

SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended March 31, 2008
2. Commission identification number
3. BIR Tax Identification No : 040-000-390-189
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
1501
8. Telephone number : (632) 724-44-41 to 51
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

No. of Shares of Common Stock

Shares Outstanding - Common : 237,252,000
Warrants -0-

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

Yes [] No []

Stock Exchange: *Class/es of Securities listed*

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

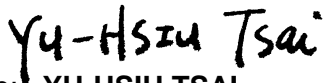
Pursuant to the requirement of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE SEVEN CORPORATION**



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

Date: May 13, 2008



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

Date: May 13, 2008

May 13, 2008

SECURITIES AND EXCHANGE COMMISSION

SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of March 31, 2008, 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
YU-HSIU TSAI
Treasurer and CFO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended March 31, 2008. 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
YU-HSIU TSAI
Treasurer and CFO

**PHILIPPINE SEVEN CORPORATION
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2008 and DECEMBER 31, 2007
AND FOR EACH OF THE TWO PERIOD
ENDED MARCH 31, 2008**

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P258,644,475	P308,873,944
Receivables - net (Note 5)	42,725,422	72,430,653
Inventories - at cost (Note 6)	252,094,122	323,973,849
Prepayments and other current assets (Note 7)	109,810,939	69,975,102
Total Current Assets	663,274,958	775,253,548
Noncurrent Assets		
Property and equipment - net (Note 8)	867,225,321	852,458,158
Deposits (Note 9)	115,524,066	110,462,198
Deferred income tax assets - net (Note 25)	33,529,895	37,498,659
Other noncurrent assets - net (Note 10)	100,128,947	100,539,114
Total Noncurrent Assets	1,116,408,229	1,100,958,129
TOTAL ASSETS	P1,779,683,187	P1,876,211,677
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 11)	P365,000,000	P375,000,000
Accounts payable and accrued expenses (Note 12)	489,691,510	582,938,913
Current portion of long-term debt (Note 14)	-	-
Income tax payable	2,873,189	2,770,870
Other current liabilities (Note 13)	100,530,660	111,508,592
Total Current Liabilities	958,095,359	1,072,218,375
Noncurrent Liabilities		
Deposits from sub-lessees (Note 24)	110,018,416	98,653,475
Net retirement obligations (Note 22)	30,761,025	30,115,402
Deferred income tax liability (Note 25)	1,614,948	1,614,948
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000
Total Noncurrent Liabilities	148,394,389	136,383,825
Total Liabilities	1,106,489,748	1,208,602,200

(Forward)

	March 31, 2008	December 31, 2007
Stockholders' Equity		
Capital stock - ₱1 par value		
Authorized - 400,000,000 shares		
Issued - 237,938,250 (held by 703 and 706 equity holders in 2007 and 2006, respectively)	₱237,938,250	₱237,938,250
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	141,654,210	136,070,248
Revaluation increment in land	2,999,188	2,999,188
	676,116,685	670,532,723
Cost of 686,250 shares held in treasury	(2,923,246)	(2,923,246)
Total Stockholders' Equity	673,193,439	667,609,477
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₱1,779,683,187	₱1,876,211,677

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2008

	March 31, 2008	March 31, 2007
REVENUE FROM MERCHANDISE SOLD	₱1,263,549,586	₱1,162,891,528
COST OF MERCHANDISE SOLD (Note 16)	907,257,175	828,966,650
GROSS PROFIT	356,292,411	333,924,878
General and administrative expenses (Note 17)	(428,310,086)	(416,188,737)
Franchise revenue (Note 30)	52,966,723	42,124,757
Marketing income (Note 18)	21,889,637	18,786,520
Rent income (Note 24)	10,124,082	8,709,083
Interest expense (Notes 11, 14, 15 and 19)	(6,630,271)	(8,901,618)
Commission income (Note 30)	4,951,843	6,045,502
Interest income (Notes 9, 20 and 24)	442,559	706,103
Foreign exchange loss	3217	
Loss on sale of property and equipment	(1,235,701)	(24,071)
Others - net	(784,954)	7,366
	(346,582,951)	(348,735,096)
INCOME BEFORE INCOME TAX	9,709,460	(14,810,218)
PROVISION FOR INCOME TAX (Note 25)	4,125,498	7,233,735
NET INCOME	₱5,583,962	₱(22,043,953)
BASIC/DILUTED EARNINGS PER SHARE (Note 26)	₱0.02	₱(0.09)

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2008
(With Comparative Figures for March, 2007)

	March 31, 2008	March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱9,709,460	₱(14,810,218)
Depreciation and amortization (Notes 8 and 17)	37,067,029	39,279,455
Interest expense (Note 11, 14, 15 and 19)	6,630,271	8,901,618
Interest income (Notes 9, 20 and 24)	(442,559)	(706,103)
Amortization of:		
Software and other program costs (Notes 10 and 17)	415,599	490,000
Loss on sale of property and equipment	1,235,701	24,070
Operating income before working capital changes	54,615,501	33,178,823
Decrease (increase) in:		
Receivables	29,705,231	23,168,736
Inventories	71,879,727	23,140,293
Prepayments and other current assets	(39,835,837)	(83,898,207)
Increase (decrease) in:		
Accounts payable and accrued expenses	(93,247,403)	(218,267,471)
Other current liabilities	(10,977,932)	93,781,295
Deposits from sub-lessees	11,364,940	0
Net retirement obligations	645,623	0
Cash generated from operations	24,149,850	(128,896,531)
Income taxes paid	(4,023,179)	(6,500,000)
Interest received	442,559	706,103
Net cash from (used in) operating activities	20,569,230	(134,690,428)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Property and equipment (Note 8)	(53,069,894)	(42,337,208)
Decrease (increase) in:		
Deposits (Note 9)	(5,061,868)	-
Other noncurrent assets (Note 10)	3,963,334	(34,785,741)
Net cash used in investing activities	(54,168,428)	(77,122,949)

(Forward)

	March 31, 2008	March 31, 2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bank loans (Note 11)	0	₱26,800,000
Payments of:		
Bank loans (Note 11)	(10,000,000)	0
Long-term debt (Note 14)	0	0
Interest paid	(6,630,271)	(8,901,618)
Net cash from (used in) financing activities	(16,630,271)	17,898,381
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(50,229,469)	(193,914,996)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	308,873,944	329,364,375
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱258,644,475	₱135,449,379

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of Financial Statements

Corporate Information

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

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

The Company has its primary listing on the Philippine Stock Exchange. As of December 31, 2007, 2006 and 2005, the Parent Company has 703, 706 and 713 stockholders, respectively.

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

Authorization for Issuance of the Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 4, 2008.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies

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

- PFRS 7, *Financial Instruments: Disclosures*, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. Additional disclosures required by the standard were included in the consolidated financial statements, where applicable. These disclosures included the presentation of rollforward of allowance for impairment on loans and receivables (Note 5), credit quality of financial assets (Note 28), aging of past due but not impaired financial assets (Note 28), maturity profile of the financial liabilities (Note 28) and sensitivity analyses as to changes in interest and foreign exchange rates (Note 28).
- Amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosures*, The amendment to PAS 1 requires the following additional disclosures: (a) an entity's objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such noncompliance. Additional disclosures required by the amendment were included in the consolidated financial statements (Note 29).
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The Group does not prepare interim financial statements, therefore, the adoption of this interpretation did not have an effect on the consolidated financial statements.

