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**SECURITIES AND EXCHANGE COMMISSION**

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**Doc Source****Company Information**

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SEC Registration No. 0000108476  
Company Name PHIL. SEVEN CORP.  
Industry Classification  
Company Type Stock Corporation

**Document Information**

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Document ID 111142011000094  
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)  
Document Code 17-Q  
Period Covered September 30, 2011  
No. of Days Late 0  
Department CFD  
Remarks

# COVER SHEET

0 0 0 0 1 0 8 4 7 6

S.E.C Registration Number

PHILIPPINE  
SEVEN  
CORPORATION  
  
(Company's full Name)

7th Flr. The Columbia Tower  
Ortigas Ave. Mandaluyong City  
(Business Address: No. Street City / Town / Province)

**Atty. Evelyn S. Enriquez**  
Corporate Secretary

724-44-41 to 51

Company Telephone Number

Contact Person

1 2 3 1  
Month Day  
Fiscal Year

FORM TYPE

1 7 - Q  
Month Day  
Annual Meeting

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

**THIRD QUARTER REPORT**

Secondary License Type, if Applicable

Dept. Requiring this Doc. Amended Articles Number/Section

Total Amount of Borrowings  
Total No. of Stockholders Domestic Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

# SECURITIES AND EXCHANGE COMMISSION

## FORM 17-Q

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

1. For the quarterly period ended September 30, 2011

2. Commission identification number

3. BIR Tax Identification No : 000-390-189-000

4. Exact name of registrant as specified in its charter :

**PHILIPPINE SEVEN CORPORATION**

5. Country of incorporation : **PHILIPPINES**

6. Industry Classification Code:  (SEC Use Only)

7. Address of registrant's principal office : 7<sup>TH</sup> Floor, The Columbia Tower  
Ortigas Avenue, Mandaluyong City  
1501

8. Telephone number : (632) 724-44-41 to 51

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA

#### No. of Shares of Common Stock

Shares Outstanding - Common :	<b>346,642,966</b>
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: November 14, 2011



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

Date: November 14, 2011

November 14, 2011

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building  
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of September 30, 2011, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

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



**YU-HSIU TSAI**  
Treasurer and CFO

## **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended September 30, 2011. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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



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



**YU-HSIU TSAI**  
Treasurer and CFO

## Part 1 – FINANCIAL INFORMATION

### Item 1. Financial Statements

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

(Pages 60-66)

Philippine Seven Corporation  
And Subsidiaries

Unaudited Consolidated Financial Statements  
As of September 30, 2011 and 2010  
And for the Quarters Ended September 30, 2011 ,2010 and 2009



**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	As of September 30, 2011 (Unaudited)	As of December 31, 2010 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	P 252,207,367	P358,729,534
Short-term investment	10,141,555	10,141,555
Receivables (Note 5)	205,401,959	158,342,635
Inventories - at cost (Note 6)	389,144,430	402,419,577
Prepayments and other current assets (Note 7)	366,643,158	232,669,446
<b>Total Current Assets</b>	<b>1,223,538,469</b>	<b>1,162,302,747</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	1,843,400,681	1,607,296,761
Deposits (Note 9)	216,156,102	181,196,390
Deferred income tax assets - net (Note 27)	40,827,991	40,827,991
Goodwill and other noncurrent assets (Note 10)	94,230,749	101,549,470
<b>Total Noncurrent Assets</b>	<b>2,194,615,523</b>	<b>1,930,870,612</b>
<b>TOTAL ASSETS</b>	<b>P 3,418,153,992</b>	<b>P3,093,173,359</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Note 11)	396,666,667	P320,000,000
Accounts payable and accrued expenses (Note 12)	955,872,317	1,078,339,407
Income tax payable	35,702,786	45,289,647
Other current liabilities (Notes 13 and 25)	371,570,054	265,799,298
<b>Total Current Liabilities</b>	<b>1,759,811,824</b>	<b>1,709,428,352</b>
<b>Noncurrent Liabilities</b>		
Deposits payable (Note 14)	266,491,405	142,862,137
Net retirement obligations (Note 24)	61,299,344	57,453,582
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	9,519,963	7,000,300
<b>Total Noncurrent Liabilities</b>	<b>343,310,712</b>	<b>213,316,019</b>
<b>Total Liabilities</b>	<b>2,103,122,536</b>	<b>1,922,744,371</b>

(Forward)

	<b>As of September 30, 2011 (Unaudited)</b>	As of December 31, 2010 (Audited)
<b>Equity</b>		
Capital stock (Note 17) - ₱1 par value		
Authorized - 400,000,000 shares		
Issued - 302,114,918 and 287,761,172 shares as of December 31, 2010 and 2009, respectively [held by 684 and 717 equity holders in 2010 and 2009, respectively (Note 1)]	<b>347,329,218</b>	₱302,114,918
Additional paid-in capital	<b>293,525,037</b>	293,525,037
Retained earnings (Note 17)	<b>673,870,551</b>	574,482,384
Other component of equity - revaluation increment on land [net of deferred income tax liability (Notes 8 and 27)]	<b>3,229,895</b>	3,229,895
	<b>1,317,954,702</b>	1,173,352,234
Cost of 686,250 shares held in treasury	<b>(2,923,246)</b>	(2,923,246)
<b>Total Equity</b>	<b>1,315,031,456</b>	1,170,428,988
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱ 3,418,153,992</b>	₱3,093,173,359

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

Three Months Ended **September 30 (Unaudited)**

	2011	2010	2009
<b>REVENUE</b>			
Revenue from merchandise sales	₱ 2,202,798,398	₱1,842,321,476	₱1,464,609,550
Franchise revenue (Note 32)	132,810,517	115,032,054	70,211,926
Marketing income (Note 20)	113,132,343	81,405,413	48,217,342
Rent income (Note 26)	16,839,021	7,697,382	7,197,738
Commission income (Note 32)	9,268,651	7,566,187	5,612,301
Interest income (Notes 9, 22 and 26)	487,586	802,563	649,491
Other income (Note 32)	16,990,118	25,075,217	9,469,752
	<b>2,492,326,634</b>	<b>2,079,900,292</b>	<b>1,605,968,100</b>
<b>EXPENSES</b>			
Cost of merchandise sales (Note 18)	1,623,174,773	1,352,498,999	1,049,776,846
General and administrative expenses (Note 19)	780,913,600	652,881,445	495,797,942
Interest expense (Notes 11, 15 and 21)	3,933,287	3,824,166	6,309,194
Unrealized foreign exchange loss	-	-	-
Impairment loss on goodwill (Note 10)	-	-	-
Other expenses	1,847,041	1,016,458	1,090,169
	<b>2,409,868,701</b>	<b>2,010,221,068</b>	<b>1,552,974,151</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>82,457,933</b>	<b>69,679,224</b>	<b>52,993,949</b>
<b>PROVISION FOR INCOME TAX</b> (Note 27)	<b>26,451,154</b>	<b>22,509,304</b>	<b>17,229,450</b>
<b>NET INCOME</b>	<b>56,006,779</b>	<b>47,169,920</b>	<b>35,764,499</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Effect of change in tax rate in 2009			
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>56,006,779</b>	<b>47,169,920</b>	<b>35,764,499</b>
<b>BASIC/DILUTED EARNINGS PER</b>			
<b>SHARE</b> (Note 28)	<b>0.16</b>	<b>0.14</b>	<b>0.10</b>

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Nine Months Ended September 30 (Unaudited)</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>REVENUE</b>			
Revenue from merchandise sales	P 6,398,035,295	P 5,535,987,439	P4,310,193,141
Franchise revenue (Note 32)	380,812,526	325,497,052	220,607,149
Marketing income (Note 20)	271,568,966	192,710,909	122,285,415
Rent income (Note 26)	39,273,693	24,257,622	21,937,296
Commission income (Note 32)	26,832,392	20,817,742	16,235,781
Interest income (Notes 9, 22 and 26)	1,553,198	2,182,681	1,933,879
Other income (Note 32)	46,357,364	44,845,003	18,639,961
	<b>7,164,433,434</b>	<b>6,146,298,446</b>	<b>4,711,832,621</b>
<b>EXPENSES</b>			
Cost of merchandise sales (Note 18)	4,694,738,202	4,043,097,065	3,086,086,649
General and administrative expenses (Note 19)	2,207,158,810	1,827,665,143	1,470,428,958
Interest expense (Notes 11, 15 and 21)	11,751,941	12,291,977	20,940,825
Unrealized foreign exchange loss	-	-	-
Impairment loss on goodwill (Note 10)	-	-	-
Other expenses	(5,949,502)	3,239,433	3,323,706
	<b>6,907,699,451</b>	<b>5,886,293,618</b>	<b>4,580,780,138</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>256,733,983</b>	<b>260,004,827</b>	<b>131,052,483</b>
<b>PROVISION FOR INCOME TAX</b> (Note 27)	<b>81,988,649</b>	<b>82,020,863</b>	<b>42,537,255</b>
<b>NET INCOME</b>	<b>174,745,334</b>	<b>177,983,964</b>	<b>88,515,228</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Effect of change in tax rate in 2009			
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>174,745,334</b>	<b>177,983,964</b>	<b>88,515,228</b>
<b>BASIC/DILUTED EARNINGS PER</b>			
<b>SHARE</b> (Note 28)	<b>0.50</b>	<b>0.51</b>	<b>0.26</b>

