COVER SHEET

PHILIPPINE SEVEN CORPORATION
(Company's Full Name)

7th Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City
(Company's Address: No. Street City/Town/Province)

724-4441 to 51
(Company's Telephone Number)

December 31	**Every 3rd Thursday of July of each year**
(Fiscal Year Ending)	(Annual Meeting)
(Month & Day)	

ANNUAL REPORT
(SEC FORM 17-A)
(FORM TYPE)

April 14, 2008
(Date)

(Amendment Designation if Applicable)

____
(Secondary License Type, if any)

____
LCU

____
Cashier

____
DTU

108476
S.E.C. Reg. No.

____
Central Receiving Unit

____
File Number

____
Document I.D.

REPUBLIC OF THE PHILIPPINES)
CITY OF QUEZON) S.S.

CERTIFICATION

I, **EVELYN S. ENRIQUEZ**, of legal age, Filipino citizen, with office address at the 7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City, after being sworn in accordance with law, hereby depose and certify:

1. I am the Corporate Secretary of **PHILIPPINE SEVEN CORPORATION** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at the 7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City;

2. I hereby certify that the basic and material data in the Annual Report and Audited Financial Statements of the Corporation for the year 2007 are also contained in the diskette and hard copies.

IN WITNESS WHEREOF, I have hereunto set my hand this _____th day of April 2008, Mandaluyong City, Philippines.

EVELYN S. ENRIQUEZ
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ___ day of April 2008 at 11876612, affiant exhibiting to me her Community Tax Certificate No./Passport No. 05844095 issued on January 04, 2008 at Mandaluyong City.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2008.

NOTARY PUBLIC

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE

1. For the fiscal year ended **2007**

2. SEC Identification Number ***108476***

3. BIR Tax Identification No. ***301-000-390-189***

4. Exact name of registrant as specified in its charter ***PHILIPPINE SEVEN CORPORATION***

5. ***Philippines***
   Province, Country or other jurisdiction of Incorporation or Organization

6. [ ] (SEC Use Only)
   Industry Classification Code:

7. ***7th Floor, The Columbia Tower, Ortigas Ave., Mandaluyong City*** ***1550***
   Address of principal office Postal Code

8. ***(632) 724-4441 to 51***
   Registrant's telephone number, including area code

9. Not Applicable
   Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Shares Outstanding - Common	**237,252,000**
Warrants	**-0-**

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

    Yes [X] No [ ]

Title of Class	*Total Shares Listed*
Common Shares	**237,938,250**

12. Check whether the registrant:

    has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the

Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

(a) Has been subject to such filing requirements for the past 90 days.

Yes [**X**]   No [ ]

13. Not Applicable
The aggregate market value of the voting stock held by non- affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

(a) Management's Discussion and Analysis of 2006 Operations as per Item 6 of SEC Form 17-A (Appendix A);
(b) Audited Consolidated Financial Statement for the year end December 31, 2007 showing the financial condition of registrant as per Item 7 of SEC Form 17-A (Appendix B).

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

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. 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.

The company had a manpower complement of 1,747 personnel, 793 of whom are regular employees, 504 contractual/probationary and 450 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.

At year end, PSC is operating 311 stores, 85 of which are franchise stores, 75 stores are operated under a service agreement, and the rest 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.

PSC looks at 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. The Company is able to sustain its leadership by putting stores in strategic locations, carrying product assortment fit for such market.

In spite of he 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, 2007, 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 2006)*
7-Eleven	**307**	**37%**
Mercury Self-Serve*	305	37%
Ministop	187	23%
San Miguel Food Shop	26	3%
TOTAL	**825**	**100%**

*only 47 stores operate 24 hours

The majority shareholder, PCSC, has hands-on experience and know how in operating more than 4,705 7-Eleven Stores in Taiwan and continually providing technical expertise, logistics infrastructure and marketing support program to build the Corporation's business systems to support its store expansion program for corporate and franchise stores. 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 1,197 per day per store with an average purchase transaction of about ₱ 44.15. The stores carry a wide range of beverages, food service items, frozen foods, confectioneries, cookies and chips, personal care products, groceries and other daily needs and other services 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 from Dec. 17, 1993 to Dec. 16, 2013
2. Hot Cup Quick Mix	Instant pre-packed hot beverages sold in 7-Eleven stores	June 02, 1997	Registered for 20 years from Dec. 05, 2004 to Dec. 04, 2024

3. Quick Bites	Fast food items carried under umbrella brand consisting of siopao, siomai, others	Jan. 13, 1997	- Pending-
4. Tea Eggs	Egg boiled in different herb formulation	Sept. 16, 1996	- Pending -
5. Medi-express	Pharmaceutical	Jan. 19, 2006	- Pending -
6. Pastariffic	Pasta meals with variants	April 11, 2006	-Pending -
7. Pinoy Rice Meal	Ready-to-eat meals with variants	June 05, 2006	- Pending -
8. Rice Meal Express	Ready-to-eat rice meals with variants	June 05, 2006	- Pending -
9. 24-Hr express payment	Receiving from customers payments to various establishments	June 05, 2006	- Pending -
10. Café 24/7	Brewed Coffee, Hot Chocolate, Cappuccino, Hot Tea, and Other Coffee and Cholocate Variants	February 23, 2007	- Pending -
11. Daily Bread	Different variants of bread	May 18, 2007	- Pending -

Further, the products or services carried by the stores as described above are generally categorized as General Merchandise which accounts for 78.51%, Food Service and Cupdrinks for 21.44% and Services at 0.05%.

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 San Miguel Corporation, Universal Robina Corporation, Pepsi Cola Producsts Phils., Inc. , Gate Distribution Enterprise, Inc. Unilever-RFM , Coca Cola Bottlers, Superdough Food, Philip Morris Philippines Manufacturing, Inc.,, Seven Dragons Food Galore Inc., and Absolute Sales Corp.

Item 2. Properties

The following properties are owned and leased by the Company, free from any lien or encumbrances, as described below:

Condominium (Owned)

Description	Location	Total Lot Area (in square meter)
MH del Pilar Store Branch	Unit Nos. 102 & 201, Ferguson Tower, A. Flores cor. MH del Pilar & Guerrero Sts., Ermita, Manila	151.43
Office Space	All units of 7th Floor and 3 units of 11th Floor, Columbia Tower Ortigas Avenue, Mandaluyong City	1,662.00
20 parking units	G/F, Basement 2 and 3 Columbia Tower	300.00

The Company divested its land holdings to 7 parcels of land, excluding the improvements thereon, to its affiliate, Store Sites Holdings, Inc. (SSHI) at book value. SSHI was registered with SEC last November 9, 2000, initially wholly-owned by PSC. It eventually became 40% Company-owned with the 60% investment in SSHI by the PSC Employees Retirement Plan through its trustee, Bank of Philippine Islands-Asset Management & Trust Group. Anticipating foreign ownership in PSC to exceed 40%, the divestment was made to SSHI, which is 60% owned by Filipinos and 40% by foreigners to comply with 40% foreign ownership limit for corporations allowed to hold or own land/s in the Philippines.

Leases

The Company leases land or existing building shell for its establishment of 7-Eleven stores. The lease term for these locations ranges mostly from 5 to 20 years. The numbers of locations which shall expire within the next 5 years are as follows:

2008	2009	2010	2011	2012
16	49	38	37	68

Rental rates of 7-Eleven Stores vary depending on transaction type as land or building shell transaction; size of the area being leased; site location in relation to the trade area; and the prevailing real estate market rates. The total amount of lease payments by the Corporation is contained in the Financial Notes on Leases of the audited financial statements attached herein. Below is the list of leased properties for the 7-Eleven Stores operational under a Franchise, Service Agreement and Corporate.

	Store Name	Address
1	001 KAMIAS	Kamias cor. EDSA Ave., Q.C.
2	*002 BF HOMES*	*Pres. Ave., BF Homes Parañaque*
3	*003 LIBERTAD ***	*Libertad cor., F.B. Harrison, Pasay*
4	004 NAGTAHAN***	Nagtahan cor. J.P. Laurel, Sta. Mesa Manila
5	005 U. NATION***	900 U.N. Ave., near corner Taft Avenue, Ermita Manila
6	007 QUIAPO***	465 Quezon Blvd., Quiapo de Arcadia, Quiapo Manila
7	*008 ADRIATICO ****	*Adriatico cor., P. Faura, Manila*
8	010 MUÑOZ	Roosevelt Ave, near cor EDSA-Muñoz, Q.C.
9	011BACLARAN 1***	Quirino Ave., cor. Airport Road P'que
10	*012 ROCES ***	*A. Roces St. cor. Quezon Ave., Q.C.*
11	*015 STI****	*Shaw Blvd nr cor Mayflower St., Pasig City*
12	016 RJ MAKATI**	7849 Ge. Luna St. cor Makati Avenue, Makati City
13	*017 BUENDIA ***	*Sen Gil Puyat Ave. cor Taft Ave, Manila*
14	020 BONI	Boni Avnue cor., EDSA Mandaluyong City
15	022 RETIRO***	Retiro cor Dimasalang Manila
16	024 PACO 1	Pedro Gil St., corner Paz St., Paco Manila
17	*030 BURGOS ****	*Libertad St., cor. Burgos St.,Pasay City*
18	*031 BARRANCA ****	*Boni Ave., Barangka Drive, Mandaluyong*
19	*032 MAYPAJO ****	*J.P. Rizal St., cor. Mabini St., Maypajo, Caloocan City*
20	*033 DAPITAN ****	*Maceda cor. Dapitan St., Sampaloc Manila*
21	*035 PASIG CHURCH***	*Caruncho Ave., cor. Sixto Ave., Pasig*
22	*036 J R C ****	*Shaw Blvd. cor Kalentong St., Mandaluyong City*
23	*037 NOVA 1****	*Gen. Luis cor. Austria St., Novaliches, Q.C.*
24	*038 PILAR ****	*Alabang Zapote Rd., cor. Pilar Village, Almanza, Las Piñas City*
25	*039 MCU ***	*Edsa cor. Asuncion St., Monumento, Caloocan City*
26	040 ALMEDA***	Concepcion cor. Almeda, San Joaquin, Pasig City
27	043 MARULAS	Mc Arthur Highway cor., Pio del Pilar St., Marulas, Valenzuela City
28	042 MALIBAY	EDSA cor. C. Jose St., Malibay, Pasay City
29	044 BACOOR	G.E. Aguinaldo Hi-way cor. Talaba, Bacoor
30	045 GAGALANGIN	Juan Luna cor., Pampanga St., Gagalangin Tondo Manila
31	046 PANDACAN	Jesus cor., Labores St., Pandacan Manila
32	*047 SINGALONG ****	*Singalong St., cor., san Andres, Malate Manila*
33	048 RACETRACK	A. P. Reyes cor. Adora St. Makati
34	051 ALABANG 1**	Montillano ST., near corner South Super Highway, Alabang, Muntinlupa
35	*054 MUNTINLUPA ****	*Rizal St. cor. National Road., Poblacion, Muntinlupa*
36	055 ROSARIO	A. Rodriquez nr. cor. Ortigas Ave. Ext., Rosario, Pasig
37	056 EVANGELISTA	Pio del Pilar cor. Evangelista, Mkati
38	*057 COMMONWEALTH ***	*Tandang Sora Ave., cor. Commonwealth Ave., Q.C.*
39	059 REVILLA	EDSA cor. C. Revilla St., Pasay City

40	060 CAINTA JUNCTION ***	A. Bonifacio St., cor. Ortigas Ave., Ext. Cainta Rizal
41	061 PUREZA**	R. Magsaysay Blvd., cor. Pureza St., Sta. Mesa, Manila
42	063 GUADALUPE 1 ***	EDSA nr. cor. R. Magsaysay, Guadalupe, Makati
43	064 MASINAG ***	Marcos Highway cor. Sumulong Highway, Antipolo, Rizal
44	065 ROAD 8 ***	Road 8 cor. Visayas Ave., Proj. 6 Q.C.
45	066 MH DEL PILAR**	A. Flores St., M.H. del Pilar, Ermita, Manila
46	067 ST.JAMES **	Tandang Sora Ave., cor Mindanao Avenue, Q.C.
47	068 MURPHY ***	15th Ave., cor. Liberty Ave., Murphy Cubao, Quezon City
48	069 P.C.U.	Pedro Gil St. cor L. Guinto St., Malate Manila
49	070 LA SALLE	Taft Ave., nr. cor. Vito Cruz, Malate Manila
50	071 A. BONIFACIO***	A. Bonifacio St., cor. Shaw Blvd., Mandaluyong City
51	072 CALAMBA	National Highway cor. J. P. Rizal Crossing Calamba Laguna
52	073 G.TUAZON	G. Tuazon St., cor. D. Santiago St., Sampaloc Manila
53	074 CANAYNAY	Dr. A. Santos Ave., cor. Canaynay Ave., P'que
54	075 ANTIPOLO	P. Oliveros St. cor Masangkay Rd. Antipolo Rizal
55	076 PASIG ROTONDA	Pasig Blvd. cor. Sixto Antonio Pasig City
56	077 ALTURA	R. Magsaysay cor. Altura & Buenos Aires St., Sampaloc Maniila
57	078 BRUGER	National Rd., Bruger St. Bruger Subd., Muntinlupa City
58	080 MARCELO ***	West Service Road cor. Marcelo Ave., P'que
59	081 R. SALAS	R. Salas cor. Mabini St. Ermita Manila
60	082 SAN ANTONIO ***	Sucat Rd. cor San Antonio Ave., P'que
61	085 FB HARRISON***	F.B. Harisson St. cor. Vito Cruz Manila
62	086 TAYUMAN	Tayuman St. cor. Rizal Ave., Manila
63	087 IMUS **	Aguinaldo Highway cor. Tanzang Luma, Imus Cavite
64	088 ANTIPOLO JUNCTION **	Circumferential Rd., cor. M.L. Quezon St., Antipolo Rizal
65	090 BANGKAL***	Evangelista cor. Alejandrino St., Bangkal, Makati
66	091 SAN PEDRO 1	Maharlika St. cor. National Highway, San Pedro Laguna
67	093 MEYCAUAYAN 2	Malhacan St. cor Mac Arthur Highway, Meycauayan, Bulacan
68	095 M DELA FUENTE ***	M. Dela Fuente St. cor. España, Sampaloc Manila
69	096 SAN PEDRO 2	#68 A. Mabini St. cor. Garcia St. San Pedro Laguna
70	097 CAVITE CITY	Cajigas St. cor. Burgos St., Cavite City
71	098 YLAYA	Ylaya St. cor. Lakandula St., Binondo Manila
72	099 DASMARINAS	P. Campos cor. Cantimbuhan St., Dasmariñas St., Cavite
73	100 BALIBAGO **	National Highway cor. R. Lasaga St., Balibago, Laguna
74	101 BLUMENTRITT 2	1882 Blumentritt St. cor. Isagani St. Sta. Cruz Manila
75	102 HERMOSA***	J. Abad Santos Ave., cor. Hermosa St. Tondo Manila
76	103 KABIHASNAN	Kabihasnan St. cor. Quirino Avenue, San Dionisio Parañaque City
77	104 GALAS ***	Unang Hakbang St., cor. Luzon Ave., Galas, Q.C.
78	105 LOWER BICUTAN	Gen. Santos Avenue cor. M. L. Quezon St., Lower Bicutan, Taguig City
79	106 TAMARAW HILLS **	Mac Arthur Highway cor. Tamarraw Hills, Marulas, Valenzuela
80	107 CABUYAO ***	J. P. Rizal cor. Circumferencial Ave., Cabuyao, Laguna
81	108 CHICO***	Chico St., cor Anonas St., Proj. 2, Q.C.
82	109 REMEDIOS **	Remedios St. cor. MH del Pilar, Malate, Manila
83	111 MOLINO 1 ***	Molino Rd., cor. BaHayang Pag-asa, Bacoor Cavite
84	112 SAN PABLO	Rizal Ave., cor. A. Flores ST., San Pablo City
85	113 TANAY	Plaza Rizal cor. P. Burgos, Tanay, Rizal
86	114 DASMA 2**	Mangubat St., cor. Aguinaldo Highway, Dasmariñas Cavite
87	115 MOLINO 2	Molino Rd., San Nicolas, Mambog, Bacoor, Cavite
88	116 SALINAS ***	193 Gen. Trias Drive, Poblacion, Rosario, Cavite

