

# COVER SHEET

## PHILIPPINE SEVEN CORPORATION

(Company's Full Name)

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

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

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

**Every 3<sup>rd</sup> Thursday of July of each year**  
(Annual Meeting)

### THIRD QUARTERLY REPORT (SEC FORM 17-Q) (FORM TYPE)

**November 14, 2008**  
(Date)

(Amendment Designation if Applicable)

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(Secondary License Type, if any)

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LCU

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Cashier

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DTU

**108476**  
S.E.C. Reg. No.

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Central Receiving Unit

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File Number

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Document I.D.

**SECURITIES AND EXCHANGE COMMISSION**

**FORM 17-Q**

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

- 1. For the quarterly period ended September 30, 2008
- 2. Commission identification number
- 3. BIR Tax Identification No : 040-000-390-189
- 4. Exact name of registrant as specified in its charter :

**PHILIPPINE SEVEN CORPORATION**

- 5. Country of incorporation : **PHILIPPINES**
- 6. Industry Classification Code:
- 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 SRA

No. of Shares of Common Stock

Shares Outstanding – Common : 260,977,200  
Warrants -0-

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

Yes [ x ] 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 SRA 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 [ x ] No [ ]

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

Yes [ x ] 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, 2008



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

Date: November 14, 2008



November 14, 2008

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building  
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of September 30, 2008, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

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

  
**YU-HSIU TSAI**  
Treasurer and CFO



## PHILIPPINE SEVEN CORPORATION

7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City 1550 Metro Manila, Philippines  
Telephone No: 724-44-41 to 51 / 705-52-00  
Website: www.7-eleven.com.ph

### **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, 2008. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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

A handwritten signature in black ink, appearing to read 'Jose Victor P. Paterno'.

**JOSE VICTOR P. PATERNO**

President and CEO

A handwritten signature in black ink, appearing to read 'Yu Hsiu Tsai'.

**YU-HSIU TSAI**

Treasurer and CFO

**PHILIPPINE SEVEN CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2008 and DECEMBER 31, 2007  
AND FOR EACH OF THE TWO PERIOD  
ENDED SEPTEMBER 30, 2008**

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

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱225,306,277	₱308,873,944
Receivables - net (Note 5)	75,535,088	72,430,653
Inventories - at cost (Note 6)	244,699,406	323,973,849
Prepayments and other current assets (Note 7)	128,996,212	69,975,102
<b>Total Current Assets</b>	<b>674,536,983</b>	<b>775,253,548</b>
<b>Noncurrent Assets</b>		
Property and equipment - net (Note 8)	923,189,972	852,458,158
Deposits (Note 9)	128,221,183	110,462,198
Deferred income tax assets - net (Note 25)	8,783,358	37,498,659
Other noncurrent assets - net (Note 10)	99,479,648	100,539,114
<b>Total Noncurrent Assets</b>	<b>1,159,674,161</b>	<b>1,100,958,129</b>
<b>TOTAL ASSETS</b>	<b>₱1,834,211,144</b>	<b>₱1,876,211,677</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Note 11)	₱330,000,000	₱375,000,000
Accounts payable and accrued expenses (Note 12)	500,137,490	582,938,913
Current portion of long-term debt (Note 14)	—	—
Income tax payable	1,558,236	2,770,870
Other current liabilities (Note 13)	114,973,507	111,508,592
<b>Total Current Liabilities</b>	<b>946,669,233</b>	<b>1,072,218,375</b>
<b>Noncurrent Liabilities</b>		
Deposits from sub-lessees (Note 24)	122,086,462	98,653,475
Net retirement obligations (Note 22)	32,726,540	30,115,402
Deferred income tax liability (Note 25)	1,614,948	1,614,948
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000
<b>Total Noncurrent Liabilities</b>	<b>162,427,950</b>	<b>136,383,825</b>
<b>Total Liabilities</b>	<b>1,109,097,183</b>	<b>1,208,602,200</b>

(Forward)

	September 30, 2008	December 31, 2007
<b>Stockholders' Equity</b>		
Capital stock - ₱1 par value		
Authorized - 400,000,000 shares		
Issued – 261,663,450 (held by 703 and 706 equity holders in 2007 and 2006, respectively)	₱261,663,450	₱237,938,250
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	169,849,532	136,070,248
Revaluation increment in land	2,999,188	2,999,188
	<u>728,037,207</u>	<u>670,532,723</u>
Cost of 686,250 shares held in treasury	(2,923,246)	(2,923,246)
<b>Total Stockholders' Equity</b>	<b>725,113,961</b>	<b>667,609,477</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>₱1,834,211,144</b>	<b>₱1,876,211,677</b>

*See accompanying Notes to Consolidated Financial Statements.*



**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008

	September 30, 2008	September 30, 2007
<b>REVENUE FROM MERCHANDISE SOLD</b>	<b>₱1,338,097,861</b>	<b>₱1,181,953,471</b>
<b>COST OF MERCHANDISE SOLD</b> (Note 16)	<b>964,159,452</b>	846,725,435
<b>GROSS PROFIT</b>	<b>373,938,409</b>	335,228,036
General and administrative expenses (Note 17)	(447,395,447)	(412,235,923)
Franchise revenue (Note 30)	66,686,954	56,448,218
Marketing income (Note 18)	20,637,167	16,744,114
Rent income (Note 24)	9,025,617	10,620,240
Interest expense (Notes 11, 14, 15 and 19)	(6,168,530)	(7,582,100)
Commission income (Note 30)	5,736,614	5,124,914
Interest income (Notes 9, 20 and 24)	439,344	129,156
Foreign exchange loss		
Loss on sale of property and equipment	(787,265)	(67,578)
Others – net	12,387,519	2,599,078
	<b>(339,438,027)</b>	<b>(328,219,881)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>34,500,382</b>	7,008,155
<b>PROVISION FOR INCOME TAX</b> (Note 25)	<b>12,555,052</b>	6,363,570
<b>NET INCOME</b>	<b>₱21,945,330</b>	<b>₱644,685</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 26)	<b>₱.09</b>	<b>₱.003</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

	September 30, 2008	September 30, 2007
<b>REVENUE FROM MERCHANDISE SOLD</b>	<b>₱3,939,460,534</b>	<b>₱3,636,097,557</b>
<b>COST OF MERCHANDISE SOLD</b> (Note 16)	<b>2,828,984,673</b>	<b>2,585,906,993</b>
<b>GROSS PROFIT</b>	<b>1,110,475,861</b>	<b>1,050,190,564</b>
General and administrative expenses (Note 17)	<b>(1,313,816,156)</b>	(1,249,012,130)
Franchise revenue (Note 30)	<b>182,867,428</b>	151,456,132
Marketing income (Note 18)	<b>75,194,395</b>	68,840,069
Rent income (Note 24)	<b>29,293,287</b>	29,854,974
Interest expense (Notes 11, 14, 15 and 19)	<b>(19,114,608)</b>	(24,897,801)
Commission income (Note 30)	<b>15,812,853</b>	16,783,227
Interest income (Notes 9, 20 and 24)	<b>1,297,618</b>	1,296,963
Foreign exchange loss	<b>3,217</b>	
Loss on sale of property and equipment	<b>(2,022,966)</b>	(91,649)
Others – net	<b>11,808,959</b>	10,652,632
	<b>(1,018,675,973)</b>	(995,117,583)
<b>INCOME BEFORE INCOME TAX</b>	<b>91,799,888</b>	<b>55,072,981</b>
<b>PROVISION FOR INCOME TAX</b> (Note 25)	<b>34,295,403</b>	<b>21,783,755</b>
<b>NET INCOME</b>	<b>₱57,504,485</b>	<b>₱33,289,226</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 26)	<b>₱0.24</b>	<b>₱0.14</b>

