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S.E.C Registration Number

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(Company's full Name)

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

Atty. Evelyn S. Enriquez
Corporate Secretary

724-44-41 to 51
Company Telephone Number

Contact Person

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Month Day
Fiscal Year

1	7	-	Q
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FORM TYPE

0	7		3 rd Thursday
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Month Day
Annual Meeting

SECOND QUARTER REPORT

Secondary License Type, if Applicable

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Dept. Requiring this Doc.

Amended Articles Number/Section

718																			
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Total Amount of Borrowings

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Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended June 30, 2010
2. Commission identification number
3. BIR Tax Identification No : 000-390-189-000
4. Exact name of registrant as specified in its charter :

PHILIPPINE SEVEN CORPORATION

5. Country of incorporation : **PHILIPPINES**
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office : 7TH Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City
1550
8. Telephone number : (632) 724-44-41 to 51
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

No. of Shares of Common Stock

Shares Outstanding - Common : **287,074,920**
Warrants : -0-

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

Yes [] No []

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

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the attached.

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

Please refer to the attached

PART II - OTHER INFORMATION

N/A

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

Registrant: **PHILIPPINE SEVEN CORPORATION**



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

Date: August 13, 2010



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

Date: August 13, 2010

August 13, 2010

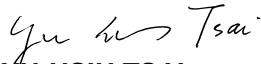
SECURITIES AND EXCHANGE COMMISSION

SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of June 30, 2010, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

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


YU-HSIU TSAI
Treasurer and CFO


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended June 30, 2010. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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



JOSE VICTOR P. PATERNO
President and CEO



YU-HSIU TSAI
Treasurer and CFO

Part 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Pages 53 to 58)

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of June 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱ 379,806,427	₱ 448,830,888
Receivables (Note 5)	89,094,332	140,140,105
Inventories - at cost (Note 6)	346,586,040	415,652,671
Prepayments and other current assets (Note 7)	215,469,861	174,383,392
Total Current Assets	1,030,956,660	1,179,007,056
Noncurrent Assets		
Property and equipment (Note 8)	1,406,865,466	1,227,244,430
Deposits (Note 9)	169,994,307	151,328,033
Deferred income tax assets - net (Note 27)	46,008,841	46,008,842
Goodwill and other noncurrent assets (Note 10)	103,104,041	107,087,572
Total Noncurrent Assets	1,725,972,655	1,531,668,877
TOTAL ASSETS	₱ 2,756,929,316	₱ 2,710,675,933
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 11)	₱ 280,000,000	₱ 340,000,000
Accounts payable and accrued expenses (Note 12)	830,889,546	1,027,609,605
Income tax payable	47,168,688	38,354,398
Other current liabilities (Note 13)	334,441,429	211,934,980
Total Current Liabilities	1,492,499,663	1,617,898,983
Noncurrent Liabilities		
Deposits payable (Note 14)	163,194,293	119,967,054
Net retirement obligations (Note 24)	53,278,542	55,667,123
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	1,856,046
Total Noncurrent Liabilities	225,713,123	184,874,464
Total Liabilities	₱ 1,718,212,786	₱ 1,802,773,447
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	₱ 287,761,172
Additional paid-in capital	293,525,037	293,525,037
Retained earnings (Notes 17)	457,123,672	326,309,628
Other component of equity - revaluation increment on land [net of deferred income tax liability (Notes 8 and 27)]	3,229,895	3,229,895
	1,041,639,776	910,825,732
Cost of 686,250 shares held in treasury	(2,923,246)	(2,923,246)
Total Stockholders' Equity	1,038,716,530	907,902,486
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₱ 2,756,929,316	₱ 2,710,675,933

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
REVENUE				
Revenue from merchandise sales	1,995,886,384	1,480,687,752	3,693,665,963	2,845,583,591
Franchise revenue (Note 32)	113,892,580	78,309,194	210,464,998	150,395,222
Marketing income (Note 20)	55,857,832	50,994,866	111,305,496	74,068,072
Rent income (Note 26)	8,360,392	15,458,998	16,560,240	14,739,559
Commission income (Note 32)	6,849,409	5,348,755	13,251,555	10,623,480
Interest income (Notes 9, 22 and 26)	698,026	693,366	1,380,118	1,284,388
Other income (Note 32)	11,392,867	7,347,302	19,769,784	9,170,210
	2,192,937,490	1,638,840,234	4,066,398,153	3,105,864,522
EXPENSES				
Cost of merchandise sales (Note 18)	1,452,842,289	1,057,767,187	2,690,598,066	2,036,309,803
General and administrative expenses (Note 19)	617,296,661	514,074,265	1,174,783,698	974,726,403
Interest expense (Notes 11, 15, 21 and 32)	4,043,725	7,476,657	8,467,811	14,631,631
Other expenses	1,267,714	1,378,203	2,222,975	2,138,150
	2,075,450,389	1,580,696,313	3,876,072,550	3,027,805,987
INCOME BEFORE INCOME TAX	117,487,101	58,143,921	190,325,603	78,058,535
PROVISION FOR INCOME TAX (Note 27)	36,764,987	18,661,016	59,511,559	25,307,805
NET INCOME	80,722,114	39,482,905	130,814,044	52,750,730
OTHER COMPREHENSIVE INCOME	--	--	--	--
TOTAL COMPREHENSIVE INCOME	80,722,114	39,482,905	130,814,044	52,750,730
BASIC/DILUTED EARNINGS PER				
SHARE (Note 28)	0.28	0.14	0.46	0.18

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2010 (As Compared with JUNE 30, 2009)