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment on Land	Total	Treasury Stock	Total
<b>BALANCES AS OF DECEMBER 31, 2008</b>	<b>261,663,450</b>	<b>293,525,037</b>	<b>196,616,699</b>	<b>3,229,895</b>	<b>755,035,081</b>	<b>(2,923,246)</b>	<b>752,111,835</b>
Stock dividends (Note 17)	26,097,722	-	(26,097,722)	-	-	-	-
Total comprehensive income for the year	-	-	155,790,651	-	155,790,651	-	155,790,651
<b>BALANCES AS OF DECEMBER 31, 2009</b>	<b>287,761,172</b>	<b>293,525,037</b>	<b>326,309,628</b>	<b>3,229,895</b>	<b>910,825,732</b>	<b>(2,923,246)</b>	<b>907,902,486</b>
Stock dividends (Note 17)	14,353,746	-	(14,353,746)	-	-	-	-
Cash dividends (Note 17)	-	-	(14,353,746)	-	(14,353,746)	-	(14,353,746)
Total comprehensive income for the year	-	-	276,880,248	-	276,880,248	-	276,880,248
<b>BALANCES AS OF DECEMBER 31, 2010</b>	<b>302,114,918</b>	<b>293,525,037</b>	<b>574,482,384</b>	<b>3,229,895</b>	<b>1,173,352,234</b>	<b>(2,923,246)</b>	<b>1,170,428,988</b>
Net income for the First Quarter	-	-	37,102,927	-	37,102,927	-	37,102,927
<b>BALANCES AS OF MARCH 31, 2011</b>	<b>302,114,918</b>	<b>293,525,037</b>	<b>611,585,311</b>	<b>3,229,895</b>	<b>1,210,455,161</b>	<b>(2,923,246)</b>	<b>1,207,531,915</b>
Net income for the Second Quarter			81,635,628		81,635,628		81,635,628
<b>BALANCES AS OF JUNE 30, 2011</b>	<b>302,114,918</b>	<b>293,525,037</b>	<b>693,220,939</b>	<b>3,229,895</b>	<b>1,292,090,789</b>	<b>(2,923,246)</b>	<b>1,289,167,543</b>
<b>Net income for the Third Quarter</b>			<b>56,006,779</b>		<b>56,006,779</b>		<b>56,006,779</b>
<b>Payment of Cash dividends (Note 17)</b>			<b>(30,142,867)</b>		<b>(30,142,867)</b>		<b>(30,142,867)</b>
<b>Issuance of stock dividends (Note 17)</b>	<b>45,214,300</b>		<b>(45,214,300)</b>		<b>-</b>		<b>-</b>
<b>BALANCES AS OF SEPTEMBER 30, 2011</b>	<b>347,329,218</b>	<b>293,525,037</b>	<b>673,870,552</b>	<b>3,229,895</b>	<b>1,317,954,702</b>	<b>(2,923,246)</b>	<b>1,315,031,456</b>
<b>BALANCES AS OF SEPTEMBER 30, 2010</b>	<b>302,114,918</b>	<b>293,525,037</b>	<b>475,586,100</b>	<b>3,229,895</b>	<b>1,074,455,980</b>	<b>(2,923,246)</b>	<b>1,071,532,704</b>

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

	Three Months Ended September 30 (Unaudited)		
	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	82,457,933	69,679,224	52,993,949
Adjustments for:			
Depreciation and amortization	96,093,131	70,926,172	47,523,887
Interest expense	3,933,287	4,043,725	6,309,194
Interest income	487,586	(802,563)	(649,491)
Amortization of:			
Deferred revenue on exclusivity contract	2,519,070		
Software and other program costs	1,113,062	773,041	769,390
<b>Operating income before working capital changes</b>	<b>186,604,069</b>	<b>144,619,598</b>	<b>106,946,929</b>
Decrease (increase) in:			
Receivables	(128,530,890)	(740,260)	(26,415,220)
Inventories	(1,190,937)	33,460,591	41,058,502
Prepayments and other current assets	(76,801,500)	2,867,259	(64,256,583)
Increase (decrease) in:			
Accounts payable and accrued expenses	(21,874,449)	(256,536,425)	(192,630,108)
Other current liabilities	48,736,695	51,069,109	(85,706,686)
<b>Cash generated from operations</b>	<b>103,903,999</b>	<b>(76,468,939)</b>	<b>(188,516,248)</b>
Income taxes paid	(44,949,143)	(26,129,389)	(22,152,099)
Interest received	(487,586)	802,563	649,491
<b>Net cash from operating activities</b>	<b>58,467,270</b>	<b>(101,795,764)</b>	<b>(210,018,856)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to (Amortization of):			
Property and equipment	(165,804,326)	(150,863,257)	(89,970,479)
Software and other program costs	(1,113,061)	(773,041)	(769,390)
Decrease (increase) in:			
Deposits	(7,149,425)	(8,222,200)	(9,424,693)
Goodwill and other noncurrent assets	(175,780)	(3,350,160)	(21,813,899)
<b>Net cash used in investing activities</b>	<b>(174,242,592)</b>	<b>(163,208,659)</b>	<b>(121,978,462)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of bank loans			
Payments of bank loans	(2,000,000)	80,000,000	
Interest paid	(3,933,287)	(4,043,725)	(6,309,194)
Cash dividends paid	(30,142,867)	(14,353,746)	-
<b>Net cash used in financing activities</b>	<b>(36,076,155)</b>	<b>61,602,529</b>	<b>(6,309,194)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(151,851,477)</b>	<b>(203,401,894)</b>	<b>(338,306,512)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF SECOND QUARTER</b>	<b>404,058,844</b>	<b>379,806,427</b>	<b>497,967,817</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THIRD QUARTER</b>	<b>252,207,367</b>	<b>176,404,533</b>	<b>159,661,305</b>

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Nine Months Ended September 30 (Unaudited)</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>256,733,983</b>	260,004,827	31,052,483
Adjustments for:			
Depreciation and amortization	<b>271,715,597</b>	188,611,427	137,552,047
Interest expense	<b>11,751,941</b>	12,291,977	3,323,706
Interest income	<b>1,553,198</b>	(2,182,681)	(1,933,879)
Amortization of:			
Deferred revenue on exclusivity contract	<b>2,519,663</b>		
Software and other program costs	<b>2,226,122</b>	2,316,688	2,284,338
<b>Operating income before working capital changes</b>	<b>546,500,504</b>	<b>461,042,238</b>	<b>272,278,695</b>
Decrease (increase) in:			
Receivables	<b>(47,059,324)</b>	50,305,513	66,567,057
Inventories	<b>13,275,147</b>	102,527,222	72,338,080
Prepayments and other current assets	<b>(133,973,712)</b>	(38,219,210)	(124,705,196)
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>(122,467,090)</b>	(453,256,484)	(381,445,004)
Other current liabilities	<b>105,770,758</b>	173,575,558	(67,088,015)
<b>Cash generated from operations</b>	<b>489,521,313</b>	<b>285,604,685</b>	<b>28,876,311</b>
Income taxes paid	(91,575,510)	(76,826,658)	(45,043,555)
Interest received	(1,553,198)	2,182,681	1,933,879
<b>Net cash from operating activities</b>	<b>396,392,605</b>	<b>210,960,707</b>	<b>(14,233,365)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to (Amortization of):			
Property and equipment	<b>(507,819,518)</b>	(448,169,548)	(191,632,851)
Software and other program costs (Note 10)	<b>(2,226,122)</b>	(2,316,688)	(2,284,338)
Decrease (increase) in:			
Deposits	<b>(34,959,712)</b>	(26,888,474)	(22,391,546)
Goodwill and other noncurrent assets	<b>7,318,722</b>	633,371	1,353,246
<b>Net cash used in investing activities</b>	<b>(537,686,631)</b>	<b>(476,741,339)</b>	<b>(217,661,981)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of bank loans		80,000,000	130,000,000
Payments of bank loans	<b>76,666,667</b>	(60,000,000)	(50,000,000)
Interest paid	<b>(11,751,941)</b>	(12,291,977)	(3,323,706)
Cash dividends paid	<b>(30,142,867)</b>	(14,353,746)	-
<b>Net cash used in financing activities</b>	<b>34,771,859</b>	<b>(6,645,723)</b>	<b>76,676,294</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(106,522,167)</b>	<b>(272,426,355)</b>	<b>(155,219,052)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>358,729,534</b>	448,830,888	314,880,357
<b>CASH AND CASH EQUIVALENTS AT END OF THIRD QUARTER</b>	<b>252,207,367</b>	<b>176,404,533</b>	<b>159,661,305</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

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

Corporate Information

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

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

The Company has its primary listing on the Philippine Stock Exchange. As of December 31, 2010 and 2009, the Company has 684 and 717 equity holders, respectively.

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

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

Basis of Preparation

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations, which became effective on January 1, 2010.



### *Amendments to Standards and Interpretations*

- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment has no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

The adoption of the above amendments to Standards and Interpretation did not have any impact on the financial statements of the Group.

### *Improvements to PFRS 2008*

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

### *Improvements to PFRS 2009*

The following improvements in PFRS, which are effective in 2010, does not have a significant impact on the Group's financial statements:

- Improvements to PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- Improvements to PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- Improvements to PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used only by the chief operating decision maker.
- Improvements to PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating lease. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendment will be applied retrospectively.
- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets at a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2010

The Group will adopt the following standards, interpretations and amendments to existing standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the financial statements.

*Effective in 2011*

- PAS 24 (Amended), *Related Party Disclosures*  
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*  
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- Philippine Interpretation IFRIC 14 (Amendment) - *Prepayments of a Minimum Funding Requirement*  
The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on

assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*  
Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

#### *Effective in 2012*

- *PAS 12, Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*  
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.
- *PFRS 7, Financial Instruments: Disclosures (Amendments) - Disclosures-Transfers of Financial Assets*  
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

#### *Effective in 2013*

- *PFRS 9, Financial Instruments: Classification and Measurement*  
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011.

#### *Improvements to PFRS effective subsequent to 2010*

In May 2010, the International Accounting Standards Board (IASB) issued its omnibus of amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording.

- Revised PFRS 3, *Business Combinations*

*Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised:* Clarifies that the amendments to PFRS 7, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent

consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

*Measurement of non-controlling interests (NCI):* Limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either: (1) at fair value or (2) at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS, e.g. PFRS 2.

*Un-replaced and voluntarily replaced share-based payment awards:* Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses.

The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of NCI and measured at their marked-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense.

- Amendment to PFRS 7, *Financial Instruments: Disclosures*, emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments which should be applied retrospectively.
- Amendments to quantitative and credit risk disclosures are as follows:
  - clarifies only those financial assets whose carrying amount does not reflect the maximum exposure to credit risk.
  - requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
  - removes disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
  - removes the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
  - clarifies that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.
- Amendment to PAS 1, *Presentation of Financial Statements*, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- Amendment to PAS 27, *Consolidated and Separate Financial Statements*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2010 or earlier when PAS 27 is applied earlier.

The Group has not yet adopted the above amendments and anticipates that these changes will have no material effect on the financial statements.

#### Basis of Consolidation

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

	Country of Incorporation	Percentage of Ownership
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. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases. The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date of acquisition or up to the date of the disposal, as appropriate.

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

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

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

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

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

The Group classifies its financial assets as financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables or available-for-sale financial (AFS) 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 at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

#### *Financial Assets*

##### a. Financial Assets at FVPL

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

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

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

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

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

As of December 31, 2010 and 2009, the Group has no financial assets as at FVPL.

