

COVER SHEET

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S.E.C Registration Number

P H I L I P P I N E

S E V E N

C O R P O R A T I O N

(Company's full Name)

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

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

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

Atty. Evelyn S. Enriquez
Corporate Secretary

Contact Person

724-44-41 to 51

Company Telephone Number

1 2 3 1

Month Day
Fiscal Year

2 0 - I S

FORM TYPE

0 7

Month Day
Annual Meeting

3rd Thursday

Definitive Copy of Information Statement

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

PHILIPPINE SEVEN CORPORATION

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

Notice is hereby given that the annual stockholders meeting of PHILIPPINE SEVEN CORPORATION (the "Corporation"), will be held at the **Ruby B, Level 4 Crowne Plaza Galleria Manila, Ortigas Avenue corner Asian Development Bank Avenue, Quezon City, on Thursday, 29 July 2010 at 3:00 P.M.** for the purpose of taking up the following:

1. Certification of Quorum and Call to Order
2. Approval of Minutes of the Annual Stockholders Meeting held on July 16, 2009
3. a. Chairman's Message
b. President's Report
4. Approval of 2009 Audited Financial Statements
5. Ratification of Actions Taken by the Board of Directors, Executive Committee, Board Committees and Management since the last annual stockholders meeting
6. Approval of Stock Dividend Declaration
7. Election of the Board of Directors for 2010
8. Appointment of External Auditors
9. Other Matters
10. Adjournment

For purposes of the meeting, only stockholders of record as of June 15, 2010 are entitled to vote in the said meeting.

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


EVELYN S. ENRIQUEZ
Corporate Secretary

**PHILIPPINE SEVEN CORPORATION
INFORMATION STATEMENT**

This Information Statement is being furnished to stockholders of record of Philippine Seven Corporation as of June 15, 2010 in connection with its annual stockholders' meeting.

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

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

Date of Meeting : July 29, 2010
Time of Meeting : 3:00 P.M.
Place of Meeting : Ruby B, Level 4 Crowne Plaza Galleria Manila
Ortigas Avenue corner ADB Avenue, Quezon City,
Complete Mailing Address : Philippine Seven Corporation
7th Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City 1550

This Information Statement will be first sent or given to security holders on June 30, 2010.

Item 2. Dissenter's Right of Approval

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

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

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

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

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

None of the members of the Board of Directors or senior management has any substantial interest in the matters to be acted upon by the shareholders in the stockholders meeting, except for the election of directors. The following are the incumbent directors for the year 2009 - 2010 (prior to the 29 July 2010 Annual Stockholders Meeting):

- | | |
|---------------------------|-------------------------|
| 1. Vicente T. Paterno | 7. Yun-Huei Chang-Jen |
| 2. Jose Victor P. Paterno | 8. Yen-Sen Yang |
| 3. Jorge L. Araneta | 9. Wen-Chi Wu |
| 4. Diana P. Aguilar | 10. Alfredo C. Ramos* |
| 5. Chung-Jen Hsu | 11. Michael B. Zalamea* |
| 6. Chien-Nan Hsieh | |

* Independent Director

The Board of Directors and senior management, as a group, own 28,782,200 common shares which constitute approximately 10.01% of the issued and outstanding common stock. The Board of Directors of the Company is not aware of any party who has indicated an intention to oppose the motions set forth in the Agenda.

Cumulative voting is allowed for the election of the members of the Board of Directors. Each stockholder may vote the number of shares of stock outstanding in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number

of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected and provided, however, that no delinquent stock shall be voted

A. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

As of May 31, 2010, there were 287,074,920 shares of the common stock of Philippine Seven Corporation outstanding and entitled to vote for election of directors and matters scheduled for approval at the Annual Meeting. Only holders of the company's stock as of the close of business on record date of June 15, 2010 acting in person or by proxy on the day of the meeting are entitled to notice and to vote at the Annual Meeting to be held on July 29, 2010.

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

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

- a) As of May 31, 2010 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 May 31, 2010
Common	President Chain Store (Labuan) Holding, Ltd. ¹ 7(E), Main Tower, Financial Park, Labuan, Malaysia	Malaysian	Stockholder	162,451,721(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	35,342,590 (R)	12.31%
Common	Vicente Paterno ³ And children 16 Hidalgo Place, Hidalgo Village Rockwell, Makati City	Filipino	Chairman /Stockholder	1,210,000 (R) <u>27,566,755(B)</u> 28,776,755	10.01%
Common	Progressive Development Corp. ⁴ 18th Aurora Tower, Cubao, Quezon City	Filipino	Stockholder	24,397,328 (R)	8.50%

Footnotes:

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

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

³ Mr. Vicente T Paterno has the power of attorney to vote the 27,566,755 shares of his children: Ma. Cristina Paterno-5,557,591; Jose Victor Paterno- 10,568,243 ; Paz Pilar P. Benares - 5,424,051; Ma. Elena P. Paterno- 864,831; Ma. Theresa P. Dickinson- 5,152,039.

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

- b) Security Ownership of Management as of May 31, 2010

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Vicente T. Paterno	1,210,000 (R) <u>27,566,755 (B)</u> 28,776,755 ¹	Filipino	0.42% 10.1%
Common	Jose Victor P. Paterno	10,568,243	Filipino	3.68%
Common	Jorge L. Araneta	¹	Filipino	0.00%
Common	Diana P. Aguilar	¹ ₃	Filipino	0.00%
Common	Alfredo C. Ramos	¹ ₃	Filipino	0.00%
Common	Michael B. Zalamea	¹ ₃	Filipino	0.00%
Common	Chung-Jen Hsu	¹ ₃	R.O.C.	0.00%

Common	Chien-Nan Hsieh	1 ³	R.O.C.	0.00%
Common	Yun-Huei Chang-Jen	1 ³	R.O.C.	0.00%
Common	Wen-Chi Wu	1 ³	R.O.C.	0.00%
Common	Yen-Sen Yang	1 ³	R.O.C.	0.00%
Common	Evelyn Sadsad-Enriquez	2,239 ²	Filipino	0.0008%
Common	Liwayway T. Fernandez	3,197 ²	Filipino	0.0011%

¹ Shares directly owned by Vicente T. Paterno is 1,210,000 which is 0.42%, and he has power of attorney for 27,566,755 shares held by his 5 children including above shares of Jose Victor Paterno – 10,588,243 (3.68%)

² Directly owned shares

³ Qualifying shares

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

Mr. Vicente T. Paterno, Chairman of the Board, has the power of attorney for 27,566,755 shares or 9.59% for said shares collectively owned by his children namely, Ma. Theresa Paterno-Dickinson– 5,152,039 shares; Jose Victor P. Paterno–10,568,243 shares; Paz Pilar Paterno-Benares – 5,424,051 shares; Ma. Cristina P. Paterno – 5,557,591 shares and Ma. Elena P. Paterno – 864,831 shares.

d) Changes in Control

There has been no arrangement which may result in a change in control of the Company. There has been no change in control of the Company since Y2000 or the past 9 years.

Item 5. Directors and Executive Officers of the Registrant

a) Directors and Corporate Officers

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

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

NAME	AGE	Term of Present Position	No. of Year(s) In Service	<i>Business Experience</i>
CHIN-YEN KAO Honorary Chairman of the Board Citizenship: R.O.C.	81	9 yrs.	9 yrs.	<ul style="list-style-type: none"> Chairman - Uni-President Enterprise Corp.; President Chain Store (BVI) Holdings Ltd.; PCSC (China) Limited; Uni-President Development Corp.; Tong-Jeng Development Corp.; President International Development Corp. Director- President Chain Store (Labuan) Holdings Ltd.; PCSC (China) Drugstore Limited; PCSC (China) Restaurant Limited; PCSC (China) Supermarket Limited; President Chain Store (BVI) Holdings Ltd.
VICENTE T. PATERNO Chairman of the Board and Director Citizenship: Filipino	84	27 yrs.	27 yrs.	<ul style="list-style-type: none"> Chairman - Store Sites Holding Inc., PhilSeven Foundation, Inc. Former Director - State Land Investment Inc., First Philippine Holdings Corporation; Benpres Holdings Corporation
YEN-SEN YANG Vice- Chairman and Director Citizenship: R.O.C	50	4 yrs. & 6 mos.	4 yrs. & 6 mos.	<ul style="list-style-type: none"> Vice-President - President Chain Store Corp.; Director – Cold Stone Creamery Taiwan Ltd.; President Being Corp.; 21 Century Enterprise Co., Ltd.; Duskin Serve Taiwan Co.; Books.com. Co., Ltd.; President Chain Store Tokyo Marketing Corporation; Philippine Seven Corp; Pet Plus Co., Ltd. Presiclrc Limited; Shanghai Cold Stone Ice Cream Corporation

				<ul style="list-style-type: none"> • Supervisor – President FN Business Corp.; President Information Corp.
<p>JOSE VICTOR P. PATERNO President and Director</p> <p>Citizenship: Filipino</p>	42	5 yrs.	12 yrs.	<ul style="list-style-type: none"> • President & CEO, Philippine Seven Corporation • Chairman & President – Convenience Distribution, Inc; • Former Vice-President for Operations– Philippine Seven Corporation
<p>JORGE L. ARANETA Director</p> <p>Citizenship: Filipino</p>	74	21 yrs.	21 yrs.	<ul style="list-style-type: none"> • Chairman & CEO - Araneta Center Inc./ Philippine Pizza Inc./ Progressive Development Corporation
<p>DIANA P. AGUILAR Director</p> <p>Citizenship: Filipino</p>	46	11 yrs. 8 mos.	11 yrs. 8 mos.	<ul style="list-style-type: none"> • 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.
<p>ALFREDO C. RAMOS Independent Director</p> <p>Citizenship: Filipino</p>	65	7 yrs. & 7 mos.	21 yrs.	<ul style="list-style-type: none"> • Chairman & President –National Bookstore, Inc./ The Philodril Corp./ Vulcan Industrial & Mining Corp./Atlas Consolidated Mining & Development Corp. / Vulcan Material Corp. • Chairman of the Board –Anglo Philippine Holdings Corporation/ Cacho Hermanos, Inc./ The Music One Corp. • President – Abacus Book and Card Corp./ Crossings Department Store, Corp./ Power Books, Inc./ Alakor Corp. • Vice-Chairman – Shang Properties Inc. • Director – Vulcan Materials Corp. • Governor – National Book Development Board
<p>MICHAEL B. ZALAMEA Independent Director</p> <p>Citizenship: Filipino</p>	45	5 yrs. & 5 mos.	5 yrs. & 5 mos.	<ul style="list-style-type: none"> • 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.
<p>CHUNG-JEN HSU Director</p> <p>Citizenship: R.O.C.</p>	62	9 yrs.	9 yrs.	<ul style="list-style-type: none"> • Chairman- President Drugstore Business Corp.; Capital Inventory Services Corp.; Wisdom Distribution Service Corp.; President YiLan Art and Culture Corp.; President Information Corp.; Bank Pro E-Service Technology Co., Ltd.; Duskin Serve Taiwan Co.; Mister Donut Taiwan Corp.; Muji Taiwan Co., Ltd.; Retail Support International Corp.; President FN Business Corp.; Afternoon Tea Taiwan Co., Ltd.; Rakuten Taiwan Co., Ltd.; Pet Plus Co., Ltd.; 21 Century Enterprise Co., Ltd.; President Chain Store (Hong Kong) Holdings Limited ; Ren-Hei Investment Corp. ; Mech-President Corp.; President Transnet Corp.; President Collect Services Co. Ltd. ; • Vice Chairman- Uni-President Department Store Corp.; Uni-President Development Corp. • Director-Tong-Jeng Development Corp.; Shanghai President Logistics Co., Ltd.; Uni-President Cold-Chain Corp.; Uni-President Oven Bakery Corp.; President Coffee Corp.; President Pharmaceutical Corp.; Tong-Ho

				<p>Development Corp.; Presicarre Corp.; President Baseball Team Corp; Ton Yi Pharmaceutical Corp.; Philippine Seven Corp.; Presiclerc Limited; Shanghai President Starbucks Coffee Corp.; President International Development Corp.; Dayeh Takashimaya Taiwan Inc.; Nanlien International Corp; Shan Dong President Yinzuo Commercial Limited; PK Venture Capital Corp.; Wuhan Uni-President Oven Fresh Bakery Co., Ltd.; President Chain Store (Shanghai) Ltd.; Cold Stone Creamery Taiwan Ltd.; PCSC (SICHUAN) Hypermarket Limited; PCSC (CHENGDU) Hypermarket Limited; Shanghai Cold Stone Ice Cream Corporation; PCSC AFTERNOON TEA SHANGHAI LTD.; President Cosmed Chain Store (Shen Zhen) Co.,Ltd.; Shenzhen Cosmed-Livzon Pharmacy Chain Store Co.,Ltd; PCSC AFTERNOON TEA CAYMAN LTD. ; President Coffee (Cayman)Holdings Ltd.; Duskin China(BVI)Holding Limited.; eASPNet Inc.;</p> <ul style="list-style-type: none"> • President- President Chain Store Corporation; Ren-Hei Investment Corp.
<p>CHIEN-NAN HSIEH Director</p> <p>Citizenship: R.O.C.</p>	55	9 yrs.	9 yrs.	<ul style="list-style-type: none"> • Senior Vice-President- President Chain Store Corporation; • Chairman- Q-ware Communications Co., Ltd. • Director - Ren-Hui Investment Corp.; Capital Inventory Services Corp.; Wisdom Distribution Service Corp.; Uni-President Cold-Chain Corp.; President Information Corp.; Bank Pro E-Service Technology Co., Ltd.; Books.com. Co., Ltd.; Rakuten Taiwan Co., Ltd.; President Musashino Corp.; Retail Support International Corp.; Q-ware Systems & Services Corp.; Retail Support Taiwan Corp.; President Logistics International Corp.; Chieh-Shuen Logistics International Corp.; Philippine Seven Corp; PCSC (VIETNAM) SUPERMARKET LIMITED; President Chain Store (Hong Kong) Holdings Limited; Zhuhai Livzon Drugstore Chain Company Limited • President- Books.com. Co., Ltd.
<p>WEN-CHI WU Director</p> <p>Citizenship: R.O.C.</p>	40	1 yr. and 6 mos.	1 yr. and 6 mos.	<ul style="list-style-type: none"> • Financial Office Manager – President Chain Store Corporation • Director – Philippine Seven Corp.; President Investment Trust Corp. • Supervisor – Capital Inventory Services Corp.; President Being Corp.; Pet Plus Co., Ltd.; Uni-President Oven Bakery Corp.; Books.com. Co., Ltd.; Muji Taiwan Co., Ltd.; Wuhan Uni-President Oven Fresh Bakery Co., Ltd.; Shanghai President Starbucks Coffee Corp.; President Chain Store (Shanghai) Ltd.; Shan Dong President Yinzuo Commercial Limited
<p>YUN-HUEI CHANG-JEN Director</p> <p>Citizenship: R.O.C.</p>	58	6 mos.	6 mos.	<ul style="list-style-type: none"> • Chairman- Cold Stone Creamery Taiwan Ltd.; Uni-President Oven Bakery Corp. • Vice Chairman-;Uni-President Yellow Hat Corp. • Director- President Drugstore Business Corp.; President FN Business Corp.; President YiLan Art and Culture Corp.; 21 Century Enterprise Co., Ltd.; President Transnet Corp.; President Collect Services Co. Ltd.; Pet Plus Co., Ltd.; Mech-President Corp.; Duskin Serve Taiwan Co.; Afternoon Tea Taiwan Co., Ltd.; Mister Donut Taiwan Corp.; Muji Taiwan Co., Ltd.; President Organics, Co.; Philippine Seven Corp; PCSC AFTERNOON TEA SHANGHAI LTD.; President Chain Store (Shanghai) Ltd.; Shanghai President Logistic Co., Ltd.; Mister Donut Shanghai Co., Ltd.; President Cosmed Chain Store (Shen Zhen) Co., Ltd.; Zhuhai Livzon Drugstore Chain Company Limited; Shan Dong President Yinzuo Commercial Limited;

				PCSC (SICHUAN) Hypermarket Limited; PCSC (CHENGDU) Hypermarket Limited; Shanghai Cold Stone Ice Cream Corporation <ul style="list-style-type: none"> • President- Cold Stone Creamery Taiwan Ltd.; Afternoon Tea Taiwan Co., Ltd.
PING-YUN WANG Vice-President Citizenship: R.O.C.	41	3 yrs.	3 yrs.	<ul style="list-style-type: none"> • Vice President for Operations & Marketing • Exec. Committee member- Philippine Seven Corporation • Director –Convenience Distribution, Inc. • 16 years with 7-Eleven Taiwan
YU-HSIU TSAI Treasurer/CFO Vice-President Citizenship: R.O.C.	50	1 yr. & 10 mos.	1 yr. & 10 mos.	<ul style="list-style-type: none"> • Treasurer/CFO and VP-Finance & Administration – Philippine Seven Corporation • Vice Pres & Director - Convenience Distribution Inc. Director- Store Sites Holding Inc. Manager – 7-Eleven President Chain Store • Director – Administrative Department of Starbucks Taiwan • Director – Administrative Department of Starbucks Shanghai • Director – Director Administrative Department Cold Stone Creamery
EVELYN SADSAD-ENRIQUEZ Corporate Secretary Citizenship: Filipino	46	6 yrs. & 5 mos.	20 yrs.	<ul style="list-style-type: none"> • 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

a) The Executive Officers

As of May 31, 2010, the Executive Officers and Management of the Corporation are the following:

Executive Officers	Name
Honorary Chairman of the Board	Chin-Yen Kao
Chairman of the Board	Vicente T. Paterno
Vice-Chairman	Yen-Sen Yang
President & CEO	Jose Victor P. Paterno
Vice-President for Operations, Marketing & Business Development	Ping-Yun Wang
Treasurer and CFO Vice-President for Finance & Administration	Yu-Hsiu Tsai
Corporate Secretary, Compliance Officer Legal & Corporate Services Division Manager	Atty. Evelyn S. Enriquez
Comptroller	Lawrence M. de Leon
Marketing Director	Michael Chuaansu
Operations Division Manager	Liwayway T. Fernandez
General Merchandise Division Manager	Jose Ang, Jr.
Business Development Division Manager	Francis S. Medina
Internal Audit Division Manager	Eduardo P. Bataclan (until Feb 2010)
HR Division Manager	Violeta B. Apolinario
Corporate Planning & MIS Division Manager	Jason Jan Ngo
Strategic Merchandise Division Manager	Armi C. Andrade
Procurement Resources Division	Eduardo P. Bataclan

b) Identifying Significant Employees

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

c) 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

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

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.