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment in 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
Net income for the First Quarter of 2010	-	-	50,091,930	-	-	50,091,930
BALANCES AS OF JUNE 30, 2010	287,761,172	293,525,037	376,401,558	3,229,895	(2,923,246)	957,994,416
Net income for the Second Quarter of 2010	-	-	80,722,114	-	-	80,722,114
BALANCES AS OF JUNE 30, 2010	287,761,172	293,525,037	457,123,672	3,229,895	(2,923,246)	1,038,716,530
BALANCES AS OF JUNE 30, 2009	261,663,450	293,525,037	249,367,429	3,229,895	(2,923,246)	804,862,565

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	117,487,101	58,143,921	190,325,603	78,058,535
Adjustments for:				
Depreciation and amortization (Notes 8 and 19)	61,565,413	45,540,455	117,685,255	90,028,160
Interest expense (Notes 11, 15, 21 and 32)	4,043,725	7,476,657	8,467,811	14,631,631
Interest income (Notes 9, 22 and 26)	(698,026)	(693,366)	(1,380,118)	(1,284,388)
Software and other program costs (Notes 10 and 19)	773,041	759,857	1,543,648	1,514,947
Operating income before working capital changes	183,171,252	111,227,525	316,642,199	182,948,885
Decrease (increase) in:				
Receivables	4,153,326	(28,238,947)	51,045,773	91,714,691
Inventories	38,468,360	3,288,698	69,066,631	31,279,577
Prepayments and other current assets	13,523,368	13,901,566	(41,086,469)	(116,219,684)
Increase (decrease) in:				
Accounts payable and accrued expenses	(48,317,650)	(31,889,082)	(196,720,059)	(204,621,228)
Other current liabilities	172,243,439	24,501,576	122,506,449	(17,437,444)
Deposits payable	5,886,751	9,558,020	43,227,239	25,094,288
Net retirement obligations	447,797	4,683,529	(2,388,581)	2,230,065
Cash generated from operations	369,576,644	107,032,884	362,293,182	(5,010,850)
Income taxes paid	(50,648,300)	(45,404,158)	(50,697,269)	(51,206,671)
Interest received	698,026	693,366	1,380,118	1,284,388
Net cash from operating activities	319,626,370	62,322,092	312,976,031	(54,933,132)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property and equipment (Note 8)	(165,238,797)	(80,169,286)	(297,306,291)	(101,662,371)
Software and other program costs (Note 10)	(773,041)	(759,857)	(1,543,648)	(1,514,947)
Deposits	(5,595,383)	(7,526,772)	(18,666,274)	(14,429,454)
Goodwill and other noncurrent assets	852,045	17,321,097	3,983,532	3,578,406
Net cash used in investing activities	(170,755,176)	(71,134,819)	(313,532,681)	(114,028,367)
CASH FLOWS FROM FINANCING ACTIVITIES				
Availments of bank loans (Note 11)	--	50,000,000	--	130,000,000
Payments of bank loans (Note 11)	(60,000,000)	(50,000,000)	(60,000,000)	(50,000,000)
Interest paid	(4,043,725)	(7,476,657)	(8,467,811)	(14,631,631)
Net cash used in financing activities	(64,043,725)	(7,476,657)	(68,467,811)	65,368,369
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	84,827,470	(16,289,384)	(69,024,461)	(103,593,130)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	294,978,957	227,576,611	448,830,888	314,880,357
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	379,806,427	211,287,227	379,806,427	211,287,227

See accompanying Notes to Consolidated Financial Statements

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED 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).

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.

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 ₱512,874,943 and ₱628,448,541 as of June 30, 2010 and December 31, 2009, respectively (Note 29). Allowance for impairment on loans and receivables amounted to ₱10,843,948 as of June 30, 2010 and December 31, 2009 (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 June 30, 2010 and December 31, 2009 (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 ₱ 346,586,040 and ₱415,652,671 as of June 30, 2010 and December 31, 2009, 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 ₱ 1,406,865,466 and ₱1,227,244,430 as of June 30, 2010 and December 31, 2009, 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 ₱1,413,332,514 and ₱1,235,255,125 as of June 30, 2010 and December 31, 2009, 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 June 30, 2010 and December 31, 2009 (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 ₱ 53,278,542 and ₱55,667,123 as of June 30, 2010 and December 31, 2009, 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

	JUN 2010	DEC 2009
Cash on hand and in banks	₱ 363,668,056	₱ 432,900,994
Cash equivalents	16,138,370	15,929,894
	₱ 379,806,427	₱ 448,830,888

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

5. Receivables

	JUN 2010	DEC 2009
Suppliers	₱ 28,709,196	₱ 69,278,890
Franchisee	35,483,326	50,439,162
Employees	8,104,707	6,906,248
Rent	2,345,441	4,755,572
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)	1,525,234	2,187,564
Insurance claims	1,716,937	1,905,773
Store operators	368,185	1,688,404
Deposits	1,009,864	1,009,864
Due from Philippine Foundation, Inc. (PFI) (Note 25)	564,830	323,477
Others	20,110,562	12,489,099
	₱ 99,938,280	150,984,053
Less allowance for impairment	10,843,948	10,843,948
	89,094,332	₱ 140,140,105

The classes of receivables of the Group are as follows:

- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- 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).

Movements in allowance for impairment are as follows:

	JUNE 2010		
	Suppliers	Others	Total
Beginning balances	₱7,535,300	₱3,308,648	₱10,843,948
Provision for the year (Note 19)	-	-	-

Write-off	-	-	-
Recovery of bad debts	-	-	-
Ending balances	₱7,535,300	₱3,308,648	₱10,843,948

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

6. Inventories

	JUN 2010	DEC 2009
At cost (Note 18):		
Warehouse merchandise	₱ 185,392,978	₱ 235,157,252
Store merchandise	161,193,063	180,495,419
	₱ 346,586,040	₱ 415,652,671