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment in Land	Treasury Stock	Total
<b>BALANCES AS OF DECEMBER 31, 2004</b>	<b>₱237,938,250</b>	<b>₱293,525,037</b>	<b>₱47,337,606</b>	<b>₱–</b>	<b>(₱2,923,246)</b>	<b>₱575,877,647</b>
Net income for the year	–	–	13,760,412	–	–	13,760,412
<b>BALANCES AS OF DECEMBER 31, 2005</b>	<b>237,938,250</b>	<b>293,525,037</b>	<b>61,098,018</b>	<b>–</b>	<b>(2,923,246)</b>	<b>589,638,059</b>
Net income for the year	–	–	20,144,092	–	–	20,144,092
<b>BALANCES AS OF DECEMBER 31, 2006</b>	<b>237,938,250</b>	<b>293,525,037</b>	<b>81,242,110</b>	<b>–</b>	<b>(2,923,246)</b>	<b>609,782,151</b>
Net income for the year	–	–	54,828,138	–	–	54,828,138
Appraisal increase in value of land (Note 8)	–	–	–	2,999,188	–	2,999,188
Total income for the year	–	–	54,828,138	2,999,188	–	57,827,326
<b>BALANCES AS OF DECEMBER 31, 2007</b>	<b>₱237,938,250</b>	<b>₱293,525,037</b>	<b>₱136,070,248</b>	<b>₱2,999,188</b>	<b>(₱2,923,246)</b>	<b>₱667,609,477</b>
Net income for the quarter	–	–	5,583,962	–	–	5,583,962
<b>BALANCES AS OF MARCH 31, 2008</b>	<b>₱237,938,250</b>	<b>₱293,525,037</b>	<b>₱141,654,210</b>	<b>₱2,999,188</b>	<b>(₱2,923,246)</b>	<b>₱673,193,439</b>
Net income for the 2 <sup>nd</sup> quarter			29,975,192			29,975,192
<b>BALANCES AS OF JUNE 30, 2008</b>	<b>₱237,938,250</b>	<b>₱293,525,037</b>	<b>₱171,629,402</b>	<b>₱2,999,188</b>	<b>(₱2,923,246)</b>	<b>₱703,168,631</b>
Net income for the 3rd quarter			21,945,330			21,945,330
Payment of stock dividend	23,725,200		(23,725,200)			
<b>BALANCES AS OF SEPTEMBER 30, 2008</b>	<b>₱261,663,450</b>	<b>₱293,525,037</b>	<b>₱169,849,532</b>	<b>₱2,999,188</b>	<b>(₱2,923,246)</b>	<b>₱725,113,961</b>
<b>BALANCES AS OF SEPTEMBER 30, 2007</b>	<b>₱237,938,250</b>	<b>₱293,525,037</b>	<b>₱114,531,336</b>	<b>–</b>	<b>(₱2,923,246)</b>	<b>₱643,071,377</b>

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008****(With Comparative Figures for September, 2007)**

	<b>September 30, 2008</b>	September 30, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱34,500,382</b>	₱7,008,155
Depreciation and amortization (Notes 8 and 17)	<b>36,714,182</b>	34,978,486
Interest expense (Note 11, 14, 15 and 19)	<b>6,168,530</b>	7,582,100
Interest income (Notes 9, 20 and 24)	<b>(439,344)</b>	(129,156)
Amortization of:		
Software and other program costs (Notes 10 and 17)	<b>415,600</b>	210,000
Loss on sale of property and equipment	<b>787,266</b>	67,578
Operating income before working capital changes	<b>78,146,616</b>	49,717,163
Decrease (increase) in:		
Receivables	<b>(19,905,868)</b>	(6,160,844)
Inventories	<b>10,491,393</b>	24,950,604
Prepayments and other current assets	<b>(2,176,599)</b>	13,650,439
Increase (decrease) in:		
Accounts payable and accrued expenses	<b>13,761,873</b>	164,619,513
Other current liabilities	<b>6,206,639</b>	(14,316,367)
Deposits from sub-lessees	<b>14,447,349</b>	15,343,777
Net retirement obligations	<b>1,349,634</b>	34,843
Cash generated from operations	<b>102,321,037</b>	247,839,128
Income taxes paid	<b>(11,816,717)</b>	(6,500,000)
Interest received	<b>439,344</b>	129,156
Net cash from (used in) operating activities	<b>90,943,664</b>	241,468,284
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Property and equipment (Note 8)	<b>(90,339,651)</b>	(85,149,623)
Decrease (increase) in:		
Deposits (Note 9)	<b>(8,585,255)</b>	(11,177,447)
Other noncurrent assets (Note 10)	<b>8,209,732</b>	(7,998,586)
Net cash used in investing activities	<b>(90,715,174)</b>	(104,325,656)

(Forward)

	<b>September 30,</b>	September 30,
	<b>2008</b>	2007
<b>CASH FLOWS FROM FINANCING</b>		
<b>ACTIVITIES</b>		
Availments of bank loans (Note 11)	<b>0</b>	
Payments of:		
Bank loans (Note 11)		
Long-term debt (Note 14)	<b>0</b>	
Interest paid	<b>(6,168,530)</b>	(7,582,100)
Net cash from (used in) financing activities	<b>(6,168,530)</b>	(7,582,100)
<b>NET INCREASE (DECREASE) IN CASH AND</b>		
<b>CASH EQUIVALENTS</b>	<b>(5,940,040)</b>	129,560,528
<b>CASH AND CASH EQUIVALENTS AT</b>		
<b>BEGINNING OF YEAR</b>	<b>231,246,317</b>	117,678,504
<b>CASH AND CASH EQUIVALENTS AT</b>		
<b>END OF YEAR (Note 4)</b>	<b>₱225,306,277</b>	₱247,239,032

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(With Comparative Figures for September, 2007)**

	September 30, 2008	September 30, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱91,799,888</b>	55,072,981
Depreciation and amortization (Notes 8 and 17)	<b>111,641,149</b>	114,186,940
Interest expense (Note 11, 14, 15 and 19)	<b>19,114,608</b>	24,897,801
Interest income (Notes 9, 20 and 24)	<b>(1,297,618)</b>	(1,296,963)
Amortization of:		
Software and other program costs (Notes 10 and 17)	<b>1,246,799</b>	620,000
Loss on sale of property and equipment	<b>2,022,967</b>	91,649
Operating income before working capital changes	<b>224,527,793</b>	193,572,408
Decrease (increase) in:		
Receivables	<b>(3,104,435)</b>	7,532,445
Inventories	<b>79,274,442</b>	104,908,578
Prepayments and other current assets	<b>(59,021,110)</b>	(57,161,116)
Increase (decrease) in:		
Accounts payable and accrued expenses	<b>(82,801,423)</b>	(129,352,090)
Other current liabilities	<b>3,464,914</b>	22,253,792
Deposits from sub-lessees	<b>23,432,987</b>	23,667,895
Net retirement obligations	<b>2,611,139</b>	(899,680)
Cash generated from operations	<b>188,384,307</b>	164,522,232
Income taxes paid	<b>(35,508,037)</b>	(19,835,687)
Interest received	<b>1,297,618</b>	1,296,963
Net cash from (used in) operating activities	<b>154,173,888</b>	145,983,508
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Property and equipment (Note 8)	<b>(184,395,931)</b>	(157,706,731)
Decrease (increase) in:		
Deposits (Note 9)	<b>(17,758,985)</b>	(29,105,837)
Other noncurrent assets (Note 10)	<b>28,527,969</b>	19,801,517
Net cash used in investing activities	<b>(173,626,947)</b>	(167,011,051)

(Forward)

	<b>September 30, 2008</b>	September 30, 2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availments of bank loans (Note 11)	<b>0</b>	100,000,000
Payments of:		
Bank loans (Note 11)	<b>(45,000,000)</b>	(136,200,000)
Long-term debt (Note 14)		0
Interest paid	<b>(19,114,608)</b>	(24,897,801)
Net cash from (used in) financing activities	<b>(64,114,608)</b>	(61,097,801)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(83,567,667)</b>	(82,125,344)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>308,873,944</b>	<b>329,364,375</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱225,306,277</b>	<b>₱247,239,032</b>

*See accompanying Notes to Consolidated Financial Statements.*

# **PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

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

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

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

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

#### Authorization for Issuance of the Financial Statements

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

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

#### Basis of Preparation

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

#### Statement of Compliance

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



Basis of Consolidation

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

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

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

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

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

The Group classifies its financial assets as financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables or AFS financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets and financial liabilities were

acquired. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every financial reporting date.

