

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 3rd Thursday of July of each year
(Annual Meeting)

FIRST QUARTER REPORT (SEC FORM 17-Q) (FORM TYPE)

May 14, 2010
(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.

SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended March 31, 2010
2. Commission identification number
3. BIR Tax Identification No : 000-390-189-000
4. Exact name of registrant as specified in its charter :

PHILIPPINE SEVEN CORPORATION

5. Country of incorporation : **PHILIPPINES**
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office : 7TH Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City
1501
8. Telephone number : (632) 724-44-41 to 51
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

No. of Shares of Common Stock

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

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

Yes [] No []

Stock Exchange: *Class/es of Securities listed*

Philippine Stock Exchange - Common

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the attached.

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

Please refer to the attached

PART II - OTHER INFORMATION

N/A

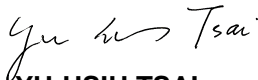
Pursuant to the requirement of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE SEVEN CORPORATION**



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

Date: May 14, 2010



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

Date: May 14, 2010

May 14, 2010

SECURITIES AND EXCHANGE COMMISSION

SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of March 31, 2010, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

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


YU-HSIU TSAI
Treasurer and CFO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended March 31, 2010. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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



JOSE VICTOR P. PATERNO
President and CEO



YU-HSIU TSAI
Treasurer and CFO

PHILIPPINE SEVEN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010 AND DECEMBER 31, 2009
AND FOR EACH OF THE TWO PERIOD
ENDED MARCH 31, 2010

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of March 31, 2010 (Unaudited)	Full Year 2009 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	₱ 294,978,957	₱ 448,830,888
Receivables	93,247,658	140,140,105
Inventories - at cost	385,054,401	415,652,671
Prepayments and other current assets	228,993,228	174,383,392
Total Current Assets	1,002,274,244	1,179,007,056
Noncurrent Assets		
Property and equipment	1,303,192,082	1,227,244,430
Deposits	164,398,924	151,328,033
Deferred income tax assets - net	46,008,842	46,008,842
Goodwill and other noncurrent assets	103,956,085	107,087,572
Total Noncurrent Assets	1,617,555,933	1,531,668,877
TOTAL ASSETS		₱
	₱ 2,619,830,177	2,710,675,933
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans	₱ 340,000,000	₱ 340,000,000
Accounts payable and accrued expenses	879,207,196	1,027,609,605
Income tax payable	61,052,001	38,354,398
Other current liabilities	162,197,990	211,934,980
Total Current Liabilities	1,442,457,187	1,617,898,983
Noncurrent Liabilities		
Deposits payable	157,307,542	119,967,054
Net retirement obligations	52,830,745	55,667,123
Deferred income tax liability	1,384,241	1,384,241
Cumulative redeemable preferred shares	6,000,000	6,000,000
Deferred revenue - net of current portion	1,856,046	1,856,046
Total Noncurrent Liabilities	219,378,574	184,874,464
Total Liabilities	1,661,835,761	1,802,773,447
(Forward)		

	As of March 31, 2010 (Unaudited)	Full Year 2009 (Audited)
Stockholders' Equity		
Capital stock - ₱1 par value		
Authorized - 400,000,000 shares		
Issued - 287,761,172 and 261,663,450 shares as of December 31, 2009 and 2008, respectively [held by 717 and 724 equity holders in 2009 and 2008, respectively	₱ 287,761,172	₱ 287,761,172
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	376,401,558	326,309,628
Other component of equity - revaluation increment on land		3,229,895
[net of deferred income tax liability	3,229,895	
	960,917,662	910,825,732
Cost of 686,250 shares held in treasury	(2,923,246)	(2,923,246)
Total Stockholders' Equity	957,994,416	907,902,486
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		₱
	₱ 2,619,830,177	2,710,675,933

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FIRST QUARTER ENDED MARCH 31

	2010	2009
REVENUE		
Revenue from merchandise sales	₱ 1,364,895,839	
	1,697,779,579	
Franchise revenue	96,572,418	72,086,028
Marketing income	55,447,665	23,073,207
Rent income	8,199,848	9,007,576
Commission income	6,402,146	5,274,725
Interest income	682,091	591,022
Other income	8,376,917	1,822,907
	1,873,460,664	1,476,751,303
EXPENSES		
Cost of merchandise sales	1,237,755,777	978,542,616
General and administrative expenses	557,487,037	470,315,561
Interest expense	4,424,086	7,154,974
Other expenses	955,262	823,539
	1,800,622,162	1,456,836,690
INCOME BEFORE INCOME TAX	72,838,502	19,914,613
PROVISION FOR INCOME TAX	22,746,572	6,646,788
NET INCOME	50,091,930	13,267,825
OTHER COMPREHENSIVE INCOME	--	--
TOTAL COMPREHENSIVE INCOME	50,091,930	13,267,825
BASIC/DILUTED EARNINGS PER SHARE	₱	₱ 0.05
	0.17	