89	118 GMA**	Gov. Drive near cor. GMA Drive, Dasmariñas Cavite
90	119 BINAN 2	National Highway cor. Malvar St., San Vicente, Biñan, Laguna
91	*120 BALAGTAS ****	*Mac Arthur highway Wawa, Balagtas Bulacan*
92	*121 PULANGLUPA ****	*Quirino Ave., cor. Naga Rd., Pulang Lupa, Las Piñas*
93	122 BF RESORT	Alabang Zapote rd cor. BF Resort Drive Pamplona, Las Piñas City
94	*123 MARIKINA PARANG ***	*G. del Pilar cor., M.L. Quezon, Parang Marikina*
95	125 JP RAMOY	Quirini Highway cor. J.P. Ramoy, Barrio Talipapa Novaliches Q.C.
96	126 CAINTA CHURCH	A. Bonifacio Avenue, San Andres Cainta Rizal
97	127 TATLONG HARI	Rizal Blvd., cor. Tatlong Hari St., Sta. Rosa Laguna
98	128 LOS BANOS	Batong Malaki National Highway, Los Baños Laguna
99	130 BINAKAYAN	Gen. Tirona Highway cor. Bisita St., Binakayan Kawit Cavite
100	131 LIPA HIGHWAY	G/F Big Ben Complex, Pres. Laurel Hiway, Lipa City, Batangas
101	132 TRECE MARTIREZ	Gov. drive cor. Indang, Tanza Rd., Trece Martirez, Cavite
102	*133 TAGAYTAY ***	*Silang-Tagaytay Rd., Rotonda Tagaytay, Cavite*
103	134 MOLAVE	Bayan bayanan Ave. cor. Molave St. Concepcion, Marikina
104	*135 PANAPAAN ****	*Tirona Hi Way cor. Aguinaldo Hi Way Panapaan, Cavite*
105	*136 APALIT ****	*San Vicente cor. David St., Mc Arthur Highway, Apalit, Pampanga*
106	*137 SAN PEDRO 3 ****	*Pacita cor. Macaria Ave. San Pedro Laguna*
107	*138 LIPA PROPER ****	*C.M. Recto Avenue Lipa City, Batangas*
108	*141 CAMARIN ****	*Blk 1 Lot 18 & 20 Camarin cor. Susano Rd., Caloocan City*
109	*142 TANZA ****	*Sta. Cruz cor. San Agustine Poblacion , Tanza Cavite*
110	*143 MALINTA****	*Mc Arthur Highway cor. Poblacion 2, Karuhatan, Valenzuela, Q.C.*
111	144 AGLIPAY	Boni Ave., cor. A. T. Reyes Aglipay Mandaluyong City
112	*145 NAIC ****	*Poblete St., cor. Nazareno St., Poblacion Naic Cavite*
113	147 SHORTHORN***	Shorthorn cor. Road 20 Project 8, Quezon City
114	*148 JP RIZAL ****	*J. P. Rizal cor. Constancia St. Makati City*
115	150 ZABARTE	Quirino Hiway cor. Zabarte Ave., Novaliches
116	*152 DASMA 3 ****	*Congressional Ave., cor. DBB, Dasmariñas Cavite*
117	*153 PACO 2 ****	*Pedro Gil St. cor. Main St. Paco Manila*
118	*154 INSULAR ***	*P. Burgos St. cor. Gen. Luna St., Makati*
119	155 ONYX	A. Francisco cor. Onyx and Concha Sts. Sta. Ana, Manila
120	*156 GAUDALUPE 2 ****	*Sgt. Yabut nr. Cor. Anastasio St., Guadalupe, Makati*
121	*158 N.DOMINGO ****	*N. Domingo cor. F. Blumentritt St., San Juan*
122	*160 SAN BARTOLOME ***	*M. Dela Cruz cor. Quirino Highway, Novaliches, Quezon City*
123	161 URBAN	Urban Ave. (Tindalo St.) Makati City
124	*162 SAN FERNANDO ***	*B. Mendoza cor. Tiomico St., San Fernando, Pampanga*
125	*165 SUPERLINES ***	*EDSA nr. cor. New York St. , Cubao Quezon City*
126	166 COLUMBIA	Columbia Tower, Ortigas Ave., Mandaluyong City
127	*167 JUPITER ***	*Makati Ave., cor. Gil Puyat Ave., Makati*
128	*168 TM KALAW ***	*Kalaw cor. A. Mabini St. Ermita Manila*
129	*172 WEST TRIANGLE ****	*West Ave., cor. Zamboanga St. Quezon City*
130	174 MASANGKAY	Masangkay cor. Mayhaligue St. Sta. Cruz, Manila
131	175 MCU 2	EDSA cor. Benin St. Caloocan City
132	176 FARMERS	Space 1&2, 2nd Level New Farmers Plaza, Cubao Quezon City
133	177 MARIPOSA	Market Ave. cor. Carunchu Ave. Pasig City
134	*178 ASTURIAS ***	*Dapitan St. near cor. Asturias St., Sampaloc, Manila*
135	180 BATANGAS CITY	P. Panganiban nr. cor. P. Burgos St. Batangas City
136	182 SM PAMPANGA	SM Annex, SM City Pampanga
137	*184 D. JOSE ****	*Rizal Ave. cor. D. Jose, Sta. Cruz Manila*

138	*185 GLOBAL PLAZA ****	Seaside Drive nr. cor. Coastal Road. Tambo, Parañaque
139	*187 VIRRA 1 ***	*P. Burgos Ave. cor. Dapo St. Makati City*
140	*188 PANAY ***	*Quezon Avenue cor. EDSA, Quezon City*
141	*189 GEN. TRIAS ***	*Newhall Commercial Complex, Mangagahan Gen. Trias Cavite*
142	191 BAGUIO	#33 Lower Session Road, Baguio City
143	192 TURBINA	National Highway Brgy. Turbina, Calamba, Laguna
144	193 BAUAN	National Road, Brgy. Poblacion, Bauan Batangas
145	194 ANGONO	M.L. Quezon Ave. Angono Rizal
146	195 RFM	G/F RFM Corporate Center, cor. Sheridan St., Mandaluyong City
147	196 URDANETA	Brgy. Poblacion, Urdaneta City Pangasinan
148	197 TARLAC	Mac Arthur Highway, Sto. Cristo, Tarlac City
149	*198 MATALINO ***	*Matalino St. cor. Malakas St. Diliman Quezon City*
150	*199 RIZAL MED ****	*Pasig Blvd. cor. Banaag, Pineda, Pasig City*
151	200 CARMEN	Mac Arthur Highway, Carmen, Rosales, Pangasinan
152	*203 CIRCLE ****	*Quezon Ave. cor. Scout Reyes, Quezon City*
153	204 PRISCILLA	Pasong Tamo Ext.Kayamanan - C, Makati City
154	205 UE RECTO	UE, Claro M. Recto Ave., Manila
155	*206 ZAPOTE ****	*Alabang Zapote Road cor. F. Santos, Las Pinas*
156	207 MORONG	T. Claudio, Morong Rizal
157	*208 ANGELES ****	*Sto. Rosario cor. Sukdulan St. Angeles City*
158	209 DAGUPAN	Arellano St., Dagupan City
159	210 SESSION 2	G/F B - 105 Lpez Bldg. Session Rd. Baguio City
160	*211 OROSA ***	*MY Orosa nr. cor. TM. Kalaw, Ermita Manila*
161	212 LEMERY	Ilustre Ave., nr. cor., P. Burgos St. Lemery, Batangas
162	*213 PARKVIEW***	*Valero St. cor. Salcedo Village Makati City*
163	*214 SAN PABLO ***	*Leonor street corner Maharlika Hway, San Pablo, Laguna*
164	*215 CRAME ****	*Boni Serrano cor 2nd street, Camp Crame, Q.C.*
165	216 BAC 2	Quirino Ave., Corner Dimasalang st., Baclaran Paranaque City
166	217 NOVA 3	Quirino H-Way cor. Sarmiento St. Novaliches City, Q.C.
167	*218 TAYTAY 2 ****	*Manila-East Road, Taytay Rizal*
168	*219 P.CAMPA ****	*Espana cor. P. Campa St. Sampaloc., Manila*
169	220 BEL-AIR	Sta. Rosa Brgy. Don Jose Tagaytay Road Sta. Rosa, Laguna
170	*221 BACLARAN 3***	*Roxas Blvd., Baclaran, Paranaque*
171	222 CALAMBA 2	National Hi-way near cor. Halang St., Calamba, Laguna
172	223 EASTWOOD	Eastwood cor. E-Commerce Ave., Eastwood City, Quezon City
173	224 LUISITA	Mc Arthur H-way, Brgy. Maligaya San Miguel, Tarlac City
174	*226 LEGARDA ****	*2108 Legarda St., Quiapo, Manila*
175	*227 EPZA ***	*Gen. Trias Drive, Brgy. Tejero, Rosario Cavite*
176	*228 BOCAUE ****	*Mc Arthur Highway cor. Gov. F Halili Ave., Binang 2nd, Bocaue, Bulacan*
177	229 CITYLAND 10	LG07 Cityland 10 Tower Valero cor. Dela Costa St., Salcedo Village, Makati City
178	230 FILOMENA	Penthouse Filomena Bldg., 104 Amorsolo St., Legaspi Village, Makati City
179	231 MAKATI City Hall	9033 Hormiga St., Brgy. Poblacion, Makati City
180	232 CBC	115 G/F Corporate Business Center, Paseo de Roxas cor. Pasay Road, Makati City
181	233 EDSA CENTRAL	EDSA Central Shopping Complex, EDSA cor. United, Mandaluyong City
182	*234 LA HUERTA****	*Quirino Avenue cor. Dandan St., La Huerta, Parañaque*
183	235 EAGLECREST	G/F Evercrest Bldg., Pasong Tamo cor. Buendia, Makati City

184	236 UP MANILA	Pedro Gil Street near corner Taft Avenue, Malate, Manila
185	237 ORIENT	Ruby Road, Ortigas Ctr., Pasig City
186	238 FORUM	Stop-Over 2, 31st cor 2nd St. Bonifacio Global City, Taguig
187	239 PARK N' RIDE	P. Burgos cor. Dr. Basa St., Ermita Manila
188	240 SALCEDO	Unit G-102 Antel 2000 Bldg., Valero cor. Herrera, Salcedo Village,Makati
189	241 ST. LUKES	E. Rodrguez cor. Victoria St., New Manila, Q.C.
190	242 MABINI-10th Ave. ***	Mabini cor. 10th Avenue, Caloocan City
191	243 MERVILLE	Moreland Bldg., Merville Access Rd. cor. West Service Rd., Parañaque City
192	244 GUADA 3 **	F. Yabut St., near cor. EDSA, Guadalupe Nuevo, Makati City
193	245 QA- ARANETA ***	Quezon Avenue cor. Araneta Ave., Q.C.
194	246 SUCAT 1	Sucat Interchange, Sucat Road, Parañaque
195	248 PASIG MEGA ***	Mega Parking, Caruncho cor. Market Avenue, Pasig City
196	249 BINANGONAN	Quezon St., Libis, Binangonan, Rizal
197	250 AURORA***	Aurora Blvd.cor St. Mary,Cubao Quezon City
198	251 NOBEL	G/F ,110 Nobel Plaza,Valero St., Makati City
199	252 TALON	J. Aguilar Ave. cor Alabang-Zapote Road, Talon, Las Pinas City
200	254 SALUAG***	Molino-Paliparan Road,Salawag,Dasmarinas, Cavite
201	255 PATEROS	Herrera St.cor Morcilla Pateros
202	256 MARIKINA BRIDGE ***	E. Rodriguez cor. JP Rizal St., Marikina
203	257 SHOE AVE. ***	#182 Shoe Avenue cor Capt Venciong, Sta. Elena, Marikina City
204	258 HERRERA	Y-L Bldg., Herrera St. Cor Salcedo St., Legaspi Village,Makati City
205	259 DEL MONTE	Del Monte Avenue cor Tolentino St.(near Roosevelt), Quezon City
206	260 ALABANG TERMINAL	Alabang City Terminal,Alabang Zapote Rd, Alabang, Muntinlupa City
207	261 CALAMBA CROSSING	along Provincial Road, Calamba-Crossing,Laguna
208	262 PCU 2	Taft Avenue cor Pedro Gil, Manila
209	264 TRECE 2	Gov. Drive cor Indang, Tanza Road
210	265 ANTIPOLO MARKET	ML Quezon cor Sumulong St., San Roque, Antipolo
211	268 ARAYAT 2***	Arayat cor. Pinatubo St. Near cor. Edsa, Cubao Quezon City
212	270 BINAN 3	A. Bonifacio cor Gonzales Sts. Poblacion Binan, Laguna
213	271 STARMALL	Shaw Blvd. cor EDSA Mandaluyong
214	272 BETTERLIVING 2	Dona Soledad Avenue cor Peru, Betterliving, Paranaque City
215	273 SANTOLAN	AD Center Square E. Rod. Ave. cor Evangelista, Pasig City
216	274 FIELDS **	G/F HHH Commercial Bldg., 932 Fields Ave. Balibago, Angeles City
217	275 FEU ***	913-919 Nicanor Reyes cor. Estiro de Alix, Sampaloc,Manila
218	276 HANSEL **	#70 Aurora Blvd. cor. Imperial, Cubao Quezon City
219	277 SESSION 3	Upper Session Rd.., Baguio City
220	278 SAGITARIUS**	G/F Sagittarius Bldg.HV Dela Costa St.,Salcedo Village, Makati
221	279 MARINA **	A. Mabini St., Malate Manila
222	281 T. MORATO **	Scout Castor cor.. T. Morato, Quezon City
223	282 GATCHALIAN **	Dr. A. Santos Ave. cor Palanyag St., Parañaque City
224	283 RCBC **	RCBC Bldg 3rd Flr . RCBC Podium 3, Ayala Ave. cor Buendia, Salcedo Vill. Makati City
225	284 BURGUNDY**	G/F One Burgundy Plaza , Katipunan Ave. Loyola Heights Quezon City
226	285 EMERALD **	G/F Emerald Mansion Emerald Ave. Ortigas Ctr., Pasig City
227	286 APACIBLE	G/F Mirasol Bldg., G. Apacible St. cor Taft Avenue , Ermita Manila
228	287 DAGUPAN 2 ***	Perez Blvd. beside Victory Liner Terminal, Dagupan City
229	288 SAN FERNANDO 2 **	IAM Bldg., San Fernando Crossing, San Fernando, Pampangga
230	289 KARUHATAN **	Gen T De leon cor Mc Arthur H-way , Kahuratan Valenzuela

231	292 UNIV. OF BATANGAS	University Arcade, University of Batangas Hilltop Brgy. Kumintang Ibaba, Batangas
232	*293 PLARIDEL ** *	*Cagayan Valley Road, Banga St. Plaridel, Bulacan*
233	*294 BIÑAN 4****	*In front of Perpetual Help Hospital & College, Binan Laguna*
234	*295 KINGS PLAZA ** *	*Kings Plaza, Juan Luna cor. Padre Rada St., Tondo Manila*
235	296 MANANSALA	Manansala Bldg., Estrella St., Rockwell Center, Makati City
236	297 DFA **	G/F AIMS Bldg., Roxas Blvd. Service Road cor. Arnaiz St., Pasay City
237	298 PACIFIC STAR	6th Flr., Pacific Star Bldg., Gil Puyat cor. Makati Ave., Makati City
238	299 INDANG	San Gregorio nr. Cor. Mabini St. Indang Cavite
239	300 CONVERGYS	G/F Convergys, One Ayala Avenue, cor. Salcedo St., Makati City
240	301 ANNAPOLIS	G/F Continental Plaza, #45 Annapolis, Greenhills, San Juan MM
241	302 AYALA-FGU	G/F Ayala Life FGU Center Ayala Ave., Salcedo St., Salcedo Village, Makati City
242	*303 ASIAN MANSION ** *	*G/F Asia Mansion 2 Dela Rosa St. Legaspi Village, Makati City*
243	*304 STARWOOD ** *	*Starwood Hotel along Kisad Road nr. Cor. Marcos Hi-way, Baguio City*
244	*307 MADRIGAL ** *	*G/F Madrigal Building Ayala Avenue, Makati City*
245	308 LP CITY HALL	Alabang-Zapote Rd., F. Ocampo Ave., Pamplona 3, Las Pinas City
246	309 AIC GALE	G/F AIC-Burgundy Empire Tower, ADB Ave., cor. Garnet rd. Ortigas, Pasig City
247	*310 MALAYAN ** *	*Unit G-1, Malayan Plaza, ADB Ave., Ortigas Ctr., Pasig City*
248	311 PDCP	G/F PDCP Bank Center, VA Rufino cor., San Agustin, Salcedo Village, Makati
249	*312 US EMBASSY ** *	*Roxas Blvd., cor. UN Avenue, Ermita Manila*
250	*313 NORTHGATE ** *	*F@st bytes @North Gate Cyberzone Alabang Muntinlupa*
251	315 BANAUE	426 Banaue Ave. cor Tirad Pass St., SMH QC
252	316 XAVIER HILLS	Xavier Hills Condo, Tower 1, Granada St., cor. N. Domingo St. QC
253	317 TANAUAN	JP Laurel Highway cor. Mabini St. Tanauan City, Batangas
254	318 PEARL DRIVE	Pearl Drive cor. Lourdes St., Pasig City
255	321 BUENDIA 2	Gil Puyat Ave., cor FB Harrison St., Pasay City
256	*322 ST. SCHOLASTICA ** *	*896 Vito Cruz cor. Dominga St., Malate Manila*
257	*323 CHANNEL 7***	*131 Timog Ave., cor. Samar St., Diliman QC*
258	*324 LUCENA ** *	*Gomez St., cor. Quezon Ave., Lucena City*
259	*325 STA. CRUZ ** *	*P. Guevarra Ave., Brgy. Poblacion, Sta. Cruz, Laguna*
260	326 GAPAN	GM Bakery Bldg. Bucana Gapan Crossing, Gapan City, Nueva Ecija
261	328 CABANATUAN 2	199 Gen. Tinio cor. Mabini St., Quezon District, Cabanatuan, Nueva Ecija
262	329 DANGWA	1300 Laonlaan St. cor Don Quijote St., Sampaloc Manila
263	330 IMPERIAL PALACE	Tomas Morato Ave., cor. Timog Ave., Diliman QC
264	331 LETRAN	Muralla St. cor. Anda St. Intramuros Manila
265	332 LEGARDA 2	Legarda cor. Jhocson St. Sampaloc Manila
266	*333 BALIBAGO 2 ** *	*Balibago Complex Balibago Sta. Rosa Laguna*
267	334 OWWA 2	749 Victoria St. cor. Solana St., Intramuros Manila
268	335 MAMATID	Banlic, Cabuyao Laguna
269	*336 PADRE FAURA***	*P. Faura cor. MH del Pilar*
270	*337 CANDELARIA***	*#2 Rizal St., Poblacion Candelaria, Quezon*
271	338 PAGSANJAN	Calle Rizal, Poblacion Pagsanjan, Laguna
272	*339 NASUGBU***	*JP Laurel St. cor G. Alvarez St., Nasugbu Batangas*
273	*340 MANUELA***	*#02-Alabang-Zapote Rd. cor. Real St. Las Piñas City*
274	341 OLIVAREZ	8156 Dr. A Santos Ave., Brgy. San Dionisio, Sucat Parañaque City
275	342 R. MAGSAYSAY	173 Edsa cor. Ermin Garcia St., Cubao, Quezon City
276	*343 FIELDS2***	*McArthur Highway, Balibago, Angeles City, Pampanga*

