<b>Net cash from (used in) operating activities</b>	<b>(60,530,368)</b>	(6,634,364)	128,820,318
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to (Amortization of):			
Property and equipment	<b>(157,681,337)</b>	(132,067,488)	(21,493,085)
Software and other program costs	<b>(788,219)</b>	(770,607)	(755,090)
Decrease (increase) in:			
Deposits	<b>(18,295,987)</b>	(10,277,316)	(6,902,682)
Goodwill and other noncurrent assets	<b>5,347,684</b>	(222,001)	(20,387,825)
Collection of lease receivable	<b>397,820</b>	543,931	842,625
<b>Net cash used in investing activities</b>	<b>(171,020,039)</b>	(142,793,481)	(48,696,057)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of bank loans	<b>90,000,000</b>	100,000,000	80,000,000
Payments of bank loans	-	(100,000,000)	-
Interest paid	<b>(3,655,239)</b>	(4,424,086)	(7,154,974)
Cash dividends paid	-	-	-
<b>Net cash from (used in) financing activities</b>	<b>86,344,761</b>	(4,424,086)	72,845,026
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(145,205,646)</b>	(153,851,931)	152,969,287
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>358,729,534</b>	448,830,888	314,880,357
<b>CASH AND CASH EQUIVALENTS AT END OF THE QUARTER</b>	<b>213,523,888</b>	294,978,957	467,849,644

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information and Authorization for Issuance of Financial Statements**

Corporate Information

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

The Company is controlled by President Chain Store (Labuan) Holdings, Ltd., an investment holding company incorporated in Malaysia, which owns 56.59% of the Company's outstanding shares. The remaining 43.41% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC, incorporated in Taiwan, Republic of China).

The Company has its primary listing on the Philippine Stock Exchange. As of December 31, 2010 and 2009, the Company has 684 and 717 equity holders, respectively.

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

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**2. Summary of Significant Accounting Policies and Financial Reporting Practices**

Basis of Preparation

The consolidated financial statements are prepared under the historical cost basis, except for parcels of land, which are carried at revalued amount. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations, which became effective on January 1, 2010.

## *Amendments to Standards and Interpretations*

- *PFRS 2, Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*

The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.

- *PFRS 3 (Revised), Business Combinations, and PAS 27 (Amended), Consolidated and Separate Financial Statements*

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

- *PAS 39, Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment has no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- *PAS 32, Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- *Philippine Interpretation IFRIC 14 (Amendment) - Prepayments of a Minimum Funding Requirement*

The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

The Group has not yet adopted the above amendments and anticipates that these changes will have no material effect on the financial statements.

#### Basis of Consolidation

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

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

Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies through interlocking directorships such that substantial benefits from the subsidiaries' activities flow to the Company. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases. The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date of acquisition or up to the date of the disposal, as appropriate.

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 through its trustee, Bank of the Philippines Islands-Asset Management and Trust Group (BPI-AMTG), respectively. These preferred shares which accrue and pay guaranteed preferred dividends and are redeemable at the option of the holder (see Note 15) are recognized as a financial liability in accordance with PFRS. 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 reporting year as the Company, using uniform accounting policies. Intercompany transactions, balances and unrealized gains and losses are eliminated in full.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant change in value.

#### Financial Instruments

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

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

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

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

#### *Financial Assets*

##### a. Financial Assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and those designated upon initial recognition as at FVPL.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

Financial assets are designated as at FVPL on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented



- risk management or investment strategy; or
- the financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are accounted for directly in profit or loss. Interest earned is recorded as interest income, while dividend income is recognized according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2010 and 2009, the Group has no financial assets as at FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Re-assessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host financial or non-financial asset contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in profit or loss.

As of December 31, 2010 and 2009, the Group has no outstanding embedded derivatives.

b. HTM Financial Assets

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. HTM financial assets are subsequently carried either at cost or amortized cost in the consolidated balance sheet. Amortization is determined by using the effective interest rate method. Assets under this category are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2010 and 2009, the Group has not designated any financial asset as HTM.

c. Loans and Receivables

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

The Group's loans and receivables consist of cash and cash equivalents, short-term investments, receivables and deposits as of March 31, 2011 and December 31, 2010.

d. AFS Financial Assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are accounted for in the consolidated statement of comprehensive income until the financial asset is derecognized or until the financial asset is determined to be impaired at which time the cumulative gain or loss previously reported in the consolidated statement of comprehensive income is recognized in profit or loss. AFS financial assets are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

The Group's AFS financial assets consist of unquoted investments in preferred shares of a public utility company included as part of "Goodwill and other noncurrent assets" in the consolidated balance sheets as of December 31, 2010 and 2009.

*Financial Liabilities*

a. Financial Liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and those designated upon recognition at FVPL.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

Financial liabilities are designated as at FVPL on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded

derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are accounted for directly in profit or loss. Interest incurred is recorded as interest expense.

As of December 31, 2010 and 2009, the Group has not designated any financial liability as at FVPL.

b. Other Financial Liabilities

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

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

The Group's other financial liabilities consist of bank loans, accounts payable and accrued expenses, other current liabilities and cumulative redeemable preferred shares as of December 31, 2010 and 2009.

*Financial Assets Carried at Amortized Cost*

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

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

recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *Financial Assets Carried at Cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

#### *Financial Assets Carried at Fair Value*

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from the consolidated statement of comprehensive income to profit or loss.

In case of equity securities classified as AFS financial asset, objective evidence would include a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as greater than six months. In addition, the Group evaluates other factors, including normal volatility in share price for unquoted equities.

Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in consolidated statement of comprehensive income. Reversals in respect of equity instruments classified as AFS financial asset are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In case of debt securities classified as AFS financial asset, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such

accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

### Derecognition of Financial Assets and Liabilities

#### *Financial Assets*

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

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial Liabilities*

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realizable value (NRV). Cost of warehouse merchandise is determined using the first-in, first-out method. NRV is the selling price in the ordinary course of business, less the estimated cost of marketing and distribution. The Group is using the retail method in measuring the cost of its store merchandise inventory. Under this method, cost is determined using the average gross profit and is reviewed on a regular basis to ensure that it approximates actual costs.

### Value-Added Tax (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 or 60 months, whichever is shorter, commencing on the date of acquisition.

*Output VAT* pertains to the 12% tax due on the sale of merchandise and lease or exchange of taxable goods or properties or services by the Group. If at the end of any taxable month the output VAT exceeds the input VAT, the excess shall be paid by the Group. Any outstanding balance is included under "Accounts payable and accrued expenses" account in the balance sheet. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding month or months. Excess input VAT is included under "Prepayments and other current assets" account in the balance sheet. Input VAT on capital goods may, at the option of the Group, be refunded or credited against other internal revenue taxes, subject to certain tax laws.

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

### Advances to Suppliers

Advances to suppliers are down payments for acquisitions of property and equipment not yet received. Once the property and equipment are received, the asset is recognized together with the corresponding liability.

### Property and Equipment

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

Land is carried at revalued amount less any impairment in value. The difference between cost and revalued amount goes to the consolidated statement of comprehensive income. The revalued amount is determined by a professionally qualified independent appraiser.

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

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

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

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

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

Fully depreciated assets are retained in the books until disposed.