##### 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, 2010 and 2009, 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, short-term investments, receivables and deposits as of June 30, 2011 and December 31, 2010.

d. AFS Financial Assets

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

The Group's AFS financial assets consist of unquoted investments in preferred shares of a public utility company included as part of "Goodwill and other noncurrent assets" in the consolidated balance sheets as of December 31, 2010 and 2009.

*Financial Liabilities*

a. Financial Liabilities at FVPL

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their

- performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

As of December 31, 2010 and 2009, the Group has not designated any financial liability as at FVPL.

b. Other Financial Liabilities

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

Other financial liabilities are classified as current liabilities if maturity is within the normal operating cycle of the Company and it does not have unconditional right to defer settlement of the liability for at least 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

The Group's other financial liabilities consist of bank loans, accounts payable and accrued expenses, other current liabilities and cumulative redeemable preferred shares as of December 31, 2010 and 2009.

Impairment of Financial Assets

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

*Financial Assets Carried at Amortized Cost*

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

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant and collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually or collectively assessed financial asset,



whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continue to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

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

#### *Financial Assets Carried at Cost*

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

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

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

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

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

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

increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### Inventories

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

#### Value-Added Tax (VAT)

*Input 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. For acquisition of capital goods over ₱1,000,000, the related input taxes are deferred and amortized over the useful life or 60 months, whichever is shorter, commencing on the date of acquisition.

*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. Any outstanding balance is included under "Accounts payable and accrued expenses" account in the balance sheet. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding month or months. Excess input VAT is included under "Prepayments and other current assets" account in the balance sheet. 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 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 noncurrent asset held-for-sale and the date the asset is derecognized.

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

	Years
Buildings and improvements	8 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 ten 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 equity relating to the revalued asset sold is transferred to retained earnings.

Fully depreciated assets are retained in the books until disposed.

#### Software and Program Cost

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

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

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

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

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

#### 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.

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

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 event or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount of the cash-generating unit or group of cash-generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

#### 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.

#### Capital Stock

Capital stock is measured at par value for all shares issued and outstanding. 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 and outstanding.

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 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, *Revenue Recognition*, and concluded that it is acting as principal in all arrangements, except for its sale of consigned goods. 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.

### *Rent*

Rent income is accounted for on a straight-line basis over the term of the lease.

### *Commission*

Commission income is recognized upon the sale of consigned goods.

### *Interest*

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

### Costs and Expenses Recognition

Costs of merchandise sold are recognized in profit or loss at the point of sale. Expenses are recognized in profit or loss upon utilization of the services 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.

### Leases

Finance leases, which transfer to the lessee substantially all the risks and rewards 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 rewards of ownership of the asset are classified as operating leases. Operating leases 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 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 to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

Deferred income tax relating to items recognized directly in equity is recognized in profit or loss.

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 future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax

assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered.

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 (loss) 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 (loss) 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 (loss) per share, the effect of stock dividends, if any, is accounted for retroactively.

#### Segment Reporting

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

#### Provisions

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

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent



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

#### Events after the Balance Sheet Date

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

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

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

#### Judgments

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 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, costs and expenses of the Company.

##### *Classification of Financial Instruments*

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

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

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

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

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

#### *Impairment of Loans and Receivables*

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

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

The carrying value of loans and receivables amounted to ₱515,363,776 and ₱571,226,437 as of September 30, 2011 and December 31, 2010, respectively (see Note 29). Allowance for impairment on loans and receivables amounted to ₱3,627,492 as of September 30, 2011 and December 31, 2010 (see Notes 5 and 30). Provision for impairment amounted to ₱1,622,883 in 2010, ₱9,798,327 in 2009 and ₱7,069,507 in 2008 (see Notes 5 and 19).

#### *Impairment of AFS Financial Assets*

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

The carrying value of AFS financial assets amounted to ₱1,320,575 and ₱2,314,575 as of December 31, 2010 and 2009 (see Notes 10 and 29). No impairment losses were recognized in 2010, 2009 and 2008.

#### *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 inventories.

The carrying value of inventories amounted to ₱389,144,430 and ₱402,419,577 as of September 30, 2011 and December 31, 2010, respectively (see Note 6). No provisions for decline in inventory value were recognized in 2010, 2009 and 2008.

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

The Group estimates 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 ₱ 1,843,400,681 and ₱1,607,296,761 as of September 30, 2011 and December 31, 2010, respectively (see 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 September 30, 2011 and December 31, 2010 (see Note 10). No impairment losses were recognized in 2011, 2010 and 2009, while impairment loss recognized on goodwill amounted to ₱4,611,368 in 2008 (see Note 10). Based on the assessment made by the Group, there is no impairment of goodwill as the carrying value of the cash-generating units exceeds the computed value-in-use as of December 31, 2010 and 2009.

#### *Estimation of Retirement Benefits*

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

The Group's net retirement obligations amounted to ₱61,299,344 and ₱57,453,582 as of September 30, 2011 and December 31, 2010, respectively. Retirement benefits cost amounted to ₱11,220,501 in 2010, ₱21,979,689 in 2009 and ₱8,720,701 in 2008. Further details about the assumptions used are disclosed in Note 24.

#### *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision and contingency is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. If the effect of the time value of money is material, provisions and contingencies are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision and contingency is being reassessed at least on an annual basis to consider new relevant information.

As of December 31, 2010 and 2009, the Group has provision for litigation losses amounting to P7,066,290 and P12,578,122, respectively, and is reported under "Accounts payable and accrued expenses" in the consolidated balance sheets. Provisions and contingencies are further explained in Note 34.

*Realizability of Deferred Income Tax Assets*

Deferred income tax assets are recognized for all temporary deductible differences to the extent that it is probable that sufficient future taxable profits 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 profits against which the recognized deferred income tax assets will be realized.

The Group's recognized deferred income tax assets amounted to P46,653,929 as of September 30, 2011 and December 31, 2010 (see Note 27).

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**4. Cash and Cash Equivalents**

	SEP 2011	DEC 2010
Cash on hand and in banks	<b>252,207,367</b>	322,975,839
Cash equivalents	-	35,753,695
	<b>252,207,367</b>	358,729,534

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.

Interest income from savings and deposits amounted to P3,675,553 in 2010, and P3,387,088 in 2009, respectively (see Note 22).

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**5. Receivables**

	SEP 2011	DEC 2010
Suppliers	<b>46,375,886</b>	58,816,472
Franchisee	<b>108,545,576</b>	40,871,647
Employees	<b>12,463,129</b>	10,321,643
Store operators	<b>11,854,567</b>	9,718,957
Rent	<b>6,759,525</b>	5,709,582
Current portion of lease receivable	<b>284,182</b>	1,212,430
Deposits	<b>1,009,864</b>	1,009,864
Due from Philseven Foundation, Inc. (PFI)	<b>91,150</b>	888,425
Others	<b>21,645,572</b>	33,421,107
	<b>209,029,451</b>	161,970,127
Less allowance for impairment	<b>3,627,492</b>	3,627,492
	<b>P205,401,959</b>	P 158,342,635

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.
- Franchisees - 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 (see Note 32).

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

In 2010, the Company collected ₱8,606,678 from the insurance company as insurance proceeds from the Company's properties destroyed by Ondoy (see Note 8). As of December 31, 2010, outstanding receivable from the insurance company related to the claim amounted to ₱10,858,906. The gain amounting to ₱19,465,584 is included as "Other income" in the 2010 profit or loss.

Movements in allowance for impairment are as follows:

	<b>SEP 2011</b>		
	<b>Suppliers</b>	<b>Others</b>	<b>Total</b>
Beginning balances	<b>381,786</b>	<b>3,245,706</b>	<b>3,627,492</b>
Provision for the year (Note 19)	-	-	-
Write-off	-	-	-
Recovery of bad debts	-	-	-
Ending balances	<b>381,786</b>	<b>3,245,706</b>	<b>3,627,492</b>

	<b>DEC 2010</b>		
	<b>Suppliers</b>	<b>Others</b>	<b>Total</b>
Beginning balances	7,535,300	3,308,648	10,843,948
Provision for the year (Note 19)	204,716	1,418,167	1,622,883
Write-off	(7,140,854)	-	(7,140,854)
Recovery of bad debts	(217,376)	(1,481,109)	(1,698,485)
Ending balances	381,786	3,245,706	3,627,492

## 6. Inventories

	SEP 2011	DEC 2010
At cost (Note 18):		
Warehouse merchandise	<b>₱ 203,370,196</b>	₱200,869,257
Store merchandise	<b>185,774,234</b>	201,550,320
	<b>₱ 389,144,430</b>	₱402,419,577

## 7. Prepayments and Other Current Assets

	SEP 2011	DEC 2010
Deferred input VAT	239,750,719	128,689,605
Advances to suppliers	20,043,018	46,036,750
Prepaid rent	46,356,290	32,972,222
Advances for expenses	15,532,617	3,268,768
Prepaid uniform	2,102,812	2,400,798
Supplies	1,311,927	1,915,107
Current portion of deferred lease (Notes 10 and 26)	1,363,271	1,363,270
Others	40,182,504	16,022,926
	<b>366,643,158</b>	<b>232,669,446</b>

## 8. Property and Equipment

Movements in property and equipment are as follows:

	SEPTEMBER 2011								
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
<b>Costs/Revalued Amount</b>									
Beginning balances	44,481,000	109,312,911	1,176,847,311	419,230,096	37,624,956	248,482,190	828,894,084	41,487,041	2,906,359,589
Additions	-	-	253,502,351	72,779,423	11,891,071	25,397,970	105,073,197	72,721,684	541,365,696
Disposals	-	-	(216,781,329)	(71,994,025)	(11,711,516)	(126,628,893)	(9,506,278)	(34,802,117)	(471,424,158)
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	44,481,000	109,312,911	1,213,568,333	420,015,494	37,804,511	147,251,267	924,461,003	79,406,608	2,976,301,127
<b>Accumulated Depreciation and Amortization</b>									
Beginning balances	-	60,016,925	455,617,362	209,862,824	24,284,740	199,975,370	349,305,607	-	1,299,062,828
Depreciation and amortization (Note 19)	-	3,720,747	133,375,948	40,962,874	4,423,911	23,566,346	63,843,994	-	269,893,820
Disposals	-	-	(216,817,725)	(71,909,458)	(11,932,105)	(125,977,516)	(9,419,398)	-	(436,056,202)
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	-	63,737,672	372,175,585	178,916,240	16,776,546	97,564,200	403,730,203	-	1,132,900,446
<b>Net Book Values</b>	<b>44,481,000</b>	<b>45,575,240</b>	<b>841,392,748</b>	<b>241,099,255</b>	<b>21,027,965</b>	<b>49,687,067</b>	<b>520,730,801</b>	<b>79,406,608</b>	<b>1,843,400,681</b>

On February 5, 2007, the Group revalued its land with cost amounting to ₱39,866,864 at appraised value of ₱44,481,000, as determined by a professionally qualified independent appraiser. The appraisal increase of ₱3,229,895, net of ₱1,384,241 deferred income tax liability, resulting from the revaluation was credited to "Revaluation increment on land" account presented under equity section of the consolidated balance sheets. The appraised value was determined using the market data approach, wherein the value of the land is based on sales and listings of comparable properties registered within the vicinity.

