

# COVER SHEET

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S.E.C Registration Number

P H I L I P P I N E  
S E V E N  
C O R P O R A T I O N

(Company's full Name)

7 t h F l r . T h e C o l u m b i a T o w e r  
O r t i g a s A v e . M a n d a l u y o n g C i t y

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

Atty. Evelyn S. Enriquez  
Corporate Secretary

724-44-41 to 51

Company Telephone Number

Contact Person

1 2 3 1

Month Day Fiscal Year

1 7 - Q

FORM TYPE

0 7 3<sup>rd</sup> Thursday

Month Day Annual Meeting

THIRD QUARTER REPORT

Secondary License Type, if Applicable

Dept. Requiring this Doc. Amended Articles Number/Section

Total Amount of Borrowings  
Total No. of Stockholders Domestic Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

# 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 September 30, 2010
2. Commission identification number
3. BIR Tax Identification No : 000-390-189-000
4. Exact name of registrant as specified in its charter :

#### PHILIPPINE SEVEN CORPORATION

5. Country of incorporation : **PHILIPPINES**
6. Industry Classification Code:  (SEC Use Only)
7. Address of registrant's principal office : 7<sup>TH</sup> 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 : **301,428,666**  
Warrants : -0-

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

Yes [  ] No [  ]

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

12. Indicate by check mark whether the registrant:

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

Yes [  ] No [  ]

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

Yes [  ] No [  ]

### PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the attached.

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

Please refer to the attached

### PART II - OTHER INFORMATION

N/A

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

Registrant: **PHILIPPINE SEVEN CORPORATION**



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

Date: November 12, 2010



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

Date: November 12, 2010

November 12, 2010

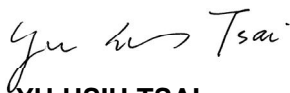
**SECURITIES AND EXCHANGE COMMISSION**

SEC Building  
EDSA, Quezon City

Gentlemen:

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

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



**YU-HSIU TSAI**  
Treasurer and CFO

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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



**JOSE VICTOR P. PATERNO**  
President and CEO



**YU-HSIU TSAI**  
Treasurer and CFO

## Part 1 – FINANCIAL INFORMATION

### Item 1. Financial Statements

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Pages 54 to 60)

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	As of September 30, 2010 (Unaudited)	As of December 31, 2009 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	P 176,404,533	P 448,830,888
Receivables (Note 5)	89,834,592	140,140,105
Inventories - at cost (Note 6)	313,125,449	415,652,671
Prepayments and other current assets (Note 7)	212,602,602	174,383,392
<b>Total Current Assets</b>	<b>791,967,176</b>	<b>1,179,007,056</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	1,486,802,552	1,227,244,430
Deposits (Note 9)	178,216,507	151,328,033
Deferred income tax assets - net (Note 27)	46,008,842	46,008,842
Goodwill and other noncurrent assets (Note 10)	106,454,201	107,087,572
<b>Total Noncurrent Assets</b>	<b>1,817,482,102</b>	<b>1,531,668,877</b>
<b>TOTAL ASSETS</b>	<b>P 2,609,449,278</b>	<b>P 2,710,675,933</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Note 11)	P 360,000,000	P 340,000,000
Accounts payable and accrued expenses (Note 12)	574,353,121	1,027,609,605
Income tax payable	43,548,603	38,354,398
Other current liabilities (Note 13)	380,376,610	211,934,980
<b>Total Current Liabilities</b>	<b>1,358,278,334</b>	<b>1,617,898,983</b>
<b>Noncurrent Liabilities</b>		
Deposits payable (Note 14)	111,666,975	119,967,054
Net retirement obligations (Note 24)	53,597,049	55,667,123
Deferred income tax liability (Note 27)	1,384,241	1,384,241
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	6,989,975	1,856,046
<b>Total Noncurrent Liabilities</b>	<b>179,638,239</b>	<b>184,874,464</b>
<b>Total Liabilities</b>	<b>P 1,537,916,574</b>	<b>P 1,802,773,447</b>
<b>Stockholders' Equity</b>		
Capital stock (Note 17) - P1 par value		
Authorized - 400,000,000 shares		
Issued - 302,114,918, 287,761,172 and 261,663,450		
as of September 30 and December 31, 2009 and 2008,		
respectively [held by 717 and 724 equity holders in 2009 and		
2008, respectively (Note 1)]	P 302,114,918	P 287,761,172
Additional paid-in capital	293,525,037	293,525,037
Retained earnings (Notes 17)	475,586,100	326,309,628
Other component of equity - revaluation increment on land		
[net of deferred income tax liability (Notes 8 and 27)]	3,229,895	3,229,895
	<b>1,074,455,950</b>	<b>910,825,732</b>
Cost of 686,250 shares held in treasury	<b>(2,923,246)</b>	<b>(2,923,246)</b>
<b>Total Stockholders' Equity</b>	<b>1,071,532,704</b>	<b>907,902,486</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>P 2,609,449,278</b>	<b>P 2,710,675,933</b>

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2010	2009	2010	2009
<b>REVENUE</b>				
Revenue from merchandise sales	<b>P 1,842,321,476</b>	<b>P 1,464,609,550</b>	<b>P5,535,987,439</b>	<b>P 4,310,193,141</b>
Franchise revenue (Note 32)	<b>115,032,054</b>	70,211,926	<b>325,497,052</b>	220,607,149
Marketing income (Note 20)	<b>81,405,413</b>	48,217,342	<b>192,710,909</b>	122,285,415
Rent income (Note 26)	<b>7,697,382</b>	7,197,738	<b>24,257,622</b>	21,937,296
Commission income (Note 32)	<b>7,566,187</b>	5,612,301	<b>20,817,742</b>	16,235,781
Interest income (Notes 9, 22 and 26)	<b>802,563</b>	649,491	<b>2,182,681</b>	1,933,879
Other income (Note 32)	<b>25,075,218</b>	9,469,751	<b>44,845,003</b>	18,639,961
	<b>2,079,900,292</b>	<b>1,605,968,100</b>	<b>6,146,298,446</b>	<b>4,711,832,621</b>
<b>EXPENSES</b>				
Cost of merchandise sales (Note 18)	<b>1,352,498,999</b>	1,049,776,846	<b>4,043,097,065</b>	3,086,086,649
General and administrative expenses (Note 19)	<b>652,881,445</b>	495,766,146	<b>1,827,665,143</b>	1,470,428,958
Interest expense (Notes 11, 15, 21 and 32)	<b>3,824,166</b>	6,309,194	<b>12,291,977</b>	20,940,825
Other expenses	<b>1,016,458</b>	1,121,965	<b>3,239,433</b>	3,323,706
	<b>2,010,221,068</b>	<b>1,552,974,151</b>	<b>5,886,293,618</b>	<b>4,580,780,138</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>69,679,224</b>	52,993,949	<b>260,004,827</b>	131,052,483
<b>PROVISION FOR INCOME TAX (Note 27)</b>	<b>22,509,304</b>	17,229,450	<b>82,020,863</b>	42,537,255
<b>NET INCOME</b>	<b>47,169,920</b>	35,764,499	<b>177,983,964</b>	88,515,228
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P 47,169,920</b>	<b>P 35,764,499</b>	<b>P 177,983,964</b>	<b>P 88,515,228</b>
<b>BASIC/DILUTED EARNINGS PER</b>				
<b>SHARE (Note 28)</b>	<b>0.16</b>	0.12	<b>0.59</b>	0.29

*See accompanying Notes to Consolidated Financial Statements.*



**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 (As Compared with SEPTEMBER 30, 2009)

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment in Land	Treasury Stock	Total
<b>BALANCES AS OF DECEMBER 31, 2006</b>	<b>237,938,250</b>	<b>293,525,037</b>	<b>81,242,110</b>	-	<b>(2,923,246)</b>	<b>609,782,151</b>
Total Comprehensive Income for the year	-	-	54,828,138	2,999,188	-	57,827,326
<b>BALANCES AS OF DECEMBER 31, 2007</b>	<b>237,938,250</b>	<b>293,525,037</b>	<b>136,070,248</b>	<b>2,999,188</b>	<b>(2,923,246)</b>	<b>667,609,477</b>
Issuance of stock dividends (Note 17)	23,725,200	-	(23,725,200)	-	-	-
Total Comprehensive Income for the year	-	-	84,271,651	230,707	-	84,502,358
<b>BALANCES AS OF DECEMBER 31, 2008</b>	<b>261,663,450</b>	<b>293,525,037</b>	<b>196,616,699</b>	<b>3,229,895</b>	<b>(2,923,246)</b>	<b>752,111,835</b>
Issuance of stock dividends (Note 17)	26,097,722	-	(26,097,722)	-	-	-
Total Comprehensive Income for the year	-	-	155,790,651	-	-	155,790,651
<b>BALANCES AS OF DECEMBER 31, 2009</b>	<b>287,761,172</b>	<b>293,525,037</b>	<b>326,309,628</b>	<b>3,229,895</b>	<b>(2,923,246)</b>	<b>907,902,486</b>
Net income for the Quarter	-	-	50,091,930	-	-	50,091,930
<b>BALANCES AS OF MARCH 31, 2010</b>	<b>287,761,172</b>	<b>293,525,037</b>	<b>376,401,558</b>	<b>3,229,895</b>	<b>(2,923,246)</b>	<b>957,994,416</b>
Net income for the Quarter	-	-	80,722,114	-	-	80,722,114
<b>BALANCES AS OF JUNE 30, 2010</b>	<b>287,761,172</b>	<b>293,525,037</b>	<b>457,123,672</b>	<b>3,229,895</b>	<b>(2,923,246)</b>	<b>1,038,716,530</b>
Net income for the Quarter	-	-	47,169,920	-	-	47,169,920
Payment of Cash dividends	-	-	(14,353,746)	-	-	(14,353,746)
Issuance of stock dividends (Note 17)	14,353,746	-	(14,353,746)	-	-	-
<b>BALANCES AS OF SEPTEMBER 30, 2010</b>	<b>302,114,918</b>	<b>293,525,037</b>	<b>475,586,100</b>	<b>3,229,895</b>	<b>(2,923,246)</b>	<b>1,071,532,704</b>
<b>BALANCES AS OF SEPTEMBER 30, 2009</b>	<b>261,663,450</b>	<b>293,525,037</b>	<b>285,131,928</b>	<b>3,229,895</b>	<b>(2,923,246)</b>	<b>840,627,064</b>