Basis of Consolidation

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

	Country of Incorporation	Percentage of Ownership (Common and Preferred)
Convenience Distribution Inc. (CDI)	Philippines	100
Store Sites Holding, Inc. (SSHI)	Philippines	40

Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies through interlocking directorships such that substantial benefits from the subsidiaries' activities flow to the Company. SSHI is controlled by the Company, as SSHI has common key management personnel with the Company. The remaining 60% of the total shares is owned by Philippine Seven Corporation-Employees Retirement Plan (PSC-ERP) through its trustee, Bank of the Philippines Islands-Asset Management and Trust Group (BPI-AMTG).

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

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

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

Financial Assets

a. Financial Assets at FVPL

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

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

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

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

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

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

As of December 31, 2007 and 2006, the Group has no financial asset as at FVPL.

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

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

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

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statement of income.

As of December 31, 2007 and 2006, the Group has no outstanding embedded derivatives.

b. HTM Financial Assets

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

As of December 31, 2007 and 2006, the Group has not designated any financial asset as HTM.

c. Loans and Receivables

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

The Group's loans and receivables consist of cash, receivables, and deposits.

d. AFS Financial Assets

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

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

Financial Liabilities

a. Financial Liabilities at FVPL

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

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

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

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

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

As of December 31, 2007 and 2006, the Group has not designated any financial liability as at FVPL.

b. Other Financial Liabilities

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

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

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.

Offsetting Financial Instruments

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

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 the consolidated statement of income.

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

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

Financial Assets Carried at Cost

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

Financial Assets Carried at Fair Value

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

In case of equity securities classified as AFS financial asset, objective evidence would include a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as greater than 6 months. In addition, the Group evaluates other factors, including normal volatility in share price for unquoted equities.

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

In case of debt securities classified as AFS financial asset, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset.

Inventories

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

Property and Equipment

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

Land is carried at revalued amount less any impairment in value. The difference between cost and revalued amount or the revaluation increment in land goes to stockholders' equity, net of tax. The revalued amount is determined by a professional qualified independent appraiser.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and

maintenance and overhaul costs, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets.

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

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

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

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

Leasehold improvements are amortized over the estimated useful life of the improvements, ranging from five to 10 years, or the term of the lease, whichever is shorter.

The assets' estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

When assets are retired or otherwise disposed of, the cost or revalued amount and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of income. The revaluation increment in stockholders' equity relating to the revalued asset sold is transferred to retained earnings.

Software and Program Costs

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

Impairment of Property and Equipment and Software and Program Costs

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

flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Goodwill

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

Impairment of Goodwill

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount of the cash-generating unit or group of cash-generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill annually.

Cumulative Redeemable Preferred Shares

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

Treasury Stock

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Merchandise Sold

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

Franchise

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

Marketing

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

Commission

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

Rent

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

Interest

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

Dividends

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

Retirement Benefits

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

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

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

Related Party Transactions and Relationships

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

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

Leases

Finance leases, which transfer to the lessee substantially all the risks and benefits of ownership of the asset, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Interest income is recognized directly in the consolidated statement of income.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

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

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

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

Borrowing Costs

Borrowing costs are recognized as expense in the year in which these costs are incurred.

Foreign Currency-Denominated Transactions

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

Income Tax

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused net operating loss carryover (NOLCO) and excess of minimum corporate

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

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

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

Earnings Per Share

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

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

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

Provisions

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

Events after the Balance Sheet Date

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

3. Use of Significant Accounting Judgments, Estimates and Assumptions

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

Judgment

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

Determination of Functional Currency

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

Classification of Financial Instruments

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

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

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

Classification of Leases

a. Finance Lease

The Group entered into a sale and leaseback transaction with an armored car service provider where it has determined that the risks and rewards related to the armored vehicles leased out will be transferred to the lessee at the end of the lease term. As such, the lease agreement was accounted for as a finance lease (Note 24).

b. Operating Lease

The Group entered into various property leases, where it has determined that the risks and rewards related to the properties are retained with the lessors. As such, the lease agreements were accounted for as operating leases (Note 24).

Estimates

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

Determination of Fair Values

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

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

Note 27 presents the fair values of the financial instruments and the methods and assumptions used in estimating the fair values.

Impairment of Loans and Receivables

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

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

The carrying value of loans and receivables amounted to ₱428,234,238 and ₱503,107,070 as of March 2008 and December 2007 respectively. Allowance for impairment on loans and receivables amounted to ₱7,739,980 as of December 31, 2007 and no changes as March 2008. (Note 5). Provision for impairment amounted to ₱346,678 in 2007 and ₱2,903,498 in 2006 (Note 5). There was no provision for impairment in 2005.

Impairment of AFS Financial Assets

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

“prolonged” requires judgment. The Group treats “significant” generally as 20% more of the original cost of investment, and ‘prolonged’ greater than 6 months.

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

Decline in Inventory Value

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

The carrying value of inventories amounted to ₱252,094,122 and ₱323,973,849 as of March 2008 and December, 2007 respectively (Note 6). Based on management’s assessment, inventories are fairly stated, thus, no provision for decline in inventory value needs to be recognized in 2007, 2006 and 2005.

Estimation of Useful Lives of Property and Equipment

The Group estimated the useful lives of its property and equipment based on a period over which the assets are expected to be available for use.

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱867,225,321 and ₱852,458,158 as of March 2008 and December 2007, 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 ₱872,905,185 and ₱858,553,622 as of March 2008 and December 2007 respectively. Based on management’s assessment, non-financial assets are fairly stated, thus, no impairment loss needs to be recognized in 2007, 2006 and 2005.

Impairment of Goodwill

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

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

Estimation of Retirement Benefits

The determination of the obligation and retirement benefits is dependent on management’s assumptions used by actuaries in calculating such amounts. Those assumptions are described in

Note 22 and include, among others, discount rates per annum, expected rate of return on plan assets and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The Group's unrecognized net accumulated actuarial losses amounted to ₱15,950,982 and ₱13,183,698 as of December 31, 2007 and 2006, respectively (Note 22).

Realizability of Deferred Income Tax Assets

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

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

4. Cash and Cash Equivalents

	March 2008	December 2007
Cash on hand and in banks	₱258,022,369	₱308,252,838
Cash equivalents	622,106	622,106
	₱258,644,475	₱308,873,944

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

5. Receivables

	March 2008	December 2007
Suppliers	₱17,142,961	₱48,246,882
Franchisee - net	16,490,329	16,372,484
Employees	5,721,058	6,215,487
Insurance claims	3,121,578	3,098,193
Current portion of lease receivable (Note 24)	1,617,536	1,617,536
Notes receivable (Note 24)	-	-
Others	6,371,940	4,620,051
	50,465,402	80,170,633
Less allowance for impairment	7,739,980	7,739,980
	₱42,725,422	₱72,430,653

The classes of receivables of the Group are as follows:

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

- Franchisee - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - pertains to car loans, salary loans and cash shortages from stores which are charged to employees.