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2010 (As Compared with March 31, 2009)**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment on Land	Treasury Stock	Total
BALANCES AS OF DECEMBER 31, 2008	₱ 261,663,450	₱ 293,525,037	₱ 196,616,699	₱ 3,229,895	(₱ 2,923,246)	₱ 752,111,835
Total Comprehensive Income for the 1 st Quarter of 2009 (Unaudited)	–	–	13,267,825	–	–	13,267,825
BALANCES AS OF MARCH 31, 2009	261,663,450	293,525,037	209,884,524	3,229,895	(2,923,246)	765,379,660
Issuance of stock dividends	26,097,722	–	(26,097,722)	–	–	–
Total comprehensive income for the period April 1, 2009 to Dec 31, 2009	–	–	142,522,826	–	–	142,522,826
BALANCES AS OF DECEMBER 31, 2009	287,761,172	293,525,037	326,309,628	3,229,895	(2,923,246)	907,902,486
Total Comprehensive Income for the 1 st Quarter of 2010 (Unaudited)	–	–	50,091,930	–	–	50,091,930
BALANCES AS OF MARCH 31, 2010	₱ 287,761,172	₱ 293,525,037	₱ 376,401,558	₱3,229,895	(₱2,923,246)	₱ 957,994,416

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	March 31, 2010	March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 72,838,502	₱ 19,914,613
Adjustments for:		
Depreciation and amortization	56,119,842	44,487,705
Interest expense	4,424,086	7,154,974
Interest income	(682,091)	(591,022)
Software and other program costs	770,607	755,090
Operating income before working capital changes	₱ 133,470,946	₱ 71,721,360
Decrease (increase) in:		
Receivables	46,892,447	119,953,638
Inventories	30,598,270	27,990,879
Prepayments and other current assets	(54,609,837)	(130,121,250)
Increase (decrease) in:		
Accounts payable and accrued expenses	(148,402,409)	(146,827,345)
Other current liabilities	(49,736,990)	172,429,213
Deposits payable	37,340,488	15,536,268
Net retirement obligations	(2,836,378)	(2,453,464)
Deferred revenue		--
Cash generated from operations	₱ (7,283,462)	₱ 128,229,299
Income taxes paid	(48,969)	(5,802,512)
Interest received	682,091	591,022
Net cash from operating activities	₱ (6,650,340)	₱ 123,017,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Property and equipment	(₱ 132,067,495)	(₱ 21,493,085)
Software and other program costs	(770,607)	(755,090)
Decrease (increase) in:		
Deposits	(13,070,891)	(6,902,682)
Goodwill and other noncurrent assets	3,131,486	(13,742,691)
Net cash used in investing activities	(₱ 142,777,505)	(₱ 42,893,548)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bank loans		80,000,000
Interest paid	(4,424,086)	(7,154,974)
Net cash used in financing activities	(4,424,086)	72,845,026
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(₱ 153,851,931)	₱ 152,969,287
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	448,830,888	314,880,357

CASH AND CASH EQUIVALENTS AT

END OF YEAR

₱ 294,978,957 ₱ 467,849,644

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of Financial StatementsCorporate Information

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

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

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

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

2. Summary of Significant Accounting Policies and Financial Reporting PracticesBasis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

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

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

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

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

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

Financial Assets

a. Financial Assets at FVPL

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

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

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

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

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

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

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

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

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

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

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

b. HTM Financial Assets

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. HTM financial assets are subsequently carried either at cost or amortized cost in the consolidated balance sheet. Amortization is determined by using the effective interest rate method. Assets under

this category are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

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

c. Loans and Receivables

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

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

Impairment of Financial Assets

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

Inventories

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

Value added tax

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

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

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

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

Advances to suppliers

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

Property and Equipment

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

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

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

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

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

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

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

	<u>Years</u>
Buildings and improvements	10 to 12
Store furniture and equipment	5 to 10
Office furniture and equipment	3 to 5
Transportation equipment	3 to 5
Computer equipment	3

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

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

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

Deposits

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

Goodwill

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

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

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

Cumulative Redeemable Preferred Shares

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

Deferred Revenue

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

Capital Stock

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

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

Treasury Stock

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

Revenue Recognition

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

Merchandise Sales

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

Franchise

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

Marketing

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

Commission

Commission income is recognized upon the sale of consigned goods.

Rent

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

Interest

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

Cost and Expenses Recognition

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

Other Comprehensive Income

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

Retirement Benefits

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

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

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

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

Leases

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

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

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

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing

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

Foreign Currency-Denominated Transactions

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

Income Tax

Current Income Tax

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

Deferred Income Tax

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

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

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

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

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

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

Earnings (Loss) Per Share

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

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

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

Segment Reporting

Operating segments are components of an entity for which separate financial information is available and evaluated regularly by management in deciding how to allocate resources and assessing performance. The Group considers the store operation as its primary activity and its only business segment. Franchising, renting of properties and commissioning on bills payment services are considered an integral part of the store operations.

