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

2 0 . I S

FORM TYPE

0 7 3rd Thursday

Month Day
Annual Meeting

Definitive Information Statement

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

SECURITES AND EXCHANGE COMMISSION

SEC FORM 20- IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   _________ Preliminary Information Statement
   ____x____ Definitive Information Statement

2. Name of Registrant as specified in its charter: **PHILIPPINE SEVEN CORPORATION**

3. Country of Incorporation: **PHILIPPINES**

4. SEC Identification Number: **108476**

5. BIR Tax Identification Number: **000-390-189-000**

6. Address of Principal Office:
   7th Floor, The Columbia Tower
   Ortigas Avenue, Mandaluyong City
   1550

7. Telephone Number: **(632) 724-4441 to 51**

8. Date, time and place of the meeting of security holders:

   July 21, 2011 (Thursday)
   3:00 p.m.
   Crowne Plaza Galleria Manila
   Ortigas Avenue corner Asian Development Bank Avenue, Quezon City

9. Approximate date on which the Information Statement is first to be sent or given to security holders:

   June 20, 2011

10. In case of proxy solicitations:

    Name of Person Filing the Statement/Solicitor: ____**N/A**__________________

    Address and Telephone No.: _________________

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sec. 4 & 8 of the RSA:

Title of Each Class	**Number of Shares of Common Stocks** *Outstanding or Amount of debt Outstanding*
Common	*301,428,666*
Warrants	-0-

12. Are any or all registrant's securities listed on the Stock Exchange?

    Yes ____**X**____ No ________

Title of each Class	*Listed Shares*	*Stock Exchange*
Common Shares	*302,114,916*	Philippine Stock Exchange

PHILIPPINE SEVEN CORPORATION
7th Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City
Tel. Nos. 724-4441 to 51
Fax No. 705-52-09

Notice is hereby given that the annual stockholders meeting of PHILIPPINE SEVEN CORPORATION (the "Corporation"), will be held at the **Crowne Plaza Galleria Manila, Ortigas Avenue corner Asian Development Bank Avenue, Quezon City**, on **Thursday, 21 July 2011 at 3:00 P.M**. for the purpose of taking up the following:

1. Certification of Quorum and Call to Order
2. Approval of Minutes of the Annual Stockholders Meeting held on July 29, 2010
3. a. Chairman's Message
   b. President's Report
4. Approval of 2010 Audited Financial Statements
5. Ratification of Actions Taken by the Board of Directors, Executive Committee, Board Committees and Management since the last annual stockholders meeting
6. Approval of Stock Dividend Declaration
7. Election of the Board of Directors for 2011
8. Appointment of External Auditors
9. Other Matters
10. Adjournment

For purposes of the meeting, only stockholders of record as of June 07, 2011 are entitled to vote in the said meeting.

For your convenience in registering your attendance, please have some available form of identification, such as company I.D., passport or driver's license. Registration will start at 2:00 p.m.

EVELYN S. ENRIQUEZ
Corporate Secretary

PHILIPPINE SEVEN CORPORATION
INFORMATION STATEMENT

This Information Statement is being furnished to stockholders of record of Philippine Seven Corporation as of June 07, 2011 in connection with its annual stockholders' meeting.

WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Item 1. Date, Time and Place of Meeting of Shareholders

Date of Meeting	:	July 21, 2011
Time of Meeting	:	3:00 P.M.
Place of Meeting	:	Crowne Plaza Galleria Manila Ortigas Avenue corner ADB Avenue, Quezon City,
Complete Mailing Addres	:	Philippine Seven Corporation 7th Floor, The Columbia Tower Ortigas Avenue, Mandaluyong City 1550

This Information Statement will be first sent or given to security holders on June 20, 2011.

Item 2. Dissenter's Right of Approval

The stockholders of the Company may exercise their right of appraisal against any proposed corporate action which qualifies as an instance under Section 81 of the Corporation Code which gives rise to the exercise of such appraisal right pursuant to and in the manner provided in Section 82 of the Corporation Code.

Any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence.
2. In case of sale, lease, of exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in this code; and
3. In case of a merger or consolidation.

An appraisal right is also available to dissenting shareholders in case the corporation decides to invest its funds in another corporation or business as provided for in Section 42 of the Corporation Code.

Item 3. Interest of Certain Persons in Matters to be Acted Upon

None of the members of the Board of Directors or senior management has any substantial interest in the matters to be acted upon by the shareholders in the stockholders meeting, except for the election of directors. The following are the incumbent directors for the year 2010 - 2011 (prior to the 21 July 2011 Annual Stockholders Meeting):

1. Vicente T. Paterno	7. Nan-Bey Lai
2. Jose Victor P. Paterno	8. Yen-Sen Yang
3. Jorge L. Araneta	9. Wen-Chi Wu
4. Diana P. Aguilar	10. Antonio Jose U. Periquet, Jr.*
5. Chung-Jen Hsu	11. Michael B. Zalamea*
6. Chien-Nan Hsieh	

* Independent Director

The Board of Directors and senior management, as a group, own 35,642,528 common shares which constitute approximately 11.61% of the issued and outstanding common stock. The Board of Directors of the Company is not aware of any party who has indicated an intention to oppose the motions set forth in the Agenda.

Cumulative voting is allowed for the election of the members of the Board of Directors. Each stockholder may vote the number of shares of stock outstanding in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected and provided, however, that no delinquent stock shall be voted

A. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

As of April 30, 2011, there were 301,428,666 shares of the common stock of Philippine Seven Corporation outstanding and entitled to vote for election of directors and matters scheduled for approval at the Annual Meeting. Only holders of the company's stock as of the close of business on record date of June 07, 2011 acting in person or by proxy on the day of the meeting are entitled to notice and to vote at the Annual Meeting to be held on July 21, 2011.

For the purpose of electing the directors, shareholders entitled to vote as of above record date shall vote cumulatively in accordance with Section 24 of the Corporation Code to elect the 11 directors of the company. Each share entitled to vote shall be entitled to 11 votes.

For the purpose of approving the other matters set forth in the Agenda of the Annual Meeting, the shareholders entitled to vote as of above record date shall be entitled to (1) vote for each share entitled to vote.

a) As of April 30, 2011 the following are the record and beneficial owners of more than 5% of registrant's voting securities:

Title of Class	Name and Address of Record/Beneficial Owner	Citizenship	Relationships of the record owner's representative with the issuer and said owner	Amount and Nature of Record/Beneficial Ownership	Percent of Outstanding Common Stock as of Dec. 31, 2009
Common	President Chain Store (Labuan) Holding, Ltd.[1] 7(E), Main Tower, Financial Park, Labuan, Malaysia	Malaysian	Stockholder	170,574,306 (R)	56.59%
Common	Asian Holdings Corporation [2] 4th Floor, Uni-Oil Bldg., Commerce Ave. cor. Acacia St., Madrigal Business Park, Ayala Alabang, Muntinlupa City	Filipino	Stockholder	37,109,718 (R)	12.31%
Common	Vicente Paterno [3] And children 16 Hidalgo Place, Hidalgo Village Rockwell, Makati City	Filipino	Chairman /Stockholder	1,270,501 (R) 33,732,277 (B) **35,002,778**	0.42% 11.61% 11.61%
Common	Progressive Development Corp. [4] 18th Aurora Tower, Cubao Quezon City	Filipino	Stockholder	25,617,193	8.50%

Footnotes:

1 Mr. Chang-Sheng Lin of President Chain Store (Labuan) Holding, Ltd. has the voting power in behalf of the Corporation

2. Ms. Elizabeth Orbeta or Ms. Diana P. Aguilar has the voting power in behalf of Asian Holdings Corp.

3. Mr. Vicente T Paterno has the power of attorney to vote the 33,732,277 shares of his children: Ma. Cristina Paterno-5,835,471; Jose Victor Paterno-11,096,656; Paz Pilar P. Benares -5,695,254 ; Ma. Elena P. Locsin-5,695,255 ; Ma. Theresa P. Dickinson-5,409,641

4. Mr. Jorge L. Araneta has the voting power in behalf of Progressive Development Corp.

b) Security Ownership of Management as of April 30, 2011

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Vicente T. Paterno	1,270,501 (R) 33,732,277 (B) **35,002,778** [3]	Filipino	0.42% 11.19% 11.61%
Common	Jose Victor P. Paterno	11,096,656	Filipino	3.68%
Common	Jorge L. Araneta	1[3]	Filipino	0.00%
Common	Diana P. Aguilar	1[3]	Filipino	0.00%
Common	Antonio Jose U. Periquet, Jr.	1[3] 634,036[2] **634,037**	Filipino	0.0021%
Common	Michael B. Zalamea	1[3]	Filipino	0.00%
Common	Chung-Jen Hsu	1[3]	R.O.C.	0.00%
Common	Chien-Nan Hsieh	1[3]	R.O.C.	0.00%
Common	Nan-Bey Lai	1[3]	R.O.C.	0.00%
Common	Wen-Chi Wu	1[3]	R.O.C.	0.00%
Common	Yen-Sen Yang	1[3]	R.O.C.	0.00%
Common	Evelyn Sadsad-Enriquez	2,350[2]	Filipino	0.0008%
Common	Liwayway T. Fernandez	3,356[2]	Filipino	0.0011%

[1] Shares directly owned by Vicente T. Paterno is 1,210,000 which is 0.42%, and he has power of attorney for 33,732,277 shares held by his 5 children including above shares of Jose Victor Paterno – 11,096,656 (3.68%)
[2] Directly owned shares
[3] Qualifying shares

c) Power of Attorney to vote shares of 5% or more

Mr. Vicente T. Paterno, Chairman of the Board, has the power of attorney for 33,732,277 shares or 11.19% for said shares collectively owned by his children namely, Ma. Theresa Paterno-Dickinson – 5,409,641 shares; Jose Victor P. Paterno –11,096,656 shares; Paz Pilar Paterno-Benares –5,695,254 shares;Ma. Cristina P. Paterno –5,835,471 shares and Ma. Elena P. Locsin –5,695,255 shares.

d) Changes in Control

There has been no arrangement which may result in a change in control of the Company. There has been no change in control of the Company since Y2000 or the past 10 years.

Item 5. Directors and Executive Officers of the Registrant

a) Directors and Corporate Officers

The Board of Directors is responsible for the overall management and direction of the Corporation. The Board meets at least twice every year or as needed to review and monitor the Corporation's financial position and operation.

The directors of the Company are elected at the Annual Stockholders meeting to hold office for one (1) year and until the next succeeding annual meeting or until their respective successors have been elected and qualified. The officers are likewise elected annually by the Board of Directors to serve for one (1) year and until their respective successor have been elected and qualified. The members of the Board of Directors and corporate officers of the Company are the following:

NAME	AGE	Term of Present Position	No. of Year(s) In Service	*Business Experience*
CHIN-YEN KAO Honorary Chairman of the Board Citizenship: R.O.C.	81	9 yrs.	9 yrs.	• *Chairman - Uni-President Enterprise Corp.;President Chain Store Corporation; Tong-Jeng Development Corp.; President International Development Corp. ; PCSC (China) Limited; Uni-President Development Corp.; President International Development Corp.* • *Director- Director PCSC (China) Limited; President Chain Store (Labuan) Holdings Ltd.; PCSC (China) Drugstore Limited; PCSC (China) Supermarket Limited; President*

				Chain Store (BVI) Holdings Ltd.;Kai Yu (BVI) Investment Co., Ltd.; Global Strategic Investment, Inc. ; President Energy Development (Cayman Islands) Ltd.; Cayman President Holdings Ltd.; Kao Chyuan Investment Co.Ltd.
VICENTE T. PATERNO Chairman of the Board and Director Citizenship: Filipino	85	28 yrs.	28 yrs.	• *Chairman - Store Sites Holding Inc.;* • *Former Director - State Land Investment Inc., First Philippine Holdings Corporation; Benpres Holdings Corporation*
YEN-SEN YANG Vice- Chairman and Director Citizenship: R.O.C	51	5 yrs. & 6 mos.	5 yrs. & 6 mos.	• *Senior Vice-President - President Chain Store Corp.;* • *Director – President Being Corp.; 21 Century Enterprise Co., Ltd.; Duskin Serve Taiwan Co.; Books.com. Co., Ltd.; President Chain Store Tokyo Marketing Corporation; Philippine Seven Corp; Pet Plus Co., Ltd. Presiclerc Limited; Shanghai Cold Stone Ice Cream Corporation; President Technology Corp.; Mech-President Corp., PCSC (SICHUAN) Hypermarket Limited; PCSC (CHENGDU) Hypermarket Limited* • *Supervisor – President FN Business Corp.; President Information Corp.;PRESIDENT Royal Host (SHANGHAI) LTD.*
JOSE VICTOR P. PATERNO President and Director Citizenship: Filipino	43	6 yrs.	13 yrs.	• *President & CEO, Philippine Seven Corporation* • *Chairman & President – Convenience Distribution, Inc;* • *Former Vice-President for Operation– Philippine Seven Corporation* • *Director – Electronic Commerce Payment (EC Pay) Network, Inc.*
JORGE L. ARANETA Director Citizenship: Filipino	75	22 yrs.	22 yrs.	• *Chairman & CEO - Araneta Center Inc./ Philippine Pizza Inc./ Progressive Development Corporation*
DIANA P. AGUILAR Director Citizenship: Filipino	47	12 yrs. 8 mos.	12 yrs. 8 mos.	• *Commissioner- Social Security Commission; Social Security System* • *Director – Security Bank Corporation; Phoenix Petroleum Phils., Inc.; Asian Holdings Corporation; Electronic Commerce Payments Network Inc.; Artemis Electronic Systems, Inc.; DAJ Property Holdings Corp.; Gate Distribution Enterprises, Inc.; ERA Philippines, Inc.* • *Director & Treasurer - Land & Housing Dev't. Corporation/ Cable Entertainment Corp.; WenPhil Corporation;* • *Treasurer & Trustee – De La Salle Santiago Zobel School* • *Treasurer - Franchise One Corporation* • *Treasurer – Foundation for International Research Skills & Training, Inc.*
ANTONIO JOSE U. PERIQUET, JR. Independent Director Citizenship: Filipino	50	9 mos.	9 mos.	• *Chairman – Pacific Main Holdings, Inc. ; Capstone Technologies, Inc.; The Straits Wine Company, Inc.; Ayala Corporation; BPI Capital; Development Bank of the Philippines; DBP Insurance Brokerage, Inc.; DMCI Holdings, Inc.; MRT Corporation;* • *Trustee - Lyceum University of the Philippines* • *Member – Deans Global Advisory Council, Darden School of Business, University of Virginia*
MICHAEL B. ZALAMEA Independent Director Citizenship: Filipino	46	6 yrs. & 5 mos.	6 yrs. & 5 mos.	• *Director – Active Alliance, Inc./ Philippine Coastal Storage & Pipeline Corp./Clark Pipeline & Depot Company Inc./ Wespak Holdings, Inc.* • *Former Portfolio Manager – Global Fund, American International Group, Inc.* • *Director – The Straits Wine Company, Inc.*
CHUNG-JEN HSU Director	63	10 yrs.	10 yrs.	• *President- President Chain Store Corporation; Ren- Hei Investment Corp.* • *Chairman- President Drugstore Business Corp.; Capital Inventory Services Corp.; Wisdom Distribution Service Corp.; President YiLan Art and Culture Corp.; President Information Corp.; Bank Pro E-Service Technology Co., Ltd.; Duskin Serve Taiwan Co.; Mister Donut Taiwan*

Citizenship: R.O.C.				Corp.; Muji Taiwan Co., Ltd.; Retail Support International Corp.; President FN Business Corp.; Afternoon Tea Taiwan Co., Ltd.; Rakuten Taiwan Co., Ltd.; Pet Plus Co., Ltd.; 21 Century Enterprise Co., Ltd.; Ren-Hei Investment Corp.; Mech-President Corp.; President Transnet Corp.; President Collect Services Co. Ltd.; President Logistics Internatinal Corp.;Chieh Shuen Logistics International Corp.; President Jing Corp.; PRESIDENT SATO CO., LTD.; Shenzhen Cosmed-Livson PharmacyChain Store Co., Ltd. • *Vice Chairman- Uni-President Department Store Corp.; Uni-President Development Corp.; Tong-Jeng Development Corp.;* • *Director- Shanghai President Logistics Co., Ltd.; Uni-President Cold-Chain Corp.; Uni-President Oven Bakery Corp.; President Coffee Corp.; President Pharmaceutical Corp.; Tong-Ho Development Corp.; Presicarre Corp.; Philippine Seven Corp.; Presiclerc Limited; Shanghai President Starbucks Coffee Corp.; President International Development Corp.; Dayeh Takashimaya Taiwan Inc.; Shan Dong President Yinzuo Commercial Limited; PK Venture Capital Corp.; Wuhan Uni-Presidemt Oven Fresh Bakery Co., Ltd.; President Chain Store (Shanghai) Ltd.; Cold Stone Creamery Taiwan Ltd.; PCSC (SICHUAN) Hypermarket Limited; PCSC (CHENGDU) Hypermarket Limited; Shanghai Cold Stone Ice Cream Corporation; PCSC AFTERNOON TEA SHANGHAI LTD.; President Cosmed Chain Store (Shen Zhen) Co.,Ltd.; PCSC AFTERNOON TEA CAYMAN LTD.; President Coffee (Cayman)Holdings Ltd.; Duskin China(BVI)Holding Limited.; President Chain Store(Hong Kong) Holdings Limited; Shanghai SATO Restaurant System Co., Ltd.; PRESIDENT Royal Host (SHANGHAI) LTD.; President Pharmaceutical (Hong Kong) Holdings Limited; President (Shanghai) Health Products Trading Co., LTD*
CHIEN-NAN HSIEH Director Citizenship: R.O.C.	56	10 yrs.	10 yrs.	• *Senior Vice-President- President Chain Store Corporation;* • *Chairman- Q-ware Communications Co., Ltd.; Q-ware Systems & Services Corp.* • *Director - Ren-Hui Investment Corp.; Capital Inventory Services Corp.; Wisdom Distribution Service Corp.; Uni-President Cold-Chain Corp.; President Information Corp.; Bank Pro E-Service Technology Co., Ltd.; Books.com. Co., Ltd.; Rakuten Taiwan Co., Ltd.; President Musashino Corp.; Retail Support International Corp.; Q-ware Systems & Services Corp.; Retail Support Taiwan Corp.; President Logistics International Corp.; Chieh-Shuen Logistics International Corp.; Philippine Seven Corp;; President Chain Store (Hong Kong) Holdings Limited; Shenzhen Cosmed-Livzon Pharmacy Chain Store Co., Ltd.* • *President- Books.com. Co., Ltd.*
WEN-CHI WU Director Citizenship: R.O.C.	41	2 yrs. and 6 mos.	2 yrs. and 6 mos.	• *Chief Financial Office Manager – President Chain Store Corporation* • *Director – Philippine Seven Corp.; President Investment Trust Corp.* • *Supervisor – Pet Plus Co., Ltd.; Uni-President Oven Bakery Corp.; Books.com. Co., Ltd.; Muji Taiwan Co., Ltd.; Wuhan Uni-President Oven Fresh Bakery Co., Ltd.; Shanghai President Starbucks Coffee Corp.; President Chain Store (Shanghai) Ltd.; Shan Dong President Yinzuo Commercial Limited; Uni-President Department Store Corp.; President Pharmaceutical Corp.; President Transnet Corp.; President Drugstore Business Corp.; Afternoon Tea Taiwan Co., Ltd.; PCSC AFTERNOON TEA SHANGHAI LTD.; Mech-President Corp.; Mister Donut Taiwan Corp.*