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

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

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

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

Notes Receivable

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

6. Inventories

	March 2008	December 2007
At cost (Note 16):		
Store merchandise	₱117,589,771	₱139,935,292
Warehouse merchandise and others	134,504,351	184,038,557
	₱252,094,122	₱323,973,849

7. Prepayments and Other Current Assets

	March 2008	December 2007
Input value-added tax (VAT) (Note 25)	P45,930,812	P43,009,867
Prepaid taxes and licenses	25,413,493	7,481,914
Advances for expenses	4,207,838	4,250,724
Current portion of prepaid rent (Notes 10 and 24)	7,839,558	3,396,870
Prepaid uniform	1,720,526	1,468,243
Supplies	1,570,947	1,161,584
Others	23,127,765	9,205,900
	P109,810,939	P69,975,102

8. Property and Equipment

Movement in property and equipment is as follows:

	March 2008								Total
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	
Costs/Revalued Amount:									
Beginning balances	P44,481,000	P104,385,538	P566,198,319	P240,570,651	P25,206,992	P180,499,131	P492,150,507	P25,366,630	P1,678,858,768
Additions	-	-	16,496,752	8,941,269	425,000	17,202,736	17,036,429	(7,032,292)	53,069,894
Disposals	-	-	(7,502,106)	(1,409,805)	-	(1,223,745)	-	-	(10,135,652)
Revaluation increment	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	44,481,000	104,385,538	575,192,965	248,102,115	25,631,994	196,478,122	509,186,938	18,334,338	1,721,793,010

(Forward)

	March 2008								Total
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	
Accumulated Depreciation and Amortization:									
Beginning balances	P-	P45,179,341	P307,595,172	P125,146,621	P14,406,685	P96,201,950	P237,870,843	P-	P826,400,610
Depreciation and amortization (Note 17)	-	1,120,925	8,938,192	5,385,021	807,349	7,180,699	13,634,841	-	37,067,029
Disposals	-	-	(6,491,051)	(1,323,046)	-	(1,085,853)	-	-	(8,899,950)
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	-	46,300,266	310,042,313	129,208,596	15,214,034	102,296,796	251,505,684	-	854,567,689
Net Book Values	P44,481,000	P58,085,272	P265,150,652	P118,893,519	P10,417,960	P94,181,326	P257,681,254	P18,334,338	P867,225,321

	December 2007								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	P39,866,864	P104,385,538	P487,238,357	P219,732,453	P19,142,793	P161,670,263	P449,711,890	P11,117,660	P1,492,865,818
Additions	-	-	87,099,729	26,489,450	11,049,201	19,071,710	66,721,579	14,248,970	224,680,639
Disposals	-	-	(8,116,776)	(5,673,834)	(4,985,000)	(220,260)	(24,305,951)	-	(43,301,821)
Revaluation increment	4,614,136	-	-	-	-	-	-	-	4,614,136
Reclassifications	-	-	(22,991)	22,582	-	(22,582)	22,991	-	-
Ending balances	44,481,000	104,385,538	566,198,319	240,570,651	25,206,994	180,499,131	492,150,509	25,366,630	1,678,858,772
Accumulated Depreciation and Amortization:									
Beginning balances	P-	P40,688,891	P269,491,622	P108,933,264	P11,896,378	P69,599,604	P191,729,720	P-	P692,339,479
Depreciation and amortization (Note 17)	-	4,490,450	46,077,061	21,387,890	2,510,307	26,827,428	58,341,250	-	159,634,386
Disposals	-	-	(7,974,582)	(5,174,531)	-	(225,082)	(12,199,056)	-	(25,573,251)
Reclassifications	-	-	1,071	-	-	-	(1,071)	-	-
Ending balances	-	45,179,341	307,595,172	125,146,623	14,406,685	96,201,950	237,870,843	-	826,400,614
Net Book Values	P44,481,000	P59,206,197	P258,603,147	P115,424,028	P10,800,309	P84,297,181	P254,279,666	P25,366,630	P852,458,158

On February 5, 2007, the Group stated its land with cost amounting to P39,866,864 at appraised value of P44,481,000, as determined by a professional qualified independent appraiser. The appraisal increase of P2,999,188, net of P1,614,948 tax, resulting from the revaluation was

credited to “Revaluation increment in land” account presented under the stockholders’ equity section of the consolidated balance sheet.

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

9. Deposits

	March 2008	December 2007
Rent (Note 24)	₱92,099,691	₱87,710,515
Utilities	21,154,064	20,792,804
Others	2,270,311	1,958,879
	₱115,524,066	₱110,462,198

Rent

Deposits on rent are computed at amortized cost as follows:

	March 2008	December 2007
Face value of security deposits	₱113,145,512	₱108,756,336
Less unamortized discount	21,045,821	21,045,821
	₱92,099,691	₱87,710,515

Movement in unamortized discount is as follows:

	March 2008	December 2007
Beginning balance	₱22,240,516	₱22,240,516
Addition	243,694	243,694
Amortization	(1,438,389)	(1,438,389)
Ending balance	₱21,045,821	₱21,045,821

10. Other Noncurrent Assets

	March 2008	December 2007
Goodwill	₱70,178,892	₱70,178,892
Prepaid rent - net of current portion (Note 24)	14,765,132	14,765,132
Software and program costs	5,679,864	6,095,464
Lease receivable - net of current portion (Note 24)	3,600,295	3,600,295
AFS financial assets	2,314,575	2,314,575
Others	3,590,189	3,584,756
	₱100,128,947	₱100,539,114

Goodwill

On March 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation for a total consideration of ₱130,000,000. The excess of the acquisition cost over the fair value of the assets acquired was recorded as goodwill. The recoverable amount of the goodwill was estimated based on the value-in-use and was determined at the cash generating unit level. In determining value-in-use, the cash flows (pre-tax) were discounted at a pre-tax rate of 9%.

Prepaid rent

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

Movement in prepaid rent is as follows:

	March 2008	December 2007
Beginning balance	₱17,955,866	₱17,955,866
Additions	243,693	243,693
Amortization (Note 24)	(1,719,810)	(1,719,810)
Ending balance	16,479,749	16,479,749
Less current portion	1,714,617	1,714,617
	₱14,765,132	₱14,765,132

Software and Program Costs

Movement in software and program costs is as follows:

	March 2008	December 2007
Cost:		
Beginning balance	₱7,426,000	₱4,200,000
Acquisition	0	3,226,000
Write-off	-	-
Ending balance	7,426,000	7,426,000
Accumulated amortization:		
Beginning balance	1,330,536	280,000
Amortization (Note 17)	415,599	1,050,536
Write-off	-	-
Ending balance	1,746,136	1,330,536
Net Book Values	₱5,679,864	₱6,095,464

AFS Financial Assets

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

11. Bank Loans

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

Movement in bank loans is as follows:

	March 2008	December 2007
Beginning balance	₱375,000,000	₱404,700,000
Availment	0	688,000,000
Payment	(10,000,000)	(717,700,000)
Ending balance	₱365,000,000	₱375,000,000

Interest expense from these bank loans amounted to ₱6,630,271 in March 2008, ₱8,901,618 in March 2007 (Note 19). Interest payable amounted to ₱963,558 and ₱985,359 as of March 2008 and December 2007, respectively (Note 12).

