COVER SHEET

PHILIPPINE SEVEN CORPORATION
(Company's Full Name)

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

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

December 31
(Fiscal Year Ending)
(Month & Day)

Every 2nd Tuesday of June of each year
(Annual Meeting)

DEFINITIVE COPY OF THE INFORMATION STATEMENT
(SEC FORM 20-IS)
(FORM TYPE)

JUNE 08, 2007
(Date)

(Amendment Designation if Applicable)

____
(Secondary License Type, if any)

____
LCU

____
Cashier

____
DTU

108476
S.E.C. Reg. No.

____
Central Receiving Unit

____
File Number

____
Document I.D.

SECURITES AND EXCHANGE COMMISSION

SEC FORM 20- IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   ________ Preliminary Information Statement
   ___x___ Definitive Information Statement

2. Name of Registrant as specified in its charter: **PHILIPPINE SEVEN CORPORATION**

3. Country of Incorporation: **PHILIPPINES**

4. SEC Identification Number: **108476**

5. BIR Tax Identification Number: **040-000-390-189**

6. Address of Principal Office:
   7th Floor, The Columbia Tower
   Ortigas Avenue, Mandaluyong City
   1501

7. Telephone Number: **(632) 724-4441 to 51**

8. Date, time and place of the meeting of security holders:

   July 19, 2007 (Thursday)
   3:00 p.m.
   Amorsolo Ballroom, Level 4 Manila Galleria Suites
   #1 Asian Development Bank Avenue, Ortigas, Pasig City

9. Approximate date on which the Information Statement is first to be sent or given to security holders:

   June 20, 2007

10. In case of proxy solicitations:

    Name of Person Filing the Statement/Solicitor: ____**N/A**__________________

    Address and Telephone No.: _________________

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sec. 4 & 8 of the RSA:

Title of Each Class	*Number of Shares of Common Stocks Outstanding or Amount of debt Outstanding*
Common	237,252,000
Warrants	-0-

12. Are any or all registrant's securities listed on the Stock Exchange?

    Yes ___**X**___ No _______

Title of each Class	*Listed Shares*	*Stock Exchange*
Common Shares	237,938,250	Philippine Stock Exchange

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

Notice is hereby given that the annual stockholders meeting of PHILIPPINE SEVEN CORPORATION (the "Corporation"), will be held at the **Amorsolo Ballroom, Level 4 Manila Galleria Suites, #1 Asian Development Bank Avenue, Ortigas, Pasig City**, on **Thursday, 19 July 2007 at 3:00 P.M**. for the purpose of taking up the following:

1. Certification of Quorum and Call to Order
2. Approval of Minutes of the Previous Stockholders Meeting
3. Management Report
4. Ratification of Actions Taken by the Board of Directors, Executive Committee and Management during the Previous Year 2006
5. Election of the Board of Directors for 2007
6. Appointment of External Auditors
7. Amendment of Code of By-laws to change annual meeting date from every 2nd Tuesday of June to every 3rd week of July.
8. Other Matters
9. Adjournment

For purposes of the meeting, only stockholders of record as of May 31, 2007 are entitled to vote in the said meeting.

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

EVELYN S. ENRIQUEZ
Corporate Secretary

PART I.

A. GENERAL INFORMATION

This Information Statement is being furnished to stockholders of record of Philippine Seven Corporation as of May 31, 2007 in connection with its annual stockholders' meeting.

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

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

Date of Meeting	:	July 19, 2007
Time of Meeting	:	3:00 P.M.
Place of Meeting	:	Amorsolo Ballroom, Level 4 Manila Galleria Suites #1 Asian Development Bank Avenue, Ortigas, Pasig City
Complete Mailing Address	:	Philippine Seven Corporation 7th Floor, The Columbia Tower Ortigas Avenue, Mandaluyong City 1550

This Information Statement will be first sent or given to security holders on June 20, 2007.

Item 2. Dissenter's Right of Appraisal

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

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

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence.

2. In case of sale, lease exchange, transfer, mortgage, pledge, or other disposition of all substantially all of the corporate property and assets as provided in this code; and

3. In case of merger or consolidation.

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

There are no matters to be taken up in the meeting that may give rise to the exercise of the right of appraisal.

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

None of the members of the Board of Directors or senior management has any substantial interest in the matters to be acted upon by the shareholders in the stockholders meeting, except for the election of directors. The following are the incumbent directors for the year 2006 - 2007 (prior to the July 2007 Annual Stockholders Meeting):

1. Vicente T. Paterno
2. Jose Victor P. Paterno
3. Jorge L. Araneta
4. Chung-Jen Hsu
5. Chien-Nan Hsieh
6. Dianna P. Aguilar
7. Fu-Tang Chen
8. Wen-Ching Lin
9. Yen-Sen Yang
10. Alfredo C. Ramos*
11. Michael B. Zalamea*

* Independent Director

The Board of Directors and senior management, as a group, own 24,812,388 common shares which constitute approximately 10.46% of the issued and outstanding common stock.

The Board of Directors of the Company is not aware of any party who has indicated an intention to oppose the motions set forth in the Agenda.

Cumulative voting is allowed for the election of the members of the Board of Directors. Each stockholder may vote the number of shares of stock outstanding in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected and provided, however, that no delinquent stock shall be voted.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

As of April 30, 2007, there were 237,252,000 shares of the common stock of Philippine Seven Corporation outstanding and entitled to vote for election of directors and matters scheduled for approval at the Annual Meeting. Only holders of the company's stock as of the close of business on record date of May 31, 2007 acting in person or by proxy on the day of the meeting are entitled to notice and to vote at the Annual Meeting to be held on July 19, 2007.

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

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

a) Security ownership of certain record and beneficial owners of more than 5% of registrant's voting securities:

Title of Class	Name and Address of Record/Beneficial Owner	Citizenship	Relationships of the record owner's representative with the issuer and said owner	Amount and Nature of Record/Beneficial Ownership	Percent of Outstanding Common Stock as of April 30, 2007
Common	President Chain Store (Labuan) Holding, Ltd.[1] 7(E), Main Tower, Financial Park, Labuan, Malaysia	Malaysian	Stockholder	134,257,619 (R)	56.59%
Common	Asian Holdings Corporation [2] 4th Floor, Uni-Oil Bldg., Commerce Ave. cor. Acacia St., Madrigal Business Park, Ayala Alabang, Muntinlupa City	Filipino	Stockholder	29,208,750 (R)	12.31%
Common	Vicente T. Paterno 16 Hidalgo Place, Hidalgo Village, Rockwell Makati City	Filipino	Chairman of the Board	5,540,746 (R) 18,839,754 (B)[4] 24,380,500 (R/B)	11.69%
Common	Progressive Development Corp. [3] 18th Aurora Tower, Cubao Quezon City	Filipino	Stockholder	20,163,079 (R)	8.50%

Footnotes:
[1] Mr. Chien-Nan Hsieh, Vice President of President Chain Store (Labuan) Holding, Ltd. has the voting power in behalf of the Corporation
[2]. Ms. Elizabeth Orbeta or Ms. Diana P. Aguilar has the voting power in behalf of Asian Holdings Corp.
[3]. Mr. Jorge L. Araneta has the voting power in behalf of Progressive Corp.
[4]. Shares transferred by Mr. Paterno to his 5 children through cross sale last Dec. 18, 2003, subject to a Voting Trust Agreement in his favor.

b) Security Ownership of Management as of May 31, 2007

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Vicente T. Paterno	24,380,500[1]	Filipino	10.28%
Common	Jose Victor P. Paterno	425,388[2]	Filipino	0.18%
Common	Jorge L. Araneta	1[3]	Filipino	0.00%
Common	Michael B. Zalamea	1[3]	Filipino	0.00%
Common	Dianna P. Aguilar	1,000[2]	Filipino	0.0004%
Common	Alfredo C. Ramos	1[3]	Filipino	0.00%
Common	Chung-Jen Hsu	1[3]	R.O.C.	0.00%
Common	Chien-Nan Hsieh	1[3]	R.O.C.	0.00%
Common	Wen-Ching Lin	1[3]	R.O.C.	0.00%

Common	Fu-Tang Chen	1[3]	R.O.C.	0.00%
Common	Yen-Sen Yang	1[3]	R.O.C.	0.00%
Common	Evelyn Sadsad-Enriquez	1,850[2]	Filipino	0.0008%
Common	Liwayway T. Fernandez	2,642[2]	Filipino	0.0011%
Common	Teodoro S. Wenceslao	1,000[2]	Filipino	0.0004%
TOTAL		24,812,388		10.46%

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

c) Voting trust holder of 5% or more

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

Under the VTA, Mr. Paterno shall have the full power and authority to vote upon the shares, including but not limited to the right to vote for every corporate purpose, in the election of directors and all matters brought before the stockholders during meetings.

d) Changes in Control

There has been no arrangement which may result in a change in control of the Company. There has been no change in control of the Company since Y2000 or the past 7 years.

Item 5. Directors and Executive Officers of the Registrant

a) Directors and Corporate Officers

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

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

NAME	AGE	Term of Present Position	No. of Year(s) In Service	**Business Experience**
CHIN-YEN KAO Honorary Chairman of the Board Citizenship: R.O.C.	78	6 yrs.	6 yrs.	• *Chairman* - Uni-President Enterprise Corp.; • *Chairman* - President Chain Store Corporation
VICENTE T. PATERNO Chairman of the Board And Director Citizenship: Filipino	81	24 yrs.	24 yrs.	• *Chairman* - Store Sites Holding Inc.; • *Director* - State Land Investment Inc., First Philippine Holding Corporation and Benpres Holding Corporation • *Chairman of the Executive Committee and Nomination Committee* – Philippine Seven Corporation
CHIEN-NAN HSIEH Vice Chairman and Director Citizenship: R.O.C.	52	2 yrs. 6 yrs.	6 yrs.	• *Chairman* - President Logistics International Corp./ Retail Support Taiwan Corp. • *Vice-President* - President Chain Store Corporation; • *Director* - Ren-Hui Investment Corp/ Capital Inventory Services Corp./ Duskin Serve Taiwan Ltd. Co./ President Organics Co./ Uni-President Cold Chain Corp./ President Drugstore Business Corp/ Uni-President yellow Hat Corp./ President Information Corp./ Mech-President Corp./ President Transnet Corp./ President Collect Services Corp./ Uni-President Oven Bakery Corp./ Presiclerc Corp. • *Supervisor* - T & T Supermarket Inc../ Bank-Pro E-Service Technology Co. Ltd./ Retail Support International Corp. • *Chairman of the Compensation Committee* – Philippine Seven Corporation
JOSE VICTOR PATERNO President and Director Citizenship: Filipino	39	2 yrs & 3 mos.	14 yrs.	• *Chairman & President* – Convenience Distribution, Inc; • *Former Vice-President for Operation*– Philippine Seven Corporation • *Member of the Executive Committee, Audit Committee and Compensation Committee* - Philippine Seven Corporation
JORGE L. ARANETA Director Citizenship: Filipino	71	19 yrs.	19 yrs.	• *Chairman & CEO* - Araneta Center Inc./ Philippine Pizza Inc./ Progressive Development Corporation

DIANA P. AGUILAR Director Citizenship: Filipino	43	8 yrs. 8 mos.	8 yrs. 8 mos.	• *Director* - Asian Holdings Corporation/ WenPhil Corporation/ Electronic Commerce Payments Network Inc./ Artemis Electronic Systems, Inc./ DAJ Property Holdings Corp./ Gate Distribution Enterprises, Inc./ ERA Philippines, Inc. • *Director & Treasurer* - Land & Housing Dev't. Corporation/ Cable Entertainment Corp. • *Treasurer* - Franchise One Corporation • *Board of Trustee* – De La Salle Santiago Zobel • *Member of the Executive Committee, Audit Committee and Nomination Committee* - Philippine Seven Corporation
ALFREDO C. RAMOS Independent Director Citizenship: Filipino	63	5 yrs. & 6 mos.	19 yrs.	• *Chairman & President* –National Bookstore, Inc./ The Philodril Corp./ Vulcan Industrial & Mining Corp. • *Chairman of the Board* –Anglo Philippine Holdings Corporation/ Cacho Hermanos, Inc./ The Music One Corp. • *President* – Abacus Book and Card Corp./ Atlas Consolidated Mining & Development Corporation/ Business One, Inc./ Crossings Department Store, Corp./ Power Books, Inc./ Alakor Corp. • *Vice*-President – Edsa proerties Holdings, Inc. • *Director* – Kuok Philippine Properties, Inc./ Philippine Seven Corp./ Vulcan Materials Corp. • *Governor* – National Bookstore Development Board • *Chairman of the Audit Committee, Member of the Executive Committee and Nomination Committee* - Philippine Seven Corporation
MICHAEL B. ZALAMEA Independent Director Citizenship: Filipino	42	2 yrs. & 4 mos.	2 yrs. & 4 mos.	• Director – Active Alliance, Inc./ Philippine Coastal Storage & Pipeline Corp./Clark Pipeline & Depot Company Inc./ Wespak Holdings, Inc. • Former Portfolio Manager – Global Fund, American International Group, Inc. • Member of the Compensation Committee - Philippine Seven Corporation
CHUNG-JEN HSU Director Citizenship: R.O.C.	59	6 yrs.	6 yrs.	• *Chairman* - Duskin Serve Taiwan Ltd. Co./ Presidential Direct Marketing Corp./ Ren-Hui Investment Corp./ President Information Corp./ Capital Inventory Services Corp./ Wisdom Distribution Service Corp./Retail Support International Corp./Uni-President Yellow Hat Corp./President Drugstore Business Corp./ Books.com.Co.Ltd/ BankPro E-Service Technology Co. Ltd./ Mister Donut Taiwan Co./ MUJI (TAIWAN) Co., Ltd./ T & T Supermarket, Inc./ Uni-President Yi-Lian Art and Culture Corp. • *President* - President Chain Store Corporation/ Ren-Hui Investment Corp. • *Director* – President Transnet Corp./ President Collect Service Co. Ltd./ Uni-President Cold Chain Corp./ Mech President Corp./ Uni-President Oven Bakery Corp./ President Coffee Corp./ Nanlien International Corp./ Uni-President Dream Parks Corp./ Tong-Jeng Development Corp./ Uni-President Takashimaya Co., Ltd./ Shanghai President Coffee Corp./ President Coffee (Cayman) Holdings Ltd./ Digital United, Inc. (Seednet)/ President International Development Corp./ Latin America Development Corp./ Copres Corp./ Tonpal Optoelectronics, Inc./ Dayeh Takashimaya Department Store, Inc./ Century Quick Service Restaurant Corp./ Presiclerc Ltd./ T & T Supermarket, Inc./ Philippine Seven Corp./ President Pharmaceutical Corp. (PPC)/ Tung Ho Development Corp. Ltd./ PresiCarre Corp. (CarreFour)
FU-TANG CHEN Director Citizenship: R.O.C.	59	6 yrs.	6 yrs.	• *Chief Financial Officer* - President Chain Store Corp; • *Director* - President Investment Trust Corp.; • *Supervisor* - President Direct Marketing Corp./ Capital Inventory Services Corp./ Books.com.Co. Ltd/ Uni-President Takashimaya Co. Ltd./ President Yi-Lan Art & Culture Center/ Mister Donut Taiwan Corp.
WEN-CHING LIN Director Citizenship: R.O.C.		2 yrs. & 6 mos.	2yrs. & 6 mos.	• *General Manager for Finance* - President Chain Store Corp.; • *Chief Officer Internal Audit* – President Chain Store Corp.
YEN-SEN YANG Director Citizenship: R.O.C	47	1 yr. & 6 mos.	1 yr. & 6 mos.	• *Vice-President* - President Chain Store Corp.; • *Former President* – Philippine Seven Corporation/ President Pharmaceutical Corporation/ Cosmed Drug Corporation; • *Former Manager* – President Chain Store Corporation
CHUN-PEI LIU Vice-President Citizenship: R.O.C.	40	2 yrs. & 4 mos.	7 yrs. & 4 mos.	• *Exec. Committee member*- Philippine Seven Corporation • *Director* –Convenience Distribution, Inc. • *Former Marketing Director & Corp.Plan Mgr.* - Philippine Seven Corporation • *Member of the Executive Committee and Non-voting Member of the Compensation Committee* - Philippine Seven Corporation
TSUNG YU-LIN Treasurer Citizenship: R.O.C.	37	2 yrs. & 9 mos.	2 yrs. & 9 mos.	• *Chief Financial Officer* – Philippine Seven Corp. • *Vice-President* – Convenience Distribution, Inc. • *Director* – Convenience Distribution, Inc. / Store Sites Holding, Inc. • *Former Finance Planning Team Manager* – President Chain Store Corporation • *Member of the Executive Committee and Non-voting Member of the Compensation Committee* - Philippine Seven Corporation