#### Software and Program Cost

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

#### Impairment of Property and Equipment and Software and Program Cost

The Group assesses at each balance sheet date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. For land, the asset's recoverable amount is the land's net selling price, which may be obtained from its sale in an arm's length transaction. For goodwill, the asset's recoverable amount is its value-in-use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and

risks specific to the asset. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

#### Deposits

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

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

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

#### Cumulative Redeemable Preferred Shares

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



### Deferred Revenue

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

### Capital Stock

Capital stock is measured at par value for all shares issued and outstanding. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued and outstanding.

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.

### 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.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group has assessed its revenue arrangements against the criteria enumerated under PAS 18, *Revenue Recognition*, and concluded that it is acting as principal in all arrangements, except for its sale of consigned goods. The following specific recognition criteria must also be met before revenue is recognized:

#### *Merchandise Sales*

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

#### *Franchise*

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

#### *Marketing*

Revenue of marketing is recognized when service is rendered. In case of marketing support funds, revenue is recognized upon achievement of the minimum purchase requirement of the suppliers.

### *Rent*

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

### *Commission*

Commission income is recognized upon the sale of consigned goods.

### *Interest*

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

### Costs and Expenses Recognition

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

### Other Comprehensive Income

Other comprehensive income comprises items of income and expense (including items previously presented under the statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS.

### Retirement Benefits

Retirement benefits cost is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the present value of the retirement obligations and the fair value of the net plan assets as of that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to the plan, past service cost is recognized immediately.

The net retirement obligation is the aggregate of the present value of the retirement obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of the net plan assets out of which obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refund from the plan or reductions in the future contributions to the plan.

### Leases

Finance leases, which transfer to the lessee substantially all the risks and rewards of ownership of the asset, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest income and reduction of the

lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Interest income is recognized directly in profit or loss.

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

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

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

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

#### Borrowing Costs

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

#### Foreign Currency-denominated Transactions

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

#### Income Tax

##### *Current Income Tax*

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

### *Deferred Income Tax*

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

### Earnings (Loss) Per Share

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

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

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

### Segment Reporting

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

commissioning on bills payment services are considered an integral part of the store operations.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

#### Contingencies

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

#### Events after the Balance Sheet Date

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

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### **3. Use of Significant Accounting Judgments, Estimates and Assumptions**

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

The effects of any changes will be reflected in the consolidated financial statements of the Group as they become reasonably determinable.

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements:

#### *Determination of Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Peso. The Peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenue, costs and expenses of the Company.

#### *Classification of Financial Instruments*

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

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## 4. Cash and Cash Equivalents

	<b>MAR 2011</b>	<b>DEC 2010</b>
Cash on hand and in banks	<b>₱ 213,523,888</b>	<b>₱322,975,839</b>
Cash equivalents	-	<b>35,753,695</b>
	<b>₱ 213,523,888</b>	<b>₱358,729,534</b>

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

Interest income from savings and deposits amounted to ₱3,675,553 in 2010, and ₱ 3,387,088 in 2009, respectively (see Note 22).

## 5. Receivables

	<b>MAR 2011</b>	DEC 2010
Suppliers	<b>₱ 25,527,240</b>	₱58,816,472
Franchisee	<b>12,875,769</b>	40,871,647
Insurance receivable	-	10,986,094
Employees	<b>9,301,029</b>	10,321,643
Store operators	<b>₱ 9,969,361</b>	₱9,718,957
Rent	<b>6,596,032</b>	5,709,582
Current portion of lease receivable - net of unearned interest income amounting to ₱378,850 and ₱332,436 as of December 31, 2010 and 2009, respectively (Note 26)	<b>814,609</b>	1,212,430
Deposits	<b>1,009,864</b>	1,009,864
Due from Philseven Foundation, Inc. (PFI) (Note 25)	<b>1,028,200</b>	888,425
Others	<b>29,747,106</b>	22,435,013
	<b>96,869,210</b>	161,970,127
<u>Less allowance for impairment</u>	<b>3,627,492</b>	3,627,492
	<b>₱ 93,241,718</b>	₱158,342,635

The classes of receivables of the Group are as follows:

- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- Franchisees - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - includes car loans, salary loans and cash shortages from stores which are charged to employees.
- Rent - pertains to receivables from sublease agreements with third parties, which are based on an agreed fixed monthly rate or as agreed upon by the parties.
- Store operators - pertains to the advances given to third party store operators under service agreements (see Note 32).

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

In 2010, the Company collected ₱8,606,678 from the insurance company as insurance proceeds from the Company's properties destroyed by Ondoy (see Note 8). As of December 31, 2010, outstanding receivable from the insurance company related to the claim amounted to ₱10,858,906. As of March 31, 2011, collection from insurance amounting to ₱ 14,206,645 is recorded under other income.

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## 6. Inventories

	MAR 2011	DEC 2010
At cost (Note 18):		
Warehouse merchandise	<b>₱ 161,093,411</b>	₱200,869,257
Store merchandise	<b>172,780,121</b>	201,550,320
	<b>₱ 333,873,532</b>	₱402,419,577

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## 7. Prepayments and Other Current Assets

	MAR 2011	DEC 2010
Deferred input VAT	<b>₱ 128,093,580</b>	₱128,689,605
Advances to suppliers	<b>41,738,380</b>	46,036,750
Prepaid rent	<b>46,167,564</b>	32,972,222
Advances for expenses	<b>9,345,628</b>	3,268,768
Prepaid uniform	<b>2,200,039</b>	2,400,798
Supplies	<b>1,404,685</b>	1,915,107
Current portion of deferred lease (Notes 10 and 26)	<b>1,363,270</b>	1,363,270
Others	<b>49,145,029</b>	16,022,926
	<b>₱ 279,458,175</b>	₱232,669,446

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## 8. Property and Equipment

Movements in property and equipment are as follows:

MARCH 2011									
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
<b>Costs/Revalued Amount</b>									
Beginning balances	44,481,000	109,312,911	1,176,847,310	419,230,096	37,624,956	248,482,190	828,894,083	41,487,042	2,906,359,589
Additions	-	-	88,323,099	23,527,316	3,315,774	454,476	16,609,288	25,451,384	157,681,337
Disposals	-	-	(102,361,754)	(31,373,466)	(11,711,516)	(37,324,014)	(9,345,737)	-	(192,116,488)
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	44,481,000	109,312,911	1,162,808,655	411,383,947	29,229,214	211,612,652	836,157,634	66,938,426	2,871,924,438
<b>Accumulated Depreciation and Amortization</b>									
Beginning balances	-	60,016,926	455,617,360	209,929,009	24,218,563	199,975,363	349,305,607	-	1,299,062,828
Depreciation and amortization (Note 19)	-	1,241,763	40,452,681	12,371,720	1,312,824	7,676,539	22,015,762	-	85,071,290
Disposals	-	-	(102,361,754)	(31,373,466)	(11,711,516)	(37,324,014)	(9,345,737)	-	(192,116,488)
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	-	61,258,689	393,708,287	190,927,263	13,819,871	170,327,888	361,975,632	-	1,192,017,630
<b>Net Book Values</b>	<b>44,481,000</b>	<b>48,054,222</b>	<b>769,100,368</b>	<b>220,456,684</b>	<b>15,409,343</b>	<b>41,284,764</b>	<b>474,182,002</b>	<b>66,938,426</b>	<b>1,679,906,808</b>