277	344 MOLINO 3	Zapote-Molino Rd., Brgy Molino 3 Bacoor, Cavite
278	345 BALIUAG2	Poblacion Plaza Naning Baliuag, Bulacan
279	*346 HYATT***	*1578 A. Mabini corner Pedro Gil St., Ermita, Manila*
280	347 BULIHAN	B 275 L 13 AFP Housing, Old Bulihan Rd., Bulihan, Silang Cavite
281	*348 LANTING***	*14 Marcel Drive cor. Tandang Sora Ave., QC*
282	*349 T. BLISS***	*#1 Teachers Bliss, Balong bato Balintawak, QC*
283	*350 PACIFIC CENTER***	*San Miguel Avenue, Ortigas Center, Pasig*
284	351 CABANATUAN 1	586 Burgos Ave., Cabnatuan City
285	352 BACLARAN 4	Roxas Blvd. cor. Rivera St., Baclaran, Parañaque
286	*353 GUAGUA***	*One Crown Property & Development, Plaza Burgos, Guagua, Pampanga*
287	*354 GORDON AVE.***	*Gordon Ave. corner 6th St., Asinan Olongapo City*
288	355 VITO CRUZ	Unit 102%103 Cityland Tower One, Vito Cruz, Manila
289	*356 GUALBERTO***	*Zunio St. Gualberto Ave., Rosario, Batangas*
290	357 TANZA 2	Tanza Crossing, Daang Amaya, Tanza, Cavite
291	358 DAU	#157 McArthur Hi-way, Dau, Mabalacat, Pampanga
292	*360 Olongapo Rotonda***	*1739 Rizal Avenue West Bajac, Olongapo City*
293	361 CABANATUAN 3	Manson Bldg., Burgos Ave., Cabanatuan City
294	*362 T. MAPUA***	*1512 C.M. Recto cor. F. Torres & T. Mapua Sta. Cruz, Manila*
295	*363 LOPEZ DRIVE***	*RIDC Bldg. Lopez Ave. cor. Dr. A. Santos Ave., Parañaque City*
296	*364 ALIMALL***	*Alimall Gen. Romulo Ave., Araneta Center, Quezon City*
297	*365 MCKINLEY***	*Unit 1 G/F One Square, Upper Mckinley Road, Mckinley Hill, Taguig City*
298	*SM CLARK***	*Bayanihan Park, SM Clark, Balibago, Angeles City, Pampanga*
299	367 RIVERBANKS	G/F ICT Bldg. 2, Riverbanks Center, Riverbank Ave., Barangka Marikina City
300	369 BALAYAN	112 Plaza Mabini St., Balayan, Batangas
301	370 URDANETA 2	Alexander St., Urdaneta City, Pangasinan
302	371 DAGUPAN 3	M.H. del Pilar cor. A.B. Fernandez Ave., Dagupan City
303	*372 PASCOR DRIVE***	*Sky Freight Building, Ninoy Aquino Avenue, Parañaque City*
304	*377 LUCENA 2***	*Lot #2771-B Along Quezon Ave., Lucena City, Quezon*
305	*379 OLONGAPO 3***	*West 18th St. corner Anonas West Bajac-Bajac, Olongapo City (Victory Liner)*
306	*380 CITADELLA***	*CAA Rd. corner Citadella Ave. Las Piñas City*
307	*383 MAYA ARCADE***	*G/F Maya Arcade, 678 EDSA, Cubao, Quezon City*

**Franchise Stores
***Service Agreement (SA)

Item 3. Legal Proceedings

The Company is a party to various litigations involving price tag law issues 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, for specific performance and other civil claims; criminal cases it filed against employees and other persons arising from theft, estafa and robbery; all such cases are in the normal course of business and are not deemed to be considered as material legal proceeding as stated in Part I, Paragraph (C) of "Annex C" of SEC checklist 17-A.

Item 4. Submission of Matters to a Vote of Security Holders

A stockholders meeting was held last July 19, 2007, during which, no matter was submitted to a vote of security holders. No other stockholders' meeting was held for the period ending December 31, 2007.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder 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, 2006 and 2007 are as follows:

December 31, 2006

Month	Open	High	Low	Close	Volume
1st Quarter	2.50	2.50	1.50	1.50	48,000
2nd Quarter	2.22	3.25	1.82	3.25	14,000
3rd Quarter	3.30	3.30	3.30	3.30	5,000
4th Quarter	3.50	4.00	3.50	4.00	40,000
Last Transaction					
December 28, 2006	4.00	4.00	4.00	4.00	9,000
Latest Trading					
February 28, 2007	2.10	2.10	2.10	2.10	10,000

December 31, 2007

Month	Open	High	Low	Close	Volume
1st Quarter	2.10	2.10	2.10	2.10	10,000
2nd Quarter	3.00	3.00	3.00	3.00	1,000
3rd Quarter	4.30	4.30	4.30	4.30	10,000
Last Transaction					
September 03, 2007	4.30	4.30	4.30	4.30	10,000
Latest Trading					
April 4, 2008	5.00	5.00	5.00	5.00	16,000

Stock/Cash Dividends

No stock/cash dividends were declared during the past three years (2005-2007) due to the reservation of retained earnings for store expansion and development of store support infrastructures which require considerable capital expenditures. 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. Likewise, there was no sale of any unregistered securities.

Holders

As of December 31, 2007, there were 20 shareholders of the Company's outstanding common shares totaling 237,252,000 shares.

The top 20 shareholders and their corresponding shareholdings as of December 31, 2007 are as follows:

SHAREHOLDER	CITIZENSHIP	SUBSCRIPTION	% HOLDINGS
1. President Chain Store (Labuan) Holdings, Ltd.	Malaysian	134,257,619	56.59%
2. Asian Holdings Corporation	Filipino	29,208,750	12.31%
3. Progressive Development Corp.	Filipino	20,163,079	8.50%
4. PCD Nominee Corporation	Non-Filipino	10,936,795	3.25%
5. Vicente T. Paterno	Filipino	5,540.746	2.34%
6. Agus Development Corp.	Filipino	4,912,178	2.07%
7. Ma. Cristina P. Paterno	Filipino	4,593,050	1.94%
8. Anglo Philippine Holdings Corporation	Filipino	4,333,380	1.83%
9. Ma. Theresa P. Dickinson	Filipino	4,257,884	1.79%
10. Jose Victor P. Paterno	Filipino	3,767,951	1.59%
10. Paz Pilar P. Benares	Filipino	3,767,951	1.59%
11. Maria Henrietta R. Santos	Filipino	1,051,563	0.44%
12. Seven Eleven, Inc.	American	922,876	0.39%
13. Dante G. Santos	Filipino	917,723	0.39%
14. Apex Management & Dev't. Group Inc.	Filipino	888,000	0.37%
15. Ma. Elena P. Paterno	Filipino	714,736	0.30%
16. Paz Pilar P. Benares.	Filipino	714,735	0.30%
17. Jose Victor P. Paterno	Filipino	425,388	0.18%
18. Manuel U. Agustines	Filipino	421,140	0.18%
19. Socorro Paz P. Paterno	Filipino	170,000	0.07%
20. Antonio Diaz Sta. Maria	Filipino	100,000	0.04%

Item 6. Management's Discussion and Analysis or Plan of Operation.

The Management's Discussion and Analysis of 2007 Operations is attached hereto as Appendix A.

Item 7. Financial Statements

The Company's Audited Financial Statements for the year ending December 31, 2006 is attached hereto as Appendix B.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Information on independent accountant and other related matters

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, 2007 and 2006:

	2007	2006
	(in thousands)	
Audit Fees	P 1,088	P 1,050
Tax Fees	.01	375
All Other Fees	198	122
Total	**P1,293**	**P1,547**

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 and tax planning services performed by our independent auditors.

All Other Fees. This category consists primarily of fees for consultations, special engagements relating to dollar purchases in accordance with the requirements of the Bangko Sentral ng Pilipinas and other incidental expenses.

The fees presented above includes out-of-pocket expenses incidental to our independent auditors' work, which amounts do not exceed 5% of the agreed-upon engagement fees.

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.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We have no disagreements with our external auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

There are no changes in or disagreements with accountants on accounting and financial disclosures.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

a) Directors and Corporate Officers

The eleven (11) directors of the Company are elected at the Annual Stockholders meeting to hold office until the next succeeding annual meeting or until their respective successors 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.	79	7 yrs.	7 yrs.	• *Chairman* - Uni-President Enterprise Corp.; • *Chairman* - President Chain Store Corporation
VICENTE T. PATERNO Chairman of the Board And Director Citizenship: Filipino	82	25 yrs.	25 yrs.	• *Chairman* - Store Sites Holding Inc.; • *Director* - State Land Investment Inc., First Philippine Holdings Corporation and Benpres Holdings Corporation
CHIEN-NAN HSIEH Vice Chairman and Director Citizenship: R.O.C.	53	3 yrs. 7 yrs.	7 yrs.	• *Chairman* - President Logistics International Corp./ Retail Support Taiwan Corp. • *Vice-President* - President Chain Store Corporation; • *Director* - Ren-Hui Investment Corp/ President Organics Co. / Uni-President Cold Chain Corp./ President Drugstore Business Corp/ Uni-President Yellow Hat Corp./ President Information Corp./ Mech-President Corp./ President Transnet Corp./ President Collect Services Corp./ Uni-President Oven Bakery Corp./ Bank-Pro E-Service Technology Co. Ltd./ Retail Support International Corp.. • *Supervisor* - T & T Supermarket Inc.

JORGE L. ARANETA Director Citizenship: Filipino	72	20 yrs.	20 yrs.	• *Chairman & CEO* - Araneta Center Inc./ Philippine Pizza Inc./ Progressive Development Corporation
DIANA P. AGUILAR Director Citizenship: Filipino	44	9 yrs. 8 mos.	9 yrs. 8 mos.	• *Director* - Asian Holdings Corporation/ WenPhil 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. • *Treasurer* - Franchise One Corporation • *Board of Trustee* – De La Salle Santiago Zobel • *Treasurer* – Foundation for International Research Skills & Training, Inc.
ALFREDO C. RAMOS Independent Director Citizenship: Filipino	64	6 yrs. & 7 mos.	20 yrs.	• *Chairman & President* –National Bookstore, Inc./ The Philodril Corp./ Vulcan Industrial & Mining Corp. • *Chairman of the Board* –Anglo Philippine Holdings Corporation/ Cacho Hermanos, Inc./ The Music One Corp. • *President* – Abacus Book and Card Corp./ Atlas Consolidated Mining & Development Corporation/ Crossings Department Store, Corp./ Power Books, Inc./ Alakor Corp. • *Vice*-Chairman – Shang Pin Inc. • *Director* – Kuok Philippine Properties, Inc./ Vulcan Materials Corp. • *Governor* – National Bookstore Development Board
MICHAEL B. ZALAMEA Independent Director Citizenship: Filipino	43	3 yrs. & 5 mos.	3yrs. & 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.
CHUNG-JEN HSU Director Citizenship: R.O.C.	60	7 yrs.	7 yrs.	• *Chairman* - Duskin Serve Taiwan Ltd. Co./ Presidential Direct Marketing Corp./ Ren-Hui Investment Corp./ President Information Corp./ Capital Inventory Services Corp./ Wisdom Distribution Service Corp./Retail Support International Corp./ President Drug Store Business Corp./ BankPro E-Service Technology Co. Ltd./ Mister Donut Taiwan Co./ MUJI (TAIWAN) Co., Ltd./ T & T Supermarket, Inc./ Uni-President Yi-Lian Art and Culture Corp. • *President* - President Chain Store Corporation/ Ren-Hui Investment Corp. • *Director* – President Coffee Corp./ Uni-President Department Store Corp./ Mech-President Corp./ President Pharmaceutical Corp./ 21 Century Enterprise Co. Ltd./ President Collect Services Co. Ltd./ President FN Business Corp./ Cold Stone Creamery Taiwan Ltd.)
FU-TANG CHEN Director Citizenship: R.O.C.	60	7 yrs.	7 yrs.	• *Chief Financial Officer* - President Chain Store Corp; • *Director* - President Investment Trust Corp.; • *Supervisor* - President Direct Marketing Corp./ Capital Inventory Services Corp./ Books.com.Co. Ltd/ / President Yi-Lan Art & Culture Center/ Mister Donut Taiwan Corp.
WEN-CHING LIN Director Citizenship: R.O.C.	54	3 yrs. & 6 mos.	3 yrs. & 6 mos.	• *Vice President – President Chain Store Corporation*; • *Supervisor – President Drugstore Business Corp./ President Transnet Corp./ Mech-President Corp./ Duskin Serve Taiwan Co.*

YEN-SEN YANG Director Citizenship: R.O.C	48	2 yrs. & 6 mos.	2 yrs. & 6 mos.	• *Vice-President* - President Chain Store Corp.; • *Director – Duskin Serve Taiwan Co./ 21 Century Enterprise Co., Ltd.* • Supervisor – Marks and Spencer Co.
PING-YUN WANG Vice-President Citizenship: R.O.C.	41	3 yrs. & 4 mos.	8 yrs. & 4 mos.	• Vice President for Operations & Marketing • *Exec. Committee member*- Philippine Seven Corporation • *Director* –Convenience Distribution, Inc. • *Former Marketing Director & Corp.Plan Mgr.* - Philippine Seven Corporation
TSUNG YU-LIN Treasurer (Resigned Feb 2008) Citizenship: R.O.C.	38	3 yrs. & 9 mos.	3 yrs. & 9 mos.	• *Treasurer, Chief Financial Officer* – Philippine Seven Corp. • *Vice-President* – Convenience Distribution, Inc. • *Director* – Convenience Distribution, Inc. / Store Sites Holding, Inc. • *Former Finance Planning Team Manager – President Chain Store Corporation*
EVELYN SADSAD-ENRIQUEZ Corporate Secretary Citizenship: Filipino	44	4 yrs. & 5 mos.	18 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, Phil-Seven Foundation, Inc. • *President* – Columbia Owners' Association Inc. • *Former Asst. Corporate Secretary and Head of Legal and Corp. Affairs* - Philippine Seven Corporation

b) The Executive Officers

As of December 31, 2007, the Executive Officers and Management of the Corporation are the following:

Executive Officers	**Name**
Chairman of the Board	Vicente T. Paterno
Vice-Chairman	Chien-Nan Hsieh
President & CEO	Jose Victor P. Paterno
Vice-President for Operations & Marketing	Ping-Yun Wang
Treasurer, CFO, VP for Finance & Administration*	Tsung-Yu Lin
Corporate Secretary, Legal & Corporate Services Division Manager	Atty. Evelyn S. Enriquez
Marketing Director	Michael Chuaunsu
Comptroller	Lawrence M. de Leon
General Merchandise Division Manager	Jose Ang, Jr.
Operations Division Manager	Liwayway T. Fernandez
Construction & Maintenance and RI Project Division Manager	Eduardo P. Bataclan
HR Division Manager	Violeta B. Apolinario
Corporate Planning & MIS Division Manager	Jason Jan Ngo
Business Development Division Manager	Francis S. Medina

**Resigned Feb.04,2008*

c) 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 EC Payment Network Inc., a supplier of the Company, is the spouse of Ms. Diana P. Aguilar

e) Independent Directors

The independent directors, Mr. Alfredo C. Ramos 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.

f) Pending Legal Proceedings

The Company is a party to various litigations involving price tag law issues before 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; and criminal cases it filed against employees and other persons arising from theft, estafa and robbery, all such cases are in the normal course of business and are not deemed to be considered as material legal proceeding as stated in Part I, Paragraph (C) of "Annex C" of SEC checklist 17-A.

g) 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.

h) 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 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.

i) *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 Company:

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 Wen-Ching Lin
8. Yen-Sen Yang
9. Wen-Chi Wu
10. Alfredo C. Ramos
11. Michael B. Zalamea

j) *Independent Directors*

As of the date of this report, the nominees for independent directors are Messrs. Alfredo C. Ramos and Michael B. Zalamea. Their nominations were submitted by Mr. Dante G. Santos and National Life Insurance Co., 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. A brief description of their business experience of Messrs. Alfredo C. Ramos and Michael B. Zalamea are included in Item 9 Part III 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 10. Executive Compensation

(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				
Tsung-Yu Lin Treasurer (Resigned- Feb. 04, 2008)				

Michael Chuaunsu Marketing Director				
Total	**2008** **2007*** **2006** 2005 2004	**4,375,302.24** **5,092,181.94** **5,091,011.52** 4,357,792.74 5,111,606.76	**5,233,364.21** **5,919,489.44** **5,740,839.28** 5,359,779.41	N/A
All other Officers and Directors as a Group Unnamed	**2008** **2007*** **2006** 2005 2004	**4,809,256.92** **5,584,417.68** **6,107,402.56** 5,552,564.79 2,303,544.00	**5,166,120.31** **4,624,234.41** **4,870,830.87** 3,305,549.76 1,121,240.73	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 ₱ 5,000 (as may be fixed by the Board from time to time) are given for every regular or special meeting of the Board or Executive Committee 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 11. Security Ownership of Certain Beneficial Owners and Management

1. Security Ownership of Certain Record and Beneficial Owners.

As of December 31, 2007 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 April 30, 2004**
Common	President Chain Store (Labuan) Holding, Ltd.[1] 7(E), Main Tower, Financial Park, Labuan, Malaysia	Malaysian	Stockholder	134,257,625 (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	29,208,750 (R)	12.31%
Common	Vicente T. Paterno 16 Hidalgo Place, Hidalgo Village, Rockwell Makati City	Filipino	Chairman of the Board	5,540,746 (R) 18,839,754 (B)[4] 24,380,500 (R/B)	10.28%
Common	Progressive Development Corp. [3] 18th Aurora Tower, Cubao Quezon City	Filipino	Stockholder	20,163,079 (R)	8.50%

Footnotes:

[1] Mr. Chien-Nan Hsieh, Vice President 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. Jorge L. Araneta has the voting power in behalf of Progressive Corp.