EVELYN SADSAD-ENRIQUEZ Corporate Secretary Citizenship: Filipino	43	3 yrs. & 5 mos.	17 yrs.	• *Division Manager – Legal and Corporate Services Division* - Philippine Seven Corporation • *Compliance Officer*- Philippine Seven Corporation • *Non-Voting Member of the Nomination Committee* – Philippine Seven Corporation • *Corporate Secretary* - Convenience Distribution Inc./ Store Sites Holding, Inc./ Ferguson Park Tower Condominium Corporation • *President* – Columbia Owners' Association Inc. • *Former Asst. Corporate Secretary and Head of Legal and Corp. Affairs* - Philippine Seven Corporation

b) The Executive Officers

As of April 30, 2007, the Executive Officers and Management of the Corporation were the following:

Executive Officers	**Name**
Chairman of the Board	Vicente T. Paterno
Vice-Chairman	Chien-Nan Hsieh
President	Jose Victor P. Paterno
Vice-President	Chun-Pei Liu
Chief Financial Officer; Treasurer	Tsung-Yu Lin
Corporate Secretary; Legal and Corporate Services Div. Manager	Atty. Evelyn S. Enriquez
Marketing Director	Michael Chuaunsu
Finance Division Manager/Comptroller	Lawrence M. de Leon
General Merchandise Division Manager	Jose C. Ang Jr.
Development Division Manager	Teodoro S. Wencesalo
Operations Division Manager	Liwayway T. Fernandez
Corporate Planning Manager	Eduardo P. Bataclan
HR Division Manager	Violeta B. Apolinario
MIS Division Manager	Jason Jan Ngo
Franchise Division Manager	Francis S. Medina

c) Identify Significant Employees

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

d) Family Relationships

i) Mr. Jose Victor P. Paterno, President of PSC and concurrent Chairman and President of Convenience Distribution Inc. (CDI), a wholly owned subsidiary of PSC) is the son of PSC Chairman of the Board, Mr. Vicente T. Paterno.

ii) Ms. Dianna P. Aguilar, director of PSC, is related to PSC Chairman, Mr. Paterno by affinity within the 3rd degree.

iii) Mr. Raymund Aguilar , VP Finance and Treasurer of Gate Distribution Enterprises, Inc., and Sales Director of EC Payment Network Inc., a supplier of the Company, is the spouse of Ms. Diana P. Aguilar

e) Litigation

To the knowledge and/or information of the Company, the above-named directors of the Company, the present members of its Board of Directors and its Corporate Officers are not, presently or during the past 5 years, involved or have been involved in any material legal proceeding affecting/involving themselves or their property before any court of law or administrative body in the Philippines or elsewhere. Likewise, to the knowledge and/or information of the Company, the said persons have not been convicted by any final judgment of any offense punishable by the laws of the Republic of the Philippines or the laws of any nation/country.

f) Pending Legal Proceedings

The Company is a party to various litigations involving price tag law issues before the Department of Trade and Industry, employees suing for illegal dismissal, back wages and damage claims, claims arising from store operations and as co-respondents with manufacturers on complaints with BFAD, specific performance and other civil claims; and criminal cases it files against employees and other persons arising from theft, estafa and robbery, all such cases are in the normal course of business and are not deemed to be considered as material legal proceeding as stated in Part I, Paragraph (C) of "Annex C" of SEC checklist 17-A.

g) *Qualification of Directors*

To the knowledge and/or information of the Company, the above-named directors have all the qualifications and none of the disqualifications as provided in the Company's Manual on Corporate Governance and the revised Securities Regulation Code.

h) *Certain Relationships and Related Transactions*

The company has lease and/or sublease agreements with Wenphil Corporation and Progressive Development Corporation for commercial spaces in excess of the requirements of the company for its 7-Eleven stores and supply arrangement for certain products carried by the stores with Gate Distribution Enterprises Inc. (GATE) and Electronic Commerce Payments Network Inc. (ECPAY).

Ms. Diana P. Aguilar, director of the company, is a director of Wenphil Corporation (holder of Wendy's Philippine franchise), GATE and ECPAY. She is also the wife of Mr. Raymund Aguilar, VP Finance and Treasurer of GATE and Sales Director of ECPAY which is the supplier of physical and electronic phone cards (e-pins) of the Company and the system provider for e-pins and bills payment. Mr. Jorge L. Araneta, also a director of the Company, is the Chairman and President of Progressive Development Corporation (owner of Pizza Hut Philippine franchise).

The company has warehousing and distribution management contract with Convenience Distribution Inc. (CDI), its wholly-owned subsidiary of PSC. The Chairman of the Board and President of CDI, Mr. Jose Victor Paterno, is the son of Mr. Vicente Paterno, the Chairman of the Board of PSC.

The company, from time to time, makes purchases of equipment from President Chain Store Corporation (and its subsidiaries/affiliates), which is the parent company of President Chain Store (Labuan) Holding Ltd., holding 56.59% of PSC's outstanding shares. Certain products are also purchased from Uni- President Corporation which is the parent company of President Chain Store Corporation.

i) *Election of Directors*

The directors of the Company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

The incumbent directors of the Company are the nominees to the Board of Directors, which were submitted to and pre-screened by the Nominations Committee of the Corporation:

1. Vicente T. Paterno
2. Jose Victor P. Paterno
3. Jorge L. Araneta
4. Chung-Jen Hsu
5. Chien-Nan Hsieh
6. Diana P. Aguilar
7. Fu-Tang Chen
8. Yen-Sen Yang
9. Wen-Ching Lin
10. Alfredo C. Ramos
11. Michael B. Zalamea

j) *Independent Directors*

As of the date of this report, the nominees for independent directors are Messrs. Alfredo C. Ramos and Michael B. Zalamea. Their nominations were submitted by Mr. Dante G. Santos and National Life Insurance Co., respectively, stockholders of the Corporation, and pre-screened by the Nomination Committee of the Corporation in compliance with SRC Rule No. 38. The nominees are not related to the persons who nominated them. They are neither officers nor substantial shareholders of Philippine Seven Corporation nor are they directors or officers of its related companies. A brief description of their respective business experiences is included in Item 5 (a) of this report.

Nomination Procedure:

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

Item 6. Compensation of Directors & Executive Officers

For the calendar years December 31, 2006, 2005, and 2004, the total salaries allowances and bonuses paid to the directors and executive officers are as follows:

(a) Name/Position	(b) Year	(b) Salaries	(d) Bonus	(e) Others
Chairman and Top 4				
Vicente T. Paterno Chairman				
Jose Victor Paterno President				
Chun-Pei Liu Vice-President				
Tsung Yu Lin Treasurer				
Michael Chuaunsu Marketing Director				
Total	2007* 2006 2005 2004	5,092,181.94 5,091,011.52 4,357,792.74 5,111,606.76	5,919,489.44 5,740,839.28 5,359,779.41	N/A
All other Officers and Directors as a Group Unnamed	2007* 2006 2005 2004	5,584,417.68 6,107,402.56 5,552,564.79 2,303,544.00	4,624,234.41 4,870,830.87 3,305,549.76 1,121,240.73	N/A

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

The company has certain standard arrangements with respect to compensation and profit sharing. Per diems of ₽ 5,000 (as may be fixed by the Board from time to time) are given for every regular or special meeting of the Board or Executive Committee attended.

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

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

Item 7. Independent Public Accountants

The accounting firm of Sycip Gor res Velayo and Company (SGV) was appointed the Company's auditor in 2005. Since their appointment, the Company has no disagreement with them on any matter relating to accounting principles and practices, financial statement disclosures or auditing scope or procedures. The same auditing firm has been endorsed by the Audit Committee to the Executive Committee / Board. The Executive Committee / Board, in return, approved the endorsement and will nominate the appointment of the said auditing firm for stockholders' approval at the scheduled Annual Meeting of the Stockholders. The said auditing firm has accepted the Company's invitation to stand for re-election this year.

Audit services of SGV for the fiscal year ended December 31, 2006 included the examination of the consolidated financial statements of the Company, preparation of final income tax returns and other services related to filing made with the Securities and Exchange Commission.

The engagement partner assigned is Mr. Aldrin M. Cerrado, an SEC accredited auditing partner of SGV. This the second year of Mr. Cerrado. Representatives of SGV shall be present during the annual meeting of stockholders on July 19, 2007. They are also expected to respond at the Annual Stockholders Meeting to appropriate questions from stockholders pertaining to said financial statements as needed.

Item 8. External audit fees and services

The following table summarizes the fees paid or accrued for services provided by our external auditors for the fiscal years ended December 31, 2006 and 2005:

	2006	**2005**
	(in thousands)	
Audit Fees	P 1,050	P 1,628
Tax Fees	375	239
All Other Fees	122	34
Total	**P1,547**	**P1,901**

Audit Fees. This category includes the audit of our annual financial statements, review of interim financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes the advise on audit and accounting matters that arose during, or as a result of the audit or the review of interim financial statements.

Tax Services. This category includes tax compliance, tax advice and tax planning services performed by our independent auditors.

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

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

Our Audit Committee pre-approves all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 11. Financial and Other Information

Copy of the Company's consolidated audited financial statements for fiscal years ended December 31, 2006 and 2005, including schedules for Property & Equipment, Accumulated Depreciation, Non-trade Receivables and Capital Stock,, and Management's Discussion and Analysis for year 2006 are attached hereto as Annexes "A" and "B", respectively. The Company's 2006 Annual Report will be distributed to stockholders of record during the Annual Meeting.

D. OTHER MATTERS

Item 15. Action with respect to Reports

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

1. Approval of the Minutes of the June 2006 Stockholders Meeting;
2. Approval of the Annual Report of Management and the Audited Financial Statements for the Fiscal Year ending December 31, 2006;
3. Ratification of all Acts and Resolutions of the Board of Directors, Executive Committee and Management during the year 2006 as discussed in the Minutes of the Meetings of the Board of Directors, Executive Committee and Audit Committee, which include the approval of contracts, loans, investments or purchases in the ordinary course of trade or business, management report and financial statements of the Corporation, and appointment of corporate officers, corporate signatories and amendments thereof.

A brief summary of Minutes of the 2006 Annual Stockholders' Meeting and relevant resolutions of the Board of Directors and the Committees for ratification by the stockholders are attached as Annexes "C" and "D."

Item 17. Amendments of Charter, By-Laws and Other Documents

Amendment to the Corporation's code of by-laws will be submitted to the stockholder for approval. The amendment involved the change of date of the annual stockholders' meeting of the Corporation from every 2nd Tuesday of June to every 3rd week of July. The change of date of the annual stockholders' meeting is made in order not to coincide with the parent company's annual stockholders' meeting and the legal holiday of June 12.

Item 18. Other Proposed Action

1. Election of Directors including the independent directors
2. Appointment of External Auditors
3. Amendment of Code of By-laws to change annual meeting date from every 2nd Tuesday of June to every 3rd week of July.

Item 19. Voting Procedures

Vote required for approval

The vote required for the amendment of the By-laws is the majority of the issued and outstanding capital stock. The affirmative vote of at least a majority of the Board of Directors is also necessary.

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

Method by which votes will be counted

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

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

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

ALL REQUESTS MAY BE SENT TO:

lca@7-eleven.com.ph

or

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

PART III

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth on this report is true, complete and correct. This report is signed in the City of Mandaluyong on June 08, 2007.