#### Inventories

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

#### Property and Equipment

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

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

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

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

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

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

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

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

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

When assets are retired or otherwise disposed of, the cost or revalued amount and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of income. The

revaluation increment in stockholders' equity relating to the revalued asset sold is transferred to retained earnings.

#### Software and Program Costs

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

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

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

#### Goodwill

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

#### Impairment of Goodwill

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

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

#### Cumulative Redeemable Preferred Shares

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

#### Treasury Stock

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

### Revenue Recognition

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

#### *Merchandise Sold*

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

#### *Franchise*

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

#### *Marketing*

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

#### *Commission*

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

#### *Rent*

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

#### *Interest*

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

#### *Dividends*

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

### Retirement Benefits

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

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

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

### Related Party Transactions and Relationships

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other

party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders.

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

### Leases

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

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

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

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

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

### Borrowing Costs

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

### Foreign Currency-Denominated Transactions

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

### Income Tax

#### *Current Income Tax*

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

### *Deferred Income Tax*

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

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

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

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

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

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

### Earnings Per Share

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

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

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

### Provisions

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

#### Events after the Balance Sheet Date

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

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

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

#### Judgment

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

##### *Determination of Functional Currency*

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

##### *Classification of Financial Instruments*

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

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

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

##### *Classification of Leases*

###### a. Finance Lease

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

###### b. Operating Lease

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

### Estimates

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

#### *Determination of Fair Values*

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

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

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

#### *Impairment of Loans and Receivables*

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

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

The carrying value of loans and receivables amounted to ₱432,662,843 ₱503,107,070 as of September 2008 and December 2007 respectively. Allowance for impairment on loans and receivables amounted to ₱7,739,980 as of December 31, 2007 and no changes as September 2008. (Note 5). Provision for impairment amounted to ₱346,678 in 2007 and ₱2,903,498 in 2006 (Note 5). There was no provision for impairment in 2005.

#### *Impairment of AFS Financial Assets*

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



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

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

#### *Decline in Inventory Value*

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

The carrying value of inventories amounted to ₱244,699,406 and ₱323,973,849 as of September 2008 and December, 2007 respectively (Note 6). Based on management’s assessment, inventories are fairly stated, thus, no provision for decline in inventory value needs to be recognized in 2007, 2006 and 2005.

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

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

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱923,189,972 and ₱852,458,158 as of September 2008 and December 2007, respectively (Note 8).

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

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

The carrying value of property and equipment and software and program costs amounted to ₱928,038,636 and ₱858,553,622 as of September 2008 and December 2007 respectively. Based on management’s assessment, non-financial assets are fairly stated, thus, no impairment loss needs to be recognized in 2007, 2006 and 2005.

#### *Impairment of Goodwill*

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

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

#### *Estimation of Retirement Benefits*

The determination of the obligation and retirement benefits is dependent on management’s assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22 and include, among others, discount rates per annum, expected rate of return on plan assets and salary increase rates. Actual results that differ from the Group’s assumptions are

accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

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

*Realizability of Deferred Income Tax Assets*

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

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

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**4. Cash and Cash Equivalents**

	<b>September 2008</b>	December 2007
Cash on hand and in banks	<b>₱224,684,171</b>	₱308,252,838
Cash equivalents	<b>622,106</b>	622,106
	<b>₱225,306,277</b>	₱308,873,944

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

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**5. Receivables**

	<b>September 2008</b>	December 2007
Suppliers	<b>₱30,843,914</b>	₱48,246,882
Franchisee - net	<b>34,298,045</b>	16,372,484
Employees	<b>5,374,674</b>	6,215,487
Insurance claims	<b>1,848,739</b>	3,098,193
Current portion of lease receivable (Note 24)	<b>1,617,533</b>	1,617,536
Notes receivable (Note 24)	-	-
Others	<b>9,292,163</b>	4,620,051
	<b>83,275,068</b>	80,170,633
Less allowance for impairment	<b>7,739,980</b>	7,739,980
	<b>₱75,535,088</b>	₱72,430,653

The classes of receivables of the Group are as follows:

- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- Franchisee - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - pertains to car loans, salary loans and cash shortages from stores which are charged to employees.

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

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

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

  

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

#### Notes Receivable

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

#### 6. Inventories

	September 2008	December 2007
At cost (Note 16):		
Store merchandise	<b>₱125,855,728</b>	₱139,935,292
Warehouse merchandise and others	<b>118,843,678</b>	184,038,557
	<b>₱244,699,406</b>	₱323,973,849

#### 7. Prepayments and Other Current Assets

	September 2008	December 2007
Input value-added tax (VAT) (Note 25)	<b>₱56,357,365</b>	₱43,009,867
Prepaid taxes and licenses	<b>16,646,651</b>	7,481,914
Advances for expenses	<b>12,510,647</b>	4,250,724
Current portion of prepaid rent (Notes 10 and 24)	<b>10,451,485</b>	3,396,870
Prepaid uniform	<b>860,327</b>	1,468,243
Supplies	<b>1,292,831</b>	1,161,584
Others	<b>30,876,906</b>	9,205,900
	<b>₱128,996,212</b>	₱69,975,102

## 8. Property and Equipment

Movement in property and equipment is as follows:

	September 2008								
	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	₱104,385,538	₱566,198,319	₱240,570,651	₱25,206,994	₱180,499,130	₱492,150,507	₱25,366,630	₱1,678,858,769
Additions	-	-	72,655,576	21,884,098	425,000	34,688,336	58,185,401	(3,442,480)	184,395,931
Disposals	-	-	(7,502,103)	(1,409,803)	-	(1,223,745)	(4,667,996)	-	(14,803,648)
Revaluation increment	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
<b>Ending balances</b>	<b>44,481,000</b>	<b>104,385,538</b>	<b>631,351,792</b>	<b>261,044,946</b>	<b>25,631,994</b>	<b>213,963,721</b>	<b>545,667,912</b>	<b>21,924,149</b>	<b>1,848,451,052</b>

(Forward)

	September 2008								
	Land	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
<b>Accumulated Depreciation and Amortization:</b>									
Beginning balances	₱-	₱45,179,341	₱307,595,171	₱125,146,622	₱14,406,685	₱96,201,950	₱237,870,843	₱-	₱826,400,612
Depreciation and amortization (Note 17)	-	3,362,776	27,848,791	16,585,919	2,308,715	23,394,461	38,140,487	-	111,641,149
Disposals	-	-	(6,491,051)	(1,323,046)	-	(1,085,853)	(3,880,731)	-	(12,780,681)
Reclassifications	-	-	-	-	-	-	-	-	-
<b>Ending balances</b>	<b>-</b>	<b>48,542,117</b>	<b>328,952,911</b>	<b>140,409,495</b>	<b>16,715,400</b>	<b>118,510,558</b>	<b>272,130,599</b>	<b>-</b>	<b>925,261,080</b>
<b>Net Book Values</b>	<b>₱44,481,000</b>	<b>₱55,843,421</b>	<b>₱302,398,881</b>	<b>₱120,635,451</b>	<b>₱8,916,594</b>	<b>₱95,453,163</b>	<b>₱273,537,313</b>	<b>₱21,924,149</b>	<b>₱923,189,972</b>