Provisions

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

Contingencies

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

3. Use of Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgment

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

Determination of Functional Currency

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

Classification of Leases

a. Finance Lease as Lessor

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

b. Operating Lease as Lessee

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

c. Operating Lease as Lessor

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

Estimates

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

Impairment of Loans and Receivables

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

principal payments, probability that the borrower will enter bankruptcy or other financial re-organization.

The carrying value of loans and receivables amounted to ₱432,494,199 and ₱628,448,541 as of March 31, 2010 and December 31, 2009, respectively (Note 29). Allowance for impairment on loans and receivables amounted to ₱10,843,948 as of March 31, 2010 and December 31, 2009 (Notes 5 and 30). Provision for impairment amounted to ₱9,798,327 in 2009, ₱7,069,507 in 2008 and ₱346,678 in 2007 (Notes 5 and 19).

Decline in Inventory Value

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

The carrying value of inventories amounted to ₱385,054,401 and ₱415,652,671 as of March 31, 2010 and December 31, 2009, respectively (Note 6). No provisions for decline in inventory value were recognized in 2009, 2008 and 2007.

Estimation of Useful Lives of Property and Equipment

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

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱1,303,192,082 and ₱1,227,244,430 as of March 31, 2010 and December 31, 2009, respectively (Note 8).

Impairment of Goodwill

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

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

4. Cash and Cash Equivalents

	MAR 2010	DEC 2009
Cash on hand and in banks	₱ 278,840,587	₱432,900,994
Cash equivalents	16,138,370	15,929,894
	₱	₱448,830,888
	294,978,957	

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

5. Receivables

	MAR 2010	DEC 2009
Suppliers	₱ 33,950,130	₱69,278,890
Franchisee	33,437,283	50,439,162
Employees	8,479,932	6,906,248
Rent	5,432,492	4,755,572
Current portion of lease receivable - net of unearned interest income amounting to ₱332,436 and ₱465,251 as of December 31, 2009 and 2008, respectively	1,643,633	2,187,564
Insurance claims	3,193,211	1,905,773
Store operators	553,673	1,688,404
Deposits	1,009,864	1,009,864
Due from Philippine Foundation, Inc. (PFI)	455,288	323,477
Others	15,936,100	12,489,099
	104,091,606	150,984,053
Less allowance for impairment	10,843,948	10,843,948
	₱ 93,247,658	₱ 140,140,105

The classes of receivables of the Group are as follows:

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

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

6. Inventories

	MAR 2010	DEC 2009
At cost (Note 18):		
Warehouse merchandise	₱ 212,480,270	₱ 235,157,252
Store merchandise	172,574,131	180,495,419
	₱ 385,054,401	₱ 415,652,671

7. Prepayments and Other Current Assets

	MAR 2010	DEC 2009
Deferred input value-added tax (VAT)	₱ 93,864,262	₱ 88,368,544
Advances to suppliers	68,278,479	44,291,320
Prepaid rent	27,144,837	23,163,308
Advances for expenses	6,379,012	5,460,880
Supplies	1,087,598	1,445,555
Current portion of deferred lease (Notes 10 and 26)	1,425,742	1,425,742
Prepaid uniform	1,291,656	1,105,330
Prepaid taxes and licenses	17,948,509	-
Others	11,573,133	9,122,713
	₱ 228,993,228	₱ 174,383,392

8. Property and Equipment

Movements in property and equipment are as follows:

	2010								Total
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvement	Construction In-Progress	
Costs/Revalued Amount									
Beginning balances	₱44,481,000	₱ 106,835,230	₱838,669,090	₱ 341,773,268	₱ 31,477,634	₱234,546,570	₱632,372,530	₱ 43,745,822	₱ 2,273,901,154
Additions	-	1,237,610	52,585,582	15,843,082	3,042,441	2,786,228	17,868,954	38,703,598	132,067,497
Disposals	-	-	-	-	(1,099,583)	-	-	-	(1,099,583)
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	44,481,000	108,072,844	891,254,672	357,616,350	33,420,492	237,332,800	650,241,484	82,449,420	2,404,869,066
Accumulated Depreciation and Amortization									
Beginning balances	-	55,131,255	358,677,751	170,264,855	20,393,889	162,318,915	279,870,057	-	1,046,656,722
Depreciation and amortization (Note 19)	-	1,200,872	21,118,700	9,147,957	1,040,138	9,875,433	13,736,745	-	56,119,844
Disposals	-	-	-	-	(1,099,583)	-	-	-	(1,099,583)
Reclassifications	-	3	(989,351)	6,005	363,913	(365,427)	984,858	-	-
Ending balances	-	56,332,130	378,807,100	179,418,816	20,698,357	171,828,921	294,591,660	-	1,101,676,986
Net Book Values	₱ 44,481,000	₱ 51,740,714	₱512,447,572	₱ 178,197,534	₱12,722,135	₱ 65,503,883	₱ 355,649,824	₱ 82,449,420	₱ 1,303,192,080

9. Deposits

	MAR 2010	DEC 2009
Rent	₱ 124,396,815	₱ 116,115,962
Utilities	23,864,312	22,131,783
Refundable	10,326,979	10,326,979
Others	5,810,818	2,753,309
	₱ 164,398,924	₱ 151,328,033