NAN-BEY LAI Director Citizenship: R.O.C.	59	9 mos.	9 mos.	• *Senior Vice President- President Chain Store Corporation* • *Chairman- President Being Corpo.; PCSC (Vietnam Supermarket LTD.* • *Vice Chairman- Uni- President Yellow Hat Corp.* • *Director- President YiLan Art and Culture Corp; PPRESIDENT SATO CO.,LTD.; Shanghai SATO Restaurant System Co. , Ltd.; Uni-President Yellow Hat Corp.; Uni-President Department Store Corp.; Q-Ware Systems & Services Corp.; President Transnet Corp.; President Collect Services Co. Ltd.; President Information Corp.; Bank Pro E-Service Technlogy Co., Ltd.; PCSC (SICHUAN) Hypermarket Limited; PCSC (CHENGDU) Hypermarket Limited; Q-Ware Communication Co., Ltd.; Mech-President Corp.; Muji Taiwan Co., Ltd.; Philippine Seven Corp.; President Organics, Co.; Pet Plus Co., Ltd.; Books.com Co., Ltd. ; President Business Corp.; Duskin Serve Taiwan Co.; eASPNet Inc.* • *Supervisor- President Chain Store Tokyo Marketing Corporation; Mister Donut Shanghai Co., Ltd.; eASPNet Taiwan Inc.; President Coffee Corp. Corp.*
YU-HSIU TSAI Treasurer/CFO Vice-President Citizenship: R.O.C.	51	2 yr. & 10 mos.	2 yr. & 10 mos.	• *Treasurer/CFO and VP-Finance & Administration – Philippine Seven Corporation* • *Vice Pres & Director - Convenience Distribution Inc. Director- Store Sites Holding Inc. Manager – 7-Eleven President Chain Store* • *Director – Administrative Department of Starbucks Taiwan; Administrative Department of Starbucks Shanghai; Director Administrative Department Cold Stone Creamery*
PING-YUN WANG Vice-President Citizenship: R.O.C. *Resigned as of September 17, 2010*	42	3 yrs.	3 yrs.	• *Vice President for Operations & Marketing* • *Exec. Committee member- Philippine Seven Corporation* • *Director –Convenience Distribution, Inc.* • *16 years with 7-Eleven Taiwan*
EVELYN SADSAD-ENRIQUEZ Corporate Secretary Citizenship: Filipino	47	7 yrs. & 5 mos.	21 yrs.	• *Legal and Corporate Services Division Mgr. - Philippine Seven Corporation* • *Compliance Officer- Philippine Seven Corporation* • *Corporate Secretary - Convenience Distribution Inc.; Store Sites Holding, Inc.; Ferguson Park Tower Condominium Corporation, PhilSeven Foundation, Inc.* • *President – Columbia Owners' Association Inc.*

b) The Executive Officers

As of April 30, 2011, the Executive Officers and Management of the Corporation are the following:

Executive Officers	Name
Honorary Chairman of the Board	Chin-Yen Kao
Chairman of the Board	Vicente T. Paterno
Vice-Chairman of the Board	Yen-Sen Yang
President & CEO	Jose Victor P. Paterno
Vice-President for Operations & Marketing	Ping-Yun Wang*
Treasurer and CFO VP for Finance & Administration	Yu-Hsiu Tsai
Corporate Secretary, Compliance Officer Legal & Corporate Services Division Manager	Atty. Evelyn S. Enriquez
Finance Division Manager	Lawrence M. de Leon
Marketing Director	Michael Chuaunsu
Operations Division Manager	Liwayway T. Fernandez
General Merchandise Division Manager	Jose Ang, Jr.
Business Development Division Manager	Francis S. Medina
Internal Audit Division Manager	Eduardo P. Bataclan**
HR Division Manager	Violeta B. Apolinario
MIS Division Manager	Jason Jan Ngo

Strategic Merchandise Division Manager	Armi C. Andrade
Corporate Planning Manager	Richard Lee***
Procurement Division Manager	Eduardo P. Bataclan*****
Internal Audit Manager	Irene n. Tyapon ****

*Resigned as of September 17, 2010
** Until August 2010
*** Assumed office on November 2, 2010
****Assumed office on January 2011
*****Assumed office on August 2010

c) Identifying Significant Employees

Other than aforementioned Directors and Executive Officers identified in the item on Directors and Executive Officers in this Annual report, there are no other employees of the Company who may have a significant influence in the Company's major and/or strategic planning and decision-making.

d) Family Relationships

i. Mr. Jose Victor P. Paterno, President of PSC and concurrent Chairman and President of Convenience Distribution Inc. (CDI), a wholly owned subsidiary of PSC, is the son of PSC Chairman of the Board, Mr. Vicente T. Paterno.

ii. Ms. Diana P. Aguilar, director of PSC, is related to PSC Chairman, Mr. Paterno, by affinity within the 3rd degree.

iii. Mr. Raymund Aguilar, Director of Gate Distribution Enterprises, Inc. and President of EC Payment Network Inc., a supplier of the Company, is the spouse of Ms. Diana P. Aguilar

e) Independent Directors

The independent directors, Mr. Antonio Jose U. Periquet, Jr. and Mr, Michael B. Zalamea are not officers or substantial shareholders of Philippine Seven Corporation nor are they the directors or officers of its related companies.

f) Litigation

To the knowledge and/or information of the Company, the above-named directors of the Company, the present members of its Board of Directors and its Corporate Officers are not, presently or during the past 5 years, involved or have been involved in any material legal proceeding affecting/involving themselves or their property before any court of law or administrative body in the Philippines or elsewhere. Likewise, to the knowledge and/or information of the Company, the said persons have not been convicted by any final judgment of any offense punishable by the laws of the Republic of the Philippines or the laws of any nation/country.

g) Pending Legal Proceedings

The Company is a party to certain litigations involving minor issues, from time to time, before the Department of Trade and Industry, employees suing for illegal dismissal, back wages and damage claims, claims arising from store operations and as co-respondents with manufacturers on complaints with BFAD, actions on leases for specific performance and other civil claims. The Company also filed criminal cases against employees and other persons arising from theft, estafa and robbery; civil claims for collection of sum of money, specific performance and damages. All such cases are in the normal course of business and are not deemed or considered as material legal proceeding as stated in Part I, Paragraph (C) of "Annex C" of SEC checklist 17-A.

h) Qualification of Directors

To the knowledge and/or information of the Company, the above-named directors have all the qualifications and none of the disqualifications as provided in the Company's Manual on Corporate Governance and the revised Securities Regulation Code.

i) Certain Relationships and Related Transactions

The Company has lease and/or sublease agreements with Wenphil Corporation and Progressive Development Corporation for commercial spaces in excess of the requirements of the Company for its

7-Eleven stores, and supply arrangement for certain products/services carried by the stores with Gate Distribution Enterprises Inc.(GATE) and Electronic Commerce Payments Network Inc. (ECPAY).

Ms. Diana P. Aguilar, director of the company, is a director and treasurer of Wenphil Corporation (owner of Wendy's Philippine franchise), GATE and ECPAY. She is also the wife of Mr. Raymund Aguilar, a director of GATE and President of ECPAY which is the supplier of physical and electronic phone cards (e-pins) of the company and the system provider for e-pins and bills payment. Mr. Jorge L. Araneta, also a director of the Company, is the Chairman and President of Progressive Development Corporation (owner of Pizza Hut Philippine franchise).

The Company has warehousing and distribution management contract with Convenience Distribution Inc. (CDI), its wholly-owned subsidiary. The Chairman of the Board and President of CDI, Mr. Jose Victor Paterno, is the son of Mr. Vicente Paterno, the Chairman of the Board of PSC.

The Company, from time to time, makes purchases of equipment from President Chain Store Corporation (and its subsidiaries/affiliates), which is the parent company of President Chain Store (Labuan) Holding Ltd., holding 56.59% of PSC's outstanding shares. Certain products are also purchased from Uni- President Corporation which is the parent company of President Chain Store Corporation.

Store Sites Holding Corporation is a landholding company affiliated with PSC and it leases on long term basis certain parcels of land to PSC for its operation of 7-Eleven Stores.

j) Election of Directors

The directors of the Company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

The nominees to the Board of Directors were submitted to and pre-screened by the Nomination and Governance Committee of the Corporation:

1. Vicente T. Paterno
2. Jose Victor P. Paterno
3. Jorge L. Araneta
4. Diana P. Aguilar
5. Chung-Jen Hsu
6. Chien-Nan Hsieh
7. Nan-Bey Lai
8. Yen-Sen Yang
9. Wen-Chi Wu
10. Antonio Jose U. Periquet
11. Michael B. Zalamea

k) Independent Directors

As of the date of this report, the nominees for independent directors are Messrs. Michael B. Zalamea and Antonio Jose U. Periquet. Their nominations were submitted by Mr. Aquilino D. Soriano, Jr. and Paz Pilar P. Benares, respectively, stockholders of the Corporation, and pre-screened by the Nomination Committee of the Corporation in compliance with SEC Circular No. 16 on the Guidelines on Nomination and Election of Independent Directors. They are neither officers nor substantial shareholders of Philippine Seven Corporation nor are they directors or officers of its related companies. Their shareholdings in the Corporation are less than 2% of the Corporation's outstanding capital stock pursuant to Section 38 of the SRC. A brief description of the business experiences of Mr. Michael B. Zalamea and Mr. Antonio Jose U. Periquet, Jr is included in Item 5 (a) of this report.

Nomination Procedure:

1. A stockholder may recommend the nomination of a director to the Nomination Committee;
2. The nominating stockholder shall submit his proposed nomination in writing to the Nomination & Governance Committee, together with the acceptance and conformity of the would-be nominee.
3. The Nomination & Governance Committee shall screen the nominations of directors prior to the stockholders' meeting and come up with the Final List of Candidates.
4. Only nominees whose names appear in the Final List of Candidates shall be eligible for election as independent director.

Item 6. Compensation of Directors & Executive Officers

For the calendar years December 31, 2010, 2009, 2008, and 2007, the total salaries allowances and bonuses paid to the directors and executive officers are as follows:

(a) Name/Position	(b) Year	(c) Salaries	(d) Bonus	(e) Others
Chairman and Top 4				
Vicente T. Paterno Chairman				
Jose Victor P. Paterno President				
Ping-Yun Wang Vice-President				
Yu-Hsiu Tsai Treasurer				
Michael Chuaunsu Marketing Director				
Total	2011 2010 2009	4,940,936.40 5,713,173.16 5,426,112.36	5,133,368.49 6,486,091.13 6,369,768.51	 N/A
All other Officers and Directors as a Group Unnamed	2011 2010 2009	7,762,145.04 5,980,927.24 5,497,840.32	6,319,126.01 5,713,034.49 5,492,966.49	 N/A

- ***Estimated compensation of director and executive officers for the ensuing year.***

The company has certain standard arrangements with respect to compensation and profit sharing. Per diems of ₱ 7,500 (as may be fixed by the Board from time to time) are given for every regular or special meetings of the Board of Directors or Executive or Board Committees attended.

In addition to per diems, profit sharing is provided in the Code of By-laws in an amount not exceeding 15% of the net profits of the corporation (after tax), which shall be distributed to the members of the Board of Directors and Executive Committee members and officers of the corporation in such amounts and manner as the Board may determine. Profit share exceeding 15% of net profits after tax of the corporation shall be submitted to stockholders for approval. The last profit sharing in 1996 was set at 5% of net income after tax thereon. The directors and the executive officers did not receive any profit sharing in the years after 1996.

There are no existing options, warrants or stock plan arrangements and none are held by the directors, executive and corporate officers of the Corporation.

Item 7. Independent Public Accountants

The accounting firm of Sycip Gorres Velayo and Company (SGV) was appointed as the Corporation's auditor in 2005. Since their appointment, the Corporation has no disagreement with them on any matters relating to accounting principles and practices, financial statement disclosures or auditing scope or procedures. The same auditing firm has been endorsed for re-appointment by the Audit Committee to the Executive Committee. The Audit Committee is composed of the Chairman and independent director, Antonio Jose U. Periquet, Jr., and members, Diana P. Aguilar and Jose Victor P. Paterno. The Executive Committee approved the endorsement and will nominate the appointment of the said auditing firm for stockholders' approval at the scheduled Annual Meeting of the Stockholders. The said auditing firm has accepted the Corporation's invitation to stand for re-election this year and has designated Ms. Julie Christine Ong-Mateo as the audit partner to handle the 2011 audit for the Company.

Audit services of SGV for the fiscal year ended December 31, 2010 included the examination of the consolidated financial statements of the Company, preparation of final income tax returns and other services related to filing made with the Securities and Exchange Commission.

The company is in compliance with SRC Rule 68, paragraph 3(b)(iv) requiring the rotation of external auditors or engagement partners who have been engaged by the company for a period of five (5) consecutive years or more as of December 31, 2005. The present engagement partner is Ms, Julie Christine Ong-Mateo, an SEC accredited auditing partner of SGV, and in her third year of assignment in the Corporation. Representatives of SGV shall be present during the annual meeting of stockholders on July 21, 2011. They are also expected to respond at the Annual Stockholders Meeting to appropriate questions from stockholders pertaining to said financial statements as needed.

Item 8. External audit fees and services

The following table summarizes the fees paid or accrued for services provided by our external auditors for the fiscal years ended December 31, 2010 and 2009:

	2010	**2009**
	(in thousands)	
Audit Fees	P 1,346	P 1,491
Tax Fees	18	274
All Other Fees	448	120
Total	**P1,812**	**P1,885**

Audit Fees. This category includes the audit of our annual financial statements, review of interim financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes the advise on audit and accounting matters that arose during, or as a result of the audit or the review of interim financial statements.

Tax Services. This category includes tax compliance, tax advice, tax planning and other services performed by our independent auditors.

All Other Fees. This category consists primarily of fees for consultations, special engagements relating to issuance of long form audit report and securing documents which are required for the payment of dividends and other incidental expenses.

The fees presented above includes out-of-pocket expenses incidental to our independent auditors' work.

Our Audit Committee pre-approves all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

ISSUANCE AND EXCHANGE OF SECURITIES

Item 11. Financial and Other Information

The Management's Discussion and Analysis and the Company's consolidated audited financial statements for fiscal years ended December 31, 2010 and 2009, including schedules for Property & Equipment, Accumulated Depreciation, Non-trade Receivables and Capital Stock, are attached hereto as Annexes "A" and "D", respectively. The Company's 2010 Annual Report will be distributed to stockholders of record during the Annual Meeting.

D. OTHER MATTERS

Item 15. Action with respect to Reports

During the scheduled Annual Stockholders meeting, the following reports shall be submitted to the stockholders for approval:

1. Approval of the Minutes of the July 29, 2010 Annual Stockholders Meeting;
2. Approval of the Annual Report of Management and the Audited Financial Statements for the Fiscal Year ending December 31, 2010;
3. Ratification of all Acts and Resolutions of the Board of Directors, Executive Committee, Board Committees and Management during the year 2010 as discussed in the Minutes of the Meetings of the Board of Directors, Executive Committee and Audit Committee, which include the approval of contracts, loans, investments or purchases in the ordinary course of trade or business, management report and financial statements of the Corporation, and appointment of corporate officers, corporate signatories and amendments thereof.

A brief summary of Minutes of the 2010 Annual Stockholders' Meeting and relevant resolutions of the Board of Directors and the Committees for ratification by the stockholders are attached as Annexes "B" and "C."

Item 16. Other Proposed Action

1. Election of Directors including the independent directors
2. Appointment of External Auditors
3. Approval of Stock Dividend Declaration

Item 17. Voting Procedures

Vote required for approval

For election of directors, a shareholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares, or he may distribute them on the same principle to as many candidate as he shall see fit.

For approval of stock dividend declaration, the vote of at least 2/3 of total outstanding shares entitled to vote is required.

Method by which votes will be counted

All matters subject to a vote, except in cases where the By-laws provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him. The counting thereof shall be supervised by the external auditors or the stock transfer agent of the Company.

UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUESTS MAY BE SENT TO:

psc-corp@7-eleven.com.ph

or

PHILIPPINE SEVEN CORPORATION
7TH FLOOR, THE COLUMBIA TOWER,
ORTIGAS AVENUE, MANDALUYONG CITY
1501

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth on this report is true, complete and correct. This report is signed in the City of Mandaluyong on .

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 hereto authorized.

PHILIPPINE SEVEN CORPORATION
Issuer

By:

EVELYN S. ENRIQUEZ
Corporate Secretary

ANNEX "A"

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and the related notes as of December 31, 2010 and 2009. This discussion contains-forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties and our actual results may differ materially from those anticipated in these forward-looking statements. On a periodic basis, we evaluate our estimates, including those related to revenue recognition, goodwill, capitalized assets and income taxes. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances.

SELECTED FINANCIAL DATA

	For the Period Ended and As of December 31,		
	2010	**2009**	**2008**
SYSTEM WIDE SALES	9,112,829	7,075,772	6,240,714
Statement of Income Data:			
Revenues and other income			
Sales of merchandise	7,612,243	6,033,322	5,412,969
Franchise revenue	442,823	303,815	250,856
Marketing income	338,765	236,503	136,211
Rent income	37,362	52,265	36,502
Others (net)	112,906	62,656	43,389
Cost and expenses			
Cost of merchandise sold	5,585,270	4,371,716	3,909,887
General & administrative expenses	2,531,390	2,050,959	1,788,433
Interest expense	16,398	26,483	25,333
Total comprehensive income	276,880	155,791	84,502
Earnings per share	0.92	0.52	0.28
Cash Flow Data:			
Net cash from operating activities	664,305	541,186	502,771
Net cash used in investing activities	-703,096	-389,495	-426,197
Net cash used in financing activities	-50,931	-17,255	-69,859
Balance Sheet Data:			
Total assets	3,093,173	2,709,292	2,269,797
Total liabilities	1,922,744	1,801,389	1,517,685
Total stockholders' equity	1,170,429	907,903	752,112

(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.

As of December 31, 2010, 7-Eleven has a total of 551 stores. This is higher by 105 stores (net of 7 store closures during the year) compared with the store count in 2009 which stood at 446. The retail chain of convenience stores is sustained by a manpower complement of 956 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 sold, store operating and general and administrative expenses 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 IN 2010

Results of Operations

At the end of calendar year 2010, PSC has generated net income totaling to ₱276.9 million. This represents an increase of 78 percent compared with the 2009 level of ₱155.8 million. EPS during the period grew by 77 percent and is pegged at ₱0.92. Moreover, share prices of the Company doubled from ₱7.00 per share at the end of 2009 to more than ₱14.00 per share at the end of 2010.

The improved earnings results can be attributed to the growth in system-wide sales and opening of 112 new stores that increased store base by 24% to 551 stores at the end of the year. In addition, continuous supplier support and higher franchise revenues contributed positively to the bottom-line.

System-wide sales, the measure of sales of all corporate and franchise operated stores, rose by 29 percent to ₱9.1 billion from ₱7.1 billion in 2009. This is driven mainly by the higher number of operating stores and improvement in same store sales. Sales went up as a result of better weather conditions coupled by favorable effect of a recovering economy and higher spending during the election season.

Revenue from merchandise sales grew by 26 percent to ₱7.6 billion while cost of goods sold went up by 28 percent to ₱5.6 billion resulting into gross profit of ₱2.0 billion enabling the Company to meet its profit guidance for the year.

New operators boosted franchise store count by 27 percent and grew franchise revenues by 46 percent to P442.8 million. Marketing income continued to support corporate earnings by delivering ₱338.8 million, an increase of 43 percent from 2009 level.

EBITDA (earnings before interest, taxes, depreciation and amortization) rose by 55 percent from ₱441.8 million in 2009 to ₱684.5 million while EBITDA margin improved to 7.5% percent at the end of the year.

Revenue and Gross Margin

The Company registered total revenue from merchandise sales amounting to ₱7.6 billion in 2010, an increase of 26% percent compared to ₱6.0 billion in 2009. Cost of merchandise sold rose by ₱1.2 billion or 28 percent owing to lower margin realized from selected categories.

Gross Profit stood at ₱2.0 billion, while GP in relation to sales went down by 0.9% partly due to the dilution brought about by the increase in Company's sales to franchise stores which are accounted for at zero mark-up.

On the other hand, the Company's commission income earned from its sales of physical cards, e-loads and bill payment services went up by 32 percent to ₱29.3 million at the end of 2010.

	FY2010	FY2009	Increase (Decrease)	
			Value	Percentage
Revenue from merchandise sales	₱7,612,243	₱6,033,322	₱1,578,921	26%
Cost of merchandise sales	5,585,270	4,371,716	1,213,554	28%
Gross profit	₱2,026,973	₱1,661,606	₱365,367	22%
Gross margin	26.6%	27.5%	-0.9%	-3%
Commission income	₱29,271	₱22,130	₱7,141	32%
(amount in thousand Pesos)				

Other Income

Other income is consisting mainly of marketing income, franchise revenues and rentals. The Company's total other income increased by P272.1 million or 44 percent to ₱891.8 million as a result of the following:

Marketing income grew by P102.3 million from 2009 level. This is due to the continued suppliers support in corporate advertisement and promotions. This is driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. The goal is to become the preferred trade partner for manufacturer's brand building needs.