[4]. Shares transferred by Mr. Paterno to his 5 children through cross sale last Dec. 18, 2003, subject to a Voting Trust Agreement in his favor.

2. Security Ownership of Management as of December 31, 2007

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Vicente T. Paterno	24,380,500[1]	Filipino	10.28%
Common	Jose Victor P. Paterno	425,388[3]	Filipino	0.18%
Common	Jorge L. Araneta	1[3]	Filipino	0.00%
Common	Dianna P. Aguilar	1,000[2]	Filipino	0.0004%
Common	Alfredo C. Ramos	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	Wen-Ching Lin	1[3]	R.O.C.	0.00%
Common	Fu-Tang Chen	1[3]	R.O.C.	0.00%
Common	Yen-Sen Yang	1[3]	R.O.C.	0.00%
Common	Evelyn Sadsad-Enriquez	1,850[2]	Filipino	0.0008%
Common	Liwayway T. Fernandez	2,642[2]	Filipino	0.0011%
TOTAL		28,811,387		10.46%

[1] 5,540,746 shares directly owned by Vicente T. Paterno, 18,839,754 shares held by his 5 children, subject to a Voting Trust Agreement in his favor.
[2] Directly owned shares
[3] Qualifying shares

3. Voting trust holder of 5% more

Mr. Vicente T. Paterno, Chairman of the Board, holds 18, 839,754 shares or 8% under a Voting Trust Agreement (VTA) for said shares collectively owned by his children namely, Teresa Paterno-Dickinson – 3,767,950 shares; Jose Victor P. Paterno – 3,767,951 shares; Paz Pilar Paterno-Benares – 3,767,951 shares; Ma. Cristina P. Paterno – 3,767,951 shares and Ma. Elena P. Paterno – 3,767,951 shares. The VTA is irrevocable in favor of Mr. Paterno for five (5) years from December 22, 2003 to December 21, 2008.

Item 12. 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 of Wenphil Corporation (holder 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.

D. 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. January 2008- 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.

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.

PART IV – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

Copies of the reports listed below were submitted to SEC:

Date	Items Reported
March 13, 1007	Item 9: Other Events (Postponement of Annual Stockholders Meeting)
May 11, 2007	Item 9: Other Events (Resignation and Appointments of Corporate Officers)
July 20, 2007	Item 4: Election of Registrant's Directors and Officers Item 9: Amendment of By-Laws – Change in the date of Annual Meeting)

SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Mandaluyong on ___________, 2008.

PHILIPPINE SEVEN CORPORATION
Issuer

Pursuant to the requirements of the Securities Regulation Code, this annual report has been signed by the following persons in the capabilities and on the dates indicated.

By:
Board of Directors

VICENTE T. PATERNO
Chairman of the Board

JOSE VICTOR P. PATERNO
President and Chief Executive Officer

TSUNG-YU LIN
Chief Financial Officer and Treasurer

EVELYN S. ENRIQUEZ
Corporate Secretary

SUBSRIBED AND SWORN to before me this ______ day of ____________2008 affiants exhibiting to me their Community Tax Certificates No./Passport No., as follows:

NAME	COMM. TAX CERT. NO./ PASSPORT NO.	DATE/PLACE OF ISSUE
Vicente T. Paterno	19473989	Jan. 12, 2008/Makati City
Jose Victor P. Paterno	1224902	Jan. 18, 2008/Manila
Tsung-Yu Lin	133808588	Jul. 30, 2002/Taiwan R.O.C.
Evelyn S. Enriquez	11876612	Jan. 04, 2008/Mand. City

Doc. No. ___;
Page No. ___;
Book No. ___;

NOTARY PUBLIC

APPENDIX "A"

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

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, 2007 and 2006. 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 other assumptions that are believed to be reasonable under the circumstances.

SELECTED FINANCIAL DATA

	2007	2006	2005
(amount in thousands, except EPS)			
SYSTEM WIDE SALES	**₱5,556,395**	**₱4,955,536**	**₱4,757,750**

Statement of Income Data:			
Revenues and other income			
Sales of merchandise	4,952,027	4,627,880	4,587,558
Commission income	21,924	28,636	37,848
Franchise Revenue	204,272	147,997	58,727
Marketing Income	97,680	82,575	96,958
Rent Income	39,649	39,890	35,771
Interest Income	4,401	2,760	3,703
Others (Net)	26,796	(4,774)	(10,849)
Cost and expenses			
General & Administrative Expenses	(1,683,290)	(1,611,425)	(1,532,296)
Interest Expense	(31,527)	(35,914)	(33,792)
Cost of merchandise sold	(3,534,557)	(3,224,082)	(3,186,251)
Net income	54,828	20,144	13,760
Earnings per share	₱0.23	₱0.08	₱0.06
Other Data:			
Net cash from operating activities	₱266,196	₱358,160	₱182,805
Net cash from in investing activities	(218,328)	(243,043)	(236,197)
Net cash from financing activities	(68,358)	9,937	(7,620)
Balance Sheet Data:			
Total assets	₱1,876,212	₱1,827,611	₱1,659,922
Total liabilities	1,208,602	1,217,829	1,070,284
Total stockholders' equity	667,610	609,782	589,638

OVERVIEW

Philippine Seven Corporation (PSC or the Company) operates the largest convenience store network in the country. It acquired from Southland Corporation (now 7-Eleven Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines on December 13, 1982. Operations commenced with the opening of its first store on 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 year of existence. In 1993, PSC, encouraged by the resurgent national economy, stepped up its rate of expansion.

As of December 31, 2007, our retail chain has grown to 311 stores. We are sustained by a manpower complement of 1,297 employees engaged in store operations and in various support service units. Despite the growing competition in the C-store (Convenience Store) business, we maintain our leadership in the industry.

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

We seek to meet the needs of our customers and maintain a leadership position in the C-store industry by taking advantage of economies of scale, technology, people and a widely recognized brand.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN 2007

Results of Operations

Revenue and Gross Margin

The Company registered total revenues of ₱4.95 billion in 2007, an increase of 7% compared to the ₱4.63 billion in 2006. Cost of merchandise sold rose by ₱310.5 million to ₱3.5 billion at the end of 2007.

System-wide sales, which represents the overall retail sales to customers of corporate and franchise-operated stores grew by 12% or ₱601 million to ₱5.56 billion in 2007. PSC ended 2007 with 311 stores, an 8% increase compared to the 2006 level of 287. Out of the total store base, 151 are company-owned and the rest are franchise-operated.

Sales per store day improved to P52,000 at the end of 2007 from P50,000 a year ago.

Gross Profit stood at ₱1.42 billion, while gross profit as a percentage of sales declined by 170 basis points partly due to the dilution brought about by the increase in the Company's sales to franchise stores accounted for at zero mark-up. The company shares in the gross profit of franchise-operated stores and is recognized as franchise revenue.

Moreover, aggregate merchandise transfers through the distribution center subsidiary, Convenience Distribution, Inc. (CDI) to franchise-operated stores in 2007 amounted to ₱927 million, higher by 80% from ₱513 million in 2006.

Commission income amounted to ₱21.9 million in 2007, 23% lower than last year. Down trend in commission continues due to other competitors in downstream channels and maturing telco business.

Other Income

Other income consists of marketing income, franchise revenue and rent income from rentable spaces. The Company's total other income increased by ₱97.8 million, to ₱368.4 million as a result of the following;

Marketing income, which pertains mainly to promotional support and display allowance, had grown by ₱15.1 million from the 2006 level. This can be attributed to the higher promotional support collected from suppliers. In addition, the Company penalized suppliers when valuable shelf space was vacant due to production problem.

Franchise revenue climbed to ₱204 million from ₱148 million in 2006. This was the result of the increased number of franchise-operated stores. The number of stores operated under the conventional franchise package or FC1 increased by 28 ending 2007 with 85 stores. On the other hand, stores under labor franchise or service agreement (SA) increased to 75 stores.

Further, rent income arising from the stores' subleased spaces reached ₱39.6 million and was slightly unchanged from the level registered a year ago.

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 HQ expenses went up by four percent or ₱71.9 million and totaled to ₱1.68 billion in 2007. As a percentage of sales, general and administrative expense is pegged at 34.0% and 34.8% in 2007 and 2006, respectively.

Communication, light and water accounted for almost one fifth of the total expense and were the highest contributor. This is followed closely by personnel costs with 19% share and rent expense accounting for 15% of the total general and administrative expense in 2007.

Communication, light and water amounted to ₱327.1 million or 6.6% of total revenue and went up by 4% versus the same period in 2006. Bulk of this expense caption pertains to electricity which comprises 93% and grew by 2% vis a vis the 2006 level

Personnel costs aggregated to ₱316.2 million, versus ₱336.9 million in 2006. Ratio to sales was 6.4% in 2007 and 7.3% in 2006. Personnel costs include salaries and wages at ₱195.6 million, employee benefits at ₱113.5 million and pension costs at ₱7.1 million.

Rent expense incurred is pegged ₱260 million or 5.2% of sales against ₱ 265.2 million or 5.7% in 2006. Rent expense in operating leases net of sublease rent income, per store, per month rose by 4% in 2007 against 2006. This was due to the rent escalations stipulated in the lease contract.

Service fees paid to SA partners were slightly higher by 1%, from ₱82.3 million in 2006 to ₱83.2 million this year.

Interest Expense

Cost of debt servicing in 2007 totaled ₱31.5 million, lower by 12% than last year's level of ₱35.9 million. Loan pre-termination and lower interest rates are the factors for the decline. Outstanding loan balance at the end of 2007 was pegged at ₱375.0 million, down from the ₱411.2 million a year ago.

Net Income

Net income for the year significantly increased by 172% to ₱54.8 million primarily due to better sales, contained costs and improved support from trade suppliers

PSC's net income translated to a 1.1% return on sales and 8.2% return on equity. The key ratios in 2007 are much better compared to the ROS and ROE of 0.4% and 3.3% posted a year ago. Moreover, EPS is pegged ₱0.23 and ₱0.08, in 2007 and 2006, respectively.

The Company's shares on the other hand were trading at 22 times 2007 earnings compared to the price earnings multiple of 33 times in 2006

Financial Condition

Total assets grew by ₱48.6 million or 3% to ₱1.88 billion at the end of 2007. Cash and cash equivalents in 2007 decreased to ₱308.9 million from ₱329.4 million at the beginning of 2007, primarily due to loan repayments. Receivables, on the other hand, went up by ₱25.0 million as a result of the increase in suppliers' promotional support. Moreover, inventories went down by ₱8.0 million attributable to the growing number of franchisees. Further, prepayments increased by ₱8.8 million. This resulted into a net increase in total current assets by ₱5.5 million.

Total current liabilities went down by ₱57 million or 5% mainly due to the decrease in bank loans, trade payable, accrued expenses and the current portion of long term debt. Current ratio stood at .72 to1 as of December an improvement against last year's .68 to 1.

Property and equipment, net of accumulated depreciation increased by ₱51.9 million resulting from opening of new stores in 2007.

Stockholders' equity at the end of December comprises 36% of total assets, compared to 33% at the beginning of the year. Consequently, debt to equity ratio is at 1.8 to 1, from 2 to 1 at the end of 2006.

Liquidity and Capital Resources

We obtain the majority of our working capital from these sources:

- Cash flows generated from our retailing operations and franchising activities
- Borrowings under our revolving credit facility

We believe that operating activities and available working capital sources will provide sufficient liquidity in 2008 to fund our operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the year 2007.

Cash Flows from Operating Activities

Net cash generated by operating activities in 2007 reached ₱266 million, lower compared to the ₱358 million generated in 2006. Although pre-tax income in 2007 is higher compared to a year ago, the decline in net cash from operating activities was due to the increase in receivables and the payment of accounts payable, accrued expenses and current portion of long term debt.

Cash Flows from Investing Activities

Net cash used in investing activities reached ₱243 million in 2006 compared to net cash out flow of ₱218 million in 2007. Major cash outlay went to the procurement of store equipment, new store constructions and store renovations. Total acquisitions of property and equipment dropped this year by ₱23.7 million against 2006. Significant investment in 2006 went to the procurement of POS Machines and the roll-out of batches of store renovations.

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

Cash Flows from Financing Activities

Net cash outflow from financing activities during the year was ₱68.4 million. The year ended with outstanding bank loans of ₱375 million, an improvement from ₱411.2 million at the beginning of the year. The Company was able to pre-pay some of its loan as a result of improved profitability in 2007.

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

FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN 2006

Results of Operations

Revenue and Gross Margin

For the year ended December 31, 2006, the Company's consolidated revenues reached ₱4.63 billion, a slight growth of 1% compared to 2005 revenues of ₱4.59 billion. Conversion of stores from corporate to franchise-operated stores, resulted to the lower aggregate growth rate of 1% in 2006 sales, compared to 16% increase in 2005. Sales of stores converted to franchise were reported by the respective franchisees operating the stores. There were 25 conversions in 2006 compared to one store in 2005.

In this regard, system-wide sales, which represents the overall retail sales to customers of corporate and franchise-operated stores grew by 4% or ₱198 million to ₱4.96 billion in 2006. PSC ended 2006 with 287 stores, an 8% increase compared to the 2005 count of 265.

Products in the services category, which formed part of the Company's commission income, are prepaid cards, e-pins and bills payment. Commission income amounted to ₱28.6 million in 2006, 24% lower compared to same period in 2005. Down trend in commissions was brought about by the proliferation of retailers offering similar products and lower denomination e-pins. The increasing number of post paid account subscribers due to various premium offers of telecommunication companies had also contributed to the downtrend.

Gross Profit, a key performance indicator, reached ₱1.4 billion, almost unchanged compared with the 2005 level. However, gross profit rate declined by 20 basis points.

Other Income

Other income consists mainly of marketing income, franchise revenue and rent income from rentable spaces. Our total other income for 2006 reached ₱273.2 million, up by ₱78.1 million or 40% over the same period in 2005. Marketing income, which pertains to promotional discounts, exclusivity agreements and display allowances, has declined by 15% in 2006 brought about by the relatively fewer support granted by our trade suppliers. Franchise revenue substantially grew to ₱148 million from ₱59 million in 2005 as a result of the increased number of franchise-operated stores. Rent income related to subleased spaces reached ₱39.9 million in 2006 versus ₱35.8 million in 2005. This improved by 12% due to the higher occupancy rate and increase in the number of rentable spaces.

General and Administrative Expenses

General and administrative expenses in 2006 totaled ₱1.6 billion or 34.8% of the year's total sales, vis a vis 33.4% of the year earlier.

Personnel costs which accounted for 21% of the total OPEX in 2006 is still the highest contributor. This is followed closely by, communication, light and water expense with 20% and rent expense, which contributed 16% to the total OPEX.

2006 personnel costs aggregated P336.9 million or 7.3% of total sales revenue, versus P336.4 million or 7.3% in 2005. Personnel costs include salaries and wages at P210.3 million, employee benefits at P120.1 million and retirement benefits at P6.5 million.

Communication, light and water amounted to P315.8 million or 6.9% of total sales revenue in 2006 versus 6.9% and 5.8% in 2005 and 2004, respectively.

Rent expense totaled P265.2 million or 5.7% of sales revenue against the 5.7% and 5.9% in 2005 and 2004, respectively. Rent related to store lease agreements amounted to P236.9 million. Rent expense in operating leases net of sublease rent income, per store month decreased by 1% in 2006 against 2005. This was due to negotiated rental reductions and increase in sublease rent income.

Management fees were up by 29%, to P82.3 million versus last year's P63.6 million.

Interest Expense

Interest expense in 2006 was pegged at ₱35.9 million, an increase of ₱2.1 million, or 6%, from ₱33.8 million in 2005. The year-on-year increase was primarily attributable to the net increase in bank borrowings in 2006 amounting to P45.7 million. The proceeds of the new loan were used to finance capital expenditures during the year.

Provision for Income Tax

Provision for income tax in 2006 amounted to ₱27.0 million, an increase of ₱0.1 million, over the 2005 level of ₱26.9 million. The effective tax rates for 2006 and 2005 were pegged at 57% and 66% of income before income tax, respectively.

The effective tax rate in 2006, although considerably lower compared to 2005, is still above the statutory tax rate of 32% (adjusted to 35% effective November 1, 2005) because of the non-deductibility of certain operating expenses in computing for the taxable income.

Net Income

Net income in 2006 reached ₱20.1 million, translating into an EPS of ₱0.08 per share, an improvement over the net income recorded in 2005 amounting to ₱13.8 million or ₱0.06 per share.

Financial Condition

Total assets of the Company at the end of 2006 reached ₱1.83 billion, an increase of 10% or ₱168 million over the level set in 2005. Cash and cash equivalents at the end of 2006 increased to ₱329.4 million from ₱204.3 million at the beginning of the year.

Further, inventories decreased by ₱4.3 million, prepayments increased by ₱24.0 million and receivables decreased by ₱26.2 million. This resulted into a net increase in total current assets by ₱118.6 million. Total current asset aggregated ₱768 million as of year end.

Total current liabilities went up by ₱175.9 million or 17%. This is primarily due to the higher level of trade purchases and loans payable. Current ratio stood at 0.65 to1.

Property and equipment, net of accumulated depreciation grew by ₱86.1 million or 12%, due to the opening of new stores.

Stockholders' equity during the year accounted for 33.7% of total assets, a decline compared to 35.5% in 2005. Debt to equity ratio is 1.96 to 1, from 1.82 to 1 in 2005.

Liquidity and Capital Resources

We obtain the majority of our working capital from these sources:

- Cash flows generated from our retailing operations and franchising activities
- Borrowings under our revolving credit facility

We believe that operating activities and available working capital sources will provide sufficient liquidity in 2007 to fund our operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the calendar year 2006.

Cash Flows from Operating Activities

Net cash provided by operating activities for 2006 was P323.9 million compared to P149.2 million for 2005, an increase of P174.7 million or 117%. Aside from the increase in income before income tax by P6.5 million or 16%, we attribute the increase in net cash provided by operating activities to the increase in accounts payable and accrued expenses and other current liabilities incurred for 2006.