12. Accounts Payable and Accrued Expenses

	March 2008	December 2007
Trade payable	₱378,484,367	₱475,227,960
Rent (Note 24)	74,323,148	73,333,906
Utilities	9,070,989	11,381,244
Employee benefits	8,787,581	10,342,722
(Forward)		
	March 2008	December 2007
Advertising and promotion	₱5,759,725	₱2,630,489
Security services	2,053,490	2,054,228
Bank charges	1,850,000	1,418,700
Interest	963,558	985,359
Others	8,398,652	5,564,305
	₱489,691,510	₱582,938,913

13. Other Current Liabilities

	March 2008	2007
Non-trade accounts payable	₱56,167,916	₱62,902,460
Withholding taxes	13,154,903	13,000,672
Retention payable	10,015,032	10,065,404
Royalty (Note 23)	4,657,964	9,151,719
Output VAT (Note 25)	7,768,079	6,635,208
Payable to franchisee	-	-
Others	8,766,766	9,753,129
	₱100,530,660	111,508,592

14. Long-term Debt

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

Movement in long-term debt is as follows:

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

15. Cumulative Redeemable Preferred Shares

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

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included as part of "Interest expense" in the consolidated statements of income amounted to ₱91,560 in March 2008 and ₱136,665 in March 2007. (Note 19).

16. Cost of Merchandise Sold

	March 2008	March 2007
Merchandise inventory, beginning	₱323,973,849	₱331,926,504
Net purchases	835,377,448	805,826,357
	1,159,351,297	1,137,752,861
Less merchandise inventory, ending	252,094,122	308,786,211
	₱907,257,175	₱828,966,650

17. General and Administrative Expenses

	March 2008	March 2007
Communication, light and water	₱73,489,498	₱75,618,528
Personnel costs (Note 21)	78,721,429	88,359,782
Rent (Note 24)	65,347,009	65,378,279
Depreciation and amortization	37,067,029	39,279,453
Outside services	33,836,843	15,596,443
Management fee (Note 30)	24,916,402	19,141,448
Taxes and licenses	14,875,434	21,288,713
Trucking services	15,056,659	13,203,322
Royalties (Note 23)	14,407,771	12,533,635
Supplies	13,310,092	12,477,887
Advertising and promotion	13,453,207	10,279,526
Repairs and maintenance	11,989,482	8,921,953
Warehousing services	10,347,781	10,675,039
Entertainment, amusement and Recreation	1,292,503	1,334,582
Transportation and travel	3,506,003	3,405,066
Inventory losses	9,021,430	9,268,353
Dues and subscription	1,044,229	1000,690
Insurance	911,566	778,957
Amortization of software and		

program costs	415,599	210,000
Provision for impairment of receivables	0	0
Loss on accounts written off	0	0
Others	5,300,120	7,437,080
	₱428,310,086	₱416,188,737

18. Marketing Income

	March 2008	March 2007
Display charges	₱12,559,191	₱8,135,902
Promotions	6,650,607	9,466,964
Marketing support funds (Note 30)	2,679,839	1,183,654
	₱21,889,637	₱18,786,520

19. Interest expense

	March 2008	March 2007
Interest on:		
Bank loans	₱6,538,711	₱8,764,953
Long-term debt	0	
Guaranteed preferred dividends	91,560	136,665
	₱6,630,271	₱8,901,618

20. Interest income

	March 2008	March 2007
Interest on:		
Bank deposits	₱442,559	₱706,103
Finance lease	0	–
Accretion of refundable deposits	0	
	₱442,559	₱706,103

21. Personnel Costs

	March 2008	March 2007
Salaries and wages	₱41,409,649	₱62,897,131
Employee benefits	35,449,992	23,491,763
Retirement benefits cost (Note 22)	1,861,788	1,970,888
	₱78,721,429	₱88,359,782

22. Retirement Benefits

The Group maintains a trustee, non-contributory defined benefit retirement plan covering qualified employees. Normal retirement benefits are equal to the employee's retirement pay as

defined in Republic Act (RA) No. 7641 multiplied by his years of service. Normal retirement age is the attainment of age 60 and completion of at least five years of service.

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

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

	2007		
	PSC	CDI	Total
Current service cost	₱3,526,882	₱146,985	₱3,673,867
Interest cost	3,649,522	140,282	3,789,804
Expected return on plan assets	(675,313)	(50,884)	(726,197)
Net actuarial loss (gain)	480,398	(89,239)	391,159
Net retirement benefits cost	₱6,981,489	₱147,144	₱7,128,633

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

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

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

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

	2006		
	PSC	CDI	Total
Present value of retirement			

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

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

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

	2006		
	PSC	CDI	Total
Beginning balances	₱37,269,186	₱3,282,261	₱40,551,447
Current service cost	1,877,379	165,501	2,042,880
Interest cost	4,435,033	379,758	4,814,791
Benefits paid	(2,656,931)	(182,837)	(2,839,768)
Actuarial loss (gain)	3,964,900	(1,859,924)	2,104,976
Ending balances	₱44,889,567	₱1,784,759	₱46,674,326

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

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

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

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

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

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

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

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

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

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

23. Related Party Transactions

Significant transactions with related parties consist of:

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

Royalty fees recorded by the Group amounted to ₱14,407,771, ₱12,533,635 and ₱54,906,673 in March 2008, March 2007 and December 2007

Royalty payable amounted to ₱4,657,964 and ₱9,151,719 as of March , 2008 and December 2007 respectively.

- b. Compensation of key management personnel are as follows:

	March 2008	March 2007
Short-term employee benefits	₱9,733,832	₱4,007,146
Post-employment benefits		
Other long-term benefits	—	
	₱9,733,832	₱4,007,146

24. Leases

- a. In March 2007, PSC entered into a five-year sale and leaseback finance lease agreement with an armored car service provider. The lease has no terms of renewal and no escalation clauses. Future lease payments under this lease as of December 31, 2007 are as follows:

	Minimum Payments	Present Value of Payments
Within one year	P3,374,700	P2,843,932
After one year but not more than five years	8,490,000	7,586,082
Total minimum lease payments	11,864,700	10,430,014
Less amounts representing finance charges	1,434,686	-
Present value of future minimum lease payments	10,430,014	10,430,014
Less unearned interest income	5,212,183	5,212,183
	5,217,831	5,217,831
Less current portion	1,617,536	1,617,536
	P3,600,295	P3,600,295

In 2007, the PSC received collections amounting to P1,035,300 under this arrangement. Of this amount, P686,966 were applied to lease receivable and the remainder was recognized as interest income.