	FY2010	FY2009	Increase (Decrease)	
			Value	Percentage
Marketing Income				
Display charges	₱161,168	₱119,307	₱41,861	35%
Promotions	112,766	84,414	28,352	34%
Marketing support funds	64,831	32,782	32,049	98%
Total	**₱338,765**	**₱236,503**	**₱102,262**	**43%**
(amount in thousand Pesos)				

Moreover, franchise revenues rose by 46 percent to ₱442.8 million from ₱303.8 million in 2009 largely due to additional franchisees that signed up with the Company and improved store sales during the period.

In 2010, the Company collected from Meralco the PPA refund by virtue of the Supreme Court Ruling of 2003 in the amount of ₱23.1 million.

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 23% or ₱480.4 million and totaled to ₱2.5 billion for the year ended 2010.

Communication, light and water accounted for 21 percent of total and represent an increase of 42 percent over 2009 level. The increase in expense can be attributed to higher number of operating stores and uptick in electricity rates in terms of per kilowatt hour price in 2010.

Outsourced services followed with 15 percent contribution to total, same with last year, to end the year with ₱389.2 million. Rental of retail space had grown by 5 percent to ₱341.4 million, while depreciation and amortization of leasehold improvements and store equipment and fixtures went up by 43 percent to ₱291.8 million or 12 percent of total expense incurred in 2010.

Personnel costs aggregated to ₱287.3 million, a slight increase of 1% over 2009 level as the Company continued to outsource store personnel to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

All other expense types went up over preceding year's level as a result of the increased number of stores. The said increase is considered to be incidental and proportionate as PSC continues to grow its store base. There are no significant nor unusual expense incurred during the calendar year and is considered to be incurred in the normal course of business.

	FY2010	FY2009	Increase (Decrease)	
			Value	Percent age
Communication, light and water	₱528,123	₱371,581	₱156,542	42%
Outside services	389,213	299,568	89,645	30%
Rent	341,397	325,249	16,148	5%
Depreciation and amortization	291,804	203,906	87,898	43%
Personnel costs	287,246	285,713	1,533	1%
Advertising and promotion	101,175	73,764	27,411	37%
Royalties	90,693	70,386	20,307	29%
Trucking services	89,416	68,512	20,904	31%
Repairs and maintenance	86,964	60,594	26,370	44%
Supplies	81,307	56,020	25,287	45%
Taxes and licenses	68,340	64,648	3,692	6%
Warehousing services	58,180	48,668	9,512	20%
EAR	36,145	25,875	10,270	40%
Transportation and travel	23,642	26,539	-2,897	-11%
Inventory losses	14,659	10,640	4,019	38%
Dues and subscription	5,144	5,123	21	0%
Insurance	4,216	4,635	-419	-9%
Amortization of software	3,090	3,054	36	1%
Provision for impairment	1,623	9,798	-8,175	-83%
Others	29,010	36,686	-7,673	-21%
	₱2,531,390	**₱2,050,959**	**₱480,431**	**23%**
(amount in thousand Pesos)				

Interest Expense

Cost of debt servicing in 2010 totaled to ₱16.4 million, a decrease of 38% compared with 2009 level of ₱26.5 million. The decrease can be attributed to the reduction in outstanding loans and favorable market rates during the year.

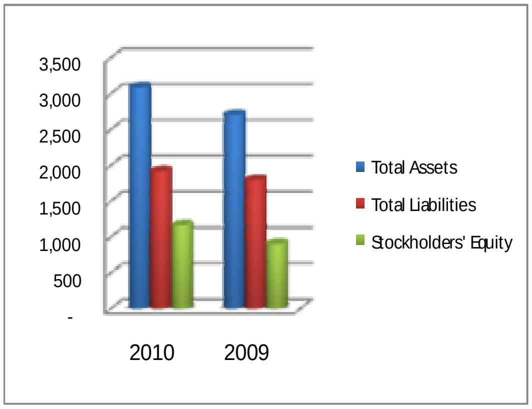
Outstanding loan balance at the end of 2010 went down by ₱20 million or 6 percent and is pegged at ₱320 million owing to stronger cash flow resulting from improvement in sales across all store types.

Net Income

Net income for the year grew by ₱121.1 million or 78 percent to ₱276.9 million. Higher profits earned was primarily due to better than expected sales, continued support from trade suppliers and aggressive store expansion.

The favorable earnings result translated into a 3.6% return on sales and 23.7% return on equity. The key ratios for the year are much better compared to the 2009 ROS and ROE of 2.6% and 17.2%, respectively. Moreover, EPS is pegged P0.92 and P0.52, in 2010 and 2009, respectively.

Financial Condition



Balance Sheet Highlights (in Php Million except book value per share)	2010	% Change
Total Assets	3,093	14%
Current Assets	1,162	-1%
Non-current Assets	1,931	26%
Current Liabilities	1,709	6%
Total Liabilities	1,923	7%
Stockholders' Equity	1,170	29%
Book Value Per Share (P)	3.88	29%

Total assets of the Company rose by 14 percent to ₱3.1 billion at the end of 2010. Current assets slightly decreased by 1 percent due to the 18 percent reduction in cash and cash equivalent which settled at ₱368.9 million. The decrease in cash was due to the following factors;

a. store expansion which was funded internally
b. repayment of debt
c. payment of cash dividend

The year was characterized by strong cash flow from operations enabling the Company to manage its resources on an effective and efficient manner.

Merchandise inventories reached ₱402.4 million, a decrease of ₱13.2 million or 3 percent compared with 2009 level. This was due to increase in number of franchised stores and faster inventory turnover that improved to 14 times from 12 times in the preceding year.

Receivables and prepaid and current assets went up by 13 percent and 33 percent, respectively. Combined, the two accounted for 13 percent of total assets owing to the increase in advance rental paid for stores waiting in the pipeline and higher balance of suppler collectibles due to more ad and promo programs implemented during the year.

The Company operates on a negative working capital position which is manifested by a current ratio of 0.7:1 (same with 2009). This is because cash proceeds from retail sales are invested in long-term assets and at the same time utilizing credit term extended by trade suppliers.

Further, non-current assets had grown by 26 percent to ₱1.9 billion due mainly to the 31 percent growth in property and equipment resulting from continued store opening. Property and equipment now accounted for 52 percent of total assets, higher compared with 45 percent in the same period in 2009. For company-owned stores, PSC, invest on leasehold improvement and equipment, while for franchised stores, investment is only for the latter.

By year-end, total liabilities rose by 7 percent or ₱121.4 million to ₱1.9 billion mainly due to the higher current liabilities which grew by 6 percent or ₱91.5 million. Net trade payables went up by 6 percent or ₱50.8 million because of increase in trade purchases while average payable period shortened to 54 days from 59 days in the preceding year.

Short term debt which pertains to unsecured bank loans went down by 6 percent or ₱20.0 million to end 2010 with outstanding debt of ₱320.0 million. Income tax payable was higher by 18 percent at year-end due mainly to increase in taxable income while other current liabilities increased by 25 percent to end 2010 at the ₱265.0 million level.

Noncurrent liabilities posted an increase of ₱121.4 million or 7 percent attributed to higher deposit payable of 19 percent which came from rent and guaranty deposit paid by franchisees and operators.

Stockholders' equity at the end of 2010 comprises 38 percent of total assets, higher compared to 34 percent at the beginning of the year. This increased by P262.5 million or 29 percent mainly due to the net income earned during the year. As a result, debt to equity ratio improved to 1.6:1 from 2.0: 1 in 2009.

Liquidity and Capital Resources

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

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2011. This will enable the Company to fund its capital expenditure, pay dividends and other general corporate purposes. The following are the discussion of the sources and uses of cash in 2010.

	2010	2009	Variance	
	(in million PhP)		Amount	%
Income before income tax	406	230	176	77%
Depreciation and amortization	295	207	88	43%
Working capital changes	-37	104	-141	-136%
Net cash from operating activities	**664**	**541**	**123**	**23%**
Additions to property and equipment	-672	-363	-309	85%
Increase in other assets	-31	-27	-4	15%
Net cash used in investing activities	-703	-390	-313	80%
Net availment (payment) of bank loan	-20	10	-30	-300%
Payment of cash dividend	-14	-	-14	-%
Interest paid	-17	-27	10	-37%
Net cash from financing activities	-51	-17	-34	200%
Net decrease in cash	-90	134	-224	-167%
Cash and cash equivalent, beginning	449	315	134	43%
Cash and cash equivalent, ending	359	449	-90	-20%

Cash Flows from Operating Activities

Net cash used from operating activities increased by ₱123.1 million or 23 percent mainly driven by the P174.8 million or 76 percent growth in income before tax. Net working capital was lower by P141.0 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled to ₱703.1 million, an increase of 80 percent compared with 2009 level. Major cash outlay went to the procurement of store equipment, new store constructions and store renovations. There are 112 new stores opened in 2010 against 7 store closures resulting into net opening of 105 stores. This is higher compared to net opening of 78 stores in 2009.

Cash Flows from Financing Activities

Net cash used in financing activities reached ₱50.9 million almost tripling the 2009 level of ₱17.2 million. The increase was due to net repayment of debts during the year totaling to P20.0 million, payment of interest expense and cash dividend amounting to ₱16.6 million and ₱14.4 million, respectively.

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 its leverage ratios.

DISCUSSION AND ANALYSIS OF MATERIAL EVENTS AND UNCERTAINTIES

1. There are no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.

2. There are no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.

3. All of the Company's income was earned in the ordinary course of business.

4. There are no seasonal aspects that have a potentially material effect on the financial statements.

5. The Company's financial risk management objectives and policies are discussed in Note 30 of the December 31, 2010 Notes to Audited 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 of the Company 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.

Full Year	**2010**	**2009**	**% change**
System wide Sales (in '000s)	9,112,829	7,075,772	29%
Revenue from Merchandise Sales (in '000s)	7,612,243	6,033,322	26%
Net Income Margin	3.6%	2.6%	38%
Return on Equity	23.7%	17.2%	38%
Earnings Per Share	P0.92	P0.52	77%

SIGNATURE

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

Jose Victor P. Paterno
President and CEO
May 13, 2011

A. Description of the General Nature and Scope of Business of the Company and its Subsidiaries

Philippine Seven Corporation ("PSC") was registered with the Securities and Exchange Commission ("SEC") on November 1982. It acquired from Southland Corporation (now Seven Eleven, Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines in December 13, 1982. Operations commenced with the opening of its first store in February 29, 1984 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 July 1988, PSC transferred the Philippine area license to operate 7-Eleven stores to its affiliate, Phil-Seven Properties Corporation ("PSPC"), together with some of its store properties. In exchange thereof, PSC received 47% of PSPC stock as payment. Concurrent with the transfer, PSC entered into a sublicensing agreement with PSPC to operate 7-Eleven stores in Metro Manila and suburbs. As part of PSPC's main business, it acquired or leased commercial properties and constructed retail store buildings, leasing the buildings to PSC on long term basis together with most of the capital equipment used for store operations. In effect, PSC concentrated on managing its stores and effectively took the role of a pure retailer.

In May 1996, the stockholders of both PSC and PSPC approved the merger of the two companies to advance PSC group's expansion. In October 30, 1996, SEC approved the merger and PSPC was then absorbed by PSC as the surviving entity. With the consolidation of the respective lines of business of PSC and PSPC, PSC's retailing strengths were complemented by PSPC's property and franchise holdings. Their management as a single entity enhanced operational efficiency and strengthened ability to raise capital for growth. PSC listed it shares (SEVN) in the Philippine Stock Exchange and had its initial public offering in February 04, 1998. The shares were offered at the price of P4.40 per share from its par value of P1.00 per share. In September 17, 1998, PSC established Convenience Distribution Inc. ("CDI'), a wholly owned subsidiary, to provide a centralized warehouse and distribution system to service its 7-Eleven stores.

With the effectivity of the Retail Trade Liberalization Act (R.A. 8762) on March 25, 2000, foreign entities were allowed to invest in an existing retail company subject to the requirements of the law. President Chain Store Corporation of Taiwan (PCSC), which is also the 7-Eleven licensee in Taiwan operating about 2,700 stores, purchased 119,575,008 common shares of PSC or 50.4% of PSC's outstanding capital stock at the price of P8.30 per share. The purchase was made under a tender offer during October 9 to November 7, 2000 by President Chain Store (Labuan) Holdings, Ltd., a Malaysian investment holding company, wholly-owned by PCSC. The acquisition is meant to forge a strategic alliance which aims to provide PSC with technical support from PCSC in strengthening its organizational structure and operating systems. This shall enable PSC to pursue store expansion plans on sound and profitable basis. A new affiliate, Store Sites Holdings Inc., was also established on November 9, 2000, as the entity to own land properties of the Company. These land properties are leased to PSC by SSHI. The Corporation's area license to operate 7-Eleven Stores in the Philippines was renewed in August 2007 for another term of 20 years, renewable every 10 years. The Renewal Area License Agreement has been approved by and registered with the Intellectual Property Office as of September 25, 2007.

The Corporation initiated the establishment of PhilSeven Foundation Inc. (PFI) in October 2007 to support its corporate social responsibility programs. PFI was granted certificate of registration by DSWD last August 6, 2010.

The company had a manpower complement of 1,921 personnel, 655 of whom are regular employees, 301 contractual/probationary and 965 cooperative members to augment temporary needs during peak hours or season in the stores and the support services units. There is no existing labor union in the company and collective bargaining agreement. There is an Employees Council which communicates to management the employee concerns. There has been no strike or threat to strike from the employees for the past three years.

As of December 31, 2010, PSC is operating 551 stores, 211 of which are franchise stores, 130 stores are operated under a service agreement, and the remaining 210 are company-owned stores. The store franchise and service agreements have a minimum term of 5 years each, renewable for a similar term. The stores under franchise and service agreement are indicated in the store list provided in the discussion of Leases herein.

Currently, PSC considers three major competitors in maintaining its leadership in the Convenience Store ("C-Store") Industry. There are a number of other small players including gas marts, but their store count and sales volume as a group by itself is not significant to be considered. PSC concluded in August 2009 a non-exclusive tie-up with Chevron Philippines Inc. and opened 25 7-Eleven Stores in certain identified Caltex gasoline stations. The Company continues to sustain its leadership by putting stores in strategic locations, carrying product assortment fit for such market.

In spite of the growing competition in convenience store ("C-Store") businesses, the Corporation maintains its leadership in the industry. The Corporation estimates its market share in branded C-store businesses as of December 31, 2010, in terms of number of C-store outlets in Metro Manila and adjacent provinces, as follows:

	Number of C- stores	*Market Share (as of 31 Dec 2010)*
7-Eleven	551	47%
Mercury Self-Serve*	287	24%
Ministop	336	28%
San Miguel Food Shop	13	1%
TOTAL	**1187**	**100%**

***only 47 stores operate 24 hours**

The majority shareholder, PCSC, has hands-on experience and know how in operating more than 4,751 7-Eleven Stores in Taiwan and continually providing technical expertise, logistics infrastructure and marketing support program to build the Corporation's business systems for its store expansion program. The continuous improvement of the Corporation's supply chain shall generate further efficiencies to effectively compete with the entry of other players in the C-store business. The successful franchise program is another mover to achieve the expansion plans and to dominate the c-store market.

The average number of customers that transact in the stores is about 1,045 per day per store with an average purchase transaction of about ₱ 48.59. The stores carry a wide range of beverages, food service items, fresh foods, hot foods, frozen foods, confectioneries, cookies and chips, personal care products, groceries and other daily needs and services for modern convenience which neighborhood residents, commuters, students and other urban shoppers would look for in a convenience store. Also offered in the store are proprietary product lines under the 7-Eleven trademark such as:

Trademarks	**Description of Product**	**Application Date**	**Status**
1. Slurpee	Frozen carbonated beverage, prepared with a variety of high-quality syrups, properly brixed, and served in standardized, trademark SLURPEE cups	Aug. 19, 1992	Registered for 20 years from Aug. 19, 1992 to Aug. 18, 2012
2. Super Big Bite	Sandwiches, hotdogs and buns	Apr. 20, 1994	Registered for 20 years from April 20, 1994 to Apr. 19, 2014
3. Big Gulp	Post-mix fountain beverage, prepared with a variety of high quality syrups	Nov. 16, 1992	Registered for 20 years from Nov. 16, 1992 to November 15, 2012

PSC also sells its developed or own branded products/services under the following trademarks:

Trademarks	**Description of Product**	**Application Date**	**Status**
1. Nature's Harvest	Instant noodles	Dec. 17, 1993	Registered for 20 years (Dec. 17, 1993 to Dec. 16, 2013)
2. Hot Cup Quick Mix	Instant pre-packed hot beverages sold in 7-Eleven stores	June 2, 1997	Registered for 20 years (Dec. 5, 2004 to Dec. 4, 2024)
3. Quick Bites	Fast food items carried under umbrella brand consisting of siopao, siomai, others	Jan. 13, 1997	Application pending 3rd year DAU filed on Jan. 8, 2010
4. Tea Eggs	Egg boiled in different herb formulations	Sept. 16, 1996	Application pending
5. Medi Express	Pharmaceutical	Jan. 19, 2006	Registered for 10 years (Apr. 14, 2008 to Apr. 14, 2018)
6. Pastarrific	Pasta meals with variants	Nov. 19, 2009	Registered for 10 years (Nov. 19, 2009 to Nov. 19, 2019)
7. Pinoy Rice Meal	Ready-to-eat meals with variants	June 5, 2006	Application pending 3rd year DAU filed on June 5, 2009
8. Rice Meal Express	Ready-to-eat rice meals with	June 5, 2006	Application pending

	variants		3rd year DAU filed on June 5, 2009
9.24-Hr Express Payment	Receiving from customers payments to various establishments	June 5, 2006	Application pending 3rd year DAU filed on June 5, 2009
10. Café 24/7	Brewed coffee, hot chocolates, cappuccino, hot tea and other coffee and chocolate variants	Feb. 23, 2007	Registered for 10 years (Feb. 16, 2009 to Feb. 16, 2019)
11. Daily Bread	Different variants of bread	May 18, 2007	Registered for 10 years (May 19, 2008 to May 19, 2018)
12. Hotta Rice	Ready-to-eat rice meals with different variants	Sept. 22, 2008	Registered for 10 years (Feb. 23, 2009 to Feb. 23, 2019)

Further, the products or services carried by the stores as described above are generally categorized as General Merchandise which accounts for 74%, Food Service and Cupdrinks for 25% and Services at 1%.

The merchandise stocks are supplied by over 300 vendors/suppliers and are mostly governed by the standard trading terms contract prescribed by the Company. Among the largest suppliers for the products carried by the stores are Unilever Philippines Inc., San Miguel Corporation, Universal Robina Corporation, Pepsi Cola Products Phils. Inc., Coca Cola Bottlers Phils. Inc., Absolute Sales Corporation, Philip Morris Philippines Manufacturing Inc., Del Monte Philippine Inc., Nestle Philippines Inc. and Superdough Food And Catering

B. Market Price of and Dividends on Registrant's Common Equity and Related Stockholders Matters

Market Information

The Company's common shares were listed in the Philippine Stock Exchange on February 04, 1998. The trading record of the Company's shares as of December 31, 2009 and 2010 are as follows:

December 31, 2009

Month	Open	High	Low	Close	Volume
1st Quarter	-	-	-	-	-
2nd Quarter	2.50	2.50	2.50	2.50	1,000
3rd Quarter	2.50	2.50	2.50	2.50	8,000
Last Transaction					
December 23, 2009	7.00	7.00	7.00	7.00	1,000

December 31, 2010

Month	Open	High	Low	Close	Volume
1st Quarter	14.00	14.00	13.75	13.75	1,400
2nd Quarter	14.00	14.00	14.00	14.00	500
3rd Quarter	12.92	12.92	12.92	12.92	100
4th Quarter	14.36	14.36	14.32	14.32	1,000

Latest Trading

January 25, 2011	16.22	16.60	16.20	16.60	1,600
February 08, 2011	22.70	22.70	22.70	22.70	200
March 23, 2011	17.02	18.20	17.02	18.20	800
April 14, 2011	17.02	17.90	17.02	17.90	400
April 20, 2011	17.70	17.90	17.70	17.90	400
April 28, 2011	17.02	17.72	17.02	17.72	2000
April 29, 2011	17.74	17.74	17.74	17.74	3,100
May, 02, 2011	17.98	17.98	17.98	17.98	300
May 06, 2011	20.00	20.00	20.00	20.00	100
May 10, 2011	19.20	19.20	19.20	19.20	600
May 16, 2011	18.50	18.60	18.50	18.60	18.55
May 17, 2011	17.74	18.60	17.74	18.20	18.19
May 18,2011	18.00	18.20	18.00	18.20	18.18
May 19,2011	18.50	18.50	18.50	18.50	18.50
May 23, 2011	18.50	18.50	18.50	18.50	18.50

Stock/Cash Dividends

A stock dividend was declared and approved by the stockholder during the annual meeting last 29 July 2010. The stock dividend corresponds to 5% of the outstanding capital stock of the Corporation of 287,074,920 or equivalent to 14,353,746 common shares. Also, cash dividend of five centavos (Php 0.05) per share was declared and approved during the special board of directors meeting last July 29, 2010. Stockholders of record as of August 27, 2010 were entitled to said stock and cash dividends and the corresponding shares and cash payments were issued and paid to stockholders on payment date last September 23, 2010. Total outstanding capital stock of the Corporation after the payment of the stock dividend is 301,428,666. There is no restriction that limits the ability of the Company to pay dividends on common equity other than the unavailability of unrestricted retained earnings. Total outstanding capital stock of the Corporation after the payment of the stock dividend is 301,428,666. Likewise, there was no sale of any unregistered securities. Likewise, there was no sale of any unregistered securities.