	December 2007								
	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	₱39,866,864	₱104,385,538	₱487,238,357	₱219,732,453	₱19,142,793	₱161,670,263	₱449,711,890	₱11,117,660	₱1,492,865,818
Additions	-	-	87,099,729	26,489,450	11,049,201	19,071,710	66,721,579	14,248,970	224,680,639
Disposals	-	-	(8,116,776)	(5,673,834)	(4,985,000)	(220,260)	(24,305,951)	-	(43,301,821)
Revaluation increment	4,614,136	-	-	-	-	-	-	-	4,614,136
Reclassifications	-	-	(22,991)	22,582	-	(22,582)	22,991	-	-
<b>Ending balances</b>	<b>44,481,000</b>	<b>104,385,538</b>	<b>566,198,319</b>	<b>240,570,651</b>	<b>25,206,994</b>	<b>180,499,131</b>	<b>492,150,509</b>	<b>25,366,630</b>	<b>1,678,858,772</b>
<b>Accumulated Depreciation and Amortization:</b>									
Beginning balances	₱-	₱40,688,891	₱269,491,622	₱108,933,264	₱11,896,378	₱69,599,604	₱191,729,720	₱-	₱692,339,479
Depreciation and amortization (Note 17)	-	4,490,450	46,077,061	21,387,890	2,510,307	26,827,428	58,341,250	-	159,634,386
Disposals	-	-	(7,974,582)	(5,174,531)	-	(225,082)	(12,199,056)	-	(25,573,251)
Reclassifications	-	-	1,071	-	-	-	(1,071)	-	-
<b>Ending balances</b>	<b>-</b>	<b>45,179,341</b>	<b>307,595,172</b>	<b>125,146,623</b>	<b>14,406,685</b>	<b>96,201,950</b>	<b>237,870,843</b>	<b>-</b>	<b>826,400,614</b>
<b>Net Book Values</b>	<b>₱44,481,000</b>	<b>₱59,206,197</b>	<b>₱258,603,147</b>	<b>₱115,424,028</b>	<b>₱10,800,309</b>	<b>₱84,297,181</b>	<b>₱254,279,666</b>	<b>₱25,366,630</b>	<b>₱852,458,158</b>

On February 5, 2007, the Group stated its land with cost amounting to ₱39,866,864 at appraised value of ₱44,481,000, as determined by a professional qualified independent appraiser. The appraisal increase of ₱2,999,188, net of ₱1,614,948 tax, resulting from the revaluation was credited to “Revaluation increment in land” account presented under the stockholders’ equity section of the consolidated balance sheet.

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

## 9. Deposits

	September 2008	December 2007
Rent (Note 24)	₱102,010,504	₱87,710,515
Utilities	22,292,624	20,792,804
Others	3,918,055	1,958,879
	<b>₱128,221,183</b>	<b>₱110,462,198</b>

### Rent

Deposits on rent are computed at amortized cost as follows:

	<b>September 2008</b>	December 2007
Face value of security deposits	<b>₱123,056,325</b>	₱108,756,336
Less unamortized discount	<b>21,045,821</b>	21,045,821
	<b>₱102,010,504</b>	₱87,710,515

Movement in unamortized discount is as follows:

	<b>September 2008</b>	December 2007
Beginning balance	<b>₱22,240,516</b>	₱22,240,516
Addition	<b>243,694</b>	243,694
Amortization	<b>(1,438,389)</b>	(1,438,389)
Ending balance	<b>₱21,045,821</b>	₱21,045,821

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## 10. Other Noncurrent Assets

	<b>September 2008</b>	December 2007
Goodwill	<b>₱70,178,892</b>	₱70,178,892
Prepaid rent - net of current portion (Note 24)	<b>14,765,132</b>	14,765,132
Software and program costs	<b>4,848,665</b>	6,095,464
Lease receivable - net of current portion (Note 24)	<b>3,600,295</b>	3,600,295
AFS financial assets	<b>2,314,575</b>	2,314,575
Others	<b>3,772,089</b>	3,584,756
	<b>₱99,479,648</b>	₱100,539,114

### Goodwill

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

### Prepaid rent

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

Movement in prepaid rent is as follows:

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

### Software and Program Costs

Movement in software and program costs is as follows:

	<b>September 2008</b>	December 2007
Cost:		
Beginning balance	<b>₱7,426,000</b>	₱4,200,000
Acquisition	<b>0</b>	3,226,000
Write-off	–	–
Ending balance	<b>7,426,000</b>	7,426,000
Accumulated amortization:		
Beginning balance	<b>1,330,536</b>	280,000
Amortization (Note 17)	<b>1,246,799</b>	1,050,536
Write-off	–	–
Ending balance	<b>2,577,335</b>	1,330,536
Net Book Values	<b>₱4,848,665</b>	₱6,095,464

### AFS Financial Assets

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

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## 11. Bank Loans

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

Movement in bank loans is as follows:

	<b>September 2008</b>	December 2007
Beginning balance	<b>₱375,000,000</b>	₱404,700,000
Availment		688,000,000
Payment	<b>(45,000,000)</b>	(717,700,000)
Ending balance	<b>₱330,000,000</b>	₱375,000,000

Interest expense from these bank loans amounted to ₱18,796,008 in September 2008, ₱24,623,121 in September 2007 (Note 19). Interest payable amounted to ₱860,189 and ₱985,359 as of September 2008 and December 2007, respectively (Note 12).

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## 12. Accounts Payable and Accrued Expenses

	<b>September 2008</b>	December 2007
Trade payable	<b>₱379,480,718</b>	₱475,227,960
Rent (Note 24)	<b>69,630,956</b>	73,333,906
Utilities	<b>10,979,977</b>	11,381,244
Employee benefits	<b>23,901,017</b>	10,342,722
(Forward)		

	September 2008	December 2007
Advertising and promotion	P1,392,228	P2,630,489
Security services	1,877,977	2,054,228
Bank charges	1,300,000	1,418,700
Interest	860,189	985,359
Others	10,714,428	5,564,305
	<b>P500,137,490</b>	<b>P582,938,913</b>

### 13. Other Current Liabilities

	September 2008	2007
Non-trade accounts payable	P66,702,082	P62,902,460
Withholding taxes	12,869,903	13,000,672
Retention payable	12,105,598	10,065,404
Royalty (Note 23)	4,554,880	9,151,719
Output VAT (Note 25)	11,615,385	6,635,208
Payable to franchisee	-	-
Others	7,125,659	9,753,129
	<b>P114,973,507</b>	<b>111,508,592</b>

### 14. Long-term Debt

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

Movement in long-term debt is as follows:

	2007	2006
Beginning balance	P6,500,000	P125,500,000
Payment	(6,500,000)	(119,000,000)
Ending balance	P-	P6,500,000

### 15. Cumulative Redeemable Preferred Shares

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

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included as part of "Interest expense" in the consolidated statements of income amounted to P318,600 in September 2008 and P274,680 in September 2007. (Note 19).