The sale and leaseback finance lease arrangement resulted in the recognition of "Unearned interest income" amounting to P6,131,980 upon inception of the lease. The unearned interest income is to be amortized over five years, which is the term of the agreement. Interest income recognized in the consolidated statement of income amounted to P919,797 in 2007.

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

Rental expense related to these lease agreements amounted to P235,326,897 in 2007, P240,604,010 in 2006 and P243,946,399 in 2005. Of this amount, contingent rent amounted to P1,054,585 in 2007, P1,059,295 in 2006 and P1,752,385 in 2005. Amortization of prepaid rent amounted to P1,174,560 in 2007, P569,564 in 2006 and P534,436 in 2005.

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

	2007	2006
Within one year	P83,777,578	P94,081,531
After one year but not more than five years	174,286,236	220,679,560
More than five years	34,157,715	50,640,438
	P292,221,529	P365,401,529

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

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

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

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

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

- d. The Group has various sublease agreements with third parties which provide for lease rentals based on an agreed fixed monthly rate or as agreed upon by the parties.

Rental income related to these sublease agreements amounted to ₱39,648,977 in 2007, ₱39,889,745 in 2006 and ₱35,771,211 in 2005.

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

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

25. Income Tax

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

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

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

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

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

26. Basic/Diluted Earnings Per Share

	March 2008	December 2007
a. Net income attributable to equity holders of the Parent	₱5,583,962	₱54,828,138
b. Weighted average number of shares outstanding	237,938,250	237,938,250
c. Less weighted average number of shares held in treasury	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	₱237,252,000	₱237,252,000
e. Basic/diluted earnings per share (a/d)	₱0.02	₱0.23

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

27. Financial Instruments

The following table summarizes the carrying value and fair value of the Group's financial assets and financial liabilities per class as of March 31 2008

	March 2008		December 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash	₱258,022,369	₱258,022,369	₱308,251,838	₱308,251,838
Cash equivalents	622,106	622,106	622,106	622,106
	258,644,475	258,644,475	308,873,944	308,873,944
Receivables:				

Suppliers	17,142,961	17,142,961	48,246,882	48,246,882
Franchisee	16,490,329	16,490,329	16,372,484	16,372,484
Employees	5,721,058	5,721,058	6,215,487	6,215,487
Insurance claims	3,121,578	3,121,578	3,098,193	3,098,193
Current portion of lease receivable	1,617,536	1,536,780	1,617,536	1,536,780
Notes receivable	—	—	—	—
Others	6,371,939	6,371,939	4,620,051	4,620,051
	50,465,402	50,384,646	80,170,633	80,089,877
Deposits:				
Rent	92,099,691	92,099,691	87,710,515	89,121,229
Utilities	21,154,064	21,154,064	20,792,804	20,792,804
Others	2,270,310	2,270,310	1,958,879	1,958,879
	115,524,066	115,524,066	110,462,198	111,872,912
Other noncurrent assets - lease receivable	3,600,295	2,856,572	3,600,295	2,856,572
Total Loans and Receivables	428,234,238	427,409,759	503,107,070	503,693,305
AFS Financial Assets	2,314,575	2,314,575	2,314,575	2,314,575
TOTAL FINANCIAL ASSETS	₱430,548,813	₱429,724,334	₱505,421,645	₱506,007,880
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	₱365,000,000	₱365,000,000	₱375,000,000	₱375,000,000
Accounts payable and accrued expenses:				
Trade payable	378,484,367	378,484,367	475,227,960	475,227,960
Rent	74,323,148	74,323,148	73,333,906	73,333,906
Utilities	9,070,989	9,070,989	11,381,244	11,381,244
Employee benefits	8,787,581	8,787,581	10,342,722	10,342,722
Advertising and promotion	5,759,725	5,759,725	2,630,489	2,630,489
Security services	2,053,490	2,053,490	2,054,228	2,054,228
Bank charges	1,850,000	1,850,000	1,418,700	1,418,700
Interest	963,558	963,558	985,359	985,359
Others	8,398,652	8,398,652	5,564,305	5,564,305
	489,691,510	489,691,510	582,938,913	582,938,913
Current portion of long-term debt	—	—		
Other current liabilities:				
Non-trade accounts payable	56,167,916	56,167,916	62,902,460	62,902,460
Withholding taxes	13,154,903	13,154,903	13,000,672	13,000,672
Retention payable	10,015,032	10,015,032	10,065,404	10,065,404

(Forward)

	March 2008		December 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Royalty	₱4,657,964	₱4,657,964	₱9,151,719	₱9,151,719
Output VAT	7,768,079	7,768,079	6,635,208	6,635,208
Payable to franchisee	—	—	—	—
Others	8,766,766	8,766,766	9,753,129	9,753,129
	100,530,660	100,530,660	111,508,592	111,508,592
Deposits from sub-lessees	110,018,416	110,018,416	98,653,475	98,653,475
Cumulative redeemable preferred shares	6,000,000	6,000,000	6,000,000	6,000,000
TOTAL FINANCIAL LIABILITIES	₱1,071,240,586	₱1,071,240,586	₱1,174,100,980	₱1,174,100,980

Fair Value Information

Current financial assets and financial liabilities

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

Deposits

The fair value of deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities ranging from 4.98% to 6.69%.

AFS financial assets

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

Bank Loans and Long-term Debt

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

Cumulative redeemable preferred shares

The carrying value approximates fair value because corresponding dividends on these shares that are charged as interest expense in the consolidated statement of income are based on recent treasury bill rates repriced annually at yearend.

28. Financial Risk Management Objectives and Policies

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

Credit Risk

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

The following table provides information regarding the maximum credit risk exposure of the Group as of March 31, 2008 and December 31, 2007.

	March 2008	December 2007
Cash and cash equivalents:		
Cash	₱258,022,369	₱308,251,838
Cash equivalents	622,106	622,106
	258,644,475	308,873,944
Receivables:		
Suppliers	17,142,961	48,246,882
Franchisee	16,490,329	16,372,484
Employees	5,721,058	6,215,487
Insurance claims	3,121,578	3,098,193
Current portion of lease receivables	1,617,536	1,617,536
Notes receivable	-	-
Others	6,371,939	4,620,051
	50,465,402	80,170,633
Deposits:		
Rent	92,099,691	87,710,515
Utilities	21,154,064	20,792,804
Others	2,270,310	1,958,879
	115,524,066	110,462,198
Other noncurrent assets:		
Lease receivables	3,600,295	3,600,295

AFS financial assets	2,314,575	2,314,575
	5,914,870	5,914,870
	P430,548,813	P505,421,645

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:

	March 2008				Total
	Neither past due nor impaired			Past due or Impaired	
	Non- Investment Grade: Satisfactory	Non- Investment Grade: Unsatisfactory			
Cash and cash equivalents:					
Cash	P258,022,369	P-	P-		P258,022,369
Cash equivalents	622,106	-	-		622,106
	258,644,475	-	-		258,644,475
Receivables:					
Suppliers	8,092,559	-	9,050,402		17,142,961
Franchisee	16,490,329	-	-		16,490,329
Employees	5,721,058	-	-		5,721,058
Insurance claims	3,121,578	-	-		3,121,578
Current portion of lease receivables	1,617,536				1,617,536
Others	5,651,952	-	719,987		6,371,939
	40,695,012	-	9,050,402		50,465,402