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

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 Corporation:

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

j) Independent Directors

As of the date of this report, the nominees for independent directors are Messrs. Michael B. Zalamea and Antonio Jose U. Periquet. Their nominations were submitted by Ms. Ma. Christina P. De Leon and Paz Pilar P. Benares, respectively, stockholders of the Corporation, and pre-screened by the Nomination Committee of the Corporation in compliance with SEC Circular No. 16 on the Guidelines on Nomination and Election of Independent Directors. They are neither officers nor substantial shareholders of Philippine Seven Corporation nor are they directors or officers of its related companies. Their shareholdings in the Corporation are less than 2% of the Corporation's outstanding capital stock pursuant to Section 38 of the SRC. The Committee has determined that each of the nominees for election as independent director meets the criteria set out in SRC Rule 38. A brief description of the business experiences of Mr. Michael B. Zalamea is included in Item 9 Part III of this report. The business experiences of the new nominees for independent director, Mr. Antonio Jose U. Periquet, and director, Mr. Nan-Bey Lai, are as follows:

New Nominees	Personal Information and Business Experiences
Antonio Jose U. Periquet (for independent director)	<ul style="list-style-type: none">• Age: 49 years of age• Degree: MBA. University of Virginia (1990), MSc Development Economics, Oxford University (1988), AB Economics, Ateneo de Manila (1982)
Citizenship: Filipino	<ul style="list-style-type: none">• Chairman and Managing Director - Deutsche Regis Partners Inc.• Country Strategist & Head of Equities Research - Deutsche Bank• Chairman - Pacific Main Holdings, Inc.• Director - Capstone Technologies, Inc.• Director, The Straits Wine Company, Inc.• Trustee - The Beacon International School
Nan-Bey Lai (for director)	<ul style="list-style-type: none">• Age: 59 years• Degree: BA, Business Administration, Tunghai University
Citizenship: R.O.C.	<ul style="list-style-type: none">• Senior Vice President - President Chain Store• Director - President Information Corp., President Collect Services Co., Ltd., Mech-President Corp., Uni-President Oven Bakery Corp., Bank Pro E-Service Technology Co., Ltd., Afternoon Tea Taiwan Co., Ltd, Q-ware Systems & Srvices Corp., President Being Corp.

Nomination Procedure:

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

Item 6. Compensation of Directors & Executive Officers

For the calendar years December 31, 2009, 2008, 2007, and 2006, the total salaries allowances and bonuses paid to the directors and executive officers are as follows:

(a) Name/Position	(b) Year	(c) Salaries	(d) Bonus	(e) Others
Chairman and Top 4				
Vicente T. Paterno Chairman				
Jose Victor P. Paterno President				
Ping-Yun Wang Vice-President				
Yu-Hsiu Tsai Treasurer				
Michael Chuaansu Marketing Director				
Total	2010*	5,713,173.16	6,486,091.13	N/A
	2009	5,426,112.36	6,369,768.51	
	2008	4,375,302.24	5,233,364.21	
	2007	5,092,181.94	5,919,489.44	
	2006	5,091,011.52	5,740,839.28	
All other Officers and Directors as a Group Unnamed	2010*	5,980,927.24	5,713,034.49	N/A
	2009	5,497,840.32	5,492,966.49	
	2008	4,809,256.92	5,166,120.31	
	2007	5,584,417.68	4,624,234.41	
	2006	6,107,402.56	4,870,830.87	

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

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

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

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

Item 7. Independent Public Accountants

The accounting firm of Sycip Gorres Velayo and Company (SGV) was appointed as the Corporation's auditor in 2005. Since their appointment, the Corporation has no disagreement with them on any matters relating to accounting principles and practices, financial statement disclosures or auditing scope or procedures. The same auditing firm has been endorsed for re-appointment by the Audit Committee to the Executive Committee. The Audit Committee is composed of the Chairman and independent director, Alfredo Ramos, and members, Diana P. Aguilar and Jose Victor P. Paterno. The Executive Committee approved the endorsement and will nominate the appointment of the said auditing firm for stockholders' approval at the scheduled Annual Meeting of the Stockholders. The said auditing firm has accepted the Corporation's invitation to stand for re-election this year and has designated Ms. Julie Christine Ong-Mateo as the audit partner to handle the 2010 audit for the Company.

Audit services of SGV for the fiscal year ended December 31, 2009 included the examination of the consolidated financial statements of the Company, preparation of final income tax returns and other services related to filing made with the Securities and Exchange Commission.

The company is in compliance with SRC Rule 68, paragraph 3(b)(iv) requiring the rotation of external auditors or engagement partners who have been engaged by the company for a period of five (5) consecutive years or more as of December 31, 2002. The present engagement partner is Ms, Julie Christine Ong-Mateo, an SEC accredited auditing partner of SGV, and in her second year of assignment in the Corporation. Representatives of SGV shall be present during the annual meeting of stockholders on July 29, 2010. They are also expected to respond at the Annual Stockholders Meeting to appropriate questions from stockholders pertaining to said financial

statements as needed.

Item 8. External audit fees and services

The following table summarizes the fees paid or accrued for services provided by our external auditors for the fiscal years ended December 31, 2009 and 2008:

	2009	2008
	(in thousands)	
Audit Fees	P 1,491	P 1,340
Tax Fees	274	400
All Other Fees	120	201
Total	P1,885	P1,941

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.

ISSUANCE AND EXCHANGE OF SECURITIES

Item 11. Financial and Other Information

The Management's Discussion and Analysis and the Company's consolidated audited financial statements for fiscal years ended December 31, 2009 and 2008, including schedules for Property & Equipment, Accumulated Depreciation, Non-trade Receivables and Capital Stock, are attached hereto as Annexes "A" and "D", respectively. The Company's 2009 Annual Report will be distributed to stockholders of record during the Annual Meeting.

D. OTHER MATTERS

Item 15. Action with respect to Reports

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

1. Approval of the Minutes of the July 16, 2009 Annual Stockholders Meeting;
2. Approval of the Annual Report of Management and the Audited Financial Statements for the Fiscal Year ending December 31, 2009;
3. Ratification of all Acts and Resolutions of the Board of Directors, Executive Committee, Board Committees and Management during the year 2009 as discussed in the Minutes of the Meetings of the Board of Directors, Executive Committee and Audit Committee, which include the approval of contracts, loans, investments or purchases in the ordinary course of trade or business, management report and financial statements of the Corporation, and appointment of corporate officers, corporate signatories and amendments thereof.

A brief summary of Minutes of the 2009 Annual Stockholders' Meeting and relevant resolutions of the Board of Directors and the Committees for ratification by the stockholders are attached as Annexes "B" and "C."

Item 16. Other Proposed Action

1. Election of Directors including the independent directors
2. Appointment of External Auditors

3. Approval of Stock Dividend Declaration

Item 17. Voting Procedures

Vote required for approval

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

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

Method by which votes will be counted

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

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

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

ALL REQUESTS MAY BE SENT TO:

psc-corp@7-eleven.com.ph

or

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

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth on this report is true, complete and correct. This report is signed in the City of Mandaluyong on June 15, 2010.

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

PHILIPPINE SEVEN CORPORATION

Issuer

June 15, 2010

By:


EVELYN S. ENRIQUEZ
Corporate Secretary

Management's Discussion and Analysis or Plan 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, 2009 and 2008. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties and our actual results may differ materially from those anticipated in these forward-looking statements. On a periodic basis, we evaluate our estimates, including those related to revenue recognition, goodwill, capitalized assets and income taxes. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances.

SELECTED FINANCIAL DATA

	2009	2008	2007
<i>(amount in thousands, except EPS)</i>			
SYSTEM WIDE SALES	₱7,075,772	₱ 6,240,714	₱5,556,395
Statement of Income Data:			
Revenues and other income			
Sales of merchandise	6,033,322	5,412,969	4,952,027
Franchise revenue	303,815	250,856	204,272
Marketing income	236,503	136,211	97,680
Rent income	52,265	36,502	39,649
Others (net)	35,686	17,989	32,885
Cost and expenses			
General & administrative expenses	(2,050,959)	(1,788,433)	(1,683,290)
Interest expense	(26,483)	(25,333)	(31,527)
Cost of merchandise sold	(4,371,716)	(3,909,887)	(3,534,557)
Total comprehensive income	155,791	84,502	57,827
Earnings per share	₱0.54	₱0.29	₱0.19
Cash Flow Data:			
Net cash from operating activities	₱541,186	₱502,771	₱267,097
Net cash used in investing activities	(389,495)	(426,197)	(218,328)
Net cash used in financing activities	(17,255)	(69,859)	(68,358)
Balance Sheet Data:			
Total assets	₱2,710,676	₱2,269,797	₱1,878,708
Total liabilities	1,802,773	1,517,685	1,211,099
Total stockholders' equity	907,903	752,112	667,609

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 few years of existence. In 1993, PSC, encouraged by the resurgent national economy, stepped up its rate of expansion.

As of December 31, 2009, 7-Eleven has grown by 90 stores to end the year with 447 stores. The retail chain of convenience stores is sustained by a manpower complement of 1,130 employees engaged in store operations and in various support service units. Despite the growing competition in the convenience retailing business, the Company maintains its leadership in the industry.

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

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

FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN 2009

Results of Operations

At the end of calendar year 2009, PSC registered net income of ₱155.8 million. This represents an increase of 84 percent from 2008 earnings of ₱84.5 million. The improved earnings result was driven by aggressive store expansion, highlighted by the strategic alliance with Chevron Philippines and introduction of new products. System-wide revenue, a measure of sales of all corporate and franchise operated stores, increased by 13 percent to ₱7.1 billion in 2009 from ₱6.2 billion in the same period the previous year.

The improvement in sales can be attributed to the company's intensified marketing and merchandising programs. The convenience store chain was able to surmount last year's economic slowdown through the introduction of new food service items such as Hotta Rice, Hot Beverages, and year-round value promotions. Strategic partnerships with suppliers enabled 7-Eleven to launch novel marketing promotions such as the Bingo Promo and the Big Bite Match. These efforts resulted in the continued patronization of regular 7-Eleven customers and, in turn, led to an increase in sales.

Moreover, the Company's expansion program resulted into the opening of 90 new stores all over Luzon and the tie-up linking the top convenience store in the country with Chevron Philippines as 7-Eleven opened 25 new stores at various Caltex gas stations.

New franchise operators also boosted the store base and resulted into higher franchise revenues of ₱303.8 million.

EBITDA (earnings before interest, taxes, depreciation and amortization) went up by 32 percent from ₱349.7 million in 2008 to ₱461.2 million last year.

Revenue and Gross Margin

The Company registered total revenue from merchandise sales of ₱6.0 billion in 2009, an increase of 11.5 percent compared to ₱5.4 billion in 2008. Cost of merchandise sold rose by ₱461.8 million to ₱4.4 billion at the end of 2009.

System-wide sales grew by 13% or ₱835.1 million to ₱7.1 billion in 2009. PSC ended 2009 with 447 stores, higher by 21% compared to the 2008 level of 368. Some underperforming stores were closed during the year. Out of the total store base, 43% are corporate run, while the rest are franchise-operated

Gross Profit stood at ₱1.7 billion, while GP in relation to sales went up by 85 points partly due to the dilution brought about by the increase in Company's sales to franchise stores which are accounted for at zero mark-up. Notwithstanding this factor, gross profit ratio to sales improved slightly to 27.5 percent during the year.

Products in the services category, which form part of the Company's commission income, are physical cards, bills payment and consigned goods. Commission income rose by 4% to ₱22.1 million.

Other Income

Other income consists of marketing income, franchise revenue and rent from rentable spaces. The Company's total other income increased by ₱82.0 million, to ₱592.6 million as a result of the following;

Marketing income grew by ₱100.3 million from the 2008 level, at a rate significantly higher than previous years. This is due to increased supplier-supported ad and promo spending, driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. For example, our POS system can apply a discount when a manufacturer's brand of drink and snack are purchased together. Our goal is to become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to ₱303.8million from ₱250.9 million in 2008. This was the result of the increase in number of franchise-operated stores that reached 254 at the end of the calendar year. Further, rent income grew to ₱52.3 million.

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

General and Administrative Expense

General and administrative expense which is comprised of store operating and selling expenses as well as headquarter expenses went up by 13% or ₱262.5 million and totaled to ₱2.0 billion in 2009.

Communication, light and water were the highest contributor and accounted for almost one fifth of the total G & A expenses for the year. This is followed by rent expense with 16% share, outsourced services with 15% and personnel costs at 14% share. Service fees paid to store operators under the service agreement with PSC accounted for 37% of the total outsourced services.

Personnel costs aggregated to ₱285.7 million, versus ₱250.6 million in 2008. Ratio to sales was 4.7% in 2009 and 4.6% in 2008. Personnel costs include salaries and wages at ₱167.7 million, employee benefits at ₱96.0 million and pension costs at ₱22.0 million. The Company continued to outsource store personnel to contain costs. Pension cost significantly increased during the year due to the higher present value of retirement obligations assessed by the actuary which was the result of the use of a lower market discount rate relative with the reference rate used in 2008. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Moreover, rent expense incurred is pegged ₱325.2 million or 5.4% of sales against ₱272.0 million or 5.0% in 2008. Rent expense in operating leases net of sublease rent income, per store, per month grew in 2009 due to rental rate escalation

Interest Expense

Cost of debt servicing in 2009 totaled to ₱26.5 million, an increase of 4.5% compared with 2008 level of ₱25.3 million. Outstanding loan balance at the end of 2009 was pegged at ₱340.0 million, up from ₱330.0 million a year ago.

Net Income

Net income for the year significantly increased by 84% to ₱155.8 million. This was primarily due to better sales, continuing support from trade suppliers and store expansion highlighted by the strategic alliance with Chevron Philippines, Inc. Furthermore, lower corporate tax rate favorably affected the bottom-line.

The net income generated during the year translated into a 2.2% return on sales and 17.2% return on equity. The key ratios in 2009 are much better compared to the ROS and ROE of 1.4% and 11.2%, respectively, at end-2008. Moreover, EPS is pegged ₱0.54 and ₱0.29, in 2009 and 2008, respectively.

The Company's shares on the other hand were trading at 13 times 2009 earnings at the end of last year compared to the price earnings multiple of 10 times in the preceding year.

Financial Condition

Total assets grew by ₱440.9 million or 16% to ₱2.7 billion at the end of 2009. Cash and cash equivalents during the year increased to ₱448.8 million from ₱314.9 million at the beginning of last year. Receivables went down by ₱11.3 million as a result of the decline in collectibles related to supplier support and financing schemes to franchisees. Moreover, inventories went up by ₱76.1 million attributable to the growing number of stores. Further, prepayments increased by ₱36.4million coming from advance rent paid for new stores and down payments to equipment sellers. The aforementioned factors resulted into a net increase in total current assets by ₱255.2 million.

Total current liabilities went up by ₱233.8 million or 86% mainly due to the increase in trade payables and accrued expenses. However, current ratio improved to 0.73 to 1 as of December 31, 2009 against last year of 0.67 to 1.

Property and equipment, net of accumulated depreciation increased by ₱155.2 million mainly due to capital expenditure spent in relation to store expansion.

Stockholders' equity at the end of 2009 comprises 33.5% of total assets, compared to 33.1% beginning of year level. Debt to equity ratio is pegged at 2, both in 2009 and 2008.

Liquidity and Capital Resources

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

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

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2010 to fund oits operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the year 2009.

Cash Flows from Operating Activities

Net cash generated by operating activities in 2009 reached ₱541.2 million, higher compared to the ₱502.8 million generated in 2008. Better sales and higher pre-tax income in 2009 resulted to higher cash inflow from operating activities.