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**16. Cost of Merchandise Sold**

<b>September 2008</b>	<b>September 2008</b>	September 2007
Merchandise inventory, beginning	<b>₱323,973,849</b>	₱331,926,504
Net purchases	<b>2,749,710,230</b>	2,480,998,415
	<b>3,073,684,079</b>	2,812,924,919
Less merchandise inventory, ending	<b>244,699,406</b>	227,017,926
	<b>₱2,828,984,673</b>	₱2,585,906,993

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**17. General and Administrative Expenses**

	<b>September 2008</b>	September 2007
Communication, light and water	<b>₱238,152,522</b>	₱247,266,459
Personnel costs (Note 21)	<b>209,963,765</b>	257,112,830
Rent (Note 24)	<b>196,946,045</b>	193,039,598
Depreciation and amortization	<b>111,691,612</b>	114,186,940
Outside services	<b>113,265,746</b>	55,713,255
Management fee (Note 30)	<b>76,858,422</b>	60,409,554
Taxes and licenses	<b>45,232,357</b>	57,485,987
Trucking services	<b>45,210,419</b>	40,441,062
Royalties (Note 23)	<b>45,075,556</b>	40,199,758
Supplies	<b>40,142,399</b>	35,075,836
Advertising and promotion	<b>42,440,447</b>	31,624,616
Repairs and maintenance	<b>34,914,710</b>	28,448,233
Warehousing services	<b>35,879,384</b>	31,345,403
Entertainment, amusement and Recreation	<b>4,848,164</b>	5,272,667
Transportation and travel	<b>11,794,715</b>	9,946,308
Inventory losses	<b>25,786,732</b>	24,739,700
Dues and subscription	<b>3,286,276</b>	3,060,761
Insurance	<b>3,173,703</b>	3,035,866
Others	<b>29,153,182</b>	10,607,296
	<b>₱1,313,816,156</b>	₱1,249,012,130

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**18. Marketing Income**

	<b>September 2008</b>	September 2007
Display allowance and other charges	<b>₱40,301,310</b>	₱48,255,835
Promotions	<b>23,053,784</b>	7,845,473
Marketing support funds (Note 30)	<b>11,839,302</b>	12,738,760
	<b>₱75,194,395</b>	₱68,840,069

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**19. Interest expense**



	September 2008	September 2007
Interest on:		
Bank loans	₱18,796,008	₱24,623,121
Guaranteed preferred dividends	318,600	274,680
	<b>₱19,114,608</b>	<b>₱24,897,801</b>

## 20. Interest income

	September 2008	September 2007
Interest on:		
Bank deposits	₱1,297,618	₱1,296,963
Finance lease	0	-
Accretion of refundable deposits	0	
	<b>₱1,297,618</b>	<b>₱1,296,963</b>

## 21. Personnel Costs

	September 2008	September 2007
Salaries and wages	₱119,067,481	₱178,284,514
Employee benefits	85,310,920	72,915,652
Retirement benefits cost (Note 22)	5,585,364	5,912,664
	<b>₱209,963,765</b>	<b>₱257,112,830</b>

## 22. Retirement Benefits

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

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

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

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

	2006		
	PSC	CDI	Total
Current service cost	₱1,877,379	₱165,501	₱2,042,880
Interest cost	4,435,033	379,758	4,814,791
Expected return on plan assets	(584,243)	(59,554)	(643,797)

Net actuarial loss	265,842	–	265,842
Net retirement benefits cost	₱5,994,011	₱485,705	₱6,479,716

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

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

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

	2006		
	PSC	CDI	Total
Present value of retirement obligations	₱44,889,567	₱1,784,759	₱46,674,326
Less fair value of plan assets	6,139,207	462,580	6,601,787
Unfunded retirement obligation	38,750,360	1,322,179	40,072,539
Less unrecognized net actuarial gains (losses)	(15,057,714)	1,874,016	(13,183,698)
Net retirement obligations	₱23,692,646	₱3,196,195	₱26,888,841

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

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

	2006		
	PSC	CDI	Total
Beginning balances	₱37,269,186	₱3,282,261	₱40,551,447
Current service cost	1,877,379	165,501	2,042,880
Interest cost	4,435,033	379,758	4,814,791

Benefits paid	(2,656,931)	(182,837)	(2,839,768)
Actuarial loss (gain)	3,964,900	(1,859,924)	2,104,976
Ending balances	<b>₱44,889,567</b>	<b>₱1,784,759</b>	<b>₱46,674,326</b>

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

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

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

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

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

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

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

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

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

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

Salary increase rate	<b>5.00%</b>	5.00%	5.00%	<b>5.00%</b>	5.00%	5.00%
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### 23. Related Party Transactions

Significant transactions with related parties consist of:

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

Royalty fees recorded by the Group amounted to ₱45,075,556, ₱40,199,758 and ₱54,906,673 in September 2008, September 2007 and December 2007

Royalty payable amounted to ₱4,554,880 and ₱9,151,719 as of September, 2008 and December 2007 respectively.

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

	<b>September 2008</b>	September 2007
Short-term employee benefits	<b>₱19,070,240</b>	₱9,599,587
Post-employment benefits		
Other long-term benefits	–	
	<b>₱19,070,240</b>	₱9,599,587

### 24. Leases

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

	Minimum Payments	Present Value of Payments
Within one year	₱3,374,700	₱2,843,932
After one year but not more than five years	8,490,000	7,586,082
Total minimum lease payments	11,864,700	10,430,014
Less amounts representing finance charges	1,434,686	–
Present value of future minimum lease payments	10,430,014	10,430,014
Less unearned interest income	5,212,183	5,212,183
	5,217,831	5,217,831
Less current portion	1,617,536	1,617,536
	<b>₱3,600,295</b>	<b>₱3,600,295</b>

In 2007, the PSC received collections amounting to ₱1,035,300 under this arrangement. Of this amount, ₱686,966 were applied to lease receivable and the remainder was recognized as interest income.

The sale and leaseback finance lease arrangement resulted in the recognition of “Unearned interest income” amounting to ₱6,131,980 upon inception of the lease. The unearned interest income is to be amortized over five years, which is the term of the agreement. Interest income recognized in the consolidated statement of income amounted to ₱919,797 in 2007.

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

Rental expense related to these lease agreements amounted to ₱235,326,897 in 2007, ₱240,604,010 in 2006 and ₱243,946,399 in 2005. Of this amount, contingent rent amounted to ₱1,054,585 in 2007, ₱1,059,295 in 2006 and ₱1,752,385 in 2005. Amortization of prepaid rent amounted to ₱1,174,560 in 2007, ₱569,564 in 2006 and ₱534,436 in 2005.

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

	2007	2006
Within one year	<b>₱83,777,578</b>	₱94,081,531
After one year but not more than five years	<b>174,286,236</b>	220,679,560
More than five years	<b>34,157,715</b>	50,640,438
	<b>₱292,221,529</b>	₱365,401,529

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

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

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

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

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

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

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

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

	2007	2006
Within one year	<b>₱25,470,739</b>	₱13,130,654
After one year but not more than five years	<b>45,498,280</b>	12,448,441
More than five years	<b>1,587,360</b>	-

**₱72,556,379**      **₱25,790,095**

## 25. Income Tax

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

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

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

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

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

## 26. Basic/Diluted Earnings Per Share

	September 2008	December 2007
a. Net income attributable to equity holders of the Parent	<b>₱57,504,485</b>	<b>₱54,828,138</b>
b. Weighted average number of shares outstanding	<b>240,574,383</b>	<b>237,938,250</b>
c. Less weighted average number of shares held in treasury	<b>686,250</b>	<b>686,250</b>
d. Weighted average number of shares outstanding (b-c)	<b>₱239,888,133</b>	<b>₱237,252,000</b>
e. Basic/diluted earnings per share (a/d)	<b>₱0.24</b>	<b>₱0.23</b>

The Group does not have potentially dilutive common shares as of September 30, 2008 and December 2007. Basic earnings per share is equal to the diluted earnings per share as of those dates.