(Forward)

	March 2008				Total
	Neither past due nor impaired			Past due or Impaired	
	Non- Investment Grade: Satisfactory	Non- Investment Grade: Unsatisfactory			
Deposits:					
Rent	P92,099,691	P-	P-		P92,099,691
Utilities	21,154,064	-	-		21,154,064
Others	1,958,879	-	-		1,958,879
	115,524,068	-	-		115,524,068
Other noncurrent assets:					
Lease receivables	2,952,972	-	647,323		3,600,295
AFS financial assets	2,314,575				2,314,575
	5,267,547	-	647,323		5,914,870
	P420,131,101	P-	P10,417,712		P430,548,813

	December 2007				Total
	Neither past due nor impaired			Past due or Impaired	
	Non- Investment Grade: Satisfactory	Non- Investment Grade: Unsatisfactory			
Cash and cash equivalents:					
Cash	P308,251,838	P-	P-		P308,251,838
Cash equivalents	622,106	-	-		622,106
	308,873,944	-	-		308,873,944
Receivables:					
Suppliers	39,196,480	-	9,050,402		48,246,882
Franchisee	16,372,484	-	-		16,372,484
Employees	6,215,487	-	-		6,215,487
Insurance claims	3,098,193	-	-		3,098,193

Current portion of lease receivables	1,617,536			1,617,536
Others	3,900,064	-	719,987	4,620,051
	70,400,244	-	9,770,389	80,170,633
Deposits:				
Rent	₱87,710,515	₱-	₱-	₱87,710,515
Utilities	20,792,804	-	-	20,792,804
Others	1,958,879	-	-	1,958,879
	110,462,198	-	-	110,462,198
Other noncurrent assets:				
Lease receivables	2,952,972	-	647,323	3,600,295
AFS financial assets	2,314,575			2,314,575
	5,267,547	-	647,323	5,914,870
	₱495,003,933	₱-	₱10,417,712	₱505,421,645

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

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

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

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

	March 2008				Past due and impaired	Total
	Aging analysis of financial assets past due but not impaired			Total		
	31 to 60 days	61 to 90 days	> 90 days			
Receivables:						
Suppliers	₱1,609,251	₱24,034	₱397,124	₱2,030,409	₱7,019,993	₱9,050,402
Current portion of lease receivables	163,062	484,261	-	647,323	-	647,323
Others	-	-	-	-	719,987	719,987
	₱1,772,313	₱508,295	₱397,124	₱2,677,732	₱7,739,980	₱10,417,712

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

Liquidity Risk

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

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

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

	March 2008			Total
	Less than 3 months	Less than One year	More than One year	
Bank loans	P-	P365,000,000	P-	P365,000,000
Accounts payable and accrued expenses:				
Trade payable	378,484,367	-	-	378,484,367
Rent	74,323,148	-	-	74,323,148
Utilities	9,070,989	-	-	9,070,989
Employee benefits	8,787,581	-	-	8,787,581
Advertising and promotion	5,759,725	-	-	5,759,725
Security services	2,053,490	-	-	2,053,490
Bank charges	1,850,000	-	-	1,850,000
Interest	963,558	-	-	963,558
Others	8,398,652	-	-	8,398,652
	489,691,510	-	-	489,691,510

(Forward)

	March 2008			Total
	Less than 3 months	Less than One year	More than One year	
Other current liabilities:				
Non-trade accounts payable	P-	P56,167,916	P-	P62,902,460
Withholding taxes	-	13,154,903	-	13,000,672
Retention payable	-	10,015,032	-	10,065,404
Royalty	-	4,657,964	-	9,151,719
Output VAT	-	7,768,079	-	6,635,208
Others	-	8,766,766	-	9,753,129
	-	100,530,660	-	111,508,592
Deposit from sub-lessees	-	-	110,018,416	98,653,475
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	P489,691,510	P465,530,660	P116,018,416	P1,071,240,586

	December 2007			Total
	Less than 3 months	Less than One year	More than One year	
Bank loans	P-	P375,000,000	P-	P375,000,000
Accounts payable and accrued expenses:				
Trade payable	475,227,960	-	-	475,227,960
Rent	73,333,906	-	-	73,333,906
Utilities	11,381,244	-	-	11,381,244
Employee benefits	10,342,722	-	-	10,342,722
Advertising and promotion	2,630,489	-	-	2,630,489
Security services	2,054,228	-	-	2,054,228
Bank charges	1,418,700	-	-	1,418,700
Interest	985,359	-	-	985,359
Others	5,569,305	-	-	5,569,305
	582,938,913	-	-	582,938,913
Other current liabilities:				
Non-trade accounts payable	P-	P62,902,460	P-	P62,902,460
Withholding taxes	-	13,000,672	-	13,000,672
Retention payable	-	10,065,404	-	10,065,404

Royalty	-	9,151,719	-	9,151,719
Output VAT	-	6,635,208	-	6,635,208
Others	-	9,753,129	-	9,753,129
	-	111,508,592	-	111,508,592
Deposit from sub-lessees	-	-	98,653,475	98,653,475
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	₱582,938,913	₱486,508,591	₱104,653,475	₱1,174,100,979

Interest Rate Risk

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

29. Capital Management

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers its equity contributed by shareholders as capital. The Group manages its capital structure by keeping a networth of between 30% and 50% in relation to its total assets. The Group's ratios were 38% and 35% in March 31, 2008 and December 31, 2007 respectively.

	March 2008	December 2007
Capital stock	₱237,938,250	₱237,938,250
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	141,654,209	136,070,248
	673,117,496	667,533,535
Less cost of shares held in treasury	2,923,246	2,923,246
	₱670,194,250	₱664,610,289
Total assets	₱1,779,683,187	₱1,876,211,677
Net worth	38%	35%

30. Significant Agreements

- The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Franchise fee amounted to ₱6,293,722 in March 2008, ₱11,335,162 in March 2007 and franchise revenue for the 7-Eleven charge amounted to ₱46,673,000 in March 2008, ₱30,789,594 in March 2007.
- The Group has service management agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a management fee based on a certain percentage of the store's gross profit and operating

- c. expenses as stipulated in the service management agreement. Management fee amounted to ₱24,916,402 in March 2008 and ₱19,141,448 in March 2007.