Cash Flows from Investing Activities

Net cash used in investing activities reached ₱389.5 million in 2009 compared to net cash out flow of ₱426.2 million in 2008. Major cash outlay went to the procurement of store equipment, new store constructions and store renovations. There were 90 new stores opened in 2009 including the conversion of more than 20 ex-Starmart outlets, operated by Chevron Philippines dealer, to 7-Eleven convenience stores.

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 reached ₱17.3 million. The year ended with outstanding bank loans of ₱340.0 million, an increase of just 3% from ₱330.0 million at the beginning of the year. The Company was able to limit its borrowings because of improved profitability in 2009.

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 2008

Results of Operations

Revenue and Gross Margin

The Company registered total revenues of P5.4 billion in 2008, an increase of 9% compared to the P4.9 billion in 2007. Cost of merchandise sold rose by P375.3 million to P3.9 billion at the end of 2008.

System-wide sales, which represents the overall retail sales to customers of corporate and franchise-operated stores grew by 12% or P684.3 million to P6.2 billion in 2008. PSC ended the year with 368 stores, an 18% increase compared to the 2007 level of 311. Out of the total, 45% or 167 stores are company-owned, while 55% or 201 stores are franchise-operated.

Gross profit stood at P1.5 billion, while gross profit as a percentage of sales declined slightly partly due to the dilution brought about by the increase in the Company's sales to franchise stores accounted for at zero mark-up. Real GP% improved in 2008 as a result of better category mix and reduced out of stock position.

Commission income amounted to P21.2 million in 2008, 3% lower than last year. This was the result of the consumers being more updated in technology advancement than they were years ago and competition brought about by other retail channels offering physical cards.

Other Income

Other income consists of marketing income, franchise revenue and rent income from rentable spaces. The Company's total other income increased to P445.7 million as a result of the following;

Marketing income, which pertains mainly to promotional support and display rental, had grown by P38.5 million from the 2007 level. This can be attributed mainly to the increase in display allowance which grew considerably in 2008. The Company continues its strong partnership with suppliers in building the profitable preferred brand.

Franchise revenue, on the other hand climbed to P250.9 million at the end of 2008 from P204.3 million in the same period the previous year. 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 to 121 stores. On the other hand, stores under labor franchise or service agreement (SA) increased to 80 stores.

General and Administrative Expense

General and administrative expense which is comprised of store operating and HQ expenses went up by six percent or P105.1 million and totaled to P1.8 billion in 2008. As a percentage of sales, general and administrative expense is pegged at 33% in 2008 and is lower against the level set a year ago.

Communication, light and water accounted for 18.5% of the total expense and were the highest contributor. This is followed by rent expense with 15% share, outsourced services with 14.5% and personnel costs with 14% share in the total general and administrative expense in 2008. Service fees paid to store operators accounted for 40% of the total outsourced services.

Moreover, communication, light and water amounted to P331.7 million or 6.1% of total revenue and grew by one and a half percent versus the same period in 2007. Bulk of this expense category pertains to electricity which comprises 94% of the total.

Personnel costs aggregated to P250.6 million, versus P316.2 million in 2007. Ratio to sales was 4.6% and 6.4% in 2008 and 2007, respectively. Personnel costs include salaries and wages at P158 million, employee benefits at P83.9 million and pension costs at P8.7 million. The company utilized outsourced services to contain costs. Combined personnel and outsourced services showed a marked improvement in 2008.

Rent expense incurred is pegged P272.0 million or 5.0% of sales against P260.0 million or 5.2% in 2007. Operating lease payments on a monthly basis rose by 3% in 2008 and can be attributable to rental escalations.

Service fees are higher by 24%, from P83.2 million in 2007 to P103.2 million. This is primarily due to SA conversions during 2007, which operated as SA store, full year in 2008.

Interest Expense

Cost of debt servicing in 2008 totaled P25.3 million, lower by 20% than last year's level of P31.5 million. Loan pre-termination and lower interest rates are the factors for the decline. Outstanding loan balance at the end of 2008 was pegged at P330 million, down from the P375.0 million a year ago.

Net Income

Net income for the year increased by 54% to P84.3 million primarily due to better sales, contained costs and improved support from trade suppliers

The Company's net income translated into a 1.6% return on sales and 11.2% return on equity. The key ratios in 2008 are improvements from the previous year. Moreover, EPS is pegged P0.32 and P0.21, in 2008 and 2007, respectively.

Financial Condition

Total assets grew by P385.5 million or 20.5% to P2.26 billion at the end of 2008. Cash and cash equivalents increased to P314.9 million from P308.9 million at the beginning of 2008. Receivables went up by P72.8 million as a result of the increase in suppliers' support and collectibles from the franchisees. Moreover, inventories went up by P15.6 million as a result of the increased number of stores. Further, prepayments increased by P51.3 million arising from advance rental payments for new stores. This resulted into an aggregate increase in total current assets by P145.6 million.

Total current liabilities rose by P308.3 million or 29% due mainly to the increase in trade payables and accrued expenses. Current ratio stood at .67 to 1 as of December against last year's .72 to 1.

Property and equipment, net of accumulated depreciation increased by P219.6 million because of the construction cost incurred and acquisition of new equipment deployed to new stores.

Stockholders' equity at the end of 2008 comprises 33% of total assets, compared to 36% at the beginning of the year. Debt to equity ratio stood at 2 to 1, compared to 1.8 to 1 a year ago.

Liquidity and Capital Resources

We obtain the majority of our working capital from these sources, cash flows generated from retailing operations and franchising activities and borrowings under revolving credit facility

Cash Flows from Operating Activities

Net cash generated by operating activities in 2008 almost doubled the level set in 2007 and reached P502.8 million. The higher cash flow provided by operations can be attributed to the increase in recurring income brought about by improved sales and better cost management. In addition, the level of payables were unusually higher at the end of the year due to the two week holiday declared by the government resulting into the inability of suppliers to collect.

Cash Flows from Investing Activities

Net cash used in investing activities reached P426.2 million in 2008 compared to net cash out flow of P218.3 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 went up this year by P190.4 million against the 2007 level.

Cash Flows from Financing Activities

Net cash outflow from financing activities during the year stood at P69.9 million. The year ended with outstanding bank loans of P330.0 million, a reduction by P45.0 million from the P375.0 million balance at the beginning of the year. The Company was able to pre-pay some of its loan as a result of improved profitability in 2008.

Discussion and Analysis of Material Events and Uncertainties

1. There were no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.
2. There were no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.
3. The Company's commitment for capital expenditures in 2010 amounts to ~~P~~615.0 million. Bulk of the said amount will be spent on construction of new stores, acquisition of store and computer equipment. Financing of the capital expenditures will come mainly from internal funds.
4. All of the Company's income was earned in the ordinary course of business.
5. There are no seasonal aspects that have a potentially material effect on the financial statements.
6. The Company's financial risk management objectives and policies are discussed in Note 30 of the December 31, 2009 Audited Consolidated Financial Statements.
7. There are no other known trends, events and uncertainties that will have a material impact on the Company's liquidity.

DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

System Wide Sales

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

Revenue from Merchandise Sales

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

Net Income Margin

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

Return on Equity (ROE)

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

Earnings per Share (EPS)

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

FOR THE YEAR	2009	2008
Systemwide Sales (in '000s)	7,075,772	6,240,714
Revenue from Merchandise Sales (in '000s)	6,033,322	5,412,969
Net Income Margin	2.6%	1.6%
Return on Equity	17.2%	11.2%
Earnings Per Share	0.54	0.29

SIGNATURE

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

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

Jose Victor P. Paterno
President and CEO
June 15, 2010

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

Philippine Seven Corporation ("PSC") was registered with the Securities and Exchange Commission ("SEC") on November 1982. It acquired from Southland Corporation (now Seven Eleven, Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines in December 13, 1982. Operations commenced with the opening of its first store in February 29, 1984 at the corner of Kamias Road and EDSA Quezon City, Metro Manila. Considering the country's economic condition at that time, the Company grew slowly in its first few years of existence.

In July 1988, PSC transferred the Philippine area license to operate 7-Eleven stores to its affiliate, Phil-Seven Properties Corporation ("PSPC"), together with some of its store properties. In exchange thereof, PSC received 47% of PSPC stock as payment. Concurrent with the transfer, PSC entered into a sublicensing agreement with PSPC to operate 7-Eleven stores in Metro Manila and suburbs. As part of PSPC's main business, it acquired or leased commercial properties and constructed retail store buildings, leasing the buildings to PSC on long term basis together with most of the capital equipment used for store operations. In effect, PSC concentrated on managing its stores and effectively took the role of a pure retailer.

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

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

The Corporation initiated the establishment of PhilSeven Foundation Inc. in October 2007 to support its corporate social responsibility programs.

The company had a manpower complement of 1,879 personnel, 707 of whom are regular employees, 423 contractual/probationary and 749 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 447 stores, 166 of which are franchise stores, 88 stores are operated under a service agreement, and the remaining 193 are company-owned stores. The store franchise and service agreements have a minimum term of 5 years each, renewable for a similar term. The stores under franchise and service agreement are indicated in the store list provided in the discussion of Leases herein.

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

In spite of the growing competition in convenience store ("C-Store") businesses, the Corporation maintains its leadership in the industry. The Corporation estimates its market share in branded C-store businesses as of December 31, 2009, in terms of number of C-store outlets in Metro Manila and adjacent provinces, as follows:

	<i>Number of C- stores</i>	<i>Market Share (as of 31 Dec 2009)</i>
7-Eleven	447	43%
Mercury Self-Serve*	287	28%
Ministop	281	27%
San Miguel Food Shop	13	1%
TOTAL	1028	100%

*only 47 stores operate 24 hours

The majority shareholder, PCSC, has hands-on experience and know how in operating more than 4,750 7-Eleven Stores in Taiwan and continually providing technical expertise, logistics infrastructure and marketing support program to build the Corporation's business systems for its store expansion program. The continuous improvement of the Corporation's supply chain shall generate further efficiencies to effectively compete with the entry of other players in the C-store business. The successful franchise program is another mover to achieve the expansion plans and to dominate the c-store market.

The average number of customers that transact in the stores is about 1,032 per day per store with an average purchase transaction of about ₱ 48.21. The stores carry a wide range of beverages, food service items, fresh foods, hot foods, frozen foods, confectioneries, cookies and chips, personal care products, groceries and other daily needs and services for modern convenience which neighborhood residents, commuters, students and other urban shoppers would look for in a convenience store. Also offered in the store are proprietary product lines under the 7-Eleven trademark such as:

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

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

Trademarks	Description of Product	Application Date	Status
1. Nature's Harvest	Instant Noodles	Dec. 17, 1993	Registered for 20 years 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	Registered for 10 years from April 14, 2008 to April 14, 2018
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 Chocolate Variants	February 23, 2007	Registered for 10 years from February 16, 2009 to February 16, 2019
11. Daily Bread	Different variants of bread	May 18, 2007	Registered for 10 years from May 19, 2008 to May 19, 2018
12. Hotta Rice	Ready to eat rice meals with different variants	Sept. 22, 2008	Registered for 10 years from February 23, 2009 to February 23, 2019

Further, the products or services carried by the stores as described above are generally categorized as General Merchandise which accounts for 76%, Food Service and Cupdrinks for 23% and Services at 1%.

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

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

Market Information

The Company's common shares were listed in the Philippine Stock Exchange on February 04, 1998. The trading record of the Company's shares as of December 31, 2008 and 2009 are as follows:

December 31, 2008

Month	Open	High	Low	Close	Volume
1 st Quarter	5.00	5.00	5.00	5.00	10,000
2 nd Quarter	3.35	3.35	3.35	3.35	1,000
3 rd Quarter	2.00	2.00	2.00	2.00	20,000
Last Transaction					
August 29, 2008	2.00	2.00	2.00	2.00	20,000

December 31, 2009

Month	Open	High	Low	Close	Volume
1 st Quarter	-	-	-	-	-
2 nd Quarter	2.50	2.50	2.50	2.50	1,000
3 rd Quarter	2.50	2.50	2.50	2.50	8,000
4 th Quarter	7.00	7.00	7.00	7.00	7,000
Latest Trading					
Jan. 29, 2010	7.20	7.20	7.20	7.20	3,000
Feb. 25, 2010	10.00	11.00	10.00	11.00	3,705,000
Mar. 03, 2010	14.00	14.00	13.75	13.75	1,400
April 5, 2010	14.00	14.00	14.00	14.00	1,000
April 14, 2010	14.00	14.00	14.00	14.00	500
April 20, 2010	13.00	13.00	12.50	12.50	6,900
April 22, 2010	11.00	11.00	11.00	11.00	1,796,400
April 23, 2010	12.00	12.00	12.00	12.00	100
May 05, 2010	12.00	12.00	12.00	12.00	5,000
May 20, 2010	12.00	12.00	12.00	12.00	4,000

Stock/Cash Dividends

A 10% stock dividend was declared in 2008. Another stock dividend declaration was approved by the stockholders during the annual meeting last 16 July 2009. The stock dividend corresponds to 10% of the outstanding capital stock of the Corporation of 260,977,200 or equivalent to 26,097,720 common shares. Stockholders of record as of August 14, 2009 were entitled to said stock dividend and the shares corresponding to said dividend were issued to stockholders on payment date last September 09, 2009. There is no restriction that limits the ability of the Company to pay dividends on common equity other than the unavailability of unrestricted retained earnings. Total outstanding capital stock of the Corporation after the payment of the stock dividend is 287,074,920. Likewise, there was no sale of any unregistered securities.

Holdings

As of May 31, 2010, there were 719 shareholders of the Company's outstanding common shares totaling 287,074,920 shares.

The top 20 shareholders and their corresponding shareholdings as of May 31, 2010 are as follows:

Title of Class	SHAREHOLDER	CITIZENSHIP	SUBSCRIPTION	% HOLDINGS
Common	1. President Chain Store (Labuan) Holdings, Ltd.	Malaysian	162,451,721	56.59%
Common	2. Asian Holdings Corporation	Filipino	35,342,590	12.31%
Common	3. Progressive Development Corp.	Filipino	24,397,328	8.50%
Common	4. PCD Nominee Corporation	Filipino	14,226,214	4.96%
Common	5. Jose Victor P. Paterno	Filipino	10,568,243	3.68%
Common	6. Agus Development Corp.	Filipino	5,943,738	2.07%
Common	7. Ma. Cristina P. Paterno	Filipino	5,557,591	1.94%
Common	8. Paz Pilar P. Benares	Filipino	5,424,051	1.89%
Common	9. Anglo Philippine Holdings Corporation	Filipino	5,243,392	1.83%
Common	10. Ma. Theresa P. Dickinson	Filipino	5,152,039	1.79%
Common	11. Ma. Elena P. Locsin	Filipino	4,559,221	1.59%
Common	12. Maria Henrietta R. Santos	Filipino	1,272,391	0.44%
Common	13. Vicente T. Paterno	Filipino	1,210,000	0.42%
Common	14. Seven Eleven, Inc.	American	1,116,680	0.39%
Common	15. Dante G. Santos	Filipino	1,110,445	0.39%
Common	16. Ma. Elena P. Paterno	Filipino	864,831	0.30%
Common	17. Manuel U. Agustines	Filipino	509,579	0.18%
Common	18. Socorro Paz P. Paterno	Filipino	212,095	0.07%
Common	19. Antonio Diaz Sta Maria	Filipino	121,000	0.04%
Common	20. Felicia R. Santos	Filipino	98,080	0.03%

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

11. October 2007 – Creation of PhilSeven Foundation Inc. to support the CSR program of PSC
12. November 10, 2008-Submission of 2008 Corporate Governance Scorecard for Publicly Listed Company to SEC.
13. January 2009- Submission to SEC on Disclosure on Directors' Attendance in Corporate Governance Seminar and amendment to Manual of Corporate Governance to include attendance to such training prior to assumption to office by a director.
14. March 26, 2009 – participated in Corporate Governance Scorecard survey sponsored by Asian Institute of Management.
15. August 24, 2009 - Adoption of Code of Ethics
16. December 18, 2009- Submission of 2009 Corporate Governance Scorecard for Publicly Listed Company to SEC.

Plans on Improvement

1. The Corporation shall continue with setting up an evaluation procedure to measure compliance with the Manual of Corporate Governance:
 - a. Develop a Corporate Governance Evaluation form and conduct periodic compliance survey;
 - b. Obtain external and internal audit findings on effectiveness of oversight of Company's accounting and financial processes;
 - c. Monitor Board and other Committees minutes and attendance;
 - d. Develop compliance review system with risks owners.
2. Provide workshop/seminars to operationalize the Manual, evaluation system and compliance review as part of the Company's training program
3. The Corporation shall continue to adopt the International Accounting Standards as they are approved as Philippine Accounting Standards.