## 27. Financial Instruments

The following table summarizes the carrying value and fair value of the Group's financial assets and financial liabilities per class as of September 30, 2008

	September 2008		December 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>				
Cash and cash equivalents				
Cash	₱224,684,171	₱224,684,171	₱308,251,838	₱308,251,838
Cash equivalents	622,106	622,106	622,106	622,106
	<b>225,306,277</b>	<b>225,306,277</b>	<b>308,873,944</b>	<b>308,873,944</b>
Receivables:				
Suppliers	30,843,914	30,843,914	48,246,882	48,246,882
Franchisee	34,298,045	34,298,045	16,372,484	16,372,484
Employees	5,374,674	5,374,674	6,215,487	6,215,487
Insurance claims	1,848,739	1,848,739	3,098,193	3,098,193
Current portion of lease receivable	1,617,533	1,617,533	1,617,536	1,536,780
Notes receivable	–	–	–	–
Others	9,292,163	9,292,163	4,620,051	4,620,051
	<b>83,275,068</b>	<b>83,275,068</b>	<b>80,170,633</b>	<b>80,089,877</b>
Deposits:				
Rent	102,010,504	102,010,504	87,710,515	89,121,229
Utilities	22,292,624	22,292,624	20,792,804	20,792,804
Others	3,918,054	3,918,054	1,958,879	1,958,879
	<b>128,221,183</b>	<b>128,221,183</b>	<b>110,462,198</b>	<b>111,872,912</b>
Other noncurrent assets - lease receivable	3,600,295	2,873,411	3,600,295	2,856,572
<b>Total Loans and Receivables</b>	<b>440,402,823</b>	<b>439,675,939</b>	<b>503,107,070</b>	<b>503,693,305</b>
<b>AFS Financial Assets</b>	<b>2,314,575</b>	<b>2,314,575</b>	<b>2,314,575</b>	<b>2,314,575</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>₱442,717,398</b>	<b>₱441,990,514</b>	<b>₱505,421,645</b>	<b>₱506,007,880</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Other Financial Liabilities</b>				
Bank loans	₱330,000,000	₱330,000,000	₱375,000,000	₱375,000,000
Accounts payable and accrued expenses:				
Trade payable	379,480,718	379,480,718	475,227,960	475,227,960
Rent	69,630,956	69,630,956	73,333,906	73,333,906
Utilities	10,979,977	10,979,977	11,381,244	11,381,244
Employee benefits	23,901,017	23,901,017	10,342,722	10,342,722
Advertising and promotion	1,392,228	1,392,228	2,630,489	2,630,489
Security services	1,877,977	1,877,977	2,054,228	2,054,228
Bank charges	1,300,000	1,300,000	1,418,700	1,418,700
Interest	860,189	860,189	985,359	985,359
Others	10,714,428	10,714,428	5,564,305	5,564,305
	<b>500,137,490</b>	<b>500,137,490</b>	<b>582,938,913</b>	<b>582,938,913</b>
Current portion of long-term debt	–	–	–	–
Other current liabilities:				
Non-trade accounts payable	₱66,702,081	₱66,702,081	62,902,460	62,902,460
Withholding taxes	12,869,903	12,869,903	13,000,672	13,000,672
Retention payable	12,105,598	12,105,598	10,065,404	10,065,404

(Forward)

	September 2008		December 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Royalty	₱4,554,880	₱4,554,880	₱9,151,719	₱9,151,719
Output VAT	11,615,385	11,615,385	6,635,208	6,635,208
Payable to franchisee	–	–	–	–
Others	7,125,659	7,125,659	9,753,129	9,753,129
	<b>114,973,506</b>	<b>114,973,506</b>	111,508,592	111,508,592
Deposits from sub-lessees	122,086,462	122,086,462	98,653,475	98,653,475
Cumulative redeemable preferred shares	6,000,000	6,000,000	6,000,000	6,000,000
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>₱1,073,197,458</b>	<b>₱1,073,197,458</b>	₱1,174,100,980	₱1,174,100,980

### Fair Value Information

#### *Current financial assets and financial liabilities*

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

#### *Deposits*

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

#### *AFS financial assets*

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

#### *Bank Loans and Long-term Debt*

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

#### *Cumulative redeemable preferred shares*

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

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## 28. Financial Risk Management Objectives and Policies

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

#### *Credit Risk*

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

The following table provides information regarding the maximum credit risk exposure of the Group as of June 30, 2008 and December 31, 2007.



	September 2008	December 2007
Cash and cash equivalents:		
Cash	P224,684,171	P308,251,838
Cash equivalents	622,106	622,106
	<b>225,306,277</b>	<b>308,873,944</b>
Receivables:		
Suppliers	30,843,914	48,246,882
Franchisee	34,298,045	16,372,484
Employees	5,374,674	6,215,487
Insurance claims	1,848,739	3,098,193
Current portion of lease receivables	1,617,533	1,617,536
Notes receivable	–	–
Others	9,292,163	4,620,051
	<b>83,275,068</b>	<b>80,170,633</b>
Deposits:		
Rent	102,010,504	87,710,515
Utilities	22,292,624	20,792,804
Others	3,918,054	1,958,879
	<b>128,221,183</b>	<b>110,462,198</b>
Other noncurrent assets:		
Lease receivables	3,600,295	3,600,295
AFS financial assets	2,314,575	2,314,575
	<b>5,914,870</b>	<b>5,914,870</b>
	<b>P442,717,398</b>	<b>P505,421,645</b>

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

	September 2008			Total
	Neither past due nor impaired		Past due Or Impaired	
	Non-Investment Grade: Satisfactory	Non-Investment Grade: Unsatisfactory		
Cash and cash equivalents:				
Cash	P224,684,171	P–	P–	P224,684,171
Cash equivalents	622,106	–	–	622,106
	<b>225,306,277</b>	<b>–</b>	<b>–</b>	<b>225,306,277</b>
Receivables:				
Suppliers	21,793,512	–	9,050,402	30,843,914
Franchisee	34,298,045	–	–	34,298,045
Employees	5,374,674	–	–	5,374,674
Insurance claims	1,848,739	–	–	1,848,739
Current portion of lease receivables	1,617,533	–	–	1,617,533
Others	8,572,175	–	719,987	9,292,162
	<b>73,504,679</b>	<b>–</b>	<b>9,770,389</b>	<b>83,275,068</b>

(Forward)

	September 2008			Total
	Neither past due nor impaired		Past due Or Impaired	
	Non-Investment Grade: Satisfactory	Non-Investment Grade: Unsatisfactory		
Deposits:				

Rent	P102,010,504	P-	P-	P102,010,504
Utilities	22,292,624	-	-	22,292,624
Others	3,918,054	-	-	3,918,054
	128,221,183	-	-	128,221,183
<b>Other noncurrent assets:</b>				
Lease receivables	2,952,972	-	647,323	3,600,295
AFS financial assets	2,314,575			2,314,575
	5,267,547	-	647,323	5,914,870
	P432,299,686	P-	P10,417,712	P442,717,398