10. Goodwill and Other Noncurrent Assets

	MAR 2010	DEC 2009
Goodwill	₱ 65,567,524	₱ 65,567,524
Deferred lease - net of current portion	11,761,052	11,761,052
Garnished accounts	10,994,115	10,856,648

Software and program cost - net	7,240,089	8,010,695
Lease receivable - net of current portion	4,265,476	4,265,477
AFS financial assets	2,314,575	2,314,575
Others	1,813,254	4,311,601
		₱ 107,087,572
	103,956,085	

11. Bank Loans

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

Movements in bank loans are as follows:

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

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

12. Accounts Payable and Accrued Expenses

	MAR 2010	DEC 2009
Trade payable	729,147,083	₱864,748,683
Rent	76,331,188	80,927,422
Employee benefits	18,066,932	26,820,981
Utilities	16,118,589	17,666,410
Advertising and promotion	7,108,637	7,049,972
Outsourced services	5,415,648	6,497,194
Security services	43,744	2,292,041
Bank charges	1,950,000	1,852,100
Interest	1,199,499	1,053,797
Others	23,825,876	18,701,005
		₱1,027,609,605
	879,207,196	

13. Other Current Liabilities

	MAR 2010	DEC 2009
Non-trade accounts payable	83,105,158	₱ 138,118,326
Withholding taxes	12,647,487	18,711,796
Retention payable	14,465,366	15,236,991

Service fees payable	10,961,172	11,006,733
Royalty (Note 25)	6,710,327	6,719,659
Current portion of deferred revenue on:		
Exclusivity contract	3,913,690	3,913,690
Finance lease	1,310,151	1,310,151
Output VAT	4,252,081	3,904,917
Others	24,832,558	13,012,717
		₱ ₱ 211,934,980
	162,197,990	

14. Deposits Payable

	MAR 2010	DEC 2009
Franchisees	₱ 105,379,263	₱ 70,812,875
Service agreement	40,446,045	38,309,233
Rent	11,482,234	10,844,946
		₱ ₱ 119,967,054
	157,307,542	

15. Cumulative Redeemable Preferred Shares

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

16. Deferred Revenue

	MAR 2010	DEC 2009
Deferred revenue on finance lease	₱1,856,046	₱1,856,046
Deferred revenue on exclusivity contract	—	—
	₱1,856,046	₱1,856,046

17. Equity

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

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

18. Cost of Merchandise Sales

	March 2010	March 2009
Merchandise inventory, beginning		₱ ₱ 339,556,385

	415,652,671	
Net purchases	1,207,157,507	950,551,737
	1,622,810,178	1,290,108,122
Less merchandise inventory, ending	385,054,401	311,565,506
	₱ 1,237,755,777	₱ 978,542,616

19. General and Administrative Expenses

	March 2010	March 2009
Communication, light and water	₱ 106,719,754	₱ 86,801,097
Rent	83,927,780	75,740,809
Outside services	81,645,242	68,525,055
Personnel costs	80,391,157	73,879,906
Depreciation and amortization	56,119,844	44,487,705
Advertising and promotion	18,963,000	16,065,431
Royalties	20,178,836	16,188,704
Trucking services	20,152,434	15,356,623
Taxes and licenses	18,284,103	16,827,409
Repairs and maintenance	17,953,973	12,664,831
Supplies	14,825,357	10,919,767
Warehousing services	13,713,966	10,529,372
Transportation and travel	4,891,768	4,358,825
Entertainment, amusement and recreation	1,886,135	2,000,137
Inventory losses	9,364,159	8,377,158
Dues and subscription	1,086,858	920,717
Insurance	2,637,544	1,013,589
Amortization of software and program costs	770,607	755,090
	3,974,520	
Others		4,903,335
	₱ 557,487,037	₱
		470,315,561

20. Marketing Income

	March 2010	March 2009
Display charges	₱ 40,708,064	₱ 10,090,117
Promotions	9,951,774	8,749,500
Marketing support funds	4,787,827	4,233,589
	₱ 55,447,665	₱ 23,073,207

21. Interest Expense

	March 2010	March 2009
Interest on:		
Bank loans	₱ 4,332,856	₱ 7,051,879
	91,230	
Guaranteed preferred dividends		103,095
	₱ 4,424,086	₱ 7,154,974

22. Interest Income

	March 2010	March 2009
Interest on:		
	₱	₱
Bank deposits	682,091	591,022
Accretion of refundable deposits	-	-
	₱	₱
	682,091	591,022

23. Personnel Costs

	March 2010	March 2009
	₱	₱
Salaries and wages	43,688,522	40,577,034
Employee benefits	34,554,713	31,118,164
Retirement benefits cost (Note 24)	2,147,922	2,184,708
	₱	₱
	80,391,157	73,879,906

24. Retirement Benefits

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

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

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

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

25. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common

control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders.