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

PHILIPPINE SEVEN CORPORATION
Issuer

By;

EVELYN S. ENRIQUEZ
Corporate Secretary

ANNEX "A"

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2006 and 2005
(With Comparative Figures for the Year Ended December 31, 2004)

and

Independent Auditors' Report

SGV & Co

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Seven Corporation

We have audited the accompanying financial statements of Philippine Seven Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements for the year ended December 31, 2004 were audited by other auditors whose report thereon dated April 6, 2005 expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Seven Corporation and Subsidiaries as of December 31, 2006 and 2005, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Aldrin M. Cerrado

Aldrin M. Cerrado
Partner
CPA Certificate No. 86735
SEC Accreditation No. 0113-AR-1
Tax Identification No. 129-433-783
PTR No. 0266534, January 2, 2007, Makati City

March 6, 2007

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱329,364,375**	₱204,310,766
Receivables - net (Note 5)	**47,276,638**	73,481,008
Inventories - at cost (Note 6)	**331,926,504**	336,193,860
Prepayments and other current assets (Note 7)	**59,485,387**	35,449,833
Total Current Assets	**768,052,904**	649,435,467
Noncurrent Assets		
Property and equipment - net (Note 8)	**800,526,339**	714,453,693
Deferred lease expense (Note 22)	**17,955,866**	18,718,401
Deferred income tax assets - net (Note 24)	**54,008,463**	77,598,357
Other noncurrent assets - net (Note 9)	**197,587,811**	199,715,877
Total Noncurrent Assets	**1,070,078,479**	1,010,486,328
TOTAL ASSETS	**₱1,838,131,383**	₱1,659,921,795
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 10)	**₱404,700,000**	₱240,000,000
Accounts payable and accrued expenses (Note 11)	**610,222,957**	556,129,563
Income tax payable	**335,684**	304,193
Current portion of long-term debt (Note 13)	**6,500,000**	93,000,000
Other current liabilities (Note 12)	**163,181,870**	119,649,081
Total Current Liabilities	**1,184,940,511**	1,009,082,837
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 13)	**–**	32,500,000
Net pension liabilities (Note 20)	**26,888,841**	22,700,899
Cumulative redeemable preferred shares (Note 16)	**6,000,000**	6,000,000
Total Noncurrent Liabilities	**32,888,841**	61,200,899
Total Liabilities	**1,217,829,352**	1,070,283,736
Stockholders' Equity		
Capital stock (Notes 14 and 15) - ₱1 par value		
Authorized - 400,000,000 shares		
Issued - 237,938,250 (held by 706 and 713 equity holders in 2006 and 2005, respectively)	**237,938,250**	237,938,250
Additional paid-in capital (Note 14)	**293,525,037**	293,525,037
Unrealized gain on available-for-sale financial assets	**10,519,880**	–
Retained earnings	**81,242,110**	61,098,018
	623,225,277	592,561,305
Cost of 686,250 shares held in treasury (Note 15)	**(2,923,246)**	(2,923,246)
Total Stockholders' Equity	**620,302,031**	589,638,059
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**₱1,838,131,383**	₱1,659,921,795

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(With Comparative Figures for 2004)

	Capital Stock	Additional Paid-in Capital	Unrealized Gain on Available-for-Sale Financial Assets	Retained Earnings	Treasury Stock	Total
BALANCES AS OF DECEMBER 31, 2003	**₱237,938,250**	**₱293,525,037**	**₱–**	**₱49,794,557**	**(₱2,923,246)**	**₱578,334,598**
Net loss for the year		–	–	(2,044,109)	–	(2,044,109)
BALANCES AS OF DECEMBER 31, 2004	**237,938,250**	**293,525,037**	**–**	**47,750,448**	**(2,923,246)**	**576,290,489**
Effect of change in accounting for refundable security deposits (Note 2)		–	–	(412,842)	–	(412,842)
BALANCES AS OF JANUARY 1, 2005	**237,938,250**	**293,525,037**	**–**	**47,337,606**	**(2,923,246)**	**575,877,647**
Net income for the year		–	–	13,760,412	–	13,760,412
BALANCES AS OF DECEMBER 31, 2005	**237,938,250**	**293,525,037**	**–**	**61,098,018**	**(2,923,246)**	**589,638,059**
Unrealized gain on available-for-sale financial assets during the year		–	10,519,880	–	–	10,519,880
Total income recognized directly in equity		–	10,519,880	–	–	–
Net income for the year		–	–	20,144,092	–	20,144,092
Total income for the year		–	10,519,88	20,144,092	–	20,144,092
BALANCES AS OF DECEMBER 31, 2006	**₱237,938,250**	**₱293,525,037**	**₱10,519,880**	**₱81,242,110**	**(₱2,923,246)**	**₱620,302,031**

See accompanying Notes to Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(With Comparative Figures for 2004)

	2006	2005	2004
REVENUE FROM MERCHANDISE SOLD	**₱4,627,880,441**	₱4,587,558,113	₱3,941,872,423
COST OF MERCHANDISE SOLD (Note 17)	**3,224,082,277**	3,186,251,240	2,708,335,765
GROSS PROFIT	**1,403,798,164**	1,401,306,873	1,233,536,658
Operating expenses (Note 18)	**(1,611,425,160)**	(1,532,295,682)	(1,328,090,589)
Franchise revenue (Note 26)	**147,997,380**	58,726,825	22,097,973
Marketing income (Note 26)	**82,574,708**	96,958,364	77,851,603
Rent income (Note 22)	**39,889,745**	35,771,211	21,548,725
Interest expense (Note 16)	**(35,913,785)**	(33,792,023)	(26,861,180)
Commission income (Note 26)	**28,635,785**	37,848,387	43,575,945
Loss on sale of property and equipment - net	**(5,165,280)**	(16,717,753)	(14,935,101)
Interest income (Note 9)	**2,760,331**	3,703,207	3,478,084
Unrealized foreign exchange loss	**(1,206,673)**	(6,465)	–
Others - net	**(4,774,307)**	(10,848,566)	(2,247,842)
	(1,356,627,256)	(1,360,652,495)	(1,203,582,382)
INCOME BEFORE INCOME TAX	**47,170,908**	40,654,378	29,954,276
PROVISION FOR INCOME TAX (Note 24)			
Current	**28,819,683**	18,646,541	24,883,136
Deferred	**(1,792,867)**	8,247,425	7,115,249
	27,026,816	26,893,966	31,998,385
NET INCOME (LOSS)	**₱20,144,092**	₱13,760,412	(₱2,044,109)
BASIC/DILUTED EARNINGS (LOSS) PER SHARE (Note 23)	**₱0.08**	₱0.06	(₱0.01)

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(With Comparative Figures for 2004)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱47,170,908**	₱40,654,378	₱29,954,276
Adjustments for:			
Depreciation and amortization (Notes 8 and 18)	**154,046,259**	124,769,238	118,608,597
Interest expense (Note 16)	**35,913,785**	33,792,023	26,861,180
Accounts written off (Note 18)	**9,571,709**	–	–
Loss on sale of property and equipment	**5,165,280**	16,717,753	14,935,101
Gain on write-off of long outstanding liability	**(3,232,879)**	–	–
Provision for doubtful accounts (Note 18)	**2,903,498**	–	–
Interest income	**(2,760,331)**	(3,703,207)	(3,478,084)
Amortization of software (Notes 9 and 18)	**1,757,238**	2,987,458	2,932,501
Amortization of deferred lease expense (Note 22)	**1,660,064**	2,107,225	–
Unrealized foreign exchange loss	**1,206,673**	6,465	–
Loss on refund of deposit	**312,000**	–	–
Write-off of other noncurrent assets	–	–	9,310
Operating income before working capital changes	**253,714,204**	217,331,333	189,822,881
Decrease (increase) in:			
Receivables	**22,393,731**	32,063,346	(48,275,749)
Prepayments and other current assets	**5,021,991**	(4,129,240)	6,785,934
Inventories	**4,267,356**	(32,993,915)	(85,335,007)
Increase (decrease) in:			
Accounts payable and accrued expenses	**57,175,330**	(44,325,854)	130,757,094
Other current liabilities	**43,532,789**	35,593,858	17,669,390
Net pension liabilities	**4,187,942**	4,635,376	3,957,023
Cash generated from operations	**390,293,343**	208,174,904	215,381,566
Interest paid	**(35,762,842)**	(33,619,530)	(16,635,672)
Income taxes paid	**(32,462,976)**	(27,558,116)	(19,451,329)
Interest received	**1,847,906**	2,194,957	3,478,084
Net cash from operating activities	**323,915,431**	149,192,215	182,772,649
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Note 8)	**(248,336,018)**	(220,866,173)	(210,197,242)
Refund of security deposit (Note 22)	**8,307,564**	–	–
Deductions from (additions to) other noncurrent assets	**(6,378,528)**	3,624,663	(110,570,625)
Proceeds from sale of property and equipment	**3,051,833**	1,044,776	775,926
Payment of refundable security deposit (Note 22)	–	(20,000,000)	–
Net cash used in investing activities	**(243,355,149)**	(236,196,734)	(319,991,941)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Bank loans	**446,100,000**	115,000,000	–
Long-term debt			220,000,000
Payments of:			
Bank loans	**(281,400,000)**	(35,000,000)	–
Long-term debt	**(119,000,000)**	(54,000,000)	(90,531,222)
Net cash from financing activities	**45,700,000**	26,000,000	129,468,778
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS FOR THE YEAR	**(1,206,673)**	(6,465)	–
NET INCREASE (DECREASE) IN CASH AND CASH AND EQUIVALENTS	**125,053,609**	(61,010,984)	(7,750,514)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**204,310,766**	265,321,750	273,072,264
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱329,364,375**	₱204,310,766	₱265,321,750

See accompanying Notes to Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information and Operations**

Philippine Seven Corporation (the Company) was incorporated in the Philippines and registered with the 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 Group is President Chain Store Corporation (PCSC, incorporated in Taiwan, Republic of China).

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

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 6, 2007.

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

The principal accounting and financial reporting policies adopted in preparing the financial statements of the Group are as follows:

<u>Basis of Preparation</u>
The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale financial assets, which are carried at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency.

<u>Statement of Compliance</u>
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Basis of Consolidation</u>
The consolidated financial statements include the accounts of the Company and the following subsidiaries:

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

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

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using uniform accounting policies. Intercompany transactions, balances and unrealized losses are eliminated unless cost cannot be recovered.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year, except that the Group has made changes in accounting policies resulting from adoption of the following amendments to existing standards and Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) interpretation effective beginning January 1, 2006:

- Philippine Accounting Standard (PAS) 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, introduced an additional option for actuarial gains and losses arising in post-employment defined benefit plans and prescribed additional disclosures. The Group did not change its accounting for actuarial gains and losses but has included the disclosures required by the amendment.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* which amended PAS 21 to recognize all exchange differences arising from a monetary item that forms part of the net investment in a foreign operation in a separate component of equity in the financial statements regardless of the currency in which the monetary item is denominated.

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for Financial Guarantee Contracts*, which amended the scope of PAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under PAS 39 as amended, financial guarantee contracts are recognized initially at fair value and generally re-measured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*.

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for Hedges of Forecast Intragroup Transactions*, which amended PAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into the transaction and that the foreign currency risk will affect profit or loss.

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for the Fair Value Option*, which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss.

- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease,* provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied.

The adoption of the above amendments and interpretation has no material effect on the Group's consolidated financial statements.

Impact of PAS 32, *Financial Instruments: Disclosure and Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*
The adoption of PAS 32, and PAS 39 on January 1, 2005 resulted to the adjustment of the value of the Group's refundable security deposits to reflect measurement of these amounts at amortized cost using the effective interest rate method. The difference between the nominal amounts and the present values of the refundable security deposits are recognized as deferred lease expense in the consolidated balance sheets. The deferred lease expense is amortized using the straight-line method over the term of the lease in accordance with PAS 17, *Leases*.

Retained earnings as of January 1, 2005 decreased by ₱412,842, which represents the amounts of amortization of deferred lease expense and accretion of interest income from the inception of the lease.

New Accounting Standards, Interpretations and Amendments Effective Subsequent to 2006
The following accounting standards, interpretations and amendments to existing standard are effective subsequent to December 31, 2006:

- PFRS 7, *Financial Instruments: Disclosures*, and the complementary amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosures* (effective for annual periods beginning on or after January 1, 2007), introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1. The Group will apply PFRS 7 and the amendment to PAS 1 in 2007.

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

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after March 1, 2006), provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. The Group is not required and will not adopt Philippine Interpretation IFRIC 7.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2* (effective for annual periods beginning on or after May 1, 2006), requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Group expects that the adoption of this interpretation will not have a significant impact on the consolidated financial statements when implemented.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* (for annual periods beginning on or after June 1, 2006), establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group expects that the adoption of this interpretation will not have a significant impact on the consolidated financial statements when implemented.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 11, 2006), prohibits the reversal of impairment losses on goodwill and available-for-sale equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The Group expects that the adoption of this interpretation will not have a significant impact on the consolidated financial statements when implemented.

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

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from private entities providing public services. The Group expects that the adoption of this interpretation will not have a significant impact on the consolidated financial statements when implemented.

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 Assets and Financial Liabilities

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

The Group recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial Assets

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also categorized as held for trading, except those derivatives designated and considered as effective hedging instruments.

Financial assets classified in this category are designated as at fair value through profit or loss by management on initial recognition when 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, or both financial assets and 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 assets at fair value through profit or loss 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 in interest income, while dividend income is recorded in other income according to the terms of the contract, or when the right of the payment has been established.

The Group has not designated any financial asset as at fair value through profit or loss.

(b) 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 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 included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Group's receivable.

(c) Held-to-maturity investments
Held-to-maturity (HTM) investments 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 assets are 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 twelve months from the balance sheet date and noncurrent assets if maturity is more than a year.

The Group has not designated any financial asset as HTM.

(d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are accounted for in equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is recognized in the consolidated statement of income. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within twelve months from the balance sheet date.

The Group has designated its noncurrent investments in marketable securities as available-for-sale financial assets.

Financial Liabilities

(a) Financial liabilities at fair value through profit or loss
Financial liabilities classified under this category are designated by management on initial recognition when 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, or both financial assets and 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 fair value through profit or loss 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 in interest expense.

(b) Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as fair value through profit or loss upon the inception of the liability. These include liabilities arising from operations (e.g., payables, accruals).

The liabilities are recognized initially at fair value and 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 determines the classifications of financial assets and financial liabilities at initial recognition and, where allowed and appropriate, reevaluates these classifications at every reporting date.

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

Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future 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 shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continue to be recognized are not included in a collective assessment of impairment.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 for a similar financial asset.

Available-for-sale financial assets
If an available-for-sale 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 equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are recognized in the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Derecognition of Financial Assets and Liabilities
Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to 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 or cancelled or expires.

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

Inventories

Inventories are stated at the lower of cost or net realizable value (NRV). 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. Cost of warehouse merchandise is determined using the first-in, first-out method.

Property and Equipment

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

The initial cost of property and equipment consists of its purchase price, including import duties, taxes, 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 operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets. When assets are retired or otherwise disposed of, both the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in the statement of income.

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

When assets are sold or otherwise disposed of, its cost and the related accumulated depreciation and amortization, and any impairment in value are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of income.

Depreciation is computed on a straight-line method over the estimated useful lives of the assets. Depreciation starts in the following month the property and equipment is received.

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

Leasehold improvements are amortized over the estimated useful lives of the improvements, ranging from 5 to 10 years, or the term of the lease, whichever is shorter.

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

Software and Program Costs

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

Goodwill

Goodwill, included in other noncurrent assets in the consolidated balance sheet, represents the excess of the cost of an acquisition over the fair value of the businesses acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that carrying value may be impaired.

Impairment of Long-Lived Non-Financial Assets

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset'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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

Deferred income tax is provided 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 MCIT can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Revenue

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.

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

Marketing and franchise revenue are recognized when earned.

Commission on services is recognized upon the sale of consigned goods.

Rental income is accounted for on a straight-line basis over the lease terms of ongoing leases.

Interest income is recognized as it accrues based on effective interest rate method.

Pension Costs

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

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

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

Foreign Currency Transactions and Translations
Items included in the consolidated financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group. The consolidated financial statements are presented in Peso, which is the functional currency of the Company.

Foreign currency transactions are translated into the functional currency using the applicable exchange rates prevailing at the dates of the transactions. Outstanding foreign currency denominated monetary assets and liabilities are retranslated at the applicable exchange rates prevailing at the balance sheet dates. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of outstanding foreign currency denominated monetary assets and liabilities are recognized in the consolidated statement of income.

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

Leases
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 arrangements convey a right to use the asset.

Group as Lessee
Operating lease expense is recognized in the consolidated statement of income on a straight-line basis over the lease term.

Group as Lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

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

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.

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

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

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

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

3. Significant Accounting Judgments and Estimates

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 the amounts recognized in the consolidated financial statements.