Holders

As of April 30, 2011, there were 670 shareholders of the Company's outstanding common shares totaling 301,428,666 shares.

The top 20 shareholders and their corresponding shareholdings as of April 30, 2011 are as follows:

SHAREHOLDER	CITIZENSHIP	SUBSCRIPTION	% HOLDINGS
1. President Chain Store (Labuan) Holdings, Ltd.	Malaysian	170,574,306	56.59%
2. Asian Holdings Corporation	Filipino	37,109,718	12.31%
3. Progressive Development Corp.	Filipino	25,617,193	8.50%
4. PCD Nominee Corporation (Filipino)	Filipino	14,699,420	4.88%
5. Jose Victor P. Paterno	Filipino	11,096,656	3.68%
6. Agus Development Corp.	Filipino	8,119,871	2.69%
7. Ma. Cristina P. Paterno	Filipino	5,835,471	1.94%
8. Ma. Elena P. Locsin	Filipino	5,695,255	1.89%
9. Paz Pilar P. Benares	Filipino	5,695,254	1.89%
10. Ma. Theresa P. Dickinson	Filipino	5,409,641	1.79%
9. Prime Gaming Philippines, Inc.	Filipino	3,878,262	1.29%
12. Maria Henrietta R. Santos	Filipino	1,336,010	0.44%
13. Vicente T. Paterno	Filipino	1,270,501	0.42%
14. Seven Eleven, Inc.	American	1,172,514	0.39%
15. Dante G. Santos	Filipino	1,165,967	0.39%
16. Manuel U. Agustines	Filipino	535,057	0.18%
17. Socorro Paz P. Paterno	Filipino	222,700	0.07%
18. Antonio Diaz Sta Maria	Filipino	127,050	0.04%
19. Felicia R. Santos	Filipino	102,982	0.03%
20. Apex Management & Dev`T. Group, Inc.	Filipino	102,564	0.03%

Discussion on Compliance with Leading Practices on Corporate Governance

1. Election of independent Directors
   In April 2002 the Company disclosed to the SEC that it has complied with the requirement to elect independent directors.

2. Manual of Corporate Governance
   In August 2002, the Board of Directors approved the adoption of its Manual of Corporate Governance.

3. Creation of Board Committees: Audit, Nomination and Compensation
   In July 2002, the Board has constituted the abovenamed committees and appointed their members to enable them to organize and perform the functions as provided in the Manual of Corporate Governance.

4. Compliance with the designation of a Compliance Officer

5. Corporate Governance Self-Rating Form
   The Corporation has submitted to SEC its Corporate Governance Self Rating Form on July 2003.

6. In 2004, amendment of the Code of By-Laws of the Corporation to include the procedure for electing independent directors pursuant to SEC Circular No. 16, Series of 2002, and the revised Implementing Rules and Regulations of the Securities Regulation Code.

7. Yearly issuance of Certifications by Compliance Officer
   Compliance Officer submits every January of each year to the SEC its certifications on substantial compliance with leading practices and principles on good corporate governance, and the attendance at board meetings by the directors.

8. July 2007- Inclusion of the Governance Committee in the Nomination Committee to form Nomination & Governance Committee.

9. Accomplished and submit the 2007 Corporate Governance Scorecard and Survey Form as per SEC Memo Circular No. 2 dated 09 August 2007.

10. Holding of Corporate Governance seminar provided by Sycip Gorres Velayo & Company last August 07, 2008 to all executive officers and senior management of the Corporation.

11. October 2007 – Creation of PhilSeven Foundation Inc. to support the CSR program of PSC

12. November 10, 2008- Submission of 2008 Corporate Governance Scorecard for Publicly Listed Company to SEC.

13. January 2009- Submission to SEC on Disclosure on Directors' Attendance in Corporate Governance Seminar and amendment to Manual of Corporate Governance to include attendance to such training prior to assumption to office by a director.

14. March 26, 2009 – participated in Corporate Governance Scorecard survey sponsored by Asian Institute of Management.

15. December 18, 2009- Submission of 2009 Corporate Governance Scorecard for Publicly Listed Company to SEC.

16. August 24, 2009 - Adoption of Code of Ethics

17. July 29, 2010 - Adoption of Self-rating scorecard for directors and the Board

18. January 28, 2011- Submission to SEC of Revised Corporate Governance Disclosure Survey

19. February 11, 2011- Revised Audit Charter

20. January 21, 2011 – Submission and compliance of minimum public float

Plans on Improvement

1. The Corporation shall continue with setting up an evaluation procedure to measure compliance with the Manual of Corporate Governance:

   a. Develop a Corporate Governance Evaluation form and conduct periodic compliance survey;
   b. Obtain external and internal audit findings on effectiveness of oversight of Company's accounting and financial processes;
   c. Monitor Board and other Committees minutes and attendance;
   d. Develop compliance review system with risks owners.

2. Provide workshop/seminars to operationalize the Manual, evaluation system and compliance review as part of the Company's training program
3. The Corporation shall continue to adopt the International Accounting Standards as they are approved as Philippine Accounting Standards.

List of Directors, Corporate Officers, Executive Committee and Board Committees Chairmen and members

BOARD OF DIRECTORS

Name		Position
1. Vicente T. Paterno	-	Chairman of the Board and Director
2. Yen-Sen Yang	-	Vice-Chairman and Director
3. Jose Victor P. Paterno	-	President & Director
4. Chung-Jen Hsu	-	Director
5. Chien- Nan Hsieh	-	Director
6. Wen-Chi Wu	-	Director
7. Nan-Bey Lai	-	Director
8. Diana P. Aguilar	-	Director
9. Jorge L. Araneta	-	Director
10. Antonio Jose u. Periquet, Jr.	-	Independent Director
11. Michael B. Zalamea	-	Independent Director

EXECUTIVE COMMITTEE

Name		Position
1. Vicente T. Paterno	-	Chairman of the Board and Executive Committee
2. Jose Victor P. Paterno	-	Member and President
3. Antonio Jose U. Periquet, Jr.	-	Member and Independent Director
4. Diana P. Aguilar	-	Member and Director
5. Yu-Hsiu Tsai	-	Member and Treasurer and Vice President
6. Ping-Yun Wang	-	Member and Vice President for Operations & Marketing*

**Resigned as of September 17, 2010*

AUDIT COMMITTEE

Name		Position
1. Antonio Jose U. Periquet, Jr.	-	Chairman and Independent Director
2. Jose Victor P. Paterno	-	Member and President
3. Diana P. Aguilar	-	Member and Director

COMPENSATION COMMITTEE

Name		Position
1. Yen-Sen Yang	-	Chairman and Vice-Chairman of the Board
2. Jose Victor P. Paterno	-	Member and President
3. Michael B. Zalamea	-	Member and Independent Director
4. Yu-Hsiu Tsai	-	Non-voting member/Treasurer
5. Ping-Yun Wang*	-	Non-voting member/Vice-President
6. Ying-Jung Lee**	-	Non-voting member

**Resigned as of September 17, 2010*
***Appointed on November 2, 2010*

NOMINATION & GOVERNANCE COMMITTEE

Name		Position
1. Vicente T. Paterno	-	Chairman of the Board and the Committee
2. Michael B. Zalamea	-	Member and Independent Director
3. Diana P. Aguilar	-	Member and Director
4. Evelyn S. Enriquez	-	Non-voting member and Corporate Secretary

CORPORATE OFFICERS

Chin-Yen Kao	-	Honorary Chairman of the Board
Vicente T. Paterno	-	Chairman of the Board
Yen-Sen Yang	-	Vice-Chairman
Jose Victor P. Paterno	-	President
Ping-Yun Wang	-	Vice-President for Operations & Marketing*
Yu-Hsiu Tsai	-	Treasurer/VP for Finance & Administration
Evelyn S. Enriquez	-	Corporate Secretary

**Resigned as of September 17, 2010*

ANNEX "B"

MINUTES OF THE 2010 ANNUAL STOCKHOLDERS' MEETING
PHILIPPINE SEVEN CORPORATION

HELD ON JULY 29, 2010 at 3:00 PM

Ruby B, Level 4 Crowne Plaza Galleria Manila
Ortigas Avenue Corner ADB Avenue, Quezon City

CERTIFICATION OF QUORUM AND CALL TO ORDER

Upon request of the Chairman, Mr. Vicente T. Paterno, the Corporate Secretary, Atty. Evelyn S. Enriquez, announced that Philippine Seven Corporation's (the "Corporation" or "PSC") stock and transfer agent, Bank of the Philippine Islands, in accordance with the Code of By-laws, sent notice of the meeting to all stockholders of record as of June 15, 2010. The notice was published in the Classified Section of the July 12, 2010 issue of the Philippine Star. She reported the computation of PSC's Stock and Transfer Agent that out of 287,074,920 shares of stock outstanding and entitled to vote, 258,129,851 shares or 89.92% were represented at the meeting in person and/or by proxy, and that accordingly, a quorum for the meeting existed. Thereupon, the Chairman called the meeting to order.

APPROVAL OF MINUTES OF THE LAST STOCKHOLDERS' MEETING

On motion duly made and seconded, reading of minutes of the last stockholders' meeting of the Corporation held on July 16, 2009 was dispensed with and said minutes were approved as recorded.

MANAGEMENT REPORT AND APPROVAL OF 2009 AUDITED FINANCIAL STATEMENTS

The Board Chairman, Mr. Vicente Paterno, read his message to the stockholders, followed by the President, Mr. Jose Victor P. Paterno, reporting the 2009 Review of Operations. The Treasurer, Mr. Yu-Hsiu Tsai, rendered the financial highlights of the audited consolidated financial statements for Y2009.

Print copies of the 2009 Annual Report and Audited Financial Statements were distributed to the stockholders during the meeting.

After responding to some questions and comments, on motion duly made and seconded, the stockholders approved and accepted the report on operations for Y2009 and the audited financial statements for the same year.

> "**RESOLVED**, that the stockholders hereby approve the 2009 Annual Report and the Audited Consolidated Financial Statements of Philippine Seven Corporation for Y2009 as presented."

RATIFICATION OF ALL CORPORATE ACTS

On motion duly made and seconded, the stockholders unanimously ratified all acts of the Corporation, its Board of Directors, Executive Committee, Board Committees and Management from the last annual stockholders' meeting to the present.

> **"RESOLVED**, that the stockholders hereby approve and ratify all the actions taken by the Philippine Seven Corporation Board of Directors, Executive Committee, the Board Committees and Management for Y2009 and up to the present."

ELECTION OF MEMBERS OF THE BOARD

The Articles of Incorporation of the Corporation provide for 11 directors. The Corporate Secretary stated that the names of nominees being presented to the stockholders were submitted to the Nomination Committee in its meeting on April 13, 2010 and were cleared to have complied with the "non-compete" provision of PSC's Code of By-laws. These nominees also include the Final List of Candidates eligible for election as independent directors, pre-screened pursuant to the procedures provided in the SEC Circular No. 16 on the Guidelines on Nomination and Election of Independent Directors. Hence, the following are the nominees submitted to and screened by the Nomination Committee (in alphabetical order):

1. Diana P. Aguilar
2. Jorge L. Araneta
3. Chien-Nan Hsieh
4. Chung-Jen Hsu
5. Nan-Bey Lai
6. Vicente T. Paterno
7. Jose Victor P. Paterno
8. Yen-Sen Yang
9. Wen-Chi Wu
10. Antonio Jose U. Periquet (independent director)
11. Michael B. Zalamea (independent director)

On motion duly made, seconded and unanimously carried, the above-named nominees were nominated as directors and independent directors of the Corporation. There being no objection, the nomination was closed.

On motion duly made, seconded and unanimously carried, the stockholders approved that the body dispense with the individual casting of votes and agreed to vote and count the shares of all the shareholders present and/or represented in favor of the 11 nominees. Hence, the above-named nominees were duly elected as directors of the Corporation for a term of one (1) year and until their successors shall have been duly elected and qualified.

APPOINTMENT OF EXTERNAL AUDITOR

The stockholders were informed that present auditor, Sycip Gorres Velayo & Co. (SGV), was appointed Company auditor in 2005. The Audit Committee and the Executive Committee recommend the re-appointment of SGV and SGV has accepted the invitation to stand for re-election this year. The current engagement partner, Ms. Julie Christine Ong-Mateo, who is now on her second year as the designated audit partner assigned in PSC. This is in compliance with Rule 68 of the Securities Regulation Code requiring the rotation of external auditors or engagement partners who have served the company for a period of 5 consecutive years.

On motion duly made and seconded, the stockholders unanimously approved the re-appointment of Sycip Gorres Velayo & Company as the external auditor of the Corporation for 2010.

> '**RESOLVED**, that the stockholders of Philippine Seven Corporation (the "Corporation") hereby approve and ratify the appointment of Sycip Gorres Velayo and Company (SGV) as the external auditors of the Corporation for 2010"

APPROVAL OF STOCK DIVIDEND

The Chairman informed the stockholders that the Company issued a 10% stock dividend in 2008 and 2009. Consideration of dividend declarations for the year was preceded by analysis of the Company's present financial position based on audited financial statements as of December 31, 2009, expansion plans, and cash flow projections for the next 4 years (2010-2014). Management expects internally generated cash to finance planned expansion supplemented by merely drawing from existing bank credit lines.

With expectation of a more stable political and economic situation in the country and to mark opening of our 500th store, the Chairman informed the stockholders that the Board of Directors approved the proposal for a first time cash dividend of five centavos per share, coupled with a smaller stock dividend of 5% of the outstanding capital stock of the Corporation.

In view of the above, the recommended 5% stock dividend was submitted for approval by at least 2/3 of the stockholders of the Corporation. The actions for approval are as follows:

1. Stock dividend declaration of 5% of the outstanding capital stock of the Corporation of 287,074,920 shares or equivalent to 14,353,746 common shares with par value of P1.00 per share;

2. Issuance of 14,353,746 common shares with par value of P1.00 per share from the authorized and unissued capital stock of the Corporation for distribution as stock dividend;

3. Any fractional shares resulting from the stock dividend shall be rounded off to the nearest one (1), following the rules of rounding off;

4. Submission of the stock dividend declaration for approval and ratification by stockholders representing at least 2/3 of the outstanding capital of the Corporation in this annual meeting of July 29, 2010;

5. Record date for entitlement to stock dividend shall be August 27, 2010 which is not more than 30 days from the approval of the stock dividend declaration by the stockholders of the Corporation on July 29, 2010;

6. Payment date of the stock dividend shall be on September 23, 2010, which is 18 trading days from the said record date.

On motion duly made and seconded, stockholders representing 89.92% of outstanding capital stock of the Corporation approved and ratified the following resolutions:

> **"RESOLVED**, that the Stockholders of Philippine Seven Corporation (the "Corporation") representing at least 2/3 of outstanding capital stock of the Corporation hereby approve a stock dividend declaration corresponding to 5% of the outstanding capital stock of the Corporation of 287,074,920 shares or equivalent to 14,353,746 common shares and the issuance of 14,353,746 common shares with par value of P1.00 per share from the authorized and unissued capital stock of the Corporation for distribution as stock dividend;"
>
> **"RESOLVED**, **FURTHER**, that any fractional shares resulting form the declaration of the stock dividend shall be rounded off to the nearest one (1), following the rules of rounding off;"
>
> **"RESOLVED, ALSO**, that the record date for entitlement to the said stock dividend shall be on August 27, 2010 which is not more than thirty (30) days from the approval thereof by the stockholders of the Corporation in the annual meeting of July 29, 2010, and the payment date shall be September 23, 2010, which is eighteen (18) trading days from the said record date;"
>
> **"RESOLVED, FINALLY**, that any one of the Chairman of the Board, President, Treasurer or Corporate Secretary is hereby authorized to file the necessary petition and other requisite documents to secure approvals from the appropriate government agencies and other entities to implement the foregoing resolutions."

VIII. ADJOURNMENT

There being no further business to transact, on motion duly made and seconded, the Chairman adjourned the meeting at 4:30 p.m.

Certified Correct:

EVELYN S. ENRIQUEZ
Corporate Secretary

Attested by:

VICENTE T. PATERNO
Chairman of the Board

ANNEX "C"

RELEVANT RESOLUTIONS APPROVED BY THE

BOARD OF DIRECTORS AND BOARD COMMITTEES
FOR RATIFICATION BY THE STOCKHOLDERS

2010 Minutes

I. Special Meeting of the Board of Directors – July 29, 2010

- Approved the declaration of a five centavos (P0.05) cash dividend per share and a 5% stock dividend of the outstanding capital stock of the Corporation of 287,074,290.
- Approved the resolutions setting the record date for entitlement of cash and stock dividends on August 27, 2010 and the payment date on September 23, 2010
- Approved the resolution authorizing the stock and transfer agent, BPI-ATMG, to prepare, sign, issue and mail the cash dividend checks to stockholder**.**
- Authorized the opening of securities trading account and appointment of BPI Securities as broker to facilitate the lodgement with PDTC of the additional shares issued for the 5% stock dividend

II. Organizational Meeting of the Board of Directors - July 29, 2010

- Approved the presentation of the Update Report on Operations as of June 30, 2010 and the interim financial statements for the same period
- Election of Corporate Officers

The Board of Directors nominated and elected the following corporate officers:

Honorary Chairman of the Board	-	Chin-Yen Kao
Chairman of the Board	-	Vicente T. Paterno
Vice-Chairman	-	Yen-Sen Yang
President	-	Jose Victor P. Paterno
Treasurer/VP for Finance and Administration	-	Yu-Hsiu Tsai
VP for Operations & Marketing	-	Ping-Yun Wang*
Corporate Secretary	-	Evelyn Sadsad-Enriquez

**Resigned as of September 17, 2010*

- Designation of members of Executive and other Board Committees

The Board of Directors, pursuant to Section 21 of the Code of By-laws, designated the following as members of the Executive Committee:

1. Vicente T. Paterno - Chairman of the Board and Executive Committee
2. Jose Victor P. Paterno - Member and President
3. Antonio Jose U. Periquet, Jr.- Member and Independent Director
4. Diana P. Aguilar - Member and Director
5. Yu-Hsiu Tsai - Member and Treasurer/CFO and Vice President for Finance & Administration
6. *Ping-Yun Wang - Member and Vice President for Operations & Marketing**

**Resigned as of September 17, 2010*

The Board of Directors also designated the members of the Board Committees, including one (1) independent director in each committee, as follows:

<u>Audit Committee</u>:

Chairman:	Antonio Jose U. Periquet, Jr.	-	Independent Director
Members:	Jose Victor Paterno	-	President and Director
	Diana P. Aguilar	-	Director

<u>Compensation Committee</u>:

Chairman:	Yen-Sen Yang	-	Vice-Chairman & Director

Members:	Michael B. Zalamea	-	Independent Director
	Jose Victor P. Paterno	-	President and Director
Non-voting Members:			
	Yu-Hsiu Tsai	-	Treasurer/VP for Finance & admin
	Ping-Yun Wang	-	VP for Operations & Marketing*
	**Resigned as of September 17, 2010*		

Nomination & Governance Committee:

Chairman:	Vicente T. Paterno	-	Chairman of the Board & Director
Members:	Michael B. Zalamea	-	Independent Director
	Diana P. Aguilar	-	Director
Non-voting Member:			
	Evelyn S. Enriquez	-	Corporate Secretary

- Approval of the corporate signatories of the Corporation by updating the names of the corporate officers as appointed above as authorized signatories by virtue of the positions they hold in the Corporation
- Approved resolutions for the renewal of credit line facilities with BPI, Chinatrust, Metrobank and Citibank.
- Approved and adopted the Revised Corporate Governance Manual as of July 29, 2010.
- Approval of resolution authorizing the BPI-Stock Transfer Agent to issue shares in uncertificated form or to certify the issuance of shares that have been lodged with PDTC. in compliance with the Amended Rule on Lodgment of Securities of the Philippine Stock Exchange.
- Presentation of programs and activities of PhilSeven Foundation, Inc.
- Reiterated the resolution of meeting per diem of directors and designated corporate officers of P7,500.00 per actual meeting attended.