## 9. Deposits

	SEP 2011	DEC 2010
Rent	₱173,882,260	₱142,148,088
Utilities	27,054,418	23,969,222
Refundable	11,805,629	11,805,629
Others	3,413,795	3,273,451
	<b>₱216,156,102</b>	<b>₱181,196,390</b>

## 10. Goodwill and Other Noncurrent Assets

	SEP 2011	DEC 2010
Goodwill	65,567,524	₱ 65,567,524
Deferred lease - net of current portion (Note 26)	10,492,697	10,492,697
Garnished accounts	5,946,745	9,676,376
Software and program cost	2,856,745	5,082,867
Lease receivable - net of current portion (Note 26)	5,339,053	4,748,411
AFS financial assets	-	1,320,575
Others	4,027,985	4,661,020
	<b>₱ 94,230,749</b>	<b>₱ 101,549,470</b>

### Goodwill

On March 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation (Jollimart) 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 amounting to ₱70,178,892.

The recoverable amount of the goodwill was estimated based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections is 10.65% in 2010 and 10.27% in 2009. The cash flows beyond the five-year period are extrapolated using a 3% growth rate in 2010 and 2009 that is the same as the long-term average growth rate for the retail industry.

### Deferred Lease

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

Movements in deferred lease are as follows:

	SEP 2011	DEC 2010
Beginning balance	<b>₱11,855,967</b>	₱13,186,794
Additions	-	257,859
Amortization (Note 26)	-	(1,414,700)
Refunded	-	(173,986)
Ending balance	<b>11,855,967</b>	11,855,967
Less current portion	<b>1,363,270</b>	1,363,270
Noncurrent portion	<b>₱10,492,697</b>	₱10,492,697

Garnished Accounts

Garnished accounts pertain to the amount set aside by the Group, as required by the courts, in order to answer for litigation claims should the results be unfavorable to the Group (see Note 34).

Software and Program Cost

Movements in software and program cost are as follows:

	SEP 2011	DEC 2010
<b>Cost</b>		
Beginning balance	P 14,661,985	P14,500,085
Acquisition	-	161,900
Ending balance	<b>14,661,985</b>	14,661,985
<b>Accumulated Amortization</b>		
Beginning balance	9,579,118	6,489,390
Amortization (Note 19)	2,226,122	3,089,728
Ending balance	<b>11,805,240</b>	9,579,118
<b>Net Book Values</b>	<b>P 2,856,745</b>	<b>P5,082,867</b>

**11. Bank Loans**

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2010 and 2009 with annual interest rates ranging from 4.20% to 5.20% in 2010, 4.90% to 5.50% in 2009 and 6.75% to 8.60% in 2008, which are repriced monthly based on market conditions.

Movements in bank loans are as follows:

	SEP 2011	DEC 2010
Beginning balance	P 320,000,000	P 340,000,000
Availment	76,666,667	290,000,000
Payments	-	(310,000,000)
Ending balance	<b>P 396,666,667</b>	P 320,000,000

Interest expense from these bank loans amounted to P 11,751,941 and P 12,291,977 for the quarter ended September 30, 2011 and 2010(see Note 21). Interest payable amounted to P 421,833 and P 509,972 as of September 30, 2011 and December 31, 2010, respectively (see Note 12).

**12. Accounts Payable and Accrued Expenses**

	SEP 2011	DEC 2010
Trade payable	P 789,484,699	P 905,064,399
Rent (Notes 26 and 34)	61,294,626	59,026,978
Employee benefits	23,294,787	34,009,286
Utilities	24,096,047	31,187,454
Advertising and promotion	20,332,074	18,831,169
Outsourced services	11,392,210	8,042,071
Security services	3,062,174	3,610,705
Bank charges	2,359,900	2,181,700



Interest (Notes 11 and 15)	599,583	874,892
Others	19,956,217	15,510,753
	<b>₱955,872,317</b>	<b>₱1,078,339,407</b>

### 13. Other Current Liabilities

	SEP 2011	DEC 2010
Non-trade accounts payable	₱191,567,204	₱164,122,488
Output VAT	105,046,948	25,721,487
Withholding taxes	22,299,827	18,896,178
Retention payable	20,733,725	18,459,378
Service fees payable	14,190,454	15,694,145
Royalty (Note 25)	7,727,652	8,465,255
Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	1,934,524	1,934,524
Finance lease (Notes 16 and 26)	589,567	589,567
Others (Note 25)	7,302,403	11,916,276
	<b>₱371,392,304</b>	<b>₱265,799,298</b>

Non-trade accounts payable pertains to payable to suppliers of goods or services that are not directly related to the Company's ordinary course of business.

### 14. Deposits Payable

	SEP 2011	DEC 2010
Franchisees	₱ 188,593,535	₱ 75,679,031
Service agreements	64,817,155	55,282,328
Rent	13,080,715	11,900,778
	<b>₱266,491,405</b>	<b>₱ 142,862,137</b>

### 15. Cumulative Redeemable Preferred Shares

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

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included as part of "Interest expense" in the consolidated statements of comprehensive income amounted to ₱187,170, ₱273,690 and ₱309,285 for the period ended September 30, 2011, 2010 and 2009 respectively (see Note 21).

## 16. Deferred Revenue

	SEP 2011	DEC 2010
Deferred revenue on exclusivity contract (Note 32)	₱ 3,199,405	₱ 3,199,405
Deferred revenue on finance lease (Note 26)	1,866,965	1,866,965
Deferred revenue - others	4,453,593	1,933,930
	<b>₱ 9,519,963</b>	<b>₱ 7,000,300</b>

## 17. Equity

On July 21, 2011, the Company's BOD approved the recommendation for a stock dividend declaration corresponding to 15% of the outstanding capital stock of the Corporation of 301,428,666 shares or equivalent of 45,214,300 common shares. Record date of entitlement is August 19, 2011.

On the same day, the Company's BOD approved the declaration of cash dividend in the amount of ten centavos per share on its outstanding 301,428,666 shares. The record date for entitlement to said cash dividend is August 19, 2011. Cash dividends amounted to ₱30,142,867.

On July 29, 2010, the Company's BOD and at least 2/3 of the Company's stockholders approved the recommendation for a stock dividend declaration corresponding to 5% of the outstanding common shares of the Company of 287,074,922 shares or equivalent of 14,353,746 common shares. Record date of entitlement is August 27, 2010.

On the same day, the Company's BOD approved the declaration of cash dividend in the amount of five centavos per share on its outstanding 287,074,922 shares. The record date for entitlement to said cash dividend is August 27, 2010. Cash dividends amounted to ₱14,353,746.

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. The stock dividends approved by the Company's BOD were approved by at least 2/3 of the Company's stockholders on July 16, 2009. Record date of entitlement is August 14, 2009.

Movements in the number of shares issued are as follows:

	SEP 2011	DEC 2010
Beginning balance	<b>302,114,918</b>	<b>287,761,172</b>
Issuance of stock dividends		<b>14,353,746</b>
	<b>45,214,300</b>	
Ending balance	<b>347,329,218</b>	<b>302,114,918</b>

## 18. Cost of Merchandise Sales

	SEP 2011	SEP 2010
Merchandise inventory, beginning	<b>402,419,577</b>	415,652,671
Net purchases	<b>4,681,463,055</b>	3,940,569,843
	<b>5,083,882,632</b>	4,356,222,514
Less merchandise inventory, ending	<b>389,144,430</b>	313,125,449
	<b>4,694,738,202</b>	4,043,097,065

## 19. General and Administrative Expenses

	SEP 2011	SEP 2010	SEP 2009
Communication, light and water	441,577,713	377,111,250	277,893,167
Outside services (Note 32)	375,235,934	261,910,209	217,987,525
Rent (Note 26)	310,726,747	258,687,803	228,702,842
	271,715,597		
Depreciation and amortization		188,611,427	137,552,047
Personnel costs (Note 23)	224,723,202	230,043,385	216,835,856
Advertising and promotion	77,844,140	72,955,842	60,864,096
Royalties (Note 25)	76,612,036	66,167,013	50,618,237
Trucking services	4,550,695	65,060,932	48,354,694
Repairs and maintenance	74,235,225	52,733,583	48,550,401
Supplies	63,582,238	58,640,283	42,832,067
Taxes and licenses	56,552,479	54,075,039	35,763,433
Warehousing services	133,402,846	42,688,799	34,045,965
	4,847,484		
Entertainment, amusement and recreation		15,173,838	12,358,802
Transportation and travel	17,377,687	5,024,145	5,721,524
Inventory losses	41,240,540	30,563,964	25,535,941
Dues and subscription	4,369,566	3,451,331	3,452,937
Insurance	3,538,014	3,480,443	3,355,523
Amortization of software and program costs	2,283,624	2,316,688	2,284,338
Provision for impairment of receivables	-	-	-
Others	22,743,043	38,969,169	17,719,562
	2,207,158,810	1,827,665,143	1,470,428,958

## 20. Marketing Income

	SEP 2011	SEP 2010	SEP 2009
Display charges	129,131,742	86,042,943	73,369,044
Promotions	75,979,473	70,741,335	37,941,360
	66,457,751		
Marketing support funds		35,926,631	10,975,011
	271,568,966	192,710,909	122,285,415

## 21. Interest Expense

	SEP 2011	SEP 2010	SEP 2009
Interest on Bank loans	11,574,191	12,018,287	20,631,540
Guaranteed preferred dividends	177,750	273,690	309,285
	11,751,941	12,291,977	20,940,825