DECEMBER 2010									
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
<b>Costs/Revalued Amount</b>									
Beginning balances	₱44,481,000	₱106,835,234	₱838,669,091	₱341,773,268	₱31,477,634	₱234,546,575	₱632,372,530	₱43,745,821	₱2,273,901,153
Additions	-	2,477,677	364,185,866	83,407,721	7,246,905	16,016,009	91,525,378	107,064,274	671,923,830
Disposals	-	-	(26,007,646)	(5,950,893)	(1,099,583)	(2,080,394)	(4,326,878)	-	(39,465,394)
Reclassifications	-	-	-	-	-	-	109,323,054	(109,323,054)	-
Ending balances	44,481,000	109,312,911	1,176,847,311	419,230,096	37,624,956	248,482,190	828,894,084	41,487,041	2,906,359,589
<b>Accumulated Depreciation and Amortization</b>									
Beginning balances	-	55,131,255	358,677,752	170,264,855	20,393,889	162,318,915	279,870,057	-	1,046,656,723
Depreciation and amortization (Note 19)	-	4,884,908	123,939,882	45,462,652	4,626,521	40,107,026	72,782,765	-	291,803,754
Disposals	-	-	(26,007,646)	(5,883,148)	(1,099,583)	(2,080,394)	(4,326,878)	-	(39,397,649)
Reclassifications	-	762	(992,626)	18,465	363,913	(370,177)	979,663	-	-
Ending balances	-	60,016,925	455,617,362	209,862,824	24,284,740	199,975,370	349,305,607	-	1,299,062,828
<b>Net Book Values</b>	<b>₱44,481,000</b>	<b>₱49,295,986</b>	<b>₱721,229,949</b>	<b>₱209,367,272</b>	<b>₱13,340,216</b>	<b>₱48,506,820</b>	<b>₱479,588,477</b>	<b>₱41,487,041</b>	<b>₱1,607,296,761</b>

## 9. Deposits

	MAR 2011	DEC 2010
Rent	₱ 159,911,338	₱142,148,088
Utilities	24,522,006	23,969,222
Refundable	11,805,629	11,805,629
Others	3,253,403	3,273,451
	<b>₱ 199,492,376</b>	<b>₱181,196,390</b>

## 10. Goodwill and Other Noncurrent Assets

	MAR 2011	DEC 2010
Goodwill	<b>₱ 65,567,524</b>	₱ 65,567,524
Deferred lease - net of current portion (Note 26)	<b>10,492,697</b>	10,492,697
Garnished accounts	<b>6,437,485</b>	9,676,376
Software and program cost	<b>4,294,649</b>	5,082,867
Lease receivable - net of current portion (Note 26)	<b>4,748,412</b>	4,748,411
AFS financial assets	-	1,320,575
Others	<b>4,661,020</b>	4,661,020
	<b>₱ 96,201,787</b>	₱ 101,549,470

### 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.

### Deferred Lease

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

Movements in deferred lease are as follows:

	MAR 2011	DEC 2010
Beginning balance	<b>₱11,855,967</b>	₱13,186,794
Additions	-	257,859
Amortization (Note 26)	-	(1,414,700)
Refunded	-	(173,986)
Ending balance	<b>11,855,967</b>	11,855,967
Less current portion	<b>1,363,270</b>	1,363,270
Noncurrent portion	<b>₱10,492,697</b>	₱10,492,697

### Garnished Accounts

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

### Software and Program Cost

Movements in software and program cost are as follows:

	MAR 2011	DEC 2010
<b>Cost</b>		
Beginning balance	₱ 14,661,985	₱14,500,085
Acquisition	-	161,900
Ending balance	14,661,985	14,661,985
<b>Accumulated Amortization</b>		
Beginning balance	9,579,118	6,489,390
Amortization (Note 19)	788,219	3,089,728
Ending balance	10,367,337	9,579,118
<b>Net Book Values</b>	₱ 4,294,649	₱5,082,867

### 11. Bank Loans

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2010 and 2009 with annual interest rates ranging from 4.20% to 5.20% in 2010, 4.90% to 5.50% in 2009 and 6.75% to 8.60% in 2008, which are repriced monthly based on market conditions.

Movements in bank loans are as follows:

	MAR 2011	DEC 2010
Beginning balance	₱ 320,000,000	₱ 340,000,000
Availment	90,000,000	290,000,000
Payments	-	(310,000,000)
Ending balance	₱ 410,000,000	₱ 320,000,000

Interest expense from these bank loans amounted to ₱ 3,655,239, ₱4,424,086, and ₱ 7,154,974 for the quarter ended March 31, 2011, 2010 and 2008 (see Note 21). Interest payable amounted to ₱ 718,905 and ₱ 509,972 as of March 31, 2011 and December 31, 2010, respectively (see Note 12).

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## 12. Accounts Payable and Accrued Expenses

	MAR 2011	DEC 2010
Trade payable	<b>₱ 649,191,229</b>	₱ 905,064,399
Rent (Notes 26 and 34)	<b>58,816,773</b>	59,026,978
Employee benefits	<b>15,471,797</b>	34,009,286
Utilities	<b>27,094,589</b>	31,187,454
Advertising and promotion	<b>18,362,482</b>	18,831,169
Outsourced services	<b>8,561,862</b>	8,042,071
Security services	<b>3,224,788</b>	3,610,705
Bank charges	<b>1,417,000</b>	2,181,700
Interest (Notes 11 and 15)	<b>1,144,645</b>	874,892
Others	<b>25,810,984</b>	15,510,753
	<b>₱ 809,096,148</b>	₱ 1,078,339,407

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## 13. Other Current Liabilities

	MAR 2011	DEC 2010
Non-trade accounts payable	<b>₱ 141,288,282</b>	₱ 164,122,488
Output VAT	<b>6,980,409</b>	25,721,487
Withholding taxes	<b>17,092,251</b>	18,896,178
Retention payable	<b>17,862,959</b>	18,459,378
Service fees payable	<b>13,264,904</b>	15,694,145
Royalty (Note 25)	<b>7,246,275</b>	8,465,255
Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	<b>1,934,524</b>	1,934,524
Finance lease (Notes 16 and 26)	<b>589,567</b>	589,567
Others (Note 25)	<b>14,540,864</b>	11,916,276
	<b>₱ 220,800,035</b>	₱ 265,799,298

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Non-trade accounts payable pertains to payable to suppliers of goods or services that are not directly related to the Company's ordinary course of business.

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## 14. Deposits Payable

	MAR 2011	DEC 2010
Franchisees	<b>₱ 94,369,853</b>	₱ 75,679,031
Service agreements	<b>56,666,711</b>	55,282,328
Rent	<b>12,195,273</b>	11,900,778
	<b>₱ 163,231,836</b>	₱ 142,862,137

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## 15. Cumulative Redeemable Preferred Shares

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

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## 16. Deferred Revenue

	MAR 2011	DEC 2010
Deferred revenue on exclusivity contract (Note 32)	<b>₱3,199,405</b>	₱ 3,199,405
Deferred revenue on finance lease (Note 26)	<b>1,866,965</b>	1,866,965
Deferred revenue - others	<b>1,933,930</b>	1,933,930
	<b>₱7,000,300</b>	₱ 7,000,300

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## 17. Equity

On July 29, 2010, the Company's BOD and at least 2/3 of the Company's stockholders approved the recommendation for a stock dividend declaration corresponding to 5% of the outstanding common shares of the Company of 287,074,922 shares or equivalent of 14,353,746 common shares. Record date of entitlement is August 27, 2010.