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

Determination of Fair Values of Financial Assets and Liabilities
The Group carries certain financial assets and liabilities at fair value, which requires use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable and objective evidence (i.e., foreign exchange rates, interest rates), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

As of December 31, 2006 and 2005, financial assets recognized in the consolidated balance sheets amounted to ₱400,778,627 and ₱297,504,284, respectively, while financial liabilities amounted to ₱1,190,604,827 and ₱1,047,278,644, respectively (see Note 25).

Estimation of Allowance for Doubtful Accounts
The Group maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the debtor, the debtor's payment behavior, and known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis.

Receivables, net of allowance for doubtful accounts, amounted to ₱47,276,638 and ₱73,481,008 as of December 31, 2006 and 2005, respectively (see Note 5). Provision for doubtful accounts, amounted to ₱2,903,498 in 2006 (see Note 18) while reversal of provision for doubtful accounts under "Others - n et" in the statement of income amounted to ₱11,900 and ₱1,831,707 in 2005 and 2004, respectively.

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 ₱800,526,339 and ₱714,453,693 as of December 31, 2006 and 2005, respectively (see Note 8).

Estimation of Pension Cost
The determination of the obligation and cost of pension is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rates per annum, expected rate of return on plan assets and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations.

The Group's unrecognized net actuarial losses amounted to ₱13,183,698, ₱11,412,574 and ₱1,578,340 as of December 31, 2006, 2005 and 2004, respectively. Net pension liabilities as of December 31, 2006 and 2005 amounted to ₱26,888,841 and ₱22,700,899, respectively (see Note 20).

Classification of Leases- the Group as Lessee
The Group has entered into property leases, where it has determined that the risks and rewards related to those properties are retained with the lessors. As such, these lease agreements are accounted for as operating leases.

The Group's rent expense amounted to ₱265,189,314, ₱259,266,777 and ₱232,113,237 in 2006, 2005 and 2004, respectively (see Note 18). Accrued rent as of December 31, 2006 and 2005 amounted to ₱69,944,073 and ₱72,985,266, respectively (see Note 11).

Classification of Leases - the Group as Lessor
The Group has entered into property subleases on its leased properties. The Group determined that the lessors retain all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

The Group's rent income amounted to ₱39,889,745, ₱35,771,211 and ₱21,548,725 in 2006, 2005 and 2004, respectively (see Note 22). Unearned rent as of December 31, 2006 and 2005 amounted to ₱1,382,354 and ₱462,739, respectively (see Note 12).

Realizability of Deferred Income Taxes
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 has net deferred income tax assets amounting to ₱54,008,463 and ₱77,598,357 as of December 31, 2006 and 2005, respectively (see Note 24).

Impairment of Assets
The Group determines whether items of its property and equipment and other non-financial long-lived assets such as goodwill 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 and estimation. 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. As of December 31, 2006 and 2005, after due evaluation, the Group concluded that there is no impairment of assets as of those dates.

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱800,526,339 and ₱714,453,693 as of December 31, 2006 and 2005, respectively (see Note 8).

4. Cash and Cash Equivalents

	2006	2005
Cash on hand and in banks	**₱328,754,075**	₱197,902,121
Short-term placements	**610,300**	6,408,645
	₱329,364,375	₱204,310,766

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

5. Receivables

	2006	2005
Suppliers	**₱40,060,216**	₱54,745,519
Current portion of notes receivable (Note 9)	**4,985,000**	4,800,000
Employees	**4,429,101**	6,982,232
Insurance claims	**3,875,542**	2,093,321
Receivable from Social Security System	**1,023,050**	957,012
Subleased spaces	**783,260**	–
Franchisee - net	–	6,750,663
Others	**2,628,408**	4,756,702
	57,784,577	81,085,449
Less allowance for doubtful accounts	**10,507,939**	7,604,441
	₱47,276,638	₱73,481,008

Receivables from suppliers are non interest-bearing and are generally on 30-90 days' terms.

6. Inventories

	2006	2005
At cost:		
Store merchandise	**₱151,108,238**	₱164,096,138
Warehouse merchandise and others	**180,818,266**	172,097,722
	₱331,926,504	₱336,193,860

7. Prepayments and Other Current Assets

	2006	2005
Input value-added tax (VAT) (Note 24)	**₱31,337,732**	₱11,585,940
Creditable withholding taxes	**16,259,015**	12,993,605
Advances for expenses	**4,224,340**	3,555,751
Rent	**1,358,613**	650,212
Prepaid taxes and licenses	**1,276,440**	875,815
Prepaid uniform	**1,173,479**	1,331,083
Supplies	**957,770**	2,653,954
Others	**2,897,998**	1,803,473
	₱59,485,387	₱35,449,833

8. Property and Equipment

	2006								
	Land	**Leasehold Improvements**	**Store Furniture and Equipment**	**Buildings and Improvements**	**Office Furniture and Equipment**	**Transportation Equipment**	**Computer Equipment**	**Construction In-Progress**	**Total**
Cost									
Beginning balances	**₱39,866,864**	**₱390,085,977**	**₱411,932,449**	**₱104,305,299**	**₱180,143,089**	**₱15,491,722**	**₱123,497,773**	**₱117,674**	**₱1,265,440,847**
Additions	**–**	**75,987,421**	**75,745,563**	**17,411**	**41,608,928**	**5,751,071**	**38,225,638**	**10,999,986**	**248,336,018**
Disposals	**–**	**(16,277,953)**	**(473,131)**	**–**	**(2,017,106)**	**(2,100,000)**	**(42,857)**	**–**	**(20,911,047)**
Reclassifications	**–**	**(83,555)**	**33,476**	**62,828**	**(2,458)**	**–**	**(10,291)**	**–**	**–**
Ending balances	**39,866,864**	**449,711,890**	**487,238,357**	**104,385,538**	**219,732,453**	**19,142,793**	**161,670,263**	**11,117,660**	**1,492,865,818**
Accumulated Depreciation and Amortization									
Beginning balances	**–**	**139,757,818**	**224,534,360**	**36,971,748**	**93,297,421**	**10,311,052**	**46,114,755**	**–**	**550,987,154**
Depreciation and amortization (Note 18)	**–**	**63,245,099**	**44,957,653**	**3,715,544**	**17,066,436**	**1,585,326**	**23,476,201**	**–**	**154,046,259**
Disposals	**–**	**(11,197,468)**	**(43,299)**	**–**	**(1,428,799)**	**–**	**(24,368)**	**–**	**(12,693,934)**
Reclassifications	**–**	**(75,729)**	**42,908**	**1,599**	**(1,794)**	**–**	**33,016**	**–**	**–**
Ending balances	**–**	**191,729,720**	**269,491,622**	**40,688,891**	**108,933,264**	**11,896,378**	**69,599,604**	**–**	**692,339,479**
Net Book Values	**₱39,866,864**	**₱257,982,170**	**₱217,746,735**	**₱63,696,647**	**₱110,799,189**	**₱7,246,415**	**₱92,070,659**	**₱11,117,660**	**₱800,526,339**

	2005								
	Land	Leasehold Improvements	Store Furniture and Equipment	Buildings and Improvements	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Construction In-Progress	Total
Cost									
Beginning balances	₱39,866,864	₱374,702,787	₱348,873,835	₱110,413,634	₱142,944,090	₱11,511,516	₱58,486,830	₱1,020,000	₱1,087,819,556
Additions	–	39,211,639	67,610,217	–	43,024,203	3,980,206	66,815,534	224,374	220,866,173
Disposals	–	(29,732,205)	(5,531,064)	–	(5,734,992)	–	(988,103)	–	(41,986,364)
Reclassifications	–	5,903,756	979,461	(6,108,335)	(90,212)	–	(816,488)	(1,126,700)	(1,258,518)
Ending balances	39,866,864	390,085,977	411,932,449	104,305,299	180,143,089	15,491,722	123,497,773	117,674	1,265,440,847
Accumulated Depreciation and Amortization									
Beginning balances	–	101,815,343	189,719,325	35,140,876	83,107,736	9,366,307	31,292,164	–	450,441,751
Depreciation and amortization (Note 18)	–	49,908,285	38,628,254	4,649,016	14,943,671	944,745	15,695,267	–	124,769,238
Disposals	–	(14,748,697)	(3,833,096)	–	(4,757,182)	–	(884,860)	–	(24,223,835)
Reclassifications	–	2,782,887	19,877	(2,818,144)	3,196	–	12,184	–	–
Ending balances	–	139,757,818	224,534,360	36,971,748	93,297,421	10,311,052	46,114,755	–	550,987,154
Net Book Values	₱39,866,864	₱250,328,159	₱187,398,089	₱67,333,551	₱86,845,668	₱5,180,670	₱77,383,018	₱117,674	₱714,453,693

9. **Other Noncurrent Assets**

	2006	2005
Deposits:		
Rent (Note 22)	**₱81,446,679**	₱84,083,646
Utilities	**21,901,249**	19,473,665
Suppliers	**3,284,738**	9,741,722
Others	**752,710**	493,996
	107,385,376	113,793,029
Goodwill	**70,178,892**	70,178,892
Available-for-sale financial assets	**12,834,455**	6,319,880
Software and programs - net of accumulated amortization of ₱280,000 in 2006 and ₱15,302,798 in 2005 (Note 18)	**3,920,000**	1,477,239
Notes receivable - net of current portion	**–**	6,265,190
Others	**3,269,088**	1,681,647
	₱197,587,811	₱199,715,877

The amortized cost of refundable security deposits included under Rent of Deposits as of December 31, 2006 and 2005 amounted to ₱9,189,188 and ₱7,127,440, respectively. Interest income on accretion of the value of the refundable security deposits amounted to ₱912,425 and ₱1,508,250 in 2006 and 2005, respectively.

On March 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation for a total consideration of ₱130,000,000. The excess of the acquisition cost over the fair value of the assets acquired was recorded as goodwill. The recoverable amount for the goodwill was estimated based on the value in use and was determined at the cash generating unit level. In determining value in use, the cash flows (pre-tax) were discounted at a pre-tax rate of 9%. There was no impairment loss recognized in 2006 and 2005.

The Group's old inventory management software, ES1/Super Logistics, with acquisition cost of ₱16,780,037, became fully depreciated in 2006 and was written off during the same year. A new software was acquired with acquisition cost amounting to ₱4,200,000. Amortization of ₱280,000 was recognized in 2006.

Notes receivable pertains to the long-term portion of a secured, receivable from an armored car service provider for stolen collections bearing interest at 8%. Outstanding balance of the notes receivable amounts to ₱4,985,000, which pertains to the estimated fair value of mortgaged armored vehicles in favor of the Group. The remaining balance was written off in 2006 (see Note 18).

10. **Bank Loans**

Bank loans represent unsecured peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2007 and 2006 with annual interest rates ranging from 8.13% to 11.67%, which are monthly repriced based on market conditions.

11. **Accounts Payable and Accrued Expenses**

	2006	2005
Trade payable	**₱493,694,257**	₱432,922,697
Rent	**69,944,073**	72,985,266
Utilities	**11,729,488**	7,098,028
Employee benefits	**10,351,365**	9,070,264
Advertising and promotion	**10,121,125**	20,809,697
Bank charges	**2,760,120**	1,838,320
Security services	**1,978,886**	2,143,476
Interest	**1,616,110**	1,465,167
Others	**8,027,533**	7,796,648
	₱610,222,957	₱556,129,563

12. **Other Current Liabilities**

	2006	2005
Non-trade accounts payable	**₱62,534,858**	₱31,060,963
Deposits from sublessees	**55,747,867**	53,247,068
Payable to franchisee	**11,729,699**	–
Withholding taxes	**10,458,897**	12,898,655
Output VAT (Note 24)	**9,163,433**	6,885,322
Retention payable	**6,720,669**	1,276,290
Unearned rent (Note 22)	**1,382,354**	462,739
Interest payable	**546,660**	691,320
Royalty (Note 21)	**175,447**	6,282,112
Payable to contractors	–	1,549,221
Others	**4,721,986**	5,295,391
	₱163,181,870	₱119,649,081

13. **Long-term Debt**

	2006	2005
Unsecured long-term promissory notes with local banks:		
Interest is at a fixed rate of 11.67% for the first 24 months, the rate thereafter shall be at the prevailing lender rate. The principal is payable in equal monthly installments starting on the sixth month, until March 2007.	**₱6,500,000**	₱32,500,000

(Forward)

	2006	2005
Unsecured long-term promissory notes with various third parties under escrow agency agreement with a local bank:		
Interest rates range from 10.50% to 11.00%, payable in lump-sum on May 2006.	**₱–**	₱65,000,000
Secured long-term promissory notes with a local bank:		
Interest is at a fixed rate of 10.50% for three years, payable in equal monthly installments starting on the sixth month, until December 2006. The loan is guaranteed by PCSC.	**–**	28,000,000
	6,500,000	125,500,000
Less current portion of long-term debt	**6,500,000**	93,000,000
	₱–	₱32,500,000

14. **Common Stock and Additional Paid-in Capital**

On January 9, 1998, the SEC approved the registration of the following:

a. The 237,938,250 common shares consist of:

Outstanding common shares (including underlying shares for the 122,882 warrant units)	166,556,250
Initial public offering	47,000,000
Private placement	24,382,000
	237,938,250

On February 4, 1998, the Group offered for sale 71,382,000 common shares, consisting of 47,000,000 shares for public offering and 24,382,000 shares for private placement both at an offer price of ₱4.40 per share. Net proceeds generated from the offering amounted to ₱288,300,000. The excess of the net proceeds over the cost of common shares amounting to ₱216,900,000 was credited to "Additional paid-in capital".

b. The 122,882 5-year warrants with attached 4% perpetual income bonds.

On June 13, 2000, the BOD approved a resolution authorizing the issuance of the Group's shares ("Optional Shares") for the exercise of the 122,882 warrants with attached 4% perpetual income bonds consisting of 18,432,300 common shares to be taken from unissued portion of the authorized capital stock and 12,288,200 treasury shares or a total of 30,720,500 shares pursuant to their registration with the SEC. Moreover, upon the actual exercise of the warrants and purchase of the Optional Shares, the Group was authorized to list the 30,720,500 shares with the Philippine Stock Exchange (PSE).

During the period September 15 to 25, 2000, all of the Group's warrants were exercised and the corresponding shares of 30,720,500 were issued at a price of ₱1.732 per share resulting in an additional paid-in capital of ₱13,492,444. The excess of cost over re-issue price of treasury shares amounting to ₱27,902,091 is presented as deduction against additional paid-in capital in the consolidated statements of changes in stockholders' equity. Consequently, on September 28, 2000, the Group listed the 30,720,500 with the PSE and delisted the corresponding 122,882 warrants.

15. Employee Stock Purchase Plan

The Group has an Employee Stock Purchase Plan (ESPP) which allows all full-time and regular employees, who have rendered at least two years of service to the Group as of December 31, 1996, to purchase the Group's shares in the offering at a purchase price of ₱4.40 per share. Each eligible employee can purchase a minimum of 1,000 shares and a maximum number of shares with a purchase price equivalent to 1 ½ months basic salary or, in the case of a manager, up to 3 months basic salary.