## 22. Interest Income

	SEP 2011	SEP 2010	SEP 2009
Interest on:			
Bank deposits	1,553,198	2,182,681	1,933,879
Finance lease (Note 26)	-	-	-
Accretion of refundable deposits	-	-	-
	<b>1,553,198</b>	<b>2,182,681</b>	<b>1,933,879</b>

## 23. Personnel Costs

	SEP 2011	SEP 2010	SEP 2009
Salaries and wages	124,669,190	131,458,753	125,108,964
Employee benefits	92,503,247	92,140,866	85,170,864
Retirement benefits cost (Note 24)	7,550,765	6,443,766	6,556,028
	<b>224,723,202</b>	<b>230,043,385</b>	<b>216,835,856</b>

## 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:

	2010		
	PSC	CDI	Total
Current service cost	P3,706,434	P705,342	P4,411,776
Interest cost	6,749,595	520,065	7,269,660
Expected return on plan assets	(430,680)	(30,255)	(460,935)
Net retirement benefits cost	<b>P10,025,349</b>	<b>P1,195,152</b>	<b>P11,220,501</b>

	2009		
	PSC	CDI	Total
Current service cost	P345,868	P146,754	P492,622
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	<b>P20,511,979</b>	<b>P1,467,710</b>	<b>P21,979,689</b>

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

	2010		
	PSC	CDI	Total
Present value of retirement obligations	<b>₱72,897,778</b>	<b>₱5,615,558</b>	<b>₱78,513,336</b>
Less fair value of net plan assets	<b>10,750,804</b>	<b>522,878</b>	<b>11,273,682</b>
Unfunded retirement obligation	<b>62,146,974</b>	<b>5,092,680</b>	<b>67,239,654</b>
Unrecognized net actuarial gain (losses)	<b>(10,337,337)</b>	<b>551,265</b>	<b>(9,786,072)</b>
<b>Net retirement obligations</b>	<b>₱51,809,637</b>	<b>₱5,643,945</b>	<b>₱57,453,582</b>
	2009		
	PSC	CDI	Total
Present value of retirement obligations	₱62,438,440	₱4,864,964	₱67,303,404
Less fair value of net plan assets	7,178,008	504,251	7,682,259
Unfunded retirement obligation	55,260,432	4,360,713	59,621,145
Unrecognized net actuarial gains (losses)	(4,042,102)	88,080	(3,954,022)
<b>Net retirement obligations</b>	<b>₱51,218,330</b>	<b>₱4,448,793</b>	<b>₱55,667,123</b>

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

	2010		
	PSC	CDI	Total
Beginning balances	<b>₱62,438,440</b>	<b>₱4,864,964</b>	<b>₱67,303,404</b>
Current service cost	<b>3,706,434</b>	<b>705,342</b>	<b>4,411,776</b>
Interest cost	<b>6,749,595</b>	<b>520,065</b>	<b>7,269,660</b>
Benefits paid	<b>(6,248,673)</b>	<b>–</b>	<b>(6,248,673)</b>
Actuarial losses (gains)	<b>6,251,982</b>	<b>(474,813)</b>	<b>5,777,169</b>
<b>Ending balances</b>	<b>₱72,897,778</b>	<b>₱5,615,558</b>	<b>₱78,513,336</b>
	2009		
	PSC	CDI	Total
Beginning balances	₱54,006,788	₱4,174,204	₱58,180,992
Current service cost	345,868	146,754	492,622
Interest cost	20,284,950	1,347,433	21,632,383
Benefits paid	(1,613,202)	–	(1,613,202)
Actuarial gains	(10,585,964)	(803,427)	(11,389,391)
<b>Ending balances</b>	<b>₱62,438,440</b>	<b>₱4,864,964</b>	<b>₱67,303,404</b>

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

	PSC		CDI	
	2010	2009	2010	2009
Number of employees	<b>669</b>	742	<b>21</b>	20
Discount rate per annum	<b>10.81%</b>	37.56%	<b>10.69%</b>	32.28%
Expected annual rate of return on plan assets	<b>6.00%</b>	9.00%	<b>6.00%</b>	9.00%
Salary increase rate	<b>6.00%</b>	5.00%	<b>6.00%</b>	6.00%

The discount rate of PSC and CDI as of December 31, 2010 are 10.12% and 9.62%, respectively, based on market rates consistent with the obligation of the defined benefit plan. Future annual increase in salary as of December 31, 2010 is 6.00%. Expected rate of return as of December 31, 2010 is 6.00%.

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## 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 ₱76,612,036 and ₱66,167,013 for the quarter ended September 30, 2011 and 2010 respectively. Royalty fees are paid on a monthly basis.

Royalty payable included under "Other current liabilities" amounted to ₱7,727,652 and ₱8,465,255 as of September 30, 2011 and December 31, 2010, 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 ₱91,150 and ₱888,425 as of September 30, 2011 and December 31, 2010, respectively. Amount due to PFI included under others in "Other current liabilities" amounted to ₱68,100 and ₱12,100 as of September 30, 2011 and December 31, 2010.

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

	SEP 2011	SEP 2010	SEP 2009
Short-term employee benefits	25,647,489	38,044,432	35,575,051
Post-employment benefits	1,127,000	372,500	285,000
Other long-term benefits	-	-	-
	<b>26,774,489</b>	<b>38,416,932</b>	<b>35,860,051</b>

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## 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.

In March 2010, the Company amended its agreement with the armored car service provider extending the lease term for another five years from March 1, 2010 to February 1, 2015, imposing 7% interest per annum on the restructured loan obligation and reducing its monthly rental payments. The unguaranteed residual values accruing to the Company was retained. The restructuring resulted in the recognition of a gain on accretion amounting to ₱849,890 and is reported under "Other income" in profit or loss.

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

	2010	2009
Within one year	<b>₱1,591,280</b>	₱2,520,000
After one year but not more than five years	<b>5,339,053</b>	4,500,000
Total minimum lease payments	<b>6,930,333</b>	7,020,000
Less unearned interest income	<b>969,492</b>	566,959
Present value of future minimum lease payments	<b>5,960,841</b>	6,453,041
Less current portion	<b>1,212,430</b>	2,187,564
Noncurrent portion	<b>₱4,748,411</b>	₱4,265,477

Collection of lease receivable amounted to ₱1,775,466 in 2010 and ₱2,782,500 in 2009.

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

	2010	2009
Within one year	<b>₱1,212,430</b>	₱2,187,564
After one year but not more than five years	<b>4,748,411</b>	4,265,477
Total minimum lease payments	<b>5,960,841</b>	6,453,041
Less current portion	<b>1,212,430</b>	2,187,564
Present value of future minimum lease payments	<b>₱4,748,411</b>	₱4,265,477

Unearned interest income as of December 31, 2010 and 2009 amounted to ₱969,492 and ₱566,959, respectively. Related interest income amounted to ₱403,887 in 2010, ₱465,251 in 2009 and ₱614,154 in 2008.

Difference between the original lease agreement's present value of minimum lease payments at the date of lease inception against the carrying value of the finance lease asset resulted in a deferred revenue on finance lease amounting to ₱6,550,753, which is to be amortized on a straight-line basis over the lease term. Deferred revenue amounted to ₱2,456,532 and ₱3,166,197 as of December 31, 2010 and 2009, with current portion amounting to ₱589,567 and ₱1,310,151 in 2010 and 2009, respectively, and noncurrent portion amounting to ₱1,866,965 and ₱1,856,046 as of December 31, 2010 and 2009, respectively. Amortization of deferred revenue amounted to ₱709,665 in 2010 and ₱1,310,151 in 2009 and 2008.

- b. PSC has various lease agreements with third parties relating to its store operations. Certain agreements provide for the payment of rentals based on various schemes such as an agreed percentage of net sales for the month and fixed monthly rate. Rental expense related to these lease agreements amounted to ₱ 310,726,747, ₱258,687,803 and ₱228,702,842 for the quarter ended September 30, 2011, 2010 and 2009, respectively. Of the total rent expense, ₱ 272,595, ₱ 663,802 and ₱478,829 for the quarter ended September 30, 2011, 2010 and 2009, respectively

pertains to contingent rent of some stores based on percentage ranging from 1.5% to 3.0% of merchandise sales. Amortization of deferred lease amounted to ₱324,200 in 2010, ₱385,024 in 2009 and ₱811,861 in 2008 (see Note 19).

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

	2010	2009
Within one year	<b>₱48,966,221</b>	₱58,103,466
After one year but not more than five years	<b>93,993,928</b>	126,794,701
More than five years	<b>3,131,450</b>	7,066,790
	<b>₱146,091,599</b>	₱191,964,957

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

Rent expense related to this lease agreement amounted to ₱ 15,611,860 for the quarter ended September 30, 2011, 2010 and 2009. Amortization of deferred lease amounted to ₱1,090,500 in 2010, 2009 and 2008 (see Note 19).

The Company also has other various short-term operating leases pertaining to rental of warehouse fixtures and equipments. Related rent expense amounted to ₱4,082,124 in 2010, ₱5,100,725 in 2009 and ₱4,732,223 in 2008.

## 27. Income Tax

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

	2010	2009	2008
Current:			
RCIT	<b>₱124,265,727</b>	₱80,682,849	₱62,259,735
Final tax on interest income	<b>693,335</b>	627,617	436,148
	<b>124,959,062</b>	81,310,466	62,695,883
Deferred	<b>3,796,610</b>	(6,270,068)	(2,240,115)
	<b>₱128,755,672</b>	₱75,040,398	₱60,455,768

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

	2010			
	PSC	CDI	SSHI	Total
Deferred income tax assets:				
Accrued rent	<b>₱12,040,725</b>	<b>₱5,667,367</b>	₱-	<b>₱17,708,092</b>
Net retirement obligations	<b>15,542,890</b>	<b>1,693,184</b>	-	<b>17,236,074</b>
Unamortized discount on refundable deposit	<b>4,675,697</b>	-	-	<b>4,675,697</b>
Provision for litigation losses	<b>2,119,887</b>	-	-	<b>2,119,887</b>
Allowance for impairment on receivables	<b>1,088,248</b>	-	-	<b>1,088,248</b>



Deferred revenue on exclusivity agreement	1,540,179	–	–	1,540,179
Unamortized past service cost	1,994,721	42,280	–	2,037,001
Unamortized discount on receivable	135,081	–	–	135,081
Unrealized foreign exchange loss	113,670	–	–	113,670
	<b>39,251,098</b>	<b>7,402,831</b>	–	<b>46,653,929</b>
Deferred income tax liabilities:				
Deferred lease expense	3,556,790	–	–	3,556,790
Unamortized capitalized interest	503,359	–	–	503,359
Unamortized discount on purchase of refundable deposit	381,548	–	–	381,548
Revaluation increment in land	–	–	1,384,241	1,384,241
	<b>4,441,697</b>	–	<b>1,384,241</b>	<b>5,825,938</b>
Net deferred income tax assets (liability)	<b>P34,809,401</b>	<b>P7,402,831</b>	<b>(P1,384,241)</b>	<b>P40,827,991</b>

## 28. Basic/Diluted Earnings Per Share

	SEP 2011	SEP 2010	SEP 2009
a. Net income	174,745,334	177,983,964	88,515,228
b. Weighted average number of shares issued	347,329,218	302,114,918	302,114,918
c. Less weighted average number of shares held in treasury	686,250	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	346,642,968	346,642,968	346,642,968
e. Basic/diluted earnings per share (a/d)	0.50	0.51	0.26

The Group does not have potentially dilutive common shares as of December 31, 2010, 2009 and 2008. 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 302,114,918 to 347,329,218 as a result of stock dividend issuance equivalent to 45,214,300 common shares approved on July 21, 2011. Therefore, the calculation of basic/diluted earnings per share for all periods presented has been adjusted retrospectively.