Significant transactions with related parties consist of:

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

Royalty fees recorded by the Group amounted to ₱20,178,836 as of March 31, 2010 and ₱16,188,704 as of March 31, 2009. Royalty fees are paid on a monthly basis.

Royalty payable included under "Other current liabilities" amounted to ₱6,710,327 and ₱6,719,659 as of March 31, 2009 and December 31, 2009, respectively.

- b. PSC has transactions with PFI, a foundation with common key management of the Group, consisting of noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI. Amounts due from PFI amounted to ₱455,288 and ₱323,477 as of March 31, 2010 and December 31, 2009 respectively.

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

	March 2010	March 2009
Short-term employee benefits	₱ 7,312,173	₱ 5,618,501
Post-employment benefits	310,000	285,000
Other long-term benefits	-	-
	₱ 7,622,173	5,903,501

26. Leases

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

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

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

₱4,265,477	₱6,453,041
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Collection of lease receivable amounted to ₱2,782,500 in 2009 and ₱2,887,500 in 2008.

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

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

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

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

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

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

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

Rental income related to these sublease agreements amounted to ₱8,199,848 as of March 31, 2010 and 9,007,576 in March 31, 2009.

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

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

27. Income Tax

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

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

28. Basic/Diluted Earnings Per Share

	March 2010	March 2009
a.	₱	
Net income	50,091,930	₱ 13,267,825
b. Weighted average number of shares issued	287,761,172	287,761,172
c. Less weighted average number of shares held in treasury	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	287,074,922	287,074,922
e. Basic/diluted earnings per share (a/d)	₱ 0.17	₱ 0.05

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

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

29. Financial Instruments

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

	MAR 2010		DEC 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash	₱ 278,840,587	₱278,840,587	₱ 432,900,994	₱432,900,994
Cash equivalents	16,138,370	16,138,370	15,929,894	15,929,894
	294,978,957	294,978,957	448,830,888	448,830,888
Receivables:				
Suppliers	26,414,830	26,414,830	61,743,590	61,743,590
Franchisee	33,437,283	33,437,283	50,439,162	50,439,162
Employees	8,479,932	8,479,932	6,906,248	6,906,248
Rent	5,432,492	5,432,492	4,755,572	4,755,572
Current portion of lease receivable	1,643,633	1,643,633	2,187,564	2,584,612
Insurance claims	3,193,211	3,193,211	1,905,773	1,905,773
Store operators	553,673	553,673	1,688,404	1,688,404
Deposits	1,009,864	1,009,864	1,009,864	1,009,864

Due from PFI	455,288	455,288	323,477	323,477
Others	12,627,452	12,627,452	9,180,451	9,180,451
	93,247,658	93,247,658	140,140,105	140,537,153
Deposits:				
Utilities	23,864,312	23,864,312	22,131,783	22,131,783
Refundable	10,326,979	14,053,354	10,326,979	14,053,354
Others	5,810,817	5,810,817	2,753,309	2,753,309
	40,002,108	43,728,483	35,212,071	38,938,446
Other noncurrent assets - lease receivable (net of current portion)	₱ 4,265,476	₱ 4,843,464	₱ 4,265,476	₱ 4,843,464
Total Loans and Receivables	432,494,199	436,798,562	628,448,541	633,149,951
AFS Financial Assets	2,314,575	2,314,575	2,314,575	2,314,575
TOTAL FINANCIAL ASSETS	₱ 434,808,774	₱ 439,113,137	₱ 630,763,116	₱ 635,464,526
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	₱ 340,000,000	₱ 340,000,000	₱ 340,000,000	₱ 340,000,000
Accounts payable and accrued expenses:				
Trade payable	729,147,083	729,147,083	864,748,683	864,748,683
Employee benefits	18,066,932	18,066,932	26,820,981	26,820,981
Utilities	16,118,589	16,118,589	17,666,410	17,666,410
Advertising and promotion	7,108,637	7,108,637	7,049,972	7,049,972
Outsourced services	5,415,648	5,415,648	6,497,194	6,497,194
Security services	43,744	43,744	2,292,041	2,292,041
Bank charges	1,950,000	1,950,000	1,852,100	1,852,100
Interest	1,199,499	1,199,499	1,053,797	1,053,797
Others	23,825,876	23,825,876	18,701,005	18,701,005
	802,876,008	802,876,008	946,682,183	946,682,183
Other current liabilities:				
Non-trade accounts payable	83,105,158	83,105,158	138,118,326	138,118,326
Retention payable	14,465,366	14,465,366	15,236,991	15,236,991
Service fees payable	10,961,172	10,961,172	11,006,733	11,006,733
Royalty	6,710,327	6,710,327	6,719,659	6,719,659
Others	24,832,559	24,832,559	13,012,717	13,012,717
	140,074,582	140,074,582	184,094,426	184,094,426
Cumulative redeemable preferred shares	6,000,000	6,000,000	6,000,000	6,000,000
TOTAL FINANCIAL LIABILITIES	₱ 1,288,950,590	₱ 1,288,950,590	₱ 1,476,776,609	₱ 1,476,776,609