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2010	2009	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax	69,679,224	52,993,949	260,004,827	131,052,483
Adjustments for:				
Depreciation and amortization (Notes 8 and 19)	70,926,172	47,523,887	188,611,427	137,552,047
Interest expense (Notes 11, 15, 21 and 32)	4,043,725	6,309,194	12,291,977	3,323,706
Interest income (Notes 9, 22 and 26)	(802,563)	(649,491)	(2,182,681)	(1,933,879)
Software and other program costs (Notes 10 and 19)	773,041	769,390	2,316,688	2,284,338
Operating income before working capital changes	144,619,598	106,946,929	461,042,238	272,278,695
Decrease (increase) in:				
Receivables	(740,260)	(26,415,220)	50,305,513	66,567,057
Inventories	33,460,591	41,058,502	102,527,222	72,338,080
Prepayments and other current assets	2,867,259	(64,256,583)	(38,219,210)	(124,705,196)
Increase (decrease) in:				
Accounts payable and accrued expenses	(256,536,425)	(192,630,108)	(453,256,484)	(381,445,004)
Other current liabilities	51,069,109	(85,705,686)	173,575,558	67,088,015
Deposits payable	(51,527,318)	30,337,997	(8,300,079)	55,432,285
Net retirement obligations	318,507	2,147,922	(2,070,074)	1,322,380
<b>Cash generated from operations</b>	<b>(76,468,939)</b>	<b>(188,516,248)</b>	<b>285,604,685</b>	<b>28,876,311</b>
Income taxes paid	(26,129,389)	(22,152,099)	(76,826,658)	(45,043,555)
Interest received	802,563	649,491	2,182,681	1,933,879
<b>Net cash from operating activities</b>	<b>(101,795,764)</b>	<b>(210,018,856)</b>	<b>210,960,707</b>	<b>(14,233,365)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to:				
Property and equipment (Note 8)	(150,863,257)	(89,970,479)	(448,169,548)	(191,632,851)
Software and other program costs (Note 10)	(773,041)	(769,390)	(2,316,688)	(2,284,338)
Deposits	(8,222,200)	(9,424,693)	(26,888,474)	(22,391,546)
Goodwill and other noncurrent assets	(3,350,160)	(21,813,899)	633,371	(1,353,246)
<b>Net cash used in investing activities</b>	<b>(163,208,659)</b>	<b>(121,978,462)</b>	<b>(476,741,339)</b>	<b>(217,661,981)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Availments of bank loans (Note 11)	80,000,000	-	80,000,000	130,000,000
Payments of bank loans (Note 11)	-	-	(60,000,000)	(50,000,000)
Payment of Cash Dividends (Note 17)	(14,353,746)	-	(14,353,746)	-
Interest paid	(4,043,725)	(6,309,194)	(12,291,977)	(3,323,706)
<b>Net cash used in financing activities</b>	<b>61,602,529</b>	<b>(6,309,194)</b>	<b>(6,645,723)</b>	<b>76,676,294</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(203,401,894)</b>	<b>(338,306,512)</b>	<b>(272,426,355)</b>	<b>(155,219,052)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>379,806,427</b>	<b>497,967,817</b>	<b>448,830,888</b>	<b>314,880,357</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>176,404,533</b>	<b>159,661,305</b>	<b>176,404,533</b>	<b>159,661,305</b>

See accompanying Notes to Consolidated Financial Statements

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

Corporate Information

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

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

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

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

Authorization for Issuance of the Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 12, 2010.

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

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, except for parcels of land, which are carried at revalued amount. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency.

Statement of Compliance

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

Basis of Consolidation

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

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

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

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

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

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

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

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

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

#### *Financial Assets*

##### a. Financial Assets at FVPL

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

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

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

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

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

As of December 31, 2009 and 2008, the Group has no financial asset as at FVPL.

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

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

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

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the profit or loss.

As of December 31, 2009 and 2008, the Group has no outstanding embedded derivatives.

b. HTM Financial Assets

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

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

c. Loans and Receivables

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

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

d. AFS Financial Assets

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

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

*Financial Liabilities*

a. Financial Liabilities at FVPL

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

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

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

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

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

As of December 31, 2009 and 2008, the Group has not designated any financial liability as at FVPL.

b. Other Financial Liabilities

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

The Group's other financial liabilities consist of bank loans, accounts payable and accrued expenses, other current liabilities and cumulative redeemable preferred shares as of December 31, 2009 and 2008.

#### Determination of Fair Values

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

#### Day 1 Profit

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

#### Offsetting Financial Instruments

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

#### Impairment of Financial Assets

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

#### *Financial Assets Carried at Amortized Cost*

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

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

collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

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

#### *Financial Assets Carried at Cost*

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

#### *Financial Assets Carried at Fair Value*

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

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

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

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;



- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### Inventories

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

#### Value added tax

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

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

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

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

#### Advances to suppliers

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

### Property and Equipment

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

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

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

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

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

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

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

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

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

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

### Software and Program Cost

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

### Impairment of Property and Equipment and Software and Program Cost

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

### Deposits

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

### Goodwill

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

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

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

### Cumulative Redeemable Preferred Shares

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

### Deferred Revenue

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

### Capital Stock

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

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to

extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

#### Treasury Stock

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

#### Revenue Recognition

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

##### *Merchandise Sales*

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

##### *Franchise*

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

##### *Marketing*

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

##### *Commission*

Commission income is recognized upon the sale of consigned goods.

##### *Rent*

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

##### *Interest*

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

#### Cost and Expenses Recognition

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

#### Other Comprehensive Income

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

#### Retirement Benefits

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

of that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

### Leases

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

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

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

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

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

### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Foreign Currency-Denominated Transactions

Transactions in foreign currency are initially recorded at the exchange rate at the date of transaction. Outstanding foreign currency-denominated monetary assets and liabilities are re-translated using the applicable exchange rate at balance sheet date. Exchange differences arising from translation of foreign

currency monetary items at rates different from those at which they were originally recorded are recognized in profit or loss.

### Income Tax

#### *Current Income Tax*

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

#### *Deferred Income Tax*

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

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

Deferred income tax relating to items recognized directly in the consolidated stockholders' equity is recognized in the consolidated statement of comprehensive income.

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

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

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

### Earnings (Loss) Per Share

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

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

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

### Segment Reporting

Operating segments are components of an entity for which separate financial information is available and evaluated regularly by management in deciding how to allocate resources and assessing performance. The Group considers the store operation as its primary activity and its only business segment. Franchising,

renting of properties and commissioning on bills payment services are considered an integral part of the store operations.

#### Provisions

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

#### Contingencies

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

#### Events after the Balance Sheet Date

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

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### **3. Use of Significant Accounting Judgments, Estimates and Assumptions**

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

#### Judgment

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

##### *Determination of Functional Currency*

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

### *Classification of Financial Instruments*

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

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

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

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

### *Classification of Leases*

#### a. Finance Lease as Lessor

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

#### b. Operating Lease as Lessee

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

#### c. Operating Lease as Lessor

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

### Estimates

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

### *Determination of Fair Values*

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

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



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

#### *Impairment of Loans and Receivables*

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

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

The carrying value of loans and receivables amounted to P309,286,498 and P628,448,541 as of September 30, 2010 and December 31, 2009, respectively (Note 29). Allowance for impairment on loans and receivables amounted to P10,843,948 as of September 30, 2010 and December 31, 2009 (Notes 5 and 30). Provision for impairment amounted to P9,798,327 in 2009, P7,069,507 in 2008 and P346,678 in 2007 (Notes 5 and 19).

#### *Impairment of AFS Financial Assets*

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

The carrying value of AFS financial assets amounted to P2,314,575 as of September 30, 2010 and December 31, 2009 (Notes 10 and 29). No impairment losses were recognized in 2009, 2008 and 2007.

#### *Decline in Inventory Value*

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

The carrying value of inventories amounted to P 313,125,449 and P415,652,671 as of September 30, 2010 and December 31, 2009, respectively (Note 6). No provisions for decline in inventory value were recognized in 2009, 2008 and 2007.

#### *Estimation of Useful Lives of Property and Equipment*

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

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱1,486,802,552 and ₱1,227,244,430 as of September 30, 2010 and December 31, 2009, respectively (Note 8).

#### *Impairment of Property and Equipment and Software and Program Costs*

The Group determines whether its items of property and equipment and software and program costs are impaired on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the assets are allocated. The preparation of the estimated future cash flows in determining value-in-use involves significant judgment, estimation and assumption. While management believes that the assumptions made are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

The carrying value of property and equipment and software and program costs amounted to ₱ 1,492,496,559 and ₱1,235,255,125 as of September 30, 2010 and December 31, 2009, respectively (Notes 8 and 10). Based on management's assessment, there were no indicators of impairment in the Group's nonfinancial assets, thus, no impairment loss needs to be recognized in 2009, 2008 and 2007.

#### *Impairment of Goodwill*

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

The carrying value of goodwill amounted to ₱65,567,524 as of September 30, 2010 and December 31, 2009 (Note 10). No impairment losses were recognized in 2009 and 2007, while impairment loss recognized on goodwill amounted to ₱4,611,368 in 2008 (Note 10).

#### *Estimation of Retirement Benefits*

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

The Group's net retirement obligations amounted to ₱ 53,597,049 and ₱55,667,123 as of September 30, 2010 and December 31, 2009, respectively (Note 24). Retirement benefits cost amounted to ₱21,979,689 in 2009, ₱8,720,701 in 2008 and ₱7,128,633 in 2007 (Notes 23 and 24). Further details about the assumptions used are disclosed in Note 24.

#### *Realizability of Deferred Income Tax Assets*

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

The Group's recognized deferred income tax assets amounted to ₱51,387,363 and ₱41,782,617 as of December 31, 2009 and 2008, respectively (Note 27).