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

BOARD OF DIRECTORS

<u>Name</u>		<u>Position</u>
1. Vicente T. Paterno	-	Chairman of the Board and Director
2. Yen-Sen Yang	-	Vice-Chairman and Director
3. Jose Victor P. Paterno	-	President & Director
4. Chung-Jen Hsu	-	Director
5. Chien- Nan Hsieh	-	Director
6. Wen-Chi Wu	-	Director
7. Yun-Huei Chang-Jen	-	Director
8. Diana P. Aguilar	-	Director
9. Jorge L. Araneta	-	Director
10. Alfredo C. Ramos	-	Independent Director
11. Michael B. Zalamea	-	Independent Director

EXECUTIVE COMMITTEE

<u>Name</u>		<u>Position</u>
1. Vicente T. Paterno	-	Chairman of the Board and Executive Committee
2. Jose Victor P. Paterno	-	Member and President
3. Alfredo C. Ramos	-	Member and Independent Director
4. Diana P. Aguilar	-	Member and Director
5. Yu-Hsiu Tsai	-	Member and Treasurer and Vice President
6. Ping-Yun Wang	-	Member and Vice President for Operations & Marketing

AUDIT COMMITTEE

<u>Name</u>		<u>Position</u>
1. Alfredo C. Ramos	-	Chairman and Independent Director
2. Jose Victor P. Paterno	-	Member and President
3. Diana P. Aguilar	-	Member and Director

COMPENSATION COMMITTEE

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

NOMINATION & GOVERNANCE COMMITTEE

<u>Name</u>		<u>Position</u>
1. Vicente T. Paterno	-	Chairman of the Board and the Committee
2. Alfredo C. Ramos	-	Member and Independent Director
3. Diana P. Aguilar	-	Member and Director
4. Evelyn S. Enriquez	-	Non-voting member and Corporate Secretary

CORPORATE OFFICERS

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

**MINUTES OF THE 2009 ANNUAL STOCKHOLDERS' MEETING
PHILIPPINE SEVEN CORPORATION**

HELD ON JULY 16, 2009 at 3:00 PM

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

CERTIFICATION OF QUORUM AND CALL TO ORDER

Upon request of the Chairman, Mr. Vicente T. Paterno, the Corporate Secretary, Atty. Evelyn S. Enriquez, announced that the Philippine Seven Corporation's (the "Corporation" or "PSC") stock and transfer agent, Bank of the Philippine Islands, in accordance with the Code of By-laws, sent notice of the meeting to all stockholders of record of the Corporation as of June 03, 2009. She added that the notice was published in the Classified Section of the July 02, 2009 issue of the Philippine Star. She also said that based on the computation of PSC's Stock and Transfer Agent, out of 260,977,200 shares of stock of the Corporation outstanding and entitled to vote, 216,882,844 shares or 83.10% were represented at the meeting in person and/or by proxy, and that accordingly, a quorum for the meeting existed. Thereupon, the Chairman called the meeting to order.

APPROVAL OF MINUTES OF THE LAST STOCKHOLDERS' MEETING

On motion duly made and seconded, the reading of the minutes of the last stockholders' meeting of the Corporation held on July 17, 2008 was dispensed with and said minutes was approved as recorded.

MANAGEMENT REPORT AND APPROVAL OF 2007 AUDITED FINANCIAL STATEMENTS

The Chairman of the Board, Mr. Vicente T. Paterno, read his message to the stockholders and the President, Mr. Jose Victor P. Paterno, reporting the 2008 Review of Operations. The Treasurer, Mr. Yu-Hsiu Tsai, rendered the financial highlights of the audited consolidated financial statements for Y2008.

Print copies of the 2008 Annual Report and Audited Financial Statements were distributed to the stockholders during the meeting.

After responding to some questions and comments, on motion duly made and seconded, the stockholders approved and accepted the report on operations for Y2008 and the audited financial statements for the same year.

"RESOLVED, that the stockholders hereby approve the 2008 Annual Report and the Audited Consolidated Financial Statements of Philippine Seven Corporation for Y2008 as presented."

RATIFICATION OF ALL CORPORATE ACTS

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

"RESOLVED, that the stockholders hereby approve and ratify all the actions taken by the Philippine Seven Corporation Board of Directors, Executive Committee, the Board Committees and Management for Y2008 and up to the present."

ELECTION OF MEMBERS OF THE BOARD

The Articles of Incorporation of the Corporation provides for 11 directors. The Corporate Secretary clarified that the names of nominees presented to the stockholders were submitted to the Nomination Committee in its meeting on April 02, 2009 and were cleared to have complied with the "non-compete" provision of PSC's Code of By-laws. The said names of nominees also include the Final List of Candidates eligible for election as independent directors, pre-screened pursuant to the procedures provided in the SEC Circular No. 16 on the Guidelines on

Nomination and Election of Independent Directors. Hence, the following are the names of nominees submitted to and screened by the Nomination Committee (in alphabetical order):

- | | |
|---------------------------|---|
| 1. Diana P. Aguilar | 7. Wen-Chi Wu |
| 2. Jorge L. Araneta | 8. Yen-Sen Yang |
| 3. Chien-Nan Hsieh | 9. Yun-Huei Chang-Jen |
| 4. Chung-Jen Hsu | 10. Alfredo C. Ramos (independent director) |
| 5. Vicente T. Paterno | 11. Michael B. Zalamea (independent director) |
| 6. Jose Victor P. Paterno | |

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

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

APPOINTMENT OF EXTERNAL AUDITOR

The stockholders were informed that present auditor, Sycip Gorres Velayo & Co. (SGV), was appointed Company auditor in 2005. The Audit Committee and the Executive Committee endorsed the re-appointment of SGV, subject to stockholders' ratification, and SGV had accepted the invitation to stand for re-election this year. The current engagement partner, Mr. Aldrin M. Cerrado, has completed his 4th year of assignment in PSC. For the 2009 audit, SGV has assigned a new audit partner, Ms. Julie Christine Ong-Mateo, to enable the Company's compliance with Rule 68 of the Securities Regulation Code requiring rotation of external auditors or engagement partners who have served the company for a period of 5 consecutive years.

On motion duly made and seconded, the stockholders unanimously approved the re-appointment of Sycip Gorres Velayo & Co. as the external auditor of the Corporation for 2009.

'RESOLVED, that the stockholders of Philippine Seven Corporation (the "Corporation") hereby approve and ratify the appointment of Sycip Gorres Velayo and Company (SGV) as the external auditors of the Corporation for 2009"

APPROVAL OF STOCK DIVIDEND

At its June 2009 meeting, the Board of Directors considered an update study on its stock dividend declaration program. Last year, the Company issued a 10% stock Dividend. This year, the study reviewed the Company's 2008 financial statements, projected income targets, and the cash flow to sustain the expansion plans of the next 3 years (2009-2011). In order to limit borrowing to conservative levels, another stock dividend declaration of 10% recommended by the Executive Committee. The Board of Directors, in its meeting of June 25, 2009, approved the recommendation for a stock dividend declaration of 10% of the outstanding capital stock of the corporation. The recommended stock dividend is now submitted for approval by at least 2/3 of the stockholders of the corporation. The actions for approval are summarized as follows:

1. Stock dividend declaration of 10% of the outstanding capital stock of the Corporation of 260,977,200 shares or equivalent to 26,097,720 common shares;
2. Issuance of 26,097,270 common shares with par value of P1.00 per share from the authorized and unissued capital stock of the Corporation for distribution as stock dividend;

3. Any fractional shares resulting from the stock dividend shall be rounded off to the nearest one (1), following the rules of rounding off.
4. Record date for entitlement to stock dividend shall be August 14, 2009 which is at least 30 days from the approval by the stockholders of the Corporation (July 16, 2009);
5. Payment date of the stock dividend shall be on September 09, 2009, which is 18 trading days from the said record date;

On motion duly made and seconded, all the stockholders representing 83.10% of the outstanding capital stock of the Corporation approved and ratified the following resolutions:

“RESOLVED, that the Stockholders of Philippine Seven Corporation (the “Corporation”) hereby approve a stock dividend declaration corresponding to 10% of the outstanding capital stock of the Corporation of 260,977,200 shares or equivalent to 26,097,720 common shares and the issuance of 26,097,720 common shares with par value of P1.00 per share from the authorized and unissued capital stock of the Corporation for distribution as stock dividend;”

“RESOLVED, FURTHER, that any fractional shares resulting from the declaration of stock dividend shall be rounded off to the nearest one (1), following the rules of rounding off;”

“RESOLVED, ALSO, that the record date for entitlement to the said stock dividend shall be on August 14, 2009 which is at least thirty (30) days from the approval thereof by stockholders owning at least 2/3 of the outstanding capital stock of the Corporation in its annual meeting of July 16, 2009, and the payment date shall be September 09, 2009, which is eighteen (18) trading days from the said record date;”

“RESOLVED, FINALLY, that any one of the Chairman of the Board, President, Treasurer or Corporate Secretary is hereby authorized to file the necessary petition and other requisite documents to secure approvals from the appropriate government agencies and other entities to implement the foregoing resolutions.”

VIII. ADJOURNMENT

There being no further business to transact, on motion duly made and seconded, the Chairman adjourned the meeting.

Certified Correct:

EVELYN S. ENRIQUEZ
Corporate Secretary

Attested by:

VICENTE T. PATERNO
Chairman of the Board

ANNEX "C"

RELEVANT RESOLUTIONS APPROVED BY THE BOARD OF DIRECTORS AND BOARD COMMITTEES FOR RATIFICATION BY THE STOCKHOLDERS

I. Organizational Meeting of the Board of Directors - July 16, 2009

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

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

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

- Designation of members of Executive and other Board Committees

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

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

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

Audit Committee:

Chairman:	Alfredo C. Ramos	-	Independent Director
Members:	Jose Victor Paterno	-	President and Director
	Diana P. Aguilar	-	Director

Compensation Committee:

Chairman:	Yen-Sen Yang	-	Vice-Chairman & Director
Members:	Michael B. Zalamea	-	Independent Director
	Jose Victor P. Paterno	-	President and Director

Non-voting Members:

Yu-Hsiu Tsai	-	Treasurer/VP for Finance & admin
Ping-Yun Wang	-	VP for Operations & Marketing

Nomination & Governance Committee:

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

- Approval of the corporate signatories of the Corporation by updating the names of the corporate officers as appointed above as authorized signatories by virtue of the positions they hold in the Corporation
- Approval of resolution to authorize Management of the Corporation to enter into agreements and contracts for co-branding, strategic alliances, business conversion/purchases, joint ventures, co-development and other arrangements on a non-exclusive basis pursuant to the expansion program of the Corporation.
- Approved the presentation on the update report on the programs and activities of PhilSeven Foundation, Inc.
- Approved the resolution to increase meeting per diem of directors and designated corporate officers from P5,000.00 to P7,500.00 per actual meeting attended

II. Board of Directors Meeting- November 10 , 2009

- Approved the presentation of the Update Report on Operations for year-to-date September 30, 2009 and the interim financial statements for the period
- Presentation of the non-exclusive arrangement concluded by PSC with Chevron Philippines, Inc for the establishment of 7-Eleven stores in selected Caltex gas stations.
- Approved resolutions for the renewal of credit line facilities with BPI, Chinatrust, Metrobank and Citibank
- Reiterated and approved resolution authorizing the Executive Committee to approve interim financial statements and the consolidated audited financial statements of the Corporation
- Approved the 3-year plan targets(2010-2012) and the 2010 Annual Plan
- Approval of the amendment of the Articles of Incorporation to include the phrase “Doing Business under the name and style of 7-Eleven”

III. Executive Committee Meeting October 08, 2009

- Approved the presentation on the Report on Operations for year-to-date August 31, 2009 and the interim financial statements for the period
- Approval of the renewal of credit lines facilities from BPI, Metrobank and Chinatrust upon its maturity, subject to favorable repricing and term on each availment, and to apply the credit lines with other offering banks granting favorable terms
- Approval of the presentation of 3-year plan targets (2010-2012) and 2010 Annual Plan and recommend to Board of Directors for approval

IV. Audit Committee- December 02, 2009

- Approval of the internal audit report as of September 30, 2009
- Approved the presentation of the 2009 audit scope and plans by SGV
- Noted and approved the presentation of the projected financial statements of the Corporation by year end which is estimated to exceed the target for the year.

V. Audit Committee Meeting – February 12, 2010

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

VI. Executive Committee Meeting – February 12, 2010

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

VII. Executive Committee Meeting- March 01, 2010

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

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

- Approved the Final List of Candidates for election as directors in the Corporation for the annual meeting in July 2010

IX. Executive Committee Meeting- April 13, 2010

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

X. Executive Committee Meeting- May 18, 2010

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

ANNEX “D”

Philippine Seven Corporation
and Subsidiaries

Consolidated Financial Statements
December 31, 2009 and 2008
and Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
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www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Seven Corporation

We have audited the accompanying financial statements of Philippine Seven Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, 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.





- 2 -

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, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

A handwritten signature in black ink that reads "Julie Christine O. Mateo".

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-A
Tax Identification No. 198-819-116
PTR No. 2087560, January 4, 2010, Makati City

February 12, 2010





PHILIPPINE SEVEN CORPORATION

7th Floor, The Columbia Tower, Ortigas Avenue,
Mandaluyong City, 1550 Philippines
Telephone Nos. (632) 724-44-41 to 53 / 705-5200
www.7-eleven.com.ph

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2009, 2008 and 2007. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

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


VICENTE T. PATERNO
Chairman of the Board

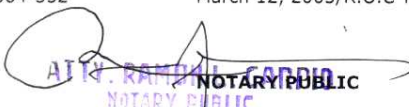

JOSE VICTOR PATERNO
President


YU-HSIU TSAI
Chief Financial Officer and Treasurer

SUBSCRIBED AND SWORN to before me this APR 07 2010 day of _____ 2009 affiants exhibiting to me their Community Tax Certificate No./ Passport No., as follows:

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

Doc. No. 454;
Page No. 97;
Book No. 171;
Series of 2010.


ATTY. RAMON CARDIA
NOTARY PUBLIC
UNTIL DECEMBER 31, 2010
PTR No. 5921983/ISSUED AT PASIG ON 1-4-2009
ROL No. 22/172/TIN No. 106-910-897
* LE # II-0012 119

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P448,830,888	P314,880,357
Receivables (Note 5)	140,140,105	151,465,494
Inventories - at cost (Note 6)	415,652,671	339,556,385
Prepayments and other current assets (Note 7)	174,383,392	117,947,178
Total Current Assets	1,179,007,056	923,849,414
Noncurrent Assets		
Property and equipment (Note 8)	1,227,244,430	1,072,041,329
Deposits (Note 9)	151,328,033	132,695,470
Deferred income tax assets - net (Note 27)	46,008,842	39,738,774
Goodwill and other noncurrent assets (Note 10)	107,087,572	101,471,945
Total Noncurrent Assets	1,531,668,877	1,345,947,518
TOTAL ASSETS	P2,710,675,933	P2,269,796,932
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 11)	P340,000,000	P330,000,000
Accounts payable and accrued expenses (Note 12)	1,027,609,605	848,043,767
Income tax payable	38,354,398	25,898,866
Other current liabilities (Note 13)	211,934,980	180,197,953
Total Current Liabilities	1,617,898,983	1,384,140,586
Noncurrent Liabilities		
Deposits payable (Note 14)	119,967,054	83,252,646
Net retirement obligations (Note 24)	55,667,123	35,827,737
Deferred income tax liability (Note 27)	1,384,241	1,384,241
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	1,856,046	7,079,887
Total Noncurrent Liabilities	184,874,464	133,544,511
Total Liabilities	1,802,773,447	1,517,685,097

(Forward)

	December 31	
	2009	2008
Stockholders' Equity		
Capital stock (Note 17) - ₱1 par value		
Authorized - 400,000,000 shares		
Issued - 287,761,172 and 261,663,450 shares as of		
December 31, 2009 and 2008, respectively		
[held by 717 and 724 equity holders in 2009 and 2008,		
respectively (Note 1)]	₱287,761,172	₱261,663,450
Additional paid-in capital	293,525,037	293,525,037
Retained earnings (Notes 17)	326,309,628	196,616,699
Other component of equity - revaluation increment on land		
[net of deferred income tax liability (Notes 8 and 27)]	3,229,895	3,229,895
	910,825,732	755,035,081
Cost of 686,250 shares held in treasury	(2,923,246)	(2,923,246)
Total Stockholders' Equity	907,902,486	752,111,835
TOTAL LIABILITIES AND STOCKHOLDERS'	₱2,710,675,933	₱2,269,796,932
EQUITY		