Movements in the number of shares issued are as follows:

	MAR 2011	DEC 2010
Beginning balance	<b>302,114,918</b>	<b>287,761,172</b>
Issuance of stock dividends	-	<b>14,353,746</b>
Ending balance	<b>302,114,918</b>	<b>302,114,918</b>

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## 18. Cost of Merchandise Sales

	MAR 2011	MAR 2010	MAR 2009
Merchandise inventory, beginning	<b>₱ 402,419,577</b>	₱ 415,652,671	₱ 339,556,385
Net purchases	<b>1,349,245,986</b>	1,207,157,507	950,551,737
	<b>1,751,665,563</b>	1,622,810,178	1,290,108,122
Less merchandise inventory, ending	<b>333,873,532</b>	385,054,401	311,565,506
	<b>₱ 1,417,792,031</b>	₱ 1,237,755,777	₱ 978,542,616

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## 19. General and Administrative Expenses

	MAR 2011	MAR 2010	MAR 2009
Communication, light and water	<b>₱133,074,584</b>	₱106,719,754	₱ 86,801,097
Outside services (Note 32)	<b>110,878,953</b>	81,645,242	68,525,055
Rent (Note 26)	<b>97,325,422</b>	83,927,780	75,740,809
Depreciation and amortization	<b>85,071,290</b>	56,119,844	44,487,705
Personnel costs (Note 23)	<b>79,460,742</b>	80,391,157	73,879,906
Advertising and promotion	<b>23,060,662</b>	18,963,000	16,065,431
Royalties (Note 25)	<b>23,285,777</b>	20,178,836	16,188,704
Trucking services	<b>23,946,161</b>	20,152,434	15,356,623
Repairs and maintenance	<b>24,133,908</b>	17,953,973	12,705,956
Supplies	<b>17,261,145</b>	14,825,357	11,447,283
Taxes and licenses	<b>20,374,629</b>	18,284,103	16,827,409
Warehousing services	<b>14,509,537</b>	13,713,966	10,529,372
Entertainment, amusement and recreation	<b>1,774,766</b>	1,886,135	2,000,137
Transportation and travel	<b>4,333,715</b>	4,891,768	4,358,825
Inventory losses	<b>12,292,837</b>	9,364,159	8,377,158
Dues and subscription	<b>1,390,919</b>	1,086,858	920,717
Insurance	<b>1,220,216</b>	1,268,377	1,013,589
Amortization of software and program costs	<b>788,219</b>	770,607	755,090
Others	<b>7,983,006</b>	5,343,687	4,334,695
	<b>₱682,166,490</b>	₱ 557,487,037	₱ 470,315,561

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## 20. Marketing Income

	MAR 2011	MAR 2010	MAR 2009
Display charges	<b>₱ 42,462,133</b>	₱ 40,708,064	₱ 10,090,118
Promotions	<b>10,826,712</b>	9,951,774	8,749,500
Marketing support funds	<b>21,109,300</b>	4,787,827	4,233,589
	<b>₱ 74,398,145</b>	₱ 55,447,665	₱ 23,073,207

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## 21. Interest Expense

	MAR 2011	MAR 2010	MAR 2009
Interest on Bank loans	₱ 3,594,419	₱ 4,332,856	₱ 7,051,879
Guaranteed preferred dividends	60,820	91,230	103,095
	<b>₱ 3,655,239</b>	<b>₱ 4,424,086</b>	<b>₱ 7,154,974</b>

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## 22. Interest Income

	MAR 2011	MAR 2010	MAR 2009
Interest on:			
Bank deposits (Note 4)	₱ 612,675	₱ 682,091	₱ 591,022
Finance lease (Note 26)	-	-	-
Accretion of refundable deposits	-	-	-
Accretion of notes receivable	-	-	-
	<b>₱ 612,675</b>	<b>₱ 682,091</b>	<b>₱ 591,022</b>

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## 23. Personnel Costs

	MAR 2011	MAR 2010	MAR 2009
Salaries and wages	₱ 42,565,768	₱ 43,688,522	₱ 40,577,034
Employee benefits	34,378,051	34,554,713	31,118,164
Retirement benefits cost (Note 24)	2,516,922	2,147,922	2,184,708
	<b>₱ 79,460,742</b>	<b>₱ 80,391,157</b>	<b>₱ 73,879,906</b>

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## 24. Retirement Benefits

The Group maintains a trustee, non-contributory defined benefit retirement plan covering all qualified employees. Normal retirement benefits are equal to the employee's retirement pay as defined in Republic Act No. 7641 multiplied by the years of service. Normal retirement date is the attainment of age 60 and completion of at least five years of service.

The following tables summarize the components of net retirement benefits cost recognized in profit or loss and the funding status and amounts recognized in the consolidated balance sheets:

a. Net retirement benefits cost for the year are as follows:

	2010		
	PSC	CDI	Total
Current service cost	<b>₱3,706,434</b>	<b>₱705,342</b>	<b>₱4,411,776</b>
Interest cost	<b>6,749,595</b>	<b>520,065</b>	<b>7,269,660</b>
Expected return on plan assets	<b>(430,680)</b>	<b>(30,255)</b>	<b>(460,935)</b>
<b>Net retirement benefits cost</b>	<b>₱10,025,349</b>	<b>₱1,195,152</b>	<b>₱11,220,501</b>

	2009		
	PSC	CDI	Total
Current service cost	₱345,868	₱146,754	₱492,622
Interest cost	20,284,950	1,347,433	21,632,383
Expected return on plan assets	(554,917)	(42,468)	(597,385)
Net actuarial losses	436,078	15,991	452,069
<b>Net retirement benefits cost</b>	<b>₱20,511,979</b>	<b>₱1,467,710</b>	<b>₱21,979,689</b>

Amounts for the current and prior four periods are as follows:

	2010		
	PSC	CDI	Total
Present value of retirement obligations	<b>₱72,897,778</b>	<b>₱4,864,964</b>	<b>₱77,762,742</b>
Fair value of net plan assets	<b>10,750,804</b>	<b>522,878</b>	<b>11,273,682</b>
Unfunded retirement obligation	<b>62,146,974</b>	<b>5,092,680</b>	<b>67,239,654</b>
Experience gain adjustments on retirement obligations	<b>(6,251,982)</b>	<b>(857,124)</b>	<b>(7,109,106)</b>
Experience loss adjustments on plan assets	<b>(43,253)</b>	<b>(11,628)</b>	<b>(54,881)</b>

The discount rate of PSC and CDI as of December 31, 2010 are 10.12% and 9.62%, respectively, based on market rates consistent with the obligation of the defined benefit plan. Future annual increase in salary as of December 31, 2010 is 6.00%. Expected rate of return as of December 31, 2010 is 6.00%.

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## 25. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control



with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders.

## 26. Leases

- a. In March 2007, PSC entered into a five-year sale and leaseback finance lease agreement with an armored car service provider. The lease has no terms of renewal and no escalation clauses. Unguaranteed residual values accruing to the Company amounted to ₱300,000.