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#### 4. Cash and Cash Equivalents

	SEP 2010	DEC 2009
Cash on hand and in banks	<b>P 160,062,667</b>	<b>P 432,900,994</b>
Cash equivalents	<b>16,341,866</b>	<b>15,929,894</b>
	<b>P 176,404,533</b>	<b>P 448,830,888</b>

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

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#### 5. Receivables

	SEP 2010	DEC 2009
Suppliers	<b>P 45,001,583</b>	<b>P 69,278,890</b>
Franchisee	<b>0</b>	<b>50,439,162</b>
Employees	<b>8,507,922</b>	<b>6,906,248</b>
Rent	<b>4,071,822</b>	<b>4,755,572</b>
Current portion of lease receivable - net of unearned interest income amounting to P332,436 and P465,251 as of December 31, 2009 and 2008, respectively (Note 26)	<b>905,577</b>	<b>2,187,564</b>
Insurance claims	<b>20,135,972</b>	<b>1,905,773</b>
Store operators	<b>3,388,826</b>	<b>1,688,404</b>
Deposits	<b>1,009,864</b>	<b>1,009,864</b>
Due from Philippine Foundation, Inc. (PFI) (Note 25)	<b>729,697</b>	<b>323,477</b>
Others	<b>16,927,276</b>	<b>12,489,099</b>
	<b>100,678,539</b>	<b>150,984,053</b>
Less allowance for impairment	<b>10,843,948</b>	<b>10,843,948</b>
	<b>P 89,834,592</b>	<b>P 140,140,105</b>

The classes of receivables of the Group are as follows:

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

Movements in allowance for impairment are as follows:

	SEP 2010		
	Suppliers	Others	Total
Beginning balances	<b>P7,535,300</b>	<b>P3,308,648</b>	<b>P10,843,948</b>
Provision for the year (Note 19)	-	-	-
Write-off	-	-	-
Recovery of bad debts	-	-	-
Ending balances	<b>P7,535,300</b>	<b>P3,308,648</b>	<b>P10,843,948</b>

	DEC 2009		
	Suppliers	Others	Total
Beginning balances	P6,605,041	P2,135,133	P8,740,174
Provision for the year (Note 19)	7,535,300	2,263,027	9,798,327
Write-off	(6,605,041)	(976,212)	(7,581,253)
Recovery of bad debts	-	(113,300)	(113,300)
Ending balances	P7,535,300	P3,308,648	P10,843,948

## 6. Inventories

	SEP 2010	DEC 2009
At cost (Note 18):		
Warehouse merchandise	P 151,991,941	P 235,157,252
Store merchandise	161,133,508	180,495,419
	<b>P 313,125,449</b>	<b>P 415,652,671</b>

## 7. Prepayments and Other Current Assets

	SEP 2010	DEC 2009
Deferred input value-added tax (VAT)	P 109,119,444	P 88,368,544
Advances to suppliers	26,442,197	44,291,320
Prepaid rent	33,829,373	23,163,308
Advances for expenses	6,908,393	5,460,880
Supplies	1,298,944	1,445,555
Current portion of deferred lease (Notes 10 and 26)	1,425,742	1,425,742
Prepaid uniform	1,511,733	1,105,330
Prepaid taxes and licenses	10,231,196	-
Others	21,835,581	9,122,713
	<b>P 212,602,602</b>	<b>P 174,383,392</b>

## 8. Property and Equipment

Movements in property and equipment are as follows:

	2010									
	Land	Store			Office		Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
		Buildings and Improvements	Furniture and Equipment	Furniture and Equipment	Transportation Equipment					
<b>Costs/Revalued Amount</b>										
Beginning balances	44,481,000	106,835,234	838,669,090	341,773,268	31,477,634	234,546,576	632,372,530	43,745,816	2,273,901,1	
Additions	-	2,477,678	209,534,823	61,758,753	6,946,905	15,271,777	69,603,182	82,576,431	448,169,548	
Disposals	-	-	(26,007,646)	(5,881,206)	(1,099,583)	(2,080,394)	-	-	(35,068,829)	
Reclassifications	-	-	-	-	-	-	47,312,388	(47,312,388)	-	
Ending balances	44,481,000	109,312,912	1,022,196,267	397,650,815	37,324,955	247,737,959	749,288,099	79,009,860	2,687,001,867	
<b>Accumulated Depreciation and Amortization</b>										
Beginning balances	-	55,131,255	358,677,751	170,264,855	20,757,802	161,954,996	279,870,057	-	1,046,656,716	
Depreciation and amortization (Note 19)	-	3,643,907	74,969,169	30,948,712	3,395,689	29,555,864	46,098,088	-	188,611,429	
Disposals	-	-	(26,007,646)	(5,881,206)	(1,099,583)	(2,080,394)	-	-	(35,068,829)	
Reclassifications	-	-	(989,351)	6,002	-	(1,508)	984,858	-	(0)	
Ending balances	-	58,775,162	406,649,923	195,338,363	23,053,908	189,428,958	326,953,002	-	1,200,199,316	
<b>Net Book Values</b>	<b>44,481,000</b>	<b>50,537,750</b>	<b>615,546,344</b>	<b>202,312,453</b>	<b>14,271,047</b>	<b>58,309,001</b>	<b>422,335,097</b>	<b>79,009,860</b>	<b>1,486,802,552</b>	

	2009									
	Land	Store			Office		Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
		Buildings and Improvements	Furniture and Equipment	Furniture and Equipment	Transportation Equipment					
<b>Costs/Revalued Amount</b>										
Beginning balances	P44,481,000	P106,053,132	P713,363,611	P272,075,851	P26,056,994	P214,549,222	P599,133,189	P15,631,887	P1,991,344,886	
Additions	-	782,102	158,765,465	61,112,527	5,420,640	19,997,353	53,328,694	62,987,209	362,393,990	
Disposals	-	-	(20,377,442)	(4,497,653)	-	-	(54,962,628)	-	(79,837,723)	
Reclassifications	-	-	(13,082,543)	13,082,543	-	-	34,873,275	(34,873,275)	-	
Ending balances	44,481,000	106,835,234	838,669,091	341,773,268	31,477,634	234,546,575	632,372,530	43,745,821	2,273,901,153	
<b>Accumulated Depreciation and Amortization</b>										
Beginning balances	-	49,663,042	306,461,568	144,210,934	16,959,659	117,352,566	284,655,788	-	919,303,557	
Depreciation and amortization (Note 19)	-	5,468,213	73,029,711	30,115,489	3,434,230	44,966,349	46,891,726	-	203,905,718	
Disposals	-	-	(20,377,442)	(4,497,653)	-	-	(51,677,457)	-	(76,552,552)	
Reclassifications	-	-	(436,085)	436,085	-	-	-	-	-	
Ending balances	-	55,131,255	358,677,752	170,264,855	20,393,889	162,318,915	279,870,057	-	1,046,656,723	
<b>Net Book Values</b>	<b>P44,481,000</b>	<b>P51,703,979</b>	<b>P479,991,339</b>	<b>P171,508,413</b>	<b>P11,083,745</b>	<b>P72,227,660</b>	<b>P352,502,473</b>	<b>P43,745,821</b>	<b>P1,227,244,430</b>	

On February 5, 2007, the Group revalued its land with cost amounting to P39,866,864 at appraised value of P44,481,000, as determined by a professionally qualified independent appraiser. The appraisal increase of P3,229,895, net of P1,384,241 deferred income tax liability, resulting from the revaluation was credited to "Revaluation increment on land" account presented under the stockholders' equity section of the consolidated balance sheets. The appraised value was determined using the market data approach, wherein the value of the land is based on sales and listings of comparable properties registered within the vicinity.

Fully depreciated property and equipment that are still being used in operations amounted to P498,262,619 and P472,529,940 as of December 31, 2009 and 2008, respectively.

On September 26, 2009, nine of the Company's stores were devastated by the typhoon "Ondoy". The Company recognized loss from the said typhoon amounting to P3,285,171, which represents the net book value of the property and equipment destroyed by the typhoon as of that said date.

## 9. Deposits

	SEP 2010	DEC 2009
Rent	P 139,434,610	P 116,115,962
Utilities	27,623,471	22,131,783
Refundable	10,326,979	10,326,979
Others	831,447	2,753,309
	<b>P 178,216,507</b>	<b>P 151,328,033</b>

## Refundable

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

	SEP 2010	DEC 2009
Face value of security deposits	<b>P 10,326,979</b>	P 26,835,877
Additions	-	958,162
Refunded	-	(876,000)
Unamortized discount	-	(16,591,060)
	<b>P 10,326,979</b>	P 10,326,979

Movements in unamortized discount are as follows:

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

## 10. **Goodwill and Other Noncurrent Assets**

	SEP 2010	DEC 2009
Goodwill	<b>P 65,567,524</b>	P 65,567,524
Deferred lease - net of current portion	<b>11,761,052</b>	11,761,052
Garnished accounts	<b>9,604,351</b>	10,856,648
Software and program cost - net	<b>5,694,008</b>	8,010,695
Lease receivable - net of current portion (Note 26)	<b>4,265,476</b>	4,265,477
AFS financial assets	<b>2,314,575</b>	2,314,575
Others	<b>7,247,215</b>	4,311,601
	<b>P 106,454,201</b>	P 107,087,572

### Goodwill

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

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

As of December 31, 2009 and 2008, the Group has closed one and nine stores, respectively, out of the 35 stores it purchased from Jollimart, which resulted in the recognition of impairment loss on goodwill amounting to P4,611,368 in 2008. No impairment losses were recognized in 2009 and 2007.