December 2007				
Neither past due nor impaired				
	Non- Investment Grade: Satisfactory	Non- Investment Grade: Unsatisfactory	Past due Or Impaired	Total
<b>Cash and cash equivalents:</b>				
Cash	P308,251,838	P-	P-	P308,251,838
Cash equivalents	622,106	-	-	622,106
	308,873,944	-	-	308,873,944
<b>Receivables:</b>				
Suppliers	39,196,480	-	9,050,402	48,246,882
Franchisee	16,372,484	-	-	16,372,484
Employees	6,215,487	-	-	6,215,487
Insurance claims	3,098,193	-	-	3,098,193
Current portion of lease receivables	1,617,536			1,617,536
Others	3,900,064	-	719,987	4,620,051
	70,400,244	-	9,770,389	80,170,633
<b>Deposits:</b>				
Rent	P87,710,515	P-	P-	P87,710,515
Utilities	20,792,804	-	-	20,792,804
Others	1,958,879	-	-	1,958,879
	110,462,198	-	-	110,462,198
<b>Other noncurrent assets:</b>				
Lease receivables	2,952,972	-	647,323	3,600,295
AFS financial assets	2,314,575			2,314,575
	5,267,547	-	647,323	5,914,870
	P495,003,933	P-	P10,417,712	P505,421,645

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

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

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

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

	December 2007				Past due and impaired	Total
	Aging analysis of financial assets past due but not impaired			Total		
	31 to 60 days	61 to 90 days	> 90 days			
<b>Receivables:</b>						
Suppliers	₱1,609,251	₱24,034	₱397,124	₱2,030,409	7,019,993	₱9,050,402
Current portion of lease receivables	163,062	484,261	–	647,323	–	647,323
Others	–	–	–	–	719,987	719,987
	₱1,772,313	₱508,295	₱397,124	₱2,677,732	7,739,980	₱10,417,712

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

#### *Liquidity Risk*

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

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

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

	September 2008			Total
	Less than 3 months	Less than One year	More than One year	
<b>Bank loans</b>	₱–	₱330,000,000	₱–	₱330,000,000
<b>Accounts payable and accrued expenses:</b>				
Trade payable	379,480,718	–	–	379,480,718
Rent	69,630,956	–	–	69,630,956
Utilities	10,979,977	–	–	10,979,977
Employee benefits	23,901,017	–	–	23,901,017
Advertising and promotion	1,392,228	–	–	1,392,228
Security services	1,877,977	–	–	1,877,977
Bank charges	1,300,000	–	–	1,300,000
Interest	860,189	–	–	860,189
Others	10,714,428	–	–	10,714,428
	500,137,490	–	–	500,137,490

(Forward)

	September 2008			Total
	Less than 3 months	Less than One year	More than One year	
<b>Other current liabilities:</b>				
Non-trade accounts payable	₱–	₱66,702,081	₱–	₱66,702,081
Withholding taxes	–	12,869,903	–	12,869,903
Retention payable	–	12,105,598	–	12,105,598
Royalty	–	4,554,880	–	4,554,880
Output VAT	–	11,615,385	–	11,615,385

<b>Others</b>	-	<b>7,125,659</b>	-	<b>7,125,659</b>
	-	<b>114,973,506</b>	-	<b>114,973,506</b>
<b>Deposit from sub-lessees</b>	-	-	<b>122,086,462</b>	<b>122,086,462</b>
<b>Cumulative redeemable preferred shares</b>	-	-	<b>6,000,000</b>	<b>6,000,000</b>
	<b>₱500,137,490</b>	<b>₱444,973,506</b>	<b>₱128,086,462</b>	<b>₱1,073,197,458</b>

	December 2007			
	Less than 3 months	Less than One year	More than One year	Total
Bank loans	₱-	₱375,000,000	₱-	₱375,000,000
Accounts payable and accrued expenses:				
Trade payable	475,227,960	-	-	475,227,960
Rent	73,333,906	-	-	73,333,906
Utilities	11,381,244	-	-	11,381,244
Employee benefits	10,342,722	-	-	10,342,722
Advertising and promotion	2,630,489	-	-	2,630,489
Security services	2,054,228	-	-	2,054,228
Bank charges	1,418,700	-	-	1,418,700
Interest	985,359	-	-	985,359
Others	5,569,305	-	-	5,569,305
	582,938,913	-	-	582,938,913
Other current liabilities:				
Non-trade accounts payable	₱-	₱62,902,460	₱-	₱62,902,460
Withholding taxes	-	13,000,672	-	13,000,672
Retention payable	-	10,065,404	-	10,065,404
Royalty	-	9,151,719	-	9,151,719
Output VAT	-	6,635,208	-	6,635,208
Others	-	9,753,129	-	9,753,129
	-	111,508,592	-	111,508,592
Deposit from sub-lessees	-	-	98,653,475	98,653,475
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	<b>₱582,938,913</b>	<b>₱486,508,591</b>	<b>₱104,653,475</b>	<b>₱1,174,100,979</b>

### *Interest Rate Risk*

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

## **29. Capital Management**

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers its equity contributed by shareholders as capital. The Group manages its capital structure by keeping a networth of between 30% and 50% in relation to its total assets. The Group's ratios were 39% and 35% in September 30, 2008 and December 31, 2007 respectively.

	<b>September 2008</b>	December 2007
Capital stock	<b>₱261,663,450</b>	₱237,938,250
Additional paid-in capital	<b>293,525,037</b>	293,525,037
Retained earnings	<b>169,849,532</b>	136,070,248
	<b>725,038,019</b>	667,533,535
Less cost of shares held in treasury	<b>2,923,246</b>	2,923,246
	<b>₱722,114,773</b>	₱664,610,289
<b>Total assets</b>	<b>₱1,834,211,144</b>	₱1,876,211,677
<b>Net worth</b>	<b>39%</b>	35%

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### 30. Significant Agreements

- a. The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Franchise fee amounted to ₱29,787,815 in June 2008, ₱41,735,317 in June 2007 and franchise revenue for the 7-Eleven charge amounted to ₱153,079,613 in September 2008, ₱109,720,815 in September 2007.
- b. The Group has service management agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a management fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service management agreement. Management fee amounted to ₱76,858,422 in September 2008 and ₱60,409,554 in September 2007.

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### 31. Contingencies

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

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

### SELECTED FINANCIAL DATA

	3Q 2008	3Q 2007
SYSTEM WIDE SALES	1,543,565	1,333,724
<b>Statement of Income Data:</b>		
Revenues and Other Income		
Sales of Merchandise	1,338,098	1,181,953
Commission Income	5,737	5,125
Franchise Revenue	66,687	56,448
Marketing Income	20,637	16,744
Rent Income	9,026	10,620
Interest Income	439	129
Others (Net)	11,599	2,533
Cost and Expenses		
General & Administrative Expenses	-447,395	-412,236
Interest Expense	-6,169	-7,582
Cost of Merchandise Sold	-964,159	-846,725
Net Income (Loss)	21,945	645
Earnings (Loss) per Share	0.09	0.003
<b>Other Data:</b>		
Net cash from operating activities	90,944	241,468
Net cash used in investing activities	-90,715	-104,326
Net cash used in financing activities	-6,169	-7,582

### For the Nine Months Ended September 30

	2008	2007
SYSTEM WIDE SALES	4,535,640	4,075,146
<b>Statement of Income Data:</b>		
Revenues and Other Income		
Sales of Merchandise	3,939,461	3,636,098
Commission Income	15,813	16,783
Others (Net)	298,441	262,010
Cost and Expenses		
Cost of Merchandise Sold	-2,828,985	-2,585,907
General & Administrative Expenses	-1,313,816	-1,249,012
Interest Expense	-19,115	-24,899
Net Income (Loss)	57,504	33,289
Earnings (Loss) per Share	0.24	0.14
<b>Other Data:</b>		
Net cash from operating activities	154,174	145,984
Net cash used in investing activities	-173,627	-167,011
Net cash used in financing activities	-64,115	-61,098
<b>Balance Sheet Data:</b>		<u>FY2007</u>
Total Assets	1,834,211	1,876,211
Total Liabilities	1,109,097	1,208,602
Total Stockholders' Equity	725,114	667,609
<i>(amount in thousands, except EPS)</i>		

## **OVERVIEW**

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

As of September 30, 2008, our retail chain has grown to 344 stores. We are sustained by a manpower complement of 977 employees engaged in store operations and in various support service units. Despite the growing competition in the C-store business, we maintain our leadership in the industry.