Fair Value Information

Current financial assets and financial liabilities

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

Lease receivables

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

Utility and other deposits

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

Refundable deposits

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

AFS financial assets

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

Bank loans

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

Cumulative redeemable preferred shares

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

Fair value Hierarchy

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

30. Financial Risk Management Objectives and Policies

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

Credit Risk

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

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

	MAR 2010	DEC 2009
Cash and cash equivalents:		
Cash in bank (excluding cash on hand)	₱ 244,155,545	₱ 340,150,666
Cash equivalents	16,138,370	15,929,894
	260,293,915	356,080,560
Receivables:		
Suppliers	26,414,830	61,743,590
Franchisee	33,437,283	50,439,162
Employees	8,479,932	6,906,248
Rent	5,432,492	4,755,572
Current portion of lease receivables	1,643,633	2,187,564
Insurance claims	3,193,211	1,905,773
Store operators	553,673	1688404

Deposits	1,009,864	1009864
Due from PFI	455,288	323,477
Others	12,627,452	9,180,451
	93,247,658	140,140,105
<hr/>		
Deposits:		
Utilities	23,864,312	22,131,783
Refundable	10,326,979	10,326,979
Others	5,810,817	2,753,309
	40,002,108	35,212,071

The following table provides information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit ratings of debtors:

	MARCH 2010			
	Neither Past Due nor Impaired		Past Due or Impaired	Total
	High Grade	Standard Grade		
Cash and cash equivalents				
	₱			₱
Cash in bank	244,155,545	-	-	244,155,545
Cash equivalents	16,138,370	-	-	16,138,370
	260,293,915	-	-	260,293,915
<hr/>				
Receivables				
Suppliers	-	9,999,520	23,950,610	33,950,130
Franchisee	-	33,437,283	-	33,437,283
Employees	-	8,479,932	-	8,479,932
Rent	-	5,432,492	-	5,432,492
Current portion of lease receivables	-	1,643,633	-	1,643,633
Insurance claims	-	3,193,211	-	3,193,211
Store operators	-	553,673	-	553,673
Deposits	-	1,009,864	-	1,009,864
Due from PFI	-	455,288	-	455,288
Others	-	12,627,452	3,308,648	15,936,100
	-	76,832,348	27,259,258	104,091,606
<hr/>				
Deposits				
Utilities	-	23,864,312	-	23,864,312
Refundable	-	10,326,979	-	10,326,979
Others	-	5,810,817	-	5,810,817
	-	40,002,108	-	40,002,108
<hr/>				
Other noncurrent assets				

Lease receivables - net of current portion	-	4,265,476	-	4,265,476
AFS financial assets	-	2,314,575	-	2,314,575
	-	6,580,051	-	6,580,051
	₱	₱	₱	₱
	260,293,915	123,414,507	27,259,258	410,967,680

The Group uses the following criteria to rate credit quality:

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

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

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

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

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

	MARCH 2010					
	Aging analysis of financial assets past due but not impaired				Past due and impaired	
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	Total
Receivables:						
Suppliers					7,535,300	23,950,610
	5,936,634	(2,835,663)	13,314,339	16,415,310		
Others					3,308,648	3,308,648
	-	-	-	-		
	5,936,634	(2,835,663)	13,314,339	16,415,310	10,843,948	27,259,258

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

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

Liquidity Risk

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

As part of its liquidity risk management program, the Group regularly evaluates projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund raising initiatives. These initiatives may

include drawing of loans from the approved credit line intended for working capital and capital expenditures purposes and equity market issues.

Interest Rate Risk

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

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

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

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

31. Capital Management

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

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

	MAR 2010	DEC 2009
	₱	₱
Capital stock	287,761,172	287,761,172
	293,525,037	
Additional paid-in capital		293,525,037
	376,401,558	
Retained earnings		326,309,628
	957,687,767	
		907,595,837
	2,923,246	
Less cost of shares held in treasury		2,923,246
	₱ 954,764,521	₱
		904,672,591

	₱ 2,619,830,177	₱
Total assets		2,710,675,933
Net worth	36%	33%

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

32. 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 ₱12,466,188 and ₱ 9,014,279 as of March 31, 2010 and March 31, 2009, respectively and franchise revenue for the 7-Eleven charge amounted to ₱ 84,106,230 and ₱ 63,071,749 as of March 31, 2010 and March 31, 2009, respectively.
- b. The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement. Service fees included under outside services as shown as part of "General and administrative expenses" in profit or loss amounted to ₱29,748,111, ₱24,762,197 as of March 31, 2010 and March 31, 2009, respectively.