III. Board of Directors Meeting- November 09, 2010

- Approved the presentation of the Update Report on Operations as of September 30, 2010 and the interim financial statements for the period
- Approved resolutions for the renewal of credit line facilities with BPI, Chinatrust, Metrobank and Citibank
- Reiterated the authorization of Executive Committee to approve the interim financial statements and the consolidated audited financial statements of the Corporation
- Approved the 3-year plan targets(2011-2013) and the 2011 Annual Plan and Budget
- Approval of the Amendment of the Corporation's Articles of Incorporation primary purpose to include engaging in business activities pertaining to collection and accepting payments, selling of drugs or medicines and cosmetics; and the secondary purpose to include engaging in foreign currency remittance and exchange.

IV. Audit Committee Meeting – February 12, 2010

- Presentation and the approval of the audited consolidated financial statements of the Corporation for the year ending December 31, 2009 and for endorsement to Executive Committee's Approval
- Approval of recommendation to re-appoint Sycip Gorres Velayo and Company as external auditor and for endorsement to Executive Committee.
- Noted the creation of the Procurement Division to centralize all purchases of non-trade items.

V. Executive Committee Meeting – February 12, 2010

- Noted the recommendation of the Audit Committee to approved the consolidated audited financial statements of the Corporation for the period ending December 31, 2009.
- Approved the presentation of the Update Report on Operations for year-to-date January 30, 2010 and the interim financial statements for the period
- Approval of the revised 2010 annual plan and budget
- Approval of the re-structure of lease arrangement with Armored Delivery and Manpower Services (ADAMS) for another 5 years or until 2015
- Approval of resolution to write-off doubtful accounts amounting to P7.1M as accounts payable arising from inactive suppliers as noted in the report of the 2009 audited financial statements of the Corporation

VI. Executive Committee Meeting- March 01, 2010

- Approval of the audited consolidated financial statements for the period ending December 31, 2009 which reported a net income of P155.8 M or an increase of 84% from 2008 earnings of P84.5 M. The Corporation submitted a disclosure to SEC and PSE of the significant earnings results.
- Approved the recommendation of Audit Committee for the re-appointment of SGV as external auditors for 2010 subject to ratification of stockholders in the annual meeting in July
- Noted the creation of the Procurement Division and approved the resolution to indicate Head of Procurement Division as the signatory for all non-trade purchase orders for issuance by the Corporation
- Approved lease re-structure of ADAMS for another 5 years with 7% interest charge.
- Approval of resolution for the authorized representative and signatory of the Corporation to pursue the claim for refund from MERALCO

VII. Nomination and Governance Committee Meeting- April 13, 2010

- Approved the Final List of Candidates for election as directors in the Corporation for the annual meeting in July 2010 and for endorsement to Executive Committee.

VIII. Executive Committee Meeting- April 13, 2010

- *Approved the endorsement of the Nomination Committee of the final list of candidates for election as PSC directors and independent directors in the annual stockholders' meeting in July 2010*
- *Setting of the record date of June 03, 2010 for determining the stockholders of PSC entitled to vote in its annual stockholders meeting* on 15 July 2010 (3rd Thursday of July as fixed by the By-laws)

IX. Executive Committee Meeting- May 18, 2010

- Approved the resolution to re-set the annual stockholders' meeting date to July 29, 2010 and the record date to June 15, 2010
- Noted the presentation on study on dividend declaration for presentation to the Board of Directors

X. Audit Committee Meeting- October 14, 2010

- Approval of the presentation of the Update Report and Interim Financial Statement as of Sept 30, 2010.
- Approved the internal audit update report as of September 30, 2010.
- Presentation and approval of 2010 audit scope as presented by external auditor Sycip Gorres Velayo and Company.

XI. Executive Committee Meeting- October 14, 2010

- Approval of the presentation of the Update Report and Interim Financial Statements as of September 30, 2010.

- Approved to recommend the proposed amendments of the primary and secondary purposes of the Corporation's Articles of Incorporation for approval of the Board of Directors. The proposed amendments included the engaging in business activities pertaining to collection and accepting payments, selling of drugs or medicines and cosmetics, and engaging in foreign currency remittance and exchange

- Noted the resignation of Ping-Yun Wang, Vice-President for Operations and Marketing as of September 17, 2010 and the new designee of the parent company, Mr. Yung-Jing Lee as Corporate Planning Division manager.

- Approved resolutions to update the corporate signatories of the Corporation by virtue of the above changes in the corporate officers.

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XII. Audit Committee Meeting- February 11, 2011

- Presentation and Approval of the Audited Consolidated Financial Statements of the Corporation and its subsidiaries for the fiscal year ending December 31, 2010 for endorsement to Executive Committee.

- Approval of the recommendation for the re-appointment of SGV as the Corporation's external auditor for Y2011, for endorsement to Executive Committee.

- Approval of the presentation of the Internal Audit Update Report for 2010 and Audit Plans for 2011.

- Approval of the 2011 Annual Plan and Budget.

- Noted the presentation of the Amended Rule of Minimum Public Ownership (Public Float)

- Approval of the Revised Disclosure Survey for Corporate Governance.

XIII. Executive Committee Meeting- February 11, 2011

- Approval of the Audited Financial Statements and Consolidated Financial Statements of the Corporation and its subsidiaries for the fiscal year ending December 31, 2010.

- Approved the recommendation for the re-appointment of SGV as the Corporation's external auditor for Y2011, subject to ratification by the stockholders in the annual meeting this July.

- Approval of the 2011 Annual Pan and Budget

- Noted the presentation of the Amended Rule of Minimum Public Ownership (Public Float)

- Approval of the Revised Disclosure Survey for Corporate Governance.

- Approved the resignation of BPI as stock and transfer agent to take effect April 30, 2011 and the resolution authorizing the Chairman of the Board to approve and appoint Banco de Oro Unibank, Inc. –Trust and Investment Group as the new stock transfer agent of the Corporation, effective May 01, 2011; and the designation of authorized signatories to transact with the new STA and to sign the stock certificates

XIV. Nomination & Governance Committee Meeting- April 7, 2011

- Noted and reviewed the Final List of Candidates for election as directors and independent directors in the Corporation for the annual meeting in July 2011 and for endorsement to Executive Committee.

XV. Executive Committee Meeting- April 7, 2011

- Approved the Interim Financial Statements for 1st Quarter 2011.

- Noted the presentation of the Study on Dividend Declaration.

- Approved the endorsement of the Nomination Committee of the final list of candidates for election as PSC directors and independent directors in the annual stockholders' meeting in July 2011.

- Setting of the record date of June 07, 2011 for determining the stockholders of PSC entitled to vote in its annual stockholders meeting on 21 July 2011 (3rd Thursday of July as fixed by the By-laws)

XVI. Executive Committee Meeting- May 10, 2011

- Noted the updated presentation of the Study on Dividend Policy.

- Approved to recommend the proposed dividend based on Audited Financial Statement of 2010 for approval of the Board of Directors.

- Noted the presentation of Study on Optimal Margins.

ANNEX "D"

Philippine Seven Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2010 and 2009
and Years Ended December 31, 2010, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Seven Corporation

We have audited the accompanying financial statements of Philippine Seven Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical equirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philippine Seven Corporation and Subsidiaries as of December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-A
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641553, January 3, 2011, Makati City

February 11, 2011

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2010, 2009 and 2008. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management 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. The management likewise discloses to the company's audit committee and its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors or the Executive Committee or the Audit Committee, as authorized by the Board, reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip Gorres Velayo and Company, the independent auditors appointed by the Stockholders, has examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and/or Executive Committee or Audit Committee and Stockholders.

VICENTE T. PATERNO
Chairman of the Board

JOSE VICTOR PATERNO
President

YU-HSIU TSAI
Chief Financial Officer and Treasurer

MAR 1 1 2011

SUBSCRIBED AND SWORN to before me this _____ day of _________ 2011 affiants exhibiting to me their Community Tax Certificate No./ Passport No., as follows:

NAME	T.I.N./PASSPORT NO.	DATE/PLACE OF ISSUE
Vicente T. Paterno	100-133-885	
Jose Victor P. Paterno	132-688-472	
Yu-Hsiu Tsai	200-564-352	March 12, 2003/R.O.C Taipei Taiwan

ATTY. RAMON [illegible]
NOTARY PUBLIC
NOTARY PUBLIC

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Book No. XXV
Series of 2011.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱358,729,534**	₱448,830,888
Short-term investment	**10,141,555**	–
Receivables (Note 5)	**158,342,635**	140,140,105
Inventories - at cost (Note 6)	**402,419,577**	415,652,671
Prepayments and other current assets (Note 7)	**232,669,446**	174,383,392
Total Current Assets	**1,162,302,747**	1,179,007,056
Noncurrent Assets		
Property and equipment (Note 8)	**1,607,296,761**	1,227,244,430
Deposits (Note 9)	**181,196,390**	151,328,033
Deferred income tax assets - net (Note 27)	**40,827,991**	44,624,601
Goodwill and other noncurrent assets (Note 10)	**101,549,470**	107,087,572
Total Noncurrent Assets	**1,930,870,612**	1,530,284,636
TOTAL ASSETS	**₱3,093,173,359**	₱2,709,291,692

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 11)	**₱320,000,000**	₱340,000,000
Accounts payable and accrued expenses (Note 12)	**1,078,339,407**	1,027,609,605
Income tax payable	**45,289,647**	38,354,398
Other current liabilities (Notes 13 and 25)	**265,799,298**	211,934,980
Total Current Liabilities	**1,709,428,352**	1,617,898,983
Noncurrent Liabilities		
Deposits payable (Note 14)	**142,862,137**	119,967,054
Net retirement obligations (Note 24)	**57,453,582**	55,667,123
Cumulative redeemable preferred shares (Note 15)	**6,000,000**	6,000,000
Deferred revenue - net of current portion (Note 16)	**7,000,300**	1,856,046
Total Noncurrent Liabilities	**213,316,019**	183,490,223
Total Liabilities	**1,922,744,371**	1,801,389,206

(Forward)

	December 31	
	2010	2009
Equity		
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)]	**₱302,114,918**	₱287,761,172
Additional paid-in capital	**293,525,037**	293,525,037
Retained earnings (Note 17)	**574,482,384**	326,309,628
Other component of equity - revaluation increment on land [net of deferred income tax liability (Notes 8 and 27)]	**3,229,895**	3,229,895
	1,173,352,234	910,825,732
Cost of 686,250 shares held in treasury	**(2,923,246)**	(2,923,246)
Total Equity	**1,170,428,988**	907,902,486
TOTAL LIABILITIES AND EQUITY	**₱3,093,173,359**	₱2,709,291,692

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2010	2009	2008
REVENUE			
Revenue from merchandise sales	**₱7,612,243,056**	₱6,033,322,488	₱5,412,969,204
Franchise revenue (Note 32)	**442,822,680**	303,815,142	250,855,661
Marketing income (Note 20)	**338,765,461**	236,502,860	136,211,215
Rent income (Note 26)	**37,361,844**	52,265,323	36,502,151
Commission income (Note 32)	**29,271,506**	22,130,513	21,213,531
Interest income (Notes 4, 9, 22 and 26)	**5,355,769**	4,839,945	4,186,908
Other income (Notes 5, 26 and 32)	**78,278,268**	35,685,902	17,988,516
	8,544,098,584	6,688,562,173	5,879,927,186
EXPENSES			
Cost of merchandise sales (Note 18)	**5,585,270,478**	4,371,715,990	3,909,886,731
General and administrative expenses (Note 19)	**2,531,390,104**	2,050,959,329	1,788,432,900
Interest expense (Notes 11, 15 and 21)	**16,398,169**	26,482,817	25,332,855
Unrealized foreign exchange loss	**378,900**	485,170	709,256
Loss on retirement of property and equipment	**67,751**	–	–
Loss on sale of property and equipment	**–**	–	890,771
Loss from typhoon (Note 8)	**–**	3,285,171	–
Impairment loss on goodwill (Note 10)	**–**	–	4,611,368
Other expenses	**4,957,262**	4,802,647	5,335,886
	8,138,462,664	6,457,731,124	5,735,199,767
INCOME BEFORE INCOME TAX	**405,635,920**	230,831,049	144,727,419
PROVISION FOR INCOME TAX (Note 27)	**128,755,672**	75,040,398	60,455,768
NET INCOME	**276,880,248**	155,790,651	84,271,651
OTHER COMPREHENSIVE INCOME			
Effect of change in tax rate in 2009	**–**	–	230,707
	–	–	230,707
TOTAL COMPREHENSIVE INCOME	**₱276,880,248**	₱155,790,651	₱84,502,358
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	**₱0.92**	₱0.52	₱0.28

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 and 2008

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment on Land	Total	Treasury Stock	Total
BALANCES AS OF DECEMBER 31, 2007	**₱237,938,250**	**₱293,525,037**	**₱136,070,248**	**₱2,999,188**	**₱670,532,723**	**(₱2,923,246)**	**₱667,609,477**
Stock dividends (Note 17)	23,725,200	–	(23,725,200)	–	–	–	–
Total comprehensive income for the year	–	–	84,271,651	230,707	84,502,358	–	84,502,358
BALANCES AS OF DECEMBER 31, 2008	**261,663,450**	**293,525,037**	**196,616,699**	**3,229,895**	**755,035,081**	**(2,923,246)**	**752,111,835**
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
BALANCES AS OF DECEMBER 31, 2009	**287,761,172**	**293,525,037**	**326,309,628**	**3,229,895**	**910,825,732**	**(2,923,246)**	**907,902,486**
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
BALANCES AS OF DECEMBER 31, 2010	**₱302,114,918**	**₱293,525,037**	**₱574,482,384**	**₱3,229,895**	**₱1,173,352,234**	**(₱2,923,246)**	**₱1,170,428,988**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱405,635,920**	₱230,831,049	₱144,727,419
Adjustments for:			
Depreciation and amortization (Notes 8 and 19)	**291,803,754**	203,905,718	179,639,006
Interest expense (Notes 11, 15, and 21)	**16,398,169**	26,482,817	25,332,855
Interest income (Notes 4, 9, 22 and 26)	**(5,355,769)**	(4,839,945)	(4,186,908)
Net retirement obligations (Note 24)	**1,786,458**	19,839,386	5,712,335
Provision for impairment of receivables (Notes 5 and 19)	**1,622,883**	9,798,327	7,069,507
Loss from/on:			
Retirement of property and equipment	**67,751**	–	–
Typhoon (Note 8)	–	3,285,171	–
Impairment of goodwill (Note 10)	–	–	4,611,368
Sale of property and equipment	–	–	890,771
Amortization of:			
Deferred revenue on exclusivity contract (Note 16)	**(5,476,190)**	(3,913,691)	(3,913,690)
Software and other program costs (Notes 10 and 19)	**3,089,728**	3,053,728	2,105,126
Deferred lease (Notes 10 and 26)	**1,414,700**	1,475,524	1,902,361
Deferred revenue on finance lease (Notes 16 and 26)	**(709,665)**	(1,310,151)	(1,310,151)
Unrealized foreign exchange loss	**378,900**	485,170	709,256
Operating income before working capital changes	**710,656,639**	489,093,103	363,289,255
Decrease (increase) in:			
Receivables	**12,678,131**	1,646,383	(84,012,620)
Inventories	**13,233,094**	(76,096,286)	(15,582,536)
Prepayments and other current assets	**(58,286,054)**	(56,529,837)	(51,262,076)
Increase (decrease) in:			
Accounts payable and accrued expenses	**50,754,902**	180,337,730	264,264,524
Other current liabilities	**21,551,666**	31,737,028	67,121,759
Deposits payable	**22,895,083**	36,714,408	(15,400,829)
Deferred revenue (Notes 16 and 32)	**5,133,336**	–	11,741,071
Cash generated from operations	**778,616,797**	606,902,529	540,158,548
Income taxes paid	**(118,023,813)**	(68,854,934)	(39,567,887)
Interest received	**3,711,520**	3,138,083	2,180,738
Net cash from operating activities	**664,304,504**	541,185,678	502,771,399

(Forward)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 8)	**(₱671,923,830)**	(₱362,393,990)	(₱415,095,771)
Software and other program costs (Note 10)	**(161,900)**	(286,000)	(6,788,085)
Decrease (increase) in:			
Deposits	**(28,984,235)**	(17,644,957)	(22,233,272)
Goodwill and other noncurrent assets	**6,339,916**	(11,952,821)	49,840
Acquisition of short-term investments	**(10,141,555)**	–	–
Collection of lease receivable (Note 26)	**1,775,466**	2,782,500	2,887,500
Proceeds from sale of property and equipment	**–**	–	14,982,823
Net cash used in investing activities	**(703,096,138)**	(389,495,268)	(426,196,965)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans (Note 11)	**290,000,000**	510,000,000	415,000,000
Payments of bank loans (Note 11)	**(310,000,000)**	(500,000,000)	(460,000,000)
Interest paid	**(16,577,074)**	(27,254,709)	(24,858,765)
Cash dividends paid	**(14,353,746)**	–	–
Net cash used in financing activities	**(50,930,820)**	(17,254,709)	(69,858,765)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(378,900)**	(485,170)	(709,256)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(90,101,354)**	133,950,531	6,006,413
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**448,830,888**	314,880,357	308,873,944
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱358,729,534**	₱448,830,888	₱314,880,357

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of 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.

Authorization for Issuance of the Financial Statements

The consolidated financial statements as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were authorized for issue by the Board of Directors (BOD) on February 11, 2011.

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.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or the performance of the Group.

The adoption of the above amendments to Standards and Interpretation did not have any impact on the financial statements of the Group.

Improvements to PFRS 2008

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

Improvements to PFRS 2009

The following improvements in PFRS, which are effective in 2010, does not have a significant impact on the Group's financial statements:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- Improvements to PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- Improvements to PAS 7*, Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- Improvements to PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used only by the chief operating decision maker.

- Improvements to PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating lease. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendment will be applied retrospectively.

- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets at a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

New Accounting Standards, Interpretations, and Amendments to
<u>Existing Standards Effective Subsequent to December 31, 2010</u>

The Group will adopt the following standards, interpretations and amendments to existing standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the financial statements.

Effective in 2011

- PAS 24 (Amended), *Related Party Disclosures*
  The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial

exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- 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.

Effective in 2012

- PAS 12, *Income Taxes (Amendment)* **-** *Deferred Tax: Recovery of Underlying Assets*
  The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments)* **-** *Disclosures-Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract

qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*
  PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011.

  Improvements to PFRS effective subsequent to 2010

In May 2010, the International Accounting Standards Board (IASB) issued its omnibus of amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording.

- Revised PFRS 3, *Business Combinations*

  Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised: Clarifies that the amendments to PFRS 7, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

  Measurement of non-controlling interests (NCI): Limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either: (1) at fair value or (2) at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

  Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS, e.g. PFRS 2.

  Un-replaced and voluntarily replaced share-based payment awards: Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses.

  The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of NCI and measured at their marked-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense.

- Amendment to PFRS 7, *Financial Instruments: Disclosures*, emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments which should be applied retrospectively.

Amendments to quantitative and credit risk disclosures are as follows:

- clarifies only those financial assets whose carrying amount does not reflect the maximum exposure to credit risk.
- requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
- removes disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
- removes the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
- clarifies that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

- Amendment to PAS 1, *Presentation of Financial Statements*, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- Amendment to PAS 27, *Consolidated and Separate Financial Statements*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2010 or earlier when PAS 27 is applied earlier.

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

<u>Basis of Consolidation</u>
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 December 31, 2010 and 2009.

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.

Determination of Fair Values

Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

Day 1 Profit

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

Offsetting Financial Instruments

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

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

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant and collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually or collectively assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continue to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

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

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.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in previous years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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.

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

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.