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
REVENUE			
Revenue from merchandise sales	₱6,033,322,488	₱5,412,969,204	₱4,952,027,491
Franchise revenue (Note 32)	303,815,142	250,855,661	204,271,553
Marketing income (Note 20)	236,502,860	136,211,215	97,680,051
Rent income (Note 26)	52,265,323	36,502,151	39,648,977
Commission income (Note 32)	22,130,513	21,213,531	21,924,224
Interest income (Notes 9, 22 and 26)	4,839,945	4,186,908	3,401,675
Other income (Note 32)	35,685,902	17,988,516	32,885,092
	6,688,562,173	5,879,927,186	5,351,839,063
EXPENSES			
Cost of merchandise sales (Note 18)	4,371,715,990	3,909,886,731	3,534,557,477
General and administrative expenses (Note 19)	2,050,959,329	1,788,432,900	1,683,290,082
Interest expense (Notes 11, 15, 21 and 32)	26,482,817	25,332,855	31,527,417
Loss from typhoon (Note 8)	3,285,171	-	-
Unrealized foreign exchange loss	485,170	709,256	901,052
Impairment loss on goodwill (Note 10)	-	4,611,368	-
Loss on sale of property and equipment	-	890,771	215,566
Other expenses	4,802,647	5,335,886	5,090,027
	6,457,731,124	5,735,199,767	5,255,581,621
INCOME BEFORE INCOME TAX	230,831,049	144,727,419	96,257,442
PROVISION FOR INCOME TAX (Note 27)	75,040,398	60,455,768	41,429,304
NET INCOME	155,790,651	84,271,651	54,828,138
OTHER COMPREHENSIVE INCOME			
Appraisal increase in value of land - net of deferred income tax liability (Notes 8 and 27)	-	-	2,999,188
Effect of change in tax rate in 2009	-	230,707	-
	-	230,707	2,999,188
TOTAL COMPREHENSIVE INCOME	₱155,790,651	₱84,502,358	₱57,827,326
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	₱0.54	₱0.29	₱0.19

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 and 2007

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment on Land	Treasury Stock	Total
BALANCES AS OF DECEMBER 31, 2006	₱237,938,250	₱293,525,037	₱81,242,110	₱-	(₱2,923,246)	₱609,782,151
Total comprehensive 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
Issuance of stock dividends (Note 17)	23,725,200	-	(23,725,200)	-	-	-
Total comprehensive income for the year	-	-	84,271,651	230,707	-	84,502,358
BALANCES AS OF DECEMBER 31, 2008	261,663,450	293,525,037	196,616,699	3,229,895	(2,923,246)	752,111,835
Issuance of stock dividends (Note 17)	26,097,722	-	(26,097,722)	-	-	-
Total comprehensive income for the year	-	-	155,790,651	-	-	155,790,651
BALANCES AS OF DECEMBER 31, 2009	₱287,761,172	₱293,525,037	₱326,309,628	₱3,229,895	(₱2,923,246)	₱907,902,486

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱230,831,049	₱144,727,419	₱96,257,442
Adjustments for:			
Depreciation and amortization (Notes 8 and 19)	203,905,718	179,639,006	159,634,386
Interest expense (Notes 11, 15, 21 and 32)	26,482,817	25,332,855	31,527,417
Provision for impairment of receivables (Notes 5 and 19)	9,798,327	7,069,507	346,678
Interest income (Notes 9, 22 and 26)	(4,839,945)	(4,186,908)	(3,401,675)
Loss from/on:			
Typhoon (Note 8)	3,285,171	–	–
Impairment of goodwill (Note 10)	–	4,611,368	–
Sale of property and equipment	–	890,771	215,566
Amortization of:			
Deferred revenue on exclusivity contract (Note 16)	(3,913,691)	(3,913,690)	–
Software and other program costs (Notes 10 and 19)	3,053,728	2,105,126	1,050,536
Deferred lease (Notes 10 and 26)	1,475,524	1,902,361	1,719,810
Deferred revenue on finance lease (Notes 16 and 26)	(1,310,151)	(1,310,151)	(764,254)
Unrealized foreign exchange loss	485,170	709,256	901,052
Operating income before working capital changes	469,253,717	357,576,920	287,486,958
Decrease (increase) in:			
Receivables	1,646,383	(84,012,620)	(21,565,134)
Inventories	(76,096,286)	(15,582,536)	7,952,655
Prepayments and other current assets	(56,529,837)	(51,262,076)	2,970,950
Increase (decrease) in:			
Accounts payable and accrued expenses	180,337,730	264,264,524	(26,287,053)
Other current liabilities	31,737,028	67,121,759	418,348
Deposits payable	36,714,408	(15,400,829)	42,905,608
Net retirement obligations	19,839,386	5,712,335	3,226,561
Deferred revenue (Notes 16 and 32)	–	11,741,071	–
Cash generated from operations	606,902,529	540,158,548	297,108,893
Income taxes paid	(68,854,934)	(39,567,887)	(30,940,362)
Interest received	3,138,083	2,180,738	928,110
Net cash from operating activities	541,185,678	502,771,399	267,096,641

(Forward)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 8)	(P362,393,990)	(P415,095,771)	(P224,680,639)
Software and other program costs (Note 10)	(286,000)	(6,788,085)	(3,226,000)
Decrease (increase) in:			
Deposits	(17,644,957)	(22,233,272)	-
Goodwill and other noncurrent assets	(11,952,821)	49,840	(3,789,217)
Collection of lease receivable (Note 26)	2,782,500	2,887,500	840,000
Proceeds from sale of property and equipment	-	14,982,823	12,528,004
Net cash used in investing activities	(389,495,268)	(426,196,965)	(218,327,852)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans (Note 11)	510,000,000	415,000,000	688,000,000
Payments of:			
Bank loans (Note 11)	(500,000,000)	(460,000,000)	(717,700,000)
Long-term debt (Note 32)	-	-	(6,500,000)
Interest paid	(27,254,709)	(24,858,765)	(32,158,168)
Net cash used in financing activities	(17,254,709)	(69,858,765)	(68,358,168)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(485,170)	(709,256)	(901,052)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	133,950,531	6,006,413	(20,490,431)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	314,880,357	308,873,944	329,364,375
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P448,830,888	P314,880,357	P308,873,944

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of Financial Statements

Corporate Information

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

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

The Company has its primary listing on the Philippine Stock Exchange. As of December 31, 2009, 2008 and 2007, the Company has 717, 724 and 703 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 12, 2010.

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 parcels of land, which are carried at revalued amount. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Company’s functional currency.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective on January 1, 2009.

New Standards and Interpretations

PAS 1, Presentation of Financial Statements (Revised)

The revised standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the

statement of comprehensive income; it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single consolidated statement of comprehensive income. The adoption of this revised standard resulted to the presentation of income and expense items that are classified as comprehensive income in the consolidated statement of comprehensive income.

PAS 23, Borrowing Costs (Revised)

The revised PAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of 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.

In accordance with the transitional requirements of this standard, the Group will adopt this as a prospective change in accounting policy. Accordingly, borrowing costs will be capitalized on qualifying assets with commencement date after January 1, 2009. The Group has no transactions within the scope of this standard, thus, the adoption of this standard did not have an impact on the consolidated financial statements.

PFRS 8, Operating Segment

PFRS 8 replaced PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and profit or loss and the company will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. The adoption of this standard resulted to additional disclosures presented in Note 33.

Philippine Interpretation IFRIC 13, Customer Loyalty Program

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The Group has no transactions within the scope of this interpretation, thus, the adoption of this interpretation did not have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation

This interpretation is to be applied prospectively. This provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has no transactions within the scope of this interpretation, thus, the adoption of this interpretation did not have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC 18, Transfers of Assets from Customers

This interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. When the transferred item meets the definition of an asset, the asset is measured at fair value on initial recognition as part of an exchange transaction. The service(s) delivered are identified and the consideration received (the fair value of the asset) allocated to each identifiable service. Revenue is recognized as each service is delivered by the entity. The Group has no transactions within the scope of this interpretation, thus, the adoption of this interpretation did not have an impact on the consolidated financial statements.

Amendments to Standards and Interpretations

PAS 27, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendment prescribes changes in respect of the holding companies' separate financial statements including (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. The revision to PAS 27 is to be applied prospectively. The adoption of this amendment did not have any impact on the consolidated financial statements of the Group.

PAS 32, Financial Instruments: Presentation, and PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro-rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro-rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially in profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. The adoption of these amendments did not have any impact on the consolidated financial statements of the Group.

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: (a) cost determined in accordance with PAS 27; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*; or (c) previous carrying amount (as determined under previous generally accepted accounting principles) of the investment at the date of transition to PFRS. The adoption of this amendment did not have any impact on the consolidated financial statements of the Group.

PFRS 2, Share-based Payment - Vesting Condition and Cancellations

The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. The adoption of this amendment did not have any impact on the consolidated financial statements of the Group.

PFRS 7 Amendments - Improving Disclosures about Financial Instruments

The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity

management. The fair value measurement disclosures and the liquidity risk disclosures which are not significantly impacted by the amendments are presented in Note 30.

Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives, and PAS 39 Amendments - Embedded Derivatives

Amendment to Philippine Interpretation IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract.

PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment did not have any impact on the consolidated financial statements of the Group.

Improvements to PFRS adopted by the Group starting January 1, 2009

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the consolidated financial statements of the Group.

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations*
 - When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.
- *PAS 1, Presentation of Financial Statements*
 - Assets and liabilities classified as held for trading in accordance with PAS 39 are not automatically classified as current in the consolidated balance sheet.
- *PAS 16, Property, Plant and Equipment*
 - Replaced the term 'net selling price' with 'fair value less cost to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*.
 - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.
- *PAS 18, Revenue*
 - The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity (a) has primary responsibility for providing the goods or service; (b) has inventory risk; (c) has discretion in establishing prices; and (d) bears the credit risk.
 - The amendment specifies no transitional provisions, therefore it is effective immediately and retrospectively.
 - The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.
- *PAS 19, Employee Benefits*
 - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in

- benefits related to future services are accounted for as a curtailment.
 - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
 - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
 - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
 - Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.
- PAS 23, *Borrowing Costs*
 - The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with PAS 39.
- PAS 28, *Investment in Associates*
 - If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply.
 - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
 - Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.
- PAS 31, *Interest in Joint Ventures*
 - If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- PAS 36, *Impairment of Assets*
 - When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- PAS 38, *Intangible Assets*
 - Expenditure on advertising and promotional activities is recognized as an expense when a company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
 - Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.
- PAS 39, *Financial Instruments: Recognition and Measurement*
 - Changes in circumstances relating to derivatives - specifically derivatives designated or re-designated as hedging instruments after initial recognition - are not reclassifications.
 - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

- Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
 - Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.
- PAS 40, *Investment Properties*
 - Revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.
 - PAS 41, *Agriculture*
 - Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
 - Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2009

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

New Standard and Interpretations

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

PFRS 3 (Revised) introduces significant changes in the accounting for business combination occurring after July 1, 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests (previously referred to as 'minority interests'). PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions. This standard is currently not applicable and thus, is not expected to have an impact on the consolidated financial statements of the Group.

Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate

This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a

continuous basis will also be accounted for based on stage of completion. This interpretation is currently not applicable and thus, is not expected to have an impact on the consolidated financial statements of the Group.

Philippine Interpretation IFRIC 17, Distribution of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. This interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets and when to derecognize the asset and liability and the consequences of doing so. This interpretation is currently not applicable and thus, is not expected to have an impact on the consolidated financial statements of the Group.

Amendments to Standards

PAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items

Amendment to PAS 39 addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This interpretation is currently not applicable, thus, is not expected to have an impact on the consolidated financial statements of the Group.

PFRS 2 Amendments - Group Cash-settled Share-based Payment Transactions

The amendments to PFRS 2, Share-based Payments, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. This interpretation is currently not applicable, thus, is not expected to have an impact on the consolidated financial statements of the Group.

Improvements to PFRS to be adopted by the Group starting January 1, 2010

The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods with financial years beginning on or after January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- *PFRS 2, Share-based Payment*
 - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised).
- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations*
 - Clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.
- *PFRS 8, Operating Segment*
 - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *PAS 1, Presentation of Financial Statements*
 - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- *PAS 7, Statement of Cash Flows*
 - Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
 - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating lease. The amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendment will be applied retrospectively.
- AS 36, *Impairment of Assets*
 - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*
 - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*
 - Clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
 - Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*
 - States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Basis of Consolidation

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

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

Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies through interlocking directorships such that substantial benefits from the subsidiaries’ activities flow to the Company.

SSHI's capital stock, which is divided into 40% common shares and 60% preferred shares are owned by the Company and by Philippine Seven Corporation-Employees Retirement Plan through its trustee, Bank of the Philippines Islands-Asset Management and Trust Group (BPI-AMTG), respectively. These preferred shares which accrue and pay guaranteed preferred dividends and are redeemable at the option of the holder (see Note 15) are recognized as a financial liability in accordance with PFRS. The Company owns 100% of SSHI's common shares, which, together with common key management, gives the Company control over SSHI.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using uniform accounting policies. Intercompany transactions, balances and unrealized gains and losses are eliminated in full.

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

The Group classifies its financial assets as financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables or 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 balance sheet date.

Financial Assets

a. Financial Assets at FVPL

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are accounted for directly in profit or loss. Interest earned is recorded as interest income, while dividend income is 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, 2009 and 2008, 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 profit or loss.

As of December 31, 2009 and 2008, 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, 2009 and 2008, the Group has not designated any financial asset as HTM.

c. Loans and Receivables

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

The Group's loans and receivables consist of cash and cash equivalents, receivables and deposits as of December 31, 2009 and 2008.

d. AFS Financial Assets

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

The Group's AFS financial assets consist of unquoted investments in preferred shares of a public utility company included as part of "Goodwill and other noncurrent assets" in the consolidated balance sheets as of December 31, 2009 and 2008.

Financial Liabilities

a. Financial Liabilities at FVPL

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

As of December 31, 2009 and 2008, 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 and cumulative redeemable preferred shares as of December 31, 2009 and 2008.

Determination of Fair Values

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

Day 1 Profit

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

or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the day 1 profit.

Offsetting Financial Instruments

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

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

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

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

Financial Assets Carried at Cost

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

Financial Assets Carried at Fair Value

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

In case of equity securities classified as AFS financial asset, objective evidence would include a significant or prolonged decline in the fair value of the financial assets below its cost or where other

objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as 20% or more of the original cost of investment, and “prolonged” as greater than six months. In addition, the Group evaluates other factors, including normal volatility in share price for unquoted equities.

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

In case of debt securities classified as AFS financial asset, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of “Interest income” in profit or loss. If, in subsequent year, the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

- the 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 profit or loss.

Inventories

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

Value added tax

Input value added tax (VAT) is the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services, including lease or use of property, from a VAT-registered entity. Value added tax on capital goods are spread evenly over the useful life or 60 months, whichever is shorter.

Output VAT pertains to the 12% tax due on the sale of merchandise and lease or exchange of taxable goods or properties or services by the Group.

If at the end of any taxable month the output VAT exceeds the input VAT, the excess shall be paid by the Group. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding month or months. Input VAT on capital goods may at the option of the Group be refunded or credited against other internal revenue taxes, subject to certain tax laws.

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

Advances to suppliers

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

Property and Equipment

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

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

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are recognized in profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets.

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

Depreciation and amortization commence once the assets are available for use. It ceases at the earlier of the date that it is classified as 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 profit or loss. The revaluation increment in the consolidated stockholders' equity income relating to the revalued asset sold is transferred to retained earnings.

Software and Program Cost

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

Impairment of Property and Equipment and Software and Program Cost

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

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

Deposits

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

Goodwill

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

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group performs its impairment test of goodwill annually. Impairment is determined for goodwill by

assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash-generating units is less than the carrying amount of the cash-generating unit or group of cash-generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Cumulative Redeemable Preferred Shares

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

Deferred Revenue

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

Capital Stock

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

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Stock

Treasury stock is stated at acquisition cost and is deducted from the stockholders' equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

Revenue Recognition

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

Merchandise Sales

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

Franchise

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

Marketing

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

Commission

Commission income 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.

Cost and Expenses Recognition

Cost is recognized in profit or loss at the point of sale. Expenses are recognized in profit or loss upon utilization of the service or when they are incurred.

Other Comprehensive Income

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

Retirement Benefits

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

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

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

Leases

Finance leases, which transfer to the lessee substantially all the risks and 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 profit or loss.

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 profit or loss on a straight-line basis over the lease term.

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

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as

part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-Denominated Transactions

Transactions in foreign currency are initially recorded at the exchange rate at the date of transaction. Outstanding foreign currency-denominated monetary assets and liabilities are 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 profit or loss.

Income Tax

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences 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 consolidated stockholders' equity is recognized in the consolidated statement of comprehensive 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 deferred income tax assets against deferred income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Earnings (Loss) Per Share

Basic earnings 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

Operating segments are components of an entity for which separate financial information is available

and evaluated regularly by management in deciding how to allocate resources and assessing performance. The Group considers the store operation as its primary activity and its only business segment. Franchising, renting of properties and commissioning on bills payment services are considered an integral part of the store operations.

Provisions

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

Contingencies

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

Events after the Balance Sheet Date

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

3. Use of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and 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, costs and expenses of the Group.

Classification of Financial Instruments

The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, liability or equity instrument in accordance with the substance of the contractual arrangement and the

definitions of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

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

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

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

Classification of Leases

a. Finance Lease as Lessor

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

b. Operating Lease as Lessee

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

c. Operating Lease as Lessor

The Group entered into property subleases on its leased properties. The Group determined that its lessors retain all the significant risks and rewards of these properties which are leased out on operating leases (Note 26).

Estimates

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

Determination of Fair Values

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

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

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

Impairment of Loans and Receivables

The Group reviews its loans and receivables at each reporting date to assess whether a provision for impairment should be recognized in its profit or loss or loans and receivables balance should be written off. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Moreover, management evaluates the presence of objective evidence of impairment which includes observable data that comes to the attention of the Group about loss events such as but not

limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization.