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

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

*Sales and cost ratio*

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

*Discount rates*

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

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

*Growth rate estimates*

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

Deferred Lease

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

Movements in deferred lease are as follows:

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

Software and Program Cost

Movements in software and program cost are as follows:

	SEP 2010	DEC 2009
<b>Cost</b>		
Beginning balance	P <b>14,500,085</b>	P 14,214,085
Acquisition	-	286,000
Ending balance	<b>14,500,085</b>	14,500,085

<b>Accumulated amortization</b>		
Beginning balance	<b>6,489,390</b>	3,435,662
Amortization (Note 19)	<b>2,316,688</b>	3,053,728
Ending balance	<b>8,806,078</b>	6,489,390
<b>Net Book Values</b>	<b>P 5,694,008</b>	P 8,010,695

#### AFS Financial Assets

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

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#### 11. **Bank Loans**

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump sum in 2009 and 2008 with annual interest rates ranging from 4.90% to 5.50% in 2009, 6.75% to 8.60% in 2008 and from 7.47% to 8.60% in 2007, which are repriced monthly based on market conditions.

Movements in bank loans are as follows:

	<b>SEP 2010</b>	DEC 2009
Beginning balance	<b>P 340,000,000</b>	P330,000,000
Availment	<b>80,000,000</b>	510,000,000
Payments	<b>(60,000,000)</b>	(500,000,000)
Ending balance	<b>P 360,000,000</b>	P340,000,000

Interest expense from these bank loans amounted to P 12,291,977 and P 20,940,825 as of September 30, 2010 and September 30, 2009, respectively (Note 21). Interest payable amounted to P 697,139 and P 641,417 as of September 30, 2010 and December 31, 2009, respectively (Note 12).

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#### 12. **Accounts Payable and Accrued Expenses**

	<b>SEP 2010</b>	DEC 2009
Trade payable	<b>P 410,212,029</b>	P 864,748,683
Rent (Note 26)	<b>68,884,872</b>	80,927,422
Employee benefits	<b>23,555,618</b>	26,820,981
Utilities	<b>26,764,389</b>	17,666,410
Advertising and promotion	<b>13,928,561</b>	7,049,972
Outsourced services	<b>6,889,440</b>	6,497,194
Security services	<b>2,460,840</b>	2,292,041
Bank charges	<b>1,250,000</b>	1,852,100
Interest (Note 15)	<b>697,139</b>	1,053,797
Others	<b>19,710,233</b>	18,701,005
	<b>P 574,353,121</b>	P1,027,609,605

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**13. Other Current Liabilities**

	<b>SEP 2010</b>	DEC 2009
Non-trade accounts payable	P 285,043,922	P 138,118,326
Withholding taxes	12,835,873	18,711,796
Retention payable	18,818,146	15,236,991
Service fees payable	10,934,173	11,006,733
Royalty (Note 25)	6,593,715	6,719,659
Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	3,913,690	3,913,690
Finance lease (Notes 16 and 26)	1,310,151	1,310,151
Output VAT	12,768,354	3,904,917
Others (Note 25)	28,158,586	13,012,717
	<b>P 380,376,610</b>	<b>P 211,934,980</b>

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**14. Deposits Payable**

	<b>SEP 2010</b>	DEC 2009
Franchisees	P 52,432,689	P 70,812,875
Service agreement	47,496,903	38,309,233
Rent	11,737,383	10,844,946
	<b>P 111,666,975</b>	<b>P 119,967,054</b>

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**15. Cumulative Redeemable Preferred Shares**

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

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included as part of "Interest expense" in the consolidated statements of comprehensive income amounted to P 273,690 as of September 30, 2010 and P 309,285 as of September 30, 2009 (Note 21). Interest payable included under "Accounts payable and accrued expenses" in the consolidated balance sheets amounted to P 273,690 and 412,380 as of September 30, 2010 and December 31, 2009, respectively.

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**16. Deferred Revenue**

	<b>SEP 2010</b>	DEC 2009
Deferred revenue on finance lease (Note 26)	1,856,046	P1,856,046
Deferred revenue on exclusivity contract (Note 32)	5,133,929	-
	<b>6,989,975</b>	<b>P1,856,046</b>

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### Deferred Revenue on Exclusivity Contract

Movements in deferred revenue on exclusivity contract are as follows:

	<b>SEP 2010</b>	DEC 2009
Beginning balance	P -	P 7,827,381
Additions	<b>6,417,411</b>	
Amortization (Note 32)	<b>(1,283,482)</b>	(3,913,691)
	<b>5,133,929</b>	3,913,690
Less current portion	-	3,913,690
	<b>P 5,133,929</b>	P -

### Deferred Revenue on Finance Lease

Movements in deferred revenue on finance lease are as follows:

	<b>SEP 2010</b>	DEC 2009
Beginning balance	P <b>3,166,197</b>	P4,476,348
Less amortization (Note 26)	-	1,310,151
	<b>3,166,197</b>	3,166,197
Less current portion	<b>1,310,151</b>	1,310,151
	<b>P 1,856,046</b>	P1,856,046

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## 17. Equity

On July 29, 2010, The Company's BOD approved the recommendation for a stock dividend declaration corresponding to 5% of the outstanding common shares of the Company of 287,074,920 shares or equivalent of 14,353,746 common shares and at least 2/3 of the Company's stockholders approved the stock dividend declaration corresponding to 5% of the outstanding common shares and the issuance of 14,353,746 common shares with par value of P1 amounting to P 14,353,746. The Company's BOD also approved declaration and payment of cash dividends in the amount of P0.05 per share for 287,074,920 outstanding capital stock. Record date of entitlement is August 27, 2010.

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

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

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

On July 17, 2008, at least 2/3 of the Company's stockholders approved the stock declaration corresponding to 10% of the outstanding common shares and the issuance of 23,725,200 common shares with par value of P1 amounting to P23,725,200. Record date of entitlement is August 15, 2008.

Movements in the number of shares issued are as follows:

	SEP 2010	DEC 2009
Beginning balance	287,761,172	261,663,450
Issuance of stock dividend	14,353,746	26,097,722
Ending balance	<b>302,114,918</b>	287,761,172

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#### 18. Cost of Merchandise Sales

	Sep 2010	Sep 2009
Merchandise inventory, beginning	P 415,652,671	P 339,556,385
Net purchases	3,940,569,843	3,013,748,569
	<b>4,356,222,514</b>	3,353,304,954
Less merchandise inventory, ending	313,125,449	267,218,305
	<b>P 4,043,097,065</b>	P 3,086,086,649

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#### 19. General and Administrative Expenses

	Sep 2010	Sep 2009
Communication, light and water	P 18,736,302	P 15,119,370
Rent (Note 26)	258,687,803	228,702,842
Outside services (Note 32)	261,910,209	217,987,525
Personnel costs (Note 23)	230,043,385	216,835,856
Depreciation and amortization	188,611,427	137,552,047
Advertising and promotion	72,955,842	60,864,096
Royalties (Note 25)	66,167,013	50,618,237
Trucking services	65,060,932	48,354,694
Taxes and licenses	52,733,583	48,550,401
Repairs and maintenance	58,640,283	42,832,067
Supplies	54,075,039	35,763,433
Warehousing services	42,688,799	34,045,965
Transportation and travel	15,173,838	12,358,802
Entertainment, amusement and recreation	5,024,145	5,721,524
Inventory losses	30,563,964	25,535,941
Provision for impairment of receivables	-	-
Dues and subscription	3,451,331	3,452,937
Insurance	3,480,443	3,355,523
Amortization of software and program costs	2,316,688	2,284,338
Others	397,344,117	280,493,358
	<b>P 1,827,665,143</b>	P 1,470,428,958

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**20. Marketing Income**

	Sep 2010	Sep 2009
Display charges	P 86,042,943	P 73,369,044
Promotions	70,741,335	37,941,360
Marketing support funds	35,926,631	10,975,011
	P 192,710,909	P 122,285,415

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**21. Interest Expense**

	Sep 2010	Sep 2009
Interest on:		
Bank loans	P 12,018,287	P 20,631,540
Long-term debt (Note 32)	-	-
Guaranteed preferred dividends	273,690	309,285
	P 12,291,977	P 20,940,825

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**22. Interest Income**

	Sep 2010	Sep 2009
Interest on:		
Bank deposits	P 2,182,681	P 1,933,879
Finance lease (Note 26)	-	-
Accretion of refundable deposits	-	-
	P 2,182,681	P 1,933,879

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**23. Personnel Costs**

	Sep 2010	Sep 2009
Salaries and wages	131,458,753	125,108,964
Employee benefits	92,140,866	85,170,864
Retirement benefits cost (Note 24)	6,443,766	6,556,028
	230,043,385	216,835,856

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**24. Retirement Benefits**

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

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

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

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

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

	2007		
	PSC	CDI	Total
Current service cost	P3,526,882	P146,985	P3,673,867
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
<b>Net retirement benefits cost</b>	<b>P6,981,489</b>	<b>P147,144</b>	<b>P7,128,633</b>

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

	2009		
	PSC	CDI	Total
Present value of retirement obligations	<b>P62,438,440</b>	<b>P4,864,964</b>	<b>P67,303,404</b>
Less fair value of net plan assets	<b>7,178,008</b>	<b>504,251</b>	<b>7,682,259</b>
Unfunded retirement obligation	<b>55,260,432</b>	<b>4,360,713</b>	<b>59,621,145</b>
Unrecognized net actuarial gain (loss)	<b>(4,042,102)</b>	<b>88,080</b>	<b>(3,954,022)</b>
<b>Net retirement obligations</b>	<b>P51,218,330</b>	<b>P4,448,793</b>	<b>P55,667,123</b>

	2008		
	PSC	CDI	Total
Present value of retirement obligations	P54,006,788	P4,174,204	P58,180,992
Less fair value of net plan assets	6,165,743	471,869	6,637,612
Unfunded retirement obligation	47,841,045	3,702,335	51,543,380
Unrecognized net actuarial losses	(14,994,391)	(721,252)	(15,715,643)
<b>Net retirement obligations</b>	<b>P32,846,654</b>	<b>P2,981,083</b>	<b>P35,827,737</b>