In March 2010, the Company amended its agreement with the armored car service provider extending the lease term for another five years from March 1, 2010 to February 1, 2015, imposing 7% interest per annum on the restructured loan obligation and reducing its monthly rental payments. The unguaranteed residual values accruing to the Company was retained. The restructuring resulted in the recognition of a gain on accretion amounting to ₱849,890 and is reported under "Other income" in profit or loss.

Future minimum lease receivables under this lease as of December 31 are as follows:

	2010	2009
Within one year	<b>₱1,591,280</b>	₱2,520,000
After one year but not more than five years	<b>5,339,053</b>	4,500,000
Total minimum lease payments	<b>6,930,333</b>	7,020,000
Less unearned interest income	<b>969,492</b>	566,959
Present value of future minimum lease payments	<b>5,960,841</b>	6,453,041
Less current portion	<b>1,212,430</b>	2,187,564
Noncurrent portion	<b>₱4,748,411</b>	₱4,265,477

The approximate annual minimum rental payments of PSC under its existing lease agreements as of December 31 are as follows:

	2010	2009
Within one year	<b>₱48,966,221</b>	₱58,103,466
After one year but not more than five years	<b>93,993,928</b>	126,794,701
More than five years	<b>3,131,450</b>	7,066,790
	<b>₱146,091,599</b>	₱191,964,957

- c. CDI entered into a 15-year operating lease contract for the lease of its warehouse effective November 1, 2005. The lease is subject to an escalation rate of 7.0% after every two years starting on the third year of the lease.

Rent expense related to this lease agreement amounted to ₱ 5,203,953.09 for the quarter ended March 31, 2011 and 2010, and ₱ 4,863,507.57 for the quarter ended

March 31, 2009. Amortization of deferred lease amounted to ₱1,090,500 in 2010, 2009 and 2008 (see Note 19).

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## 27. Income Tax

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

	2010	2009	2008
Current:			
RCIT	<b>₱124,265,727</b>	₱80,682,849	₱62,259,735
Final tax on interest income	<b>693,335</b>	627,617	436,148
	<b>124,959,062</b>	81,310,466	62,695,883
Deferred	<b>3,796,610</b>	(6,270,068)	(2,240,115)
	<b>₱128,755,672</b>	₱75,040,398	₱60,455,768

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## 28. Basic/Diluted Earnings Per Share

	2010	2009	2008
a.	<b>₱</b>		
Net income	<b>37,102,927</b>	₱ 50,091,930	₱ 13,267,825
b. Weighted average number of shares issued	<b>302,114,918</b>	302,114,918	302,114,918
c. Less weighted average number of shares held in treasury	<b>686,250</b>	686,250	686,250
d. Weighted average number of shares outstanding <b>(b-c)</b>	<b>301,428,668</b>	301,428,668	301,428,668
e. Basic/diluted earnings per share <b>(a/d)</b>	<b>₱ 0.12</b>	₱ 0.17	₱ 0.04

## 29. Financial Instruments

The following tables summarize the carrying value and fair value of the Group's financial assets and financial liabilities per class as of December 31:

	MAR 2011		DEC 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>				
Cash and cash equivalents				
Cash on hand and in banks	₱ 213,523,888	₱ 213,523,888	₱ 322,975,839	₱ 322,975,839
Cash equivalents	0	0	35,753,695	35,753,695
	<b>213,523,888</b>	<b>213,523,888</b>	<b>358,729,534</b>	<b>358,729,534</b>
Short-term investments	<b>10,141,555</b>	<b>10,141,555</b>	10,141,555	10,141,555
Receivables:				
Suppliers	<b>25,145,454</b>	<b>25,145,454</b>	58,434,686	58,434,686
Franchisee	<b>12,875,769</b>	<b>12,875,769</b>	40,871,647	40,871,647
Insurance claims	0	0	10,986,094	10,986,094
Employees	<b>9,301,029</b>	<b>9,301,029</b>	10,321,643	10,321,643
Due from PFI	<b>1,028,200</b>	<b>1,028,200</b>	888,425	888,425
Others	<b>26,501,401</b>	<b>26,501,401</b>	19,189,307	19,189,307
	<b>93,241,718</b>	<b>93,241,718</b>	<b>158,558,635</b>	<b>158,709,804</b>
Deposits:				
Utilities	<b>24,522,006</b>	<b>24,522,006</b>	23,969,222	23,969,222
Refundable	<b>11,805,629</b>	<b>15,894,383</b>	11,805,629	15,894,383
Others	<b>3,253,403</b>	<b>3,253,403</b>	3,273,451	3,273,451
	<b>39,581,038</b>	<b>43,669,792</b>	<b>39,048,302</b>	<b>43,137,056</b>
Other noncurrent assets - lease receivable (net of current portion)	<b>4,748,411</b>	<b>4,915,991</b>	4,748,411	4,915,991
<b>Total Loans and Receivables</b>	<b>361,236,611</b>	<b>365,492,944</b>	571,226,437	575,633,940
<b>AFS Financial Assets</b>	-	-	1,320,575	1,320,575
<b>TOTAL FINANCIAL ASSETS</b>	<b>₱ 361,236,611</b>	<b>₱ 365,492,944</b>	<b>₱ 572,547,012</b>	<b>₱ 576,954,515</b>

\*Includes short-term refundable deposits amounting to ₱216,000 as of December 31, 2010 reported under "Prepayments and other current assets" in the balance sheet.

(Forward)

	MAR 2011		DEC 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL LIABILITIES</b>				
<b>Other Financial Liabilities</b>				
Bank loans	₱ 410,000,000	₱ 410,000,000	₱ 320,000,000	₱ 320,000,000
Accounts payable and accrued expenses:				
Trade payable	649,191,229	649,191,229	905,064,399	905,064,399
Employee benefits	15,471,797	15,471,797	34,009,286	34,009,286
Utilities	27,094,589	27,094,589	31,187,454	31,187,454
Advertising and promotion	18,362,482	18,362,482	18,831,169	18,831,169
Outsourced services	8,561,862	8,561,862	8,042,071	8,042,071
Security services	3,224,788	3,224,788	3,610,705	3,610,705
Bank charges	1,417,000	1,417,000	2,181,700	2,181,700
Interest	1,144,645	1,144,645	874,892	874,892
Others**	25,810,984	25,810,984	15,508,753	15,508,753
	<b>750,279,375</b>	<b>750,279,375</b>	1,019,310,429	1,019,310,429
Other current liabilities:				
Non-trade accounts payable	141,288,282	141,288,282	164,122,488	164,122,488
Retention payable	17,862,959	17,862,959	18,459,378	18,459,378
Service fees payable	13,264,904	13,264,904	15,694,145	15,694,145
Royalty	7,246,275	7,246,275	8,465,255	8,465,255
Others	14,540,864	14,540,864	11,916,276	11,916,276
	<b>194,203,284</b>	<b>194,203,284</b>	218,657,542	218,657,542
Cumulative redeemable preferred shares	6,000,000	6,000,000	6,000,000	6,000,000
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>₱1,360,482,659</b>	<b>₱ 1,360,482,659</b>	<b>₱ 1,563,967,971</b>	<b>₱ 1,563,967,971</b>

\*\*Excludes withholding taxes payable amounting to ₱2,000 as of December 31, 2010 and 2009.