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.

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

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

The Group's financial instruments include loans and receivables, AFS financial assets and other financial liabilities (see Note 29).

Classification of Leases

a. Finance lease as lessor

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

b. Operating lease as lessee

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

c. Operating lease as lessor

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

Impairment of Property and Equipment and Software and Program Costs

The Group determines whether its items of property and equipment and software and program costs are impaired on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the assets are allocated. The preparation of the estimated future cash flows in determining value-in-use involves significant judgment, estimation and assumption.

While management believes that the assumptions made are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

The carrying value of property and equipment and software and program costs amounted to ₱1,612,379,628 and ₱1,235,255,125 as of December 31, 2010 and 2009, respectively (see Notes 8 and 10). Based on management's judgment, there were no indicators of impairment in the Group's nonfinancial assets, thus, no impairment loss needs to be recognized in 2010, 2009 and 2008.

Estimates

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

Determination of Fair Values

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

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

Note 29 presents the fair values of the financial instruments and the methods and assumptions used in estimating their fair values.

Impairment of Loans and Receivables

The Group reviews its loans and receivables at each reporting date to assess whether a provision for impairment should be recognized in profit or loss or loans and receivables balance should be written off. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Moreover, management evaluates the presence of objective evidence of impairment which includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization.

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

The carrying value of loans and receivables amounted to ₱571,226,437 and ₱628,448,541 as of December 31, 2010 and 2009, respectively (see Note 29). Allowance for impairment on loans and receivables amounted to ₱3,627,492 and ₱10,843,948 as of December 31, 2010 and 2009, respectively (see Notes 5 and 30). Provision for impairment amounted to ₱1,622,883 in 2010, ₱9,798,327 in 2009 and ₱7,069,507 in 2008 (see Notes 5 and 19).

Impairment of AFS Financial Assets
In determining the fair values of financial assets, management evaluates the presence of significant and prolonged decline in the fair value of share price below its cost, the normal volatility in the share price, the financial health of the investee and the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in these factors can have a negative impact on their fair value. 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.

The carrying value of AFS financial assets amounted to ₱1,320,575 and ₱2,314,575 as of December 31, 2010 and 2009 (see Notes 10 and 29). No impairment losses were recognized in 2010, 2009 and 2008.

Decline in Inventory Value
Provisions are made for inventories whose NRV are lower than their carrying cost. This entails determination of replacement costs and costs necessary to make the sale. The estimates are based on a number of factors, the age, status and recoverability of inventories.

The carrying value of inventories amounted to ₱ 402,419,577 and ₱ 415,652,671 as of December 31, 2010 and 2009, respectively (see Note 6). No provisions for decline in inventory value were recognized in 2010, 2009 and 2008.

Estimation of Useful Lives of Property and Equipment
The Group estimates the useful lives of its property and equipment based on a period over which the assets are expected to be available for use.

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱1,607,296,761 and ₱1,227,244,430 as of December 31, 2010 and 2009, respectively (see Note 8).

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

The carrying value of goodwill amounted to ₱65,567,524 as of December 31, 2010 and 2009 (see Note 10). No impairment losses were recognized in 2010 and 2009, while impairment loss recognized on goodwill amounted to ₱4,611,368 in 2008 (see Note 10). Based on the assessment made by the Group, there is no impairment of goodwill as the carrying value of the cash-generating units exceeds the computed value-in-use as of December 31, 2010 and 2009.

Estimation of Retirement Benefits
The determination of the obligation and retirement benefits is dependent on management's assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 24 and include, among others, discount rates per annum, expected annual rate of return on plan assets and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The Group's net retirement obligations amounted to ₱ 57,453,582 and ₱ 55,667,123 as of December 31, 2010 and 2009, respectively. Retirement benefits cost amounted to ₱11,220,501 in 2010, ₱21,979,689 in 2009 and ₱8,720,701 in 2008. Further details about the assumptions used are disclosed in Note 24.

Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision and contingency is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. If the effect of the time value of money is material, provisions and contingencies are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision and contingency is being re-assessed at least on an annual basis to consider new relevant information.

As of December 31, 2010 and 2009, the Group has provision for litigation losses amounting to ₱7,066,290 and ₱12,578,122, respectively, and is reported under "Accounts payable and accrued expenses" in the consolidated balance sheets. Provisions and contingencies are further explained in Note 34.

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

The Group's recognized deferred income tax assets amounted to ₱46,653,929 and ₱51,387,363 as of December 31, 2010 and 2009, respectively (see Note 27).

4. Cash and Cash Equivalents

	2010	2009
Cash on hand and in banks	**₱322,975,839**	₱432,900,994
Cash equivalents	**35,753,695**	15,929,894
	₱358,729,534	₱448,830,888

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, ₱3,387,088 in 2009 and ₱2,180,738 in 2008, respectively (see Note 22).

5. Receivables

	2010	2009
Suppliers	**₱58,816,472**	₱69,278,890
Franchisee	**40,871,647**	46,051,611
Insurance receivable	**10,986,094**	1,905,773
Employees	**10,321,643**	6,906,248

(Forward)

	2010	2009
Store operators	**₱9,718,957**	₱6,075,955
Rent	**5,709,582**	4,755,572
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)	**1,212,430**	2,187,564
Deposits	**1,009,864**	1,009,864
Due from Philseven Foundation, Inc. (PFI) (Note 25)	**888,425**	323,477
Others	**22,435,013**	12,489,099
	161,970,127	150,984,053
Less allowance for impairment	**3,627,492**	10,843,948
	₱158,342,635	₱140,140,105

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. The gain amounting to ₱19,465,584 is included as "Other income" in the 2010 profit or loss.

Movements in allowance for impairment are as follows:

	2010		
	Suppliers	**Others**	**Total**
Beginning balances	**₱7,535,300**	**₱3,308,648**	**₱10,843,948**
Provision for the year (Note 19)	**204,716**	**1,418,167**	**1,622,883**
Write-off	**(7,140,854)**	−	**(7,140,854)**
Recovery of bad debts	**(217,376)**	**(1,481,109)**	**(1,698,485)**
Ending balances	**₱381,786**	**₱3,245,706**	**₱3,627,492**

	2009		
	Suppliers	Others	Total
Beginning balances	₱6,605,041	₱2,135,133	₱8,740,174
Provision for the year (Note 19)	7,535,300	2,263,027	9,798,327
Write-off	(6,605,041)	(976,212)	(7,581,253)
Recovery of bad debts	–	(113,300)	(113,300)
Ending balances	₱7,535,300	₱3,308,648	₱10,843,948

6. Inventories

	2010	2009
At cost (Note 18):		
Warehouse merchandise	**₱200,869,257**	₱235,157,252
Store merchandise	**201,550,320**	180,495,419
	₱402,419,577	₱415,652,671

7. Prepayments and Other Current Assets

	2010	2009
Deferred input VAT	**₱128,689,605**	₱88,368,544
Advances to suppliers	**46,036,750**	44,291,320
Prepaid rent	**32,972,222**	23,163,308
Advances for expenses	**3,268,768**	5,460,880
Prepaid uniform	**2,400,798**	1,105,330
Supplies	**1,915,107**	1,445,555
Current portion of deferred lease (Notes 10 and 26)	**1,363,270**	1,425,742
Others	**16,022,926**	9,122,713
	₱232,669,446	₱174,383,392

8. Property and Equipment

Movements in property and equipment are as follows:

	2010								
	Land	**Buildings and Improvements**	**Store Furniture and Equipment**	**Office Furniture and Equipment**	**Transportation Equipment**	**Computer Equipment**	**Leasehold Improvements**	**Construction In-Progress**	**Total**
Costs/Revalued Amount									
Beginning balances	**₱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**
Accumulated Depreciation and Amortization									
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**
Net Book Values	**₱44,481,000**	**₱49,295,986**	**₱721,229,949**	**₱209,367,272**	**₱13,340,216**	**₱48,506,820**	**₱479,588,477**	**₱41,487,041**	**₱1,607,296,761**

	2009								
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Costs/Revalued Amount									
Beginning balances	₱44,481,000	₱106,053,132	₱713,363,611	₱272,075,851	₱26,056,994	₱214,549,222	₱599,133,189	₱15,631,887	₱1,991,344,886
Additions	–	782,102	158,765,465	61,112,527	5,420,640	19,997,353	53,328,694	62,987,209	362,393,990
Disposals	–	–	(20,377,442)	(4,497,653)	–	–	(54,962,628)	–	(79,837,723)
Reclassifications	–	–	(13,082,543)	13,082,543	–	–	34,873,275	(34,873,275)	–
Ending 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
Accumulated Depreciation and Amortization									
Beginning balances	–	49,663,042	306,461,567	144,210,934	16,959,659	117,352,566	284,655,788	–	919,303,557
Depreciation and amortization (Note 19)	–	5,468,213	73,029,711	30,115,489	3,434,230	44,966,349	46,891,726	–	203,905,718
Disposals	–	–	(20,377,442)	(4,497,653)	–	–	(51,677,457)	–	(76,552,552)
Reclassifications	–	–	(436,085)	436,085	–	–	–	–	–
Ending balances	–	55,131,255	358,677,751	170,264,855	20,393,889	162,318,915	279,870,057	–	1,046,656,723
Net Book Values	₱44,481,000	₱51,703,979	₱479,991,339	₱171,508,413	₱11,083,745	₱72,227,660	₱352,502,473	₱43,745,821	₱1,227,244,430

On February 5, 2007, the Group revalued its land with cost amounting to ₱39,866,864 at appraised value of ₱44,481,000, as determined by a professionally qualified independent appraiser. The appraisal increase of ₱3,229,895, net of ₱1,384,241 deferred income tax liability, resulting from the revaluation was credited to "Revaluation increment on land" account presented under equity section of the consolidated balance sheets. The appraised value was determined using the market data approach, wherein the value of the land is based on sales and listings of comparable properties registered within the vicinity.

Fully depreciated property and equipment that are still being used in operations amounted to ₱ 585,711,873 and ₱ 498,262,619 as of December 31, 2010 and 2009, respectively. On September 26, 2009, nine of the Company's stores were devastated by the typhoon "Ondoy". The Company recognized loss from the said typhoon amounting to ₱3,285,171, which represents the net book value of the property and equipment destroyed by the typhoon as of that said date.

As of December 31, 2010 and 2009, the carrying value of the Group's capitalized interest amounted to ₱1,677,864 and ₱3,342,600, respectively.

9. Deposits

	2010	2009
Rent	**₱142,148,088**	₱116,115,962
Utilities	**23,969,222**	22,131,783
Refundable	**11,805,629**	10,326,979
Others	**3,273,451**	2,753,309
	₱181,196,390	₱151,328,033

Refundable

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

	2010	2009
Face value of security deposits	**₱26,918,039**	₱26,835,877
Additions	**1,073,247**	958,162
Refunded	**(600,000)**	(876,000)
Unamortized discount	**(15,585,657)**	(16,591,060)
	₱11,805,629	₱10,326,979

Movements in unamortized discount are as follows:

	2010	2009
Beginning balance	**₱16,591,060**	₱17,521,299
Additions	**257,859**	235,348
Amortization (Note 22)	**(1,035,216)**	(987,606)
Refunded	**(228,046)**	(177,981)
Ending balance	**₱15,585,657**	₱16,591,060

10. Goodwill and Other Noncurrent Assets

	2010	2009
Goodwill	**₱65,567,524**	₱65,567,524
Deferred lease - net of current portion (Note 26)	**10,492,697**	11,761,052
Garnished accounts	**9,676,376**	10,856,648
Software and program cost	**5,082,867**	8,010,695
Lease receivable - net of current portion (Note 26)	**4,748,411**	4,265,477
AFS financial assets	**1,320,575**	2,314,575
Others	**4,661,020**	4,311,601
	₱101,549,470	₱107,087,572

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.

The recoverable amount of the goodwill was estimated based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections is 10.65% in 2010 and 10.27% in 2009. The cash flows beyond the five-year period are extrapolated using a 3% growth rate in 2010 and 2009 that is the same as the long-term average growth rate for the retail industry.

No store acquired from Jollimart was closed in 2010. In 2009, the Group has closed one store out of the 25 remaining stores it purchased from Jollimart as of 2009. No impairment loss was recognized in 2010 and 2009. In 2008, the Group closed nine stores which resulted to the recognition of impairment loss amounting to ₱4,611,368.

Goodwill is allocated in the group of cash generating unit (CGU) which comprises the working capital and property and equipment of all the purchased stores' assets.

Key assumptions used in value-in-use calculations in 2010 and 2009 follow:

Sales and cost ratio

Sales and cost ratio are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. Sales are projected to increase by two to three percent per annum while the cost ratio is set at 68.00% - 70.00% of sales per annum.

Discount rates
Discount rates reflect management's estimates of the risks specific to the CGU. Management computed for its weighted average cost of capital (WACC). In computing for its WACC, the following items were considered:

- Average high and low range of average bank lending rates as of year-end
- Yield on a 10-year Philippine zero coupon bond as of valuation date
- Market risk premium
- Company relevered beta
- Alpha risk

Growth rate estimates
Rates are based on average historical growth rate which is consistent with the expected average growth rate for the industry. Annual inflation and rate of possible reduction in transaction count were also considered in determining growth rates used.

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:

	2010	2009
Beginning balance	**₱13,186,794**	₱14,577,388
Additions	**257,859**	235,348
Amortization (Note 26)	**(1,414,700)**	(1,475,524)
Refunded	**(173,986)**	(150,418)
Ending balance	**11,855,967**	13,186,794
Less current portion	**1,363,270**	1,425,742
Noncurrent portion	**₱10,492,697**	₱11,761,052

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:

	2010	2009
Cost		
Beginning balance	₱14,500,085	**₱14,214,085**
Acquisition	161,900	**286,000**
Ending balance	14,661,985	**14,500,085**
Accumulated Amortization		
Beginning balance	6,489,390	**3,435,662**
Amortization (Note 19)	3,089,728	**3,053,728**
Ending balance	9,579,118	**6,489,390**
Net Book Values	₱5,082,867	**₱8,010,695**

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:

	2010	2009
Beginning balance	**₱340,000,000**	₱330,000,000
Availment	**290,000,000**	510,000,000
Payments	**(310,000,000)**	(500,000,000)
Ending balance	**₱320,000,000**	₱340,000,000

Interest expense from these bank loans amounted to ₱16,033,249 in 2010, ₱26,070,437 in 2009, and ₱24,908,055 in 2008 (see Note 21). Interest payable amounted to ₱509,972 and ₱641,417 as of December 31, 2010 and 2009, respectively (see Note 12).

12. **Accounts Payable and Accrued Expenses**

	2010	2009
Trade payable	**₱905,064,399**	₱864,748,683
Rent (Notes 26 and 34)	**59,026,978**	80,927,422
Employee benefits	**34,009,286**	26,820,981
Utilities	**31,187,454**	17,666,410
Advertising and promotion	**18,831,169**	7,049,972
Outsourced services	**8,042,071**	6,497,194
Security services	**3,610,705**	2,292,041
Bank charges	**2,181,700**	1,852,100
Interest (Notes 11 and 15)	**874,892**	1,053,797
Others	**15,510,753**	18,701,005
	₱ 1,078,339,407	₱ 1,027,609,605

13. **Other Current Liabilities**

	2010	2009
Non-trade accounts payable	**₱164,122,488**	₱138,118,326
Output VAT	**25,721,487**	3,904,917
Withholding taxes	**18,896,178**	18,711,796
Retention payable	**18,459,378**	15,236,991
Service fees payable	**15,694,145**	11,006,733
Royalty (Note 25)	**8,465,255**	6,719,659
Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	**1,934,524**	3,913,690
Finance lease (Notes 16 and 26)	**589,567**	1,310,151
Others (Note 25)	**11,916,276**	13,012,717
	₱265,799,298	₱211,934,980

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.

14. Deposits Payable

	2010	2009
Franchisees	**₱75,679,031**	₱70,812,875
Service agreements	**55,282,328**	38,309,233
Rent	**11,900,778**	10,844,946
	₱142,862,137	₱119,967,054

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.

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included as part of "Interest expense" in the consolidated statements of comprehensive income amounted to ₱364,920 in 2010, ₱412,380 in 2009 and ₱424,800 in 2008 (see Note 21). Interest payable included under "Accounts payable and accrued expenses" in the consolidated balance sheets amounted to ₱364,920 and ₱412,380 as of December 31, 2010 and 2009, respectively (see Note 12).

16. Deferred Revenue

	2010	2009
Deferred revenue on exclusivity contract (Note 32)	**₱3,199,405**	₱–
Deferred revenue on finance lease (Note 26)	**1,866,965**	1,856,046
Deferred revenue - others	**1,933,930**	–
	₱7,000,300	₱1,856,046

<u>Deferred Revenue on Exclusivity Contract</u>
Movements in deferred revenue on exclusivity contract are as follows:

	2010	2009
Beginning balance	**₱3,913,690**	₱7,827,381
Additions	**6,696,429**	–
Amortization (Note 32)	**(5,476,190)**	(3,913,691)
	5,133,929	3,913,690
Less current portion	**1,934,524**	3,913,690
Noncurrent portion	**₱3,199,405**	₱–

Deferred Revenue on Finance Lease

Movements in deferred revenue on finance lease are as follows:

	2010	2009
Beginning balance	**₱3,166,197**	₱4,476,348
Less amortization (Note 26)	**709,665**	1,310,151
	2,456,532	3,166,197
Less current portion	**589,567**	1,310,151
Noncurrent portion	**₱1,866,965**	₱1,856,046

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.

On the same day, the Company's BOD approved the declaration of cash dividend in the amount of five centavos per share on its outstanding 287,074,922 shares. The record date for entitlement to said cash dividend is August 27, 2010. Cash dividends amounted to ₱14,353,746.

On June 25, 2009, the Company's BOD approved the recommendation for a stock dividend declaration corresponding to 10% of the outstanding common shares of the Company of 260,977,200 shares or equivalent of 26,097,722 common shares. The stock dividends approved by the Company's BOD were approved by at least 2/3 of the Company's stockholders on July 16, 2009. Record date of entitlement is August 14, 2009.

On June 18, 2008, the Company's BOD approved the recommendation for a stock dividend declaration corresponding to 10% of the outstanding common shares of the Company of 237,252,000 shares or equivalent of 23,725,200 common shares. The stock dividends approved by the Company's BOD were approved by at least 2/3 of the Company's stockholders on July 17, 2008. Record date of entitlement is August 15, 2008.