On the stock purchase date, the Group has the right to vote the pledged shares until full payment of the loan, and the participants have the right to receive all cash dividends, but stock dividends shall be held in escrow until full payment of loan.

In 1998, 997,000 shares were subscribed by the employees under the ESPP and the unsold shares were taken by the lead underwriter as part of the offering to the public.

In 2001, 686,250 shares were withdrawn by the employees and returned to the Group and accounted for as treasury shares.

16. Cumulative Redeemable Preferred Shares

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

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors.

17. Cost of Merchandise Sold

	2006	2005	2004
Merchandise inventory, beginning	**₱336,193,860**	₱303,199,945	₱217,864,938
Net purchases	**3,219,814,921**	3,219,245,155	2,793,670,772
	3,556,008,781	3,522,445,100	3,011,535,710
Less merchandise inventory, ending	**331,926,504**	336,193,860	303,199,945
	₱3,224,082,277	₱3,186,251,240	₱2,708,335,765

18. **Operating Expenses**

	2006	2005	2004
Personnel costs (Note19)	**₱336,901,558**	₱336,406,816	₱315,383,011
Communication, light and water	**315,827,699**	318,194,940	227,979,403
Rent (Notes 21 and 22)	**265,189,314**	259,266,777	232,113,237
Depreciation and amortization	**154,046,259**	124,769,238	118,608,597
Management fee (Note 26)	**82,307,663**	63,632,738	29,591,124
Outside services	**61,441,165**	58,312,084	65,706,940
Taxes and licenses	**57,897,515**	50,439,534	42,418,352
Supplies	**51,387,785**	50,621,852	49,620,514
Trucking services	**51,000,456**	44,077,388	33,441,900
Advertising and promotion	**42,419,622**	31,426,121	24,313,117
Warehousing services	**39,175,543**	32,264,919	24,937,771
Repairs and maintenance	**36,587,772**	32,438,344	31,041,100
Royalties (Note 21)	**24,634,225**	47,138,470	40,136,325
Provision for inventory losses	**21,867,776**	33,391,052	46,257,278
Transportation and travel	**14,341,622**	14,469,528	8,267,891
Entertainment, amusement and recreation	**14,182,789**	5,960,260	3,801,443
Accounts written off	**9,571,709**	–	–
Dues and subscription	**3,581,679**	2,837,951	2,240,629
Provision for doubtful accounts	**2,903,498**	–	–
Insurance	**2,825,865**	3,925,247	4,858,338
Amortization of software	**1,757,239**	2,987,458	2,932,501
Others	**21,576,407**	19,734,965	24,441,118
	₱1,611,425,160	₱1,532,295,682	₱1,328,090,589

19. **Personnel Costs**

	2006	2005	2004
Salaries and wages	**₱210,336,816**	₱210,254,837	₱204,906,138
Employee benefits	**120,085,026**	121,516,603	106,519,850
Pension cost (Note 20)	**6,479,716**	4,635,376	3,957,023
	₱336,901,558	₱336,406,816	₱315,383,011

20. **Pension Plan**

The Group maintains a trusteed, non-contributory pension plan covering qualified employees. Normal retirement benefits are equal to the employee's retirement pay as defined in Republic Act (RA) No. 7641 multiplied by his years of service. Normal retirement date is the attainment of age 60 and completion of at least 5 years of service.

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

a. Net pension costs for the year are as follows:

	2006	2005	2004
Current service cost	**₱2,042,880**	₱1,337,215	₱1,770,112
Interest cost	**4,814,791**	4,346,025	3,717,610
Expected return on plan assets	**(643,797)**	(1,047,864)	(1,530,699)
Net actuarial loss recognized this year	**265,842**	–	–
Net pension costs for the year	**₱6,479,716**	₱4,635,376	₱3,957,023

b. Net pension liabilities recognized by the Group are as follows:

	2006	2005
Present value of pension liabilities	**₱46,674,326**	₱40,551,447
Less fair value of plan assets	**6,601,787**	6,437,974
Unfunded obligation	**40,072,539**	34,113,473
Less unrecognized net actuarial losses	**13,183,698**	11,412,574
Net pension liabilities	**₱26,888,841**	₱22,700,899

c. Changes in present value of the pension liabilities are as follows:

	2006	2005
Beginning of year	**₱40,551,447**	₱30,122,500
Interest cost	**4,814,791**	4,346,025
Current service cost	**2,042,880**	1,337,215
Benefits paid	**(2,839,768)**	(4,838,968)
Actuarial loss	**2,104,976**	9,584,675
End of year	**₱46,674,326**	₱40,551,447

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

	2006	2005
Beginning of year	**₱6,437,974**	₱10,478,637
Expected return on plan assets	**643,797**	1,047,864
Contribution	**2,291,774**	–
Benefits paid	**(2,839,768)**	(4,838,968)
Actuarial loss (gain)	**68,010**	(249,559)
End of year	**₱6,601,787**	₱6,437,974

The fair value of the Group's net plan assets are as follows:

	2006	2005
Cash in bank	**₱263**	₱243
Investments in equity securities and trust and mutual funds	**6,612,401**	6,450,251
Liabilities	**(10,877)**	(12,520)
Fund Balance	**₱6,601,787**	₱6,437,974

Actual return on plan assets amounted to ₱711,807 and ₱744,165 in 2006 and 2005, respectively.

The overall expected return on the 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. There has been no change in the expected rate of return on plan assets.

The Group expects to contribute ₱4,000,000 to its defined benefit plan in 2007.

The principal assumptions used in determining net pension costs for the Group's plan are as follows:

	2006	2005	2004
Number of employees		1,028	986
Discount rate per annum	**8.00%**	11.74%	14.24%
Expected annual rate of return on plan assets	**10.00%**	10.00%	10.00%
Increase in salary	**5.00%**	5.00%	5.00%

Amounts for the current and prior periods are as follows:

	2006	2005	2004
Present value of pension liabilities	**(₱46,674,326)**	(₱40,551,447)	(₱30,122,500)
Fair value of plan assets	**6,601,787**	6,437,974	10,478,637
Deficit	**(40,072,539)**	(34,113,473)	(19,643,863)
Experience adjustments on pension liabilities	**(2,104,976)**	(9,584,675)	(344,909)
Experience adjustments on plan assets		–	–

21. Related Party Transactions

Significant transactions with related parties consist of:

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

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

Royalty fees recorded by the Group amounted to ₱24,634,225, ₱47,138,470 and ₱40,136,325 in 2006, 2005 and 2004, respectively.

Royalty payable amounted to ₱175,447 and ₱6,282,112 as of December 31, 2006 and 2005, respectively.

b. Rental of post-mix machines from PCSC for three years until June 30, 2005. The Group pays the latter 5% of sales from the said machines. Payments shall be made quarterly before the 20th day of January, April, July and October. Expense recognized on rental of post-mix machines amounted to ₱3,971,343 and ₱8,603,475 in 2005 and 2004, respectively.

c. Compensation of key management personnel are as follows:

	2006	2005	2004
Short-term employee benefits	**₱18,288,784**	₱14,479,587	₱13,843,834
Post-employment benefits	**356,304**	2,164,572	204,484
Other long-term benefits	**507,563**	447,192	2,026,602
	₱19,152,651	₱17,091,351	₱16,074,920

22. Leases

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

Rental expense related to these lease agreements amounted to ₱236,887,280, ₱237,616,908 and ₱213,127,332 in 2006, 2005 and 2004, respectively. Amortization of deferred lease expense amounted to ₱569,564 in 2006 and ₱534,436 in 2005.

The approximate annual minimum rental payments of the Group under its existing lease agreements as of December 31, 2006 are as follows:

Year	Amount
2007	₱106,762,689
2008	96,868,743
2009	79,649,977
2010	61,574,642
2011	47,542,366
2012 and onwards	71,317,345

b. The Group has various sublease agreements with third parties which provide for lease rentals based on an agreed fixed monthly rate or as agreed upon by the parties. Rental income related to these sublease agreements amounted to ₱39,889,745 in 2006, ₱35,771,211 in 2005 and ₱21,548,725 in 2004.

The approximate annual minimum sublease payments expected to be received under its existing sublease agreements as of December 31, 2006 are as follows:

Year	Amount
2007	₱19,016,236
2008	13,130,654
2009	6,134,855
2010 and onwards	6,313,586

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

The Group paid security deposits amounting to ₱20,000,000 related to the lease contract in 2005. The security deposit related to the previous lease contract amounting to ₱5,640,000 as of December 31, 2005 was refunded to the Group in January 2006.

Rent expenses related to these lease agreements amounted to ₱22,925,240 in 2006, ₱13,213,153 in 2005 and ₱8,278,362 in 2004. Amortization of deferred lease expense amounted to ₱1,090,500 and ₱1,572,789 in 2006 and 2005, respectively.

The approximate annual minimum rental payments of the Group under its existing lease contract as of December 31, 2006 are as follows:

Year	Amount
2007	₱18,393,452
2008	19,454,030
2009	19,680,994
2010	20,815,812
2011	21,058,664
2012 and onwards	223,264,084

CDI also has other various short-term operating leases. Related rent expense amounts to ₱3,716,730, ₱2,358,148 and ₱2,104,068 in 2006, 2005 and 2004, respectively.

23. Basic/Diluted Earnings (Loss) Per Share

		2	2004
Net income (loss) attributable to equity holders of the Parent	***₱20,144,092***	*₱13,760,412*	*(₱2,044,109)*

(Forward)

		2005	2004
b. Weighted average number of shares issued	**237,938,250**	237,938,250	237,938,250
c. Less weighted average number of shares held in the treasury	**686,250**	686,250	686,250
d. Weighted average number of shares outstanding **(b-c)**	**237,252,000**	237,252,000	237,252,000
e. Basic/diluted earnings (loss) per share **(a/d)**	**₱0.08**	₱0.06	(₱0.01)

The Group does not have potentially dilutive common shares as of December 31, 2006, 2005 and 2004. Thus, the basic earnings (loss) per share is equal to the diluted earnings (loss) per share as of those dates.

24. Income Tax

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

	2006	2005	2004
RCIT	**₱28,453,281**	₱17,944,535	₱109,783
MCIT	**–**	263,015	24,114,157
Final tax on interest income	**366,402**	438,991	659,196
	₱28,819,683	₱18,646,541	₱24,883,136

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

	2006	2005
Excess of MCIT over RCIT	**₱17,283,785**	₱42,666,546
Tax effects of:		
Accrued rent	**24,464,954**	25,544,843
Net pension liabilities	**9,411,094**	7,945,314
Unamortized capitalized interest	**(2,667,513)**	(2,625,895)
Allowance for doubtful accounts	**3,677,779**	2,661,554
Unamortized past service cost	**932,205**	1,241,773
Unearned rent	**483,823**	161,959
Unrealized foreign exchange loss - net	**422,336**	2,263
	₱54,008,463	₱77,598,357

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

d. As of December 31, 2006, the Group's MCIT available for deduction from future RCIT payable are as follows:

Year incurred	MCIT	Applied	Balance	Available Until
2003	₱18,416,000	₱18,416,000	₱–	2006
2004	24,114,157	6,830,372	17,283,785	2007
2005	136,389	136,389	–	2008
	₱42,666,546	₱25,382,761	₱17,283,785	

e. The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of income follows:

	2006	2005	2004
Provision for income tax computed at statutory income tax rate	**₱16,509,818**	₱13,212,673	₱9,585,368
Adjustments for:			
Nondeductible expenses:			
Inventory losses	**7,653,722**	11,807,192	–
Interest expense and others	**2,915,948**	5,542,188	744,425
Nontaxable income:			
Interest income on accretion	**(319,349)**	(490,181)	–
Bank interest income	**(274,801)**	(274,369)	(395,516)
Effect of change in tax rate in 2005	–	(3,335,599)	–
Expired MCIT	–	432,062	17,785,656
Expired NOLCO	–	–	4,487,887
Others	**541,478**	–	(209,435)
	₱27,026,816	₱26,893,966	₱31,998,385

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

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

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

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

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

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

On January 31, 2006, the President upon recommendation of the Secretary of Finance approved the 2% increase in VAT rates effective February 1, 2006.

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

25. Financial Instruments and Risk Management Objectives and Policies

The Group's principal financial instruments comprise of bank loans, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as receivables, available-for-sale financial assets, refundable security deposits and other assets, accounts payable and accrued expenses, and other current liabilities, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

Financial Risk Management Objectives and Policies

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

Liquidity Risk

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.

Interest Rate Risk

The Group is expecting to substantially reduce the level of bank loans within the next three years. Internally generated funds coming from its cash generating units and from its franchising business will be used to pay off outstanding debts and consequently reduce the interest rate exposure.

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

Year ended December 31, 2006

	Rate	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Bank loans:								
Fixed rate	8.60%-8.80%	₱30,000,000	₱–	₱–	₱–	₱–	₱–	₱30,000,000
Floating rate	8.60%-8.80%	374,000,000	–	–	–	–	–	374,000,000
Long-term debt:								
Fixed rate	11.67%	6,500,000	–	–	–	–	–	6,500,000

Year ended December 31, 2005

	Rate	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Bank loans:								
Fixed rate	8.70%	₱5,000,000	₱–	₱–	₱–	₱–	₱–	₱5,000,000
Floating rate	8.40%-9.50%	235,000,000	–	–	–	–	–	235,000,000
Long-term debt:								
Fixed rate	10.50%-11.67%	54,000,000	6,500,000					60,500,000
Floating rate	360 days PHIBOR + 1.25%	65,000,000	–	–	–	–	–	65,000,000

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

Credit Risk

The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from the other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group deals only with counterparty duly approved by the BOD.

The Group has no significant concentration of credit risk.

<u>Fair Value Information</u>

The following table summarizes the carrying and fair value of the financial assets and financial liabilities as of December 31, 2006 and 2005:

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Current:				
Cash and cash equivalents	**₱329,364,375**	**₱329,364,375**	₱204,310,766	₱204,310,766
Receivables	**47,276,638**	**47,276,638**	73,481,008	73,481,008
Noncurrent:				
Available-for-sale financial assets	**12,834,455**	**12,834,455**	6,319,880	6,319,880
Refundable security deposits	**9,189,188**	**13,632,022**	7,127,440	9,586,101
Other assets	**2,113,971**	**2,113,971**	–	–
Notes receivable	–	–	6,265,190	6,265,190
	₱400,778,627	**₱405,221,461**	₱297,504,284	₱300,913,342

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Current:				
Bank loans	**₱404,700,000**	**₱404,700,000**	₱240,000,000	₱240,000,000
Accounts payable and accrued expenses	**610,222,957**	**610,222,957**	556,129,563	556,129,563
Current portion of long-term debt	**6,500,000**	**6,500,000**	93,000,000	93,000,000
Other current liabilities	**163,181,870**	**163,181,870**	119,649,081	119,649,081
Noncurrent:				
Long-term debt - net of current portion	–	–	32,500,000	32,500,000
Cumulative redeemable preferred shares	**6,000,000**	**6,000,000**	6,000,000	6,000,000
	₱1,190,604,827	**₱1,190,604,827**	₱1,047,278,644	₱1,047,278,644

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

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

Available-for-sale financial assets
The fair value of available-for-sale financial assets is based on quoted price as of December 31, 2006 and 2005.