### 30. 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 and they are summarized below.

#### 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 of December 31:

	<b>MAR 2011</b>	DEC 2010
<b>Cash and cash equivalents:</b>		
Cash in bank (excluding cash on hand)	<b>₱175,375,047</b>	₱248,539,958
Cash equivalents	<b>0</b>	35,753,695
	<b>175,375,047</b>	284,293,653
<b>Short-term investments</b>	<b>10,141,555</b>	10,141,555
<b>Receivables:</b>		
Suppliers	<b>25,145,454</b>	58,816,472
Franchisee	<b>12,875,769</b>	40,871,647
Insurance claims	<b>0</b>	5,925,582
Employees	<b>9,301,029</b>	10,986,094
Store operators	<b>9,969,361</b>	121,243
Rent*	<b>6,596,032</b>	10,321,643
Current portion of lease receivables	<b>814,609</b>	9,718,957
Deposits	<b>1,009,864</b>	100,986
Due from PFI	<b>1,028,200</b>	88,425
Others	<b>26,501,401</b>	22,435,013
	<b>₱93,241,718</b>	₱162,186,127

\*Includes short-term refundable deposits amounting to ₱216,000 as of December 31, 2010 reported under "Prepayments and other current assets" in the balance sheet.

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

	MARCH 2011			
	Neither Past Due nor Impaired		Past Due Or Impaired	Total
	High Grade	Standard Grade		
<b>Cash and cash equivalents</b>				
	₱	₱	₱	
Cash in bank	175,375,047	-	-	₱ 75,375,047
Cash equivalents	-	-	-	-
	175,375,047	-	-	175,375,047
<b>Short-term investments</b>	10,141,555	-	-	10,141,555
<b>Receivables</b>				
Suppliers	-	11,322,305	14,204,935	25,527,240
Franchisee	-	12,875,769	-	12,875,769
Insurance claims	-	-	-	-
Employees	-	9,301,029	-	9,301,029
Store operators	-	9,969,361	-	9,969,361
Rent	-	6,596,032	-	6,596,032
Deposits	-	1,009,864	-	1,009,864
Due from PFI	-	1,028,200	-	1,028,200
Others	-	26,501,401	3,245,706	29,747,107
	-	79,418,569	17,450,641	96,869,210
<b>Deposits</b>				
Utilities	-	24,522,006	-	24,522,006
Refundable	-	11,805,629	-	11,805,629
Others	-	3,253,403	-	3,253,403
	-	39,581,038	-	39,581,038
<b>Other noncurrent assets</b>				
Lease receivables - net of current portion	-	4,748,411	-	4,748,411
AFS financial assets	-	-	-	-
	-	4,748,411	-	4,748,411
	₱	₱	₱	₱
	175,375,047	123,748,018	17,450,641	316,573,706

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 and cash equivalents 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:

	MARCH 2011					
	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
<b>Receivables:</b>						
Suppliers	₱ 6,561,891	₱ 5,074,764	₱ 2,186,495	₱ 13,823,149	₱ 381,786	₱ 14,204,935
Others	-	-	-	-	3,245,706	3,245,706
	₱ 6,561,891	₱ 5,074,764	₱ 2,186,495	₱ 13,823,149	₱ 3,627,492	₱ 17,450,641

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

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

#### *Liquidity Risk*

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

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

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

	MARCH 2011				Total
	Three Months or less	More than three months to one year	More than one year to five years	More than five years	
<b>Cash and cash equivalents</b>					
Cash	₱ 213,523,888	₱ -	₱ -	₱ -	₱ 213,523,888
Cash equivalents	-	-	-	-	-
	<b>213,523,888</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>213,523,888</b>
<b>Short-term investments</b>	-	10,141,555	-	-	10,141,555
<b>Receivables</b>					
Suppliers	24,579,897	565,557	381,786	-	25,527,240
Franchisee	12,875,769	-	-	-	12,875,769
Insurance claims	-	-	-	-	-
Employees	9,301,029	-	-	-	9,301,029
Store operators	9,969,361	-	-	-	9,969,361
Rent	6,596,032	-	-	-	6,596,032
Current portion of lease receivables	-	814,609	-	-	814,609
Deposits	-	1,009,864	-	-	1,009,864
Due from subsidiaries	-	1,028,200	-	-	1,028,200
Others	26,501,401	3,245,706	-	-	29,747,107
	<b>89,823,488</b>	<b>6,663,936</b>	<b>381,786</b>	<b>-</b>	<b>96,869,210</b>
<b>Deposits</b>					
Utilities	-	-	24,522,006	-	24,522,006
Refundable	-	-	11,805,629	-	11,805,629
Others	-	-	3,253,403	-	3,253,403
	-	-	<b>39,581,038</b>	<b>-</b>	<b>39,581,038</b>
<b>Other noncurrent assets</b>					
Lease receivables - net of current portion	-	-	4,748,411	-	4,748,411
AFS financial assets	-	-	-	-	-
	-	-	<b>4,748,411</b>	<b>-</b>	<b>4,748,411</b>
	<b>₱ 303,347,377</b>	<b>₱ 16,805,491</b>	<b>₱ 44,711,235</b>	<b>₱ -</b>	<b>₱ 364,864,103</b>



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

	MARCH 2011			
	Three months or less	More than three months to one year	More than one year	Total
<b>Bank loans</b>	₱ 90,000,000	₱ 320,000,000	₱ -	₱ 410,000,000
<b>Accounts payable and accrued expenses</b>				
Trade payable	649,191,229	-	-	649,191,229
Employee benefits	15,471,797	-	-	15,471,797
Utilities	27,094,589	-	-	27,094,589
Advertising and promotion	18,362,482	-	-	18,362,482
Outsourced services	8,561,862	-	-	8,561,862
Security services	3,224,788	-	-	3,224,788
Bank charges	1,417,000	-	-	1,417,000
Interest	1,144,645	-	-	1,144,645
Others	25,810,984	-	-	25,810,984
	<b>750,279,375</b>	<b>-</b>	<b>-</b>	<b>750,279,375</b>
<b>Other current liabilities</b>				
Non-trade accounts payable	-	141,288,282	-	141,288,282
Retention payable	-	17,862,959	-	17,862,959
Service fees payable	13,264,904	-	-	13,264,904
Royalty	7,246,275	-	-	7,246,275
Others	-	14,540,864	-	14,540,864
	<b>20,511,179</b>	<b>173,692,105</b>	<b>-</b>	<b>194,203,284</b>
<b>Cumulative redeemable preferred shares</b>			<b>6,000,000</b>	<b>6,000,000</b>
	<b>₱ 860,790,554</b>	<b>₱ 493,692,105</b>	<b>₱ 6,000,000</b>	<b>₱ 1,360,482,659</b>

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's fair value and cash flows interest rate risk mainly arise from bank loans with floating interest rates. The Group is expecting to substantially reduce the level of bank loans over time. Internally

generated funds coming from its cash generating units and from its franchising business will be used to pay off outstanding debts and consequently reduce the interest rate exposure.