Cash Flows from Investing Activities

Net cash used in investing activities increased from P236.2 million in 2005 to P243.4 million in 2006. Major cash outlay in 2006, amounting to P248.3 million, was used in the procurement of POS machines, furniture, equipment, new store constructions and store renovations. Moreover, P8 million was refunded from security deposits.

Cash Flows from Financing Activities

Net cash provided by financing activities was P45.7 million. Proceeds from loans in 2005 reached P115.0 million. P89.0 million was used to pay short and long term loans, P20.0 million was used to pay the refundable deposits and the remaining balance formed part of the company's working capital. In 2006, proceeds from loan reached P446.1million, from which P400.4 million was used to pay short and long-term loans and the remaining balance also formed part of the company's working capital.

We expect to reduce the level of our debt within the next three years to minimize the impact of interest expense in our net income and consequently improve our leveraging position.

Stockholders' equity during the year accounted for 33.7% of total assets, a decline compared to 35.5% in 2005. Debt to equity ratio is 1.96 to 1, from 1.82 to 1 in 2005.

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.

Sales per Store Day

Average daily sales of mature and new stores computed periodically and determine growth of all stores.

Average Transaction

This measures the average transaction value of each customer per store and calculated by dividing sales per store day over average customer count.

Gross Margin

This is the ratio of sales, less cost of sales but before considering selling and general expense, other income and income deduction over sales and expressed in terms of percentage.

Return on Equity (ROE)

The ratio of the net income over stockholders' equity and a measure of the efficiency with which a company employs owners' capital

PLANS FOR THE NEXT 12 MONTHS

The Company is now implementing its plans in 2008 that will carry on the momentum of the past years' progress, while maintaining profitability to ensure growth in shareholder value. We shall double our efforts to achieve the next landmark expansion by opening new outlets to attain 400 stores by year end.

We shall continue to add value to our customers far beyond just the products we sell them, and in so doing we become an important service provider. It is this full orchestration of customer service that allows us to offer innovative, often proprietary, products and services that meet our customers' expectations concentrating on the fresh value proposition.

More programs are lined up to boost our sales, margin and customer count in partnership with our suppliers. We shall continue to collaborate with our suppliers to provide high quality and fresh product selections that are more saleable and more profitable. Moreover, management shall build on the success of its advertising and promotion initiatives over the past years.

We will go on to build on the success of our franchising initiatives by strengthening our franchise selection process and doing our best to ensure the success of our franchisees. This will be complemented by our HQ-level plans and programs aimed at supporting corporate and franchise stores.

SIGNATURES

Pursuant to the requirements of the Securities and 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

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, 2007, 2006 and 2005. 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 and Chief Executive Officer

TSUNG-YU LIN
Chief Financial Officer and Treasurer

SUBSCRIBED AND SWORN to before me this _____ day of __________ 2008 affiants exhibiting to me their Community Tax Certificate No./ Passport No., as follows:

NAME	CTC/PASSPORT NO.	DATE/PLACE OF ISSUE
Vicente T. Paterno	19473989	January 12, 2008/Makati City
Jose Victor Paterno	1224902	January 18, 2008/Manila
Tsung-Yu Lin	**133808588**	**July 30, 2002/Taiwan R.O.C.**

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Page No. ____; **NOTARY PUBLIC**
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Series of 2008.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2007 and 2006

and

Independent Auditors' Report

■ SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Seven Corporation
7th Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City

We have audited the accompanying financial statements of Philippine Seven Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 requirements 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, 2007 and 2006, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

CPA Certificate No. 86735
SEC Accreditation No. 0113-AR-1
Tax Identification No. 129-433-783
PTR No. 0005399, January 3, 2008, Makati City

February 4, 2008

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱308,873,944**	₱329,364,375
Receivables - net (Note 5)	**72,430,653**	47,276,638
Inventories - at cost (Note 6)	**323,973,849**	331,926,504
Prepayments and other current assets (Note 7)	**69,975,102**	61,187,667
Total Current Assets	**775,253,548**	769,755,184
Noncurrent Assets		
Property and equipment - net (Note 8)	**852,458,158**	800,526,339
Deposits (Note 9)	**110,462,198**	107,385,377
Deferred income tax assets - net (Note 25)	**37,498,659**	54,008,463
Other noncurrent assets - net (Note 10)	**100,539,114**	95,936,140
Total Noncurrent Assets	**1,100,958,129**	1,057,856,319
TOTAL ASSETS	**₱1,876,211,677**	₱1,827,611,503
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 11)	**₱375,000,000**	₱404,700,000
Accounts payable and accrued expenses (Note 12)	**582,938,913**	610,222,957
Current portion of long-term debt (Note 14)	**–**	6,500,000
Income tax payable	**2,770,870**	335,684
Other current liabilities (Note 13)	**111,508,592**	107,434,003
Total Current Liabilities	**1,072,218,375**	1,129,192,644
Noncurrent Liabilities		
Deposits from sub-lessees (Note 24)	**98,653,475**	55,747,867
Net retirement obligations (Note 22)	**30,115,402**	26,888,841
Deferred income tax liability (Note 25)	**1,614,948**	–
Cumulative redeemable preferred shares (Note 15)	**6,000,000**	6,000,000
Total Noncurrent Liabilities	**136,383,825**	88,636,708
Total Liabilities	**1,208,602,200**	1,217,829,352

(Forward)

	December 31	
	2007	2006
Stockholders' Equity		
Capital stock - ₱1 par value		
Authorized - 400,000,000 shares		
Issued - 237,938,250 (held by 703 and 706 equity holders in 2007 and 2006, respectively)	**₱237,938,250**	₱237,938,250
Additional paid-in capital	**293,525,037**	293,525,037
Retained earnings	**136,070,248**	81,242,110
Revaluation increment in land	**2,999,188**	–
	670,532,723	612,705,397
Cost of 686,250 shares held in treasury	**(2,923,246)**	(2,923,246)
Total Stockholders' Equity	**667,609,477**	609,782,151
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**₱1,876,211,677**	₱1,827,611,503

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2007	2006	2005
REVENUE FROM MERCHANDISE SOLD	**₱4,952,027,491**	₱4,627,880,441	₱4,587,558,113
COST OF MERCHANDISE SOLD (Note 16)	**3,534,557,477**	3,224,082,277	3,186,251,240
GROSS PROFIT	**1,417,470,014**	1,403,798,164	1,401,306,873
General and administrative expenses (Note 17)	**(1,683,290,082)**	(1,611,425,160)	(1,532,295,682)
Franchise revenue (Note 30)	**204,271,553**	147,997,380	58,726,825
Marketing income (Note 18)	**97,680,051**	82,574,708	96,958,364
Rent income (Note 24)	**39,648,977**	39,889,745	35,771,211
Interest expense (Notes 11, 14, 15 and 19)	**(31,527,417)**	(35,913,785)	(33,792,023)
Commission income (Note 30)	**21,924,224**	28,635,785	37,848,387
Interest income (Notes 9, 20 and 24)	**4,401,096**	2,760,331	3,703,207
Foreign exchange loss	**(901,052)**	(1,206,673)	(6,465)
Loss on sale of property and equipment	**(215,566)**	(5,165,280)	(16,717,753)
Others - net	**26,795,644**	(4,774,307)	(10,848,566)
	(1,321,212,572)	(1,356,627,256)	(1,360,652,495)
INCOME BEFORE INCOME TAX	**96,257,442**	47,170,908	40,654,378
PROVISION FOR INCOME TAX (Note 25)	**41,429,304**	27,026,816	26,893,966
NET INCOME	**₱54,828,138**	₱20,144,092	₱13,760,412
BASIC/DILUTED EARNINGS PER SHARE (Note 26)	**₱0.23**	₱0.08	₱0.06

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2007		
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱96,257,442**	₱47,170,908	₱40,654,378
Adjustments for:			
Depreciation and amortization (Notes 8 and 17)	**159,634,386**	154,046,259	124,769,238
Interest expense (Note 11, 14, 15 and 19)	**31,527,417**	35,913,785	33,792,023
Interest income (Notes 9, 20 and 24)	**(4,401,096)**	(2,760,331)	(3,703,207)
Amortization of:			
Prepaid rent (Notes 10 and 24)	**1,719,810**	1,660,064	2,107,225
Software and other program costs (Notes 10 and 17)	**1,050,536**	1,757,238	2,987,458
Loss on sale of property and equipment	**215,566**	5,165,280	16,717,753
Operating income before working capital changes	**286,004,061**	242,953,203	217,324,868
Decrease (increase) in:			
Receivables	**(20,983,289)**	31,636,059	32,063,346
Inventories	**7,952,655**	4,267,356	(32,993,915)
Prepayments and other current assets	**(319,050)**	5,021,991	(4,129,240)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(26,653,293)**	57,175,330	(44,325,854)
Other current liabilities	**4,074,588**	41,031,990	18,428,109
Deposits from sub-lessees	**42,905,608**	2,500,799	17,165,749
Net retirement obligations	**3,226,561**	4,187,942	4,635,376
Cash generated from operations	**296,207,841**	388,774,670	208,168,439
Income taxes paid	**(30,940,362)**	(32,462,976)	(27,558,116)
Interest received	**928,110**	1,847,906	2,194,957
Net cash from operating activities	**266,195,589**	358,159,600	182,805,280
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 8)	**(224,680,639)**	(248,336,018)	(220,866,173)
Software and other program costs (Note 10)	**(3,226,000)**	(4,200,000)	–
Proceeds from sale of property and equipment	**12,528,004**	3,051,833	1,044,776
Collection of lease receivable (Note 24)	**686,966**	–	–
Payment of refundable deposit	**–**	–	(20,000,000)
Decrease (increase) in:			
Deposits (Note 9)	**–**	8,307,564	–
Other noncurrent assets (Note 10)	**(3,636,183)**	(1,866,528)	3,624,663
Net cash used in investing activities	**(218,327,852)**	(243,043,149)	(236,196,734)

(Forward)

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans (Note 11)	**₱688,000,000**	₱446,100,000	₱115,000,000
Payments of:			
Bank loans (Note 11)	**(717,700,000)**	(281,400,000)	(35,000,000)
Long-term debt (Note 14)	**(6,500,000)**	(119,000,000)	(54,000,000)
Interest paid	**(32,158,168)**	(35,762,842)	(33,619,530)
Net cash from (used in) financing activities	**(68,358,168)**	9,937,158	(7,619,530)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(20,490,431)**	125,053,609	(61,010,984)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**329,364,375**	204,310,766	265,321,750
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱308,873,944**	₱329,364,375	₱204,310,766

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information
Philippine Seven Corporation (the Company) 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, 2007, 2006 and 2005, the Parent Company has 703, 706 and 713 stockholders, 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 were authorized for issue by the Board of Directors (BOD) on February 4, 2008.

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

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets and land, which are carried at fair value and revalued amount, respectively. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Company's functional and presentation currency.

Statement of Compliance
The consolidated financial statements, which were prepared for submission to the SEC, have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous year except for the changes in accounting policies resulting from the adoption of the following new PFRS, amendment to existing Philippine Accounting Standard (PAS) and Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) interpretations effective beginning January 1, 2007:

- PFRS 7, *Financial Instruments: Disclosures*, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. Additional disclosures required by the standard were included in the consolidated financial statements, where applicable. These disclosures included the presentation of rollforward of allowance for impairment on loans and receivables (Note 5), credit quality of financial assets (Note 28), aging of past due but not impaired financial assets (Note 28), maturity profile of the financial liabilities (Note 28) and sensitivity analyses as to changes in interest and foreign exchange rates (Note 28).

- Amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosures*, The amendment to PAS 1 requires the following additional disclosures: (a) an entity's objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such noncompliance. Additional disclosures required by the amendment were included in the consolidated financial statements (Note 29).

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*, provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. This interpretation is not applicable to the Group and did not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2, Share-based Payment*, requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Group currently does not have such arrangements, therefore, the adoption of this interpretation did not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 9, *Re-assessment of Embedded Derivatives*, establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with re-assessment only if there is a change to the contract that significantly modifies the cash flows. The adoption of this interpretation did not have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The Group does not prepare interim financial statements, therefore, the adoption of this interpretation did not have an effect on the consolidated financial statements.

New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to 2007

The following new PFRS, amendments to existing PAS and interpretations are effective subsequent to December 31, 2007:

- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009), requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group expects that the adoption of this interpretation will not have a significant impact on the consolidated financial statements. Additional disclosures required by the standard, however, will be included in the consolidated financial statements, where applicable.

- Amendment to PAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after January 1, 2009), introduces new disclosures on the aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owner changes in equity; (b) income and expenses are to be presented in one statement (a statement of comprehensive income) or in two statements (a separate statement of income and a statement of comprehensive income), separately from owner changes in equity; (c) components of other comprehensive income to be displayed in the statement of comprehensive income; and (d) total comprehensive income to be presented in the financial statements. The Group expects that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

- Amendment to PAS 23, *Borrowing Cost* (effective for annual periods beginning on or after January 1, 2009), requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group currently does not have borrowings directly attributable to acquisition, construction or production of a qualifying asset that would require capitalization of borrowing costs, therefore, the adoption of this amendment will not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007), requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if: (a) the entity chooses or is required to buy those equity instruments (e.g. treasury shares) from another party; or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when the subsidiary's employees receive rights to the equity instruments of the parent. The Group currently does not have any stock option plan, therefore, the adoption of this interpretation will not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from private entities providing public services. The Group currently does not have such arrangements, therefore, the adoption of this interpretation will not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008), prescribes that loyalty awards are accounted for a separate component of the sales transaction in which they are granted, in accordance with PAS 18, *Revenue*. Under the interpretation, a portion of fair value of the consideration received is allocated to the loyalty award credits and is deferred until the awards are redeemed. The interpretation also requires that an entity must apply judgment in determining the appropriate method of measuring award credits and the other components of the sale. The Group does not have any customer loyalty programmes, therefore, the adoption of this interpretation will not have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after January 1, 2008), provides the asset ceiling test under PAS 19, *Employee Benefits*, which limits the measurement of the net pension asset in respect of a defined benefit plan at the balance sheet date to the total of: (a) any cumulative unrecognized net actuarial losses and past service costs; and (b) the present value of any economic benefits that will be available to the employer in the form of refunds from the plan or reduction in future contributions to the plan. The interpretation specifies that so long as refunds from the plan contributions will be realizable at some point during the life of the plan or at a final settlement, they will be considered to be available to the employer at balance sheet date, regardless of whether or not the entity intends to settle the plan. The interpretation further clarifies that the entity controls the asset only if there is an unconditional right to the refund. The interpretation also prescribes how the following are determined: (a) economic benefits available as a reduction in future contributions; and (b) how the availability of reductions in future contributions is affected by a minimum funding requirement that may give rise to a liability. The Group is on an accrued retirement benefits position, therefore, the adoption of this interpretation will not have an impact on the consolidated 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 (Common and Preferred)
Convenience Distribution Inc. (CDI)	Philippines	100
Store Sites Holding, Inc. (SSHI)	Philippines	40

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. SSHI is controlled by the Company, as SSHI has common key management personnel with the Company. The remaining 60% of the total shares is owned by Philippine Seven Corporation-Employees Retirement Plan (PSC-ERP) through its trustee, Bank of the Philippines Islands-Asset Management and Trust Group (BPI-AMTG).

Minority interest is no longer presented within stockholders' equity in the consolidated balance sheet and separately in the consolidated statement of income and in the consolidated statement of changes in stockholders' equity as the amount involved is not significant.

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 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 AFS financial 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 of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every financial reporting 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 the consolidated statement of income. Interest earned is recorded as interest income, while dividend income is recorded as other income according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2007 and 2006, the Group has no financial asset 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 the consolidated statement of income.

As of December 31, 2007 and 2006, 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, 2007 and 2006, 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, receivables, and deposits.

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 stockholders' equity 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 stockholders' equity is recognized in the consolidated statement of income. AFS financial assets are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as non-current assets.

The Group's AFS financial assets consist of unquoted investments in preferred shares of a public utility company included as part of "Other noncurrent assets" in the consolidated balance sheets.

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 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 the consolidated statement of income. Interest incurred is recorded as interest expense.

   As of December 31, 2007 and 2006, 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.

   The Group's other financial liabilities consist of bank loans, accounts payable and accrued expenses, other current liabilities, long-term debt, deposits from sub-lessees and cumulative redeemable preferred shares.

<u>Determination of Fair Values</u>
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.

<u>Day 1 Profit</u>
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 the consolidated statement of income 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 the consolidated statement of income 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.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount 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.

<u>Impairment of Financial Assets</u>
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 the consolidated statement of income.

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 and 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 the consolidated statement of income, 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 the consolidated statement of income, is transferred from the stockholders' equity to the consolidated statement of income.

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

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. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset.

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 where:

- The rights to receive cash flows from the asset have 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 rights 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 the consolidated statement of income.

Inventories

Inventories are stated at the lower of cost or 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.

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 or the revaluation increment in land goes to stockholders' equity, net of tax. The revalued amount is determined by a professional 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 normally charged to operations 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 commences once the assets are available for use. It ceases at the earlier of the date that it is classified as investment property or 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 10 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 the consolidated statement of income. The revaluation increment in stockholders' equity relating to the revalued asset sold is transferred to retained earnings.

Software and Program Costs

Software and program costs, which are not specifically identifiable and integral to a specific computer hardware, are shown as part of "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 Costs

The Group assesses at each balance sheet date whether there is an indication that an 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 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 the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting 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 the consolidated statement of income, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

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

Impairment of Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events 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. The Group performs its annual impairment test of goodwill annually.

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 the consolidated statement of income.

Treasury Stock

Treasury stock is stated at acquisition cost and is deducted from the stockholders' equity. No gain or loss is recognized in the consolidated statement of income 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 following specific recognition criteria must also be met before revenue is recognized:

Merchandise Sold

Revenue from merchandise sold is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Franchise

Revenue from franchise is recognized upon performance of initial services required under the franchise agreement.