Long-term debt
The carrying value approximates fair value because of recent and regular repricing based on market conditions.

Cumulative redeemable preferred shares
The carrying value approximates fair value because corresponding dividends on these shares that are charged as interest expense in the statements of income are based on recent treasury bill rates.

26. Significant Agreements

a. The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Franchise fee amounted to ₱65,278,976, ₱26,931,394 and ₱12,487,682 in 2006, 2005, and 2004, respectively, and franchise revenue for the 7-Eleven charge amounted to ₱82,718,404, ₱31,795,431 and ₱9,610,291 in 2006, 2005 and 2004, respectively.

b. The Group has service management agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a management fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service management agreement. Management fee amounted to ₱82,307,663, ₱63,632,738 and ₱29,591,124 in 2006, 2005 and 2004, respectively.

c. The Group has an agreement with its phone card supplier effective January 1, 2000. Under the arrangement, the Group earns commission on the sale of phone cards based on a certain percentage of net sales for the month and a fixed monthly rate. Commission income amounted to ₱28,635,785 in 2006, ₱37,848,387 in 2005 and ₱43,575,945 in 2004.

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

27. Contingencies

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

LIST OF SCHEDULES

Schedule A	-	Amounts Receivable from Directors, Officers, Employers, Related Parties and principal Stockholders (Other than Affiliates)
Schedule B	-	Indebtedness to Affiliates and Related Parties

Philippine Seven Corporation

Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders(Other than Affiliates)
For the year 2006

NAME & DESIGNATION OF DEBTOR	Balance as of January 1, 2006	Additions	Amounts Collected	Amounts Written Off	Current Portion	Non Current Portion	Balance as of December 31, 2006
Jason Ngo	246,126.91		67,470.59		76,027.55	102,628.77	178,656.32
Michael Chuaunsu	352,870.15		96,731.97		101,106.79	155,031.39	256,138.18
Francis Medina	264,652.60		72,549.02		75,830.13	116,273.45	192,103.58
Dante Apolinario	176,435.04		48,366.06		50,553.46	77,515.52	128,068.98
Marissa Casildo	196,733.23		45,562.97		47,623.64	103,546.62	151,170.26
Mariel Guerra	196,733.23		45,562.97		47,623.64	103,546.62	151,170.26
Ma. Victoria Cruz	167,223.25		35,568.30		40,079.25	91,575.70	131,654.95
Emma Nucum	73,023.98		57,534.52		15,489.48	(0.02)	15,489.46
Angelito Barcenas	84,951.98		33,725.28		35,250.55	15,976.15	51,226.70
Gil Abad	84,951.98		33,725.28		35,250.55	15,976.15	51,226.70
Magdalena Trinidad	87,370.01		33,391.37		34,901.53	19,077.11	53,978.64
Ulysses Borral	48,447.24		38,766.34		9,680.93	(0.03)	9,680.90
Ranniel Dizon	48,447.24		38,766.34		9,680.93	(0.03)	9,680.90
Edgar Gabriel	48,447.24		38,766.34		9,680.93	(0.03)	9,680.90
Jeanette Banaag	172,932.62		48,849.72		51,058.99	73,023.91	124,082.90
Eduardo Bataclan	129,548.81		91,205.94		38,342.84	0.03	38,342.87
Violeta Apolinario	136,088.08		90,302.91		45,785.14	0.03	45,785.17
Liwayway Fernandez	129,548.81		91,205.94		38,342.84	0.03	38,342.87
Teodoro Wenceslao	148,973.03		88,523.59		60,449.41	0.03	60,449.44
Evelyn Enriquez	136,088.08		90,302.91		45,785.14	0.03	45,785.17
Cyril Noche	-	125,000.00	25,894.25		29,178.29	69,927.46	99,105.75
Julia Soriano	-	200,000.00	16,663.81		43,544.21	139,791.98	183,336.19
Jaime Merino	-	200,000.00	20,097.22		43,979.65	135,923.13	179,902.78
Christine Tolentino	-	165,000.00	31,173.54		38,133.93	95,692.53	133,826.46
Jose Ang Jr.	-	80,000.00	15,114.50		18,489.24	46,396.26	64,885.50
Lee Gonzalo Perez	-	120,000.00	18,362.88		24,842.83	76,794.29	101,637.12
Various Employees	3,748,867.84	9,675,729.69	11,500,905.48		1,514,842.03	408,850.02	1,923,692.05
TOTAL	**6,678,461.35**	**10,565,729.69**	**12,815,090.04**	**-**	**2,581,553.90**	**1,847,547.10**	**4,429,101.00**
							4,429,101.00

SCHEDULE "B"

Indebtedness to Affiliates and Related Parties

Name of Affiliate	Balance at beginning of period	Balance at end of period
Convenience Distribution Inc.	14,479,187.00	20,825,688 Remaining balance represents unpaid tagging and backhauling expenses of 2006
Store Sites Holdings Inc.	1,043,412.00	265,822 Ending balance is the unpaid rent for the month of November and December 2006.

PHILIPPINE SEVEN CORPORATION
SCHEDULE OF AR-SUPPLIER (11230)
AS OF DECEMBER 31, 2006

SUPPLIER	12/31/2006 BALANCE	1 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	total
ABSOLUTE SALES CORPORATION	614.00	614.00				614.00
All Over Corporation	1,000.00				1,000.00	1,000.00
Arlees Bread House Inc.	12,300.00				12,300.00	12,300.00
Belman Laboratories Inc. (BLN)	16,600.00				16,600.00	16,600.00
BENBY ENTERPRISES	368.00				368.00	368.00
BRAND-AID PLUS INC.	961.09				961.09	961.09
CALBAYOG REALTY DEVELOPMENT COPORATION	570.00				570.00	570.00
CENTRAL DISTRIBUTION SERVICES INC.	6,159.71				6,159.71	6,159.71
CITIBANK	443,553.10	418,278.83	5,433.35	668.31	19,172.61	443,553.10
Classic Umbrella Industries Inc	3,000.00				3,000.00	3,000.00
Coca Cola Bottlers Phils. Inc. (CCK)	5,351,002.88	1,677.00			5,349,325.88	5,351,002.88
Continuity Company Limited	746,250.00	746,250.00				746,250.00
Croley Food Manufacturing Corporation	5,208.25				5,208.25	5,208.25
CUISON BUILDERS	19,348.00				19,348.00	19,348.00
DEL MONTE PHILS.	1,010,295.49	869,800.00			140,495.49	1,010,295.49
Ed-Lus General Merchandise (EDL)	42,703.06				42,703.06	42,703.06
ENAV LOGISTICS MANAGEMENT SERVICES	5,885.00				5,885.00	5,885.00
Epoch Corporation	80,202.91				80,202.91	80,202.91
Fitrite Incorporated	113.61				113.61	113.61
Foodsphere Inc. [FO2]	34,602.01				34,602.01	34,602.01
Gallery Marketing Corp.	3,456.00				3,456.00	3,456.00
GATE DISTRIBUTION	331,386.37	64,430.54	33,821.96	742.84	232,391.03	331,386.37
GDM Intenational & Golden Rich (GDM)	108,912.88				108,912.88	108,912.88
Gomico Food Corporation Total	6,330.00				6,330.00	6,330.00
H & Y Marketing Phil. Inc. (HYM)	69,370.00				69,370.00	69,370.00
Haitsan Commercial	30,041.75				30,041.75	30,041.75
Hope Super Stationery	60,185.22				60,185.22	60,185.22
JDH-Zuellig Philippines Inc. [ZU1]	38,500.00				38,500.00	38,500.00
JERON TRAVEL AND TOURS CORP.	14,188.05				14,188.05	14,188.05
JO-NAS International Phils. [JI2]	35,405.50				35,405.50	35,405.50

JPLIM DESIGN AND CRAFTS	98,897.56				98,897.56	98,897.56
KIMSON METAL INDUSTRIES	1,699.84				1,699.84	1,699.84
Kislap Publishing Inc.	5,000.00				5,000.00	5,000.00
LFD GENCON INC.	14,631.50				14,631.50	14,631.50
LUZON GLASS	10,200.00				10,200.00	10,200.00
MAINTENANCE TECHNOLOGIES	6,468.84				6,468.84	6,468.84
Marby Food Ventures Corporation	5,348.13				5,348.13	5,348.13
MICRO SEP, INC.	4,200.00				4,200.00	4,200.00
MURPHY DISTRIBUTION, INC.	270.00				270.00	270.00
NEC PHILIPPINES INCORPORATED	189,501.79	189,501.79				189,501.79
Nestle Phils. Inc.	1,195.50				1,195.50	1,195.50
NUTRITIVE SNACK FOOD INC. (NSF)	500.00				500.00	500.00
ON-SITE BUILDERS	1,000.00				1,000.00	1,000.00
Paper Line and Graphics	9,001.82				9,001.82	9,001.82
PEPSI	1,366,058.18	112,880.00		130,704.10	1,122,474.08	1,366,058.18
Philip Morris Philippines Manufacturing Inc. (PMP)	147,240.00				147,240.00	147,240.00
Philippine Beverage Partners Inc.	2,000.00				2,000.00	2,000.00
PHILIPPINE LONG DISTANCE TEL. COMPANY	70,141.00				70,141.00	70,141.00
Precious Pages Corporation [PPN]	100,800.00				100,800.00	100,800.00
PRESTIGE UMBRELLA	25.70				25.70	25.70
Prime Alliance Marketing Corporation [PME]	45,356.85				45,356.85	45,356.85
PUREFOOD HORMEL INC.	35,962.86				35,962.86	35,962.86
Quantum Foods Inc. (QU7)(QU7)	18,325.00				18,325.00	18,325.00
RFM Corporation	5,512.00				5,512.00	5,512.00
Richmarsh Industrial Trade Corporation	399,707.80				399,707.80	399,707.80
RJ ROBLES TECHNOLOGY BUILDERS	2,654.84				2,654.84	2,654.84
SAFETY CONSTRUCTION CORPORATION	22,798.79				22,798.79	22,798.79
SAN MIGUEL CORPORATION	369,105.78	-	-	77,350.00	291,755.78	369,105.78
SAN MIGUEL PUREFOODS CORPORATION	671,166.00	671,166.00	-	-	-	671,166.00
Scanasia Overseas, Inc	159.28				159.28	159.28
SELECTA	494,915.50	494,589.00	-	250.00	76.50	494,915.50
Serg's Products	1,547.34				1,547.34	1,547.34
Smackers Bakeshop [SBK]	31,244.59				31,244.59	31,244.59
SODEXHO PASS	953,782.53	813,572.99	2,925.58	4,459.67	132,824.29	953,782.53
Southeast Asia Food Inc.	3,495.01				3,495.01	3,495.01
SR FOODS PHILS.	100,000.00	100,000.00				100,000.00

ST. PEREGRINE CONSTRUCTION	5,130.00				5,130.00	5,130.00
Starcrest Asia Corporation (SST)	1,500.00				1,500.00	1,500.00
Styles and Classic Philippines Inc.	502.50				502.50	502.50
Summit Publishing Co. Inc.	56,488.40				56,488.40	56,488.40
SUPERDOUGH	9,788.71				9,788.71	9,788.71
Teope Commercial	19,734.00				19,734.00	19,734.00
Tobi Marketing Inc.	644.60				644.60	644.60
TRANS OVERSEAS INT'L	500.00				500.00	500.00
TRIDEL TECHNOLOGIES	1,424.00				1,424.00	1,424.00
UNILEVER	112,402.00	-	-	-	112,402.00	112,402.00
United Laboratories Inc.	1,154.15	340.00			814.15	1,154.15
UNIVERSAL ADS	26,860.00				26,860.00	26,860.00
Universal Robina Corporation [UR2]	13,482.17	140.00			13,342.17	13,482.17
UNKNOWN SUPPLIER	290,615.74				290,615.74	290,615.74
ANNUAL VOLUME DISCOUNT FOR 2006	25,532,668.11	25,532,668.11	-	-	-	25,532,668.11
WELL TUNED ENGINEERING SERVICES	7,872.64				7,872.64	7,872.64
Wella Philippines Inc. (WLA)	405.39				405.39	405.39
Whitles Incorporated Total	8,814.42				8,814.42	8,814.42
YS Commercial Enterprises Inc. [YSE]	7,471.70				7,471.70	7,471.70
ZEST-O CORPORATION	294,330.60				294,330.60	294,330.60
TOTAL	**40,060,216.04**	**30,015,908.26**	**42,180.89**	**214,174.92**	**9,787,951.97**	**40,060,216.04**

ANNEX "B"

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and the related notes as of December 31, 2006, 2005 and 2004. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties and our actual results may differ materially from those anticipated in these forward-looking statements. On a periodic basis, we evaluate our estimates, including those related to revenue recognition, goodwill, capitalized assets and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances.

SELECTED FINANCIAL DATA

Years Ended December 31	**2006**	2005	2004
(amount in thousands)		*(As Restated)*	*(As Restated)*
Statement of Income Data:			
Revenues and other income			
Sales of merchandise	**₱4,627,880**	₱4,587,558	₱3,941,872
Commission income	**28,636**	37,848	43,576
Other income	**273,222**	195,160	124,976
Cost and expenses			
Cost of merchandise sold	**3,224,082**	3,186,251	2,708,336
Operating expenses	**1,611,425**	1,532,296	1,328,091
Interest expense	**35,914**	33,792	26,861
Provision for income tax	**27,027**	26,894	31,998
Net income (loss)	**20,144**	13,760	(2,044)
Earnings (loss) per share	**₱0.08**	₱0.06	(₱0.01)
Balance Sheet Data:			
Total assets	**1,838,131**	1,659,922	1,648,109
Total liabilities	**1,217,829**	1,070,284	1,065,819
Total stockholders' equity	**620,302**	589,638	582,290
Other Data:			
Net cash from operating activities	**323,915**	149,192	182,773
Net cash used in investing activities	**(243,355)**	(236,197)	(319,992)
Net cash from financing activities	**45,700**	26,000	129,469

OVERVIEW

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

As of December 31, 2006, our retail chain has grown to 287 stores. We are sustained by a manpower complement of 2,017 employees engaged in store operations and in various support service units. Despite of the growing competition in C-store (Convenience Store) business, we maintain our leadership in the industry.

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

We seek to meet the needs of convenience customers and maintain a leadership position in the C-store industry by taking advantage of economies of scale, technology, people and widely recognized brand. In 2007, we will continue to focus on the implementation of our key growth initiatives to improve the operating performance of our Company.

2006 COMPARED TO 2005 and 2004

The past year will certainly be remembered as one of the considerable accomplishments of our company. In 2006, we delivered a net income of P20 million, up by 43% against 2005 level of P14 million. For the past two years, our company returned to profitability from a net loss of P2 million in 2004. Good trends over the past years were attributed to our unwavering commitment to improve top line growth and underlying store profitability.