Movements in the number of shares issued are as follows:

	2010	2009
Beginning balance	**287,761,172**	261,663,450
Issuance of stock dividends	**14,353,746**	26,097,722
Ending balance	**302,114,918**	287,761,172

18. Cost of Merchandise Sales

	2010	2009	2008
Merchandise inventory, beginning	**₱415,652,671**	₱339,556,385	₱323,973,849
Net purchases	**5,572,037,384**	4,447,812,276	3,925,469,267
	5,987,690,055	4,787,368,661	4,249,443,116
Less merchandise inventory, ending	**402,419,577**	415,652,671	339,556,385
	₱5,585,270,478	₱4,371,715,990	₱3,909,886,731

19. General and Administrative Expenses

	2010	2009	2008
Communication, light and water	**₱528,123,729**	₱371,580,742	₱331,736,206
Outside services (Note 32)	**389,212,920**	299,568,215	259,118,700
Rent (Note 26)	**341,397,389**	325,249,255	272,009,467
Depreciation and amortization (Note 8)	**291,803,754**	203,905,718	179,639,006
Personnel costs (Note 23)	**287,246,482**	285,712,784	250,613,003
Advertising and promotion	**101,175,106**	73,763,919	54,152,935
Royalties (Note 25)	**90,693,176**	70,386,281	62,035,597
Trucking services	**89,415,946**	68,511,742	67,017,425
Repairs and maintenance	**86,964,361**	60,593,879	54,152,174
Supplies	**81,307,138**	56,019,871	63,439,914
Taxes and licenses	**68,340,335**	64,648,509	53,122,933
Warehousing services	**58,179,955**	48,668,549	45,010,978
Entertainment, amusement and recreation	**36,145,205**	25,874,891	20,181,424
Transportation and travel	**23,642,048**	26,539,417	23,210,852
Inventory losses	**14,659,113**	10,639,655	9,142,227
Dues and subscription	**5,143,890**	5,123,248	3,959,684
Insurance	**4,216,516**	4,634,768	4,214,915
Amortization of software and program costs (Note 10)	**3,089,728**	3,053,728	2,105,126
Provision for impairment of receivables (Note 5)	**1,622,883**	9,798,327	7,069,507
Others	**29,010,430**	36,685,831	26,500,827
	₱2,531,390,104	₱2,050,959,329	₱1,788,432,900

20. Marketing Income

	2010	2009	2008
Display charges	**₱161,168,392**	₱119,307,326	₱76,550,421
Promotions	**112,766,444**	84,413,455	37,512,628
Marketing support funds	**64,830,625**	32,782,079	22,148,166
	₱338,765,461	₱236,502,860	₱136,211,215

21. Interest Expense

	2010	2009	2008
Interest on bank loans	**₱16,033,249**	₱26,070,437	₱24,908,055
Guaranteed preferred dividends (Note 15)	**364,920**	412,380	424,800
	₱16,398,169	₱26,482,817	₱25,332,855

22. **Interest Income**

	2010	2009	2008
Interest on:			
Bank deposits (Note 4)	**₱3,675,553**	₱3,387,088	₱2,180,738
Finance lease (Note 26)	**403,887**	465,251	614,154
Accretion of refundable deposits	**1,035,216**	987,606	1,392,016
Accretion of notes receivable	**241,113**	–	–
	₱5,355,769	₱4,839,945	₱4,186,908

23. **Personnel Costs**

	2010	2009	2008
Salaries and wages	**₱172,492,050**	₱167,739,054	₱157,963,246
Employee benefits	**103,533,931**	95,994,041	83,929,056
Retirement benefits cost (Note 24)	**11,220,501**	21,979,689	8,720,701
	₱287,246,482	₱285,712,784	₱250,613,003

24. **Retirement Benefits**

The Group maintains a trusteed, 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	**₱3,706,434**	**₱705,342**	**₱4,411,776**
Interest cost	**6,749,595**	**520,065**	**7,269,660**
Expected return on plan assets	**(430,680)**	**(30,255)**	**(460,935)**
Net retirement benefits cost	**₱10,025,349**	**₱1,195,152**	**₱11,220,501**

	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
Net retirement benefits cost	₱20,511,979	₱1,467,710	₱21,979,689

	2008		
	PSC	CDI	Total
Current service cost	₱4,353,211	₱124,321	₱4,477,532
Interest cost	4,229,201	135,003	4,364,204
Expected return on plan assets	(543,538)	(41,597)	(585,135)
Net actuarial loss (gain)	552,819	(88,719)	464,100
Net retirement benefits cost	₱8,591,693	₱129,008	₱8,720,701

b. Net retirement obligations recognized by the Group are as follows:

	2010		
	PSC	**CDI**	**Total**
Present value of retirement obligations	**₱72,897,778**	**₱5,615,558**	**₱78,513,336**
Less fair value of net plan assets	**10,750,804**	**522,878**	**11,273,682**
Unfunded retirement obligation	**62,146,974**	**5,092,680**	**67,239,654**
Unrecognized net actuarial gain (losses)	**(10,337,337)**	**551,265**	**(9,786,072)**
Net retirement obligations	**₱51,809,637**	**₱5,643,945**	**₱57,453,582**

	2009		
	PSC	CDI	Total
Present value of retirement obligations	₱62,438,440	₱4,864,964	₱67,303,404
Less fair value of net plan assets	7,178,008	504,251	7,682,259
Unfunded retirement obligation	55,260,432	4,360,713	59,621,145
Unrecognized net actuarial gains (losses)	(4,042,102)	88,080	(3,954,022)
Net retirement obligations	₱51,218,330	₱4,448,793	₱55,667,123

c. Changes in the present value of the retirement obligations are as follows:

	2010		
	PSC	**CDI**	**Total**
Beginning balances	**₱62,438,440**	**₱4,864,964**	**₱67,303,404**
Current service cost	**3,706,434**	**705,342**	**4,411,776**
Interest cost	**6,749,595**	**520,065**	**7,269,660**
Benefits paid	**(6,248,673)**	**–**	**(6,248,673)**
Actuarial losses (gains)	**6,251,982**	**(474,813)**	**5,777,169**
Ending balances	**₱72,897,778**	**₱5,615,558**	**₱78,513,336**

	2009		
	PSC	CDI	Total
Beginning balances	₱54,006,788	₱4,174,204	₱58,180,992
Current service cost	345,868	146,754	492,622
Interest cost	20,284,950	1,347,433	21,632,383
Benefits paid	(1,613,202)	–	(1,613,202)
Actuarial gains	(10,585,964)	(803,427)	(11,389,391)
Ending balances	₱62,438,440	₱4,864,964	₱67,303,404

d. Changes in the fair value of net plan assets are as follows:

	2010		
	PSC	**CDI**	**Total**
Beginning balances	**₱7,178,008**	**₱504,251**	**₱7,682,259**
Expected return on plan assets	**430,680**	**30,255**	**460,935**
Contribution	**9,434,042**	**–**	**9,434,042**
Benefits paid	**(6,248,673)**	**–**	**(6,248,673)**
Actuarial losses	**(43,253)**	**(11,628)**	**(54,881)**
Ending balances	**₱10,750,804**	**₱522,878**	**₱11,273,682**

	2009		
	PSC	CDI	Total
Beginning balances	₱6,165,743	₱471,869	₱6,637,612
Expected return on plan assets	554,917	42,468	597,385
Contribution	2,140,303	–	2,140,303
Benefits paid	(1,613,202)	–	(1,613,202)
Actuarial losses	(69,753)	(10,086)	(79,839)
Ending balances	₱7,178,008	₱504,251	₱7,682,259

Breakdown of the Group's net plan assets are as follows:

	2010	2009
Investments in trust and mutual funds	**41.90%**	11.70%
Investments in equity securities	**58.10%**	88.30%
	100.00%	100.00%

Actual return on plan assets amounted to ₱387,427 in 2010 and ₱485,164 in 2009 for PSC and ₱18,627 in 2010 and ₱32,382 in 2009 for CDI.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled.

The Company expects to contribute ₱6,000,000 to its defined benefit plan in 2011. CDI does not expect to contribute to its defined benefit plan in 2011.

The principal assumptions used in determining net retirement benefits cost for the Group's plan at the beginning of the year are as follows:

	PSC		CDI	
	2010	2009	**2010**	2009
Number of employees	**669**	742	**21**	20
Discount rate per annum	**10.81%**	37.56%	**10.69%**	32.28%
Expected annual rate of return on plan assets	**6.00%**	9.00%	**6.00%**	9.00%
Salary increase rate	**6.00%**	5.00%	**6.00%**	6.00%

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

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

	2009		
	PSC	CDI	Total
Present value of retirement obligations	₱62,438,440	₱4,864,964	₱67,303,404
Fair value of net plan assets	7,178,008	504,251	7,682,259
Unfunded retirement obligation	55,260,432	4,360,713	59,621,145
Experience gain adjustments on retirement obligations	(12,458,512)	(857,124)	(13,315,636)
Experience loss adjustments on plan assets	(69,753)	(10,086)	(79,839)

	2008		
	PSC	CDI	Total
Present value of retirement obligations	₱54,006,788	₱4,174,204	₱58,180,992
Fair value of net plan assets	6,165,743	471,869	6,637,612
Unfunded retirement obligation	47,841,045	3,702,335	51,543,380
Experience loss adjustments on retirement obligations	46,616	2,532,432	2,579,048
Experience loss adjustments on plan assets	(283,759)	(21,716)	(305,475)

	2007		
	PSC	CDI	Total
Present value of retirement obligations	₱50,892,911	₱1,674,978	₱52,567,889
Fair value of net plan assets	6,039,312	462,193	6,501,505
Unfunded retirement obligation	44,853,599	1,212,785	46,066,384
Experience loss (gain) adjustment on retirement obligations	2,872,179	(94,636)	2,777,543
Experience loss adjustments on plan assets	(477,943)	(28,521)	(506,464)

	2006		
	PSC	CDI	Total
Present value of retirement obligations	₱44,889,567	₱1,784,759	₱46,674,326
Fair value of net plan assets	6,139,207	462,580	6,601,787
Unfunded retirement obligation	38,750,360	1,322,179	40,072,539
Experience gain adjustment on retirement obligations	(3,964,900)	–	(3,964,900)

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%.

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.

Significant transactions with related parties consist of:

a. Licensing agreement of the Group with Seven Eleven, Inc. (SEI), a stockholder organized in Texas, U.S.A. This grants the Group the exclusive right to use the 7-Eleven System in the Philippines. In accordance with the agreement, the Group pays, among others, royalty fee to SEI based on a certain percentage of monthly gross sales, net of gross receipts tax.

   Royalty fees recorded by the Group amounted to ₱90,693,176 in 2010, ₱70,386,281 in 2009, and ₱62,035,597 in 2008. Royalty fees are paid on a monthly basis.

   Royalty payable included under “Other current liabilities” amounted to ₱8,465,255 as of December 31, 2010 and ₱6,719,659 as of December 31, 2009.

b. PSC has transactions with PFI, a foundation with common key management of the Group, consisting of noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI. Amounts due from PFI amounted to ₱888,425 and ₱323,477 as of December 31, 2010 and 2009, respectively. Amount due to PFI included under others in “Other current liabilities” amounted to ₱12,099 and ₱18,650 as of December 31, 2010 and 2009.

c. Compensation of key management personnel are as follows:

	2010	2009	2008
Short-term employee benefits	**₱33,663,181**	₱32,583,183	₱15,451,726
Post-employment benefits	**1,662,152**	1,752,710	358,512
Other long-term benefits	**376,073**	376,073	294,118
	₱35,701,406	₱34,711,966	₱16,104,356

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 receivable under this lease as of December 31 are as follows:

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

Collection of lease receivable amounted to ₱1,775,466 in 2010 and ₱2,782,500 in 2009.

Present value of lease receivable as of December 31 is as follows:

	2010	2009
Within one year	**₱1,212,430**	₱2,187,564
After one year but not more than five years	**4,748,411**	4,265,477
Total minimum lease payments	**5,960,841**	6,453,041
Less current portion	**1,212,430**	2,187,564
Present value of future minimum lease payments	**₱4,748,411**	₱4,265,477

Unearned interest income as of December 31, 2010 and 2009 amounted to ₱969,492 and ₱566,959, respectively. Related interest income amounted to ₱403,887 in 2010, ₱465,251 in 2009 and ₱614,154 in 2008.

Difference between the original lease agreement's present value of minimum lease payments at the date of lease inception against the carrying value of the finance lease asset resulted in a deferred revenue on finance lease amounting to ₱6,550,753, which is to be amortized on a straight-line basis over the lease term. Deferred revenue amounted to ₱2,456,532 and ₱3,166,197 as of December 31, 2010 and 2009, with current portion amounting to ₱589,567 and ₱1,310,151 in 2010 and 2009, respectively, and noncurrent portion amounting to ₱1,866,965 and ₱1,856,046 as of December 31, 2010 and 2009, respectively. Amortization of deferred revenue amounted to ₱709,665 in 2010 and ₱1,310,151 in 2009 and 2008.

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

Rental expense related to these lease agreements amounted to ₱312,975,325 in 2010, ₱295,747,766 in 2009 and ₱242,449,643 in 2008. Of the total rent expense, ₱1,902,221 in 2010, ₱663,802 in 2009 and ₱478,829 in 2008 pertains to contingent rent of some stores based on percentage ranging from 1.5% to 3.0% of merchandise sales. Amortization of deferred lease amounted to ₱324,200 in 2010, ₱385,024 in 2009 and ₱811,861 in 2008 (see Note 19).

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	**₱48,966,221**	₱58,103,466
After one year but not more than five years	**93,993,928**	126,794,701
More than five years	**3,131,450**	7,066,790
	₱146,091,599	₱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 ₱22,925,240 in 2010, 2009 and 2008. Amortization of deferred lease amounted to ₱1,090,500 in 2010, 2009 and 2008 (see Note 19).

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

	2010	2009
Within one year	₱21,058,664	**₱20,815,812**
After one year but not more than five years	92,747,776	**89,696,376**
More than five years	130,516,307	**154,626,371**
Total	₱244,322,747	**₱265,138,559**

The Company also has other various short-term operating leases pertaining to rental of warehouse fixtures and equipments. Related rent expense amounted to ₱4,082,124 in 2010, ₱5,100,725 in 2009 and ₱4,732,223 in 2008.

d. The Group has various sublease agreements with third parties which provide for lease rentals based on an agreed fixed monthly rate or as agreed upon by the parties. Rental income related to these sublease agreements amounted to ₱37,361,844 in 2010, ₱52,265,323 in 2009 and ₱36,502,151 in 2008.

27. **Income Tax**

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

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

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

	2010			
	PSC	**CDI**	**SSHI**	**Total**
Deferred income tax assets:				
Accrued rent	**₱12,040,725**	**₱5,667,367**	**₱–**	**₱17,708,092**
Net retirement obligations	**15,542,890**	**1,693,184**	**–**	**17,236,074**
Unamortized discount on refundable deposit	**4,675,697**	**–**	**–**	**4,675,697**
Provision for litigation losses	**2,119,887**	**–**	**–**	**2,119,887**
Allowance for impairment on receivables	**1,088,248**	**–**	**–**	**1,088,248**
Deferred revenue on exclusivity agreement	**1,540,179**	**–**	**–**	**1,540,179**
Unamortized past service cost	**1,994,721**	**42,280**	**–**	**2,037,001**
Unamortized discount on receivable	**135,081**	**–**	**–**	**135,081**
Unrealized foreign exchange loss	**113,670**	**–**	**–**	**113,670**
	39,251,098	**7,402,831**	**–**	**46,653,929**
Deferred income tax liabilities:				
Deferred lease expense	**3,556,790**	**–**	**–**	**3,556,790**
Unamortized capitalized interest	**503,359**	**–**	**–**	**503,359**
Unamortized discount on purchase of refundable deposit	**381,548**	**–**	**–**	**381,548**
Revaluation increment in land	**–**	**–**	**1,384,241**	**1,384,241**
	4,441,697	**–**	**1,384,241**	**5,825,938**
Net deferred income tax assets (liability)	**₱34,809,401**	**₱7,402,831**	**(₱1,384,241)**	**₱40,827,991**

	2009			
	PSC	CDI	SSHI	Total
Deferred income tax assets:				
Accrued rent	₱15,470,251	₱5,034,539	₱–	₱20,504,790
Net retirement obligations	15,365,499	1,334,638	–	16,700,137
Unamortized discount on refundable deposit	4,977,318	–	–	4,977,318
Provision for litigation losses	3,773,437	–	–	3,773,437
Allowance for impairment on receivables	3,253,184	–	–	3,253,184
Deferred revenue on exclusivity agreement	1,174,107	–	–	1,174,107
Unamortized past service cost	505,033	48,879	–	553,912
Unamortized discount on receivable	207,415	–	–	207,415
Unrealized foreign exchange loss	145,551	–	–	145,551
Unearned rent	97,512	–	–	97,512
	44,969,307	6,418,056	–	51,387,363

(Forward)

	2009			
	PSC	CDI	SSHI	Total
Deferred income tax liabilities:				
Deferred lease expense	₱3,956,038	₱–	₱–	₱3,956,038
Unamortized capitalized interest	1,002,780	–	–	1,002,780
Unamortized discount on purchase of refundable deposit	419,703	–	–	419,703
Revaluation increment in land	–	–	1,384,241	1,384,241
	5,378,521	–	1,384,241	6,762,762
Net deferred income tax assets (liability)	₱39,590,786	₱6,418,056	(₱1,384,241)	₱44,624,601

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

	2010	2009	2008
Provision for income tax computed at statutory income tax rate	**₱121,690,776**	₱69,249,315	₱50,654,597
Adjustments for:			
Nondeductible expenses:			
Inventory losses	**4,397,733**	3,353,737	3,292,664
Interest expense and others	**3,114,649**	1,662,459	1,790,317
Loss from typhoon	**–**	985,551	–
Donation expense	–	216,000	–
Impairment loss on goodwill	**–**	–	1,613,979
Nontaxable income:			
Other income	**(61,290)**	(112,855)	(2,927,020)
Interest income on accretion	**–**	–	(487,206)
Tax effect of rate difference between final tax and statutory tax rate on bank interest income	**(386,196)**	(313,809)	(327,110)
Effect of change in tax rate in 2009	**–**	–	6,845,547
	₱128,755,672	₱75,040,398	₱60,455,768

d. RA 9504, effective on July 7, 2008 allows availment of optional standard deductions (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. The Group did not avail of the OSD for the computation of its taxable income in 2010 and 2009.

28. Basic/Diluted Earnings Per Share

	2010	2009	2008
a. Net income	₱276,880,248	**₱155,790,651**	**₱84,271,651**
b. Weighted average number of shares issued	**302,114,918**	302,114,918	302,114,918
c. Less weighted average number of shares held in treasury	**686,250**	686,250	686,250
d. Weighted average number of shares outstanding **(b-c)**	**301,428,668**	301,428,668	301,428,668
e. Basic/diluted earnings per share **(a/d)**	**₱0.92**	₱0.52	₱0.28

The Group does not have potentially dilutive common shares as of December 31, 2010, 2009 and 2008. Thus, the basic earnings per share is equal to the diluted earnings per share as of those dates.

The Group's outstanding common shares increased from 287,761,172 to 302,114,918 as a result of stock dividend issuance equivalent to 14,353,746 common shares approved on July 29, 2010. Therefore, the calculation of basic/diluted earnings per share for all periods presented has been adjusted retrospectively.

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:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash on hand and in banks	**₱322,975,839**	**₱322,975,839**	₱432,900,994	₱432,900,994
Cash equivalents	**35,753,695**	**35,753,695**	15,929,894	15,929,894
	358,729,534	**358,729,534**	448,830,888	448,830,888
Short-term investments	**10,141,555**	**10,141,555**	–	–
Receivables:				
Suppliers	**58,434,686**	**58,434,686**	61,743,590	61,743,590
Franchisee	**40,871,647**	**40,871,647**	46,051,611	46,051,611
Insurance claims	**10,986,094**	**10,986,094**	1,905,773	1,905,773
Employees	**10,321,643**	**10,321,643**	6,906,248	6,906,248
Store operators	**9,718,957**	**9,718,957**	6,075,955	6,075,955
Rent*	**5,925,582**	**5,925,582**	4,755,572	4,755,572
Current portion of lease receivable	**1,212,430**	**1,363,599**	2,187,564	2,584,612
Deposits	**1,009,864**	**1,009,864**	1,009,864	1,009,864
Due from PFI	**888,425**	**888,425**	323,477	323,477
Others	**19,189,307**	**19,189,307**	9,180,451	9,180,451
	158,558,635	**158,709,804**	140,140,105	140,537,153
Deposits:				
Utilities	**23,969,222**	**23,969,222**	22,131,783	22,131,783
Refundable	**11,805,629**	**15,894,383**	10,326,979	14,053,354
Others	**3,273,451**	**3,273,451**	2,753,309	2,753,309
	39,048,302	**43,137,056**	35,212,071	38,938,446

**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)

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Other noncurrent assets - lease receivable (net of current portion)	**₱4,748,411**	**₱4,915,991**	₱4,265,477	₱4,843,464
Total Loans and Receivables	**571,226,437**	**575,633,940**	628,448,541	633,149,951
AFS Financial Assets	**1,320,575**	**1,320,575**	2,314,575	2,314,575
TOTAL FINANCIAL ASSETS	**₱572,547,012**	**₱576,954,515**	₱630,763,116	₱635,464,526
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	**320,000,000**	**320,000,000**	340,000,000	340,000,000
Accounts payable and accrued expenses:				
Trade payable	**905,064,399**	**905,064,399**	864,748,683	864,748,683
Employee benefits	**34,009,286**	**34,009,286**	26,820,981	26,820,981
Utilities	**31,187,454**	**31,187,454**	17,666,410	17,666,410
Advertising and promotion	**18,831,169**	**18,831,169**	7,049,972	7,049,972
Outsourced services	**8,042,071**	**8,042,071**	6,497,194	6,497,194
Security services	**3,610,705**	**3,610,705**	2,292,041	2,292,041
Bank charges	**2,181,700**	**2,181,700**	1,852,100	1,852,100
Interest	**874,892**	**874,892**	1,053,797	1,053,797
Others**	**15,508,753**	**15,508,753**	18,701,005	18,701,005
	1,019,310,429	**1,019,310,429**	946,682,183	946,682,183
Other current liabilities:				
Non-trade accounts payable	**164,122,488**	**164,122,488**	138,118,326	138,118,326
Retention payable	**18,459,378**	**18,459,378**	15,236,991	15,236,991
Service fees payable	**15,694,145**	**15,694,145**	11,006,733	11,006,733
Royalty	**8,465,255**	**8,465,255**	6,719,659	6,719,659
Others	**11,916,276**	**11,916,276**	13,012,717	13,012,717
	218,657,542	**218,657,542**	184,094,426	184,094,426
Cumulative redeemable preferred shares	**6,000,000**	**6,000,000**	6,000,000	6,000,000
TOTAL FINANCIAL LIABILITIES	**₱1,563,967,971**	**₱1,563,967,971**	₱1,476,776,609	₱1,476,776,609

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

Fair Value Information

Current financial assets and financial liabilities

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

Lease receivables

The fair value of lease receivable is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as of December 31, 2010 and 2009, which is 4.64% and 5.51%, respectively.