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

	2009		
	PSC	CDI	Total
Beginning balances	<b>P54,006,788</b>	<b>P4,174,204</b>	<b>P58,180,992</b>
Current service cost	<b>345,868</b>	<b>146,754</b>	<b>492,622</b>
Interest cost	<b>20,284,950</b>	<b>1,347,433</b>	<b>21,632,383</b>
Benefits paid	<b>(1,613,202)</b>	<b>-</b>	<b>(1,613,202)</b>
Actuarial gains	<b>(10,585,964)</b>	<b>(803,427)</b>	<b>(11,389,391)</b>
Ending balances	<b>P62,438,440</b>	<b>P4,864,964</b>	<b>P67,303,404</b>

	2008		
	PSC	CDI	Total
Beginning balances	P50,892,911	P1,674,978	P52,567,889
Current service cost	4,353,211	124,321	4,477,532
Interest cost	4,229,201	135,003	4,364,204
Benefits paid	(2,927,849)	(224,070)	(3,151,919)
Actuarial loss (gain)	(2,540,686)	2,463,972	(76,714)
Ending balances	P54,006,788	P4,174,204	P58,180,992

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

	2009		
	PSC	CDI	Total
Beginning balances	<b>P6,165,743</b>	<b>P471,869</b>	<b>P6,637,612</b>
Expected return on plan assets	<b>554,917</b>	<b>42,468</b>	<b>597,385</b>
Contribution	<b>2,140,303</b>	<b>-</b>	<b>2,140,303</b>
Benefits paid	<b>(1,613,202)</b>	<b>-</b>	<b>(1,613,202)</b>
Actuarial losses	<b>(69,753)</b>	<b>(10,086)</b>	<b>(79,839)</b>
Ending balances	<b>P7,178,008</b>	<b>P504,251</b>	<b>P7,682,259</b>

	2008		
	PSC	CDI	Total
Beginning balances	P6,039,312	P462,193	P6,501,505
Expected return on plan assets	543,538	41,597	585,135
Contribution	2,794,501	213,865	3,008,366
Benefits paid	(2,927,849)	(224,070)	(3,151,919)
Actuarial losses	(283,759)	(21,716)	(305,475)
Ending balances	P6,165,743	P471,869	P6,637,612

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

	2009	2008
Cash in bank	<b>P162</b>	P1,303
Investments in equity securities and trust and mutual funds	<b>7,686,311</b>	6,647,004
Liabilities	<b>(4,214)</b>	(10,695)
	<b>P7,682,259</b>	P6,637,612

Actual return on plan assets amounted to P485,164 in 2009 and P259,779 in 2008 for PSC and P32,382 in 2009 and P19,881 in 2008 for CDI.

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

PSC and CDI expect to contribute P4,000,000 and P100,000, respectively, to their defined benefit plan in 2010.

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

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

Amounts for the current and prior periods are as follows:

	2009		
	PSC	CDI	Total
Present value of retirement obligations	<b>P62,438,440</b>	<b>P4,864,964</b>	<b>P67,303,404</b>
Fair value of net plan assets	<b>7,178,008</b>	<b>504,251</b>	<b>7,682,259</b>
Unfunded retirement obligation	<b>55,260,432</b>	<b>4,360,713</b>	<b>59,621,145</b>
Experience gain adjustments on retirement obligations	<b>(12,458,512)</b>	<b>(857,124)</b>	<b>(13,315,636)</b>
Experience loss adjustments on plan assets	<b>(69,753)</b>	<b>(10,086)</b>	<b>(79,839)</b>
	2008		
	PSC	CDI	Total
Present value of retirement obligations	P54,006,788	P4,174,204	P58,180,992
Fair value of net plan assets	6,165,743	471,869	6,637,612
Unfunded retirement obligation	47,841,045	3,702,335	51,543,380
Experience loss adjustments on retirement obligations	46,616	2,532,432	2,579,048
Experience loss adjustments on plan assets	(283,759)	(21,716)	(305,475)

## 25. Related Party Transactions

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

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

Significant transactions with related parties consist of:

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

Royalty fees recorded by the Group amounted to P 66,167,013 as of September 30, 2010 and P 50,618,237 as of September 30, 2009. Royalty fees are paid on a monthly basis.

Royalty payable included under "Other current liabilities" amounted to P 6,593,715 and P6,719,659 as of September 30, 2010 and December 31, 2009, respectively.

- b. PSC has transactions with PFI, a foundation with common key management of the Goup, consisting of noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI. Amounts due from PFI amounted to P 729,697 and P323,477 as of September 30, 2010 and December 31, 2009 respectively.

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## 26. Leases

- a. In June 2007, PSC entered into a five-year sale and leaseback finance lease agreement with an armored car service provider. The lease has no terms of renewal and no escalation clauses. Unguaranteed residual values accruing to the Company amounted to P300,000.

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

	2009	2008
Within one year	<b>P2,520,000</b>	P2,782,500
After one year but not more than five years	<b>4,500,000</b>	7,020,000
Total minimum lease payments	<b>7,020,000</b>	9,802,500
Less unearned interest income	<b>566,959</b>	x1,032,211
Present value of future minimum lease payments	<b>6,453,041</b>	8,770,289
Less current portion	<b>2,187,564</b>	2,317,248
	<b>P4,265,477</b>	P6,453,041

Collection of lease receivable amounted to P2,782,500 in 2009 and P2,887,500 in 2008.

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

	2009	2008
Within one year	<b>P2,187,564</b>	P2,317,248
After one year but not more than five years	<b>4,265,477</b>	6,453,041
Total minimum lease payments	<b>6,453,041</b>	8,770,289
Less current portion	<b>2,187,564</b>	2,317,248
Present value of future minimum lease payments	<b>P4,265,477</b>	P6,453,041



Unearned interest income as of December 31, 2009 and 2008 amounted to P566,959 and P1,032,211, respectively. Related interest income amounted to P465,251 in 2009, P614,154 in 2008 and P347,883 in 2007.

Difference between the present values of the minimum lease payments at the date of lease inception against the carrying value of the finance leased asset resulted in a deferred revenue on finance lease amounting to P6,550,753, which is to be amortized on a straight-line basis over the term of the lease. Deferred revenue amounted to P1,856,046 and P3,166,197 as of December 31, 2009 and 2008. Amortization of deferred revenue amounted to P1,310,151 in 2009 and 2008 and P764,254 in 2007.

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

Rental expense related to these lease agreements amounted to P 258,687,803 as of September 30, 2010 and P 228,702,842 as of September 30, 2009. Of the total rent expense, P663,802 in 2009, P 478,829 in 2008 and P1,054,585 in 2007 pertains to contingent rent of some stores based on percentage ranging from 1.5% to 3.0% of merchandise sales. Amortization of deferred lease amounted to P385,024 in 2009, P811,861 in 2008 and P1,174,560 in 2007.

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

	<b>2009</b>	2008
Within one year	<b>P58,103,466</b>	P69,316,737
After one year but not more than five years	<b>126,794,701</b>	164,360,319
More than five years	<b>7,066,790</b>	17,337,068
	<b>P191,964,957</b>	P251,014,124

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

Rent expenses related to this lease agreements amounted to P22,925,240 in 2009, 2008 and 2007. Amortization of deferred lease amounted to P 1,090,500 in 2009 and 2008 and P545,250 in 2007.

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

	<b>2009</b>	2008
Within one year	<b>P20,815,812</b>	P19,680,994
After one year but not more than five years	<b>113,806,440</b>	110,512,189
More than five years	<b>130,516,307</b>	154,626,371
Total	<b>P265,138,559</b>	P284,819,554

The Company also has other various short-term operating leases pertaining to rental of warehouse fixtures and equipments. Related rent expense amounted to P 5,100,725 in 2009, P4,732,223 in 2008 and P3,908,705 in 2007.

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

Rental income related to these sublease agreements amounted to P 24,257,622 as of September 30, 2010 and 21,937,296 in September 30, 2009.

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

	2009	2008
Within one year	P 623,731	P 669,515
After one year but not more than five years	714,800	1,338,531
	<b>P1,338,531</b>	<b>P 2,008,046</b>

## 27. Income Tax

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

	2009	2008	2007
Current:			
RCIT	<b>P80,682,849</b>	P62,259,735	P41,716,094
Final tax on interest income	<b>627,617</b>	436,148	487,190
	<b>81,310,466</b>	62,695,883	42,203,284
Deferred	<b>(6,270,068)</b>	(2,240,115)	(773,980)
	<b>P75,040,398</b>	P60,455,768	P41,429,304

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

	2009		
	PSC	CDI	Total
Deferred tax assets:			
Accrued rent	<b>P19,243,688</b>	<b>P5,034,539</b>	<b>P24,278,227</b>
Net retirement obligations	<b>15,365,499</b>	<b>1,334,638</b>	<b>16,700,137</b>
Unamortized discount on refundable deposit	<b>4,977,318</b>	-	<b>4,977,318</b>
Allowance for impairment on receivables	<b>3,253,184</b>	-	<b>3,253,184</b>
Deferred revenue on exclusivity agreement	<b>1,174,107</b>	-	<b>1,174,107</b>
Unamortized past service cost	<b>505,033</b>	<b>48,879</b>	<b>553,912</b>
Unamortized discount on receivable	<b>207,415</b>	-	<b>207,415</b>
Unrealized foreign exchange loss	<b>145,551</b>	-	<b>145,551</b>
Unearned rent	<b>97,512</b>	-	<b>97,512</b>
	<b>44,969,307</b>	<b>6,418,056</b>	<b>51,387,363</b>
Deferred tax liabilities:			
Deferred lease expense	<b>3,956,038</b>	-	<b>3,956,038</b>
Unamortized capitalized interest	<b>1,002,780</b>	-	<b>1,002,780</b>

Unamortized discount on purchase of refundable deposit	419,703	-	419,703
Accrued rent income		-	-
	<b>5,378,521</b>	<b>-</b>	<b>5,378,521</b>
	<b>P39,590,786</b>	<b>P6,418,056</b>	<b>P46,008,842</b>

- c. Deferred income tax liability pertains to taxable temporary difference on revaluation increment in land of SSHI, which was recognized only in the consolidated financial statements amounting to P1,384,241 as of December 31, 2009 and 2008, respectively.
- d. The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of comprehensive income follow:

	2009	2008	2007
Provision for income tax computed at statutory income tax rate of 30% in 2009 and 35% in 2008 and 2007	<b>P71,911,161</b>	P50,610,083	P34,268,786
Adjustments for:			
Nondeductible expenses:			
Inventory losses	<b>3,353,737</b>	3,292,664	5,740,408
Interest expense and others	<b>1,662,459</b>	1,790,317	3,223,992
Loss from typhoon	<b>985,551</b>	-	-
Donation expense	<b>216,000</b>	-	-
Impairment loss on goodwill	-	1,613,979	-
Nontaxable income:			
Cash dividend from a domestic corporation	<b>(2,700,000)</b>	-	-
Bank interest income	<b>(313,809)</b>	(327,110)	(365,392)
Other income	<b>(74,701)</b>	(2,882,506)	(1,072,495)
Interest income on accretion	-	(487,206)	(365,995)
Effect of change in tax rate in 2009	-	6,845,547	-
Provision for income tax	<b>P75,040,398</b>	P60,455,768	P41,429,304

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

## 28. Basic/Diluted Earnings Per Share

	Sep 2010	Sep 2009
<b>a.</b> Net income	<b>177,983,964</b>	88,515,228
<b>b.</b> Weighted average number of shares issued	<b>302,114,918</b>	302,114,918
<b>c.</b> Less weighted average number of shares held in treasury	<b>686,250</b>	686,250
<b>d.</b> Weighted average number of shares outstanding <b>(b-c)</b>	<b>301,428,668</b>	301,428,668
<b>e.</b> Basic/diluted earnings per share <b>(a/d)</b>	<b>0.59</b>	0.29

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

The Group's outstanding common shares increased from 287,761,172 in December 2009 to 301,428,668 as of September 2010 as a result of stock dividend issuance equivalent to 14,353,746 common shares approved on July 29, 2010. Therefore, the calculation of basic/diluted earnings per share for all periods presented has been adjusted retrospectively.

## 29. Financial Instruments

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

	SEP 2010		DEC 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>				
Cash and cash equivalents				
Cash	<b>₱ 160,062,667</b>	<b>₱ 160,062,667</b>	₱ 432,900,994	₱ 432,900,994
Cash equivalents	<b>16,341,866</b>	<b>16,341,866</b>	15,929,894	15,929,894
	<b>176,404,533</b>	<b>176,404,533</b>	448,830,888	448,830,888
(Forward)				
Receivables:				
Suppliers	<b>37,466,283</b>	<b>37,466,283</b>	61,743,590	61,743,590
Franchisee	<b>0</b>	<b>0</b>	50,439,162	50,439,162
Employees	<b>8,507,922</b>	<b>8,507,922</b>	6,906,248	6,906,248
Rent	<b>4,071,822</b>	<b>4,071,822</b>	4,755,572	4,755,572
Current portion of lease receivable	<b>905,577</b>	<b>905,577</b>	2,187,564	2,584,612
Insurance claims	<b>20,135,972</b>	<b>20,135,972</b>	1,905,773	1,905,773
Store operators	<b>3,388,826</b>	<b>3,388,826</b>	1,688,404	1,688,404
Deposits	<b>1,009,864</b>	<b>1,009,864</b>	1,009,864	1,009,864
Due from PFI	<b>729,697</b>	<b>729,697</b>	323,477	323,477
Others	<b>13,618,628</b>	<b>13,618,628</b>	9,180,451	9,180,451
	<b>89,834,591</b>	<b>89,834,591</b>	140,140,105	140,537,153
Deposits:				
Utilities	<b>27,623,471</b>	<b>27,623,471</b>	22,131,783	22,131,783
Refundable	<b>10,326,979</b>	<b>14,053,354</b>	10,326,979	14,053,354
Others	<b>831,447</b>	<b>831,447</b>	2,753,309	2,753,309
	<b>38,781,898</b>	<b>42,508,273</b>	35,212,071	38,938,446

Other noncurrent assets - lease receivable (net of current portion)	4,265,476	4,843,464	4,265,476	4,843,464
<b>Total Loans and Receivables</b>	<b>309,286,498</b>	<b>313,590,861</b>	628,448,541	633,149,951
<b>AFS Financial Assets</b>	<b>2,314,575</b>	<b>2,314,575</b>	2,314,575	2,314,575
<b>TOTAL FINANCIAL ASSETS</b>	<b>P 311,601,073</b>	<b>P 315,905,436</b>	P 630,763,116	P 635,464,526
<b>FINANCIAL LIABILITIES</b>				
<b>Other Financial Liabilities</b>				
Bank loans	P 360,000,000	P 360,000,000	P 340,000,000	P 340,000,000
Accounts payable and accrued expenses:				
Trade payable	410,212,029	410,212,029	864,748,683	864,748,683
Employee benefits	23,555,618	23,555,618	26,820,981	26,820,981
Utilities	26,764,389	26,764,389	17,666,410	17,666,410
Advertising and promotion	13,928,561	13,928,561	7,049,972	7,049,972
Outsourced services	6,889,440	6,889,440	6,497,194	6,497,194
Security services	2,460,840	2,460,840	2,292,041	2,292,041
Bank charges	1,250,000	1,250,000	1,852,100	1,852,100
Interest	697,139	697,139	1,053,797	1,053,797
Others	19,710,233	19,710,233	18,701,005	18,701,005
	505,468,249	505,468,249	946,682,183	946,682,183
Other current liabilities:				
Non-trade accounts payable	285,043,922	285,043,922	138,118,326	138,118,326
Retention payable	18,818,146	18,818,146	15,236,991	15,236,991
Service fees payable	10,934,173	10,934,173	11,006,733	11,006,733
Royalty	6,593,715	6,593,715	6,719,659	6,719,659
Others	28,158,585	28,158,585	13,012,717	13,012,717
	349,548,542	349,548,542	184,094,426	184,094,426
Cumulative redeemable preferred shares	6,000,000	6,000,000	6,000,000	6,000,000
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>P 1,221,016,791</b>	<b>P 1,221,016,791</b>	P 1,476,776,609	P 1,476,776,609

## Fair Value Information

### *Current financial assets and financial liabilities*

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

### *Lease receivables*

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

### *Utility and other deposits*

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

### *Refundable deposits*

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

### *AFS financial assets*

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

### *Bank loans*

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

*Cumulative redeemable preferred shares*

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

Fair value Hierarchy

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

**30. Financial Risk Management Objectives and Policies**

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

*Credit Risk*

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

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

	SEP 2010	DEC 2009
<b>Cash and cash equivalents:</b>		
Cash in bank (excluding cash on hand)	<b>₱ 124,358,761</b>	<b>₱ 340,150,666</b>
Cash equivalents	<b>16,341,866</b>	15,929,894
	<b>140,700,627</b>	356,080,560
<b>Receivables:</b>		
Suppliers	<b>37,466,283</b>	61,743,590
Franchisee	<b>0</b>	50,439,162
Employees	<b>8,507,922</b>	6,906,248
Rent	<b>4,071,822</b>	4,755,572
Current portion of lease receivables	<b>905,577</b>	2,187,564
Insurance claims	<b>20,135,972</b>	1,905,773
Store operators	<b>3,388,826</b>	1688404
Deposits	<b>1,009,864</b>	1009864
Due from PFI	<b>729,697</b>	323,477
Others	<b>13,618,628</b>	9,180,451
	<b>89,834,591</b>	140,140,105
<b>Deposits:</b>		
Utilities	<b>27,623,471</b>	22,131,783
Refundable	<b>10,326,979</b>	10,326,979
Others	<b>831,447</b>	2,753,309
	<b>38,781,898</b>	35,212,071

(Forward)

Other noncurrent assets:

Lease receivables - net of current portion	4,265,477	4,265,477
AFS financial assets	2,314,575	2,314,575
	<b>6,580,052</b>	<b>6,580,052</b>
	<b>P 275,897,168</b>	<b>P 538,012,788</b>

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:

	SEP 2010			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	Total
<b>Cash and cash equivalents</b>				
Cash in bank	P 124,358,761	P -	P -	P 124,358,761
Cash equivalents	16,341,866	-	-	16,341,866
	<b>140,700,627</b>	<b>-</b>	<b>-</b>	<b>140,700,627</b>
<b>Receivables</b>				
Suppliers	-	8,744,906	36,256,678	45,001,583
Franchisee	-	0	-	0
Employees	-	8,507,922	-	8,507,922
Rent	-	4,071,822	-	4,071,822
Current portion of lease receivables	-	905,577	-	905,577
Insurance claims	-	20,135,972	-	20,135,972
Store operators	-	3,388,826	-	3,388,826
Deposits	-	1,009,864	-	1,009,864
Due from PFI	-	729,697	-	729,697
Others	-	13,618,628	3,308,648	16,927,276
	<b>-</b>	<b>61,113,214</b>	<b>39,565,326</b>	<b>100,678,539</b>
<b>Deposits</b>				
Utilities	-	27,623,471	-	27,623,471
Refundable	-	10,326,979	-	10,326,979
Others	-	831,447	-	831,447
	<b>-</b>	<b>38,781,898</b>	<b>-</b>	<b>38,781,898</b>
<b>Lease receivables - net of current portion</b>	<b>-</b>	<b>4,265,477</b>	<b>-</b>	<b>4,265,477</b>
<b>AFS financial assets</b>	<b>-</b>	<b>2,314,575</b>	<b>-</b>	<b>2,314,575</b>
	<b>-</b>	<b>6,580,052</b>	<b>-</b>	<b>6,580,052</b>
	<b>P 140,700,627</b>	<b>P 106,475,163</b>	<b>P 39,565,326</b>	<b>P 286,741,116</b>