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.

Commission

Revenue from commission is recognized upon the sale of consigned goods.

Rent

Revenue from rent is accounted for on a straight-line basis over the term of the sub-lease.

Interest

Revenue from interest is recognized as it accrues based on effective interest rate method.

Dividends

Revenue from dividends is recognized when the Group's right to receive the payment is established.

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 defined benefit obligation and the fair value of the 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 the consolidated statement of income 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 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.

Related Party Transactions and Relationships

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

Transactions between related parties are accounted for at arm's length prices or on terms similar to those offered to non-related entities in an economically comparable market.

Leases

Finance leases, which transfer to the lessee substantially all the risks and benefits 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 the consolidated statement of income.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income 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 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 are recognized as expense in the year in which these costs are incurred.

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 re-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 the consolidated statement of income.

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 are 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 and carryforward benefits of unused net operating loss carryover (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused NOLCO and excess of MCIT over RCIT can be utilized.

Deferred income tax relating to items recognized directly in the stockholders' equity and not in the consolidated statement of income.

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 taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

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

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

Earnings Per Share

Basic earnings 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 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 per share, the effect of stock dividends, if any, is accounted for retroactively.

Segment Reporting

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. Moreover, the Group has no geographical segmentation. There are no reportable segments, thus, segment reporting is not needed.

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 the consolidated statement of income, 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 accompanying 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.

Judgment

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

Determination of Functional Currency

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

Classification of Financial Instruments

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

Financial assets are classified as financial assets at FVPL, HTM financial assets, 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 financial reporting date.

Classification of Leases

a. Finance Lease

   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 (Note 24).

b. Operating Lease

   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 (Note 24).

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 27 presents the fair values of the financial instruments and the methods and assumptions used in estimating the 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 its consolidated statement of income 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 ₱503,107,070 and ₱454,474,113 as of December 31, 2006 and 2007, respectively. Allowance for impairment on loans and receivables amounted to ₱7,739,980 and ₱ 10,507,939 as of December 31, 2007 and 2006, respectively (Note 5). Provision for impairment amounted to ₱346,678 in 2007 and ₱2,903,498 in 2006 (Note 5). There was no provision for impairment in 2005.

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% more of the original cost of investment, and ‘prolonged’ greater than 6 months.

The carrying value of AFS financial assets amounted to ₱2,314,575 as of December 31, 2007 and 2006. Based on management’s assessment, AFS financial assets are fairly stated, thus, no impairment loss needs to be recognized in 2007, 2006 and 2005.

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

The carrying value of inventories amounted to ₱323,973,849 and ₱331,926,504 as of December 31, 2007 and 2006, respectively (Note 6). Based on management’s assessment, inventories are fairly stated, thus, no provision for decline in inventory value needs to be recognized in 2007, 2006 and 2005.

Estimation of Useful Lives of Property and Equipment

The Group estimated 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 ₱852,458,158 and ₱ 800,526,339 as of December 31, 2007 and 2006, respectively (Note 8).

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 ₱858,553,622 and ₱804,446,339 as of December 31, 2007 and 2006, respectively. Based on management's assessment, non-financial assets are fairly stated, thus, no impairment loss needs to be recognized in 2007, 2006 and 2005.

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 ₱70,178,892 as of December 31, 2007 and 2006 (Note 10). Based on management's assessment, goodwill is fairly stated, thus, no impairment loss needs to be recognized in 2007, 2006 and 2005.

Estimation of Retirement Benefits
The determination of the obligation and retirement benefits is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22 and include, among others, discount rates per annum, expected 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 unrecognized net accumulated actuarial losses amounted to ₱15,950,982 and ₱13,183,698 as of December 31, 2007 and 2006, respectively (Note 22).

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 taxable profit 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 profit against which the recognized deferred income tax assets will be realized.

The Group's recognized deferred income tax assets amounted to ₱37,498,659 and ₱54,008,463 as of December 31, 2007 and 2006, respectively (Note 25).

4. **Cash and Cash Equivalents**

	2007	2006
Cash on hand and in banks	**₱308,251,838**	₱328,754,075
Cash equivalents	**622,106**	610,300
	₱308,873,944	₱329,364,375

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 short-term placement rates.

5. **Receivables**

	2007	2006
Suppliers	**₱48,246,882**	₱40,060,216
Franchisee - net	**16,372,484**	–
Employees	**6,215,487**	4,429,101
Insurance claims	**3,098,193**	3,875,542
Current portion of lease receivable (Note 24)	**1,617,536**	–
Notes receivable (Note 24)	**–**	4,985,000
Others	**4,620,051**	4,434,718
	80,170,633	57,784,577
Less allowance for impairment	**7,739,980**	10,507,939
	₱72,430,653	₱47,276,638

The classes of receivables of the Group are as follows:

- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- Franchisee - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - pertains to car loans, salary loans and cash shortages from stores which are charged to employees.

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

The allowance for impairment pertains to suppliers and others accounts. Movements in allowance for impairment are as follows:

	2007		
	Suppliers	**Others**	**Total**
Beginning balances	**₱9,787,952**	**₱719,987**	**₱10,507,939**
Provision for the year (Note 17)	**346,678**	**–**	**346,678**
Write-off	**(3,114,637)**	**–**	**(3,114,637)**
Ending balances	**₱7,019,993**	**₱719,987**	**₱7,739,980**

	2006		
	Suppliers	Others	Total
Beginning balances	₱7,604,441	₱–	₱7,604,441
Provision for the year (Note 17)	2,183,511	719,987	2,903,498
Ending balances	₱9,787,952	₱719,987	₱10,507,939

<u>Notes Receivable</u>
Notes receivable pertains to the remaining secured, receivable from an armored car service provider for stolen collections amounting to ₱19,457,864 and bears interest at 8%. In 2006, the difference between the outstanding balance of the notes receivable of ₱11,396,745 and the fair value of the mortgaged armored vehicles in favor of the Group amounting to ₱4,985,000 was written off (Note 17). In March 2007, the armored car service provider settled its outstanding account with the Group by transferring the ownership of its mortgaged armored vehicles in favor of the Group under a sale and leaseback finance lease arrangement (Note 24). The settlement of notes receivable through mortgage did not result in the recognition of any gain or loss.

6. Inventories

	2007	2006
At cost (Note 16):		
Store merchandise	**₱139,935,292**	₱151,108,238
Warehouse merchandise and others	**184,038,557**	180,818,266
	₱323,973,849	₱331,926,504

7. Prepayments and Other Current Assets

	2007	2006
Input value-added tax (VAT) (Note 25)	**₱43,009,867**	₱31,337,732
Prepaid taxes and licenses	**7,481,914**	17,535,455
Advances for expenses	**4,250,724**	4,224,340
Current portion of prepaid rent (Notes 10 and 24)	**3,396,870**	3,672,673
Prepaid uniform	**1,468,243**	1,173,479
Supplies	**1,161,584**	957,770
Others	**9,205,900**	2,286,218
	₱69,975,102	₱61,187,667

8. Property and Equipment

Movement in property and equipment is as follows:

	2007								
	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	**₱39,866,864**	**₱104,385,538**	**₱487,238,357**	**₱219,732,453**	**₱19,142,793**	**₱161,670,263**	**₱449,711,890**	**₱11,117,660**	**₱1,492,865,818**
Additions	**–**	**–**	**87,099,729**	**26,489,450**	**11,049,201**	**19,071,710**	**66,721,579**	**14,248,970**	**224,680,639**
Disposals	**–**	**–**	**(8,116,776)**	**(5,673,834)**	**(4,985,000)**	**(220,260)**	**(24,305,951)**	**–**	**(43,301,821)**
Revaluation increment	**4,614,136**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,614,136**
Reclassifications	**–**	**–**	**(22,991)**	**22,582**	**–**	**(22,582)**	**22,991**	**–**	**–**
Ending balances	**44,481,000**	**104,385,538**	**566,198,319**	**240,570,651**	**25,206,994**	**180,499,131**	**492,150,509**	**25,366,630**	**1,678,858,772**

(Forward)

	2007								
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Accumulated Depreciation and Amortization:									
Beginning balances	**₱–**	**₱40,688,891**	**₱269,491,622**	**₱108,933,264**	**₱11,896,378**	**₱69,599,604**	**₱191,729,720**	**₱–**	**₱692,339,479**
Depreciation and amortization (Note 17)	**–**	**4,490,450**	**46,077,061**	**21,387,890**	**2,510,307**	**26,827,428**	**58,341,250**	**–**	**159,634,386**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**(7,974,582)**	**(5,174,531)**	**–**	**(225,082)**	**(12,199,056)**	**–**	**(25,573,251)**
Reclassifications	**–**	**–**	**1,071**		**–**	**–**	**(1,071)**	**–**	**–**
Ending balances	**–**	**45,179,341**	**307,595,172**	**125,146,623**	**14,406,685**	**96,201,950**	**237,870,843**	**–**	**826,400,614**

Net Book Values	**₱44,481,000**	**₱59,206,197**	**₱258,603,147**	**₱115,424,028**	**₱10,800,309**	**₱84,297,181**	**₱254,279,666**	**₱25,366,630**	**₱852,458,158**

	2006								
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Costs:									
Beginning balances	₱39,866,864	₱104,305,299	₱411,932,449	₱180,143,089	₱15,491,722	₱123,497,773	₱390,085,977	₱117,674	₱1,265,440,847
Additions	–	17,411	75,745,563	41,608,928	5,751,071	38,225,638	75,987,421	10,999,986	248,336,018
Disposals	–	–	(473,131)	(2,017,106)	(2,100,000)	(42,857)	(16,277,953)	–	(20,911,047)
Reclassifications	–	62,828	33,476	(2,458)	–	(10,291)	(83,555)	–	–
Ending balances	39,866,864	104,385,538	487,238,357	219,732,453	19,142,793	161,670,263	449,711,890	11,117,660	1,492,865,818
Accumulated Depreciation and Amortization:									
Beginning balances	–	36,971,748	224,534,360	93,297,421	10,311,052	46,114,755	139,757,818	–	550,987,154
Depreciation and amortization (Note 17)	–	3,715,544	44,957,653	17,066,436	1,585,326	23,476,201	63,245,099	–	154,046,259
Disposals	–	–	(43,299)	(1,428,799)	–	(24,368)	(11,197,468)	–	(12,693,934)
Reclassifications	–	1,599	42,908	(1,794)	–	33,016	(75,729)	–	–
Ending balances	–	40,688,891	269,491,622	108,933,264	11,896,378	69,599,604	191,729,720	–	692,339,479
Net Book Values	₱39,866,864	₱63,696,647	₱217,746,735	₱110,799,189	₱7,246,415	₱92,070,659	₱257,982,170	₱11,117,660	₱800,526,339

On February 5, 2007, the Group stated its land with cost amounting to ₱39,866,864 at appraised value of ₱ 44,481,000, as determined by a professional qualified independent appraiser. The appraisal increase of ₱ 2,999,188, net of ₱1,614,948 tax, resulting from the revaluation was credited to “Revaluation increment in land” account presented under the stockholders’ equity section of the consolidated balance sheet.

Fully depreciated property and equipment that are still being used in the operations amounted to ₱433,078,911 as of December 31, 2007 and 2006.

9. **Deposits**

	2007	2006
Rent (Note 24)	**₱87,710,515**	₱81,446,679
Utilities	**20,792,804**	21,901,249
Others	**1,958,879**	4,037,449
	₱110,462,198	₱107,385,377

Rent

Deposits on rent are computed at amortized cost as follows:

	2007	2006
Face value of security deposits	**₱108,756,336**	₱103,687,195
Less unamortized discount	**21,045,821**	22,240,516
	₱87,710,515	₱81,446,679

Movement in unamortized discount is as follows:

	2007	2006
Beginning balance	**₱22,240,516**	₱21,862,724
Addition	**243,694**	897,529
Amortization	**(1,438,389)**	(519,737)

Ending balance	**₱21,045,821**	₱22,240,516

10. **Other Noncurrent Assets**

	2007	2006
Goodwill	**₱70,178,892**	₱70,178,892
Prepaid rent - net of current portion (Note 24)	**14,765,132**	16,253,586
Software and program costs	**6,095,464**	3,920,000
Lease receivable - net of current portion (Note 24)	**3,600,295**	–
AFS financial assets	**2,314,575**	2,314,575
Others	**3,584,756**	3,269,087
	₱ 100,539,114	₱95,936,140

Goodwill
On March 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation 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. The recoverable amount of the goodwill was estimated based on the value-in-use and was determined at the cash generating unit level. In determining value-in-use, the cash flows (pre-tax) were discounted at a pre-tax rate of 9%.

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

Movement in prepaid rent is as follows:

	2007	2006
Beginning balance	**₱17,955,866**	₱18,718,401
Additions	**243,693**	897,529
Amortization (Note 24)	**(1,719,810)**	(1,660,064)
Ending balance	**16,479,749**	17,955,866
Less current portion	**1,714,617**	1,702,280
	₱14,765,132	₱16,253,586

Software and Program Costs
Movement in software and program costs is as follows:

	2007	2006
Cost:		
Beginning balance	*₱4,200,000*	***₱16,780,036***
Acquisition	*3,226,000*	***4,200,000***
Write-off	*–*	***(16,780,036)***
Ending balance	*7,426,000*	***4,200,000***
Accumulated amortization:		
Beginning balance	*280,000*	***15,302,798***
Amortization (Note 17)	*1,050,536*	***1,757,238***
Write-off	*–*	***(16,780,036)***
Ending balance	*1,330,536*	***280,000***
Net Book Values	*₱6,095,464*	***₱3,920,000***

AFS Financial Assets
AFS financial assets include unquoted investments in preferred shares of a public utility company. These are carried at cost less any impairment loss, if any.

11. **Bank Loans**

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump sum in 2007 and 2006 with annual interest rates ranging from 7.47% to 8.60% in 2007, from 8.60% to 8.80% in 2006 and from 8.60% to 11.00% in 2005, which are monthly repriced based on market conditions.

Movement in bank loans is as follows:

	2007	2006
Beginning balance	**₱404,700,000**	₱240,000,000
Availment	**688,000,000**	446,100,000
Payment	**(717,700,000)**	(281,400,000)
Ending balance	**₱375,000,000**	₱404,700,000

Interest expense from these bank loans amounted to ₱31,115,655 in 2007, ₱35,161,148 in 2006 and ₱27,702,937 in 2005 (Note 19). Interest payable amounted to ₱985,359 and ₱1,616,110 as of December 31, 2007 and 2006, respectively (Note 12).

12. **Accounts Payable and Accrued Expenses**

	2007	2006
Trade payable	**₱475,227,960**	₱493,694,257
Rent (Note 24)	**73,333,906**	69,944,073
Utilities	**11,381,244**	11,729,488
Employee benefits	**10,342,722**	10,351,365

(Forward)

	2007	2006
Advertising and promotion	**₱2,630,489**	₱10,121,125
Security services	**2,054,228**	1,978,886
Bank charges	**1,418,700**	2,760,120
Interest	**985,359**	1,616,110
Others	**5,564,305**	8,027,533
	₱ 582,938,913	₱ 610,222,957

13. **Other Current Liabilities**

	2007	2006
Non-trade accounts payable	**₱62,902,460**	₱62,534,858
Withholding taxes	**13,000,672**	10,458,897
Retention payable	**10,065,404**	6,720,669
Royalty (Note 23)	**9,151,719**	175,447
Output VAT (Note 25)	**6,635,208**	9,163,433
Payable to franchisee	**–**	11,729,699
Others	**9,753,129**	6,651,000
	₱ 111,508,592	₱ 107,434,003

14. **Long-term Debt**

Long-term debt consists of unsecured noncurrent promissory notes with a local bank, payable in equal monthly installments starting on the sixth month after the lending date until March 2007 with fixed interest rate of 11.67% for the first 24 months, the rate thereafter shall be at the prevailing lender rate.

Movement in long-term debt is as follows:

	2007	2006
Beginning balance	**₱6,500,000**	₱ 125,500,000
Payment	**(6,500,000)**	(119,000,000)
Ending balance	**₱–**	₱6,500,000

Interest expense from these long-term debts amounted to ₱45,522 in 2007, ₱205,977 in 2006 and ₱5,397,766 in 2005 (Note 19).

15. **Cumulative Redeemable Preferred Shares**

Cumulative redeemable preferred shares 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 income amounted to ₱366,240 in 2007, ₱546,660 in 2006 and ₱691,320 in 2005 (Note 19).