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

The carrying value of loans and receivables amounted to ₱628,448,541 and ₱507,848,995 as of December 31, 2009 and 2008, respectively (Note 29). Allowance for impairment on loans and receivables amounted to ₱10,843,948 and ₱8,740,174 as of December 31, 2009 and 2008, respectively (Notes 5 and 30). Provision for impairment amounted to ₱9,798,327 in 2009, ₱7,069,507 in 2008 and ₱346,678 in 2007 (Notes 5 and 19).

Impairment of AFS Financial Assets

In determining the fair values of financial assets, management evaluates the presence of significant and prolonged decline in the fair value of share price below its cost, the normal volatility in the share price, the financial health of the investee and the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in these factors can have a negative impact on their fair value. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as 20% or more of the original cost of investment, and “prolonged” as greater than six months.

The carrying value of AFS financial assets amounted to ₱2,314,575 as of December 31, 2009 and 2008 (Notes 10 and 29). No impairment losses were recognized in 2009, 2008 and 2007.

Decline in Inventory Value

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

The carrying value of inventories amounted to ₱415,652,671 and ₱339,556,385 as of December 31, 2009 and 2008, respectively (Note 6). No provisions for decline in inventory value were recognized in 2009, 2008 and 2007.

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 ₱1,227,244,430 and ₱1,072,041,329 as of December 31, 2009 and 2008, 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 ₱1,235,255,125 and ₱1,082,819,752 as of December 31, 2009 and 2008, respectively (Notes 8 and 10). Based on management’s assessment, there were no indicators of impairment in the Group’s nonfinancial assets, thus, no impairment loss needs to be recognized in 2009, 2008 and 2007.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an

estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying value of goodwill amounted to ₱65,567,524 as of December 31, 2009 and 2008, respectively (Note 10). No impairment losses were recognized in 2009 and 2007, while impairment loss recognized on goodwill amounted to ₱4,611,368 in 2008 (Note 10).

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 24 and include, among others, discount rates per annum, expected annual rate of return on plan assets and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The Group's net retirement obligations amounted to ₱55,667,123 and ₱35,827,737 as of December 31, 2009 and 2008, respectively (Note 24). Retirement benefits cost amounted to ₱21,979,689 in 2009, ₱8,720,701 in 2008 and ₱7,128,633 in 2007 (Notes 23 and 24). Further details about the assumptions used are disclosed in Note 24.

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 ₱51,387,363 and ₱41,782,617 as of December 31, 2009 and 2008, respectively (Note 27).

4. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	₱432,900,994	₱314,241,734
Cash equivalents	15,929,894	638,623
	₱448,830,888	₱314,880,357

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

5. Receivables

	2009	2008
Suppliers	₱69,278,890	₱61,650,671
Franchisee	50,439,162	82,600,166
Employees	6,906,248	5,137,033
Rent	4,755,572	1,805,472
Current portion of lease receivable - net of unearned interest income amounting to ₱332,436 and ₱465,251		

as of December 31, 2009 and 2008, respectively (Note 26)	2,187,564	2,317,248
Insurance claims	1,905,773	938,402
Store operators	1,688,404	–
Deposits	1,009,864	–
Due from Philippine Foundation, Inc. (PFI) (Note 25)	323,477	53,883
Others	12,489,099	5,702,793
	150,984,053	160,205,668
Less allowance for impairment	10,843,948	8,740,174
	₱140,140,105	₱151,465,494

The classes of receivables of the Group are as follows:

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

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

Movements in allowance for impairment are as follows:

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

	2008		
	Suppliers	Others	Total
Beginning balances	₱7,019,993	₱719,987	₱7,739,980
Provision for the year (Note 19)	4,934,374	2,135,133	7,069,507
Write-off	(5,349,326)	(719,987)	(6,069,313)
Ending balances	₱6,605,041	₱2,135,133	₱8,740,174

6. Inventories

	2009	2008
At cost (Note 18):		
Warehouse merchandise	₱235,157,252	₱175,581,160
Store merchandise	180,495,419	163,975,225
	₱415,652,671	₱339,556,385

7. Prepayments and Other Current Assets

	2009	2008
Deferred input value-added tax (VAT)	₱88,368,544	₱66,075,401
Advances to suppliers	44,291,320	7,847,838
Prepaid rent	23,163,308	15,464,928
Advances for expenses	5,460,880	11,077,907
Supplies	1,445,555	1,436,762
Current portion of deferred lease (Notes 10 and 26)	1,425,742	1,519,365
Prepaid uniform	1,105,330	1,045,510
Prepaid taxes and licenses	–	1,867,481
Others	9,122,713	11,611,986
	₱174,383,392	₱117,947,178

8. Property and Equipment

Movements in property and equipment are as follows:

	2009								Total
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	
Costs/Revalued Amount									
Beginning balances	₱44,481,000	₱106,053,132	₱713,363,611	₱272,075,851	₱26,056,994	₱214,549,222	₱599,133,189	₱15,631,887	₱1,991,344,886
Additions	–	782,102	158,765,465	61,112,527	5,420,640	19,997,353	53,328,694	62,987,209	362,393,990
Disposals	–	–	(20,377,442)	(4,497,653)	–	–	(54,962,628)	–	(79,837,723)
Reclassifications	–	–	(13,082,543)	13,082,543	–	–	34,873,275	(34,873,275)	–
Ending balances	44,481,000	106,835,234	838,669,091	341,773,268	31,477,634	234,546,575	632,372,530	43,745,821	2,273,901,153
Accumulated Depreciation and Amortization									
Beginning balances	–	49,663,042	306,461,568	144,210,934	16,959,659	117,352,566	284,655,788	–	919,303,557
Depreciation and amortization (Note 19)	–	5,468,213	73,029,711	30,115,489	3,434,230	44,966,349	46,891,726	–	203,905,718
Disposals	–	–	(20,377,442)	(4,497,653)	–	–	(51,677,457)	–	(76,552,552)
Reclassifications	–	–	(436,085)	436,085	–	–	–	–	–
Ending balances	–	55,131,255	358,677,752	170,264,855	20,393,889	162,318,915	279,870,057	–	1,046,656,723
Net Book Values	₱44,481,000	₱51,703,979	₱479,991,339	₱171,508,413	₱11,083,745	₱72,227,660	₱352,502,473	₱43,745,821	₱1,227,244,430

	2008								Total
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	
Costs/Revalued Amount									
Beginning 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
Additions	–	1,667,594	201,696,186	36,387,334	1,100,000	53,602,342	109,934,135	10,708,180	415,095,771
Disposals	–	–	(54,755,870)	(4,882,134)	(250,000)	(19,552,251)	(8,586,937)	(14,582,465)	(102,609,657)
Reclassifications	–	–	224,976	–	–	–	5,635,482	(5,860,458)	–
Ending balances	44,481,000	106,053,132	713,363,611	272,075,851	26,056,994	214,549,222	599,133,189	15,631,887	1,991,344,886
Accumulated Depreciation and Amortization									
Beginning balances	–	45,179,341	307,595,172	125,146,623	14,406,685	96,201,950	237,870,843	–	826,400,614
Depreciation and amortization (Note 19)	–	4,483,701	52,611,210	23,859,688	2,802,974	40,509,549	55,371,884	–	179,639,006
Disposals	–	–	(53,744,814)	(4,795,377)	(250,000)	(19,358,933)	(8,586,939)	–	(86,736,063)
Ending balances	–	49,663,042	306,461,568	144,210,934	16,959,659	117,352,566	284,655,788	–	919,303,557
Net Book Values	₱44,481,000	₱56,390,090	₱406,902,043	₱127,864,917	₱9,097,335	₱97,196,656	₱314,477,401	₱15,631,887	₱1,072,041,329

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

Fully depreciated property and equipment that are still being used in operations amounted to ₱498,262,619 and ₱472,529,940 as of December 31, 2009 and 2008, respectively.

On September 26, 2009, nine of the Company’s stores were devastated by the typhoon “Ondoy”. The

Company recognized loss from the said typhoon amounting to ₱3,285,171, which represents the net book value of the property and equipment destroyed by the typhoon as of that said date.

9. Deposits

	2009	2008
Rent	₱116,115,962	₱97,645,367
Utilities	22,131,783	21,766,646
Refundable	10,326,979	9,314,578
Others	2,753,309	3,968,879
	₱151,328,033	₱132,695,470

Refundable

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

	2009	2008
Face value of security deposits	₱26,835,877	₱26,835,877
Additions	958,162	-
Refunded	(876,000)	-
Unamortized discount	(16,591,060)	(17,521,299)
	₱10,326,979	₱9,314,578

Movements in unamortized discount are as follows:

	2009	2008
Beginning balance	₱17,521,299	₱18,913,315
Additions	235,348	-
Amortization (Note 22)	(987,606)	(1,392,016)
Refunded	(177,981)	-
Ending balance	₱16,591,060	₱17,521,299

10. Goodwill and Other Noncurrent Assets

	2009	2008
Goodwill	₱65,567,524	₱65,567,524
Deferred lease - net of current portion	11,761,052	13,058,023
Garnished accounts	10,856,648	2,783,692
Software and program cost - net	8,010,695	10,778,423
Lease receivable - net of current portion (Note 26)	4,265,477	6,453,041
AFS financial assets	2,314,575	2,314,575
Others	4,311,601	516,667
	₱107,087,572	₱101,471,945

Goodwill

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

The recoverable amount of the goodwill was estimated based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections is 10.27% in 2009 and 10.22% in 2008. The cash flows beyond the five-year period are extrapolated using a 3% growth rate in 2009 and 2008 that is the same as the long-term average growth rate for the retail industry.

As of December 31, 2009 and 2008, the Group has closed one and nine stores, respectively, out of the 35 stores it purchased from Jollimart, which resulted in the recognition of impairment loss on goodwill amounting to ₱4,611,368 in 2008. No impairment losses were recognized in 2009 and 2007.

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

Key assumptions used in value-in-use calculations in 2009 and 2008 follow:

Sales and cost ratio

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

Discount rates

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

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

Growth rate estimates

Rates are based on average historical growth rate. Annual inflation and rate of possible reduction in transaction count were also considered in determining growth rates used.

Deferred Lease

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

Movements in deferred lease are as follows:

	2009	2008
Beginning balance	₱14,577,388	₱16,479,749
Additions	235,348	–
Amortization (Note 26)	(1,475,524)	(1,902,361)
Refunded	(150,418)	–
Ending balance	13,186,794	14,577,388
Less current portion	1,425,742	1,519,365
Noncurrent portion	₱11,761,052	₱13,058,023

Software and Program Cost

Movements in software and program cost are as follows:

	2009	2008
Cost		
Beginning balance	₱14,214,085	₱7,426,000
Acquisition	286,000	6,788,085
Ending balance	14,500,085	14,214,085
Accumulated amortization		
Beginning balance	3,435,662	1,330,536

Amortization (Note 19)	3,053,728	2,105,126
Ending balance	6,489,390	3,435,662
Net Book Values	₱8,010,695	₱10,778,423

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 2009 and 2008 with annual interest rates ranging from 4.90% to 5.50% in 2009, 6.75% to 8.60% in 2008 and from 7.47% to 8.60% in 2007, which are repriced monthly based on market conditions.

Movements in bank loans are as follows:

	2009	2008
Beginning balance	₱330,000,000	₱375,000,000
Availment	510,000,000	415,000,000
Payments	(500,000,000)	(460,000,000)
Ending balance	₱340,000,000	₱330,000,000

Interest expense from these bank loans amounted to ₱26,070,437 in 2009, ₱24,908,055 in 2008 and ₱31,115,655 in 2007 (Note 21). Interest payable amounted to ₱641,417 and ₱1,400,889 as of December 31, 2009 and 2008, respectively (Note 12).

12. Accounts Payable and Accrued Expenses

	2009	2008
Trade payable	₱864,748,683	₱697,108,015
Rent (Note 26)	80,927,422	85,020,970
Employee benefits	26,820,981	22,364,011
Utilities	17,666,410	12,288,794
Advertising and promotion	7,049,972	4,242,668
Outsourced services	6,497,194	5,764,897
Security services	2,292,041	2,395,139
Bank charges	1,852,100	1,678,000
Interest (Note 15)	1,053,797	1,825,689
Others	18,701,005	15,355,584
	₱1,027,609,605	₱848,043,767

13. Other Current Liabilities

	2009	2008
Non-trade accounts payable	₱138,118,326	₱120,494,703
Withholding taxes	18,711,796	11,929,960
Retention payable	15,236,991	15,129,370
Service fees payable	11,006,733	5,610,981
Royalty (Note 25)	6,719,659	5,671,223

Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	3,913,690	3,913,691
Finance lease (Notes 16 and 26)	1,310,151	1,310,151
Output VAT	3,904,917	10,099,637
Others (Note 25)	13,012,717	6,038,237
	₱211,934,980	₱180,197,953

14. Deposits Payable

	2009	2008
Franchisees	₱70,812,875	₱46,932,856
Service agreement	38,309,233	25,779,332
Rent	10,844,946	10,540,458
	₱119,967,054	₱83,252,646

15. Cumulative Redeemable Preferred Shares

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

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included as part of "Interest expense" in the consolidated statements of comprehensive income amounted to ₱412,380 in 2009, ₱424,800 in 2008 and ₱366,240 in 2007 (Note 21). Interest payable included under "Accounts payable and accrued expenses" in the consolidated balance sheets amounted to ₱412,380 and ₱424,800 as of December 31, 2009 and 2008, respectively.

16. Deferred Revenue

	2009	2008
Deferred revenue on finance lease (Note 26)	₱1,856,046	₱3,166,197
Deferred revenue on exclusivity contract (Note 32)	–	3,913,690
	₱1,856,046	₱7,079,887

Deferred Revenue on Exclusivity Contract

Movements in deferred revenue on exclusivity contract are as follows:

	2009	2008
Beginning balance	₱7,827,381	₱11,741,071
Amortization (Note 32)	(3,913,691)	(3,913,690)
	3,913,690	7,827,381
Less current portion	3,913,690	3,913,691
	₱–	₱3,913,690

Deferred Revenue on Finance Lease

Movements in deferred revenue on finance lease are as follows:

	2009	2008
--	-------------	------

Beginning balance	₱4,476,348	₱5,786,499
Less amortization (Note 26)	1,310,151	1,310,151
	3,166,197	4,476,348
Less current portion	1,310,151	1,310,151
	₱1,856,046	₱3,166,197

17. Equity

On June 25, 2009, the Company's BOD approved the recommendation for a stock dividend declaration corresponding to 10% of the outstanding common shares of the Company of 260,977,200 shares or equivalent of 26,097,722 common shares.

On July 16, 2009, at least 2/3 of the Company's stockholders approved the stock declaration corresponding to 10% of the outstanding common shares and the issuance of 26,097,722 common shares with par value of ₱1 amounting to ₱26,097,722. Record date of entitlement is August 14, 2009.

On June 18, 2008, the Company's BOD approved the recommendation for a stock dividend declaration corresponding to 10% of the outstanding common shares of the Company of 237,252,000 shares or equivalent of 23,725,200 common shares (Note 28).

On July 17, 2008, at least 2/3 of the Company's stockholders approved the stock declaration corresponding to 10% of the outstanding common shares and the issuance of 23,725,200 common shares with par value of ₱1 amounting to ₱23,725,200. Record date of entitlement is August 15, 2008.