7. Prepayments and Other Current Assets

	JUN 2010	DEC 2009
Deferred input value-added tax (VAT)	₱ 101,359,389	₱ 88,368,544
Advances to suppliers	32,623,110	44,291,320
Prepaid rent	32,125,906	23,163,308
Advances for expenses	7,551,651	5,460,880
Supplies	1,288,303	1,445,555
Current portion of deferred lease (Notes 10 and 26)	1,425,742	1,425,742
Prepaid uniform	1,632,629	1,105,330
Prepaid taxes and licenses	14,201,344	-
Others	23,261,787	9,122,713
	₱ 215,469,861	₱ 174,383,392

8. Property and Equipment

Movements in property and equipment are as follows:

	2010								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	₱ 106,835,234	₱ 838,669,090	₱ 341,773,268	₱ 31,477,634	₱ 234,546,576	₱ 632,372,530	₱ 43,745,822	₱ 2,273,901,154
Additions	-	1,487,384	144,910,053	48,050,583	5,112,083	3,665,689	46,582,850	47,497,648	297,306,290
Disposals	-	-	-	-	(1,099,583)	-	-	-	(1,099,583)
Reclassifications	-	-	-	-	-	-	30,498,431	(30,498,431)	-
Ending balances	44,481,000	108,322,618	983,579,143	389,823,851	35,490,134	238,212,265	709,453,811	60,745,039	2,570,107,861
Accumulated Depreciation and Amortization									
Beginning balances	-	55,131,255	358,677,751	170,264,855	20,393,889	162,318,915	279,870,057	-	1,046,656,723
Depreciation and amortization (Note 19)	-	2,412,529	45,664,147	19,385,535	2,182,738	19,630,630	28,409,678	-	117,685,255
Disposals	-	-	-	-	(1,099,583)	-	-	-	(1,099,583)
Reclassifications	-	-	(989,352)	6,002	-	(1,508)	984,858	-	(0)
Ending balances	-	57,543,784	403,352,546	189,656,392	21,477,044	181,948,037	309,264,593	-	1,163,242,395
Net Book Values	₱ 44,481,000	₱ 50,778,834	₱ 580,226,597	₱ 200,167,459	₱ 14,013,090	₱ 56,264,228	₱ 400,189,218	₱ 60,745,039	₱ 1,406,865,466

	2009								
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Costs/Revalued Amount									
Beginning balances	₱44,481,000	₱106,053,132	₱713,363,611	₱272,075,851	₱26,056,994	₱214,549,222	₱599,133,189	₱15,631,887	₱1,991,344,886
Additions	-	782,102	158,765,465	61,112,527	5,420,640	19,997,353	53,328,694	62,987,209	362,393,990
Disposals	-	-	(20,377,442)	(4,497,653)	-	-	(54,962,628)	-	(79,837,723)
Reclassifications	-	-	(13,082,543)	13,082,543	-	-	34,873,275	(34,873,275)	-
Ending balances	44,481,000	106,835,234	838,669,091	341,773,268	31,477,634	234,546,575	632,372,530	43,745,821	2,273,901,153
Accumulated Depreciation and Amortization									
Beginning balances	-	49,663,042	306,461,568	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

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

	JUN 2010	DEC 2009
Rent	₱ 130,285,599	₱ 116,115,962
Utilities	25,585,359	22,131,783
Refundable	10,326,979	10,326,979
Others	3,796,370	2,753,309
	₱ 169,994,307	₱ 151,328,033

Refundable

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

	JUN 2010	DEC 2009
Face value of security deposits	₱ 10,326,979	₱ 26,835,877
Additions	-	958,162
Refunded	-	(876,000)
Unamortized discount	-	(16,591,060)
	₱ 10,326,979	₱ 10,326,979

Movements in unamortized discount are as follows:

	JUN 2010	DEC 2009
Beginning balance	P 16,591,060	P17,521,299
Additions	-	235,348
Amortization (Note 22)	-	(987,606)
Refunded	-	(177,981)
Ending balance	P 16,591,060	P16,591,060

10. Goodwill and Other Noncurrent Assets

	JUN 2010	DEC 2009
Goodwill	P 65,567,524	P 65,567,524
Deferred lease - net of current portion	11,761,052	11,761,052
Garnished accounts	9,545,939	10,856,648
Software and program cost - net	6,467,048	8,010,695
Lease receivable - net of current portion (Note 26)	4,265,476	4,265,477
AFS financial assets	2,314,575	2,314,575
Others	3,182,427	4,311,601
	P103,104,041	P 107,087,572

Goodwill

On June 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation (Jollimart) for a total consideration of P130,000,000. The excess of the acquisition cost over the fair value of the assets acquired was recorded as goodwill amounting to P70,178,892.

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 P4,611,368 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:

	JUN 2010	DEC 2009
Beginning balance	₱ 13,186,794	₱ 14,577,388
Additions	-	235,348
Amortization (Note 26)	-	(1,475,524)
Refunded	-	(150,418)
Ending balance	13,186,794	13,186,794
Less current portion	1,425,742	1,425,742
Noncurrent portion	₱ 11,761,052	₱ 11,761,052

Software and Program Cost

Movements in software and program cost are as follows:

	JUN 2010	DEC 2009
Cost		
Beginning balance	₱ 14,500,085	₱ 14,214,085
Acquisition	-	286,000
Ending balance	14,500,085	14,500,085
Accumulated amortization		
Beginning balance	6,489,390	3,435,662
Amortization (Note 19)	1,543,647	3,053,728
Ending balance	8,033,037	6,489,390
Net Book Values	₱ 6,467,048	₱ 8,010,695

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:

	JUN 2010	DEC 2009
Beginning balance	₱ 340,000,000	₱330,000,000
Availment	-	510,000,000
Payments	(60,000,000)	(500,000,000)
Ending balance	₱ 280,000,000	₱340,000,000

Interest expense from these bank loans amounted to ₱ 4,332,856 and ₱ 7,051,879 as of June 30, 2010 and June 30, 2009, respectively (Note 21). Interest payable amounted to ₱ 695,889 and ₱641,417 as of June 30, 2010 and December 31, 2009, respectively (Note 12).