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

PSC seeks to meet the needs of convenience customers and maintain a leadership position in the C-store industry by taking advantage of economies of scale, technology, people and a widely recognized brand.

### **THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007**

PSC opened 19 stores during the period July to September, bringing the total store count to 344 as of September 30, 2008. This represents a 15% increase compared from the previous year's level. Moreover, the aggregate number of franchised stores accounted for 56% of total operating stores. Four underperforming stores were closed during the quarter, bringing a total of 10 closed stores as of Q3 2008.

7-Eleven is working to optimize the earnings of its store base by opening new stores in strategic locations and closing underperforming stores. PSC shall continue to protect its lead in the C-Store Industry. The company has entered into various agreements for additional store sites in accordance with its market development plan. These efforts are geared towards the goal of expanding substantially the store base at the end of the year.

### **Revenues and Other Income**

#### *Revenues*

Total revenue from merchandise sold in Q3 2008 reached P1.34 billion, up by 13% percent compared to P1.18 billion registered in the same period last year.

System wide sales, which represents the overall retail sales to customers of corporate and franchise operated stores stood at P1.54 billion in the third quarter from P1.33 billion a year ago.

Moreover, the company earns commission on products under the service category. Commission income earned improved by 12% to P5.74 million at the end of the period.

### *Other Income*

Other income consists mainly of marketing income, franchise revenues and income from rentable spaces. Total other income in the third quarter reached P96.3 million, an improvement from the P83.8 million generated in Q3 2007.

Franchise revenue went up by P10.2 million as a result of the increased number of franchise operated stores. Marketing income, representing promotional discounts, exclusivity agreements and display allowances grew by 23% to P20.6 million. Rent income from rentable spaces declined by P1.6 million, an outcome of the selected downsizing of stores. During the quarter, rent expense net of rent income, per store, per month improved by 6%. This favorable result was driven by renegotiated terms with lessors.

### **Cost and Expenses**

Operating expenses in Q3 2008 totaled P447.4 million. This was 8.5% higher than last year. Ratio of operating expenses to sales stood at 33.4% in Q3 2008, reduced by 1.5 percentage basis points, from last year's level of 34.9%.

Communication, light and water expense accounted for 18% and is still the highest contributor. Compared to Q3 2007, said expense dropped by 9%. Moreover ratio to sales improved by 4%. Store renovations and old equipment replacements helped reduced costs. Personnel cost accounted for 14% of the total General and Administrative Expenses in Q3 2008 and rent expense controls 15% of the total.

During the third quarter, personnel costs aggregated P63.5 million. Ratio to sales revenue is pegged at 4.7% and 6.3% in 2008 and 2007, respectively. Personnel costs include salaries and wages, employee benefits and pension cost.

Communication, light and water expense amounted to P81.5 million or 6% of total sales revenue; lower than last year's rate of 8%.

Management fees paid to store operators under a service agreement increased by 38%, from P18.5 million during the third quarter of last year to P25.5 million in the current year. This was mainly due to an increase in number of stores under service agreement by 33%.

### *Interest Expense*

Interest incurred during the period reached P6.2 million, an 18.6% reduction from last year's level of P7.6 million. Payment of loans and relatively lower interest rates are the factors for the reduced interest cost. Bank loans decreased from P375 million in 2007 to P330 million as of September 30, 2008.

### **Net Income**

PSC reported a net income of P21.9 million in the third quarter against P645 thousand a year ago. Year to date net income for the first nine months of the current year grew to P57.5 million or a 73% growth rate compared to the same period last year at P33.3 million. Favorable results in the current year are attributed to improvement in sales and other income, as well as effective containment of costs.



## **Liquidity and Capital Resources**

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

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

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

### *Cash Flows from Operating Activities*

Net cash generated by operating activities in Q3 2008 decreased by 62% or P150.5 million to P90.9 million compared to P241.5 million in Q3 2007. This is attributable to the reduction in accounts payable and accrued expenses from P582.9 million at the beginning of the year to P500.1 million as of end of September. The level of payable was unusually high in the preceding year and the Company was able to reduce the balance in the current year as a result of improving revenue stream. Moreover, prepayments increased from P70 million as of Dec. 31, 2007 to P129 million during the first nine months of the current year.

### *Cash Flows from Investing Activities*

Net cash used in investing activities totaled P90 million in the third quarter. Cash flows were used to finance the opening of new stores and acquisition of equipment and fixtures.

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

### *Cash Flows from Financing Activities*

Net cash outflow from financing activities in the third quarter amounted to P6.2 million; this represents interest payments for outstanding loans payable.

## **Financial Condition**

Cash and cash equivalents as of September 30, 2008 went down by 27% or P83.6 million. Major cash disbursements went to loan repayments totaling to P45 million during the first nine months of 2008. Further, internally generated funds were used to finance the company's store expansion plans thus, contributed to the reduction in cash balance.

Moreover, receivables and prepayments went up by P3 million and P59 million, respectively. Net decrease in total current assets was posted at P100.7 million. Inventories went down by P79 million. Total current asset aggregated to P674.5 million, lower by 13% from the end of 2007.

Property and equipment, net of accumulated depreciation increased by about P70 million as a result of the continuous opening of new stores.

Total current liabilities declined by P125.5 million or 12% to P946.7 million at the end of September. Decline primarily relate to trade payable, accrued expenses and bank loans. Current ratio stood at .71 to 1 as of September this year, flat from the beginning of the year.

Stockholders' equity as of September this year comprises 40% of total assets, compared to 36% at the beginning of the year. Consequently, debt to equity ratio improved and stood at 1.53 to 1, from 1.81 to 1 at the end of 2007. The Company ended Q3 2008 with a return on equity (ROE) of 7.9%. In 2007, full year ROE stood at 8.2%.

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

### **System Wide Sales**

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

### **Gross Margin**

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

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

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

## **ADDITIONAL DISCLOSURES FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

In response to the directive of the Securities and Exchange Commission stated in its letter dated October 29, 2008 and addressed to the President of Philippine Seven Corporation, Mr. Jose Victor Paterno, we would like to make the following disclosures in connection with the current global financial condition.

The main risks arising from the Company'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 Company's exposure to impairment is not significant since these receivables are covered by payables and a right to offset exists. The Company deals only with counterparty duly approved by the BOD.

### **Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. The Company 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 Company intends to use internally generated funds and draw from approved credit line from major financial institutions.

As part of its liquidity risk management program, the Company 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.

Currently, the Company utilizes one third of the total credit line extended by the bank as it was able to prepay a considerable chunk of the outstanding loan during the year.

### **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 Company's fair value and cash flows interest rate risk mainly arise from bank loans and long-term debt. The Company is expecting to substantially reduce the level of bank loans within the next three years. Internally generated funds coming from its cash generating units and from its franchising business will be used to pay off outstanding debts and consequently reduce the interest rate exposure.

Philippine Seven Corporation continues to be in a stable financial position with no significant exposure arising from the aforementioned risks. The financial assets and liabilities of the Company did not have a significant change compared to the audited balance sheet as of December 31, 2007.

Moreover, the Company has no investment whatsoever in complex foreign securities. There is no indication that the value of financial instruments is adversely affected by fair value accounting including mark to market valuation.

## SIGNATURES

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

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

**Jose Victor P. Paterno**  
President