Movements in the number of shares issued are as follows:

	2009	2008
Beginning balance	261,663,450	237,938,250
Issuance of stock dividend	26,097,722	23,725,200
Ending balance	287,761,172	261,663,450

18. Cost of Merchandise Sales

	2009	2008	2007
Merchandise inventory, beginning	₱339,556,385	₱323,973,849	₱331,926,504
Net purchases	4,447,812,276	3,925,469,267	3,526,604,822
	4,787,368,661	4,249,443,116	3,858,531,326
Less merchandise inventory, ending	415,652,671	339,556,385	323,973,849
	₱4,371,715,990	₱3,909,886,731	₱3,534,557,477

19. General and Administrative Expenses

	2009	2008	2007
Communication, light and water	₱371,580,742	₱331,736,206	₱327,122,522
Rent (Note 26)	325,249,255	272,009,467	259,971,947
Outside services (Note 32)	299,568,215	259,118,700	178,731,357
Personnel costs (Note 23)	285,712,784	250,613,003	316,211,171
Depreciation and amortization	203,905,718	179,639,006	159,634,386
Advertising and promotion	73,763,919	54,152,935	44,634,182
Royalties (Note 25)	70,386,281	62,035,597	54,906,673
Trucking services	68,511,742	67,017,425	55,385,303

Taxes and licenses	64,648,509	53,122,933	67,127,410
Repairs and maintenance	60,593,879	54,152,174	43,659,408
Supplies	56,019,871	63,439,914	53,799,176
Warehousing services	48,668,549	45,010,978	39,466,267
Transportation and travel	26,539,417	23,210,852	16,811,529
Entertainment, amusement and recreation	25,874,891	20,181,424	20,458,960
Inventory losses	10,639,655	9,142,227	16,597,039
Provision for impairment of receivables	9,798,327	7,069,507	346,678
Dues and subscription	5,123,248	3,959,684	4,044,167
Insurance	4,634,768	4,214,915	3,851,316
Amortization of software and program costs	3,053,728	2,105,126	1,050,536
Others	36,685,831	26,500,827	19,480,055
	₱2,050,959,329	₱1,788,432,900	₱1,683,290,082

20. Marketing Income

	2009	2008	2007
Display charges	₱119,307,326	₱76,550,421	₱44,573,947
Promotions	84,413,455	37,512,628	44,216,543
Marketing support funds	32,782,079	22,148,166	8,889,561
	₱236,502,860	₱136,211,215	₱97,680,051

21. Interest Expense

	2009	2008	2007
Interest on:			
Bank loans	₱26,070,437	₱24,908,055	₱31,115,655
Long-term debt (Note 32)	–	–	45,522
Guaranteed preferred dividends	412,380	424,800	366,240
	₱26,482,817	₱25,332,855	₱31,527,417

22. Interest Income

	2009	2008	2007
Interest on:			
Bank deposits	₱3,387,088	₱2,180,738	₱2,228,578
Finance lease (Note 26)	465,251	614,154	347,883
Accretion of refundable deposits	987,606	1,392,016	825,214
	₱4,839,945	₱4,186,908	₱3,401,675

23. Personnel Costs

	2009	2008	2007
Salaries and wages	₱167,739,054	₱157,963,246	₱195,618,948
Employee benefits	95,994,041	83,929,056	113,463,590
Retirement benefits cost (Note 24)	21,979,689	8,720,701	7,128,633
	₱285,712,784	₱250,613,003	₱316,211,171

24. Retirement Benefits

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

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

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

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

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

	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

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

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

	2008		
	PSC	CDI	Total
Present value of retirement obligations	₱54,006,788	₱4,174,204	₱58,180,992
Less fair value of net plan assets	6,165,743	471,869	6,637,612

Unfunded retirement obligation	47,841,045	3,702,335	51,543,380
Unrecognized net actuarial losses	(14,994,391)	(721,252)	(15,715,643)
Net retirement obligations	₱32,846,654	₱2,981,083	₱35,827,737

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

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

	2008		
	PSC	CDI	Total
Beginning balances	₱50,892,911	₱1,674,978	₱52,567,889
Current service cost	4,353,211	124,321	4,477,532
Interest cost	4,229,201	135,003	4,364,204
Benefits paid	(2,927,849)	(224,070)	(3,151,919)
Actuarial loss (gain)	(2,540,686)	2,463,972	(76,714)
Ending balances	₱54,006,788	₱4,174,204	₱58,180,992

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

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

	2008		
	PSC	CDI	Total
Beginning balances	₱6,039,312	₱462,193	₱6,501,505
Expected return on plan assets	543,538	41,597	585,135
Contribution	2,794,501	213,865	3,008,366
Benefits paid	(2,927,849)	(224,070)	(3,151,919)
Actuarial losses	(283,759)	(21,716)	(305,475)
Ending balances	₱6,165,743	₱471,869	₱6,637,612

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

	2009	2008
Cash in bank	₱162	₱1,303
Investments in equity securities and trust and mutual funds	7,686,311	6,647,004
Liabilities	(4,214)	(10,695)
	₱7,682,259	₱6,637,612

Actual return on plan assets amounted to ₱485,164 in 2009 and ₱259,779 in 2008 for PSC and ₱32,382 in 2009 and ₱19,881 in 2008 for CDI.

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

PSC and CDI expect to contribute ₱4,000,000 and ₱100,000, respectively, to their defined benefit plan in 2010.

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

	PSC			CDI		
	2009	2008	2007	2009	2008	2007
Number of employees	699	742	795	20	19	19
Discount rate per annum	10.81%	37.56%	8.31%	10.69%	32.28%	8.06%
Expected annual rate of return on plan assets	6.00%	9.00%	9.00%	6.00%	9.00%	9.01%
Salary increase rate	6.00%	5.00%	5.00%	6.00%	5.00%	5.00%

Amounts for the current and prior periods are as follows:

	2009		
	PSC	CDI	Total
Present value of retirement obligations	₱62,438,440	₱4,864,964	₱67,303,404
Fair value of net plan assets	7,178,008	504,251	7,682,259
Unfunded retirement obligation	55,260,432	4,360,713	59,621,145
Experience gain adjustments on retirement obligations	(12,458,512)	(857,124)	(13,315,636)
Experience loss adjustments on	(69,753)	(10,086)	(79,839)
	2008		
	PSC	CDI	Total
Present value of retirement obligations	₱54,006,788	₱4,174,204	₱58,180,992
Fair value of net plan assets	6,165,743	471,869	6,637,612
Unfunded retirement obligation	47,841,045	3,702,335	51,543,380
Experience loss adjustments on retirement obligations	46,616	2,532,432	2,579,048
Experience loss adjustments on plan assets	(283,759)	(21,716)	(305,475)
	2007		
	PSC	CDI	Total
Present value of retirement obligations	₱50,892,911	₱1,674,978	₱52,567,889
Fair value of net plan assets	6,039,312	462,193	6,501,505
Unfunded retirement obligation	44,853,599	1,212,785	46,066,384
Experience loss (gain)	2,872,179	(94,636)	2,777,543
Experience loss adjustments on	(477,943)	(28,521)	(506,464)
	2006		
	PSC	CDI	Total
Present value of retirement obligations	₱44,889,567	₱1,784,759	₱46,674,326

Fair value of net plan assets	6,139,207	462,580	6,601,787
Unfunded retirement obligation	38,750,360	1,322,179	40,072,539
Experience gain adjustment on retirement obligations	(3,964,900)	–	(3,964,900)

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

25. Related Party Transactions

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

Transactions 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.

Significant transactions with related parties consist of:

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

Royalty fees recorded by the Group amounted to ₱70,386,281 in 2009, ₱62,035,597 in 2008 and ₱54,906,673 in 2007. Royalty fees are paid on a monthly basis.

Royalty payable included under "Other current liabilities" amounted to ₱6,719,659 and ₱5,671,223 as of December 31, 2009 and 2008, respectively.

- b. PSC has transactions with PFI, a foundation with common key management of the Group, consisting of noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI. Amounts due from PFI amounted to ₱323,477 and ₱53,883 as of December 31, 2009 and 2008, respectively. Amount due to PFI included under others in "Other current liabilities" amounted to ₱18,650 as of December 31 2008.
- c. Compensation of key management personnel are as follows:

	2009	2008	2007
Short-term employee benefits	₱32,583,183	₱15,451,726	₱18,357,896
Post-employment benefits	1,752,710	358,512	2,256,441
Other long-term benefits	376,073	294,118	–
	₱34,711,966	₱16,104,356	₱20,614,337

26. Leases

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

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

	2009	2008
Within one year	₱2,520,000	₱2,782,500
After one year but not more than five years	4,500,000	7,020,000
Total minimum lease payments	7,020,000	9,802,500
Less unearned interest income	566,959	x1,032,211
Present value of future minimum lease payments	6,453,041	8,770,289
Less current portion	2,187,564	2,317,248
	₱4,265,477	₱6,453,041

Collection of lease receivable amounted to ₱2,782,500 in 2009 and ₱2,887,500 in 2008.

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

	2009	2008
Within one year	₱2,187,564	₱2,317,248
After one year but not more than five years	4,265,477	6,453,041
Total minimum lease payments	6,453,041	8,770,289
Less current portion	2,187,564	2,317,248
Present value of future minimum lease payments	₱4,265,477	₱6,453,041

Unearned interest income as of December 31, 2009 and 2008 amounted to ₱566,959 and ₱1,032,211, respectively. Related interest income amounted to ₱465,251 in 2009, ₱614,154 in 2008 and ₱347,883 in 2007.

Difference between the present value of the minimum lease payments at the date of lease inception against the carrying value of the finance leased asset resulted in a deferred revenue on finance lease amounting to ₱6,550,753, which is to be amortized on a straight-line basis over the term of the lease. Deferred revenue amounted to ₱1,856,046 and ₱3,166,197 as of December 31, 2009 and 2008. Amortization of deferred revenue amounted to ₱1,310,151 in 2009 and 2008 and ₱764,254 in 2007.

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

Rental expense related to these lease agreements amounted to ₱295,747,766 in 2009, ₱242,449,643 in 2008 and ₱231,418,192 in 2007. Of the total rent expense, ₱663,802 in 2009, ₱478,829 in 2008 and ₱1,054,585 in 2007 pertains to contingent rent of some stores based on percentage ranging from 1.5% to 3.0% of merchandise sales. Amortization of deferred lease amounted to ₱385,024 in 2009, ₱811,861 in 2008 and ₱1,174,560 in 2007.

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

	2009	2008
Within one year	₱58,103,466	₱69,316,737
After one year but not more than five years	126,794,701	164,360,319
More than five years	7,066,790	17,337,068
	₱191,964,957	₱251,014,124

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

Rent expenses related to this lease agreements amounted to ₱22,925,240 in 2009, 2008 and 2007.

Amortization of deferred lease amounted to ₱1,090,500 in 2009 and 2008 and ₱545,250 in 2007.

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

	2009	2008
Within one year	₱20,815,812	₱19,680,994
After one year but not more than five years	113,806,440	110,512,189
More than five years	130,516,307	154,626,371
Total	₱265,138,559	₱284,819,554

The Company also has other various short-term operating leases pertaining to rental of warehouse fixtures and equipments. Related rent expense amounted to ₱5,100,725 in 2009, ₱4,732,223 in 2008 and ₱3,908,705 in 2007.

- 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 ₱52,265,323 in 2009, ₱36,502,151 in 2008 and ₱39,648,977 in 2007.

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

	2009	2008
Within one year	₱623,731	₱669,515
After one year but not more than five years	714,800	1,338,531
Total	₱1,338,531	₱2,008,046

27. Income Tax

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

	2009	2008	2007
Current:			
RCIT	₱80,682,849	₱62,259,735	₱41,716,094
Final tax on interest income	627,617	436,148	487,190
	81,310,466	62,695,883	42,203,284
Deferred	(6,270,068)	(2,240,115)	(773,980)
	₱75,040,398	₱60,455,768	₱41,429,304

- b. The components of the Company's and CDI's net deferred income tax assets are as follows:

	2009		
	PSC	CDI	Total
Deferred tax assets:			
Accrued rent	₱19,243,688	₱5,034,539	₱24,278,227
Net retirement obligations	15,365,499	1,334,638	16,700,137
Unamortized discount on refundable deposit	4,977,318	–	4,977,318
Allowance for impairment on receivables	3,253,184	–	3,253,184
Deferred revenue on			

exclusivity agreement	1,174,107	–	1,174,107
Unamortized past service cost	505,033	48,879	553,912
Unamortized discount on receivable	207,415	–	207,415
Unrealized foreign exchange loss	145,551	–	145,551
Unearned rent	97,512	–	97,512
	44,969,307	6,418,056	51,387,363
Deferred tax liabilities:			
Deferred lease expense	3,956,038	–	3,956,038
Unamortized capitalized interest	1,002,780	–	1,002,780
Unamortized discount on purchase of refundable deposit	419,703	–	419,703
Accrued rent income		–	–
	5,378,521	–	5,378,521
	₱39,590,786	₱6,418,056	₱46,008,842

	2008		
	PSC	CDI	Total
Deferred tax assets:			
Accrued rent expense	₱21,445,027	₱4,061,265	₱25,506,292
Net retirement obligations	9,853,996	894,325	10,748,321
Allowance for impairment on receivables	2,622,052	–	2,622,052
Deferred revenue on exclusivity contract	2,348,214	–	2,348,214
Unamortized past service cost	167,683	55,478	223,161
Unrealized foreign exchange loss (gain)	213,742	(965)	212,777
Other accrued expense	121,800	–	121,800
	36,772,514	5,010,103	41,782,617
Deferred tax liabilities:			
Unamortized capitalized interest	1,502,201	–	1,502,201
Accrued rent income	541,642	–	541,642
	2,043,843	–	2,043,843
	₱34,728,671	₱5,010,103	₱39,738,774

- c. Deferred income tax liability pertains to taxable temporary difference on revaluation increment in land of SSHI, which was recognized only in the consolidated financial statements amounting to ₱ 1,384,241 as of December 31, 2009 and 2008, respectively.
- d. The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of comprehensive income follow:

	2009	2008	2007
Provision for income tax computed at statutory income tax rate of 30% in 2009 and 35% in 2008 and 2007	₱71,911,161	₱50,610,083	₱34,268,786
Adjustments for:			
Nondeductible expenses:			

Inventory losses	3,353,737	3,292,664	5,740,408
Interest expense and others	1,662,459	1,790,317	3,223,992
Loss from typhoon	985,551	–	–
Donation expense	216,000	–	–
Impairment loss on goodwill	–	1,613,979	–
Nontaxable income:			
Cash dividend from a domestic corporation	(2,700,000)	–	–
Bank interest income	(313,809)	(327,110)	(365,392)
Other income	(74,701)	(2,882,506)	(1,072,495)
Interest income on accretion	–	(487,206)	(365,995)
Effect of change in tax rate in 2009	–	6,845,547	–
Provision for income tax	₱75,040,398	₱60,455,768	₱41,429,304

- e. Republic Act (RA) No. 9337, which became effective on November 1, 2005, amended various provisions in the 1997 National Internal Revenue Code. The reforms introduced by RA No. 9337 included the increase in the RCIT rate from 32% to 35% beginning November 1, 2005, with a reduction thereof to 30% beginning January 1, 2009. RA No. 9337 also provided for the increase in unallowable interest rate from 38% to 42% beginning November 1, 2005, with a reduction thereof to 33% beginning January 1, 2009.
- f. RA 9504, effective on July 7, 2008 allows availment of optional standard deductions (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. The Group did not avail the OSD for the computation of its taxable income in 2009 and 2008.

28. Basic/Diluted Earnings Per Share

	2009	2008	2007
Net income	₱155,790,651	₱84,271,651	₱54,828,138
b. Weighted average number of shares issued	287,761,172	287,761,172	287,761,172
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)	₱287,074,922	₱287,074,922	₱287,074,922
e. Basic/diluted earnings per share (a/d)	₱0.54	₱0.29	₱0.19

The Group does not have potentially dilutive common shares as of December 31, 2009, 2008 and 2007. Thus, the basic earnings per share is equal to the diluted earnings per share as of those dates.

The Group's outstanding common shares increased from 261,663,450 to 287,761,172 as a result of stock dividend issuance equivalent to 26,097,722 common shares approved on July 16, 2009. Therefore, the calculation of basic/diluted earnings per share for all periods presented has been adjusted retrospectively.

29. 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:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash	₱432,900,994	₱432,900,994	₱314,241,734	₱314,241,734
Cash equivalents	15,929,894	15,929,894	638,623	638,623
	448,830,888	448,830,888	314,880,357	314,880,357
Receivables:				
Suppliers	61,743,590	61,743,590	55,045,630	55,045,630
Franchisee	50,439,162	50,439,162	82,600,166	82,600,166
Employees	6,906,248	6,906,248	5,137,033	5,137,033
Rent	4,755,572	4,755,572	1,805,472	1,805,472
Current portion of lease receivable	2,187,564	2,584,612	2,317,248	2,328,007
Insurance claims	1,905,773	1,905,773	938,402	938,402
Store operators	1,688,404	1,688,404	-	-
Deposits	1,009,864	1,009,864	-	-
Due from PFI	323,477	323,477	53,883	53,883
Others	9,180,451	9,180,451	3,567,660	3,567,660
	140,140,105	140,537,153	151,465,494	151,476,253
Deposits:				
Utilities	22,131,783	22,131,783	21,766,646	21,766,646
Refundable	10,326,979	14,053,354	9,314,578	11,838,241
Others	2,753,309	2,753,309	3,968,879	3,968,879
	35,212,071	38,938,446	35,050,103	37,573,766

(Forward)

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Other noncurrent assets - lease receivable (net of current portion)				
	₱4,265,477	₱4,843,464	₱6,453,041	₱6,405,327
Total Loans and Receivables	628,448,541	633,149,951	507,848,995	510,335,703
AFS Financial Assets	2,314,575	2,314,575	2,314,575	2,314,575
TOTAL FINANCIAL ASSETS	₱630,763,116	₱635,464,526	₱510,163,570	₱512,650,278
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	₱340,000,000	₱340,000,000	₱330,000,000	₱330,000,000
Accounts payable and accrued expenses:				
Trade payable	864,748,683	864,748,683	697,108,015	697,108,015
Employee benefits	26,820,981	26,820,981	22,364,011	22,364,011
Utilities	17,666,410	17,666,410	12,288,794	12,288,794
Advertising and promotion	7,049,972	7,049,972	4,242,668	4,242,668
Outsourced services	6,497,194	6,497,194	5,764,897	5,764,897
Security services	2,292,041	2,292,041	2,395,139	2,395,139
Bank charges	1,852,100	1,852,100	1,678,000	1,678,000
Interest	1,053,797	1,053,797	1,825,689	1,825,689
Others	18,701,005	18,701,005	15,355,584	15,355,584
	946,682,183	946,682,183	763,022,797	763,022,797
Other current liabilities:				
Non-trade accounts payable	138,118,326	138,118,326	120,494,703	120,494,703
Retention payable	15,236,991	15,236,991	15,129,370	15,129,370
Service fees payable	11,006,733	11,006,733	5,610,981	5,610,981
Royalty	6,719,659	6,719,659	5,671,223	5,671,223
Others	13,012,717	13,012,717	6,038,237	6,038,237
	184,094,426	184,094,426	152,944,514	152,944,514
Cumulative redeemable preferred shares	6,000,000	6,000,000	6,000,000	6,000,000
TOTAL FINANCIAL LIABILITIES	₱1,476,776,609	₱1,476,776,609	₱1,251,967,311	₱1,251,967,311

Fair Value Information

Current financial assets and financial liabilities

Due to the short-term nature of the related transactions, the fair value of cash and cash equivalents,

receivables (except for lease receivables), accounts payable and accrued expenses and other current liabilities approximates their carrying amount as of balance sheet date.