12. Accounts Payable and Accrued Expenses

	JUN 2010	DEC 2009
Trade payable	₱ 682,142,609	₱ 864,748,683
Rent (Note 26)	68,188,539	80,927,422
Employee benefits	14,290,098	26,820,981
Utilities	25,778,389	17,666,410
Advertising and promotion	5,213,874	7,049,972
Outsourced services	5,142,772	6,497,194
Security services	2,348,527	2,292,041
Bank charges	1,750,000	1,852,100
Interest (Note 15)	687,569	1,053,797
Others	25,347,169	18,701,005
	₱ 830,889,546	₱1,027,609,605

13. Other Current Liabilities

	JUN 2010	DEC 2009
Non-trade accounts payable	₱ 259,373,372	₱ 138,118,326
Withholding taxes	12,742,896	18,711,796
Retention payable	17,325,713	15,236,991
Service fees payable	10,097,536	11,006,733
Royalty (Note 25)	6,657,509	6,719,659
Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	3,913,690	3,913,690
Finance lease (Notes 16 and 26)	1,310,151	1,310,151
Output VAT	5,733,953	3,904,917
Others (Note 25)	17,286,610	13,012,717
	₱ 334,441,429	₱ 211,934,980

14. Deposits Payable

	JUN 2010	DEC 2009
Franchisees	₱ 109,333,083	₱ 70,812,875
Service agreement	42,392,137	38,309,233
Rent	11,469,073	10,844,946
	₱ 163,194,293	₱ 119,967,054

15. Cumulative Redeemable Preferred Shares

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

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included as part of "Interest expense" in the consolidated statements of comprehensive income amounted to ₱ 182,460 as of June 30, 2010 and ₱ 206,190 as of June 30, 2009 (Note 21). Interest payable included under "Accounts payable and accrued expenses" in the consolidated balance sheets amounted to ₱ 182,460 and 412,380 as of June 30, 2010 and December 31, 2009, respectively.

16. Deferred Revenue

	JUN 2010	DEC 2009
Deferred revenue on finance lease (Note 26)	₱1,856,046	₱1,856,046
Deferred revenue on exclusivity contract (Note 32)	-	-
	₱1,856,046	₱1,856,046

Deferred Revenue on Exclusivity Contract

Movements in deferred revenue on exclusivity contract are as follows:

	JUN 2010	DEC 2009
Beginning balance	₱ -	₱ 7,827,381
Amortization (Note 32)	-	(3,913,691)
	-	3,913,690
Less current portion	-	3,913,690
	₱ -	₱ -

Deferred Revenue on Finance Lease

Movements in deferred revenue on finance lease are as follows:

	JUN 2010	DEC 2009
Beginning balance	₱ 3,166,197	₱4,476,348
Less amortization (Note 26)	-	1,310,151

	3,166,197	3,166,197
Less current portion	1,310,151	1,310,151
	₱ 1,856,046	₱1,856,046

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:

	JUN 2010	DEC 2009
Beginning balance	₱ 287,761,172	261,663,450
Issuance of stock dividend	-	26,097,722
Ending balance	₱ 287,761,172	287,761,172

18. Cost of Merchandise Sales

	June 2010	June 2009
Merchandise inventory, beginning	₱ 415,652,671	₱ 339,556,385
Net purchases	2,621,531,435	2,005,030,226
	3,037,184,106	2,344,586,611
Less merchandise inventory, ending	346,586,040	308,276,808
	₱ 2,690,598,066	₱ 2,036,309,803

19. General and Administrative Expenses

	June 2010	June 2009
Communication, light and water	₱ 253,860,323	₱ 183,074,472
Rent (Note 26)	169,428,569	150,165,637
Outside services (Note 32)	169,947,709	144,945,741
Personnel costs (Note 23)	156,301,003	146,100,787
Depreciation and amortization	117,685,255	90,028,160
Advertising and promotion	35,696,562	44,408,963
Royalties (Note 25)	44,179,591	33,566,620

Trucking services	43,222,082	31,559,685
Taxes and licenses	35,228,975	34,836,717
Repairs and maintenance	37,885,572	28,021,325
Supplies	30,955,920	22,959,469
Warehousing services	28,081,043	22,038,583
Transportation and travel	9,751,760	7,629,211
Entertainment, amusement and recreation	3,498,007	3,287,627
Inventory losses	20,459,201	16,176,456
Provision for impairment of receivables	-	-
Dues and subscription	2,200,381	2,041,867
Insurance	2,605,197	2,110,048
Amortization of software and program costs	1,543,648	1,514,947
Others	12,252,900	10,260,088
	₱ 1,174,783,698	₱ 974,726,403

20. Marketing Income

	June 2010	June 2009
Display charges	₱ 61,219,610	₱ 34,844,391
Promotions	23,735,207	29,253,141
Marketing support funds	26,350,680	9,970,540
	₱ 111,305,496	₱ 74,068,073

21. Interest Expense

	June 2010	June 2009
Interest on:		
Bank loans	₱ 8,285,351	₱ 14,425,441
Long-term debt (Note 32)	-	-
Guaranteed preferred dividends	182,460	206,190
	₱ 8,467,811	₱ 14,631,631

22. Interest Income

	June 2010	June 2009
Interest on:		
Bank deposits	₱ 1,380,118	₱ 1,284,388
Finance lease (Note 26)	-	-
Accretion of refundable deposits	-	-
	₱ 1,380,118	₱ 1,284,388

23. Personnel Costs

	June 2010	June 2009
Salaries and wages	₱ 87,722,320	₱ 81,852,388
Employee benefits	64,282,839	59,878,031
Retirement benefits cost (Note 24)	4,295,844	4,370,368
	₱ 156,301,003	₱ 146,100,787

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 plan assets	(69,753)	(10,086)	(79,839)
	2008		
	PSC	CDI	Total
Present value of retirement obligations	₱54,006,788	₱4,174,204	₱58,180,992
Fair value of net plan assets	6,165,743	471,869	6,637,612
Unfunded retirement obligation	47,841,045	3,702,335	51,543,380
Experience loss adjustments on retirement obligations	46,616	2,532,432	2,579,048
Experience loss adjustments on plan assets	(283,759)	(21,716)	(305,475)

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 ₱ 44,179,591 as of June 30, 2010 and ₱ 33,566,620 as of June 30, 2009. Royalty fees are paid on a monthly basis.