Our company has transformed into a franchise organization. We have positioned our unique value proposition in the franchise industry. In July 2006, Entrepreneur Magazine during their First Franchise Annual Award elated PSC in the following categories: Best in Franchise Support Program, Fastest Growing Franchise and The Best Foreign Franchise in the Philippines. Moreover, in March 2007, PSC was recognized as the 2006 International Master Franchise in Retail Category by Philippine Franchise Association.

As of year end 2006, the aggregate number of franchised stores reached 120 which accounts for 42% of total operating stores; compared to only 32% in 2005 and 20% in 2004.

We ended 2006 with 287 stores, an 8% increase compared to 2005's total of 265. Increase in the number of operating stores and franchise stores are two of our key performance indicators.

Revenues and Other Income

Revenues

For the year ended December 31, 2006, the Company's consolidated revenues reached P4.63 billion, a slight growth of 1% compared to 2005 revenues of P4.59 billion. Conversion of stores from corporate to franchise operated stores, resulted to the lower aggregate growth rate of 1% in 2006, compared to 16% in 2005. Sales of franchise converted stores are now reported by the respective franchisees operating the stores. There were 25 conversions in 2006 compared to one store in 2005.

Although aggregate sales increased, average monthly store sales dropped by 3%. Moreover, customer count dropped by 4% per store per month, lower by 12 percentage points compared to that in 2004. The implementation of EVAT had affected the purchasing power of our end customers.

We know that our future depends on keeping our costs down and our prices competitive. By taking necessary measures to reduce our cost structure, we shall emerge from these challenging times smarter, better and more competitive. Average sales and average customer count per store per month are the other key performance indicators.

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

Gross Profit, another KPI, reached ₱1.4 billion, almost unchanged compared with last year. However, gross profit rate decreased by 0.2 percentage point.

Other Income

Other income consists mainly of marketing income, franchise revenue and rent income from rentable spaces. Our total other income for 2006 reached ₱273.2 million, up by ₱78.1 million or 40% over the same period in 2005. Marketing income, which pertains to promotional discounts, exclusivity agreements and display allowances, has declined by 15% in 2006 brought about by the relatively fewer support granted by our trade suppliers. Franchise revenue substantially grew to 148 million from P59 million in 2005 and P22 million in 2004 as a result of the increased number of franchise operated stores. Rent income related to subleased spaces reached ₱39.9 million in 2006 versus ₱35.8 million in 2005. This improved by 12% of the level generated in 2005 due to the higher occupancy rate and increase in the number of rentable spaces.

No significant element of our income arose from sources other than the company's continuing operations.

Cost and expenses

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

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

2006 personnel costs aggregated ₱336.9 million or 7.3% of total sales revenue, versus ₱336.4 million or 7.3% in 2005. Personnel costs include salaries and wages at ₱210.3 million, employee benefits at ₱120.1 million and retirement benefits at ₱6.5 million.

Communication, light and water amounted to ₱315.8 million or 6.9% of total sales revenue in 2006 versus 6.9% and 5.8% in 2005 and 2004, respectively.

Rent expense totaled ₱265.2 million or 5.7% of sales revenue against the 5.7% and 5.9% in 2005 and 2004, respectively. Rent related to store lease agreements amounted to ₱236.9 million. Rent expense in operating leases net of sublease rent income, per store month decreased by 1% in 2006 against 2005. This was due to negotiated rental reductions and increase in sublease rent income.

Management fees were up by 29%, to ₱82.3 million versus last year's ₱63.6 million.

All increases in other expenses were brought under control by year end.

Interest Expense

Interest expense for 2006 was pegged at ₱35.9 million, an increase of ₱2.1 million, or 6%, from ₱33.8 million in 2005. The year-on-year increase was primarily attributable to the net increase in bank borrowings in 2006 amounting to ₱45.7 million. The proceeds of the new loan were used to pay short and long-term loans.

Provision for Income Tax

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

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

Net Income

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

Liquidity and Capital Resources

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

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

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

Cash Flows from Operating Activities

Net cash provided by operating activities for 2006 was ₱323.9 million compared to ₱149.2 million for 2005, an increase of ₱174.7 million or 117%. Aside from the increase in income before income tax by ₱6.5 million or 16%, we attribute the increase in net cash provided by operating activities to the increase in accounts payable and accrued expenses and other current liabilities incurred for 2006.

Cash Flows from Investing Activities

Net cash used in investing activities increased from ₱236.2 million in 2005 to ₱243.4 million in 2006. Major cash outlay in 2006, amounting to ₱248.3 million, was used in the procurement of POS machines, furniture, equipment, new store constructions and store renovations. Moreover, ₱8 million was refunded from security deposits.

Cash Flows from Financing Activities

Net cash provided by financing activities was ₱45.7 million. Proceeds from loans in 2005 reached ₱115.0 million. ₱89.0 million was used to pay short and long term loans, ₱20.0 million was used to pay the refundable deposits and the remaining balance formed part of the company's working capital. In 2006, proceeds from loan reached ₱446.1million, from which ₱400.4 million was used to pay short and long-term loans and the remaining balance also formed part of the company's working capital.

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

Overall cash and cash equivalents at the end of 2006 increased to ₱329.4 million from ₱204.3 million at the beginning of the year.

Further, inventories decreased by ₱4.3 million, prepayments increased by ₱24.0 million and receivables decreased by ₱26.2 million. This resulted into a net increase in total current assets by ₱118.6 million. Total current asset aggregated P768 million as of year end.

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

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

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

PLANS FOR 2007

We shall continue to create more value to our shareholders, business partners and employees. Our progress has provided a strong foundation to sustain our growth and stability. We shall continue to tap the opportunities ahead by leveraging on our creativity and technology.

Thematic merchandising shall provide a fresh look, which shall enable additional placements within our stores, and shall create interest and excitement in our products, and shall drive growth in our established brands. These initiatives shall align our products with activities which are top-of-mind for consumers and fit well with the impulse nature of our business. We confidently believe that these arrangements will benefit our company by materially increasing overall value and accelerating our growth strategy.

More programs are lined up to boost our sales; margin and customer count in partnership with our suppliers. We shall continue to collaborate with our suppliers to provide high quality and fair value product selections that are potentially more saleable and more profitable. We shall focus on strategic merchandise: FIRST, BEST and ONLY AT 7-Eleven. Moreover, management shall build on the success of its advertising and promotion initiatives over the past years.

We plan to open more stores in the next twelve months to achieve our strategic objectives and protect our market leadership. Target operating stores by end of 2007 is 360 stores, 64% of which are expected to be franchise stores.

Our store development efforts will focus on our existing markets and provincial areas. This is to take advantage of population density and to leverage our current distribution capabilities.

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

Store employees in the pipeline of our franchise conversions have always been part of our HQ-level plans and programs as we embark franchising. They have options to continue their services under our new franchisees; others will be assigned to our upcoming new stores, while qualified ones will be absorbed by our Headquarters. Other than this, no significant change in the number of employees is expected for the next twelve months.

We shall continue to develop more Operations Field Consultants (OFC) to support our fast growing number of franchise stores. OFCs are essential as they function as consultants to our store operators and franchisees. OFCs bridge store and HQ operations.

We shall continue to control our costs to sustain profitability amidst volatile oil and utility prices.

Investments in capital expenditures are geared towards construction of new stores and remodeling of mature stores. Funding for these expenditures is expected to come from the anticipated increase in revenues/cash flows and from additional borrowings if the need for such may arise. No sale of plant and significant equipments is expected for the next twelve months. Cost containment measures had also been put in place by the company to maximize the use of its resources.

SIGNATURES

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

Jose Victor P. Paterno
President

A. Description of the general nature and scope of business of the Company and its Subsidiaries

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

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

In May 1996, the stockholders of both PSC and PSPC approved the merger of the two companies to advance PSC group's expansion. In October 30, 1996, SEC approved the merger and PSPC was then absorbed by PSC as the surviving entity. With the consolidation of the respective lines of business of PSC and PSPC, PSC's retailing strengths were complemented by PSPC's property and franchise holdings. Their management as a single entity enhanced operational efficiency and strengthened ability to raise capital for growth. In September 17, 1998, PSC established Convenience Distribution Inc. ("CDI'), a wholly owned subsidiary, to provide a centralized warehouse and distribution system to service its 7-Eleven stores.

With the effectivity of the Retail Trade Liberalization Act (R.A. 8762) on March 25, 2000, foreign entities were allowed to invest in an existing retail company subject to the requirements of the law. President Chain Store Corporation of Taiwan (PCSC), which is also the 7-Eleven licensee in Taiwan operating about 2,700 stores, purchased 119,575,008 common shares of PSC or 50.4% of PSC's outstanding capital stock at the price of P8.30 per share. The purchase was made under a tender offer during October 9 to November 7, 2000 by President Chain Store (Labuan) Holdings, Ltd., a Malaysian investment holding company, wholly-owned by PCSC. The acquisition is meant to forge a strategic alliance which aims to provide PSC with technical support from PCSC in strengthening its organizational structure and operating systems. This shall enable PSC to pursue store expansion plans on sound and profitable basis. A new affiliate, Store Sites Holdings Inc., was also established on November 9, 2000, as the entity to own land properties of the Company. These land properties are leased to PSC by SSHI. The Corporation's area license to operate 7-Eleven Stores in the Philippines has an initial term of 20 years which shall expire on December 12, 2002 and it is expressly provided under the contract that the same shall be renewed for another 5 years (or until Dec. 12, 2007) under the same terms and conditions subject to approval of supervising agency under Department of Trade and Industry. PSC and SEI have completed the area license renewal document with the approval of the Intellectual Property Office of the submitted copy and shall complete the execution of the agreement this year.

The company had a manpower complement of 2,017 personnel, 856 of whom are regular employees, 1,159 contractual/probationary and part-timers to augment temporary needs during peak hours or season in the stores and the support services units. There is no existing labor union in the company and collective bargaining agreement. There is an Employees Council which communicates to management the employee concerns. There has been no strike or threat to strike from the employees for the past three years.

At year end, PSC is operating 287 stores, 57 of which are franchise stores, 63 stores are operated under a service agreement, and the rest are company-owned stores. The store franchise and service agreements have a minimum term of 5 years each, renewable for a similar term. The stores under franchise and service agreement are indicated in the store list provided in the discussion of Leases herein.

PSC looks at three major competitors in maintaining its leadership in the Convenience Store ("C-Store") Industry. There are a number of other small players including Gas Marts, but their store count and sales volume as a group by itself is not significant to be considered. The Company is able to sustain its leadership by putting stores in strategic locations, carrying product assortment fit for such market.

As of December 31, 2006, the Company estimates its market share in branded C-Store business in terms of number of branches operating in Metro Manila and its current provincial coverage, as follows:

	Number of C- stores	*Market Share (as of 31 Dec 2006)*
7-Eleven	**287**	**38%**
Mercury Self-Serve*	277	37%
Ministop	159	21%
San Miguel Food Shop	30	4%
TOTAL	**753**	**100%**

** only 48 stores operate 24 hours*

The majority shareholder, PCSC, has hands-on experience and know how in operating more than 4,037 7-Eleven Stores in Taiwan and continually providing technical expertise, logistics infrastructure and marketing support program to build the Corporation's business systems to support its store expansion program for corporate and franchise stores. The continuous improvement of the corporation's supply chain shall generate further efficiencies to effectively compete with the entry of other players in the C-store business.

The average number of customers that transact in the stores is about 1,144 per day per store with an average purchase transaction of about ₱ 42.31. The stores carry a wide range of beverages, food service items, frozen foods, confectioneries, cookies and chips, personal care products, groceries and other daily needs and other services which neighborhood residents, commuters, students and other urban shoppers would look for in a convenience store. Also offered in the store are proprietary product lines under the 7-Eleven trademark such as:

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

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

Trademarks	Description of Product	Application Date	Status
1. Nature's Harvest	Instant Noodles	Dec. 17, 1993	Registered for 20 years from Dec. 17, 1993 to Dec. 16, 2013
2. Hot Cup Quick Mix	Instant pre-packed hot beverages sold in 7-Eleven stores	June 02, 1997	Registered for 20 years from Dec. 05, 2004 to Dec. 04, 2024
3. Quick Bites	Fast food items carried under umbrella brand consisting of siopao, siomai, others	Jan. 13, 1997	- Pending-
4. Tea Eggs	Egg boiled in different herb formulation	Sept. 16, 1996	- Pending -
5. Medi-express	Pharmaceutical	Jan. 19, 2006	- Pending -
6. Pastariffic	Pasta meals with variants	April 11, 2006	-Pending -
5. Pinoy Rice Meal	Ready-to-eat meals with variants	June 05, 2006	- Pending -
7. Rice Meal Express	Ready-to-eat rice meals with variants	June 05, 2006	- Pending -
8. 24-Hr express payment	Receiving from customers payments to various establishments	June 05, 2006	- Pending -

Further, the products or services carried by the stores as described above are generally categorized as General Merchandise which accounts for 79%, Food Service and Cupdrinks for 21% and Services at 1%.

The merchandise stocks are supplied by over 300 vendors/suppliers and are mostly governed by the standard trading terms contract prescribed by the Company. Among the largest suppliers for the products carried by the stores are San Miguel Corporation, Universal Robina Corporation, Pepsi Cola Bottlers Inc., Unilever-RFM Ice Cream Inc., Philip Morris Philippines, Gate Distribution Inc., Seven Dragons Food Galore Inc., Superdough Food & Catering, Coca-Cola Bottlers Phils. Inc., and Gardenia Bakeries Phils.

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

1) <u>Market Information</u>

The company's common shares were listed in the Philippine Stock Exchange on February 04, 1998. The trading record of the company's shares as of December 31, 2005 and 2006 are as follows:

December 31, 2005

Month	Open	High	Low	Close	Volume
1st Quarter	1.90	1.90	1.32	1.90	53,850
2nd Quarter	1.20	1.18	1.14	1.18	29,000
3rd Quarter	1.74	1.74	1.74	1.74	4,000
4th Quarter	No Transaction				
Latest Trading					
September 26, 2005	1.74	1.74	1.74	1.74	4,000

December 31, 2006

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

1st Quarter of 2007

Month	Open	High	Low	Close	Volume
January 03, 2007	3.90	3.90	3.90	3.90	11,000
January 05, 2007	3.65	3.65	3.65	3.65	10,000
January 16, 2007	3.60	3.60	3.50	3.50	15,000
January 23, 2007	3.45	4.00	4.00	4.00	16,000
January 25, 2007	3.80	3.80	3.80	3.80	2,000
January 30, 2007	3.50	3.50	3.50	3.50	2,000
February 26, 2007	3.50	3.50	3.50	3.50	2,000
February 28, 2007	2.10	2.10	2.10	2.10	10,000
Latest Trading					
February 28, 2007	2.10	2.10	2.10	2.10	10,000

2) Holders

As of April 30, 2007, the following were the top 20 shareholders of the company's outstanding common shares totaling 237,252,000 shares.