Utility and other deposits

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

Refundable deposits

The fair value of deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as of December 31, 2010 and 2009 ranging from 2.74% to 6.09% and 4.41% to 8.57%, respectively.

AFS financial assets
The fair value of unquoted AFS financial assets is not reasonably determinable, thus, balances are presented at cost.

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

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

Fair Value Hierarchy
As of December 31, 2010 and 2009, the Group has no financial instruments measured at fair value.

30. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments are credit risk, liquidity risk 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:

	2010	2009
Cash and cash equivalents:		
Cash in bank (excluding cash on hand)	**₱248,539,958**	₱340,150,666
Cash equivalents	**35,753,695**	15,929,894
	284,293,653	356,080,560
Short-term investments	**10,141,555**	−
Receivables:		
Suppliers	**58,816,472**	69,278,890
Franchisee	**40,871,647**	46,051,611
Insurance claims	**10,986,094**	1,905,773
Employees	**10,321,643**	6,906,248
Store operators	**9,718,957**	6,075,955
Rent*	**5,925,582**	4,755,572
Current portion of lease receivables	**1,212,430**	2,187,564
Deposits	**1,009,864**	1,009,864
Due from PFI	**888,425**	323,477
Others	**22,435,013**	12,489,099
	162,186,127	150,984,053

**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)

	2010	2009
Deposits:		
Utilities	**₱23,969,222**	₱22,131,783
Refundable	**11,805,629**	10,326,979
Others	**3,273,451**	2,753,309
	39,048,302	35,212,071
Other noncurrent assets:		
Lease receivables - net of current portion	**4,748,411**	4,265,477
AFS financial assets	**1,320,575**	2,314,575
	6,068,986	6,580,052
	₱501,738,623	₱538,012,788

**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:

	2010			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	Or Impaired	Total
Cash and cash equivalents				
Cash in bank	**₱248,539,958**	**₱–**	**₱–**	**₱248,539,958**
Cash equivalents	**35,753,695**	**–**	**–**	**35,753,695**
	284,293,653	**–**	**–**	**284,293,653**
Short-term investments	**10,141,555**	**–**	**–**	**10,141,555**
Receivables				
Suppliers	**–**	**13,814,889**	**45,001,583**	**58,816,472**
Franchisee	**–**	**40,871,647**	**–**	**40,871,647**
Insurance claims	**–**	**10,986,094**	**–**	**10,986,094**
Employees	**–**	**9,929,725**	**391,918**	**10,321,643**
Store operators	**–**	**9,718,957**	**–**	**9,718,957**
Rent	**–**	**5,925,582**	**–**	**5,925,582**
Current portion of lease receivables	**–**	**1,212,430**	**–**	**1,212,430**
Deposits	**–**	**–**	**1,009,864**	**1,009,864**
Due from PFI	**–**	**888,425**	**–**	**888,425**
Others	**–**	**20,591,089**	**1,843,924**	**22,435,013**
	–	**113,938,838**	**48,247,289**	**162,186,127**
Deposits				
Utilities	**–**	**23,969,222**	**–**	**23,969,222**
Refundable	**–**	**11,805,629**	**–**	**11,805,629**
Others	**–**	**3,273,451**	**–**	**3,273,451**
	–	**39,048,302**	**–**	**39,048,302**
Other noncurrent assets				
Lease receivables - net of current portion	**–**	**4,748,411**	**–**	**4,748,411**
AFS financial assets	**–**	**1,320,575**	**–**	**1,320,575**
	–	**6,068,986**	**–**	**6,068,986**
	₱294,435,208	**₱159,056,126**	**₱48,247,289**	**₱501,738,623**

	2009			
	Neither Past Due nor Impaired		Past Due or Impaired	
	High Grade	Standard Grade		Total
Cash and cash equivalents				
Cash in bank	₱340,150,666	₱–	₱–	₱340,150,666
Cash equivalents	15,929,894	–	–	15,929,894
	356,080,560	–	–	356,080,560
Receivables				
Suppliers	–	59,836,520	9,442,370	69,278,890
Franchisee	–	46,051,611	–	46,051,611
Employees	–	6,906,248	–	6,906,248
Rent	–	4,755,572	–	4,755,572
Current portion of lease receivables	–	2,187,564	–	2,187,564
Insurance claims	–	1,905,773	–	1,905,773
Store operators	–	6,075,955	–	6,075,955
Deposits	–	1,009,864	–	1,009,864
Due from PFI	–	323,477	–	323,477
Others	–	9,180,451	3,308,648	12,489,099
	–	138,233,035	12,751,018	150,984,053
Deposits				
Utilities	–	22,131,783	–	22,131,783
Refundable	–	10,326,979	–	10,326,979
Others	–	2,753,309	–	2,753,309
	–	35,212,071	–	35,212,071
Other noncurrent assets				
Lease receivables - net of current portion	–	4,265,477	–	4,265,477
AFS financial assets	–	2,314,575	–	2,314,575
	–	6,580,052	–	6,580,052
	₱356,080,560	₱180,025,158	₱12,751,018	₱548,856,736

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:

	2010					
	Aging analysis of financial assets past due but not impaired				**Past due and**	
	31 to 60 days	**61 to 90 days**	**> 90 days**	**Total**	**impaired**	**Total**
Receivables:						
Suppliers	**₱7,533,090**	**₱9,420,501**	**₱27,666,206**	**₱44,619,797**	**₱381,786**	**₱45,001,583**
Others	**–**	**–**	**–**	**–**	**3,245,706**	**3,245,706**
	₱7,533,090	**₱9,420,501**	**₱27,666,206**	**₱44,619,797**	**₱3,627,492**	**₱48,247,289**

	2009					
	Aging analysis of financial assets past due but not impaired				Past due and	
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	Total
Receivables:						
Suppliers	₱1,737,877	₱60,844	₱108,349	₱1,907,070	₱7,535,300	₱9,442,370
Others	–	–	–	–	3,308,648	3,308,648
	₱1,737,877	₱60,844	₱108,349	₱1,907,070	₱10,843,948	₱12,751,018

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:

	2010				
	Three months or less	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Total**
Cash and cash equivalents					
Cash	**₱322,975,839**	**₱–**	**₱–**	**₱–**	**₱322,975,839**
Cash equivalents	**35,753,695**	**–**	**–**	**–**	**35,753,695**
	358,729,534	**–**	**–**	**–**	**358,729,534**
Short-term investments	**–**	**10,141,555**	**–**	**–**	**10,141,555**
Receivables					
Suppliers	**45,001,583**	**13,433,103**	**–**	**–**	**58,434,686**
Franchisee	**40,871,647**	**–**	**–**	**–**	**40,871,647**
Insurance claims	**–**	**10,986,094**	**–**	**–**	**10,986,094**
Employees	**10,321,643**	**–**	**–**	**–**	**10,321,643**
Store operators	**9,718,957**	**–**	**–**	**–**	**9,718,957**
Rent	**5,925,582**	**–**	**–**	**–**	**5,925,582**

(Forward)

	2010				
	Three months or less	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Total**
Current portion of lease receivables	**₱295,221**	**₱917,209**	**₱–**	**₱–**	**₱1,212,430**
Deposits	**1,009,864**	**–**	**–**	**–**	**1,009,864**
Due from subsidiaries	**–**	**888,425**	**–**	**–**	**888,425**
Others	**1,925,200**	**17,264,107**	**–**	**–**	**19,189,307**
	115,069,697	**43,488,938**	**–**	**–**	**158,558,635**
Deposits					
Utilities	**–**	**–**	**23,969,222**	**–**	**23,969,222**
Refundable	**–**	**–**	**11,805,629**	**–**	**11,805,629**
Others	**–**	**–**	**3,273,451**	**–**	**3,273,451**
	–	**–**	**39,048,302**	**–**	**39,048,302**
Other noncurrent assets					
Lease receivables - net of current portion	**–**	**–**	**4,748,411**	**–**	**4,748,411**
AFS financial assets	**–**	**–**	**–**	**1,320,575**	**1,320,575**
	–	**–**	**4,748,411**	**1,320,575**	**6,068,986**
	₱473,799,231	**₱53,630,493**	**₱43,796,713**	**₱1,320,575**	**₱572,547,012**

	2009				
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Cash and cash equivalents					
Cash	₱432,900,994	₱–	₱–	₱–	₱432,900,994
Cash equivalents	15,929,894	–	–	–	15,929,894
	448,830,888	–	–	–	448,830,888
Receivables					
Suppliers	61,635,241	108,349	–	–	61,743,590
Franchisee	46,051,611	–	–	–	46,051,611
Employees	6,906,248	–	–	–	6,906,248
Rent	4,755,572	–	–	–	4,755,572
Current portion of lease receivables	534,502	1,653,062	–	–	2,187,564
Insurance claims	–	1,905,773	–	–	1,905,773
Store operators	6,075,955	–	–	–	6,075,955
Deposits	1,009,864	–	–	–	1,009,864
Due from subsidiaries	–	323,477	–	–	323,477
Others	9,180,451	–	–	–	9,180,451
	136,149,444	3,990,661	–	–	140,140,105
Deposits					
Utilities	–	–	22,131,783	–	22,131,783
Refundable	–	–	10,326,979	–	10,326,979
Others	–	–	2,753,309	–	2,753,309
	–	–	35,212,071	–	35,212,071

(Forward)

	2009				
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Other noncurrent assets					
Lease receivables - net of current portion	₱–	₱–	₱4,265,477	₱–	₱4,265,477
AFS financial assets	–	–	–	2,314,575	2,314,575
	–	–	4,265,477	2,314,575	6,580,052
	₱584,980,332	₱3,990,661	₱39,477,548	₱2,314,575	₱630,763,116

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

	2010			
	Three months or less	**More than three months to one year**	**More than one year**	**Total**
Bank loans	**₱170,821,194**	**₱152,479,267**	**₱–**	**₱323,300,461**
Accounts payable and accrued expenses				
Trade payable	**905,064,399**	**–**	**–**	**905,064,399**
Employee benefits	**34,009,286**	**–**	**–**	**34,009,286**
Utilities	**31,187,454**	**–**	**–**	**31,187,454**
Advertising and promotion	**18,831,169**	**–**	**–**	**18,831,169**
Outsourced services	**8,042,071**	**–**	**–**	**8,042,071**
Security services	**3,610,705**	**–**	**–**	**3,610,705**
Bank charges	**2,181,700**	**–**	**–**	**2,181,700**
Interest	**874,892**	**–**	**–**	**874,892**
Others	**15,508,753**	**–**	**–**	**15,508,753**
	1,019,310,429	**–**	**–**	**1,019,310,429**
Other current liabilities				
Non-trade accounts payable	**13,657,982**	**150,464,506**	**–**	**164,122,488**
Retention payable	**–**	**18,459,378**	**–**	**18,459,378**
Service fees payable	**–**	**15,694,145**	**–**	**15,694,145**
Royalty	**8,465,255**	**–**	**–**	**8,465,255**
Others	**–**	**11,916,276**	**–**	**11,916,276**
	22,123,237	**196,534,305**	**–**	**218,657,542**
Cumulative redeemable preferred shares	**6,000,000**	**–**	**–**	**6,000,000**
	₱1,218,254,860	**₱349,013,572**	**₱–**	**₱1,567,268,432**

	2009			
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	₱100,408,333	₱244,049,167	₱–	₱344,457,500
Accounts payable and accrued expenses				
Trade payable	864,748,683	–	–	864,748,683
Employee benefits	26,820,981	–	–	26,820,981
Utilities	17,666,410	–	–	17,666,410
Advertising and promotion	7,049,972	–	–	7,049,972
Outsourced services	6,497,194	–	–	6,497,194
Security services	2,292,041	–	–	2,292,041
Bank charges	1,852,100	–	–	1,852,100

(Forward)

	2009			
	Three months or less	More than three months to one year	More than one year	Total
Interest	₱1,053,797	₱–	₱–	₱1,053,797
Others	18,701,005	–	–	18,701,005
	946,682,183	–	–	946,682,183
Other current liabilities				
Non-trade accounts payable	–	138,118,326	–	138,118,326
Retention payable	–	15,236,991	–	15,236,991
Service fees payable	–	11,006,733	–	11,006,733
Royalty	6,719,659	–	–	6,719,659
Others	–	13,012,717	–	13,012,717
	6,719,659	177,374,767	–	184,094,426
Cumulative redeemable preferred shares	–	–	6,000,000	6,000,000
	₱1,053,810,175	₱421,423,934	₱6,000,000	₱1,481,234,109

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	**₱320,000,000**	₱340,000,000
Rate	**4.20%-5.20%**	4.90%-5.50%

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

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

	2010		2009	
	Increase/ Decrease in Basis Points	**Effect on Income Before Income Tax**	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax
Bank loans - floating interest rate	**+100**	**₱3,200,000**	+ 100	₱3,400,000
	-100	**(3,200,000)**	- 100	(3,400,000)

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

31. Capital Management

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% and 50% in relation to its total assets. The Group's net worth ratio is 38% as of December 31, 2010 and 33% as of December 31, 2009. No changes were made in the objectives, policies and processes during the year.

	2010	2009
Capital stock	**₱302,114,918**	₱287,761,172
Additional paid-in capital	**293,525,037**	293,525,037
Retained earnings	**574,482,384**	326,309,628
	1,170,122,339	907,595,837
Less cost of shares held in treasury	**2,923,246**	2,923,246
	₱1,167,199,093	₱904,672,591
Total assets	**₱3,093,173,359**	₱2,709,291,692
Net worth	**38%**	33%

As of December 31, 2010 and 2009, the Group was able to meet its objective.

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 ₱40,202,044 in 2010, ₱32,828,051 in 2009 and ₱ 35,401,274 in 2008 and franchise revenue for the 7-Eleven charge amounted to ₱402,620,636 in 2010, ₱270,987,091 in 2009 and ₱215,454,387 in 2008.

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 ₱ 134,893,173 in 2010, ₱109,601,229 in 2009 and ₱103,170,576 in 2008.

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 ₱29,271,506 in 2010, ₱22,130,513 in 2009 and ₱21,213,531 in 2008.

d. The Group has entered into an exclusivity agreement with Unilever RFM Ice Cream, Inc. (Unilever) on October 1, 2007. Upon the effectivity of the agreement, all existing branches of 7-Eleven shall exclusively carry Selecta ice cream products, and 7-Eleven should not carry any other ice cream product including similar or parallel products. The agreement is for a period of three years starting October 1, 2007 and shall continue in force and effect until December 31, 2010. In June 2008, the Company received a total consideration of ₱11,741,071 in relation to the agreement, to be amortized over three years. Income from exclusivity contract included under "Other income" in profit or loss amounted to ₱3,913,691 in 2010 and 2009.

e. The Group has entered into a 3-year exclusivity contract with Pepsi-Cola Products Philippine Inc. (PCPPI) effective April 2010 to March 2013. The contract indicates that all slurpee products of 7-Eleven will be exclusively supplied by PCPPI. The Group received a one-time signing bonus amounting to ₱4,464,286 upon the effectivity of the exclusivity supply contract amortized over three years. Income from exclusivity contract with PCPPI included under "Other income" in profit or loss amounted to ₱1,116,071 in 2010. Deferred revenue as of December 31, 2010 amounted to ₱3,348,214 (see Notes 13 and 16).

f. In 2010, the Group collected a signing bonus amounting to ₱2,232,143 from Foodsphere, Inc. (Foodsphere) for awarding half of the Company's existing Hotdog Stock Keeping Units (SKUs) to Foodsphere for the next five years starting January 1, 2010. Income from exclusivity contract with Foodsphere included under "Other income" in profit or loss amounted to ₱446,429 in 2010. Deferred revenue as of December 31, 2010 amounted to ₱1,785,715 (see Notes 13 and 16).

g. The Group has entered into a Memorandum of Agreement (MOA) with Chevron Philippines, Inc. (CPI) on August 6, 2009, wherein CPI has granted the Group as authorized co-locator for a full term of three-years to establish, operate and/or franchise its 7-Eleven stores in CPI service stations. Both parties have identified 22 CPI service stations, wherein the Group will give the Retailers of these service stations a Letter Offer to Franchise (LOF) 7-Eleven stores. Upon acceptance of the Retailers of the LOF, the Retailers will sign a Store Franchise Agreement (SFA) with the Group. If LOF is not accepted by one of the 22 original service stations identified, that service station will be replaced with another mutually acceptable service station site.

   Upon signing of the MOA, CPI will execute an updated Caltex Retail Agreement with each of the 22 service station Retailers, which shall have a full term of three years and which will be co-terminus with the SFA. The parties may also identify additional CPI service stations upon mutual agreement in writing as provided in the MOA and such changes shall form part of the agreement.

   As of December 31, 2010 and 2009, the Company has already opened 25 Retailers franchised stores.

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

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

The segment's relevant financial information is as follows:

	2010	2009	2008
REVENUE			
Revenue from merchandise sales	**₱7,612,243,056**	₱6,033,322,488	₱5,412,969,204
Franchise revenue	**442,822,680**	303,815,142	250,855,661
Marketing income	**338,765,461**	236,502,860	136,211,215
Rent income	**37,361,844**	52,265,323	36,502,151
Commission income	**29,271,506**	22,130,513	21,213,531
Interest income	**5,355,769**	4,839,945	4,186,908
Other income	**78,278,268**	35,685,902	17,988,516
	8,544,098,584	6,688,562,173	5,879,927,186
EXPENSES			
Cost of merchandise sales	**5,585,270,478**	4,371,715,990	3,909,886,731
General and administrative expenses:			
Depreciation and amortization	**294,893,483**	203,905,718	179,639,006
Others	**2,236,612,313**	1,847,053,611	1,608,793,894
Interest expense	**16,398,169**	26,482,817	25,332,855
Impairment loss on goodwill	–	–	4,611,368
Other expenses	**5,288,221**	8,572,988	6,935,913
	8,138,462,664	6,457,731,124	5,735,199,767
INCOME BEFORE INCOME TAX	**405,635,920**	230,831,049	144,727,419
PROVISION FOR INCOME TAX	**128,755,672**	75,040,398	60,455,768
SEGMENT PROFIT	**₱276,880,248**	₱155,790,651	₱84,271,651
SEGMENT ASSETS	**₱3,093,173,359**	₱2,709,291,692	₱2,269,796,932
SEGMENT LIABILITIES	**₱1,922,744,371**	₱1,801,389,206	₱1,517,685,097

34. Provisions and Contingencies

The Group is a party to various litigations involving, among others, employees suing for illegal dismissal, back wages and damage claims, lessors claiming for lease payments for the unexpired portion of the lease agreements in cases of pre-termination of lease agreements, claims arising from store operations and as co-respondents with manufacturers on complaints with the Bureau of Food and Drugs, specific performance and other civil claims. All such cases are in the normal course of business and are not deemed to be considered as material legal proceedings. Further, these cases are either pending in courts or under protest, the outcome of which are not presently determinable. Management and its legal counsel believe that the liability, if any, that may result from the outcome of these litigations and claims will not materially affect their financial position or financial performance.

As of December 31, 2010 and 2009, the Company has provisions amounting to ₱7,066,290 and ₱12,578,122, respectively, pertaining to probable loss on litigations.

The table below summarizes the movements in the Company's provision as of December 31:

	2010	2009
Beginning of the year	**₱12,578,122**	₱–
Provisions during the year	**4,098,267**	12,578,122
Payments during the year	**(9,610,099)**	–
	₱7,066,290	₱12,578,122

35. **Note to Consolidated Statements of Cash Flows**

The principal non-cash transaction of the Group under financing activities pertains to the issuance of stock dividends amounting to ₱14,353,746 in 2010 and ₱26,097,722 in 2009.