Royalty payable included under "Other current liabilities" amounted to ₱ 6,657,509 and ₱6,719,659 as of June 30, 2009 and December 31, 2009, respectively.

- b. PSC has transactions with PFI, a foundation with common key management of the Goup, 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 ₱ 564,830 and ₱323,477 as of June 30, 2010 and December 31, 2009 respectively.

26. Leases

- a. In June 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 values 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 ₱ 169,428,569 as of June 30, 2010 and ₱ 150,165,637 as of June 30, 2009. 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 ₱ 16,560,240 as of June 30, 2010 and 14,739,559 in June 30, 2009.

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
	₱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

- 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

	June 2010	June 2009
a. Net income	₱ 130,814,044	₱ 52,750,730
b. Weighted average number of shares issued	287,761,172	287,761,172
c. Less weighted average number of shares held in treasury	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	287,074,922	287,074,922
e. Basic/diluted earnings per share (a/d)	₱ 0.46	₱ 0.18

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:

	JUN 2010		DEC 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash	₱ 363,668,056	₱ 363,668,056	₱ 432,900,994	₱ 432,900,994
Cash equivalents	16,138,370	16,138,370	15,929,894	15,929,894
	379,806,427	379,806,427	448,830,888	448,830,888
(Forward)				
Receivables:				
Suppliers	21,173,896	21,173,896	61,743,590	61,743,590
Franchisee	35,483,326	35,483,326	50,439,162	50,439,162
Employees	8,104,707	8,104,707	6,906,248	6,906,248
Rent	2,345,441	2,345,441	4,755,572	4,755,572
Current portion of lease receivable	1,525,234	1,525,234	2,187,564	2,584,612
Insurance claims	1,716,937	1,716,937	1,905,773	1,905,773
Store operators	368,185	368,185	1,688,404	1,688,404
Deposits	1,009,864	1,009,864	1,009,864	1,009,864
Due from PFI	564,830	564,830	323,477	323,477

Others	16,801,914	16,801,914	9,180,451	9,180,451
	89,094,332	89,094,332	140,140,105	140,537,153
Deposits:				
Utilities	25,585,359	25,585,359	22,131,783	22,131,783
Refundable	10,326,979	14,053,354	10,326,979	14,053,354
Others	3,796,370	3,796,370	2,753,309	2,753,309
	39,708,708	43,435,083	35,212,071	38,938,446
Other noncurrent assets - lease receivable (net of current portion)	4,265,476	4,843,464	4,265,476	4,843,464
Total Loans and Receivables	512,874,943	517,179,306	628,448,541	633,149,951
AFS Financial Assets	2,314,575	2,314,575	2,314,575	2,314,575
TOTAL FINANCIAL ASSETS	₱ 515,189,518	₱ 519,493,881	₱ 630,763,116	₱ 635,464,526
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	₱ 280,000,000	₱ 280,000,000	₱ 340,000,000	₱ 340,000,000
Accounts payable and accrued expenses:				
Trade payable	682,142,609	682,142,609	864,748,683	864,748,683
Employee benefits	14,290,098	14,290,098	26,820,981	26,820,981
Utilities	25,778,389	25,778,389	17,666,410	17,666,410
Advertising and promotion	5,213,874	5,213,874	7,049,972	7,049,972
Outsourced services	5,142,772	5,142,772	6,497,194	6,497,194
Security services	2,348,527	2,348,527	2,292,041	2,292,041
Bank charges	1,750,000	1,750,000	1,852,100	1,852,100
Interest	687,569	687,569	1,053,797	1,053,797
Others	25,347,169	25,347,169	18,701,005	18,701,005
	762,701,007	762,701,007	946,682,183	946,682,183
Other current liabilities:				
Non-trade accounts payable	259,373,372	259,373,372	138,118,326	138,118,326
Retention payable	17,325,713	17,325,713	15,236,991	15,236,991
Service fees payable	10,097,536	10,097,536	11,006,733	11,006,733
Royalty	6,657,509	6,657,509	6,719,659	6,719,659
Others	17,286,610	17,286,610	13,012,717	13,012,717
	310,740,739	310,740,739	184,094,426	184,094,426
Cumulative redeemable preferred shares	6,000,000	6,000,000	6,000,000	6,000,000
TOTAL FINANCIAL LIABILITIES	₱ 1,359,441,745	₱ 1,359,441,745	₱ 1,476,776,609	₱ 1,476,776,609

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:

	JUN 2010	DEC 2009
Cash and cash equivalents:		
Cash in bank (excluding cash on hand)	₱ 302,641,926	₱ 340,150,666
Cash equivalents	16,138,370	15,929,894
	318,780,296	356,080,560
Receivables:		
Suppliers	21,173,896	61,743,590
Franchisee	35,483,326	50,439,162
(Forward)		
	JUN 2010	DEC 2009
Employees	8,104,707	6,906,248
Rent	2,345,441	4,755,572
Current portion of lease receivables	1,525,234	2,187,564
Insurance claims	1,716,937	1,905,773
Store operators	368,185	168,840
Deposits	1,009,864	1,009,864
Due from PFI	564,830	323,477
Others	16,801,914	9,180,451
	89,094,332	140,140,105

Deposits:		
Utilities	25,585,359	22,131,783
Refundable	10,326,979	10,326,979
Others	3,796,370	2,753,309
	39,708,708	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
	₱ 454,163,388	₱ 538,012,788