Lease receivables

The fair value of lease receivable is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as of December 31, 2009 and 2008, which is 5.51% and 6.63%, respectively.

Utility and other deposits

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

Refundable deposits

The fair value of deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as of December 31, 2009 and 2008 ranging from 4.41% to 8.57% and 6.73% to 9.52%, respectively.

AFS financial assets

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

Bank loans

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

Cumulative redeemable preferred shares

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

Fair value Hierarchy

As of December 31, 2009 and 2008, the Group has no financial instrument measured at fair value.

30. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to impairment is managed to a not significant level. The Group deals only with counterparty duly approved by the BOD.

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

	2009	2008
Cash and cash equivalents:		
Cash in bank (excluding cash on hand)	₱340,150,666	₱117,428,091
Cash equivalents	15,929,894	638,623
	356,080,560	118,066,714
Receivables:		
Suppliers	61,743,590	55,045,630
Franchisee	50,439,162	82,600,166
Employees	6,906,248	5,137,033

Rent	4,755,572	1,805,472
Current portion of lease receivables	2,187,564	2,317,248
Insurance claims	1,905,773	938,402
Store operators	1,688,404	–
Deposits	1,009,864	–
Due from PFI	323,477	53,883
Others	9,180,451	3,567,660
	140,140,105	151,465,494
Deposits:		
Utilities	22,131,783	21,766,646
Refundable	10,326,979	9,314,578
Others	2,753,309	3,968,879
	35,212,071	35,050,103
(Forward)		
	2009	2008
Other noncurrent assets:		
Lease receivables - net of current portion	₱4,265,477	₱6,453,041
AFS financial assets	2,314,575	2,314,575
	6,580,052	8,767,616
	₱538,012,788	₱313,349,927

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:

	2009			Total
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	
Cash and cash equivalents				
Cash in bank	₱340,150,666	₱–	₱–	₱340,150,666
Cash equivalents	15,929,894	–	–	15,929,894
	356,080,560	–	–	356,080,560
Receivables				
Suppliers	–	59,836,520	9,442,370	69,278,890
Franchisee	–	50,439,162	–	50,439,162
Employees	–	6,906,248	–	6,906,248
Rent	–	4,755,572	–	4,755,572
Current portion of lease	–	2,187,564	–	2,187,564
Insurance claims	–	1,905,773	–	1,905,773
Store operators	–	1,688,404	–	1,688,404
Deposits	–	1,009,864	–	1,009,864
Due from PFI	–	323,477	–	323,477
Others	–	9,180,451	3,308,648	12,489,099
	–	138,233,035	12,751,018	150,984,053
Deposits				
Utilities	–	22,131,783	–	22,131,783
Refundable	–	10,326,979	–	10,326,979
Others	–	2,753,309	–	2,753,309
	–	35,212,071	–	35,212,071
Other noncurrent assets				
Lease receivables - net of current portion	–	4,265,477	–	4,265,477
AFS financial assets	–	2,314,575	–	2,314,575
	–	6,580,052	–	6,580,052
	₱356,080,560	₱180,025,158	₱12,751,018	₱548,856,736

	2008			
	Neither Past Due nor Impaired		Past Due	Total
	High Grade	Standard Grade	or Impaired	
Cash and cash equivalents				
Cash in bank	₱117,428,091	₱–	₱–	₱117,428,091
Cash equivalents	638,623	–	–	638,623
	118,066,714	–	–	118,066,714
(Forward)				
	2008			
	Neither Past Due nor Impaired		Past Due	Total
	High Grade	Standard Grade	or Impaired	
Receivables				
Suppliers	₱–	₱51,671,352	₱9,979,319	₱61,650,671
Franchisee	–	82,600,166	–	82,600,166
Employees	–	5,137,033	–	5,137,033
Rent	–	1,805,472	–	1,805,472
Current portion of lease	–	2,317,248	–	2,317,248
Insurance claims	–	938,402	–	938,402
Due from PFI	–	53,883	–	53,883
Others	–	3,567,660	2,135,133	7,508,265
	–	148,091,216	12,114,452	160,205,668
Deposits				
Utilities	–	21,766,646	–	21,766,646
Refundable	–	9,314,578	–	9,314,578
Others	–	3,968,879	–	3,968,879
	–	35,050,103	–	35,050,103
Other noncurrent assets				
Lease receivables - net of current portion	–	6,453,041	–	6,453,041
AFS financial assets	–	2,314,575	–	2,314,575
	–	8,767,616	–	8,767,616
	₱118,066,714	₱191,908,935	₱12,114,452	₱322,090,101

The Group uses the following criteria to rate credit quality:

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

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

Cash and cash equivalents are classified as high grade since these are deposited or transacted with reputable banks which have low probability of insolvency.

Receivables, deposits and other noncurrent assets are classified as standard grade since these pertain to receivables considered as unsecured from third parties with good paying habits.

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

2009						
	Aging analysis of financial assets past due but not impaired				Past due and	Total
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	
Receivables:						
Suppliers	P1,737,877	P60,844	P108,349	P1,907,070	P7,535,300	P9,442,370
Others	–	–	–	–	3,308,648	3,308,648
	P1,737,877	P60,844	P108,349	P1,907,070	P10,843,948	P12,751,018

2008						
	Aging analysis of financial assets past due but not impaired				Past due and	Total
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	
Receivables:						
Suppliers	P1,353,588	P1,040,457	P980,233	P3,374,278	P6,605,041	P9,979,319
Others	–	–	–	–	2,135,133	2,135,133
	P1,353,588	P1,040,457	P980,233	P3,374,278	P8,740,174	P12,114,452

Receivables from suppliers are noninterest-bearing and are generally on 30-day to 90-day terms. There are no significant concentrations of credit risk within the Group.

Liquidity Risk

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

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

The table below summarizes the maturity profile of the financial assets of the Group:

2009					
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Cash and cash equivalents					
Cash	P432,900,994	P–	P–	P–	P432,900,994
Cash equivalents	15,929,894	–	–	–	15,929,894
	448,830,888	–	–	–	448,830,888
Receivables					
Suppliers	61,635,241	7,643,649	–	–	69,278,890
Franchisee	50,439,162	–	–	–	50,439,162
Employees	6,906,248	–	–	–	6,906,248
Rent	4,755,572	–	–	–	4,755,572
Current portion of lease receivables	534,502	1,653,062	–	–	2,187,564
Insurance claims	–	1,905,773	–	–	1,905,773
Store operators	1,688,404	–	–	–	1,688,404
Deposits	1,009,864	–	–	–	1,009,864
Due from subsidiaries	–	323,477	–	–	323,477
Others	9,180,451	3,308,648	–	–	12,489,099
	136,149,444	14,834,609	–	–	150,984,053
Deposits					
Utilities	–	–	22,131,783	–	22,131,783
Refundable	–	–	10,326,979	–	10,326,979
Others	–	–	2,753,309	–	2,753,309
	–	–	35,212,071	–	35,212,071

(Forward)

	2009				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
Other noncurrent assets					
Lease receivables - net of current portion	P-	P-	P4,265,477	P-	P4,265,477
AFS financial assets	-	-	-	2,314,575	2,314,575
	-	-	4,265,477	2,314,575	6,580,052
	P584,980,332	P14,834,609	P39,477,548	P2,314,575	P641,607,064
	2008				
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Cash and cash equivalents					
Cash	P314,241,734	P-	P-	P-	P314,241,734
Cash equivalents	638,623	-	-	-	638,623
	314,880,357	-	-	-	314,880,357
Receivables					
Suppliers	54,065,397	7,585,274	-	-	61,650,671
Franchisee	82,600,166	-	-	-	82,600,166
Employees	5,137,033	-	-	-	5,137,033
Rent	1,805,472	-	-	-	1,805,472
Current portion of lease receivables	657,361	1,659,887	-	-	2,317,248
Insurance claims	-	938,402	-	-	938,402
Due from subsidiaries	-	53,883	-	-	53,883
Others	3,567,660	2,135,133	-	-	5,702,793
	147,833,089	12,372,579	-	-	160,205,668
Deposits					
Utilities	-	-	21,766,646	-	21,766,646
Refundable	-	-	9,314,578	-	9,314,578
Others	-	-	3,968,879	-	3,968,879
	-	-	35,050,103	-	35,050,103
Other noncurrent assets					
Lease receivables - net of current portion	-	-	6,453,041	-	6,453,041
AFS financial assets	-	-	-	2,314,575	2,314,575
	-	-	6,453,041	2,314,575	8,767,616
	P462,713,446	P12,372,579	P41,503,144	P2,314,575	P518,903,744

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

	2009			Total
	Three months or less	More than three months to one year	More than one year	
Bank loans	P100,408,333	P244,049,167	P-	P344,457,500
Accounts payable and accrued expenses				
Trade payable	864,748,683	-	-	864,748,683
Employee benefits	26,820,981	-	-	26,820,981
Utilities	17,666,410	-	-	17,666,410

Advertising and promotion	7,049,972	–	–	7,049,972
Outsourced services	6,497,194	–	–	6,497,194
Security services	2,292,041	–	–	2,292,041
Bank charges	1,852,100	–	–	1,852,100
Interest	1,053,797	–	–	1,053,797
Others	18,701,005	–	–	18,701,005
	946,682,183	–	–	946,682,183
Other current liabilities				
Non-trade accounts payable	–	138,118,326	–	138,118,326
Retention payable	–	15,236,991	–	15,236,991
Service fees payable	–	11,006,733	–	11,006,733
Royalty	6,719,659	–	–	6,719,659
Others	–	13,012,717	–	13,012,717
	6,719,659	177,374,767	–	184,094,426
Cumulative redeemable preferred shares	–	–	6,000,000	6,000,000
	₱1,053,810,175	₱421,423,934	₱6,000,000	₱1,481,234,109

	2008			Total
	Three months or less	More than three months to one year	More than one year	
Bank loans	₱60,287,945	₱282,519,833	₱–	₱342,807,778
Accounts payable and accrued expenses				
Trade payable	697,108,015	–	–	697,108,015
Employee benefits	22,364,011	–	–	22,364,011
Utilities	12,288,794	–	–	12,288,794
Outsourced services	5,764,897	–	–	5,764,897
Advertising and promotion	4,242,668	–	–	4,242,668
Security services	2,395,139	–	–	2,395,139
Interest	1,825,689	–	–	1,825,689
Bank charges	1,678,000	–	–	1,678,000
Others	15,355,584	–	–	15,355,584
	763,022,797	–	–	763,022,797
Other current liabilities				
Non-trade accounts payable	–	120,494,703	–	120,494,703
Retention payable	–	15,129,370	–	15,129,370
Service fees payable	–	5,610,981	–	5,610,981
Royalty	5,671,223	–	–	5,671,223
Others	–	6,038,237	–	6,038,237
	5,671,223	147,273,291	–	152,944,514
Cumulative redeemable preferred shares	–	–	6,000,000	6,000,000
	₱828,981,965	₱429,793,124	₱6,000,000	₱1,264,775,089

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's fair value and cash flows interest rate risk mainly arise from bank loans with floating interest rates. The Group is expecting to substantially reduce the level of bank loans over time. Internally generated funds coming from its cash generating units and from its franchising business will be used to pay off outstanding debts and consequently reduce the interest rate exposure.

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

	2009	2008
Due in less than one year	₱340,000,000	₱330,000,000
Rate	4.90%-5.50%	6.75%-8.60%

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

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

	2009		2008	
	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax
Bank loans - floating interest rate	+ 100	₱3,400,000	+ 100	₱3,300,000
	- 100	(3,400,000)	- 100	(3,300,000)

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

31. Capital Management

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% and 50% in relation to its total assets. The Group's net worth ratio is 33% as of December 31, 2009 and 2008. No changes were made in the objectives, policies and processes during the year.

	2009	2008
Capital stock	₱287,761,172	₱261,663,450
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	326,309,628	196,616,699
	907,595,837	751,805,186
Less cost of shares held in treasury	2,923,246	2,923,246
	₱904,672,591	₱748,881,940
Total assets	₱2,710,675,933	₱2,269,796,932
Net worth	33%	33%

As of December 31, 2009 and 2008, the Group is able to meet its objective.

32. Significant Agreements

- The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Franchise fee amounted to ₱32,828,051 in 2009, ₱35,401,274 in 2008 and ₱51,389,093 in 2007, and franchise revenue for the 7-Eleven charge amounted to ₱270,987,091 in 2009, ₱215,454,387 in 2008 and ₱152,882,460 in 2007.
- The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement. Service fees included under outside services as shown as part of "General and administrative expenses" in profit or loss amounted to ₱109,601,229 in 2009, ₱103,170,576 in 2008 and ₱83,248,355 in 2007.
- 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 ₱22,130,513 in 2009, ₱21,213,531 in 2008 and ₱21,924,224 in 2007.

- d. The Group has entered into an exclusivity agreement with Unilever RFM Ice Cream, Inc. on October 1, 2007. Upon the effectivity of the agreement, all existing branches of 7-Eleven shall exclusively carry Selecta ice cream products, and 7-Eleven should not carry any other ice cream product including similar or parallel products. The agreement is for a period of three years starting October 1, 2007 and shall continue in force and effect until December 31, 2010. In June 2008, the Group received a total consideration of ₱11,741,071 in relation to the agreement, to be amortized over three years. Income from exclusivity contract included under “Other income” in profit or loss amounted to ₱3,913,691 in 2009 and ₱3,913,690 in 2008.
- e. The Group has entered into a Memorandum of Agreement (MOA) with Chevron Philippines, Inc. (CPI) on August 6, 2009, wherein CPI has granted the Group as authorized co-locator for a full term of three-years to establish, operate and/or franchise its 7-Eleven stores in CPI service stations. Both parties have identified 22 CPI service stations, wherein the Group will give the Retailers of these service stations a Letter Offer to Franchise (LOF) 7-Eleven stores. Upon acceptance of the Retailers of the LOF, the Retailers will sign a Store Franchise Agreement (SFA) with the Group. If LOF is not accepted by one of the 22 original service stations identified, that service station will be replaced with another mutually acceptable service station site.

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

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

- f. Long-term debt in 2007 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. Full settlement of the loan amounted to ₱6,500,000 in 2007. Interest expense from these long-term debts amounted to ₱45,522 in 2007.

33. Segment Reporting

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

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

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

The segment’s relevant financial information is as follows:

	2009	2008	2007
REVENUE			
Revenue from merchandise sales	₱6,033,322,488	₱5,412,969,204	₱4,952,027,491
Franchise revenue	303,815,142	250,855,661	204,271,553

Marketing income	236,502,860	136,211,215	97,680,051
Rent income	52,265,323	36,502,151	39,648,977
Commission income	22,130,513	21,213,531	21,924,224
Interest income	4,839,945	4,186,908	3,401,675
Other income	35,685,902	17,988,516	32,885,092
	6,688,562,173	5,879,927,186	5,351,839,063

EXPENSES

Cost of merchandise sales	4,371,715,990	3,909,886,731	3,534,557,477
General and administrative expenses:			
Depreciation and amortization	203,905,718	179,639,006	159,634,386
Others	1,847,053,611	1,608,793,894	1,523,655,696
Interest expense	26,482,817	25,332,855	31,527,417
Impairment loss on goodwill	–	4,611,368	–
Other expenses	8,572,988	6,935,913	6,206,645
	6,457,731,124	5,735,199,767	5,255,581,621

(Forward)

	2009	2008	2007
INCOME BEFORE INCOME TAX	₱230,831,049	₱144,727,419	₱96,257,442
PROVISION FOR INCOME TAX	75,040,398	60,455,768	41,429,304
SEGMENT PROFIT	₱155,790,651	₱84,271,651	₱54,828,138
SEGMENT ASSETS	₱2,710,675,933	₱2,269,796,932	₱1,855,901,764
SEGMENT LIABILITIES	₱1,802,773,447	₱1,517,685,097	₱1,198,252,210

34. Contingencies

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

35. Note to Consolidated Statements of Cash Flows

The principal non-cash transaction of the Group under financing activities pertains to the issuance of stock dividends amounting to ₱26,097,722 in 2009 and ₱23,725,200 in 2008.

In 2007, 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.