33. Segment Reporting

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

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

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

The segment's relevant financial information is as follows:

	MAR 2010	MAR 2009
REVENUE		
Revenue from merchandise sales	₱ 1,697,779,579	₱ 1,364,895,839
Franchise revenue		72,086,028
	96,572,418	
Marketing income		23,073,207
	55,447,665	
Rent income		9,007,576

	8,199,848	
Commission income		5,274,725
	6,402,146	
Interest income		591,022
	682,091	
Other income		1,822,907
	8,376,917	
	1,873,460,664	1,476,751,303
EXPENSES		
Cost of merchandise sales		978,542,616
	1,237,755,777	
General and administrative expenses:		
Depreciation and amortization		44,487,705
	56,119,844	
Others		425,827,856
	501,367,193	
Interest expense		7,154,974
	4,424,086	
Other expenses		823,539
	955,261	
	1,800,622,162	1,456,836,690
INCOME BEFORE INCOME TAX	72,838,502	19,914,613
PROVISION FOR INCOME TAX	22,746,572	6,646,788
SEGMENT PROFIT	50,091,930	13,267,825
SEGMENT ASSETS	2,619,830,177	2,396,982,724
SEGMENT LIABILITIES	1,661,835,761	1,631,603,064

Management's Discussion and Analysis or Plan of Operations

SELECTED FINANCIAL DATA

FIRST QUARTER	2010	2009
SYSTEM WIDE SALES	₱2,027,688	₱1,627,967
Statement of Income Data:		
Revenues and other income		
Sales of merchandise	1,697,780	1,364,896
Franchise revenue	96,572	72,086
Marketing income	55,448	23,073
Rent income	8,200	9,008
Others (net)	15,461	7,689
Cost and expenses		
Cost of merchandise sold	1,237,756	978,543
General and administrative expenses	557,487	470,316
Interest expense	4,424	7,155
Net income	50,092	13,268
Earnings per share	₱0.17	₱0.05
Cash Flow Data:		
Net cash provided (used) in operating activities	(₱6,650)	₱123,018
Net cash (used) in investing activities	(142,778)	(42,894)
Net cash provided (used) in financing activities	(4,425)	72,845
Balance Sheet Data:		
Total assets	₱2,619,830	₱2,710,676
Total liabilities	1,661,836	1,802,773
Total stockholders' equity	957,994	907,903

(Amount in thousands, except EPS)

OVERVIEW

Philippine Seven Corporation (PSC or the Company) operates the largest convenience store network in the country. It acquired from Southland Corporation (now 7-Eleven Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines on December 13, 1982. Operations commenced with the opening of its first store on February 29, 1984 at the corner of Kamias Road and EDSA Quezon City, Metro Manila.

As of March 31, 2010, 7-Eleven has grown by 99 stores to end the first quarter with 470 stores. The retail chain of convenience stores is sustained by a manpower complement of 1,136 employees engaged in store operations and in various support service units. Despite the growing competition in the convenience retailing business, the Company maintains its leadership in the industry.

7-Eleven derives its revenues principally from retail sales of merchandise, commissions, rentals and franchising activities. The primary expenses consist of

cost of goods, general and administrative expenses, interest expense and income taxes.

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

FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE FIRST QUARTER OF 2010

Results of Operations

At the end of first quarter, PSC registered a consolidated net income of ₱50.1 million. This represents an increase of more than three times compared with the 2009 level of ₱13.3 million. System-wide revenue, a measure of sales of all corporate and franchise operated stores, increased by 24.5 percent to ₱2.0 billion in 2010 from ₱1.6 billion in the same period of the previous year.

The improvement in sales can be attributed to various factors such as the positive effect of a recovering economy, good weather conditions and increased spending in connection with the national and local elections. In addition, the company expanded its store base by 27% or 99 stores during the period under review and plans to achieve the 500th store milestone during the year.

Intensified promotion activities capitalizing on the ongoing election campaign were implemented at the store level also contributed to sales growth. Moreover, new franchisees that included Chevron retailers which operate 7-Eleven stores situated in Caltex gasoline stations boosted the store base and resulted into higher franchise revenues of ₱96.6 million.

EBITDA went up by 86 percent from ₱71.6 million in 2009 to ₱133.0 million during the first quarter of the current year enabling the Company to expand with the use of internally generated funds.

Revenue and Gross Margin

The Company registered total revenue from merchandise sales of ₱1.7 billion in 2010, an increase of 24% percent compared to ₱1.4 billion in 2009. Cost of merchandise sold rose by ₱259 million to ₱1.2 billion at the end of 1Q 2010.

System-wide sales grew by 24.5% or ₱399.7 million to ₱2.0 billion at the end of March. PSC ended the first quarter with 470 stores, higher by 27% compared to the Q1 2009 level of 371. Some underperforming stores were closed during the period. Out of the total store base, 41% are corporate run, while the rest are franchise-operated.

Gross Profit stood at ₱460 million, while GP in relation to sales went down by 120 basis points partly due to the dilution brought about by the increase in Company's sales to franchise stores which are accounted for at zero mark-up. Notwithstanding this factor, gross profit ratio to sales improved slightly by 40 basis points during the 1Q.

Products in the services category, which form part of the Company's commission income, are physical cards, bills payment and consigned goods. Commission income rose by 21% to ₱6.4 million.