31. Contingencies

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

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment in Land	Treasury Stock	Total
BALANCES AS OF DECEMBER 31, 2004	₱237,938,250	₱293,525,037	₱47,337,606	₱-	(₱2,923,246)	₱575,877,647
Net income for the year	-	-	13,760,412	-	-	13,760,412
BALANCES AS OF DECEMBER 31, 2005	237,938,250	293,525,037	61,098,018	-	(2,923,246)	589,638,059
Net income for the year	-	-	20,144,092	-	-	20,144,092
BALANCES AS OF DECEMBER 31, 2006	237,938,250	293,525,037	81,242,110	-	(2,923,246)	609,782,151
Net income for the year	-	-	54,828,138	-	-	54,828,138
Appraisal increase in value of land (Note 8)	-	-	-	2,999,188	-	2,999,188
Total income for the year	-	-	54,828,138	2,999,188	-	57,827,326
BALANCES AS OF DECEMBER 31, 2007	₱237,938,250	₱293,525,037	₱136,070,248	₱2,999,188	(₱2,923,246)	₱667,609,477
Net income for the quarter	-	-	5,583,962	-	-	5,583,962
Appraisal increase in value of land (Note 8)	-	-	-	-	-	-
Total income for the year	-	-	5,583,962	-	-	5,583,962
BALANCES AS OF MARCH 31, 2008	₱237,938,250	₱293,525,037	₱141,654,210	₱2,999,188	(₱2,923,246)	₱673,193,439
BALANCES AS OF MARCH 31, 2007	₱237,938,250	₱293,525,037	₱59,198,157	-	(₱2,923,246)	₱587,738,198

FOR THE QUARTER ENDED MARCH 31, 2008

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION

SCHEDULE OF AR-SUPPLIER (11230)

AS OF MARCH 2008

SUPPLIER NAME		MARCH BALANCE	TOTAL	JAN-MAR	OCT-DEC	JUL-SEP	APR-JUN	2006 PRIOR
				1 - 90 DAYS	91 - 180 DAYS	181 - 270 DAYS	270-360 DAYS	OVER 360 DAYS
COCA COLA BOTTLERS PHILS. INC. (CCK)	non-moving since 2002	3,035,996.80	3,035,996.80					3,035,996.80
CITIBANK	CITIBANK	494,443.03	494,443.03	1,334,098.57	(459,694.81)	16,470.91	(8,279.03)	(388,152.61)
GATE DISTRIBUTION	GATE DISTRIBUTION	515,793.63	515,793.63	188,235.40	(53,317.39)	109,710.39	19,703.45	251,461.78
SODEXHO PASS	SODEXHO PASS	1,773,897.15	1,773,897.15	1,580,812.40	(467,053.43)	495,257.38	13,706.14	151,174.66
SMB	SAN MIGUEL CORPORATION	925,464.98	925,464.98	27,784.00				897,680.98
UNILEVER	UNILEVER RFM ICE CREAM, INC.	112,402.00	112,402.00					112,402.00
SELECTA	UNILIVER RFM ICE CREAM, INC.	311,932.50	311,932.50	311,459.00				473.50
PEEL A MILLION PROMO		314,888.00	314,888.00		314,888.00			
PEPSI SUPPORT ON TROPICANA TWISTER	others	231,542.11	231,542.11					231,542.11
XMAS DÉCOR SPONSORED BY PEPSI	others	106,000.00	106,000.00					106,000.00
DEL MONTE PHILS	others	100.00	100.00					100.00
REVICON-ION	others	358.00	358.00		18.00	340.00		
Wrigley Philippines, Inc.	others	812,500.00	812,500.00		812,500.00			
Leslie Corporation (LCO)	others	200,757.58	200,757.58		200,757.58			
CONVENIENCE DISTRIBUTION INC. - VARIOUS SUPPLIERS	others	806,885.22	806,885.22	212.00	806,673.22			
ANNUAL VOLUME DISCOUNTS (VARIOUS SUPPLIERS)		7,500,000.00	7,500,000.00	7,500,000.00				
TOTAL: AR SUPPLIERS		17,142,961.00	17,142,961.00	10,942,601.37	1,154,771.17	621,778.68	25,130.56	4,398,679.22

PHILIPPINE SEVEN CORPORATION
SCHEDULE OF AR-SUPPLIER (11230)
AS OF MARCH 2008

SUPPLIER NAME		MARCH	TOTAL	JAN-MAR	OCT-DEC	JUL-SEP	APR-JUN	2006 PRIOR
		BALANCE		1 - 90 DAYS	91 - 180 DAYS	181 - 270 DAYS	270-360 DAYS	OVER 360 DAYS
COCA COLA BOTTLERS PHILS. INC. (CCK)	non-moving since 2002	3,035,996.80	3,035,996.80					3,035,996.80
CITIBANK	CITIBANK	494,443.03	494,443.03	1,334,098.57	(459,694.81)	16,470.91	(8,279.03)	(388,152.61)
GATE DISTRIBUTION	GATE DISTRIBUTION	515,793.63	515,793.63	188,235.40	(53,317.39)	109,710.39	19,703.45	251,461.78
SODEXHO PASS	SODEXHO PASS	1,773,897.15	1,773,897.15	1,580,812.40	(467,053.43)	495,257.38	13,706.14	151,174.66
SMB	SAN MIGUEL CORPORATION	925,464.98	925,464.98	27,784.00				897,680.98
UNILEVER	UNILEVER RFM ICE CREAM, INC.	112,402.00	112,402.00					112,402.00
SELECTA	UNILIVER RFM ICE CREAM, INC.	311,932.50	311,932.50	311,459.00				473.50
PEEL A MILLION PROMO		314,888.00	314,888.00		314,888.00			
PEPSI SUPPORT ON TROPICANA TWISTER	others	231,542.11	231,542.11					231,542.11
XMAS DÉCOR SPONSORED BY PEPSI	others	106,000.00	106,000.00					106,000.00
DEL MONTE PHILS	others	100.00	100.00					100.00
REVICON-ION	others	358.00	358.00		18.00	340.00		
Wrigley Philippines, Inc.	others	812,500.00	812,500.00		812,500.00			
Leslie Corporation (LCO)	others	200,757.58	200,757.58		200,757.58			
CONVENIENCE DISTRIBUTION INC. - VARIOUS SUPPLIERS	others	806,885.22	806,885.22	212.00	806,673.22			
ANNUAL VOLUME DISCOUNTS (VARIOUS SUPPLIERS)		7,500,000.00	7,500,000.00	7,500,000.00				
TOTAL: AR SUPPLIERS		17,142,961.00	17,142,961.00	10,942,601.37	1,154,771.17	621,778.68	25,130.56	4,398,679.22

Indebtedness to Affiliates and Related Parties

Name of Affiliate	Balance at beginning of period	Balance at end of period
Convenience Distribution Inc.	24,717,077.00	24,717,077.00 Remaining balance represents unpaid tagging and backhauling expenses of 2007
Store Site Holdings Inc.	398,732.00	797,464.35 Ending balance is the unpaid rent for 1 st Quarter of 2008.