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:

	JUNE 2010			Total
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	
Cash and cash equivalents				
Cash in bank	302,641,926	–	–	302,641,926
Cash equivalents	16,138,370	–	–	16,138,370
	318,780,296	-	-	318,780,296
Receivables				
Suppliers	–	7,989,934	20,719,261	28,709,196
Franchisee	–	35,483,326	–	35,483,326
Employees	–	8,104,707	–	8,104,707
Rent	–	2,345,441	–	2,345,441
Current portion of lease receivables	–	1,525,234	–	1,525,234
Insurance claims	–	1,716,937	–	1,716,937
Store operators	–	368,185	–	368,185
Deposits	–	1,009,864	–	1,009,864
Due from PFI	–	564,830	–	564,830
Others	–	16,801,914	3,308,648	20,110,562
	-	75,910,370	24,027,909	99,938,280
Deposits				
Utilities	–	25,585,359	–	25,585,359
Refundable	–	10,326,979	–	10,326,979
Others	–	3,796,370	–	3,796,370
	-	39,708,708	-	39,708,708
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
	₱ 318,780,296	₱ 122,199,130	₱ 24,027,909	₱ 465,007,336

	DECEMBER 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

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 receivables	–	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

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:

	JUNE 2010					
	Aging analysis of financial assets past due but not impaired				Past due and impaired	
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	Total
Receivables:						
Suppliers	₱ 6,618,663	₱ 2,795,407	₱ 3,769,892	₱ 13,183,961	₱ 7,535,300	₱ 20,719,261
Others	-	-	-	-	3,308,648	3,308,648
	₱ 6,618,663	₱ 2,795,407	₱ 3,769,892	₱ 13,183,961	₱ 10,843,948	₱ 24,027,909

	DECEMBER 2009					
	Aging analysis of financial assets past due but not impaired				Past due and impaired	
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	Total
Receivables:						

Suppliers	₱1,737,877	₱60,844	₱108,349	₱1,907,070	₱7,535,300	₱9,442,370
Others	–	–	–	–	3,308,648	3,308,648
	₱1,737,877	₱60,844	₱108,349	₱1,907,070	₱10,843,948	₱12,751,018

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

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

Liquidity Risk

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

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

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

	JUNE 2010				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
Cash and cash equivalents					
Cash	₱ 363,668,056	₱ –	₱ –	₱ –	363,668,056
Cash equivalents	16,138,370	–	–	–	16,138,370
	379,806,427	–	–	–	379,806,427
Receivables					
Suppliers	17,404,004	11,305,192	–	–	28,709,196
Franchisee	35,483,326	–	–	–	35,483,326
Employees	8,104,707	–	–	–	8,104,707
Rent	2,345,441	–	–	–	2,345,441
Current portion of lease receivables	–	1,525,234	–	–	1,525,234
Insurance claims	–	1,716,937	–	–	1,716,937
Store operators	368,185	–	–	–	368,185
Deposits	–	1,009,864	–	–	1,009,864
Due from subsidiaries	–	564,830	–	–	564,830
Others	16,801,914	3,308,648	–	–	20,110,562
	80,507,576	19,430,704	–	–	99,938,280
Deposits					
Utilities	–	–	25,585,359	–	25,585,359
Refundable	–	–	10,326,979	–	10,326,979
Others	–	–	3,796,370	–	3,796,370
	–	–	39,708,708	–	39,708,708
Other noncurrent assets					
Lease receivables - net of current portion	–	–	4,265,477	–	4,265,477
AFS financial assets	–	–	–	2,314,575	2,314,575
	–	–	4,265,477	2,314,575	6,580,052
	₱ 460,314,002	₱ 19,430,704	₱ 43,974,185	₱ 2,314,575	₱ 526,033,467

DECEMBER 2009					
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Cash and cash equivalents					
Cash	₱432,900,994	₱-	₱-	₱-	₱432,900,994
Cash equivalents	15,929,894	.	-	-	15,929,894
	448,830,888	.	-	-	448,830,888
Receivables					
Suppliers	61,635,241	7,643,641	-	-	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	1,653,061	-	-	2,187,564
Insurance claims	-	1,905,771	-	-	1,905,773
Store operators	1,688,404	.	-	-	1,688,404
Deposits	1,009,864	.	-	-	1,009,864
Due from subsidiaries	-	323,471	-	-	323,477
Others	9,180,451	3,308,641	-	-	12,489,099
	136,149,444	14,834,601	-	-	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)					
Other non-current assets					
Lease receivables - net of					
current portion	-	-	4,265,477	-	4,265,477
AFS financial assets	-	-	-	2,314,575	2,314,575
	-	-	4,265,477	2,314,575	6,580,052
	584,980,332	14,834,609	39,477,548	2,314,575	641,607,064

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

JUNE 2010				
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	₱ -	₱ 280,000,000	₱ -	₱ 280,000,000
Accounts payable and accrued expenses				
Trade payable	682,142,609	-	-	682,142,609
Employee benefits	14,290,098	-	-	14,290,098
Utilities	25,778,389	-	-	25,778,389
Advertising and promotion	5,213,874	-	-	5,213,874
Outsourced services	5,142,772	-	-	5,142,772
Security services	2,348,527	-	-	2,348,527
Bank charges	1,750,000	-	-	1,750,000
Interest	687,569	-	-	687,569
Others	25,347,169	-	-	25,347,169
	762,701,007	-	-	762,701,007
Other current liabilities				

Non-trade accounts payable	-	259,373,372	-	259,373,372
Retention payable	-	17,325,713	-	17,325,713
Service fees payable	10,097,536	-	-	10,097,536
Royalty	6,657,509	-	-	6,657,509
Others	-	17,286,610	-	17,286,610
	16,755,045	293,985,694	-	310,740,739
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	₱ 779,456,051	₱ 573,985,694	₱ 6,000,000	₱ 1,359,441,745