Other Income

Other income consists of marketing income, franchise revenue and rent from rentable spaces. The Company's total other income increased by ₱56 million, to ₱160.2 million as a result of the following:

Marketing income grew by ₱32.4 million from the 1Q 2009 level, at a rate significantly higher than previous year. This is due to increased supplier-supported ad and promo spending, driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. The Company's goal is to become the preferred trade partner for manufacturer's brand building needs.

The share of PSC in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to ₱96.6 million from ₱72.1 million in 1Q 2009. This was the result of the increase in number of franchise-operated stores that reached 179 at the end of the 1Q 2010. Rent income declined by ₱800 thousand.

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

General and Administrative Expense

General and administrative expense which is comprised of store operating and selling expenses as well as headquarter expenses went up by 18.5% or ₱87.2 million and totaled to ₱557.5 million in 2010.

Communication, light and water were the highest contributor and accounted for 19 percent of the total G & A expenses for the 1Q 2010. This is followed by rent expense with 15.1% share, outsourced services with 14.6% and personnel costs at 14.4% share. Service fees paid to store operators under the service agreement with PSC accounted for 36.4% of the total outsourced services.

Personnel costs aggregated to ₱80.4 million, versus ₱73.9million in 2009. Ratio to sales was 4.7% in 2010 and 5.4% in 2009. Personnel costs include salaries and wages at ₱43.7million, employee benefits at ₱34.6million and pension costs at ₱2.1 million. The Company continued to outsource store personnel to contain

costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Moreover, rent expense incurred is pegged ₱83.9 million or 4.9% of sales against ₱75.7 million or 5.5% in 2009.

Interest Expense

Cost of debt servicing in 2010 totaled to ₱4.3 million, a decrease of 3.8% compared with 1Q 2009 level of ₱7.1 million. Outstanding loan balance at the end of 2010 was pegged at ₱340.0 million, same level from that of the beginning of 2010.

Net Income

Net income for first three months of 2010 grew by P36.8 million to ₱50.1 million. This was primarily due to solid sales growth, continuing support from trade suppliers and store expansion.

The net income generated during the first three months of the year translated into a 3.0% return on sales and 5.2% return on equity. The key ratios in 1Q 2010 are much better compared to the ROS and ROE of 1.0% and 1.7%, respectively, last year. Moreover, EPS is pegged ₱0.17 and ₱0.05, in 1Q 2010 and 1Q 2009, respectively.

Financial Condition

Total assets went down by ₱90.8 million or 3.4% to ₱2.6 billion during the 1Q 2010. Cash and cash equivalents during the year decreased to ₱294.9 million from ₱448.8 million at the beginning of the year. Receivables went down by ₱47 million as the company received settlement for collectibles related to supplier support and financing schemes to franchisees. Moreover, inventories went down by ₱30.6 million while prepayments were up by ₱54.6 million coming from advance rent paid for new stores and down payments to equipment sellers. The aforementioned factors resulted into a net decrease in total current assets by ₱176.7 million from the beginning of the year.

Total current liabilities went down by ₱175.4 million or 10.8% mainly due to the decrease in trade payables and other current liabilities. However, current ratio decline to 0.69 to 1 as of March 31, 2010 against 0.73 to 1 of last year.

Property and equipment, net of accumulated depreciation increased by ₱76 million mainly due to capital expenditure spent in relation to store expansion.

Stockholders' equity at the end of 2010 comprises 36.6% of total assets, compared to 33.5% at the beginning of 1Q 2010. Debt to equity ratio pegged at 1.73 for 1Q 2010 from 1.99 last quarter.

Liquidity and Capital Resources

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

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

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2011 to fund its operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the 1Q of 2010.

Cash Flows from Operating Activities

Net cash used for operating activities in 1Q 2010 amounted to ₱6.7 million, compared to P123 million cash generated during comparable period from last year. Such decline is attributable to the net decrease in trade payables amounting to P148 million during 1Q of 2010.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ₱142.8 million in 2010 compared to net cash out flow of ₱42.9 million in 1Q 2009. Major cash outlay went to the procurement of store equipment, new store constructions and store renovations. There were 99 new stores opened from 1Q of last year to current year.

Majority of the company's commitments for capital expenditures for the 1Q of the year are for new store constructions and renovations. Funds for these expenditures are expected to come from the anticipated increase in cash flows from retail operations and from additional borrowings if the need for such may arise.

Cash Flows from Financing Activities

Net cash outflow from financing activities reached ₱-4.4 million representing interest expense on outstanding bank loans.

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

DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

System Wide Sales

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

Revenue from Merchandise Sales

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

Net Income Margin

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

Return on Equity (ROE)

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

Earnings per Share (EPS)

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

FOR THE QUARTER	2010	2009
Systemwide Sales (in '000s)	2,027,688	1,627,967
Revenue from Merchandise Sales (in '000s)	1,697,780	1,364,896
Net Income Margin	3.0%	1.0%
Return on Equity	5.2%	51.7%
Earnings Per Share	0.17	0.05

SIGNATURES

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

A handwritten signature in black ink, appearing to read "Vita Paterno". The signature is fluid and cursive, with a large loop at the end of the last name.

Jose Victor P. Paterno