16. **Cost of Merchandise Sold**

	2007	2006	2005
Merchandise inventory, beginning	**₱331,926,504**	₱336,193,860	₱303,199,945
Net purchases	**3,526,604,822**	3,219,814,921	3,219,245,155
	3,858,531,326	3,556,008,781	3,522,445,100
Less merchandise inventory, ending	**323,973,849**	331,926,504	336,193,860
	₱3,534,557,477	₱3,224,082,277	₱3,186,251,240

17. **General and Administrative Expenses**

	2007	2006	2005
Communication, light and water	**₱327,122,522**	₱315,827,699	₱318,194,940
Personnel costs (Note 21)	**316,211,171**	336,901,558	336,406,816
Rent (Note 24)	**259,971,947**	265,189,314	259,266,777
Depreciation and amortization	**159,634,386**	154,046,259	124,769,238
Outside services	**95,483,002**	61,441,165	58,312,084
Management fee (Note 30)	**83,248,355**	82,307,663	63,632,738
Taxes and licenses	**67,127,410**	57,897,515	50,439,534
Trucking services	**55,385,303**	51,000,456	44,077,388
Royalties (Note 23)	**54,906,673**	24,634,225	47,138,470
Supplies	**53,799,176**	51,387,785	50,621,852
Advertising and promotion	**44,634,182**	42,419,622	31,426,121
Repairs and maintenance	**43,659,408**	36,587,772	32,438,344

Warehousing services	**39,466,267**	39,175,543	32,264,919
Entertainment, amusement and recreation	**20,458,960**	14,182,789	5,960,260
Transportation and travel	**16,811,529**	14,341,622	14,469,528
Inventory losses	**16,597,039**	21,867,776	33,391,052
Dues and subscription	**4,044,167**	3,581,679	2,837,951
Insurance	**3,851,316**	2,825,865	3,925,247
Amortization of software and program costs	**1,050,536**	1,757,238	2,987,458
Provision for impairment of receivables	**346,678**	2,903,498	–
Loss on accounts written off	**–**	9,571,709	–
Others	**19,480,055**	21,576,408	19,734,965
	₱1,683,290,082	₱1,611,425,160	₱1,532,295,682

18. **Marketing Income**

	2007	2006	2005
Display charges	**₱44,573,947**	₱56,304,980	₱68,457,237
Promotions	**44,216,543**	22,990,810	5,660,618
Marketing support funds (Note 30)	**8,889,561**	3,278,918	22,840,509
	₱97,680,051	₱82,574,708	₱96,958,364

19. **Interest expense**

	2007	2006	2005
Interest on:			
Bank loans	**₱31,115,655**	₱35,161,148	₱27,702,937
Long-term debt	**45,522**	205,977	5,397,766
Guaranteed preferred dividends	**366,240**	546,660	691,320
	₱31,527,417	₱35,913,785	₱33,792,023

20. **Interest income**

	2007	2006	2005
Interest on:			
Bank deposits	**₱2,228,578**	₱1,847,906	₱2,194,957
Finance lease	**1,347,304**	–	–
Accretion of refundable deposits	**825,214**	912,425	1,508,250
	₱4,401,096	₱2,760,331	₱3,703,207

21. **Personnel Costs**

	2007	2006	2005
Salaries and wages	**₱195,618,948**	₱210,336,816	₱210,254,837
Employee benefits	**113,463,590**	120,085,026	121,516,603
Retirement benefits cost (Note 22)	**7,128,633**	6,479,716	4,635,376
	₱316,211,171	₱336,901,558	₱336,406,816

22. **Retirement Benefits**

The Group maintains a trusteed, non-contributory defined benefit retirement plan covering qualified employees. Normal retirement benefits are equal to the employee's retirement pay as defined in Republic Act (RA) No. 7641 multiplied by his years of service. Normal retirement age 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 the consolidated statements of income and the funding status and amounts recognized in the consolidated balance sheets:

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

	2007		
	PSC	**CDI**	**Total**
Current service cost	**₱3,526,882**	**₱146,985**	**₱3,673,867**
Interest cost	**3,649,522**	**140,282**	**3,789,804**
Expected return on plan assets	**(675,313)**	**(50,884)**	**(726,197)**

Net actuarial loss (gain)	**480,398**	**(89,239)**	**391,159**
Net retirement benefits cost	**₱6,981,489**	**₱147,144**	**₱7,128,633**

	2006		
	PSC	CDI	Total
Current service cost	₱1,877,379	₱165,501	₱2,042,880
Interest cost	4,435,033	379,758	4,814,791
Expected return on plan assets	(584,243)	(59,554)	(643,797)
Net actuarial loss	265,842	–	265,842
Net retirement benefits cost	₱5,994,011	₱485,705	₱6,479,716

	2005		
	PSC	CDI	Total
Current service cost	₱1,208,367	₱128,848	₱1,337,215
Interest cost	3,959,202	386,823	4,346,025
Expected return on plan assets	(1,020,724)	(54,140)	(1,074,864)
Net actuarial loss	45,000	–	45,000
Net retirement benefits cost	₱4,191,845	₱461,531	₱4,653,376

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

	2007		
	PSC	**CDI**	**Total**
Present value of retirement obligations	**₱50,892,911**	**₱1,674,978**	**₱52,567,889**
Less fair value of plan assets	**6,039,312**	**462,193**	**6,501,505**
Unfunded retirement obligation	**44,853,599**	**1,212,785**	**46,066,384**
Less unrecognized net actuarial gains (losses)	**(17,804,137)**	**1,853,155**	**(15,950,982)**
Net retirement obligations	**₱27,049,462**	**₱3,065,940**	**₱30,115,402**

	2006		
	PSC	CDI	Total
Present value of retirement obligations	₱44,889,567	₱1,784,759	₱46,674,326
Less fair value of plan assets	6,139,207	462,580	6,601,787
Unfunded retirement obligation	38,750,360	1,322,179	40,072,539
Less unrecognized net actuarial gains (losses)	(15,057,714)	1,874,016	(13,183,698)
Net retirement obligations	₱23,692,646	₱3,196,195	₱26,888,841

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

	2007		
	PSC	**CDI**	**Total**
Beginning balances	**₱44,889,567**	**₱1,784,759**	**₱46,674,326**
Current service cost	**3,526,882**	**146,985**	**3,673,867**
Interest cost	**3,649,522**	**140,282**	**3,789,804**
Benefits paid	**(3,921,938)**	**(300,149)**	**(4,222,087)**
Actuarial loss (gain)	**2,748,878**	**(96,899)**	**2,651,979**
Ending balances	**₱50,892,911**	**₱1,674,978**	**₱52,567,889**

	2006		
	PSC	CDI	Total
Beginning balances	₱37,269,186	₱3,282,261	₱40,551,447
Current service cost	1,877,379	165,501	2,042,880

Interest cost	4,435,033	379,758	4,814,791
Benefits paid	(2,656,931)	(182,837)	(2,839,768)
Actuarial loss (gain)	3,964,900	(1,859,924)	2,104,976
Ending balances	₱44,889,567	₱1,784,759	₱46,674,326

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

	2007		
	PSC	**CDI**	**Total**
Beginning balances	**₱6,139,207**	**₱462,580**	**₱6,601,787**
Expected return on plan assets	**675,313**	**50,884**	**726,197**
Contribution	**3,624,673**	**277,399**	**3,902,072**
Benefits paid	**(3,921,938)**	**(300,149)**	**(4,222,087)**
Actuarial loss	**(477,943)**	**(28,521)**	**(506,464)**
Ending balances	**₱6,039,312**	**₱462,193**	**₱6,501,505**

	2006		
	PSC	CDI	Total
Beginning balances	₱5,842,432	₱595,542	₱6,437,974
Expected return on plan assets	584,243	59,554	643,797
Contribution	2,291,774	–	2,291,774
Benefits paid	(2,656,931)	(182,837)	(2,839,768)
Actuarial gain (loss)	77,689	(9,679)	68,010
Ending balances	₱6,139,207	₱462,580	₱6,601,787

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

	PSC		CDI	
	2007	2006	**2007**	2006
Cash in bank	**₱271,769**	₱276,264	**₱20,799**	₱20,816
Investments in equity securities and trust and mutual funds	**6,824,423**	6,937,304	**522,278**	522,715
Liabilities	**(1,056,880)**	(1,074,361)	**(80,884)**	(80,951)
	₱6,039,312	₱6,139,207	**₱462,193**	₱462,580

Actual return on plan assets amounted to ₱197,370 in 2007 and ₱661,982 in 2006 for PSC and ₱22,363 in 2007 and ₱49,875 in 2006 for CDI.

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

The Group expects to contribute ₱3,800,000 for PSC and ₱200,000 for CDI and to its defined benefit plan in 2008.

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

	PSC			CDI		
	2007	2006	2005	**2007**	2006	2005
Number of employees	**795**	826	1,002	**19**	22	26
Discount rate per annum	**8.31%**	8.13%	11.90%	**8.06%**	7.86%	11.57%
Expected annual rate of return on plan assets	**9.00%**	10.00%	10.00%	**9.01%**	11.00%	10.00%
Salary increase rate	**5.00%**	5.00%	5.00%	**5.00%**	5.00%	5.00%

Amounts for the current and prior periods are as follows:

	2007		
	PSC	**CDI**	**Total**
Present value of retirement obligations	**₱50,892,911**	**₱1,674,978**	**₱52,567,889**
Fair value of plan assets	**6,039,312**	**462,193**	**6,501,505**
Unfunded retirement obligation	**44,853,599**	**1,212,785**	**46,066,384**
Experience adjustments on retirement obligations	**2,872,179**	**(94,636)**	**2,777,543**
Experience adjustments on plan assets	**477,943**	**(28,521)**	**449,422**

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

	2005		
	PSC	CDI	Total
Present value of retirement obligations	₱37,269,186	₱3,282,261	₱40,551,447
Fair value of plan assets	5,842,432	595,542	6,437,974
Unfunded retirement obligation	31,426,754	2,686,719	34,113,473
Experience adjustments on retirement obligations	(9,579,134)	–	(9,579,134)

23. Related Party Transactions

Significant transactions with related parties consist of:

a. Licensing agreement of the Group with Seven Eleven, Inc. (SEI), a related party 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.

   In 2006, the Group and SEI entered into a Store Renovation Agreement (Agreement), wherein SEI will waive a maximum amount of USD 10,000 royalty fee per 7-Eleven Store renovated from February 1, 2006 until January 31, 2007.

   Royalty fees recorded by the Group amounted to ₱54,906,673 in 2007, ₱24,634,225 in 2006 and ₱47,138,470 in 2005.

   Royalty payable amounted to ₱9,151,719 and ₱175,447 as of December 31, 2007 and 2006, respectively.

b. Rental of post-mix machines from PCSC for three years until June 30, 2005. The Group pays the latter 5% of sales from the said machines. Payments shall be made quarterly before the 20th day of January, April, July and October. Expense recognized on rental of post-mix machines amounted to ₱3,971,343 in 2005.

c. Compensation of key management personnel are as follows:

	2007	2006	2005
Short-term employee benefits	**₱18,357,896**	₱18,288,784	₱14,479,587
Post-employment benefits	**2,256,441**	356,304	2,164,572
Other long-term benefits	**–**	507,563	447,192
	₱20,614,337	₱19,152,651	₱17,091,351

24. **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. Future lease payments under this lease as of December 31, 2007 are as follows:

	Minimum Payments	Present Value of Payments
Within one year	₱3,374,700	₱ 2,843,932
After one year but not more than five years	8,490,000	7,586,082
Total minimum lease payments	11,864,700	10,430,014
Less amounts representing finance charges	1,434,686	–
Present value of future minimum lease payments	10,430,014	10,430,014
Less unearned interest income	5,212,183	5,212,183
	5,217,831	5,217,831
Less current portion	1,617,536	1,617,536
	₱3,600,295	₱ 3,600,295

In 2007, the PSC received collections amounting to ₱1,035,300 under this arrangement. Of this amount, ₱ 686,966 were applied to lease receivable and the remainder was recognized as interest income.

The sale and leaseback finance lease arrangement resulted in the recognition of "Unearned interest income" amounting to ₱6,131,980 upon inception of the lease. The unearned interest income is to be amortized over five years, which is the term of the agreement. Interest income recognized in the consolidated statement of income amounted to ₱919,797 in 2007.

c. The Group 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 ₱235,326,897 in 2007, ₱240,604,010 in 2006 and ₱243,946,399 in 2005. Of this amount, contingent rent amounted to ₱1,054,585 in 2007, ₱1,059,295 in 2006 and ₱1,752,385 in 2005. Amortization of prepaid rent amounted to ₱1,174,560 in 2007, ₱569,564 in 2006 and ₱534,436 in 2005.

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

	2007	2006
Within one year	**₱83,777,578**	₱94,081,531
After one year but not more than five years	**174,286,236**	220,679,560
More than five years	**34,157,715**	50,640,438
	₱292,221,529	₱365,401,529

c. CDI entered into a 15-year operating lease contract for the lease of its warehouse effective November 1, 2005, after the expiration of its previous five-year lease contract on November 30, 2005. The new lease is subject to an escalation rate of 7% every after two years starting on the third year of the lease.

The Group paid security deposits amounting to ₱20,000,000 related to the new lease contract in 2005. The security deposit related to the previous lease contract was refunded to the Group in January 2006.

Rent expenses related to these lease agreements amounted to ₱22,925,240 in 2007 and 2006 and ₱ 13,213,153 in 2005. Amortization of prepaid rent amounted to ₱545,250 in 2007, ₱1,090,500 in 2006 and ₱1,572,789 in 2005.

The approximate annual minimum rental payments of the Group under its existing lease contract as of December 31, 2007 are as follows:

	2007	2006
Within one year	*₱19,454,030*	***₱18,181,336***
After one year but not more than five years	*105,631,493*	***102,812,604***
After five years	*182,430,399*	***204,703,318***
Total	*307,515,922*	***325,697,258***

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 ₱39,648,977 in 2007, ₱39,889,745 in 2006 and ₱35,771,211 in 2005.

The approximate annual minimum sublease payments expected to be received under its existing sublease agreements as of December 31 are as follows:

	2007	2006
Within one year	**₱25,470,739**	₱13,130,654
After one year but not more than five years	**45,498,280**	12,448,441
More than five years	**1,587,360**	–
	₱72,556,379	₱25,790,095

25. **Income Tax**

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

	2007	2006	2005
Current:			
RCIT	**₱41,716,094**	₱28,453,281	₱17,944,535
MCIT	**–**	–	263,015
Final tax on interest income	**487,190**	366,402	438,991
	42,203,284	28,819,683	18,646,541
Deferred	**(773,980)**	(1,792,867)	8,247,425
	₱41,429,304	₱27,026,816	₱26,893,966

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

	2007	2006
Tax effects of:		
Accrued rent	**₱25,666,870**	₱24,464,954
Net retirement obligations	**10,540,391**	9,411,094
Allowance for impairment of receivables	**2,708,994**	3,677,779
Unamortized capitalized interest	**(2,084,857)**	(2,667,513)
Unamortized past service cost	**606,183**	932,205
Unearned rent	**61,078**	483,823
Unrealized foreign exchange loss - net	**–**	422,336
Excess of MCIT over RCIT	**–**	17,283,785
	₱37,498,659	₱54,008,463

c. The Group's deferred income tax liability as of December 31, 2007 pertains to taxable temporary difference on revaluation increment in land amounting to ₱1,614,948 as of December 31, 2007.

d. The Group's NOLCO amounting to ₱37,676,181, ₱314,887 and ₱173,301 incurred in 2002, 2003 and 2004, respectively, were applied against taxable income in 2005.

e. Movement in excess of MCIT over RCIT available for deduction from future RCIT payable are as follows:

	2007	2006
Beginning balances	**₱17,283,785**	₱42,306,271
Applied	**(17,283,785)**	(25,022,486)
Ending balances	**₱–**	₱17,283,785

f. 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 income follows:

	2007	2006	2005
Provision for income tax computed at statutory income tax rate	**₱34,268,786**	₱16,509,818	₱13,212,673
Adjustments for:			
Nondeductible expenses:			
Inventory losses	**5,740,408**	7,653,722	11,807,192
Interest expense and others	**3,802,734**	2,915,948	5,542,188
Nontaxable income:			
Interest income on accretion	**(365,995)**	(319,349)	(490,181)
Bank interest income	**(365,392)**	(274,801)	(274,369)
Other income	**(1,072,495)**	–	–
Effect of change in tax rate in 2005	**(578,742)**	–	(3,335,599)
Expired MCIT	**–**	–	432,062
Others	**–**	541,478	–
Provision for income tax	**₱41,429,304**	₱27,026,816	₱26,893,966

g. On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed into law as R.A No. 9337 or the E-VAT Law of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulations (RR) 16-2005, which provides for the implementation of the rules of the new E-VAT law. Among the relevant provisions of the new E-VAT law are:

i. change in RCIT rate from 32% to 35% for the next three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter;

ii. change in the nondeductible interest expense rate from 38% to 42% of interest income subjected to final tax for the next three years effective on November 1, 2005, and 33% starting January 1, 2009 and thereafter;

iii. input VAT on capital goods should be spread evenly over the useful life or 60 months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds ₱1 million;

iv. a 70% cap on the input VAT that can be claimed against output VAT; and

v. increase in the VAT rate imposed on goods and services from 10% to 12% effective January 1, 2006 provided that the VAT collection as a percentage of Gross Domestic Product (GDP) of the previous year exceeds 2.8% or the National Government deficit as a percentage of GDP of the previous year exceeds 1.5%.

On January 31, 2006, the President upon recommendation of the Secretary of Finance approved the 2%

increase in VAT rates effective February 1, 2006.

On November 21, 2006, the President signed into law RA No. 9361 which amends Section 110 (B) of the Tax Code. This law, which became effective on December 13, 2006, provides that if the input tax, inclusive of the input tax carried over from the previous quarter exceeds the output tax, the excess input tax shall be carried over to the succeeding quarter or quarters. The Department of Finance through the Bureau of Internal Revenue issued RR No. 2-2007 to implement the provisions of the said law. Based on this regulation, the amendment shall apply to the quarterly VAT returns to be filed after the effectivity of RA No. 9361 except VAT returns covering taxable quarters ending earlier than December 2006.

26. **Basic/Diluted Earnings Per Share**

	2007	2006	2005
a. Net income attributable to equity holders of the Parent	₱54,828,138	**₱20,144,092**	**₱13,760,412**
b. Weighted average number of shares outstanding	**237,938,250**	237,938,250	237,938,250
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)**	**₱237,252,000**	₱237,252,000	₱237,252,000
e. Basic/diluted earnings per share **(a/d)**	**₱0.23**	₱0.08	₱0.06

The Group does not have potentially dilutive common shares as of December 31, 2007, 2006 and 2005. Thus, the basic earnings per share is equal to the diluted earnings per share as of those dates.