	DECEMBER 2009			Total
	Three months or less	More than three months to one year	More than one year	
Bank loans	₱100,408,333	₱244,049,167	₱-	₱344,457,500
Accounts payable and accrued expenses				
Trade payable	864,748,683	-	-	864,748,683
Employee benefits	26,820,981	-	-	26,820,981
Utilities	17,666,410	-	-	17,666,410
Advertising and promotion	7,049,972	-	-	7,049,972
Outsourced services	6,497,194	-	-	6,497,194
Security services	2,292,041	-	-	2,292,041
Bank charges	1,852,100	-	-	1,852,100
Interest	1,053,797	-	-	1,053,797
Others	18,701,005	-	-	18,701,005
	946,682,183	-	-	946,682,183
(Forward)				
Other current liabilities				
Non-trade accounts payable	-	138,118,326	-	138,118,326
Retention payable	-	15,236,991	-	15,236,991
Service fees payable	-	11,006,733	-	11,006,733
Royalty	6,719,659	-	-	6,719,659
Others	-	13,012,717	-	13,012,717
	6,719,659	177,374,767	-	184,094,426
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	₱1,053,810,175	₱421,423,934	₱6,000,000	₱1,481,234,109

Interest Rate Risk

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

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

	JUN 2010	DEC 2009
Due in less than one year	₱280,000,000	₱340,000,000
Rate	4.90%-5.50%	4.90%-5.50%

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

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 35% and 33% as of June 30, 2010 and December 31, 2009, respectively. No changes were made in the objectives, policies and processes during the year.

	JUN 2010	DEC 2009
Capital stock	₱ 287,761,172	₱ 287,761,172
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	457,123,672	326,309,628
	1,038,409,881	907,595,837
Less cost of shares held in treasury	2,923,246	2,923,246
	₱ 1,035,486,635	₱ 904,672,591
Total assets	₱ 2,756,929,316	₱ 2,710,675,933
Net worth	38%	33%

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

Philippine Seven Corporation
Schedule of Receivables

	As of June 30, 2010	As of December 31, 2009
Suppliers	₱ 28,709,196	₱ 69,278,890
Franchisee	35,483,326	50,439,162
Employees	8,104,707	6,906,248
Rent	2,345,441	4,755,572
Current portion of lease receivable	1,525,234	2,187,564
Insurance claims	1,716,937	1,905,773
Store operators	368,185	1,688,404
Deposits	1,009,864	1,009,864
Due from Phil Seven Foundation.	564,830	323,477
Others	20,110,562	12,489,099
	₱ 99,938,280	150,984,053
Less allowance for impairment	10,843,948	10,843,948
	₱ 89,094,332	₱ 140,140,105

The classes of receivables of the Group are as follows:

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

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

Management's Discussion and Analysis or Plan of Operations
SELECTED FINANCIAL DATA

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
SYSTEM WIDE SALES	2,411,229	1,747,228	4,438,916	3,375,195
Statement of Income Data:				
Revenues and other income				
Sales of merchandise	1,995,886	1,480,688	3,693,666	2,845,584
Franchise revenue	113,893	78,309	210,465	150,395
Marketing income	55,858	50,995	111,305	74,068
Rent income	8,360	15,459	16,560	14,740
Others (net)	18,940	13,389	34,401	21,078
Cost and expenses				
General & administrative expenses	617,297	514,074	1,174,784	974,726
Interest expense	4,044	7,477	8,468	14,632
Cost of merchandise sold	1,452,842	1,057,767	2,690,598	2,036,310
Total comprehensive income	80,722	39,483	130,814	52,751
Earnings per share	0.28	0.14	0.46	0.18
Cash Flow Data:				
Net cash from operating activities	319,626	62,322	312,976	(54,933)
Net cash used in investing activities	(170,755)	(71,135)	(313,533)	(114,028)
Net cash used in financing activities	(64,044)	(7,477)	(68,468)	65,368
Balance Sheet Data:				
Total assets	2,756,929	2,176,303	2,756,929	2,710,676
Total liabilities	1,718,213	1,371,441	1,718,213	1,802,773
Total stockholders' equity	1,038,716	804,862	1,038,716	907,902

(Amount in thousands, except EPS)

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 June 30, 2010, 7-Eleven has grown by 104 stores to end the period with 493 stores. The retail chain of convenience stores is sustained by a manpower complement of 1,093 employees engaged in store operations and in various support service units. Despite the growing competition in the convenience retailing business, the Company maintains its leadership in the industry.

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

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

FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE 2ND QUARTER OF 2010.

Results of Operations

During the second quarter, PSC generated a net income of ₱80.7 million. This represents an increase of more than two times from 2009 level of ₱39.5 million. System-wide revenue, a measure of sales of all corporate and franchise operated stores, increased by 38 percent to ₱2.4 billion from ₱1.7 billion at the end of second quarter last year.

For the first six months of 2010, the Company posted a 148 percent increase in its net income to ₱130.8 million from ₱52.8 million in the same period last year. The higher net income was driven mainly by the 32% increase in system-wide sales which amounted to ₱4.4 billion at the end of first half of the current year.

The improvement in sales can be attributed to various factors such as the favorable effect of a recovering economy, good weather conditions and increased spending in connection with the national and local elections.

New franchise operators also boosted the store base and resulted into higher franchise revenues of ₱113.9 million.

EBITDA (earnings before interest, taxes, depreciation and amortization) in Q2 went up by 65 percent from ₱111 million in 2009 to ₱183 million in the current year.

Revenue and Gross Margin

The Company registered total revenue from merchandise sales of ₱2.0 billion in 2010, an increase of 35% percent compared to ₱1.5 billion in 2009. Cost of merchandise sold rose by ₱395 million to ₱1.5 billion at the end of 2Q 2010.