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

SELECTED FINANCIAL DATA

	Q1 2008	Q1 2007
<i>(amount in thousands, except earnings per share)</i>		
SYSTEM WIDE SALES	₱1,450,733	₱1,288,561
Statement of Income Data:		
Revenues and other income		
Sales of merchandise	₱1,263,550	₱1,162,892
Commission Income	4,952	6,046
Others (Net)	84,639	70,334
Cost and expenses		
General & Administrative Expenses	(428,310)	(416,189)
Interest Expense	(6,630)	(8,902)
Cost of merchandise sold	(907,257)	(828,967)
Net income (loss)	5,584	(22,044)
Earnings (loss) per share	₱ 0.02	₱ (0.09)
Other Data:		
Net cash from (used in) operating activities	20,569	(134,690)
Net cash used in investing activities	(54,168)	(77,123)
Net cash from (used in) financing activities	(16,630)	17,898
Balance Sheet Data:		FY2007
Total assets	₱1,779,683	₱1,876,212
Total liabilities	1,106,490	1,208,602
Total stockholders' equity	673,193	667,610

OVERVIEW

Philippine Seven Corporation (PSC) 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 in December 13, 1982. Operations commenced with the opening of its first store in February 29, 1984 at the corner of Kamias Road and EDSA Quezon City, Metro Manila. Considering the

country's economic condition at that time, the Company grew slowly in its first year of existence. In 1993, PSC, encouraged by the resurgent national economy, stepped up its rate of expansion.

As of March 31, 2008, our retail chain has grown to 318 stores. We are 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 C-store (Convenience Store) business, we maintain our leadership in the industry.

7-Eleven derives its revenues principally from retail of merchandise, commission on services and franchising activities. Its primary expenditures consist of cost of goods, general and administrative expenses, interest and income taxes.

PSC seeks to meet the needs of convenience 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.

THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO THREE MONTHS ENDED MARCH 31, 2007

The Company started 2008 by restructuring the organization with the objective of improving productivity and promoting synergy among the functional units.

In February, the Philippine Franchise Association (PFA) in partnership with the Philippine Chamber of Commerce and Industry (PCCI) and the Philippine Retailers Association (PRA), elevated Philippine Seven Corporation in the Hall of Fame for the International Master Franchise Award. Moreover, a franchise operator of the company was recognized as one of the best franchisees in 2007 under the retail category.

PSC ended the first quarter with 318 stores, a 12% increase compared to previous year's level of 283. Moreover, the aggregate number of franchised stores reached 172 and accounted for 54% of total operating stores.

7-Eleven is working to optimize the earnings of its store base by opening new stores in strategic locations and closing underperforming stores. It has taken the opportunity to acquire strategic leasehold ahead of its competition at reasonable terms and on trend with existing productive sites. In the first quarter, 13 new stores were opened and 6 underperforming stores were closed.

PSC shall continue to protect its lead in the C-Store Industry. The company has entered into various agreements for additional store sites. These efforts are geared towards the goal of having 400 operating stores by year end.

Revenues and Other Income

Revenues

Total revenue from merchandise sold in Q1 2008 reached P1.26 billion, up by 8.7% percent compared to P1.16 billion in the same period last year.

System wide sales, which represents the overall retail sales to customers of corporate and franchise operated stores reached P1.45 billion in Q1 2008 vis-à-vis P1.29 billion in Q1 2007 or an increase of 13%.

Products in the services category, which form part of the Company's commission income, are prepaid cards, e-pins and bills payment. Commission income amounted to P4.95 million, 18% lower than last year.

Gross Profit reached P356 million, P22 million higher compared to the P334 million registered in the same period last year. Gross margin is pegged at about 31%, almost the same with the previous year. Further, aggregate merchandise transfers to franchised stores reached P275 million, up by 43% from P192 million in Q1 2007.

Other Income

Other income consists mainly of marketing income, franchise revenues and rent income from rentable spaces. Our total other income for the first three months of the year reached P85 million, rising by 22% from P69.6 million registered last year.

Franchise revenue rose to P53 million from P42 million in Q1 2008 as a result of the increased number of franchise operated stores. Franchise fees amounted to P6.3 million and P11.3 million in the first quarter of 2008 and 2007, respectively, and franchise revenues increased to P27.45 million. Moreover, rent income went up by 16% which was attributable to the increase in occupancy rate during the period.

Cost and Expenses

Operating expenses in Q1 2008 totaled P428 million and is 3% higher than last year. Ratio of operating expenses to sales stood at 34% and 36% in Q1 2008 and Q1 2007, respectively.

Personnel cost which accounted for 18% of the total OPEX in Q1 2008 is the highest contributor. This is followed closely by communication, light and water with 17% and rent expense, accounting for 15% of the total.

In the first quarter, personnel costs aggregated P78.7 million, versus P88.4 million last year. Ratio to sales revenue is 6% and 8%, respectively. Personnel costs include salaries and wages at P41.4 million, employee benefits at P35.4 million and retirement benefits at P1.9 million.

Communication, light and water amounted to P73.5 million or 6% of total sales revenue and is slightly lower than last year's rate of 7%.

Management fees paid to Service Agreement partners increased by 30%, from P19 million during first quarter of last year to P25 million in the same period this year

Interest Expense

Interest expense for during the period reached P6.6 million, lower than last year's level of P8.9 million. Loan pre-termination coupled by lower interest rates are the factors for the decline. Bank loans decrease from P375 million in 2007 to P365 million as of end of first quarter.

Net Income

Net Income generated during the first three months of 2008 reached P5.6 million, a reversal compared to the P22 million loss incurred in the first quarter of 2007. The better results in the current year can be attributed to better same store sales, and effective cost management.

Liquidity and Capital Resources

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

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

We believe that operating activities and available working capital sources will provide sufficient liquidity in 2008 to fund our operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the 1Q 2008.

Cash Flows from Operating Activities

Net cash generated by operating activities reached P20.6 million compared to P134.7 million used in Q1 2007. This was due to positive bottom line registered this year as compared to losses incurred the same period last year. Moreover, inventories posted a net decrease of P71.9 million while other current liabilities had a net increase of P11 million during the first quarter.

Cash Flows from Investing Activities

Net cash used in investing activities reached P77 million in 1Q12007 compared to net cash out flow of P54.2 million in the current year. Major cash outlay went to the procurement of store equipment, new store constructions and renovations.

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

Cash Flows from Financing Activities

Net cash outflow from financing activities in the first quarter amounted to P16.6 million. There was no additional bank loan during the period as the outflow represents principal and interest payments.

Financial Condition

Cash and cash equivalents in 2008 increased to P258.6 million from P135.4 million a year ago. This was driven mainly by improved profitability resulting into higher cash inflow as bulk of income is recognized in cash.

Moreover, receivables went down by P30 million while inventories decreased by P72 million. This resulted into a net decrease in total current assets by P112 million. Total current asset aggregated P663 million or 14% lower from the beginning of the year.

Property and equipment, net of accumulated depreciation increased by about P15 million as a result of continuous store expansion.

Total current liabilities was reduced by P114 million or 11%. This is primarily due to the decrease in trade payable, accrued expenses and bank loans. Current ratio stood at .69 to1 as of March this year against .72 to 1 at the beginning of the year.

Stockholders' equity at the end of March comprises 38% of total assets, compared to 36% at the beginning of the year. Consequently, debt to equity ratio is 1.64 to 1, from 1.81 to 1 at the end of 2007. The Company ended 2007 with a return on equity (ROE) of 8.2%.

DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

System Wide Sales

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

Sales per Store Day

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

Gross Margin

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

Return on Equity (ROE)

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

SIGNATURES

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

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

Jose Victor P. Paterno
President