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

	2010	2009
Due in less than one year	<b>₱320,000,000</b>	₱340,000,000
Rate	<b>4.20%-5.20%</b>	4.90%-5.50%

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### 31. Capital Management

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

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### 32. Significant Agreements

- a. The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Franchise fee amounted to ₱14,106,467, ₱12,466,188 and ₱9,014,279 and franchise revenue for the 7-Eleven charge amounted to ₱ 99,701,804, ₱ 84,106,229 and ₱63,071,749 for the quarters ended March 31, 2011, 2010 and 2009, respectively.
- b. The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement. Service fees included under outside services shown as part of "General and administrative expenses" in profit or loss amounted to ₱ 38,605,916, ₱ 29,748,110, ₱ 24,762,197 for the quarters ended March 31, 2011, 2010 and 2009, respectively.
- c. The Group has an agreement with its phone card supplier effective January 1, 2000. Under the arrangement, the Group earns commission on the sale of phone cards based on a certain percentage of net sales for the month and a fixed monthly rate. Commission income amounted to ₱ 8,660,014, ₱ 6,402,146 and ₱ 5,274,725 for the quarters ended March 31, 2011, 2010 and 2009 respectively.

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### 33. Segment Reporting

The Group considers the store operations as its only business segment based on its primary business activity. Franchising, renting of properties and commissioning on bills payment services are considered an integral part of the store operations.

The segment's relevant financial information is as follows:

	MAR 2011	MAR 2010	MAR 2009
<b>REVENUE</b>			
Revenue from merchandise sales	₱1,931,450,765	₱1,697,779,579	₱ 1,364,895,839
Franchise revenue	113,808,270	96,572,418	72,086,028
Marketing income	74,398,145	55,447,665	23,073,207
Rent income	9,799,774	8,199,848	9,007,576
Commission income	8,660,014	6,402,146	5,274,725
Interest income	612,675	682,091	591,022
Other income	21,667,064	8,376,917	1,822,907
	<b>2,160,396,707</b>	1,873,460,664	1,476,751,303
<b>EXPENSES</b>			
Cost of merchandise sales	1,417,792,031	1,237,755,777	978,542,616
General and administrative expenses:			
Depreciation and amortization	85,071,290	85,071,290	56,119,844
Others	597,095,200	472,415,748	414,195,717
Interest expense	3,655,239	4,424,086	7,154,974
Impairment loss on goodwill	-	-	-
Other expenses	1,397,874	955,261	823,539
	<b>2,105,011,633</b>	1,800,622,162	1,456,836,690
<b>INCOME BEFORE INCOME TAX</b>	<b>55,385,074</b>	72,838,502	19,914,613
<b>PROVISION FOR INCOME TAX</b>	<b>18,282,147</b>	22,746,572	6,646,788
<b>SEGMENT PROFIT</b>	<b>₱ 37,102,927</b>	₱ 50,091,930	₱ 13,267,825
<b>SEGMENT ASSETS</b>	<b>₱2,946,667,831</b>	₱2,709,367,303	₱2,391,575,005
<b>SEGMENT LIABILITIES</b>	<b>₱1,739,135,916</b>	₱1,751,372,886	₱1,626,195,345

**Philippine Seven Corporation**  
Schedule of Receivables

	As of March 31, 2011	As of December 31, 2010
Suppliers	₱ 25,527,240	₱ 58,816,472
Franchisee	12,875,769	40,871,647
Insurance claims	-	10,986,094
Employees	9,301,029	10,321,643
Store operators	9,969,361	9,718,957
Rent	6,596,032	5,709,582
Current portion of lease receivable	814,619	1,212,430
Deposits	1,009,864	1,009,864
Due from Philippine Foundation, Inc. (PFI)	1,028,200	888,425
Others	29,747,096	22,435,013
	<b>₱ 96,869,210</b>	<b>₱ 161,970,127</b>
Less allowance for impairment	3,627,492	3,627,492
	<b>₱ 93,241,791</b>	<b>₱ 158,342,635</b>

The classes of receivables of the Group are as follows:

- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- Franchisee - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - includes car loans, salary loans and cash shortages from stores which are charged to employees.
- Rent - pertains to receivables from sublease agreements with third parties, which are based on an agreed fixed monthly rate or as agreed upon by the parties.
- Store operators - pertains to the advances given to third party store operators under service agreements.

Receivable from suppliers are non-interest bearing and are generally on 30 to 90 days terms.

**Management's Discussion and Analysis of Results of Operations and Financial Condition**  
**SELECTED FINANCIAL DATA**

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>SYSTEM WIDE SALES</b>	2,341,964	2,027,688	1,627,967
<b>Statement of Income Data:</b>			
Revenues and other income			
Sales of merchandise	1,931,451	1,697,780	1,364,896
Franchise revenue	113,808	96,572	72,086
Marketing income	74,398	55,448	23,073
Rent income	9,800	8,200	9,008
Others (net)	30,940	15,461	7,689
Cost and expenses			
General & administrative expenses	682,166	557,487	470,316
Interest expense	3,655	4,424	7,155
Cost of merchandise sold	1,417,792	1,237,756	978,543
Net income	37,103	50,092	13,268
Earnings per share	0.12	0.17	0.04
<b>Cash Flow Data:</b>			
Net cash (used)/from operating activities	(60,530)	(6,634)	128,820
Net cash used in investing activities	(171,020)	(142,793)	(48,696)
Net cash (used)/from financing activities	86,345	(4,424)	72,845
<b>Balance Sheet Data:</b>			
Total assets	2,946,668	3,093,173	2,396,983
Total liabilities	1,739,136	1,922,744	1,631,603
Total stockholders' equity	1,207,532	1,170,429	765,380

*(Amount in thousands, except EPS)*

**OVERVIEW**

Philippine Seven Corporation (PSC or the Company) operates the largest convenience store network in the country. On December 31, 1982, it acquired from Southland Corporation (now 7-Eleven Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines. Operations commenced with the opening of its first store on February 29, 1984 which is located at the corner of Kamias Road and EDSA Quezon City, Metro Manila. Considering the country's economic condition at that time, the Company grew slowly in its first few years of existence. In 1993, PSC, encouraged by the resurgent national economy, stepped up its rate of expansion.

The Company has added 26 stores during the first three months of the year to end the quarter with a total of 577 stores. The retail chain of convenience stores is sustained by a manpower complement of 965 employees engaged in store operations and in various support service units.

Despite the growing competition in the convenience retailing business, the Company maintains its leadership in the industry.

7-Eleven derives its revenues principally from retail sales of merchandise, commissions, rentals and franchising activities. The primary expenses consist of cost of goods, general and administrative expenses, interest expense and income taxes.

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

## **FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE 1ST QUARTER OF 2011.**

### **Results of Operations**

At the end of the first quarter, the Company's net earnings went down by 26 percent to P37.1 million from P50.1 million in the same period in 2010. The lower profits during the first three months of the year can be attributed to the decline in store sales brought about by weak consumer spending as a result of increasing food and fuel prices. In addition, the cooler than expected summer had an adverse effect in sales of destination categories as well as the unfavorable impact of a higher base due to the increased spending experienced last year during the period leading to the national and local elections.

System-wide sales, the measure of sales of all corporate and franchise operated stores rose by 15 percent to P2.3 billion from P2.0 billion in 2010. The increase in total sales is driven mainly by the higher number of operating stores which has grown by 108 stores or 23 percent from end of first quarter last year to 577 stores at the end of the current quarter.

Revenue from merchandise sales climbed by 14 percent to P1.9 billion while cost of goods sold went up at the same rate to P1.4 billion. As a result, gross profit was maintained at the same level in relation to revenues.