System-wide sales grew by 38% or ₱664 million to ₱2.4 billion in 2010. PSC ended the second quarter of 2010 with 493 stores, higher by 27% compared to the 2Q 2009 level of 389. Some underperforming stores were closed during the 2Q of the year. Out of the total store base, 40% are corporate run, while the rest are franchise-operated.

Gross Profit stood at ₱543 million, while GP in relation to sales went down by 135 basis points owing 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 is maintained at the same level from a year ago.

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 28% to ₱6.8 million.

Other Income

Other income is mainly consisting of marketing income, franchise fees and rentals. The Company's total other income increased by ₱33 million, to ₱178 million as a result of the following:

Marketing income grew by ₱4.8 million from the 2Q 2009 level. 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. The goal is to become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to ₱113.9 million from ₱78.3 million in 2Q 2009. This was the result of the increase in number of franchise-operated stores that reached 191 at the end of the 2Q 2010. Rent income declined by ₱7.2 million.

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

General and Administrative Expense

General and administrative expense which is comprised of store operating and selling expenses as well as headquarters expenses went up by 20% or ₱103.2 million and totaled to ₱617.3 million in 2010.

Communication, light and water were the highest contributor and accounted for 23.8% of the total G & A expenses for the 2Q 2010. This is followed by rent expense with 13.9% share, outsourced services with 14.3% and personnel costs at 12.3% 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 ₱75.9 million, versus ₱72.2 million in Q2 2009. Ratio to sales was 3.8% in 2010 and 4.9% in 2009. Personnel costs include salaries and wages at ₱44 million, employee benefits at ₱29.1 million and pension costs at ₱2.1 million. The Company continued to outsource store personnel to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Moreover, rent expense incurred is pegged ₱85.5 million or 4.3% of sales against ₱74.4 million or 5% in 2009.

Interest Expense

Cost of debt servicing in 2010 totaled to ₱4.4 million, a decrease of 46% compared with 2Q 2009 level of ₱7.5 million. Outstanding loan balance at the end of Q2 2010 was pegged at ₱280 million, decreased by ₱60 million from ₱340 million beginning of 2010.

Net Income

Net income for second quarter of 2010 grew by ₱41.2 million to ₱80.7 million. This was primarily due to better sales, continuing support from trade suppliers and store expansion.

The net income generated during the 2Q 2010 translated into a 4.0% return on sales and 8.0% return on equity. The key ratios in 2Q 2010 are much better compared to the ROS and ROE of 3.0% and 4.0%, respectively, a year ago. Moreover, EPS is pegged ₱0.28 and ₱0.14, in 2Q 2010 and 2Q 2009, respectively.

Financial Condition

Total assets went up by ₱46.3 million or 1.7% to ₱2.8 billion during the 2Q 2010. Cash and cash equivalents during the year decreased to ₱379.8 million from ₱448.8 million at the beginning of the year. Receivables went down by ₱51 million as the company received settlement for collectibles related to supplier support and financing schemes to franchisees. Moreover, inventories went down by ₱69.1 million while prepayments were up by ₱41.1 million coming from advance rent paid for new stores and down payments to equipment sellers. The aforementioned factors resulted into a net decrease in total current assets by ₱148.1 million from the beginning of the year.

Total current liabilities went down by ₱125.4 million or 7.8% mainly due to the decrease in trade payables and other current liabilities. However, current ratio decline to 0.69 to 1 as of June 30, 2010 against 0.73 to 1 of last year.

Property and equipment, net of accumulated depreciation increased by ₱180 million mainly due to capital expenditure spent in relation to store expansion.

Stockholders' equity at the end of 2010 comprises 38% of total assets, compared to 33% at the beginning of 2Q 2010. Debt to equity ratio pegged at 1.65 for 2Q 2010 from 1.99 last quarter.

Liquidity and Capital Resources

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

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

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2011 to fund its operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the 2Q of 2010.

Cash Flows from Operating Activities

Net cash used for operating activities in 2Q 2010 resulted to ₱319.6 million, compared to P62.3 million cash generated during comparable period from last year. Such increase is attributable to higher operating income during the year, an increase by P72 million and the net increase in other current liabilities amounting to P172 million during 2Q of 2010.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ₱170.8 million in Q2 2010 compared to net cash out flow of ₱71.1 million in 2Q 2009. Major cash outlay went to the procurement of store equipment, new store constructions and store renovations. There were 104 new stores opened from 2Q of last year to current year.

Majority of the company's commitments for capital expenditures for the 2Q of the year are for new store constructions and renovations. Funds for these expenditures are expected to come from the anticipated increase in cash flows from retail operations and from additional borrowings if the need for such may arise.

Cash Flows from Financing Activities

Net cash outflow from financing activities reached ₱64 million representing payment of loan principal in the amount of P60 million and interest expense on outstanding bank loans totaling P4 million.

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

Discussion and Analysis of Material Events and Uncertainties

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

2. There were no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.
3. All of the Company's income was earned in the ordinary course of business.
4. There are no seasonal aspects that have a potentially material effect on the financial statements.
5. The Company's financial risk management objectives and policies are discussed in Note 30 of the June 30, 2010 Notes to Unaudited Consolidated Financial Statements.
6. There are no other known trends, events and uncertainties that will have a material impact on the Company's liquidity.

DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

System Wide Sales

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

Revenue from Merchandise Sales

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

Net Income Margin

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

Return on Equity (ROE)

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

Earnings per Share (EPS)

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

FOR THE QUARTER	2010	2009
System wide Sales (in '000s)	2,411,229	1,747,228
Revenue from Merchandise Sales (in '000s)	1,995,886	1,480,688
Net Income Margin	4.0%	3.0%
Return on Equity	8.0%	4.0%
Earnings Per Share	0.28	0.14

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", written in a cursive style.

JOSE VICTOR P. PATERNO
President and CEO