	DECEMBER 2009			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	Total
<b>Cash and cash equivalents</b>				
Cash in bank	P340,150,666	P-	P-	P340,150,666
Cash equivalents	15,929,894	-	-	15,929,894
	<b>356,080,560</b>	<b>-</b>	<b>-</b>	<b>356,080,560</b>
<b>Suppliers</b>	<b>-</b>	<b>59,836,520</b>	<b>9,442,370</b>	<b>69,278,890</b>
<b>Franchisee</b>	<b>-</b>	<b>50,439,162</b>	<b>-</b>	<b>50,439,162</b>
<b>Employees</b>	<b>-</b>	<b>6,906,248</b>	<b>-</b>	<b>6,906,248</b>
<b>Rent</b>	<b>-</b>	<b>4,755,572</b>	<b>-</b>	<b>4,755,572</b>
<b>Current portion of lease receivables</b>	<b>-</b>	<b>2,187,564</b>	<b>-</b>	<b>2,187,564</b>
<b>Insurance claims</b>	<b>-</b>	<b>1,905,773</b>	<b>-</b>	<b>1,905,773</b>

	DECEMBER 2009			
	Neither Past Due nor Impaired		Past Due	Total
	High Grade	Standard Grade	or Impaired	
Store operators	-	1,688,404	-	1,688,404
Deposits	-	1,009,864	-	1,009,864
Due from PFI	-	323,477	-	323,477
Others	-	9,180,451	3,308,648	12,489,099
	-	138,233,035	12,751,018	150,984,053
Deposits				
Utilities	-	22,131,783	-	22,131,783
Refundable	-	10,326,979	-	10,326,979
Others	-	2,753,309	-	2,753,309
	-	35,212,071	-	35,212,071
Other noncurrent assets				
Lease receivables - net of current portion	-	4,265,477	-	4,265,477
AFS financial assets	-	2,314,575	-	2,314,575
	-	6,580,052	-	6,580,052
	P356,080,560	P180,025,158	P12,751,018	P548,856,736

The Group uses the following criteria to rate credit quality:

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

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

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

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

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

	SEP 2010				Past due and impaired	Total
	Aging analysis of financial assets past due but not impaired					
	31 to 60 days	61 to 90 days	> 90 days	Total		
Receivables:						
Suppliers	P 8,621,172	P 5,240,393	P 14,859,813	P 28,721,378	P 7,535,300	P 36,256,678
Others	-	-	-	-	3,308,648	3,308,648
	P 8,621,172	P 5,240,393	P 14,859,813	P 28,721,378	P 10,843,948	P 39,565,326



DECEMBER 2009

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

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

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

*Liquidity Risk*

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

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

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

	SEP 2010				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
<b>Cash and cash equivalents</b>					
Cash	160,062,667	-	-	-	160,062,667
Cash equivalents	16,341,866	-	-	-	16,341,866
	176,404,533	-	-	-	176,404,533
<b>Receivables</b>					
Suppliers	22,606,470	22,395,113	-	-	45,001,583
Franchisee	0	-	-	-	0
Employees	8,507,922	-	-	-	8,507,922
Rent	4,071,822	-	-	-	4,071,822
Current portion of lease receivables	-	905,577	-	-	905,577
Insurance claims	17,000,000	3,135,972	-	-	20,135,972
Store operators	3,388,826	-	-	-	3,388,826
Deposits	-	1,009,864	-	-	1,009,864
Due from subsidiaries	-	729,697	-	-	729,697
Others	13,618,628	3,308,648	-	-	16,927,276
	69,193,668	31,484,871	-	-	100,678,539
<b>Deposits</b>					
Utilities	-	-	27,623,471	-	27,623,471
Refundable	-	-	10,326,979	-	10,326,979
Others	-	-	831,447	-	831,447
	-	-	38,781,898	-	38,781,898
<b>Other noncurrent Assets</b>					
Lease receivables - net of current portion	-	-	4,265,477	-	4,265,477
AFS financial assets	-	-	-	2,314,575	2,314,575
	-	-	4,265,477	2,314,575	6,580,052
	P 245,598,201	P 31,484,871	P 43,047,375	P 2,314,575	P 322,445,021

	DECEMBER 2009				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
Cash and cash equivalents					
Cash	P432,900,994	P-	P-	P-	P432,900,994
Cash equivalents	15,929,894	-	-	-	15,929,894
	448,830,888	-	-	-	448,830,888
Receivables					
Suppliers	61,635,241	7,643,641	-	-	69,278,890
Franchisee	50,439,162	-	-	-	50,439,162
Employees	6,906,248	-	-	-	6,906,248
Rent	4,755,572	-	-	-	4,755,572
Current portion of lease receivables	534,502	1,653,061	-	-	2,187,564
Insurance claims	-	1,905,771	-	-	1,905,773
Store operators	1,688,404	-	-	-	1,688,404
Deposits	1,009,864	-	-	-	1,009,864
Due from subsidiaries	-	323,471	-	-	323,477
Others	9,180,451	3,308,641	-	-	12,489,099
	136,149,444	14,834,601	-	-	150,984,053
Deposits					
Utilities	-	-	22,131,783	-	22,131,783
Refundable	-	-	10,326,979	-	10,326,979
Others	-	-	2,753,309	-	2,753,309
	-	-	35,212,071	-	35,212,071
Other non-current assets					
Lease receivables - net of current portion	-	-	4,265,477	-	4,265,477
AFS financial assets	-	-	-	2,314,575	2,314,575
	-	-	4,265,477	2,314,575	6,580,052
	584,980,332	14,834,609	39,477,548	2,314,575	641,607,064

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

	SEPTEMBER 2010			Total
	Three months or less	More than three months to one year	More than one year	
<b>Bank loans</b>	-	360,000,000	-	360,000,000
<b>Accounts payable and accrued expenses</b>				
Trade payable	410,212,029	-	-	410,212,029
Employee benefits	23,555,618	-	-	23,555,618
Utilities	26,764,389	-	-	26,764,389
Advertising and promotion	13,928,561	-	-	13,928,561
Outsourced services	6,889,440	-	-	6,889,440
Security services	2,460,840	-	-	2,460,840
Bank charges	1,250,000	-	-	1,250,000
Interest	697,139	-	-	697,139
Others	19,710,233	-	-	19,710,233
	505,468,249	-	-	505,468,249

<b>Other current liabilities</b>				
Non-trade accounts payable	-	285,043,922	-	285,043,922
Retention payable	-	18,818,146	-	18,818,146
Service fees payable	10,934,173	-	-	10,934,173
Royalty	6,593,715	-	-	6,593,715
Others	-	28,158,585	-	28,158,585
	17,527,888	332,020,654	-	349,548,542
<b>Cumulative redeemable preferred shares</b>	-	-	6,000,000	6,000,000
	522,996,137	692,020,654	6,000,000	1,221,016,791

	DECEMBER 2009			Total
	Three months or less	More than three months to one year	More than one year	
Bank loans	P100,408,333	P244,049,167	P-	P344,457,500
Accounts payable and accrued expenses				
Trade payable	864,748,683	-	-	864,748,683
Employee benefits	26,820,981	-	-	26,820,981
Utilities	17,666,410	-	-	17,666,410
Advertising and promotion	7,049,972	-	-	7,049,972
Outsourced services	6,497,194	-	-	6,497,194
Security services	2,292,041	-	-	2,292,041
Bank charges	1,852,100	-	-	1,852,100
Interest	1,053,797	-	-	1,053,797
Others	18,701,005	-	-	18,701,005
	946,682,183	-	-	946,682,183
(Forward)				
Other current liabilities				
Non-trade accounts payable	-	138,118,326	-	138,118,326
Retention payable	-	15,236,991	-	15,236,991
Service fees payable	-	11,006,733	-	11,006,733
Royalty	6,719,659	-	-	6,719,659
Others	-	13,012,717	-	13,012,717
	6,719,659	177,374,767	-	184,094,426
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	P1,053,810,175	P421,423,934	P6,000,000	P1,481,234,109

### *Interest Rate Risk*

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

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

	SEP 2010	DEC 2009
Due in less than one year	P360,000,000	P340,000,000
Rate	4.90%-5.50%	4.90%-5.50%

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

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

### 31. Capital Management

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% and 50% in relation to its total assets. The Group's net worth ratio is 35% and 33% as of September 30, 2010 and December 31, 2009, respectively. No changes were made in the objectives, policies and processes during the year.

	<b>SEP 2010</b>	DEC 2009
Capital stock	<b>P 302,114,918</b>	P 287,761,172
Additional paid-in capital	<b>293,525,037</b>	293,525,037
Retained earnings	<b>475,586,100</b>	326,309,628
	<b>1,071,226,055</b>	907,595,837
Less cost of shares held in treasury	<b>2,923,246</b>	2,923,246
	<b>P 1,068,302,809</b>	P 904,672,591
Total assets	<b>P 2,595,942,729</b>	P 2,710,675,933
Net worth	41%	33%

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

**Philippine Seven Corporation**  
Schedule of Receivables

	<b>As of September 30, 2010</b>	<b>As of December 31, 2009</b>
Suppliers	<b>₱ 45,001,583</b>	<b>₱ 69,278,890</b>
Franchisee	<b>0</b>	50,439,162
Employees	<b>8,507,922</b>	6,906,248
Rent	<b>4,071,822</b>	4,755,572
Current portion of lease receivable	<b>905,577</b>	2,187,564
Insurance claims	<b>20,135,972</b>	1,905,773
Store operators	<b>3,388,826</b>	1,688,404
Deposits	<b>1,009,864</b>	1,009,864
Due from Philippine Foundation, Inc. (PFI)	<b>729,697</b>	323,477
Others	<b>16,927,276</b>	12,489,099
	<b>₱ 100,678,539</b>	<b>₱ 150,984,053</b>
Less allowance for impairment	<b>10,843,948</b>	10,843,948
	<b>₱ 89,834,592</b>	<b>₱ 140,140,105</b>

The classes of receivables of the Group are as follows:

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

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

**Management's Discussion and Analysis of Results of Operations and Financial Condition**  
**SELECTED FINANCIAL DATA**

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
<b>SYSTEM WIDE SALES</b>	<b>2,210,253</b>	1,714,259	<b>6,649,169</b>	5,089,454
<b>Statement of Income Data:</b>				
Revenues and other income				
Sales of merchandise	<b>1,842,321</b>	1,464,610	<b>5,535,987</b>	4,310,193
Franchise revenue	<b>115,032</b>	70,212	<b>325,497</b>	220,607
Marketing income	<b>81,405</b>	48,217	<b>192,711</b>	122,285
Rent income	<b>7,697</b>	7,198	<b>24,258</b>	21,937
Others (net)	<b>33,444</b>	15,732	<b>67,845</b>	36,810
Cost and expenses				
General & administrative expenses	<b>652,881</b>	495,766	<b>1,827,665</b>	1,470,429
Interest expense	<b>3,824</b>	6,309	<b>12,292</b>	20,941
Cost of merchandise sold	<b>1,352,499</b>	1,049,777	<b>4,043,097</b>	3,086,087
Total comprehensive income	<b>47,170</b>	35,764	<b>177,984</b>	88,515
Earnings per share	<b>0.16</b>	0.12	<b>0.59</b>	0.29
<b>Cash Flow Data:</b>				
Net cash (used)/from operating activities	<b>(101,796)</b>	(210,019)	<b>210,961</b>	(14,233)
Net cash used in investing activities	<b>(163,209)</b>	(121,978)	<b>(476,741)</b>	(217,662)
Net cash (used)/from financing activities	<b>61,603</b>	(6,309)	<b>(6,646)</b>	76,676
<b>Balance Sheet Data:</b>				
Total assets	<b>2,609,449</b>	2,169,759	<b>2,609,449</b>	2,169,759
Total liabilities	<b>1,537,917</b>	1,329,132	<b>1,537,917</b>	1,329,132
Total stockholders' equity	<b>1,071,532</b>	840,627	<b>1,071,532</b>	840,627

*(Amount in thousands, except EPS)*

**OVERVIEW**

Philippine Seven Corporation (PSC or the Company) operates the largest convenience store network in the country. It acquired from Southland Corporation (now 7-Eleven Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines on December 13, 1982. Operations commenced with the opening of its first store on February 29, 1984 located at the corner of Kamias Road and EDSA Quezon City, Metro Manila. Considering the country's economic condition at that time, the Company grew slowly in its first few years of existence. In 1993, PSC, encouraged by the resurgent national economy, stepped up its rate of expansion.

As of September 30, 2010, 7-Eleven has grown by 120 stores to end the period under review with 520 stores. The retail chain of convenience stores is sustained by a manpower complement of 1,063 employees engaged in store operations and in various support service units. Despite the growing competition in the convenience retailing business, the Company maintains its leadership in the industry.

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

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

## **FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE 3<sup>RD</sup> QUARTER OF 2010.**

### **Results of Operations**

During the third quarter, PSC generated a net income of ₱47.2 million. This represents a 32 percent increase from 2009 level of ₱35.8 million. System-wide revenue, a measure of sales of all corporate and franchise operated stores, rose by 29 percent to ₱2.2 billion from ₱1.7 billion during the previous third quarter.

For the first nine months of 2010, the Company has doubled its net income to ₱178.0 million from ₱88.5 million in the same period last year. The higher net income can be attributed to the 31 percent increase in system-wide sales which amounted to ₱6.6 billion at the end of third quarter of the current year.

The increase in total revenues was mainly driven by the 30 percent growth in number of stores from 400 at the end of Q3 last year to 520 year to date. Moreover, sales of mature stores went up as a result of better weather conditions, favorable effect of a recovering economy and higher spending during the election season.

New franchise operators contributed to the increase in store base and resulted into higher franchise revenues of ₱115.0 million.

EBITDA at the end of third quarter rose by 89 percent from ₱237.0 million in 2009 to ₱447.0 million in the current year.

### ***Revenue and Gross Margin***

The Company registered total revenue from merchandise sales of ₱1.8 billion in 3Q 2010, an increase of 26 percent compared to ₱1.5 billion in 2009. Cost of merchandise sold rose by ₱302.7 million to ₱1.4 billion during 3Q 2010.

System-wide sales grew by 29% or ₱496.0 million to ₱2.2 billion in 3Q 2010. PSC ended the third quarter of 2010 with 520 stores, higher by 30% compared to the 3Q 2009 level of 400. Some underperforming stores were closed during the 3Q of the year.

Gross Profit stood at ₱489.8 million, while GP in relation to sales went down by 1.7% owing to the dilution brought about by the increase in Company's sales to franchise stores which are accounted for at zero mark-up. Notwithstanding this factor, gross profit ratio to sales slightly went up by 90 points compared to the level a year ago.

Products in the services category, which form part of the Company's commission income, are physical cards, bills payment and consigned goods. Commission income rose by 35% to ₱7.6 million.

### ***Other Income***

Other income is mainly consist of marketing income, franchise fees and rentals. The Company's total other income increased by ₱78.5 million, to ₱204.1 million as a result of the following:

Marketing income grew by ₱33.2 million from the 3Q 2009 level. This is due to increased supplier-supported ad and promo spending, driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. The goal is to become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to ₱115.0 million from ₱70.2 million in 3Q 2009. This was the result of the increase in number of franchise-operated stores that reached 197 at the end of the 3Q 2010. Rent income increased by 7% to ₱7.7 million.

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

### ***General and Administrative Expense***

General and administrative expense which is comprised of store operating and selling expenses as well as headquarters expenses went up by 32% or ₱157.1 million and totaled to ₱652.8 million in 3Q 2010.

Outsourced services were the highest contributor and accounted for 14.1% of the total G & A expenses for the 3Q 2010. This is followed by rent expense with 13.7% share, personnel costs with 11.3% and depreciation and amortization at 10.9% share.

Personnel costs aggregated to ₱73.7 million, versus ₱70.7 million in 3Q 2009. Ratio to sales was 4.0% in 2010 and 4.8% in 2009. Personnel costs include salaries and wages at ₱43.7 million, employee benefits at ₱27.9 million and pension costs at ₱2.1 million. The Company continued to outsource store personnel to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Rent expense incurred is pegged ₱89.3 million or 4.8% of sales against ₱78.5 million or 5.4% in 2009.

### ***Interest Expense***

Cost of debt servicing in 2010 totaled to ₱3.8 million, a decrease of 39% compared with 3Q 2009 level of ₱6.3 million. Outstanding loan balance at the end of 3Q 2010 was pegged at ₱360 million, an increase of ₱20 million from ₱340 million beginning of 2010.

### ***Net Income***

Net income for third quarter of 2010 grew by P11.4 million to ₱47.2 million. This was primarily due to better sales, continuing support from trade suppliers and store expansion.

The net income generated during the 3Q 2010 translated into a 2.6% return on sales and 4.4% return on equity. The key ratios in 3Q 2010 are much better compared to the ROS and ROE of 2.4% and 3.9%, respectively, a year ago. Moreover, EPS is pegged ₱0.16 and ₱0.12, in 3Q 2010 and 3Q 2009, respectively.



## **Financial Condition**

Total assets went down by 101.2 million or 4% to ₱2.6 billion at the end of 3Q 2010. Cash and cash equivalents during the year decreased to ₱176.4 million from ₱448.8 million at the beginning of the year. Receivables went down by ₱50.3 million as the company received settlement for collectibles related to supplier support and financing schemes to franchisees. Moreover, inventories went down by ₱102.5 million while prepayments were up by ₱38.2 million coming from advance rent paid for new stores and down payments to equipment sellers. The aforementioned factors resulted into a net decrease in total current assets by ₱387.0 million from the beginning of the year.

Total current liabilities went down by ₱259.6 million or 16.1% mainly due to the decrease in trade payables and other current liabilities. However, current ratio decline to 0.58 to 1 as of September 30, 2010 against 0.73 to 1 at the beginning of the year

Property and equipment, net of accumulated depreciation increased by ₱259.6 million mainly due to capital expenditure spent in relation to store expansion.

Stockholders' equity at the end of 2010 comprises 41.1% of total assets, compared to 33.5% at the beginning of 3Q 2010. Debt to equity ratio pegged at 1.44 for 3Q 20 10 from 1.99 end of 2009

## **Liquidity and Capital Resources**

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

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

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2011 to fund its operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the 3Q of 2010.

### ***Cash Flows from Operating Activities***

Net cash used for operating activities in 3Q 2010 resulted to ₱101.8 million, compared to P210.0 million cash used during comparable period from last year. Such is attributable to decrease in account payables and accrued expenses by 256.5 million

### ***Cash Flows from Investing Activities***

Net cash used in investing activities amounted to ₱163.2 million in 3Q 2010 compared to net cash out flow of ₱122.0 million in 3Q 2009. Major cash outlay went to the procurement of store equipment, new store constructions and store renovations. There were 80 new stores opened from 3Q of last year to current year.

Majority of the company's commitments for capital expenditures for the 3Q of the year are for new store constructions and renovations. Funds for these expenditures are expected to come from the anticipated increase in cash flows from retail operations and from additional borrowings if the need for such may arise.

### ***Cash Flows from Financing Activities***

Net cash inflow from financing activities reached ₱61.6 million representing availments of bank loans in the amount of P80.0 million, payment of cash dividends 14.4 million and interest expense on outstanding bank loans totaling P4.0 million.

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

### **Discussion and Analysis of Material Events and Uncertainties**

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

### **DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS**

#### ***System Wide Sales***

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

#### ***Revenue from Merchandise Sales***

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

#### ***Net Income Margin***

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

#### ***Return on Equity (ROE)***

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

### **Earnings per Share (EPS)**

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

<b>For the Quarter</b>	2010	2009	% change
System wide Sales (in '000s)	2,210,253	1,714,259	29%
Revenue from Merchandise Sales (in '000s)	1,842,321	1,464,610	26%
Net Income Margin	2.6%	2.4%	8%
Return on Equity	4.4%	4.2%	5%
Earnings Per Share	0.16	0.12	33%

<b>Year to Date</b>	2010	2009	% change
System wide Sales (in '000s)	6,649,169	5,089,454	31%
Revenue from Merchandise Sales (in '000s)	5,535,987	4,310,193	28%
Net Income Margin	3.2%	2.0%	60%
Return on Equity	16.6%	10.5%	58%
Earnings Per Share	0.59	0.29	103%

## SIGNATURE

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

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

**JOSE VICTOR P. PATERNO**  
President and CEO