27. **Financial Instruments**

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

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash	**₱308,251,838**	**₱308,251,838**	₱328,754,075	₱328,754,075
Cash equivalents	**622,106**	**622,106**	610,300	610,300
	308,873,944	**308,873,944**	329,364,375	329,364,375
Receivables:				
Suppliers	**48,246,882**	**48,246,882**	40,060,216	40,060,216
Franchisee	**16,372,484**	**16,372,484**	–	–
Employees	**6,215,487**	**6,215,487**	4,429,101	4,429,101
Insurance claims	**3,098,193**	**3,098,193**	3,875,542	3,875,542
Current portion of lease receivable	**1,617,536**	**1,536,780**	–	–
Notes receivable	–	–	4,985,000	4,985,000
Others	**4,620,051**	**4,620,051**	4,434,718	4,434,718
	80,170,633	**80,089,877**	57,784,577	57,784,577
Deposits:				

Rent	**87,710,515**	**89,121,229**	81,446,679	89,088,383
Utilities	**20,792,804**	**20,792,804**	21,901,249	21,901,249
Others	**1,958,879**	**1,958,879**	4,037,449	4,037,449
	110,462,198	**111,872,912**	107,385,377	115,027,081
Other noncurrent assets - lease receivable	**3,600,295**	**2,856,572**	–	–
Total Loans and Receivables	**503,107,070**	**503,693,305**	494,534,329	502,176,033
AFS Financial Assets	**2,314,575**	**2,314,575**	2,314,575	2,314,575
TOTAL FINANCIAL ASSETS	**₱505,421,645**	**₱506,007,880**	₱496,848,904	₱504,490,608
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	**₱375,000,000**	**₱375,000,000**	₱404,700,000	₱404,700,000
Accounts payable and accrued expenses:				
Trade payable	**475,227,960**	**475,227,960**	493,694,257	493,694,257
Rent	**73,333,906**	**73,333,906**	69,944,073	69,944,073
Utilities	**11,381,244**	**11,381,244**	11,729,488	11,729,488
Employee benefits	**10,342,722**	**10,342,722**	10,351,365	10,351,365
Advertising and promotion	**2,630,489**	**2,630,489**	10,121,125	10,121,125
Security services	**2,054,228**	**2,054,228**	1,978,886	1,978,886
Bank charges	**1,418,700**	**1,418,700**	2,760,120	2,760,120
Interest	**985,359**	**985,359**	1,616,110	1,616,110
Others	**5,564,305**	**5,564,305**	8,027,533	8,027,533
	582,938,913	**582,938,913**	610,222,957	610,222,957
Current portion of long-term debt	**–**	**–**	6,500,000	6,500,000
Other current liabilities:				
Non-trade accounts payable	**62,902,460**	**62,902,460**	62,534,858	62,534,858
Withholding taxes	**13,000,672**	**13,000,672**	10,458,897	10,458,897
Retention payable	**10,065,404**	**10,065,404**	6,720,669	6,720,669

(Forward)

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Royalty	**₱9,151,719**	**₱9,151,719**	₱175,447	₱175,447
Output VAT	**6,635,208**	**6,635,208**	9,163,433	9,163,433
Payable to franchisee	**–**	**–**	11,729,699	11,729,699
Others	**9,753,129**	**9,753,129**	6,651,000	6,651,000
	111,508,592	**111,508,592**	107,434,003	107,434,003
Deposits from sub-lessees	**98,653,475**	**98,653,475**	55,747,867	55,747,867
Cumulative redeemable preferred shares	**6,000,000**	**6,000,000**	6,000,000	6,000,000
TOTAL FINANCIAL LIABILITIES	**₱1,174,100,980**	**₱1,174,100,980**	₱1,190,604,827	₱1,190,604,827

Fair Value Information

Current financial assets and financial liabilities

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, receivables, bank loans, accounts payable and accrued liabilities, current portion of long-term debt and other current liabilities approximates carrying amount as of balance sheet date.

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 ranging from 4.98% to 6.69%.

AFS financial assets

The fair value of unquoted available-for-sale financial assets is not reasonably determinable, thus, balances are presented at cost.

Bank Loans and Long-term Debt
The carrying value approximates fair value because of recent and monthly repricing 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 the consolidated statement of income are based on recent treasury bill rates repriced annually at yearend.

28. 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 not significant. The Group deals only with counterparty duly approved by the BOD.

The following table provides information regarding the maximum credit risk exposure of the Group as of December 31:

	2007	2006
Cash and cash equivalents:		
Cash	**₱308,251,838**	₱328,754,075
Cash equivalents	**622,106**	610,300
	308,873,944	329,364,375
Receivables:		
Suppliers	**48,246,882**	₱40,060,216
Franchisee	**16,372,484**	–
Employees	**6,215,487**	4,429,101
Insurance claims	**3,098,193**	3,875,542
Current portion of lease receivables	**1,617,536**	–
Notes receivable	**–**	4,985,000
Others	**4,620,051**	4,434,718
	80,170,633	57,784,577
Deposits:		
Rent	**87,710,515**	81,446,679
Utilities	**20,792,804**	21,901,249
Others	**1,958,879**	4,037,449
	110,462,198	107,385,377
Other noncurrent assets:		
Lease receivables	**3,600,295**	–
AFS financial assets	**2,314,575**	2,314,575
	5,914,870	2,314,575
	₱505,421,645	₱496,848,904

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

	2007			
	Neither past due nor impaired			
	Non-Investment Grade: Satisfactory	**Non-Investment Grade: Unsatisfactory**	**Past due or Impaired**	**Total**

Cash and cash equivalents:				
Cash	**₱ 308,251,838**	**₱–**	**₱–**	**₱308,251,838**
Cash equivalents	**622,106**	**–**	**–**	**622,106**
	308,873,944	**–**	**–**	**308,873,944**
Receivables:				
Suppliers	**39,196,480**	**–**	**9,050,402**	**48,246,882**
Franchisee	**16,372,484**	**–**	**–**	**16,372,484**
Employees	**6,215,487**	**–**	**–**	**6,215,487**
Insurance claims	**3,098,193**	**–**	**–**	**3,098,193**
Current portion of lease receivables	**1,617,536**			**1,617,536**
Others	**3,900,064**	**–**	**719,987**	**4,620,051**
	70,400,244	**–**	**9,770,389**	**80,170,633**

(Forward)

	2007			
	Neither past due nor impaired			
	Non-Investment Grade: Satisfactory	**Non-Investment Grade: Unsatisfactory**	**Past due or Impaired**	**Total**
Deposits:				
Rent	**₱87,710,515**	**₱–**	**₱–**	**₱87,710,515**
Utilities	**20,792,804**	**–**	**–**	**20,792,804**
Others	**1,958,879**	**–**	**–**	**1,958,879**
	110,462,198	**–**	**–**	**110,462,198**
Other noncurrent assets:				
Lease receivables	**2,952,972**	**–**	**647,323**	**3,600,295**
AFS financial assets	**2,314,575**			**2,314,575**
	5,267,547	**–**	**647,323**	**5,914,870**
	₱ 495,003,933	**₱–**	**₱10,417,712**	**₱505,421,645**

	2006			
	Neither past due nor impaired			
	Non-Investment Grade: Satisfactory	Non-Investment Grade: Unsatisfactory	Past due or Impaired	Total
Cash and cash equivalents:				
Cash	₱ 328,754,075	₱–	₱–	₱328,754,075
Cash equivalents	610,300	–	–	610,300
	329,364,375	–	–	329,364,375
Receivables:				
Suppliers	10,050,000	–	30,010,216	40,060,216
Employees	4,429,101	–	–	4,429,101
Insurance claims	3,875,542	–	–	3,875,542
Notes receivable	4,985,000	–	–	4,985,000
Others	4,434,718	–	–	4,434,718
	27,774,361	–	30,010,216	57,784,577
Deposits:				
Rent	81,446,679	–	–	81,446,679
Utilities	21,901,249	–	–	21,901,249

Others	4,037,449	–	–	4,037,449
	107,385,377	–	–	107,385,377
Other noncurrent assets - AFS financial assets	2,314,575	–	–	2,314,575
	₱466,838,688	₱–	₱30,010,216	₱496,848,904

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, deposits and AFS financial assets - based on the nature of the counterparty and the Group's internal rating system.

Receivables - satisfactory pertains to receivables from existing and active suppliers while unsatisfactory pertains to receivables from those suppliers that are have already ceased their business operations.

The following table provides the analysis of financial assets that are past due or not impaired:

	2007					
	Aging analysis of financial assets past due but not impaired				**Past due and impaired**	
	31 to 60 days	**61 to 90 days**	**> 90 days**	**Total**		
Receivables:						
Suppliers	**₱1,609,251**	**₱24,034**	**₱397,124**	**₱2,030,409**	**₱7,019,993**	**₱9,050,402**
Current portion of lease receivables	**163,062**	**484,261**	**–**	**647,323**	**–**	**647,323**
Others	**–**	**–**	**–**	**–**	**719,987**	**719,987**
	₱1,772,313	**₱508,295**	**₱397,124**	**₱2,677,732**	**₱7,739,980**	**₱10,417,712**

	2006					
	Aging analysis of financial assets past due but not impaired				Past due and impaired	
	31 to 60 days	61 to 90 days	> 90 days	Total		
Receivables:						
Suppliers	₱1,234,560	₱2,056,425	₱16,211,292	₱19,502,277	₱9,787,952	₱29,290,229
Others	–	–	–	–	719,987	719,987
	₱1,234,560	₱2,056,425	₱16,211,292	₱19,502,277	₱10,507,939	₱30,010,216

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

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 table below summarizes the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations:

	2007			
	Less than 3 months	Less than One year	More than One year	Total
Bank loans	**₱–**	**₱375,000,000**	**₱–**	**₱375,000,000**
Accounts payable and accrued expenses:				
Trade payable	**475,227,960**	**–**	**–**	**475,227,960**
Rent	**73,333,906**	**–**	**–**	**73,333,906**
Utilities	**11,381,244**	**–**	**–**	**11,381,244**
Employee benefits	**10,342,722**	**–**	**–**	**10,342,722**
Advertising and promotion	**2,630,489**	**–**	**–**	**2,630,489**
Security services	**2,054,228**	**–**	**–**	**2,054,228**
Bank charges	**1,418,700**	**–**	**–**	**1,418,700**
Interest	**985,359**	**–**	**–**	**985,359**
Others	**5,569,305**	**–**	**–**	**5,569,305**
	582,938,913	**–**	**–**	**582,938,913**

(Forward)

	2007			
	Less than 3 months	Less than One year	More than One year	Total
Other current liabilities:				
Non-trade accounts payable	**₱–**	**₱62,902,460**	**₱–**	**₱62,902,460**
Withholding taxes	**–**	**13,000,672**	**–**	**13,000,672**
Retention payable	**–**	**10,065,404**	**–**	**10,065,404**
Royalty	**–**	**9,151,719**	**–**	**9,151,719**
Output VAT	**–**	**6,635,208**	**–**	**6,635,208**
Others	**–**	**9,753,129**	**–**	**9,753,129**
	–	**111,508,592**	**–**	**111,508,592**
Deposit from sub-lessees	**–**	**–**	**98,653,475**	**98,653,475**
Cumulative redeemable preferred shares	**–**	**–**	**6,000,000**	**6,000,000**
	₱ 582,938,913	**₱486,508,591**	**₱104,653,475**	**₱1,174,100,979**

	2006			
	Less than 3 months	Less than One year	More than One year	Total
Bank loans	₱–	₱404,700,000	₱–	₱404,700,000
Accounts payable and accrued expenses:				
Trade payable	493,694,257	–	–	493,694,257
Rent	69,944,073	–	–	69,944,073
Utilities	11,729,488	–	–	11,729,488
Employee benefits	10,351,365	–	–	10,351,365
Advertising and promotion	10,121,125	–	–	10,121,125
Security services	1,978,886	–	–	1,978,886
Bank charges	2,760,120	–	–	2,760,120
Interest	1,616,110	–	–	1,616,110
Others	8,027,533	–	–	8,027,533
	610,222,957	–	–	610,222,957
Current portion of long-term debt	–	6,500,000	–	6,500,000
Other current liabilities:				

Non-trade accounts payable	–	62,534,858	–	62,534,858
Withholding taxes	–	10,458,897	–	10,458,897
Retention payable	–	6,720,669	–	6,720,669
Royalty	–	175,447	–	175,447
Output VAT	–	9,163,433	–	9,163,433
Payable to franchisee		11,729,699		11,729,699
Others	–	6,651,000	–	6,651,000
	–	107,434,003	–	107,434,003
Deposit from sub-lessees	–	–	55,747,867	55,747,867
Cumulative redeemable preferred shares	–	–	6,000,000	6,000,000
	₱610,222,957	₱518,634,003	₱61,747,867	₱1,190,604,827

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's fair value and cash flows interest rate risk mainly arise from bank loans and long-term debt. The Group is expecting to substantially reduce the level of bank loans within the next three years. 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 profiles of financial instruments that are exposed to interest rate risk are as follows:

	2007		2006	
	Rate	**Due in less than one year**	Rate	Due in less than one year
Bank loans:				
Fixed interest rate	**7.47%-8.60%**	**175,000,000**	8.60%-8.80%	₱404,700,000
Floating interest rate	**6.50%-7.50%**	**200,000,000**	**–**	**–**
Long-term debt - fixed interest rate	**–**	**–**	11.67%	6,500,000

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. 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 non-interest 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):

	2007		
	Increase/ Decrease in Basis Points	**Effect on Income Before Income Tax**	**Effect on Stockholders' equity**
Bank loans - floating interest rate	**+ 100**	**₱2,000,000**	**₱1,300,000**
	- 100	**(2,000,000)**	**(1,300,000)**

	2006		
	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Stockholders' equity
Bank loans - floating interest rate	+ 100	(₱4,047,000)	(₱2,630,550)
	- 100	4,047,000	2,630,550

Foreign Exchange Risk

The Group has minimal foreign exchange exposure arises from its foreign currency denominated cash account. The following table shows the Group's assets that are denominated in foreign currency:

	2007		2006	
	Peso	**Dollar**	Peso	Dollar
Cash	**₱1,185,630**	**US$28,722**	₱2,609,389	US$53,220

The following table represents the impact on the Group's income before income tax due to a reasonably possible change in fair value of monetary assets and liabilities brought about by a change in Peso to Dollar exchange rate (holding all other variables constant).

	2007		
	Change in Peso to US Dollar Exchange Rate	**Effect on Income Before Income Tax**	**Effect on Stockholders' equity**
Cash	**Increase by 5%**	**₱59,282**	**₱38,533**
	Decrease by 5%	**(59,282)**	**(38,533)**

	2006		
	Change in Peso to US Dollar Exchange Rate	Effect on Income Before Income Tax	Effect on Stockholders' equity
Cash	Increase by 5%	₱130,469	₱85,805
	Decrease by 5%	(130,469)	(85,805)

29. 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 its equity contributed by shareholders as capital. The Group manages its capital structure by keeping a networth of between 30% and 50% in relation to its total assets. The Group's ratios were 35% and 33% in December 31, 2007 and 2006, respectively.

	2007	2006
Capital stock	**₱237,938,250**	₱237,938,250
Additional paid-in capital	**293,525,037**	293,525,037
Retained earnings	**136,070,248**	81,242,110
	667,533,535	612,705,397
Less cost of shares held in treasury	**2,923,246**	2,923,246
	₱664,610,289	₱609,782,151
Total assets	**₱1,881,423,859**	₱1,827,611,503
Net worth	**35%**	33%

30. 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 ₱ 51,389,093 in 2007, ₱65,278,976 in 2006 and ₱26,931,394 in 2005, and franchise revenue for the 7-Eleven charge amounted to ₱152,882,460 in 2007, ₱82,718,404 in 2006 and ₱31,795,431 in 2005.

b. The Group has service management agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a management fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service management agreement. Management fee amounted to ₱83,248,355 in 2007, ₱82,307,663 in 2006 and ₱63,632,738 in 2005.

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 ₱21,924,224 in 2007, ₱28,635,785 in 2006 and ₱37,848,387 in 2005.

d. The Group entered into a Marketing Support and Exclusivity Agreement (the Agreement) with San Miguel Pure Foods Group, Inc. (SMPFC) on June 23, 2005. Under the agreement, the Group is appointed as SMPFC's exclusive distributor for the covered products, for a period of 5 years starting retroactively on January 24, 2005. During the term of the agreement, the Group is required to purchase a minimum volume of 19,564 metric tons of the covered products. The agreement further stipulates that SMPFC shall grant the Group marketing support funds aggregating ₱19,989,000 to support the sale of the covered products. The Group met the minimum purchase requirement of SMPFC and received marketing support funds amounting to ₱ 19,989,000 in June 2005 which was recognized as marketing income in the consolidated statement of income.

31. Contingencies

The Group is a party to various litigations involving, among others, price tag law issues 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 the Bureau of Food and Drugs, specific performance and other civil claims. All uch 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 results of operations.

32. Note to Consolidated Statement of Cash Flows

The principal non-cash transaction of the Group under investing activities pertains to the disposal of transportation equipment with undepreciated cost of ₱4,985,000, which was transferred to the Group in settlement of an outstanding receivable from an armored car service provider. This was subsequently transferred back to the latter after entering into a sale and leaseback transaction under a finance lease agreement.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment in Land	Treasury Stock	Total
BALANCES AS OF DECEMBER 31, 2004	**₱237,938,250**	**₱293,525,037**	**₱47,337,606**	**₱–**	**(₱2,923,246)**	**₱575,877,647**
Net income for the year		–	13,760,412	–	–	13,760,412
BALANCES AS OF DECEMBER 31, 2005	**237,938,250**	**293,525,037**	**61,098,018**	**–**	**(2,923,246)**	**589,638,059**
Net income for the year		–	20,144,092	–	–	20,144,092
BALANCES AS OF DECEMBER 31, 2006	**237,938,250**	**293,525,037**	**81,242,110**	–	**(2,923,246)**	**609,782,151**
Net income for the year		–	54,828,138	–	–	54,828,138
Appraisal increase in value of land (Note 8)		–	–	2,999,188	–	2,999,188
Total income for the year		–	54,828,138	2,999,188	–	57,827,326
BALANCES AS OF DECEMBER 31, 2007	**₱237,938,250**	**₱293,525,037**	**₱136,070,248**	**₱2,999,188**	**(₱2,923,246)**	**₱667,609,477**

See accompanying Notes to Consolidated Financial Statements.