New operators boosted franchise store count and improved franchise revenues by 18 percent to P113.8 million. Marketing income continued to support corporate earnings by delivering P74.4 million, an increase of 34 percent from Q1 2010 level.

EBITDA (earnings before interest, taxes, depreciation and amortization) rose by 8 percent from P129.0 million at the end of Q1 2010 to P139.0 million while EBITDA margin slid to 5.9 percent from 6.4 percent last year.

### **Revenue and Gross Margin**

The Company registered total revenue from merchandise sales of ₱1.9 billion at the end of the first quarter. This represents an increase of 14 percent compared to ₱1.7 billion generated over the same period in 2010. Cost of merchandise sold rose by ₱180 million to ₱1.4 billion during 1Q 2011.

System-wide sales grew by 15% or ₱314 million to ₱2.3 billion in 1Q 2011. PSC ended the first quarter of 2011 with 577 stores, higher by 23% compared to the 1Q 2010 level of 469. For the first three months of the year, the Company already opened 26 new stores.

Gross Profit stood at ₱513.7 million, while GP in relation to sales went up by half a percent owing to the dilution brought about by the increase in sales to franchisees which are accounted for at zero mark-up.

### **Other Income**

Other income is comprised of marketing income, franchise fees and rentals. The Company's total other income increased by ₱37.8 million, to ₱198.0 million as a result of the following:

Marketing income grew by ₱18.9 million from last year's level. This is due to increased continued supplier support on advertising and promotions program of the Company which is driven by system innovations that allow an increasing number of options for the supplier partners to build their brands in 7-Eleven. The goal is to become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to ₱113.8 million from ₱96.57 million in 1Q 2010. This was the result of the increase in number of franchise-operated stores that reached 220 at the end of the 1Q 2011. Rent income increased by 20%, from 8.2 million in 1Q 2010 to ₱9.8 million this 1Q 2011.

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

### **General and Administrative Expense**

General and administrative expense which is comprised of store operating and selling expenses as well as headquarters expenses went up by 22.4% or ₱124.7 million and totaled to ₱682.0 million in 1Q 2011.

Communication, light and water were the highest contributor and accounted for 19.5% of the total G & A expenses for the 1Q 2011. This is followed by outside services with 16.3% share, rent 14.3% share and depreciation and amortization at 12.5% share.

Personnel costs aggregated to ₱79.5 million, compared with ₱80.4 million in 1Q 2010. As a percentage of sales, this stood at 4.1% in 2011 and 4.7% in 2010. Personnel costs include salaries and wages at ₱42.6 million, employee benefits at ₱34.4 million and pension costs at ₱2.5 million. The Company continued with its manpower utilization initiatives to contain its costs.

Moreover, rent expense incurred is pegged ₱97.3 million or 5.0% of sales against ₱83.9 million or 4.9% in 2010.

## **Interest Expense**

Cost of debt servicing in 2011 totaled to ₱3.7 million, a decrease of 17% compared with 1Q 2010 level of ₱4.4 million. Outstanding loan balance at the end of 1Q 2011 was pegged at ₱410 million, an increase of ₱90 million from ₱320 million at the beginning of 2011.

## **Net Income**

Net income for first quarter of 2011 decreased by P13.0 million to ₱37.1 million mainly due to decline in sales brought about by weak consumer spending, delayed start of the summer season and higher base year effect resulting from the election season last year.

The net income generated during the first quarter translated into a 1.9% return on sales and 3.1% return on equity. Moreover, EPS is pegged ₱0.12 and ₱0.17, in 1Q 2011 and 1Q 2010, respectively.

## **Financial Condition**

Total assets went down by 146.5 million or 4.7% to ₱2.9 billion at the end of 1Q 2011. Cash and cash equivalents during the year decreased to ₱213.5 million from ₱358.7 million at the beginning of the year. Receivables went down by ₱65.0 million as the Company collected receivables related to supplier support and rebates. Moreover, inventories went down by ₱68.5 million while prepayments were up by ₱46.8million resulting from advance rent paid for new stores and down payments to equipment vendors. The aforementioned factors resulted into a net decrease in total current assets by ₱232.0 million from the beginning of the year.

Total current liabilities went down by ₱206.0 million or 12% mainly due to the decrease in trade payables and other current liabilities. However, current ratio decline to 0.62 to 1 as of March 31, 2011 against 0.68 to 1 at the beginning of the year.

Property and equipment, net of accumulated depreciation increased by ₱72.6 million mainly due to capital expenditure spent in relation to opening of new stores.

Stockholders' equity at the end of first quarter comprises 41.0% of total assets, compared to 37.8% at the beginning of the year. Debt to equity ratio is pegged at 1.4 for 1Q 2011 from 1.6 at the beginning of the year.

## **Liquidity and Capital Resources**

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

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

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2011 to fund its operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash during the first quarter.



### ***Cash Flows from Operating Activities***

Net cash used in operating activities in 1Q 2011 totaled to ₱60.5 million, compared to only P6.6 million net cash used during comparable period last year. This can be attributed to the increase in receivables and inventories by P55.0 million and decrease in prepayments by P97.8 million.

### ***Cash Flows from Investing Activities***

Net cash used in investing activities amounted to ₱171.0 million compared to net cash out flow of ₱142.8 million in 1Q 2010. Major cash outlay went to the procurement of store equipment, new store constructions and store renovations. There were 27 new stores opened as of March 31, 2011.

Majority of the company's commitments for capital expenditures for the 1Q of the year are for new store constructions and renovations. Funds for these expenditures are expected to come from the anticipated increase in cash flows from retail operations and from additional borrowings if the need for such may arise.

### ***Cash Flows from Financing Activities***

Net cash inflow from financing activities reached ₱86.3 million largely as a result of increased loan availments in the amount of P90 million to fund capital expenditures. Total interest expense on outstanding bank loans totaling P3.7 million.

PSC expects to reduce the level of its debt within the next three years to minimize the impact of interest expense in the net income and consequently reduce the leverage ratios.

### **Discussion and Analysis of Material Events and Uncertainties**

1. There were no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.
2. There were no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.
3. All of the Company's income was earned in the ordinary course of business.
4. There are no seasonal aspects that have a potentially material effect on the financial statements.
5. The Company's financial risk management objectives and policies are discussed in Note 30 of the March 31, 2011 Notes to Unaudited Consolidated Financial Statements.
6. There are no other known trends, events and uncertainties that will have a material impact on the Company's liquidity.

## **DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS**

### **System Wide Sales**

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

### **Revenue from Merchandise Sales**

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

### **Net Income Margin**

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

### **Return on Equity (ROE)**

The ratio of the net income over stockholders' equity and indicates the level of efficiency with which a company utilizes owners' capital.

### **Earnings per Share (EPS)**

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

<b>FOR THE QUARTER</b>	2011	2010
System wide Sales (in '000s)	2,341,964	2,027,688
Revenue from Merchandise Sales (in '000s)	1,931,451	1,697,780
Net Income Margin	1.9%	2.9%
Return on Equity	3.1%	4.3%
Earnings Per Share (P)	0.12	0.17

## SIGNATURE

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

A handwritten signature in black ink, appearing to read "Jose Victor P. Paterno". The signature is fluid and cursive, with a large, prominent "P" at the end.

**JOSE VICTOR P. PATERNO**  
President and CEO