SHAREHOLDER	CITIZENSHIP	SUBSCRIPTION	% HOLDINGS
1. President Chain Store (Labuan) Holdings, Ltd.	Malaysian	134,257,619	56.59%
2. Asian Holdings Corporation	Filipino	29,208,750	12.31%
3. Progressive Development Corp.	Filipino	20,163,079	8.50%
4. PCD Nominee Corporation	Non-Filipino	10,171,898	4.29%
5. Vicente T. Paterno	Filipino	5,540.746	2.33%
6. Agus Development Corp.	Filipino	4,912,178	2.07%
7. Ma. Cristina P. Paterno	Filipino	4,593,050	1.94%
8. Anglo Philippine Holdings Corporation	Filipino	4,333,380	1.83%
9. Ma. Theresa P. Dickinson	Filipino	4,257,884	1.79%
10. Jose Victor P. Paterno	Filipino	3,767,951	1.59%
10. Ma. Elena P. Locsin	Filipino	3,767,951	1.59%
10. Paz Pilar P. Benares	Filipino	3,767,951	1.59%
11. Maria Henrietta R. Santos	Filipino	1,051,563	0.44%
12. 7-Eleven Inc.	American	922,876	0.39%
13. Dante G. Santos	Filipino	917,723	0.39%
14. Apex Management & Dev't Group, Inc.	Filipino	888,000	0.37%
15. National Life Insurance Co.	Filipino	774,104	0.33%
16. Ma. Elena P. Paterno	Filipino	714,736	0.30%
17. Paz Pilar P. Benares	Filipino	714,735	0.30%
18. Jose Victor P. Paterno	Filipino	425,383	0.18%
19. Manuel U. Agustines	Filipino	421,140	0.18%
20. Socorro Paz Paterno	Filipino	170,000	0.07%

3) **<u>Stock /Cash Dividends</u>**

No stock/cash dividends were declared during the past three years (2003-2005) due to the reservation of retained earnings for the opening /putting up of additional stores which require considerable capital expenditures. Also, there's no restriction that limits the ability of the Company to pay dividends on common equity other than the unavailability of unrestricted retained earnings. Likewise, there was no sale of any unregistered securities.

C. Description of the Common Shares of the Registrants

All of the registrant's 237,252,000 common shares are voted together as a single class and each common share entitles the holder thereof to one vote at any meeting of the stockholders of the Registrant, except that common shareholders have cumulative voting rights for the election of directors.

D. COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

1. Election of Independent Directors
   In April 2002, the Company disclosed to the SEC that it has complied with the requirement to elect independent directors.

2. Manual of Corporate Governance
   In August 2002, the Board of Directors approved the adoption of its Manual of Corporate Governance.

3. Creation of Board Committees: Audit, Nomination and Compensation
   In July 2002, the Board has constituted the above-named committees and appointed their members to enable them to organize and perform the functions as provided in the Manual of Corporate Governance.

4. Compliance with the designation of a Compliance Officer.

5. Corporate Governance Self-Rating Form
   The Corporation has submitted to SEC its Corporate Governance Self Rating Form on July 2003.

6. In 2004, amendment of the Code of By-laws of the Corporation to include the procedure for electing independent directors pursuant to SEC Circular No. 16, Series of 2002, and the revised Implementing Rules and Regulations of the Securities Regulation Code.

7. Yearly issuance of Certifications by Compliance Officer
   Compliance Officer submits every January each year to the SEC certifications on substantial compliance with leading practices and principles on good corporate governance and also as to the attendance at board meetings of the directors.

Plans on Improvement

1. The Corporation shall continue with setting up an evaluation procedure to measure compliance with the Manual of Corporate Governance:

   a. Develop a Corporate Governance Evaluation form and conduct annual compliance survey;
   b. Obtain external and internal audit findings on effectiveness of oversight of Company's accounting and financial processes;
   c. Monitor board and other committees minutes and attendance;
   d. Develop compliance review system with risks owners.

2. Provide workshop/seminars to operationalize the Manual, evaluation system and compliance review as part of the Company's training program.

3. The Corporation shall continue to adopt the International Accounting Standards as they are approved as Philippine Accounting Standards.

BOARD OF DIRECTORS

Name		Position
1. Vicente T. Paterno	-	Chairman of the Board and Director
2. Chien-Nan Hsieh	-	Vice-Chairman and Director
3. Jose Victor P. Paterno	-	President & Director
4. Chung-Jen Hsu	-	Director
5. Jui-Tang Chen	-	Director
6. Fu-Tang Chen	-	Director
7. Kuo-Hsuan Wu	-	Director
8. Diana P. Aguilar	-	Director
9. Jorge L. Araneta	-	Director
10. Alfredo C. Ramos	-	IndependentDirector
11. Michael B. Zalamea	-	Independent Director

EXECUTIVE COMMITTEE

Name		Position
1. Vicente T. Paterno	-	Chairman of the Board and Executive Committee
2. Jose Victor P. Paterno	-	Member, President and Director
3. Diana P. Aguilar	-	Member and Director
4. Alfredo C. Ramos	-	Member and Independent Director
5. Tsung-Yu Lin	-	Member and Treasurer
6. Chun-Pei Liu*	-	Member and Vice-President

BOARD AUDIT COMMITTEE

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

BOARD COMPENSATION COMMITTEE

Name		Position
1. Chien-Nan Hsieh	-	Chairman of Committee and Vice-Chairman of the Board
2. Jose Victor P. Paterno	-	Member and President
3. Michael B. Zalamea	-	Member and Independent Director
4. Tsung-Yun Lin	-	Non-voting member/Treasurer
5. Chun-Pei Liu*	-	Non-voting member/Vice-President

BOARD NOMINATION COMMITTEE

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

CORPORATE OFFICERS

Chin-Yen Kao	-	Honorary Chairman of the Board
Vicente T. Paterno	-	Chairman of the Board
Chien-Nan Hsieh	-	Vice-Chairman
Jose Victor P. Paterno	-	President
Chun-Pei Liu*	-	Vice-President
Tsung-Yu Lin	-	Treasurer
Evelyn S. Enriquez	-	Corporate Secretary

* Resigned as of May 01, 2007

ANNEX "C"

MINUTES OF THE 2006 ANNUAL STOCKHOLDERS' MEETING OF PHILIPPINE SEVEN CORPORATION
Held on June 20, 2006
at the Emerald AB, Level 4, Crowne Plaza
Galleria Manila, Ortigas Avenue
ADB Avenue, Quezon City

1. **Certification of Quorum and Call to Order**

The Corporate Secretary, Atty. Evelyn S. Enriquez, certified that notices of the meeting were sent to all the shareholders of record as of May 2, 2006 and that out of 237,252,000 shares of stock of the Corporation outstanding and entitled to vote, 183,117,735 shares or 77.18% were represented at the meeting in person and/or by proxy, and that accordingly, a quorum of the meeting existed. Thereupon, the Chairman called the meeting to order.

2. **Approval of Minutes of the Last Stockholders' Meeting**

On motion duly made and seconded, the reading of the minutes of the last stockholders' meeting of the Corporation held on June 20, 2006 was dispensed with and the same were approved as recorded.

3. **Management Report**

The Chairman of the Board, Mr. Vicente T. Paterno, read his message to the stockholders and the President, Mr. Jose Victor P. Paterno, reported on the highlights of operations of the Corporation for the year 2005. The Treasurer, Mr. Tsung-Yu Lin, rendered the financial highlights of the audited consolidated financial statements for Y2005.

The Chairman's message to the stockholders and the President's review of company operations were substantially contained in the corresponding portions of the 2005 Annual Report, which also includes the audited consolidated financial statements for the period ending December 31, 2005 and the re-stated financial statements for the periods ended December 31, 2004 and December 31, 2003. The re-statement of the financial statements for the previous years was the result of the adoption of the Philippine Accounting Standards implemented during the year, namely: PAS 17 Leases, PAS 19 Employee Benefits and PAS 36 Impairment of Assets.

Print copies of the 2005 Annual Report were distributed to the stockholders during the meeting.

On motion duly made and seconded, the stockholders approved and accepted the report on operations for Y2005 and the audited financial statements for the same year.

4. **Ratification of all Corporate Acts**

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

5. **Election of Members of the Board**

The Articles of Incorporation of the Corporation provides for 11 directors. The Corporate Secretary clarified that the names of nominees presented to the stockholders were submitted to the Nomination Committee in its meeting on April 04, 2006 and were cleared to have complied with the "non-compete" provision of PSC's Code of By-laws. The said names of nominees also include the Final List of Candidates eligible for election as independent directors, pre-screened pursuant to the procedures provided in the SEC Circular No. 16 on the Guidelines on Nomination and Election of Independent Directors. Hence, the following were the names of nominees submitted to and screened by the Nomination Committee:

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

On motion duly made, seconded and unanimously carried, the above-named nominees were nominated as directors and independent directors of the Corporation. There being no objection, the nomination was closed and the above-named nominees were considered elected as directors of the Corporation for a term of one (1) year and until their successors shall have been duly elected and qualified.

6. **Appointment of External Auditor**

On motion duly made and seconded, majority of the stockholders re- appointed the Sycip Gorres Velayo & Company as the external auditor of the Corporation for 2006.

7. **Adjournment**

After entertaining a few questions from the floor, and there being no further business to transact, and on motion duly made and seconded, the Chairman adjourned the meeting.

Certified Correct:

EVELYN S. ENRIQUEZ
Corporate Secretary

Attested by:

VICENTE T. PATERNO
Chairman of the Board

ANNEX "D"

RELEVANT RESOLUTIONS APPROVED BY THE

BOARD OF DIRECTORS AND BOARD COMMITTEES FOR RATIFICATION BY THE STOCKHOLDERS

I. Organizational Meeting of the Board of Directors June 20, 2006

- Election of Corporate Officers

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

Honorary Chairman of the Board	-	Ching-Yen Kao
Chairman of the Board	-	Vicente T. Paterno
Vice-Chairman	-	Chien-Nan Hsieh
President	-	Jose Victor P. Paterno
Vice- President	-	Chun-Pei Liu
Treasurer	-	Tsung-Yu Lin
Corporate Secretary	-	Evelyn Sadsad-Enriquez

- Designation of members of Executive and other Board Committees

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

1.	Vicente T. Paterno	-	Chairman of the Board and Executive Committee
2.	Jose Victor P. Paterno	-	Member and President
3.	Alfredo C. Ramos	-	Member and Independent Director
4.	Diana P. Aguilar	-	Member and Director
5.	Tsung-Yu Lin	-	Member and Treasurer
6.	Chun-Pei Liu	-	Member and Vice President

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

Audit Committee:			
Chairman:	Alfredo C. Ramos	-	Independent Director
Members:	Jose Victor Paterno	-	President and Director
	Diana P. Aguilar	-	Director
Compensation Committee:			
Chairman:	Chien-Nan Hsieh	-	Vice-Chairman & Director
Members:	Jose Victor P. Paterno	-	President and Director
	Michael B. Zalamea	-	Independent Director
Non-voting Members:	Chun-Pei Liu	-	Vice-President
	Tsung-Yu Lin	-	Treasurer
Nomination Committee:			
Chairman:	Vicente T. Paterno	-	Chairman of the Board & Director
Members:	Alfredo C. Ramos	-	Independent Director
	Diana P. Aguilar	-	Director
Non-voting Member:	Evelyn S. Enriquez	-	Corporate Secretary

- Approval of adjustments in the corporate signatories of the Corporation particularly in the execution and delivery of documents pertaining to Trade purchase orders, Trading Terms Agreements, and related supplies and/or service agreements:

  a. Mr. Michael Chuaunsu is the authorized alternate signatory up to Php2.0M in case both signatories, the VP and CFO are not in the country.

  b. For above Php2.0M, any one of Vice-President, CFO and Marketing Director jointly with either the President or Chairman is authorized.

- Approval of the amendment of Code of By-Laws of the Corporation to changes the date of the annual stockholders' meeting from every 2nd Tuesday of June to every third week of July.

II. Audit Committee Meeting
November 20, 2006

- Submission of Internal Audit update as of 2nd semester of 2006 and plans for 2007.
- Recommended to pursue negotiation and application for credit lines with Chinatrust, Metrobank and Citibank to secure more favorable terms compared to existing lines.
- Approved the 2006 audit scope presentation of external auditor, SGV.
- Recommendation to pursue settlement/re-structure offer of debtor to transfer its asset to PSC based on appraised value and the balance shall be written off. Then, a lease-purchase of the asset by the debtor for 5 years to repay balance to PSC.

III. Executive Committee Meeting
November 20, 2006

- Submission of Management update as of October 31, 2006.
- Approved application for credit lines with Chinatrust, Metrobank and Citibank.
- Adopt recommendation to pursue settlement/re-structure offer of debtor to transfer asset based on appraised value and the balance shall be written off . Then, a lease-purchase on the asset for 5 years by the debtor to repay balance to PSC.

IV. Board of Directors Meeting
November 24, 2006

- Submission of operations update and interim financial statements as of October 31, 2006
- Approval of the application for standby credit line facilities with Chinatrust (Php50.0M), Metrobank (Php200.0M), and Citibank (Php100.0M); and the renewal of existing credit lines with BPI and BDO.
- Resolution authorizing the Executive Committee or the Board Audit Committee to approve the Corporation's financial statements in the absence of a Board meeting.
- Presentation of 2007 Annual Plan and Budget.
- Approval of the settlement offer of debtor to transfer asset to PSC as payment of obligation and balance to be written off. Then, a lease-purchase of the asset by the debtor for 5 years to repay the balance to PSC.
- Resolution approving the write-off of unpaid portion or balance on the obligation based on above settlement arrangement.

V. Audit Committee Meeting
February 27, 2007

- Submission of internal audit periodic update report.
- Presentation and approval of the audited financial statements of PSC and the consolidated Audited Financial Statements of PSC and its subsidiaries for the fiscal year ending December 31, 2006.

VI. Nomination Committee Meeting
March 08, 2007

- The nominees for directors and independent directors in PSC were approved to include in the Final List of candidate for directorship in PSC which was submitted to the Executive Committee for approval.

VII. Executive Committee Meeting
March 08, 2007

- Approval of the Final List of Candidates for PSC Directors and Independent Directors for election in the annual stockholders meeting this July 2007.

- Recommendation of the audit firm Sycip Gorres Velayo and Company for re-appointment as the Corporation's external auditor for Y2007, subject to approval of the stockholders in the annual stockholders meeting this July 2007.

- Information of expected organizational changes due to personnel deployment policies of parent company on assignment of expats.

- Approval of postponement of the annual stockholder's meeting fixed by the By-laws every 2^{nd} Tuesday of June, which falls on June 12, 2007, to July 19, 2007, as requested by the parent company.

- Approval of May 31, 2007 as the record date for determining the stockholders of the Corporation entitled to vote in the annual stockholders meeting this July 2007.

**VIII. Executive Committee Meeting
May 10, 2007**

- Acceptance of Resignation of Mr. Chun-Pei Liu as Vice-President of PSC, effective May 01, 2007.

- Appointments of Mr. Ping-Yun Wang as the new Vice-President for Marketing and Operations to take place of Mr. Chun-Pei Liu and Mr. Tsung-Yu Lin as Vice-President for Finance and Administration concurrently with his position as Treasurer and CFO, both effective May 10, 2007.