## 29. Financial Instruments

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

	SEP 2011		DEC 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>				
Cash and cash equivalents				
Cash on hand and in banks	252,207,367	252,207,367	322,975,839	322,975,839
Cash equivalents	0	0	35,753,695	35,753,695
	<b>252,207,367</b>	<b>252,207,367</b>	<b>358,729,534</b>	<b>358,729,534</b>
Short-term investments	10,141,555	10,141,555	10,141,555	10,141,555
Receivables:				
Suppliers	45,994,100	45,994,100	58,434,686	58,434,686
Franchisee	108,545,576	108,545,576	40,871,647	40,871,647
Insurance claims	0	0	10,986,094	10,986,094
Employees	12,463,129	12,463,129	10,321,643	10,321,643
Store operators	11,854,567	11,854,567	9,718,957	9,718,957
Rent*	6,759,525	6,759,525	5,925,582	5,925,582
Current portion of lease receivable	284,182	284,182	1,212,430	1,363,599
Deposits	1,009,864	1,009,864	1,009,864	1,009,864
Due from PFI	91,150	91,150	888,425	888,425
Others	18,399,867	18,399,867	19,189,307	19,189,307
	<b>205,401,959</b>	<b>205,401,959</b>	<b>158,558,635</b>	<b>158,709,804</b>
Deposits:				
Utilities	27,054,418	27,054,418	23,969,222	23,969,222
Refundable	11,805,629	11,805,629	11,805,629	15,894,383
Others	3,413,795	3,413,795	3,273,451	3,273,451
	<b>42,273,842</b>	<b>42,273,842</b>	<b>39,048,302</b>	<b>43,137,056</b>
Other noncurrent assets - lease receivable (net of current portion)	5,339,053	5,339,053	4,748,411	4,915,991
<b>Total Loans and Receivables</b>	<b>515,363,776</b>	<b>515,363,776</b>	<b>571,226,437</b>	<b>575,633,940</b>
<b>AFS Financial Assets</b>			1,320,575	1,320,575
			-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>515,363,776</b>	<b>515,363,776</b>	<b>572,547,012</b>	<b>576,954,515</b>

\*

**FINANCIAL LIABILITIES**

**Other Financial Liabilities**

Bank loans	396,666,667	398,666,667	320,000,000	320,000,000
Accounts payable and accrued expenses:				
Trade payable	789,484,699	789,484,699	905,064,399	905,064,399
Employee benefits	23,294,787	23,294,787	34,009,286	34,009,286
Utilities	24,096,047	24,096,047	31,187,454	31,187,454
Advertising and promotion	20,332,074	20,332,074	18,831,169	18,831,169
Outsourced services	11,392,210	11,392,210	8,042,071	8,042,071
Security services	3,062,174	3,062,174	3,610,705	3,610,705
Bank charges	2,359,900	2,359,900	2,181,700	2,181,700
Interest	599,583	599,583	874,892	874,892
Others**	19,956,217	19,956,217	15,508,753	15,508,753
	<b>894,577,690</b>	<b>894,577,690</b>	<b>1,019,310,429</b>	<b>1,019,310,429</b>

Other current liabilities:

Non-trade accounts payable	<b>191,567,204</b>	<b>191,567,204</b>	164,122,488	164,122,488
Retention payable	<b>20,733,725</b>	<b>20,733,725</b>	18,459,378	18,459,378
Service fees payable	<b>14,190,454</b>	<b>14,190,454</b>	15,694,145	15,694,145
Royalty	<b>7,727,652</b>	<b>7,727,652</b>	8,465,255	8,465,255
Others	<b>7,302,403</b>	<b>7,302,403</b>	11,916,276	11,916,276
	<b>241,521,439</b>	<b>241,521,439</b>	218,657,542	218,657,542
Cumulative redeemable preferred shares	<b>6,000,000</b>	<b>6,000,000</b>	6,000,000	6,000,000
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1,538,765,796</b>	<b>1,538,765,796</b>	1,563,967,971	1,563,967,971

### 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, 2010 and 2009, which is 4.64% and 5.51%, 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, 2010 and 2009 ranging from 2.74% to 6.09% and 4.41% to 8.57%, 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, 2010 and 2009, the Group has no financial instruments 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 tables provide information regarding the maximum credit risk exposure of the Group as of December 31:

	SEP 2011	DEC 2010
Cash and cash equivalents:		
Cash in bank (excluding cash on hand)	<b>176,778,418</b>	248,539,958
Cash equivalents	<b>0</b>	35,753,695
	<b>176,778,418</b>	284,293,653
Short-term investments	<b>10,141,555</b>	10,141,555
Receivables:		
Suppliers	<b>46,375,886</b>	58,816,472
Franchisee	<b>108,545,576</b>	40,871,647
Insurance claims	<b>0</b>	5,925,582
Employees	<b>12,463,129</b>	10,986,094
Store operators	<b>11,854,567</b>	12,124,300
Rent*	<b>6,759,525</b>	10,321,643
Current portion of lease receivables	<b>284,182</b>	9,718,957
Deposits	<b>1,009,864</b>	1,009,864
Due from PFI	<b>91,150</b>	888,425
Others	<b>21,645,573</b>	22,435,013
	<b>209,029,451</b>	162,186,127
Deposits:		
Utilities	<b>27,054,418</b>	23,969,222
Refundable	<b>11,805,629</b>	11,805,629
Others	<b>3,413,795</b>	3,273,451
	<b>42,273,842</b>	39,048,302
Other noncurrent assets:		
Lease receivables - net of current portion	<b>5,339,053</b>	4,748,411
AFS financial assets	<b>0</b>	1,320,575
	<b>5,339,053</b>	6,068,986
	<b>433,420,764</b>	501,738,623

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

	SEP 2011			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard	Or	Total
		Grade	Impaired	
<b>Cash and cash equivalents</b>				
Cash in bank	P 176,778,418	P -	P -	P 176,778,418
Cash equivalents	-	-	-	-
	<b>176,778,418</b>	<b>-</b>	<b>-</b>	<b>176,778,418</b>
<b>Short-term investments</b>	<b>10,141,555</b>	<b>-</b>	<b>-</b>	<b>10,141,555</b>
<b>Receivables</b>				
Suppliers	-	3,426,880	42,949,005	46,375,886
Franchisee	-	108,545,576	-	108,545,576
Insurance claims	-	-	-	-
Employees	-	12,463,129	-	12,463,129
Store operators	-	11,854,567	-	11,854,567
Rent	-	6,759,525	-	6,759,525
Current portion of lease receivables	-	284,182	-	284,182
Deposits	-	1,009,864	-	1,009,864
Due from PFI	-	91,150	-	91,150
Others	-	18,399,867	3,245,706	21,645,573
	-	<b>162,834,739</b>	<b>46,194,711</b>	<b>219,171,006</b>
<b>Deposits</b>				
Utilities	-	27,054,418	-	27,054,418
Refundable	-	11,805,629	-	11,805,629
Others	-	3,413,795	-	3,413,795
	-	<b>42,273,842</b>	<b>-</b>	<b>42,273,842</b>
<b>Other noncurrent assets</b>				
Lease receivables - net of current portion	-	5,339,053	-	5,339,053
AFS financial assets	-	-	-	-
	-	<b>5,339,053</b>	<b>-</b>	<b>5,339,053</b>
	<b>P 186,919,973</b>	<b>P210,447,635</b>	<b>P46,194,711</b>	<b>P443,562,319</b>

	DECEMBER 2010			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard	Or	Total
		Grade	Impaired	
<b>Cash and cash equivalents</b>				
Cash in bank	P248,539,958	P-	P-	P248,539,958
Cash equivalents	35,753,695	-	-	35,753,695
	<b>284,293,653</b>	<b>-</b>	<b>-</b>	<b>284,293,653</b>
<b>Short-term investments</b>	<b>10,141,555</b>	<b>-</b>	<b>-</b>	<b>10,141,555</b>
<b>Receivables</b>				
Suppliers	-	13,814,889	45,001,583	58,816,472
Franchisee	-	40,871,647	-	40,871,647
Insurance claims	-	10,986,094	-	10,986,094

Employees	–	9,929,725	391,918	10,321,643
Store operators	–	9,718,957	–	9,718,957
Rent	–	5,925,582	–	5,925,582
Current portion of lease receivables	–	1,212,430	–	1,212,430
Deposits	–	–	1,009,864	1,009,864
Due from PFI	–	888,425	–	888,425
Others	–	20,591,089	1,843,924	22,435,013
	–	113,938,838	48,247,289	162,186,127
Deposits				
Utilities	–	23,969,222	–	23,969,222
Refundable	–	11,805,629	–	11,805,629
Others	–	3,273,451	–	3,273,451
	–	39,048,302	–	39,048,302
Other noncurrent assets				
Lease receivables - net of current portion	–	4,748,411	–	4,748,411
AFS financial assets	–	1,320,575	–	1,320,575
	–	6,068,986	–	6,068,986
	₱294,435,208	₱159,056,126	₱48,247,289	₱501,738,623

The Group uses the following criteria to rate credit quality:

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

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

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

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

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

	SEP 2011					
	Aging analysis of financial assets past due but not impaired				Past due and impaired	
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	Total
Receivables:						
Suppliers	₱ 6,034,157	₱ 5,422,037	₱ 31,111,025	₱ 42,567,219	₱ 381,786	₱ 42,949,005
Others	-	-	-	-	3,245,706	3,245,706
	₱ 6,034,157	₱ 5,422,037	₱ 31,111,025	₱ 42,567,219	₱ 3,627,492	₱ 46,194,711

DECEMBER 2010						
	Aging analysis of financial assets past due but not impaired				Past due and impaired	Total
	31 to 60 days	61 to 90 days	> 90 days	Total		
Receivables:						
Suppliers	₱7,533,090	₱9,420,501	₱27,666,206	₱44,619,797	₱381,786	₱45,001,583
Others	-	-	-	-	3,245,706	3,245,706
	₱7,533,090	₱9,420,501	₱27,666,206	₱44,619,797	₱3,627,492	₱48,247,289

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

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

### Liquidity Risk

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

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

The tables below summarize the maturity profile of the financial assets of the Group:

	SEP 2011				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
<b>Cash and cash equivalents</b>					
Cash	252,207,367	-	-	-	252,207,367
Cash equivalents	-	-	-	-	-
	252,207,367	-	-	-	252,207,367
<b>Short-term investments</b>	-	10,141,555	-	-	10,141,555
<b>Receivables</b>					
Suppliers	14,883,075	31,111,025	381,786	-	46,375,886
Franchisee	108,545,576	-	-	-	108,545,576
Insurance claims	-	-	-	-	-
Employees	12,463,129	-	-	-	12,463,129
Store operators	11,854,567	-	-	-	11,854,567
Rent	6,759,525	-	-	-	6,759,525
Current portion of lease receivables	-	284,182	-	-	284,182
Deposits	-	1,009,864	-	-	1,009,864
Due from subsidiaries	-	91,150	-	-	91,150
Others	18,399,867	3,245,706	-	-	21,645,573
	172,905,738	45,883,482	381,786	-	219,171,006
<b>Deposits</b>					
Utilities	-	-	27,054,418	-	27,054,418
Refundable	-	-	11,805,629	-	11,805,629

Others	-	-	3,413,795	-	3,413,795
	-	-	42,273,842	-	42,273,842
<b>Other noncurrent assets</b>					
Lease receivables - net of					
current portion	-	-	5,339,053	-	5,339,053
AFS financial assets	-	-	-	-	-
	-	-	5,339,053	-	5,339,053
	425,113,105	45,883,482	47,994,681	-	518,991,268

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

	SEP 2011			Total
	Three months or less	More than three months to one year	More than one year	
<b>Bank loans</b>		396,666,667	-	396,666,667
<b>Accounts payable and accrued expenses</b>				
Trade payable	789,484,699	-	-	789,484,699
Employee benefits	23,294,787	-	-	23,294,787
Utilities	24,096,047	-	-	24,096,047
Advertising and promotion	20,332,074	-	-	20,332,074
Outsourced services	11,392,210	-	-	11,392,210
Security services	3,062,174	-	-	3,062,174
Bank charges	2,359,900	-	-	2,359,900
Interest	599,583	-	-	599,583
Others	7,302,403	-	-	7,302,403
	881,923,876	-	-	881,923,876
<b>Other current liabilities</b>				
Non-trade accounts payable	-	191,567,204	-	191,567,204
Retention payable	-	20,733,725	-	20,733,725
Service fees payable	14,190,454	-	-	14,190,454
Royalty	7,727,652	-	-	7,727,652
Others	-	7,302,403	-	7,302,403
	21,918,106	219,603,333	-	241,521,439
<b>Cumulative redeemable preferred shares</b>	-	-	6,000,000	6,000,000
	903,841,983	616,269,999	6,000,000	1,526,111,982



DECEMBER 2010				
	Three months or less	More than three months to one year	More than one year	Total
<b>Bank loans</b>	P170,821,194	P152,479,267	P-	P323,300,461
<b>Accounts payable and accrued expenses</b>				
Trade payable	905,064,399	-	-	905,064,399
Employee benefits	34,009,286	-	-	34,009,286
Utilities	31,187,454	-	-	31,187,454
Advertising and promotion	18,831,169	-	-	18,831,169
Outsourced services	8,042,071	-	-	8,042,071
Security services	3,610,705	-	-	3,610,705
Bank charges	2,181,700	-	-	2,181,700
Interest	874,892	-	-	874,892
Others	15,508,753	-	-	15,508,753
	1,019,310,429	-	-	1,019,310,429
<b>Other current liabilities</b>				
Non-trade accounts payable	13,657,982	150,464,506	-	164,122,488
Retention payable	-	18,459,378	-	18,459,378
Service fees payable	-	15,694,145	-	15,694,145
Royalty	8,465,255	-	-	8,465,255
Others	-	11,916,276	-	11,916,276
	22,123,237	196,534,305	-	218,657,542
<b>Cumulative redeemable preferred shares</b>	6,000,000	-	-	6,000,000
	1,218,254,860	P349,013,572	P-	P1,567,268,432

*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 profile of financial instruments that are exposed to interest rate risk are as follows:

	2010	2009
Due in less than one year	P320,000,000	P340,000,000
Rate	4.20%-5.20%	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.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings):

	2010		2009	
	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax
Bank loans - floating interest rate	+100	₱3,200,000	+ 100	₱3,400,000
	-100	(3,200,000)	- 100	(3,400,000)

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

### 31. Capital Management

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% and 50% in relation to its total assets. The Group's net worth ratio is 38% as of December 31, 2010 and 33% as of December 31, 2009. No changes were made in the objectives, policies and processes during the year.

	SEP 2011	DEC 2010
Capital stock	347,329,218	302,114,918
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	673,870,551	574,482,384
	<b>1,314,724,807</b>	1,170,122,339
	<b>2,923,246</b>	2,923,246
Less cost of shares held in treasury		
	<b>1,311,801,561</b>	1,167,199,093
Total assets	<b>3,418,153,992</b>	3,093,173,359
Net worth	<b>39%</b>	38%

As of December 31, 2010 and 2009, the Group was able to meet its objective.

### 32. Significant Agreements

- The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Franchise fee amounted to ₱57,520,188, ₱47,300,894 and 27,755,443 and franchise revenue for the 7-Eleven charge amounted to ₱323,292,338, ₱278,196,157 and 192,851,706 for the quarters ended September 30, 2011, 2010 and 2009 respectively.
- 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 shown as part of "General and administrative expenses" in profit or loss amounted to ₱ 125,071,687, ₱ 95,866,060 and 78,947,241 for the quarters ended September 30, 2011, 2010 and 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

The segment's relevant financial information is as follows:

	SEP 2011	SEP 2010	SEP 2009
<b>REVENUE</b>			
Revenue from merchandise sales	6,398,035,295	5,535,987,439	4,310,193,141
Franchise revenue	380,812,526	325,497,052	220,607,149
Marketing income	271,568,966	192,710,909	122,285,415
Rent income	39,273,693	24,257,622	21,937,296
Commission income	26,832,392	20,817,742	16,235,781
Interest income	1,553,198	2,182,681	1,933,879
Other income	46,357,363	44,845,003	18,639,961
	<b>7,164,433,434</b>	<b>6,146,298,446</b>	<b>4,711,832,621</b>
<b>EXPENSES</b>			
Cost of merchandise sales	4,694,738,202	4,043,097,065	3,086,086,649
General and administrative			
Depreciation and amortization	271,715,597	188,611,427	137,552,047
Others	1,935,443,212	1,639,053,716	1,332,876,911
Interest expense	11,751,941	12,291,977	20,940,825
Other expenses	(5,949,503)	3,239,433	3,323,706
	<b>6,907,699,450</b>	<b>5,886,293,618</b>	<b>4,580,780,138</b>
<b>INCOME BEFORE</b>			
<b>INCOME TAX</b>	<b>256,733,983</b>	<b>260,004,827</b>	<b>131,052,483</b>
<b>PROVISION FOR</b>			
<b>INCOME TAX</b>	<b>81,988,649</b>	<b>82,020,863</b>	<b>42,537,255</b>
<b>SEGMENT PROFIT</b>	<b>174,745,334</b>	<b>177,983,964</b>	<b>88,515,228</b>
<b>SEGMENT ASSETS</b>	<b>3,418,153,992</b>	<b>2,594,921,982</b>	<b>2,396,982,724</b>
<b>SEGMENT LIABILITIES</b>	<b>2,103,122,537</b>	<b>1,523,389,278</b>	<b>1,631,603,064</b>

### 34. Provisions and Contingencies

The Group is a party to various litigations involving, among others, employees suing for illegal dismissal, back wages and damage claims, lessors claiming for lease payments for the unexpired portion of the lease agreements in cases of pre-termination of lease agreements, 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.

**Philippine Seven Corporation**  
Schedule of Receivables

	<b>As of September 30, 2011 (Unaudited)</b>	<b>As of December 31, 2010 (Audited)</b>
Suppliers	<b>46,375,886</b>	58,816,472
Franchisee	<b>108,545,576</b>	40,871,647
Employees	<b>12,463,129</b>	10,321,643
Store operators	<b>11,854,567</b>	9,718,957
Rent	<b>6,759,525</b>	5,709,582
Current portion of lease receivable	<b>284,182</b>	1,212,430
Deposits	<b>1,009,864</b>	1,009,864
Due from Philseven Foundation, Inc. (PFI)	<b>91,150</b>	888,425
Others	<b>21,645,572</b>	33,421,107
	<b>209,029,451</b>	161,970,127
Less allowance for impairment	<b>3,627,492</b>	3,627,492
	<b>₱205,401,959</b>	₱ 158,342,635

The classes of receivables of the Group are as follows:

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS  
AND FINANCIAL CONDITION**

**SELECTED FINANCIAL DATA**

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
<b>SYSTEM WIDE SALES</b>	<b>₱ 2,634,812</b>	<b>₱ 2,210,253</b>	<b>₱ 7,696,676</b>	<b>₱ 6,649,169</b>
<b>Statement of Income Data:</b>				
<b>Revenues and other income</b>				
Sales of merchandise	<b>₱ 2,202,798</b>	₱ 1,842,321	<b>₱ 6,398,035</b>	₱ 5,535,987
Franchise revenue	<b>132,811</b>	115,032	<b>380,813</b>	325,497
Marketing income	<b>113,132</b>	81,405	<b>271,569</b>	192,711
Rent income	<b>16,839</b>	7,697	<b>39,274</b>	24,258
Others (net)	<b>26,746</b>	33,444	<b>74,743</b>	67,845
<b>Cost and expenses</b>				
General & administrative expenses	<b>780,914</b>	652,881	<b>2,207,159</b>	1,827,665
Interest expense	<b>3,933</b>	3,824	<b>11,752</b>	12,292
Cost of merchandise sold	<b>1,623,175</b>	1,352,499	<b>4,694,738</b>	4,043,097
<b>Net income</b>	<b>56,007</b>	47,170	<b>174,745</b>	177,984
<b>Earnings per share</b>	<b>0.16</b>	0.14	<b>0.50</b>	0.51
<b>Cash Flow Data:</b>				
Net cash (used)/from operating activities	<b>₱ 58,467</b>	₱ (101,796)	<b>₱ 396,393</b>	₱ 210,961
Net cash used in investing activities	<b>(174,243)</b>	(163,209)	<b>(537,687)</b>	(476,741)
Net cash (used)/from financing activities	<b>(36,076)</b>	61,603	<b>34,772</b>	(6,646)
<b>Balance Sheet Data:</b>				
Total assets	<b>₱ 3,418,154</b>	₱ 3,093,173	<b>₱ 3,418,154</b>	₱3,093,173
Total liabilities	<b>2,103,123</b>	1,922,744	<b>2,103,123</b>	1,922,744
Total stockholders' equity	<b>1,315,031</b>	1,170,429	<b>1,315,031</b>	1,170,429

(Amount in thousands, except EPS)

## **OVERVIEW**

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

As of September 30, 2011, 7-Eleven has grown by 81 stores to end the period with 632 stores. The retail chain of convenience stores is sustained by a manpower complement of 738 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, commission related income, marketing income and franchising activities. The primary expenses consist of cost of goods sold, selling, general and administrative expenses.

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

## **FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE 3<sup>RD</sup> QUARTER AND YTD SEPTEMBER 30, 2011.**

### **Results of Operations**

#### **Third Quarter**

The Company posted a 19 percent increase in its net income from P47.2 million a year ago to P56.0 million during the third quarter ended September. This was driven largely by the improvement in store sales and growth in number of stores.

System wide sales, which accounts for sales of all corporate and franchise operated stores, grew by 19 percent in Q3 to P2.6 billion. Number of stores reached 632 at the end of September from only 520 last year.

Cost of merchandise sold remains to be stable while selling, general and administrative expense went up by 20 percent.

7-Eleven, named in the hall of fame of the Philippine Franchise Association, continues to provide business opportunities in the form of franchising. In this regard, franchise revenues generated during the third quarter rose by 15 percent to P132.8 million, as total number of franchise operated stores now accounted for 63 percent of all stores.

Marketing income has grown to P113.1 million as more companies continue to support company-wide advertising and promotion activities. In addition, commission related income and rentals also registered increase during the period.

### **Year-to-Date September**

For the first nine months of the year, PSC generated total net income of P174.7 million. This represents a decline of 2 percent compared with the same period last year. The rate of deficit vis a vis last year continues to be reduced as sales continues to improve. Earnings per share (EPS) is almost unchanged and is pegged at P0.51 per share from P0.50 a year ago.

System wide sales rose by 16 percent to P7.7 billion at the end of September from P6.6 billion last year. Cost of goods sold went up by the same rate resulting into same level of average gross profit.

Franchise revenues and marketing income aggregated to P380.8 million and P271.6 million, respectively. Selling and general and administrative expense on the other hand increased by 21 percent to P2.2 billion.

EBITDA for the nine month period ended September, surged by 17 percent to P523.2 million resulting into an EBITDA margin of 6.8 percent, which is a slight improvement from 6.7 percent registered a year ago.

### **Revenue and Gross Margin**

The Company registered total revenue from merchandise sales of ₱2.2 billion in 3Q 2011, an increase of 19.6% percent compared to ₱1.8 billion in 2010. Cost of merchandise sold rose by ₱270.7 million to ₱1.6 billion during 3Q 2011.

System-wide sales grew by 19.21% or ₱424.6 million to ₱2.6 billion in 3Q 2011. PSC ended the third quarter of 2011 with 632 stores, higher by 21.54% compared to the 3Q 2010 level of 520. Four underperforming stores were closed during the 3Q of the year.

Gross Profit stood at ₱579.6 million, while GP in relation to sales went down by 0.27% owing to the dilution brought about by the increase in Company's sales to franchise stores which are accounted for at zero mark-up. Notwithstanding this factor, real gross profit ratio to sales slightly went up by 0.04 points compared to the level a year ago.

Products in the services category, which form part of the Company's commission income, are physical cards, bills payment and consigned goods. Commission income rose by 22.5% to ₱9.3 million. This was attributed to the launching of 7-Connect last quarter, a platform for e-commerce businesses that enables cash payment convenience for online purchases from our accredited merchants.

### ***Other Income***

Other income is mainly consisting of marketing income, franchise fees and rentals. The Company's total other income increased by ₱58.6 million, to ₱262.8 million as a result of the following:

Marketing income grew by ₱31.7 million from the 3Q 2010 level. This is due to increased supplier-supported ad and promo spending, driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. The goal is to become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to ₱132.8 million from ₱115 million in 3Q 2010. This was the result of the increase in number of franchise-operated stores that reached 248 at the end of the 3Q 2011. Moreover, rent income related to the stores' subleased spaces increased by 119% to ₱16.8 million which was attributable to the increase in occupancy rate during the period.

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

General and administrative expense which is comprised of store operating and selling expenses as well as headquarters expenses went up by 19.6% or ₱128 million and totaled to ₱780.9 million in 3Q 2011.

Communication, light and water were the highest contributor and accounted for 20% of the total G & A expenses for the 3Q 2011. This is followed by outside services with 17% share, rent expense with 14% and depreciation and amortization at 12% share.

Personnel costs aggregated to ₱70.3 million, versus ₱73.7 million in 3Q 2010. Ratio to sales was 3.2% in 2011 and 4% in 2010. Personnel costs include salaries and wages at ₱39.3 million, employee benefits at ₱28.4 million and pension costs at ₱2.5 million. The Company continued to outsource store personnel to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Rent expense incurred is pegged at ₱108.5 million or 4.9% of sales against ₱89.3 million or 4.8% in 2010.

### ***Interest Expense***

Cost of debt servicing in 2011 totaled to ₱3.9 million, an increase of 2.9% compared with 3Q 2010 level of ₱3.8 million. Outstanding loan balance at the end of 3Q 2011 was pegged at ₱396.7 million, an increase of ₱76.7 million from ₱320 million beginning of 2011.

### ***Net Income***

Net income for third quarter of 2011 grew by P8.8 million to ₱56.0 million. This was primarily due to improvement in sales complimented by the continuing support from trade suppliers and store expansion.



On a year-to-date basis, net income aggregated to ₱174.7 million, a 2 percent reduction from same period last year level of ₱178.0 million.

### **Financial Condition**

Total assets went up by ₱325.0 million or 10.5% to ₱3.4 billion at the end of 3Q 2011. Cash and cash equivalents during the year decreased to ₱252.2 million from ₱358.7 million at the beginning of the year. Receivables went up by ₱47.0 million as a result of continued supplier support and increase in display allowance. Moreover, inventories went down by ₱13.3 million while prepayments were up by ₱134 million coming from advance rent paid for new stores and down payments to equipment sellers. The aforementioned factors resulted into a net increase in total current assets by ₱61.2 million from the beginning of the year.

Total current liabilities went up by ₱50.4 million or 2.9% mainly due to the increase in bank loans and other current liabilities. Current ratio slightly went up to 0.70 to 1 as of September 30, 2011 against 0.68 to 1 at the beginning of the year.

Property and equipment, net of accumulated depreciation increased by ₱236.1 million mainly due to capital expenditures spent in relation to store expansion and investment on new equipment for new product lines that cater to the varying customers wants and needs.

Stockholders' equity at the third quarter of 2011 comprises 38.5% of total assets, compared to 37.8% at the beginning of the year. Debt to equity ratio pegged at 1.60 for 3Q 2011 from 1.64 end of 2010.

### **Liquidity and Capital Resources**

The Company obtains majority of its working capital from the following 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 for the next twelve months to fund its operating costs, capital expenditures and debt service. The following are the discussion of the sources and uses of cash for the 3Q of 2011.

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

Net cash from operating activities in 3Q 2011 resulted to ₱58.5 million, compared to P101.8 million cash used during comparable period from last year. Such is attributable to decrease of accounts payable and accrued expenses by 234 million compare last quarter of the same year.

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

Net cash used in investing activities amounted to ₱174.2 million in 3Q 2011 compared to net cash out flow of ₱163.2 million in 3Q 2010. Major cash outlay went to the procurement of store equipment, and new store constructions. There were 90 new stores opened as of September 30, 2011.

Majority of the company's commitments for capital expenditures for the remainder 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 used in financing activities reached ₱36 million representing payments of bank loans in the amount of P2 million dividends paid totaling 30 million and interest paid on outstanding bank loans totaling P3.9 million.

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

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

1. There were no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.
2. There were no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.
3. All of the Company's income was earned in the ordinary course of business.
4. There are no seasonal aspects that have a potentially material effect on the financial statements.
5. The Company's financial risk management objectives and policies are discussed in Note 30 of the September 30, 2011 Notes to Unaudited Consolidated Financial Statements.

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

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

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

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

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

**Net Income Margin**

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

**Return on Equity (ROE)**

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

**Earnings per Share (EPS)**

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

<b>For the Quarter</b>	<b>2011</b>	<b>2010</b>	<b>% change</b>
System wide Sales (in '000s)	2,634,812	2,210,253	19%
Revenue from Merchandise Sales (in '000s)	2,202,798	1,842,321	20%
Net Income Margin	2.54%	2.56%	-1%
Return on Equity	4.26%	4.03%	6%
Earnings Per Share	0.16	0.14	0%

<b>Year to Date</b>	<b>2011</b>	<b>2010</b>	<b>% change</b>
System wide Sales (in '000s)	7,696,676	6,649,169	16%
Revenue from Merchandise Sales (in '000s)	6,398,035	5,535,987	16%
Net Income Margin	2.73%	3.22%	-15%
Return on Equity	13.29%	15.21%	-13%
Earnings Per Share	0.50	0.51	-15%

## SIGNATURES

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

A handwritten signature in black ink, appearing to read 'Jose Victor P. Paterno', with a large, stylized initial 'J' and 'P'.

**Jose Victor P. Paterno**  
President